

Western Balkans Policy Review 2010

A Report of the CSIS Lavrentis Lavrentiadis Chair in
Southeast European Studies

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CSIS

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CONTENTS

Preface v

INTRODUCTION

1. **Regional Overview** 1
Janusz Bugajski

INTERNATIONAL ENVIRONMENT

2. **The European Union's Policy toward the Western Balkans** 11
Heather A. Conley and T. J. Cipoletti

3. **Pursuing NATO Integration in the Balkans** 19
Kiriakos J. Kalogiannis

4. **U.S. Policy toward the Western Balkans** 26
Loïc Poulain and Ilona Teleki

5. **The Impact of the Global Economic Crisis on the Balkans** 34
Barbara Balaj

COUNTRY REPORTS

6. **Albania** 45
Elez Biberaj

7. **Bosnia-Herzegovina** 54
Edward P. Joseph

8. **Croatia** 66
Dragana Ignjatovic

9. **Kosova** 74
David L. Phillips

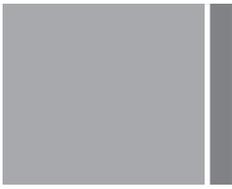
10. **The Republic of Macedonia / Former Yugoslav Republic of Macedonia** 82
Janusz Bugajski

11. Montenegro 90
James O'Brien

12. Serbia 98
Obrad Kesic

Appendix: Western Balkans Chronology, 1988-2010 107

About the Authors 125



PREFACE

The *Western Balkans Policy Review* is planned as an annual publication to monitor and assess developments in the eastern part of Europe and provide recommendations for policy initiatives by Western governments and multinational institutions. The talented authors recruited for this initial volume have differing perspectives and prescriptions for the region; their opinions are as diverse as Balkan achievements and problems. Of note, the views they express are entirely their own and not necessarily those of any employer, organization, or group with which they may be affiliated.

Washington, D.C.

August 2010

1

REGIONAL OVERVIEW

Janusz Bugajski

Since the wars of Yugoslav succession that culminated in NATO's military intervention in Serbia in 1999, the Balkan region has not been featured at the center of U.S. government attention. Indeed, during both the George W. Bush and Barack Obama administrations, Southeast Europe has been absent from Washington's top foreign policy priorities. In many respects, more attention was paid to the East Balkans under the Bush administration as the United States established small military bases in Bulgaria and Romania and enlisted these new NATO members in the Iraqi and Afghani campaigns and in broader counterterrorism efforts.

Although the United States has not completely detached itself from the post-Yugoslav region, from a White House perspective the Western Balkans have evolved into a primary responsibility of the European Union, although America can still play a supportive role. Growing EU involvement is understood through the reduction of the U.S. troop presence, the increase of EU security instruments, EU-incentivized structural reforms, and a road map toward eventual Union accession. In this regard, Slovenia was the first comprehensive success story and Croatia is now on track to join its northern neighbor in the EU. However, the rest of the former Yugoslavia remains more problematic.

Some voices, especially several Balkan experts and former officials in Washington, continue to warn about unresolved problems and potential new instabilities in the region. They have been urging U.S. president Obama and vice president Joseph Biden, who was a key player in shaping U.S. policy toward the region during the Bill Clinton administration, to stay engaged and not allow the EU to preside over any possible deterioration in stability and security. There is a lingering suspicion among former U.S. policymakers who witnessed the horrific anticivilian wars in Croatia, Bosnia-Herzegovina, and Kosova concerning EU capabilities and political willpower. What they fear is that the preoccupation with the EU's internal institutional restructuring and the focus on economic and fiscal challenges will lead to complacency and the neglect of niggling problems in Southeast Europe that could escalate in the years ahead.

Brewing Crises

Among the major problems that concern Balkan analysts are the future of Bosnia-Herzegovina, Kosova, and the Republic of Macedonia / Former Yugoslav Republic of Macedonia (ROM/FYROM). There are warnings about potential state fracture in Bosnia-Herzegovina, where leaders of the Serbian Republic oppose administrative streamlining and centralization, viewing this as a threat to the survival of the autonomous Serbian entity. Some Bosnian Serb leaders have declared that they would be prepared to move toward separation if they are forced to surrender any more powers to the central pan-Bosnian government in Sarajevo. Observers also fear a strong reaction from the Bosniak Muslims that could lead to further political divisions at a time when the interna-

tional presence is being scaled down. There is apprehension that with the potential closure of the Office of the High Representative, the EU special representative may have insufficient authority to oversee the country effectively.

The parliament of Bosnia's Serb Republic passed a law this year in support of holding public referenda in the entity. Observers are concerned that referenda organized in the Serbian Republic may challenge the integrity of the Bosnian state and the authority of the central institutions in Sarajevo. For the time being, the threat of a plebiscite is being used to prevent constitutional and other reforms before the general elections scheduled for October 2010. Observers again expect the ethnonational parties to predominate in the parliamentary ballot, thus maintaining the polarization between the two entities.

A referendum on Serbian Republic secession would also affect neighboring Serbia and Croatia. Belgrade's support or silence on the question could be seen as an endorsement of Bosnia's division and would have negative consequences for the country. It could scuttle Serbia's progress toward EU entry and freeze any major loans or aid packages. It would also place the Serbian administration in a major quandary—whether to recognize the Serbian Republic's moves toward sovereignty and endear itself to nationalist sentiments or to oppose separation and face charges of betraying Serbian interests. A Serbian Republic declaration of secession would also lead to a crisis in relations between Serbia and Croatia, as Zagreb would be determined to uphold a united Bosnia and would seek to defend the interests of Bosnian Croat compatriots.

To defuse a potential Bosnian crisis, the visit of U.S. vice president Biden to three Balkan capitals in May 2009 was followed by attempts by U.S. deputy secretary of state James Steinberg, together with Sweden's foreign minister, Carl Bildt, to mediate a new agreement on constitutional and structural reform between the three Bosnian protagonists. However, the effort seems to have stalled, and some observers argue that occasional high-level visits and short-term mediation efforts without sustained involvement may be interpreted as signs of desperation or detachment without sufficient pressure or inducements for the protagonists.

Kosova's ongoing domestic and international problems also remain a source of concern in Washington. Internally, the danger of partition of northern Kosova still hangs over the new country, and some leaders in Belgrade favor such a scenario, having understood that Kosova in its entirety will not return under Serbian government control. Internationally, Kosova is making slow progress in gaining access to international institutions, and the number of countries recognizing its statehood has peaked at 69. Kosova may be in danger of becoming a "frozen state" that cannot move toward UN, NATO, or EU membership. This paralysis may be the recipe for public unrest and new conflicts that could be exploited by militants. However, the advisory opinion issued by the International Court of Justice (ICJ) on July 22, 2010, that Kosova's declaration of independence in February 2008 did not violate international law could unblock new international recognitions. The government in Prishtina wants to expand the current total of recognitions to more than 100, thus demonstrating the country's legitimacy and acceptance by the majority of UN members. This would also provide a new impetus to Kosova's integration into international organizations.

Belgrade has two objectives in northern Kosova. First, by supporting political, economic, and other structures loyal to Serbia, it is seeking to demonstrate that Kosova does not qualify for independent statehood because it does not control all of its territory. And second, if all the international maneuverings conducted by Belgrade (including questioning the legality of Kosova's independence at the ICJ and the introduction of a resolution at the United Nations questioning

Kosova's independence) fail to reverse Kosova's international recognition or to turn Kosova into a frozen state, then the Serbian authorities will leave themselves the option of pushing for the partition and eventual annexation of northern areas next to the Serbian border.

Support by Belgrade for either the secession of northern and eastern Bosnia or northern Kosova and potential incorporation into Serbia will place Belgrade at loggerheads with Brussels and Washington, which oppose the partition of any former federal unit that emerged from Yugoslavia. Additionally, if majority Serbian areas were to separate from Kosova or Bosnia-Herzegovina, then the same principle could be applied to other compact minority areas of the former Yugoslav republics and provinces, including the Albanian areas of southern Serbia and northwestern ROM/FYROM, the Bosniak Muslim areas of southwestern Serbia and northern Montenegro, and the Hungarian regions of northern Vojvodina. A case could also be made that the Serbian province of Vojvodina should be fully autonomous or even independent.

One further conflict is brewing in the region, revolving around the unresolved or disputed final name of the Republic of Macedonia (ROM), the country's current constitutional name, or the Former Yugoslav Republic of Macedonia (FYROM), as it is presently recognized in international institutions. Athens has blocked Skopje's accession into NATO and is likely to follow suit with EU entry unless the dispute is finally settled and the ROM/FYROM adds a geographical qualifier to its name that it would agree to use in all international relations and domestic documentation. Athens asserts that the country's current constitutional name indicates claims to Greek territory and Hellenic identity; meanwhile, the government in Skopje asserts that the nation would lose its identity and security if the Macedonian name were altered.

This unresolved dispute, which has precipitated embargos, boycotts, and political conflicts, has the potential to further inflame nationalist currents in both the ROM/FYROM and Greece. The lack of progress in this "name dispute" after years of UN mediation may also alienate the large Albanian population from the Slavic Macedonian majority and precipitate the collapse of the bi-ethnic coalition government. Albanian leaders seek the country's rapid accession to both NATO and the EU and may increasingly consider the country's name as an impediment to their ambitions. In a potentially destabilizing scenario, the country's stagnation and isolation could propel Albanian politicians to support territorial autonomy or even separation from the ROM/FYROM, particularly if the country's economic prospects were to seriously deteriorate.

NATO and European Union Engagement

Several Balkan states have entered NATO, including Bulgaria, Romania, Slovenia, Albania, and Croatia, while the ROM/FYROM's membership remains on hold pending resolution of the "name dispute" with Greece. Bosnia-Herzegovina and Serbia possess an "Intensified Dialogue" mechanism with NATO, Montenegro has been given a Membership Action Plan (MAP), and Serbia is within the Partnership for Peace framework but is currently not desirous of NATO membership. By focusing on membership invitations for the ROM/FYROM, Montenegro, and Bosnia-Herzegovina, NATO highlights its commitment to their security and integrity, strengthens centripetal forces in all three countries, weakens the secessionist streams, and wards off any lingering annexationist ambitions by nationalist movements in neighboring capitals.

Serbia will not join NATO until the majority of its population understands and seeks the benefits of membership. Certainly, the Serbian military is cognizant of the pluses of technical

modernization and interoperability with the world's most effective military forces. Of course, being outside NATO does not preclude EU accession, as Sweden and Finland have demonstrated. However, both these countries have close relations with NATO and may at some point seek entry, for which they would easily qualify.

Joining NATO would give Serbia a strong case for progress toward accession to the EU. But NATO will also be looking at Serbia's relations with its neighbors, because NATO does not want to import fresh disputes into its operations. Nonetheless, NATO entry will not be enough for any country to qualify for the EU—the path to the Union is not one of negotiations and compromises but of a prolonged process in which the standards clearly spelled out in the EU's *acquis communautaire* must be met. Additionally, the entry of Bulgaria and Romania in 2007 has been perceived as premature by some EU capitals, and all new aspirants will be more stringently monitored before entry is assured, especially in the areas of official corruption, governmental transparency, judicial reform, and fund management.

Following the June 2003 EU summit in Thessaloniki, the EU's leaders recognized all the West Balkan countries as prospective Union members. Since that time, Croatia has been on the final track for entry, the ROM/FYROM has achieved candidate status, and Stabilization and Association Agreements have been arranged with all the other states, except Kosova, to accelerate reform programs and promote integration. However, the continuing economic storm rumbling through Europe and the financial crisis in the euro zone may indefinitely postpone the entry of candidates and aspirants from the Western Balkans after the expected entry of Croatia by 2011. Indeed, the Balkan states could find themselves in a vicious circle, whereby denial of EU entry combined with economic stagnation and uncertainty could stall the necessary reform process. This could in turn retard economic growth and lessen each country's qualifications for EU accession by stimulating hindering forces.

The economic downturn that has affected the region during the past two years has not subsided. The majority of countries have large balance of payments deficits, foreign financing has drastically diminished, revenues from tourism and remittances have decreased, and unemployment is steadily rising. These factors may generate new social turmoil and political conflicts that could affect the stability of several governments and the progress of essential economic reforms and national budgetary discipline, even among long-standing NATO and EU members.

During the past year, Greece, a country within the euro currency zone, has been singled out for attention. Athens accumulated a mammoth budget deficit and the severe austerity measures introduced by the new government in February 2010 precipitated fears about sustained social unrest. For many years, Greece was perceived as an EU success story in Southeast Europe and as an encouragement for other countries to meet the tough conditions for EU accession. Now, however, if the Greek economic crisis is prolonged, it may contribute to undermining the region's reformers and increasing the influence of economic nationalists. Moreover, EU governments may become less supportive of the membership of West Balkan countries, arguing that they may prove to be fiscally profligate and also require rescue packages at a time when support for EU enlargement is dissipating among the general public in the member states.

A great deal will depend on the depth and longevity of stagnation and how economic improvements affect specific social sectors in individual states. Prolonged economic hardship usually produces assorted extremist movements and may mobilize a frustrated segment of the younger generation. The rise of militancy may push some mainstream parties to adopt more radical and

discriminatory programs toward minorities, immigrants, or political opponents. We may witness the election or inclusion in government of a greater number of populists or nationalists, while widespread economic dislocation could also increase ethnic polarization and conflict.

Given this inauspicious environment, two questions remain: Is the EU equipped and prepared to help resolve the most pressing problems? And what will be the extent and effect of U.S. involvement? Brussels needs to find the right balance between effective incentives and effective conditionality, in terms of West Balkan membership in the EU. Too short a time frame and weak conditionality will result in superficial reform, but an indefinite time frame for Union accession may prove to be an insufficient incentive for reform.

Economic recovery and development will also necessitate more concrete regional cooperation through joint business projects, free trade, open borders, and the liberal movement of labor. Such measures would make the Balkans more competitive in the global market and more attractive as an investment destination. In several economic sectors, from manufactures and services to tourism, the region may have comparative future value for both old and new investors. Investment and reform could then reinforce economic development and speed up each country's path through the Stabilization and Association Agreements toward EU membership.

Is a U.S. Envoy the Answer?

Although the European Union is being prodded to take a more active role in the Western Balkans, there is speculation about an urgent need for a special U.S. envoy to the region. Although there is little immediate likelihood that Washington will appoint a presidential envoy, some important questions need to be answered about the precise role such a potentially high-level representative would play. It is common wisdom to assume that American leadership is necessary if anything serious or long term is to be accomplished in the Balkans. It remains evident that the leaders of all the nations in the territory of the former Yugoslavia are convinced that EU institutions do not exert sufficient leadership, are deeply divided by national agendas, and are loath to use force or even threaten tough actions against aggressors.

With the United States' resolute political and military intervention in the 1990s, the wars and mass slaughters in Bosnia-Herzegovina and Kosova would most probably have continued for several more years and resulted in additional separatist and annexationist agendas. Croatia and Bosnia-Herzegovina might not have regained their territorial integrity, Montenegro and Serbia would probably have been at war, and the ROM/FYROM might not have survived at all. However, we are now in a different era. Washington is heavily engaged elsewhere and in much more pressing trouble spots, and thus it has inevitably handed over more responsibilities to Brussels. And the EU, despite its obvious shortcomings, is much more self-confident than it was in the 1990s. It has developed a plan for the gradual inclusion of all countries on the Balkan Peninsula, although the potential exclusion of Turkey contributes to uncertainty about the political direction of Ankara in the years ahead.

But above all, today there is no imminent threat of bloodshed, war, ethnic expulsion, armed insurgency, or mass terrorism in the Balkans. The new post-Yugoslav states may not all be fully stable, but they are no longer chronically insecure. Officials in the Obama administration contend that there is no urgent need for a special envoy because they are already closely engaged in the region. Vice President Biden's visit in May 2009 and the involvement of Deputy Secretary of State

James Steinberg in the “Butmir process” to promote constitutional reform in Bosnia-Herzegovina evidently attest to this argument. U.S. officials also ask pertinent questions: What exactly would a special envoy do, in terms of their mandate and priorities? And how would he or she interact with EU representatives?

After the headline announcements and photo opportunities are concluded, what would be the order of business and how effective a role could a regional envoy play? Indeed, there are pluses and minuses to such a position. On the plus side, an envoy would presumably have the direct ear of the U.S. president; he or she could launch various regional initiatives and benefit from the close attention of Brussels to such prominent American involvement. And conversely, regional players would take more seriously a high official with a well-known name who had been appointed directly by Obama.

However, there are also some major minuses in the appointment of a special U.S. envoy. When a war was raging or the threat of war was looming, the envoy’s role was clear—to end or prevent violent conflict by forcing or cajoling the competing parties into compromises and negotiating a stable peace. Absent a war, the envoy’s task would be much more complex, without clear end points and with no quick fixes. This could in turn undermine the envoy’s credibility, as high expectations may be unfulfilled. One needs to be practical and determine what a U.S. envoy could actually accomplish in stitching Bosnia-Herzegovina into one functioning state, pressuring Serbia into accepting Kosova’s independence, and permanently resolving Skopje’s name dispute with Athens. In other words, what would be the consequences if Bosnia’s Serb leaders continue to resist constitutional reforms or Serbia and Russia continue to block Kosova’s admittance to international institutions?

Bosnian Serb opposition to EU and U.S. requirements for functional statehood and international institutional integration will not be resolved by diplomacy, statements, conferences, or even threats of exclusion from the EU, NATO, or other beneficial multinational bodies. An envoy would need to have teeth to be effective, but of what could the teeth consist and where would they bite? NATO will not bomb Banja Luka to ensure constitutional reform in Bosnia-Herzegovina, and American troops will not invade Serbia to ensure that it recognizes Kosova’s statehood. Although progress can be made at the margins and a high-level envoy may initially gain more local attention, ultimately it is up to the actors in the incipient conflict to reach a compromise that is perceived as beneficial by both sides. Alternatively, they may never agree and actually stumble into an outright conflict that could provoke outside intervention. Paradoxically, such a scenario may then enable Washington, working in tandem with the EU, to play a more effective role in hammering out novel regional agreements.

Russia Returns

When Russia’s military contingent withdrew from NATO-controlled Kosova in mid-2003, then-Russian president Vladimir Putin pledged that Russia would return to the Balkans but in another guise. Moscow has historically considered the region to be part of its special zone of interest. Seven years after Putin’s prediction, Russia is not only back in the Balkans but is also seeking to exploit lingering national disputes to its strategic advantage.

Moscow has harbored a long-term ambition to establish a permanent presence in Southeast Europe because this would give it access to the Mediterranean and make it a major player in Eu-

ropean affairs. During Communist times, the Kremlin lost the western part of the peninsula when Yugoslav leader Marshal Tito broke with Stalin and sought to balance East with West in international diplomacy. Since the end of the Cold War, Moscow's policy has been two-tracked: to restrict and undermine the United States' and NATO presence; and to raise Russia's position throughout the region. Unsettled questions over territories and minorities have enabled the Kremlin to interject itself in Balkan affairs and gain leverage through the crisis as a counterbalance to American and EU influence.

Russia's leaders focus on three major tools in the Balkans: diplomatic assertiveness, conflict prolongation, and economic dependence. First, diplomatically, Moscow is outspoken in support of Serbia, especially in its struggle over Kosova and in blocking Prishtina's membership in major international institutions such as the United Nations and the Organization for Security and Cooperation in Europe. Without Moscow's backing, Serbia's lobbying against Kosova's recognition would probably have fizzled away.

Serbia remains the Kremlin's most reliable political link in the region—not because of any genuine brotherly love between Belgrade and Moscow but as a consequence of cold political calculation. Belgrade has consistently appealed to Russian solidarity, whether over preserving Yugoslavia's integrity, creating a Greater Serbia from a splintering federation, or retaining control over Kosova. Moscow in turn exploits Serbia's lingering grievances against the United States and NATO to demonstrate that Russia remains a major factor in European affairs and in resolving intra-European disputes. This symbiosis has proved beneficial for both Moscow and Belgrade.

Second, in terms of conflict prolongation, the limited international recognition of Kosova has provided Russia with an opportunity to depict itself as the defender of international legality and the promoter of multilateralism, state sovereignty, and territorial integrity. Concurrently, it also promulgates the thesis of a pan-Albanian fundamentalist menace in attempts to forge pan-Slavic Orthodox unity under Russian patronage. Moscow is also turning its attention to the struggle over Bosnia-Herzegovina by supporting the leaders of the Serbian entity in their determination to resist streamlining the state and providing greater powers to the central government in Sarajevo. Having recognized the independence of two separatist regions in Georgia, Abkhazia, and South Ossetia, following its military invasion and partition of Georgia in August 2008, Russia retains the option of recognizing Bosnia's Serb Republic as an independent state.

Through their staunch opposition to U.S. and EU policy over Kosova and Bosnia-Herzegovina, the Russian authorities contribute to prolonging disputes and uncertainties within the region. Their calculation is that Western preoccupation with conflict prevention, interethnic reconciliation, and state building will slow down or terminate the region's integration into NATO and the EU. This will also justify Russian president Dmitry Medvedev's contention that NATO cannot guarantee European security and a new structure is needed in which Russia would play a major role. Conflict provides Moscow with political leverage to advance its state ambitions.

The third Kremlin tool is the promotion of economic dependence by using energy resources, state loans, and business investments to gain political influence. In particular, plans to build major energy transportation systems between the Black Sea and the Adriatic Sea and Central Europe place the Balkans at the center of Russia's south European strategy. It seeks to monopolize the supply of gas and oil passing through the region to the Western European states. Supply contracts and investment incentives can provide the Kremlin with significant interest in a targeted country's economy and substantial influence over its foreign policy decisions. The planned South Stream

pipeline is calculated to place Serbia and Bulgaria at the center of Russia's plans for the region and as gateways into Europe. South Stream is also intended to split the EU and prevent the construction of an all-European energy network linking Central Asia, the Caucasus, and Europe that would be independent of Russia's control.

Medvedev's visit to Belgrade in February 2010 reaffirmed Moscow's three pressure points. He restated Russia's support for Serbia and against Kosova's statehood, asserted support for the Bosnian Serbs in their struggle with Sarajevo and Western representatives, and proposed further Russian economic inroads in Southeast Europe. Gazprom already owns the major share of Serbia's NIS oil company, and Belgrade is eager to host the southern "hub" of the planned South Stream pipeline through which Moscow seeks to eliminate the West's Nabucco gas pipeline project between the Caspian and the Balkans.

A fourth Russian tool of influence may also be gradually emerging: the prospect of a Russian security foothold in the region that could challenge what Moscow views as NATO's hegemony. Plans to establish a Russian emergency response base, purportedly for humanitarian disasters, near Nis in southern Serbia indicate that NATO may be directly challenged as the provider of Balkan security, signaling the thin end of the wedge of Russian military penetration. It remains to be seen how much Moscow is able to invest in this venture or whether it is primarily a symbolic gesture to assert its regional presence.

Western Balkans Policy Review

In the light of the developments and scenarios outlined above, the CSIS Lavrentis Lavrentiadis Chair in Southeast European Studies, which was established in 2009, decided that the time was propitious to look at the West Balkan region from a broader policy perspective and to see where progress has been made or still needs to be achieved. We recruited experienced and enthusiastic authors to focus on the EU, U.S., and NATO approaches, examine the prevailing economic climate, provide detailed country studies, and offer specific policy recommendations.

The Western Balkans now contains three categories of states: those countries that are enclaved in both the European Union and NATO (Slovenia, and, in the near future, Croatia); those states that are members of NATO as well as candidates or aspirants for EU accession (Croatia and Albania); and those countries that do not presently belong to either multinational organization (Montenegro, Serbia, Bosnia-Herzegovina, the ROM/FYROM, and Kosova). By looking at this broad setting, valuable linkages and comparisons can be drawn and prescient distinctions can be pinpointed in devising a sound international policy toward the wider peninsula.

Ultimately, the entire Balkan Peninsula needs to reach a sufficient level of stability and development if full integration into the two most successful transnational organizations, NATO and the European Union, is to be assured. Simultaneously, both NATO and the EU must remain closely involved in this process of engagement and incorporation.

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2

THE EUROPEAN UNION'S POLICY TOWARD THE WESTERN BALKANS

Heather A. Conley and T. J. Cipoletti

On June 28, 1991, then-foreign minister Jacques Poos of Luxembourg made his now-infamous statement: “This is the hour of Europe. It is not the hour of the Americans.”¹ Poos was referring to what was thought to be an agreement reached by the then-12-nation European Community—later to become the European Union—to end Belgrade’s military offensive against Slovenia and Croatia. The agreement was designed to suspend nearly \$1 billion in economic aid to Belgrade (a potent example of European soft power) and, most important, to preserve Yugoslavia as a single entity. This bold statement exemplified the new, post-Cold War, confident Europe, which could deal with conflict in its backyard without Washington’s help. Of course, in what would become one of the most humiliating moments in the history of the great European integration project, not only did the 12 European Community members fail to reach agreement on the deployment of a peace-keeping force but a newly reunified Germany also went on to unilaterally recognize Croatia and Slovenia as independent states. Across the continent, this caused great consternation among those still uneasy about a unified German state in the heart of Europe, but the other European nations reluctantly followed suit.

Europe’s so-called hour in 1991 actually turned into Europe’s minute, because it did not take long to realize that the European project had not progressed sufficiently to have the decisionmaking unity necessary to deal with a foreign and security policy matter of such urgency and complexity. With respect to the Balkans in particular, the EU has always been severely challenged in its attempts to pursue a coherent, long-term strategy to stabilize this volatile region. The EU failed in 1991 to avoid the dissolution of Yugoslavia and would later fail to prevent Slobodan Milosevic’s ethnic cleansing in Kosova until NATO stepped in—an outcome that would not have been possible without the help of significant U.S. military airpower. The concluding act of the twentieth century was a sobering opportunity for European reflection on how little it could affect change in the Balkans.

The first decade of the twenty-first century produced somewhat different results for the EU’s Balkan policy. In some respects, the EU gradually—some may argue accidentally—came upon a policy that would turn out to be its most effective foreign policy tool: enlargement. It is a policy that showcases all the EU’s strengths—it is process and institutionally oriented; it is administrative and legally focused; and it offers generous funding, the potential for visa-free travel, and significant economic benefits. The EU’s enlargement policy as it relates to the Balkans is far from perfect, as the current political malaise in Bosnia suggests. Harkening back to Poos’s doomed statement, the EU’s new enlargement commissioner, Stefan Fuele, recently asserted that it is very important to move Bosnia from a post-Dayton (read American-driven) agreement to a pro-European era.

1. Alan Riding, “Conflict in Yugoslavia; Europeans Send High-Level Team,” *New York Times*, June 29, 1991, <http://www.nytimes.com/1991/06/29/world/conflict-in-yugoslavia-europeans-send-high-level-team.html?sec=&spon>.

It is important to understand what the EU is doing right in terms of policy in the Balkans and what its future success may produce by way of an integrated and stable region. Thus, this chapter briefly outlines the process of EU enlargement as it relates to the Balkans, details the state of reforms in individual Balkan countries in their drive toward EU membership, discusses why some EU policies have been less successful than others, and lays out concrete policy recommendations for both the EU and the Balkan countries.

EU Enlargement and the Western Balkans

It is valuable to have an overview of the EU's methodology and approach to enlargement regarding any potential candidate. Any country seeking EU membership must conform to the conditions established by the principles in the Treaty on the European Union and relevant criteria established by the Copenhagen European Council in 1993 (commonly referred to as the Copenhagen Accession Criteria, or simply the Copenhagen Criteria). The Copenhagen Criteria set out that new member states must meet three standards: (1) stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities; (2) the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union; and (3) acceptance of the *acquis communautaire*, which is the ability to take on the obligations of membership, including adherence to the aims of political, economic, and monetary union. Any country that wishes to join the EU must first meet these accession standards. The main instrument for implementing the *acquis* is the Stabilization and Association Process, whereby the EU signs individual Stabilization and Association Agreements (SAAs) with prospective members.

The Treaty of Lisbon was implemented on December 1, 2009, to enhance the EU's institutional structure. Its main features include the establishment of a permanent president of the European Council and a new high representative for foreign affairs in an effort to enhance the EU's presence on the global stage. It also made institutional changes to help the bloc become more efficient and democratic. The European Council became a formal EU institution with the passage of the Treaty of Lisbon on December 1, 2009. It provides the EU with general political direction and priorities, but it does not exercise legislative functions. It is made up of the heads of state of each member state as well as its new president, Herman van Rompuy, and the president of the Commission, Jose Manuel Barroso. The new high representative for foreign affairs, Catherine Ashton, takes part in some of its work. The European Commission acts as the EU's executive body as it proposes new legislation, manages the day-to-day business of implementing policies and spending funds, and helps to ensure that members abide by EU treaties and laws. It is headed by Barroso and Ashton, who serves as vice president, and consists of 27 commissioners, one from each member state, who take the lead in specific policy areas.

When a country formally applies for membership, the European Council asks the European Commission to prepare an opinion on the country's suitability for starting negotiations. The European Council accepts or rejects the Commission's opinion on any candidate country, and each member state within the Council must sign off on each prospective member's SAA. If the Council accepts the Commission's positive recommendation, the SAA is formalized and begins guiding the work of helping aspirant countries to establish a market economy, promote regional cooperation, and eventually attain EU membership. This process helps countries build their capacity to adopt and implement EU legislation and apply European and international standards through

trade concessions, economic and financial assistance, and aid for reconstruction, development, and stabilization, and it ties together the EU and prospective members through mutual rights and obligations.

There is no time limit on this process, which can be open-ended. In theory, each aspirant moves step by step by opening “chapters” of the *acquis communautaire*—there are 35 in total—as it fulfills its commitments and is assessed in annual progress reports by the Commission. When the country makes significant progress on each individual chapter, that chapter is provisionally closed. Once every chapter is closed, countries are eligible for formal EU membership. Every West Balkan country with the exception of Kosovo currently has an SAA with the EU in place. However, in some instances, an aspirant can be prohibited from opening or closing one or more chapters due to concerns expressed by the Commission or an individual EU member state.

Although both the SAAs and the Copenhagen Criteria have been a staple of EU enlargement policy since the end of the Cold War, the recently ratified Treaty of Lisbon now requires prospective member states to respect the “values” of the EU rather than the “principles” as outlined in previous treaties. Each aspirant will be obliged to show a commitment to promoting EU values. Though these standards have been technically applied to the current accession negotiations with all West Balkan countries, the Lisbon Treaty enshrines them in a single policy. What exactly are European “values”? The answer is in the eyes of the political beholder, and suggests that the new aspirants are being held to somewhat higher standards in their drive for EU accession than even their Central and Eastern European counterparts were just a few years earlier, just as these states were held to a higher standard than countries involved in previous enlargements. It also suggests that the EU’s enlargement policy, though largely a technical and legally oriented process, is ultimately a political judgment call.

Reform in the Western Balkans

There is reason for optimism regarding the EU’s enlargement strategy vis-à-vis the Western Balkans due to its previous record of success in the 10 countries of Central and Eastern Europe. After decades of Soviet control, these 10 countries—Poland, Hungary, the Czech Republic, Estonia, Latvia, Lithuania, Slovenia, Slovakia, Romania, and Bulgaria—were transformed from authoritarian regimes into multiparty democracies, and from failing planned socialist economies into functioning market economies. Although the accession to the EU of Romania and Bulgaria remains controversial due to their continuing struggle to implement judicial reforms, EU policy has been a remarkable success in supporting the larger European integration project. The driving forces in this extraordinary transformation have been the twin prospects of EU and NATO membership, and one could certainly argue that the Copenhagen Criteria demanded by the EU had a greater impact on the region’s economic and institutional transformation than did the psychological and security benefits of NATO entry.

Joining the EU has a tremendous impact on an aspirant country’s economic development, as the disbursement of the EU’s regional and infrastructure subsidy largess has transformed Central and Eastern Europe, with overwhelming signage on all projects that were provided by the EU. Western Europe also benefits, as previous enlargements to Greece, Portugal, and Spain in the 1980s demonstrated that prospects for and membership in EU institutions opened up new investment opportunities, expanded the free trade area within the EU, and enhanced the economic and political clout of the bloc on the world stage due to the sheer increase in population. The 2004 enlargement was

perhaps the most striking example of this, as it increased the EU's population from 378 to 453 million people, making it the world's largest trading bloc.

As challenging as the “big bang” enlargement to 10 new countries was institutionally for the EU (and it took more than a decade to accomplish, from the end of the Cold War to accession), it can be considered a much easier experience than its enlargement efforts in the Western Balkans. Regrettably, the region is beset by issues of corruption and weak political institutions, does not meet Western norms for basic principles of the rule of law, fails to protect minority rights, has weak border controls, and is a haven for organized crime as a major route for trafficking of people, drugs, weapons, and contraband to its neighbors in the west.

Because the West Balkan region's political and institutional shortcomings are acute, the process of building viable democratic states with robust economies will remain a major challenge. The progress achieved thus far has been wholly insufficient, and the West Balkan states are at widely different stages in their EU accession negotiations. Due to these varying degrees of progress, there is no clear timeline for them to complete their economic and political reforms—unlike those that were present when the EU absorbed 10 countries (8 of them Central European) in 2004, when the aspirants progressed at a timely and relatively even pace. And thus there is no established timeline for the Western Balkans to enter the EU, although some EU members, most notably Greece, have attempted to articulate such a timeline, first in 2003 in the “Thessaloniki Agenda” and most recently in 2009 in “Agenda 2014.”

For those who argue against rapid EU enlargement in the Balkans, the two newest EU members, Romania and Bulgaria, have become illustrative cases. Although both countries began the EU accession process at about the same time as the other eight Central and Eastern European aspirants, the lack of implementation in key reform areas delayed their accession until 2007. Bulgaria in particular has continued to struggle with combating organized crime and corruption, as well as pursuing judicial reform. In 2008, the European Commission imposed sanctions on Bulgaria for its shortcomings in the misappropriation of EU funds, suspending hundreds of millions of euros in the process. Though Romania was not financially sanctioned for its failure to implement a host of judicial reforms, it too was criticized with the threat of sanctions if progress was not made. With Romania and Bulgaria serving as less than ideal examples of the efficacy of the EU's enlargement policy, future West Balkan candidates—which are plagued by the same challenges to a far greater degree—will bear the brunt of EU enlargement fatigue, as well as a more thorough inspection before being granted full membership.

There is some positive momentum with regard to the EU's enlargement policies, specifically in the case of Croatia. Croatia and the Former Yugoslav Republic of Macedonia (FYROM) both became official candidates for EU membership in 2005. Croatia has successfully opened 33 of the required 35 chapters and has provisionally closed 22 of them. Despite setbacks in its relations with Slovenia over a border dispute, Zagreb hopes to complete negotiations with Brussels in 2011, with an eye toward joining the bloc by 2012. After Croatia, the FYROM was the first country to reach an SAA with the EU, but it has seen significant setbacks, due primarily to its name dispute with Greece. As a result, the country has yet to formally open any chapters because Greece has blocked attempts to open negotiations. Once again, the EU's political considerations will trump the successful pace of reform.

Albania and Montenegro are applicant countries for EU accession. Albania suffers from high levels of political corruption, a lack of judicial reform, and a fragmented political sphere, and its

June 2009 elections were considered only moderately free and fair. Though Tirana has formally submitted a request for EU membership, the country is not yet ready to take such a step. The 2009 EU Progress Report on Albania noted that “little progress has been made in the implementation of the National Plan for the implementation of the SAA,” a troubling assessment.² Though there are some positive signs, with economic growth reaching 8 percent in 2008,³ and some success has been achieved in establishing good relationships with neighbors, Albania’s consistently problematic areas of judicial reform and corruption will continue to stall any potential progress in the near term.

Montenegro applied for EU membership in December 2008, and its SAA went into force on May 1, 2010. Although economic growth was strong in 2008 at 8 percent, before the onset of the global economic crisis, the country faces growing account deficits that must be addressed.⁴ The most recent EU Progress Report is generally positive about Montenegro’s efforts to create an institutional structure capable of serving a newly established independent country, but it also cites the need for significant efforts to establish a professional, accountable, civil service free of political interference.

Although Montenegro’s neighborly relations are generally looked upon favorably by the EU, the Progress Report notes that relations with Serbia continue to be negatively affected by Podgorica’s decision to recognize Kosovo’s independence. Montenegro and Serbia cooperate in many important fields—such as the economy, defense, and the judiciary—but Montenegro should not be held accountable for any lack of cooperation due to Serbia’s unhappiness with its policy of recognizing Kosovo, given that 22 of the 27 EU member states have recognized the new state. Overall, Albania and Montenegro seem to be several years behind Croatia and even the FYROM in their drive toward EU membership.

Bosnia-Herzegovina and Serbia are currently referred to as potential candidate countries, with no clear timeline for accession. An SAA for Bosnia was signed in June 2008 and has been ratified by 23 member states. Because Bosnia’s Constitution was designed to end hostilities and be an interim solution, it is woefully unsatisfactory in the creation of a viable administration and is now becoming an issue of instability itself. Additionally, the country’s leaders continue to demonstrate that their primary allegiance is to their ethnic constituents and not to the country as a whole. It is not surprising that reforms have been slow and limited in scope and that Bosnia is just beginning what is likely to be a long and difficult path to EU accession. There has been little progress in addressing the key European partnership priorities regarding more functional and sustainable state structures, along with greater respect for human rights and fundamental freedoms. Though the most recent progress report confirms that Bosnia has made relatively promising strides in the areas of prosecuting war criminals, judicial reform, corruption, and positive neighborly relations, the country’s shortcomings in its political and institutional structures as well as its failure to promote a viable civil society that protects minority rights overshadows any promising trends. Its decentralized and complicated political structure has created a political deadlock that continues to

2. Commission of the European Communities, *Albania 2009 Progress Report* (Brussels: Commission of the European Communities, 2009), http://ec.europa.eu/enlargement/pdf/key_documents/2009/al_rapport_2009_en.pdf.

3. Ibid.

4. Commission of the European Communities, *Montenegro 2009 Progress Report* (Brussels: Commission of the European Communities, 2009), http://ec.europa.eu/enlargement/pdf/key_documents/2009/mn_rapport_2009_en.pdf.

require the intervention of the EU's high representative. Until Bosnia can demonstrate a sufficient modicum of functionality and stability, its EU accession talks will continue to be stalled.

As the largest country in the region, Serbia represents both the EU's greatest challenge in the Western Balkans and the limitations of achieving an EU common foreign policy. Serbia signed an SAA in April 2008. Although Belgrade submitted its candidate application at the end of 2009, the Council has not given its approval to the Commission to move forward with the request. The EU has praised some of the strides that Serbia has made in its reforms and has described the government as stable and demonstrating a high degree of consensus on EU integration as a strategic priority.

Although the EU has a strong interest in seeing Serbia closely tied to the EU, Belgrade's refusal to recognize an independent Kosova—together with five EU member states (Cyprus, Greece, Romania, Slovakia, and Spain)—and its refusal to attend EU and regional conferences unless Kosova participates as a UN-run protectorate rather than an independent state, will remain a major stumbling block. The EU Progress Report notes that few tangible results have been achieved in combating organized crime, and Belgrade still has a host of problems in its bilateral relations with several neighbors. Its most significant obstacle to EU accession, however, is its failure to cooperate in bringing all war criminals to justice, with the evident unwillingness to arrest General Ratko Mladic. The Serbian parliament's recently passed resolution expressing sympathy with the victims and apologizing for the slaying of thousands of Bosnian Muslims in Srebrenica was a welcome start—but the resolution stopped short of calling the murders genocide. Until Belgrade undertakes further steps to bring justice to the victims of the mass violence of the 1990s and is generally more cooperative with its neighbors, it will be difficult to seriously contemplate its EU membership, no matter what the scope and pace of its other reforms.

Finally, because Kosova is a disputed potential applicant due to its quasi-protectorate status, European Enlargement Commissioner Fuele recently noted that the “EU is ‘status neutral’” on the issue of Kosova's status.⁵ Although offering a “European perspective,” the EU is having an extremely difficult time, both politically and economically, with extensive political corruption, and any initiated reforms require foreign assistance to be implemented and run effectively. Of course, unless and until the five EU member states that do not recognize it as an independent entity actually do so, Kosova has no hope for EU accession. In July 2010, the International Court of Justice ruled that Kosova did not act illegally when it declared independence, but so far the court's decision has yet to change the recognition status of Kosova among those five EU member states.

Impediments to Enlargement Policy

With so many variables in play regarding the pace of each country's reform efforts, it is exceedingly difficult for the EU to develop a coherent and uniform West Balkan enlargement plan. After the 2004 enlargement, Romania's and Bulgaria's shaky accessions in 2007, and the implementing of profound organizational changes following the ratification of the Lisbon Treaty in December 2009, the EU is institutionally grappling with the near doubling of its membership, from 15 member states in 1995 to 27 today. Politically, many EU leaders are expressing doubt about the open door

5. “Fuele: I'm Enjoying Every Minute of My Work as Commissioner,” interview with EurActiv, March 30, 2010, <http://www.euractiv.com/en/enlargement/stefan-fuele-i-m-enjoying-every-minute-my-work-commissioner-interview-394972>.

policy, due to various political and short-term economic factors, generally termed “enlargement fatigue.” Nevertheless, most if not all EU members recognize the overwhelming long-term strategic political and economic benefits that the EU’s most effective foreign policy tool provides for its immediate neighborhood and accept that all Balkan countries are European and belong in the EU in principle. However, the large amounts of economic aid that will be needed to bring the aspirant countries to the level where their membership is viable in light of significant European economic difficulties, the fear of an influx of Balkan workers, and the perception that the two most recent EU members were not ready to join have all negatively affected views on future enlargements.

Germany, France, and the Benelux countries have preferred to delay EU membership for the Balkans, with the exception of Croatia. The eight-year process of EU institutional reform provided member states with a convenient reason to delay a strategic discussion about the future of EU enlargement—a politically charged discussion that is, in reality, more about the likelihood of Turkey joining the EU than about the Western Balkans. With the Lisbon Treaty now in effect, EU political leaders, particularly in France and Germany, who have concerns about the enlargement process will need to find another reason to delay Balkan inclusion. The most likely candidates for this reason will be the current euro zone crisis, various economic challenges, and the upcoming battles over the EU’s Common Agricultural Policy and the allocation of regional subsidies in the next EU budget, beginning in 2014. Seventy-eight percent of the current EU budget goes toward its Common Agricultural Policy and regional subsidies. The EU Commission argues that this percentage should be reduced to allow funds to go toward job creation, research and development, and climate change / green technology improvements.⁶

Over the years, countries such as the United Kingdom, Denmark, and Spain have been staunch supporters of enlarging the EU. However, their individual stances vary by candidate country and even the specific issue at hand. The Western Balkans has its strongest supporters in Greece, Bulgaria, Romania, Italy, Sweden, and others that would prioritize the accession process and formally bring the Balkans into the EU fold as quickly as possible.

The diverse positions of EU member states with regard to the Western Balkans complicates the enlargement process. If individual countries prioritize their bilateral relations with their closest Balkans ally above any unified EU stance, this can undermine the entire process. On the one hand, if, for example, the Commission lays out specific guidelines for Croatia to make necessary economic reforms, but a close ally in an individual member state conveys to Zagreb that they are not critical to its accession hopes, the Commission’s authority is undermined. On the other hand, if the EU’s various actors deliver a consistent message to candidate countries, both individual aspirants and member states will know what they must do to achieve membership.

Policy Recommendations

Both the EU and the aspirant countries in the Western Balkans must have a clear interest in fully transforming this formerly volatile and unstable region and continuing the European integration project. The EU wants to see a zone of economic and political stability extend to the east and certainly does not want to see the region slide backward and succumb to conflict. As it was throughout the 1990s, the EU’s credibility remains on the line in the Balkans. After all, if Brussels cannot

6. Valentina Pop, “EU Budget Overhaul Draft Causes Anger in Regions,” *EU Observer*, October 23, 2009, <http://euobserver.com/886/28872>.

provide a cogent and activist policy vis-à-vis its immediate neighborhood, how seriously will the world take its aspirations for an enhanced role on the world stage—the driving force in its nearly decade-long pursuit of institutional reform?

Although the European goal of stability and Balkan integration is much the same as it was in the 1990s, the strategic environment has significantly changed while the progress of capacity building has become more difficult and will require a long-term effort. After the September 11, 2001, terrorist attacks, the United States' focus on the Balkans was diverted to Afghanistan and Iraq. After the successful integration of Central and Eastern Europe into both NATO and EU, the “transatlantic mission” of a Europe whole, free, and at peace was seen to be largely accomplished. After the failed NATO Bucharest Summit, where the further eastward expansion of NATO was halted, and with the onset of the global financial crisis in the fall of 2008, less strategic vision and energy were applied to the Western Balkans—a pattern that continues to this day.

The EU must design a new strategic paradigm for its work in the Balkans that will differ from its recent engagement. Rather than articulating a rhetorical strategy for the Balkans that is overly ambitious and unlikely to succeed (e.g., the Agenda 2014 initiative), it is time to assess what the EU's primary drivers of influence will be in the region over the longer term. How can the EU motivate these aspirant countries to continue their reform efforts at a steady pace when their prospects for EU membership may be far off in the future? One such motivating element was the 2009 decision to liberalize visa requirements for the FYROM, Montenegro, and Serbia—with Albania and Bosnia-Herzegovina expected to obtain such a concession in November 2010—to travel visa free to and within the Schengen area. This is an example of the tangible benefits EU membership would bring to the citizens in the Western Balkans and shows that if these countries meet EU requirements, they will be rewarded. Other suggestions may include assisting Bosnia, Serbia, and Montenegro with accession to the World Trade Organization or identifying incentives within the parameters of the upcoming 2014 budget discussions to see how directed regional subsidies can be used to spur additional reform. The EU should look for other ways to provide some of the benefits of membership to aspirants along their long road to formal accession or develop an alternative route that may not end in EU membership but will still offer as close an integrative model as possible.

Important arguments will always be made that the EU and more broadly the West must “do more” to help bring the Balkans closer to Europe. Although the EU can always “do more” politically and economically, one must never forget that it is ultimately up to the leaders and people of the Balkans themselves to freely decide their respective countries' future courses, and that the EU, for all its current challenges, remains the best instrument to help them determine these courses and move toward greater integration. The EU, with effective U.S. engagement, has already demonstrated its success in integrating Central and Eastern Europe. It is now time to develop a new definition and model of implementation in order to accelerate the integration of the Western Balkans.

3

PURSUING NATO INTEGRATION IN THE BALKANS

Kiriakos J. Kalogiannis

The North Atlantic Treaty Organization has endured because of the strength of its founding principles. The underpinnings of NATO's success have been its integrated structure, its defense network, and—most important—its collective defense agreement. Part of its mandate has always been to facilitate further integration among the nations of Europe. As such, its growth is an enabler that should serve to strengthen it. U.S. secretary of state Hillary Clinton recently underscored how NATO's accession process has strengthened Europe by demanding reforms in the political institutions, economic infrastructure, and defense capabilities of those nations that aspire to join it. She also addressed NATO's relations with the European Union, stressing that there should be no conflict of interest between the two organizations. Such a belief, espoused largely by American officials in the past, has negatively affected security cooperation efforts throughout Europe by casting the NATO Alliance and the European Union as competitors. Instead, the EU's Common Defense and Security Policy should be used in conjunction with NATO's policies to address European security challenges.¹

The latest threats to European security involve new technologies, new adversaries, and new ideologies. NATO's out-of-area operations, which are associated with such threats, include contributing to the International Security Assistance Force (ISAF) mission in Afghanistan, addressing missile threats from Iran, conducting a training mission in Iraq, and fighting piracy off the coast of the Horn of Africa. The emphasis in NATO's accession process on enhancing the military capabilities of its aspirants is not incidental. Its member states must be capable of deploying forces beyond its borders. NATO's out-of-area operations are carefully screened and must meet clear justification guidelines. When deemed appropriate, these operations are of the highest importance, and their sustained and successful execution is essential for NATO's security and stability.²

Progress Made

The Balkans have been part of nearly every NATO enlargement phase since its founding. NATO secretary-general Anders Fogh Rasmussen said recently that “all Balkan countries should join NATO.”³ He also emphasized that the integration of new democracies stabilizes Europe by contributing to its peaceful development. Just three years after NATO was founded in 1949, Greece

1. Atlantic Council, “Hillary Clinton: NATO's Future,” distributed by YouTube, February 22, 2010, <http://www.acus.org/event/hillary-clinton-future-nato>.

2. Ibid.

3. NATO, “All Balkan Countries Should Join NATO,” *Secretary General's Corner*, April 28, 2010, <http://andersfogh.info/2010/04/28/all-balkan-countries-should-join-nato/>.

and Turkey became member states. Bulgaria, Romania, and Slovenia joined in 2004. Most recently, in 2009 Albania and Croatia became the newest members.⁴

After joining the Partnership for Peace (PfP) program in 2006, Montenegro formally declared its intent to meet NATO standards by submitting a Presentation Document in 2007 and its first Individual Partnership Program in 2008.⁵ These documents formally outlined its intent to reform its armed forces. The reforms include a strategic defense review with a focus on defense policy and strategy, a reinforcement of crisis management capabilities, the provision of education and training to the military and civilian leadership, a reduction of redundant weapons and ammunition, and a guarantee of democratic control over the armed forces. Montenegro established an agreement on information security with NATO in 2007.⁶ It donated weapons and ammunition to the Afghan National Army, and it is developing forces capable of conducting peacekeeping and relief operations with a view to making a notable contribution to ISAF in Afghanistan in the future.⁷ Montenegro is also establishing a national early warning system, a national crisis center, and emergency response capabilities. Finally, it is developing cooperative initiatives with its neighbors. In December 2009 Montenegro was granted Membership Action Plan (MAP) status by NATO.⁸

MAP offers technical assistance and support in reforming defense and security structures and is the final step in the application process for NATO membership. Attaining MAP status means that an aspirant has demonstrated considerable progress toward accession standards and now warrants assistance from NATO in becoming fully compliant. The assistance that NATO provides typically addresses procedural reforms and training and readiness issues with direct military-to-military cooperation. It does not address expected reforms on the part of the aspirant involving policy shifts or compliance with Alliance guidelines. Achieving MAP status, therefore, does not guarantee membership, and it does not mean that all remaining membership requirements can be readily met with the assistance of the Alliance.

Bosnia-Herzegovina joined the PfP program in 2006. It began conducting some reforms through the PfP program and was considered for MAP status in December 2009, but the invitation was withheld due to security concerns. Specifically, there was significant disagreement between Bosnia's Serbian, Bosniak, and Croatian leadership.⁹ Most of these issues were subsequently addressed and resolved, and in April 2010 NATO granted *conditional* MAP status to Bosnia-Herzegovina.¹⁰

Notwithstanding the positive outlook for Bosnia, two outstanding issues must be resolved before it will be offered NATO membership. First, Bosnia has in its possession considerable stockpiles of excess weaponry, including more than 67,000 rifles and pistols along with explosive

4. U.S. Department of State, "Albania and Croatia Deposit NATO Instruments of Accession," April 1, 2009, <http://www.state.gov/r/pa/prs/ps/2009/04/121058.htm>.

5. NATO, "NATO's Relations with Montenegro," http://www.nato.int/cps/en/natolive/topics_49736.htm.

6. Ibid.

7. ISAF, "Troop Numbers and Contributions: Montenegro," <http://www.isaf.nato.int/en/troop-numbers-and-contributions/montenegro/index.php>.

8. NATO, "NATO's Relations with Montenegro."

9. Valentina Pop, "NATO Grants Bosnia Pre-Membership Status," *EUObserver.com*, April 23, 2010, <http://euobserver.com/15/29924>.

10. NATO, "Bosnia and Herzegovina and Membership Action Plan," April 22, 2010, http://www.nato.int/cps/en/SID-E19B9D39-E5E6A904/natolive/news_62811.htm?selectedLocale=en.

ordnance and ammunition in excess of 20,000 tons.¹¹ To enhance regional security, this weaponry must be safely disposed of. Bosnia has already taken a significant step by signing an agreement with the United States to destroy these stockpiles. The U.S. State Department's Office of Weapons Removal and Abatement, in close partnership with the U.S. Department of Defense and its NATO allies, will provide assistance to Sarajevo.

The second matter that must be resolved is the complete transfer of military hardware from regional to federal control, together with the full recognition of the federal authorities. Military infrastructure and command and control were integrated in June 2006; however, control of military hardware by a largely autonomous Serbian region of Bosnia remains an unresolved issue. This may be indicative of a potentially larger and more serious problem, as the leaders of Republika Srpska have challenged the sovereignty of the government of Bosnia-Herzegovina in a number of ways, the latest of which is the opening of a representative office at EU headquarters in Brussels. Prime Minister Milorad Dodik insists that Bosnian Serbs maintain the right to self-determination and even separation.¹² The International Court of Justice decision regarding Kosovo did not help to tone down talk of secession. On July 22, 2010, the ICJ stated that Pristina's declaration of independence did not violate international law. Secession by Republika Srpska could precipitate a domino effect that would destabilize the Western Balkans. This situation is a useful example of the fact that achievement of MAP status does not guarantee NATO membership and that NATO cannot fix every problem by merely dispatching a military assistance team.

Russia has also voiced opposition to NATO membership for Bosnia-Herzegovina and actually warned Sarajevo against joining NATO. In point of fact, the latest version of Russia's military doctrine, promulgated by President Dmitry Medvedev in February 2010, explicitly states that NATO enlargement remains a threat to Russian national security.¹³ In spite of this combative rhetoric, Russia's opposition to NATO enlargement is largely aimed toward former Soviet republics such as Georgia and Ukraine.

Remaining Challenges

The Former Yugoslav Republic of Macedonia (FYROM), also recognized as the Republic of Macedonia (ROM), joined the PfP program in 1995.¹⁴ Nevertheless, the country's long-standing name dispute with Greece is a serious impediment to its NATO membership aspirations. The dispute has outlasted multiple administrations, and attempts to resolve it have failed repeatedly. Athens has maintained that the country's constitutional name of "Republic of Macedonia" implies territorial aspirations with respect to Greece's northern province of Macedonia. Therefore, Athens demands that Skopje add a geographic qualifier to differentiate it from Greece's northern province. Ancient Macedonia stretched across three countries, comprising Pirin Macedonia in what is now Bulgaria, Aegean Macedonia in what is now Greece, and Vardar Macedonia in what is now referred to as FYROM or ROM.

11. U.S. Department of State, "United States Partners with Bosnia and Herzegovina to Destroy Excess Weaponry," May 12, 2010, <http://www.state.gov/r/pa/prs/ps/2010/05/141751.htm>.

12. "Milorad Dodik: One Foot in Bosnia, but His Heart is in Serbia," Radio-Free Europe/ Radio Liberty, April 28, 2009, http://www.rferl.org/content/Milorad_Dodik_One_Foot_In_Bosnia_But_His_Heart_In_Serbia/1617635.html.

13. Pop, "NATO Grants Bosnia Pre-Membership Status."

14. NATO, "NATO PfP Signatures by Country."

There is strong international support for a resolution to the impasse about this name dispute. Among the proposals are for FYROM (or ROM) to adopt the name “Republic of Vardar Macedonia” or “Republic of Northern Macedonia.” Some have expressed optimism that the two parties will reach an agreement before the NATO summit in November 2010. In an effort to lend assistance, the current administration in Washington has indicated that if Athens and Skopje can reach a tentative agreement on a revised name, it would then lend its full diplomatic support, recognize the new name, and encourage the United Nations to do the same.¹⁵ This would swiftly unblock the country’s progress toward NATO accession.

Serbia joined the PfP program in 2006, together with Montenegro and Bosnia-Herzegovina.¹⁶ The United States supports NATO membership for Serbia, which has completed some noteworthy reforms.¹⁷ Notwithstanding some perceived hesitation, Belgrade has taken some important steps toward NATO admission. President Boris Tadic has engaged in constructive dialogue with Sarajevo. Furthermore, in a significant step toward reconciliation, the Serbian parliament formally recognized the 1995 massacre of more than 7,000 civilians in Srebrenica during the Bosnian war.¹⁸ Following the ICJ decision regarding Kosovo, Serbia’s minister for Kosovo Goran Bogdanovic urged Serbs to make every effort to coexist with their Albanian neighbors and asserted that Belgrade would begin a dialogue with Pristina shortly.¹⁹ In spite of these overtures, the scars of war do not heal quickly. There is still strong anti-NATO sentiment among the Serbian people stemming from the 1999 war over Kosovo, and this challenge must be overcome for Serbia to join NATO.

In addressing the region’s numerous challenges, it is logical to bring all available capabilities to bear. Given the obvious overlap in areas of responsibility between NATO and the EU, these two organizations could act in a complementary fashion in pursuing their respective goals. As Secretary Clinton suggested, NATO and the EU could join forces to address Europe’s security challenges. Those NATO member states that are also EU members can play a constructive role in bringing the two supranational organizations closer together. The EU has significant experience in security cooperation, such as conflict management, crisis management, police reinforcement and training, and the administration of a ministry of the interior. EU expertise can potentially help NATO aspirants realize some of their needed reforms. Likewise, NATO’s expertise can help EU aspirants meet some of their EU accession objectives. Institutional cooperation between NATO and the EU can significantly improve Europe’s security and serve the interests of both organizations.

The Way Ahead

NATO is in the process of rewriting its Strategic Concept, which is its vision for the foreseeable future and the cornerstone of its mandate. Secretary-General Rasmussen, upon taking office in

15. “Washington Proposes “Republic of Northern Macedonia,” *To Vima*, March 10, 2010, <http://www.idividi.com.mk/English/Macedonia/586433/index.html>.

16. NATO, “NATO PfP Signatures by Country,” <http://www.nato.int/pfp/sig-cntr.htm>.

17. Matthew Becker, “US: NATO Membership for Serbia Is Open,” *Examiner.com*, February 5, 2010, <http://www.examiner.com/x-27426-Volusia-County-Foreign-Policy-Examiner~y2010m2d5-US-NATO-membership-for-Serbia-is-open>.

18. “Serbian Parliament Apologizes for Srebrenica Massacre,” *CNN.com*, Mar 31, 2010, <http://www.cnn.com/2010/WORLD/europe/03/31/serbia.srebrenica/index.html>.

19. Blerta Foniqi-Kabashi, “Serbian Minister Calls for Tolerance in Kosovo,” *Southeast European Times*, August 10, 2010, http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2010/08/10/feature-01.

2009, convened a group of experts and tasked it with ascertaining the perspectives of scholars and officials from both within and outside NATO on its ideal organization and purpose. The group recently presented its findings to the secretary-general, who will draft the new Strategic Concept based on their analysis and recommendations and present it in November 2010 at the NATO summit in Lisbon. The new Strategic Concept must accomplish two tasks: remain true to the founding principles that bind the Alliance together, and recognize the urgency for further change to address emerging threats. NATO's enlargement, whether in the Balkans or elsewhere, remains a major topic of discussion, although some feel that enlargement is on the back burner following last year's accessions of Albania and Croatia. To some it has become evident that the Alliance is deemphasizing the prospect of future enlargement. Although this seems inevitable, it also denies NATO one of the most powerful tools for stabilization and democratization.

The reluctance of some key NATO member states at the Bucharest summit in April 2008 to grant MAP status to Georgia and Ukraine is indicative of the factors that may potentially bring enlargement to a standstill. Regarding Georgia, the reluctance was based on an unpredictable administration in Tbilisi and internal separatist conflicts fomented by Russia.²⁰ In the case of Ukraine, overwhelming public resistance to NATO membership, together with strong Russian opposition and a potential secessionist conflict in the Crimea, were the primary justifications for exclusion from MAP.²¹

Another major concern voiced by many is energy security. With the repeated disruptions of Europe's gas and oil supplies by Russia's Gazprom, some allies feel that increased energy security will allow for greater freedom of movement. This, of course, includes extending any future invitations for NATO membership. The instinct for self-preservation is prevalent here. A number of countries in the region have taken steps to create private investment vehicles to support energy security. Some analysts suggest that the key to averting a clash with Moscow is to make Russia an inextricable part of Europe's security apparatus. The reasoning for this is that if Russia truly becomes part of the process, then it will cease to view every NATO move with suspicion. The problem lies in finding a formula that would embrace Russia without putting Moscow in a position to undermine or freeze NATO's decisionmaking process.

One solution suggested by several sources is for NATO to depart from the notion of unanimous consensus for every action. With an increasing number of member states, it makes decision-making difficult and can render NATO irrelevant on some divisive issues. A consensus approach will likely have to be retained for matters of war and peace, but an element of flexibility could be introduced for most other issues.²² The EU has adopted a similar approach with its "qualified majority voting," but its use is also limited.

If conditions are managed properly and a larger membership does not hamstring NATO, there are still notable benefits to be gained from enlargement. New member states can often bring niche capabilities to NATO's operations around the world. Likewise, depending on the capabilities and contributions of its new members, a larger NATO could mean greater stability in key regions. It could also mean focusing more on other concerns throughout the Euro-Atlantic area, such as

20. Rafael Beirmann, "NATO Enlargement: Approaching a Standstill," *Security Insights* (George C. Marshall European Center for Security Studies), December 2009, 4; http://www.marshallcenter.org/mcpublishweb/MCDOcs/files/College/F_Publications/secInsights/SecurityInsights_04_fullsize.pdf.

21. *Ibid.*

22. Charles A. Kupchan, "NATO's Hard Choices," *New York Times*, March 30, 2009, <http://www.nytimes.com/2009/03/31/opinion/31iht-edkupchan.html>.

security developments in the Mediterranean, migration and human trafficking, economic underdevelopment, and transnational organized crime.

Another approach to improving assistance to aspirant countries without departing from the traditional standards for member states is to develop one or more categories of associate membership and allowing the option of moving from one category to another depending on performance, peaceful resolution of territorial disputes, contributions to NATO missions, and so on.²³ This could allow NATO to engage in assisting a given country without fear of prematurely committing to “Article Five protection.” (Article Five of the North Atlantic Treaty contains a collective defense agreement whereby all NATO member states pledge that an attack on any one member would be treated as an attack on the entire Alliance.) NATO could devise intermediate steps at the advanced stages of a PfP transformation process, for instance, without extending a collective defense assurance to a given country. Such a renewed methodology would likely result in greater maneuverability for NATO and could help it avoid a standstill on enlargement. Nevertheless, critics of such a formula point out that the core reason for NATO membership is the assurance of security and that in the absence of such guarantees, NATO accession could prove less appealing and NATO’s basic mandate of mutual self-defense could be severely weakened.

NATO’s new Strategic Concept will delineate its future direction. Given the new threats that the world has faced since the end of the Cold War, NATO has taken steps to protect its member states. Its out-of-area missions are neither an exception to the rule nor an example of mission creep. NATO capitals recognize that instability in Southwest Asia poses a common threat to the Alliance. As such, the ISAF mission in Afghanistan, the training mission in Iraq, and efforts to address missile threats from Iran squarely support its mandate to protect its member states. Additionally, given the volume of European commerce that transits the Suez Canal, NATO’s support to counter the threat of piracy off the coast of the Horn of Africa has a direct bearing on the economic well-being of its member states. In this strategic environment, integrating the remaining Balkan countries into NATO will likewise serve to improve stability in the region, stimulate economic development, and contribute directly to Europe’s security.

Policy Recommendations

As NATO formulates its new Strategic Concept, it will assess its objectives and direction, and it must consider revising its practices in order to survive in the long term and protect the interests of its member states. It must reemphasize the fact that its organizational objectives seek the well-being of its member states and not simply the ability to respond to any specific threat. In this context, these policy recommendations are proposed:

- Form a joint group of NATO and EU advisers to explore collaborative approaches toward common objectives in the Western Balkans, focusing on specific countries. Explore common interests with other regional and European bodies.
- Evaluate the creation of NATO associate membership status and emphasize its transitional nature, delineating the level of NATO assistance that could be made available at each stage.

23. Beirmann, “NATO Enlargement,” 7.

- Form an internal review group, made up in part of former NATO leaders, to examine the pros and cons of limiting the requirement for a unanimous consensus in specific decisionmaking areas. Report the findings to the secretary-general directly.
- Initiate measures to address ancillary security concerns throughout Europe, such as illegal immigration, human trafficking, and security developments in the Mediterranean.
- Explore the possibility of collaborating with the EU to address energy security concerns for Europe and any contributions NATO can make.
- Collaborate with the EU and other relevant organizations to resolve the remaining conflicts within Europe, irrespective of the membership aspirations of affected parties.
- Discuss membership prospects for the remaining West Balkan countries with each NATO member, ascertain any regional or local concerns, and endeavor to complete the process over the coming decade.
- Pursue greater cooperation with Russia; review NATO bodies and processes in which Russia could play a more substantive and significant role without undermining NATO's core missions and effectiveness.

4

U.S. POLICY TOWARD THE WESTERN BALKANS

Loïc Poulain and Ilona Teleki

Since the fall of communism in 1989, the Balkans have faced two bloody wars, forced migrations and population displacements, and turbulent democratic transitions. The United States' policy toward the region has been ambivalent. During the past two decades, all the administrations in Washington have been torn between two goals: to end the human suffering caused by war, and to allow the burgeoning European community to assume responsibility for the region and its reconstruction. Further, the United States has struggled between upholding the inviolability of state borders (a recognized principle of the 1975 Helsinki Act) and the ideal of self-determination, which has been widely interpreted as the right of minorities to self-rule and even statehood.

Historical Relations: Between Idealism and Isolationism

The United States' first policies toward Southeast Europe were formulated by President Woodrow Wilson during his "Fourteen Points" speech on January 6, 1918. In this address, with the intention of reassuring Congress and the American people that the United States had intervened in the Great War (World War I) for the sake of morality and European peace, Wilson strongly echoed the "American Creed" (as it was called by Gunnar Myrdal) and the defense of progressive values.

As the basis for the terms of the German surrender negotiated during the 1919 Paris Peace conference, 4 of Wilson's 14 points were directed at the Western Balkans. The call for a readjustment of the frontiers of Italy (point 9) allowed Rome to take over the peninsula of Istria, set up the Free State of Fiume, and claim sovereignty over Zadar. Point 10 recognized the right to autonomy for the peoples of Austria-Hungary. In other words, the Slovenes, Croats, and inhabitants of Bosnia-Herzegovina, who had until then been under the sovereignty of the Dual Monarchy, were allowed to break away and form the Kingdom of Serbs, Croats, and Slovenes. Point 11 advocated the restoration of the Kingdom of Serbia and the Principality of Montenegro, and point 12 effectively choked the "sick man of Europe," the Ottoman Empire, by ensuring autonomy for the Balkan nations still subjugated by the Ottomans.

Challenges for the United States at home and abroad did not allow Wilson's vision to find a perennial application during the interwar period. Congress's rejection of the Versailles Treaty, the United States' subsequent return to isolationism during the interwar period, and the lack of significant U.S. economic interests in the region undermined the United States' vision for the region.

Wider Security Concerns

The return of the United States to the international arena following World War II led Washington to modify its position toward the Western Balkans. After the invasion of Albania by Benito

Mussolini's army in 1939, the United States severed ties with the fascist puppet government in Tirana installed by the Italians. However, the region did not become a matter of strategic concern until Yugoslavia fell victim to Nazi aggression in March 1941. Washington extended its support to the resistance forces in the region, but it often allowed Britain to take the lead. The Allies offered tactical support to the National Liberation Front, which eventually managed to recover control of Albania by the end of 1944. In Yugoslavia, aid was first directed to the Serbian paramilitary Cetnik movement, which was loyal to the prewar royal government. As it became apparent that Marshal Tito's Partisans were a more effective fighting force, the December 1943 Tehran Conference decided that the Communist-led resistance movement would be supported by supplies and equipment, as well as commando operations. However, there was steadfast resistance to the introduction of American troops in the Balkans.

After World War II, U.S. policy toward Yugoslavia and Albania became a function of the Cold War. Having taken over Albania by early 1945, the Communist Party led by Enver Hoxha adopted a strong pro-Moscow stance that soured Tirana's relations with the West. The United States withdrew its diplomatic mission in November 1946 and opposed admitting the country to the United Nations. Washington was also initially hostile to the Yugoslav Communist government. However, Tito's reluctance to submit fully to Joseph Stalin's will—which eventually led to Yugoslavia's expulsion from the Cominform (1948)—altered the equation. The United States moved closer to Belgrade, supporting the regime diplomatically and economically in order to maintain Yugoslavia outside the Soviet orbit. The 1951 military assistance agreement incorporated the Communist state into NATO's defensive plans for Europe. Additionally, steady streams of U.S. economic aid maintained the Yugoslav economy, while Washington tolerated Tito's attempt to organize the non-aligned countries into a neutralist third bloc.

Cold War Dilemmas

When the Cold War abruptly ended in 1990, the United States had no credible policy toward the Western Balkan region. Because America had viewed the region through the prism of World War II and the Cold War for almost 50 years, it no longer had a clear meaning for U.S. policymakers, especially in the absence of a common enemy. The tensions leading to the breakup of Yugoslavia presented a new challenge for American policymakers. The George H. W. Bush administration attempted to delineate a vague policy that supported self-determination but also opposed the breakup of Yugoslavia. In June 1991, Secretary of State James A. Baker described the Slovenian and Croatian movements of independence as "illegal and illegitimate." He refuted the use of force by the United States against Belgrade, and he based this stance on the assumption that European stability depended on avoiding the disintegration of the former Eastern Bloc, including the Soviet Union and Yugoslavia. Contrary to U.S. policy, however, Germany proved to be more astute and forward looking, and in late 1991 it stepped up to convince Europe and the United States to recognize the independence of the former Yugoslav republics, given that Yugoslavia was clearly no longer a viable state.

President George H. W. Bush aimed to avoid any direct American role in Yugoslavia, because the United States was preoccupied elsewhere, including with the Gulf War. His administration agreed that management of the Yugoslav crisis was to be left to the European Community. But the limits of this strategy soon became evident as attempts to preserve Yugoslavia by the Serbian regime of Slobodan Milosevic led to mass slaughters and expulsions and irregular wars against

civilians, particularly in Croatia and Bosnia-Herzegovina. A heightened awareness of the conflict was evident in James Baker's depiction of the violence in Bosnia-Herzegovina as "a humanitarian nightmare in the heart of Europe." The Bush administration subsequently took the initiative and convinced the Europeans to favor immediate and comprehensive sanctions against Serbia-Yugoslavia. Throughout the Bosnian war, America's struggle to define a coherent and effective strategy vacillated between a desire to act to end the bloodshed and a fear of becoming trapped in a foreign policy quagmire.

The Clinton Doctrine

George H. W. Bush's ambivalent policy toward Southeast Europe was echoed during the 1992 U.S. presidential elections. The Democratic candidate, Bill Clinton, and his running mate, Al Gore, extensively criticized the incumbent Bush for not having addressed the humanitarian crisis in Bosnia-Herzegovina. And less than a month after taking office, President Clinton followed up on his rhetoric by stating that U.S. inaction "would be to give up American leadership." He eventually advocated a "lift and strike" policy in order to end the arms embargo imposed by the United Nations on all sides in the conflict and use air strikes to limit the Serbian militia's advance. France and the United Kingdom rejected this proposal and hamstrung European policy for a year. As fighting continued in Bosnia-Herzegovina, U.S. secretary of state Warren Christopher testified before the U.S. House of Representatives that "the United States had no moral obligation to intervene," expressing once again the idea that Bosnia was essentially a European problem and that the United States was not supposed to take the lead in finding a solution to the conflict. The multiplication of massacres, however, compelled NATO to engage in air strikes in the fall of 1995 in order not to lose its credibility in protecting Europe's security, and this forced the Bosnian Serbs to negotiate for peace. The peace conference, held in Dayton, Ohio, was led by Christopher and U.S. negotiator Richard Holbrooke, aided by two cochairs representing Russia and the European Union. The peace process eventually ended hostilities between Serbia, Croatia, and Bosnia-Herzegovina on December 14, 1995, and committed U.S. forces to a peacekeeping mission in Bosnia-Herzegovina—the Stabilization Force (SFOR) led by NATO.

The conflict in Bosnia-Herzegovina can be seen as a starting point for a new U.S. strategy, which Michael T. Klare called the Clinton Doctrine.¹ This doctrine consisted of an "increasingly pessimistic appraisal of the global security environment," coupled with the belief that "the United States [had] a vested interest in maintaining international stability" and the recognition that in order "to achieve global stability, the United States must maintain sufficient forces to conduct simultaneous military operations in widely separated areas of the world against multiple adversaries." Clinton's February 26, 1999, speech foreshadowing the decision to bomb the Federal Republic of Yugoslavia (predominantly the Republic of Serbia) during the Kosova War provides the most explicit definition of his doctrine: "Where our values and our interests are at stake, and where we can make a difference, we must be prepared to do so."

The 1999 Kosova War provided a perfect opportunity for an application of the Clinton Doctrine. The U.S. government was provoked into action by massive human rights violations committed by Serbian forces against the ethnic Albanian population and the outflow of hundreds of thousands of refugees to neighboring countries. The United States and other Western countries used

1. Michael T. Klare, "The Clinton Doctrine," *The Nation*, April 19, 1999.

sanctions and other forms of pressure to try to persuade Yugoslav president Slobodan Milosevic to cease repression and restore the autonomy that Kosova had lost in the early 1990s. The ongoing massacres and expulsions and the fear of wider regional instability led the international Contact Group (composed of the United States, the United Kingdom, France, Germany, Italy, and Russia) to agree in January 1999 on a draft peace plan for Kosova at the Rambouillet Peace Conference. The failure of this plan forced the U.S. government and NATO to launch a bombing campaign (Operation Allied Force, March 24–June 10, 1999) that sought to push all Serbian troops out of Kosova and bring in an international peacekeeping force. President Clinton refused to permit the use of U.S. troops on the ground to eject Serb forces from Kosova, but he did pledge to participate in a postwar peacekeeping force. He also called for greater U.S.–EU cooperation to help rebuild Kosova and the region, nonetheless asking Europe to “provide most of the resources.”

Policy under George W. Bush

Almost as soon as the George W. Bush administration began in January 2001, it downgraded the Balkans as a U.S. foreign policy priority. During the 2000 presidential election campaign, the future national security adviser, Condoleezza Rice, had stated that American military forces were overextended globally and that peacekeeping responsibilities in the Balkans should be taken over by the United States’ European allies. The perception of U.S. disengagement had a destabilizing impact, however, and as Bush entered office, an Albanian insurrection erupted in the Former Yugoslav Republic of Macedonia / Republic of Macedonia (FYROM-ROM), which led his administration to assume a more cautious tone. Thus, in February 2001, Secretary of State Colin Powell affirmed the U.S. commitment to peace in the Balkans and acknowledged that NATO forces would remain in Bosnia-Herzegovina and Kosova for the foreseeable future. The September 11, 2001, terrorist attacks on the United States created new security priorities for the country. Major military operations conducted in Afghanistan and Iraq reinforced the George W. Bush administration’s earlier desire to decrease the U.S. presence in the Balkans. NATO terminated its SFOR mission to Bosnia-Herzegovina and turned over peacekeeping duties to the EU (EUFOR) in 2004, while NATO and the United States gradually reduced their troop commitments to NATO’s Kosovo Force (KFOR). Increased cooperation was sought in the war against international terrorists due to the presence of mujahideen fighters in Bosnia during the 1992–1995 war who were subsequently believed to have links with al Qaeda.

In January 2005, the George W. Bush administration, now in its second term, announced a new phase in U.S. policy toward Southeast Europe. Testifying before Congress, Undersecretary of State for Political Affairs R. Nicholas Burns emphasized the need to “finish the work” in the region. Other U.S. officials made repeated statements against maintaining an unstable status quo in Kosova; resolving its status had become necessary to achieve the long-standing U.S. objective of a Europe “whole, free, and at peace.”

From the beginning of the conflict over Kosova, the Clinton administration had called for Kosova’s autonomy within Yugoslavia but had opposed independence. The George W. Bush administration remained cautious on the question of Kosova’s final status, and it supported the “standards before status” policy advanced by the UN Mission in Kosovo in 2002. This approach called for the government of Kosova to meet benchmarks in the areas of democratic governance, a free market economy, the rule of law, and respect for minorities before any discussion on status could

take place. U.S. officials emphasized the need for international unity in supporting the Kosova status settlement.

The U.S. government also expressed the need to offer Serbia a clear path toward Euro-Atlantic integration; the George W. Bush administration supported Serbia's participation in the NATO Partnership for Peace program in late 2006. In the absence of a new UN Security Council resolution or a significant diplomatic breakthrough, President Bush expressed U.S. support for an independent Kosova in 2007. In the months before the declaration of independence by the Kosovar leadership in February 2008, the administration supported a coordinated international effort to recognize the new state. The United States announced its formal recognition on February 18, 2008, one day after Kosova declared independence, and recognition by the United Kingdom, France, Turkey, Germany, and Italy swiftly followed. U.S. relations with Serbia soured. The U.S. government pledged to support Kosova's independence by participating in the NATO mission in Kosova and granting economic assistance.

Washington also repeated calls to bring the West Balkan region closer to the Euro-Atlantic institutions. Only days after being reelected in 2004, President George W. Bush announced that the United States was recognizing the Republic of Macedonia under its constitutional name in order "to underscore the U.S. commitment to a permanent multiethnic, democratic Macedonian state within its existing borders," and he expressed America's gratitude to a "steadfast ally" in the war on terror.² Likewise, relations between the United States and Montenegro rapidly developed after Podgorica declared independence in June 2006. Following the visit of U.S. defense secretary Donald Rumsfeld to the new country, Montenegrin prime minister Milo Djukanovic swiftly agreed in principle to aid U.S. efforts in Iraq and Afghanistan and to support the U.S. government in the struggle against international terrorists.

Leadership under the Obama Administration

Before his election, Barack Obama had not defined a clear U.S. vision for the Western Balkans. However, his choice of Senator Joseph Biden as his running mate did send an important signal to the region's political leaders—that Washington would pay more attention to the Western Balkans. As a senator, Biden had been among the first U.S. officials to call for a "lift and strike" policy in Bosnia-Herzegovina and had introduced several measures calling for greater U.S. involvement in the conflict. In 1999, he cosponsored the Kosova Resolution calling on President Clinton to "use all necessary force" to confront Slobodan Milosevic's regime. Biden has called his actions with respect to the 1990s conflicts his "proudest moments in public life."

In May 2009, during a visit to the West Balkan region by Vice President Biden, the Obama administration signaled that the region is a U.S. foreign policy priority and underscored U.S. support for its integration into the Euro-Atlantic structures. Also in May 2009, the U.S. House of Representatives passed legislation calling on the administration to appoint a special envoy to the Balkans.³ This nonbinding resolution stemmed from concern that the region still faced serious challenges and that destabilization could occur without a more visible U.S. commitment. Some

2. Nicholas Wood, "U.S. Grants Macedonia the Name Recognition It Wants," *New York Times*, November 5, 2004, http://www.nytimes.com/2004/11/05/news/05iht-mace_ed3__0.html.

3. See 111th U.S. Congress (2009–2010), HR 171; information available at OpenCongress.org, <http://www.opencongress.org/bill/111-hr171/show>.

European analysts decried the U.S. resolution as undermining the EU's role in the region at this pivotal juncture. To date, no U.S. envoy has been appointed.

After almost two years in office, the Obama administration's policies toward Southeast Europe can be seen as continuing the approach of previous administrations. Washington continues to rely on the EU to assume primary responsibility for the region's reform efforts. Nonetheless, it has remained committed to offering NATO membership to all the West Balkan countries, two of which—Albania and Croatia—joined the Alliance on April 1, 2009.

In May 2009, as mentioned above, Vice President Biden visited Bosnia-Herzegovina, Serbia, and Kosova. During this three-day trip, while visiting Sarajevo, he asked Bosnian politicians to stop the “sharp and dangerous rise in nationalist rhetoric” that had occurred since 2006, warning the country of future of poverty and violence if its leaders did not abandon this path. In Belgrade, Biden welcomed Serbian president Boris Tadic's call for “a new chapter” in bilateral relations in order to secure peace and democracy throughout the Balkans. Biden also expressed the belief that the United States and Serbia could “agree to disagree” on Kosova, but he stressed the need for Serbia to play a constructive role in the region. He also called on Belgrade to obtain the full cooperation of Bosnian Serbs in reforming the state. In Prishtina, he encouraged Kosovar and Serb officials to hold talks on practical issues.

Undersecretary of State James Steinberg has underscored Biden's message. He actively tried to break the deadlock in Bosnia-Herzegovina, to bring FYROM-ROM and Greece closer to settling the name dispute, and to encourage the Serbian and Kosovar authorities to cooperate. Steinberg played an important role in the Butmir talks held in October 2009, which aimed to promote constitutional reform in Bosnia. He also helped to facilitate the June 2010 Sarajevo conference, during which Serbian and Kosovar officials sat at the same table for the first time. Although competing foreign policy priorities divert Washington's full attention away from the West Balkan region, the Obama administration, like those that came before it, is helping the region to overcome current challenges, as well as supporting the region's integration into the Euro-Atlantic community.

Decades of Assistance and Stabilization Efforts

The United States was at the forefront of the interventions that brought the Balkan wars of the 1990s to an end. In addition to committing U.S. troops to patrol the region by participating in NATO's SFOR and KFOR, the United States also placed a priority on assistance programs to promote and guide democratic and economic reforms, as well as to aid the region's postwar recovery.

NATO deployed peacekeeping forces in Bosnia-Herzegovina in 1995 to enforce the Dayton Peace Accords that ended the conflict in December of that year. The United States contributed 15,000 of the roughly 60,000 troops that made up the SFOR.⁴ Over time, the number of U.S. soldiers participating in the SFOR steadily decreased. U.S. military personnel numbered 263 soldiers in 2005 following the transfer of the SFOR mission to the EU's EUFOR mission.⁵ In 1999, the United States contributed troops to the KFOR following NATO's intervention in the war over Kosova. Initial U.S. deployments to the KFOR totaled approximately 7,000 of the initial 50,000

4. “NATO Defense Ministers Agree ‘Moderate’ Reduction of Troops in B-H,” Agence France-Press (North European Service), in English, June 7, 2001.

5. Tim Kane, “Global U.S. Troop Deployment 1950–2005,” Heritage Foundation, May 2006, <http://www.heritage.org/Research/Reports/2006/05/Global-US-Troop-Deployment-1950-2005>.

troops sent by NATO member countries.⁶ By February 2010, the United States had 1,490 troops in the KFOR out of a total of 9,923 troops.⁷

In addition to U.S. military contributions, numerous U.S. government agencies and United States-based nongovernmental organizations administer assistance and operate programs in the Western Balkans. For example, in Kosovo the U.S. Agency for International Development (USAID) has earmarked more than \$500 million since 1999 for projects directed at enhancing security, such as establishing governing institutions, improving the business environment, job creation, and private-sector development.⁸ USAID has given \$1 billion in aid to rebuild Bosnia since the signing of the Dayton Peace Accords in 1995.⁹ In FYROM-ROM, USAID's spending has reached approximately \$500 million since 1993, primarily for educational, employment, and anticorruption programs.¹⁰ In the Republic of Serbia and the Republic of Montenegro, the United States has invested more than \$725 million since 2001.¹¹ Since 2001, the U.S. Congress has conditioned part of U.S. aid for Serbia on a "presidential certification" that Belgrade has cooperated with the International Criminal Tribunal for the former Yugoslavia, has ceased funding separate Serbian institutions in Bosnia-Herzegovina, and has upheld minority rights and the rule of law.¹²

As the effects of war have receded, U.S. assistance to the Western Balkans has also decreased. Appropriations for bilateral U.S. aid to the region amounted to \$293.6 million for fiscal year 2009, down from \$621 million in 2002. And the Obama administration asked for approximately \$284.8 million in assistance to the region for fiscal year 2010.¹³

In addition to bilateral assistance projects, the United States has also lent strong support to regional cooperation. In 1995, Assistant Secretary of State Richard Schifter inaugurated the Southeast European Cooperative Initiative to aid in the region's postwar recovery. This initiative has successfully strengthened the capacities of the police and customs authorities of its participating states (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Greece, Hungary, FYROM-ROM, Moldova, Montenegro, Romania, Serbia, Slovenia, and Turkey) to combat organized crime across the region.¹⁴ Other initiatives supported by Washington have included the Stability Pact for Southeast Europe (now the Regional Cooperation Council), which has fostered economic development, democracy, and the protection of human rights in the region.

6. See CNN, "More U.S. Troops Enter Kosovo," June 15, 1999, <http://www.cnn.com/US/9906/15/us.kosovo.01/index.html>; and NATO KFOR, http://www.nato.int/cps/en/natolive/topics_48818.htm.

7. See the map of the KFOR, updated February 26, 2010, http://www.nato.int/kfor/structur/nations/placemap/kfor_placemat.pdf.

8. USAID, Kosovo, "10 Years After: Kosovo Independence," July 15, 2010, http://www.usaid.gov/kosovo/eng/kosovo_introduction.html.

9. USAID, Europe and Asia, "Overview," November 12, 2009, http://www.usaid.gov/locations/europe_eurasia/countries/ba/index.html.

10. See the Web site for USAID, Macedonia, <http://macedonia.usaid.gov/en/index.html>.

11. USAID, Serbia and Montenegro, "Mission Director's Welcome," <http://serbia-montenegro.usaid.gov/code/navigate.php?Id=8>.

12. Steven Woehrel, "Serbia: Current Issues and U.S. Policy," Congressional Research Service Report, April 12, 2010.

13. Steven Woehrel, "Future of the Balkans and U.S. Policy Concerns," Congressional Research Service Report, May 2009, 9.

14. For more information, see Southeast European Cooperative Initiative, "About SECI: Mission and Objectives," February 11, 2010, http://www.secicenter.org/p128/Mission_and_objectives.

U.S. bilateral relations have not been solely focused on the region's postconflict reconstruction. The Balkan countries have also lent their support to pursuing U.S. foreign policy objectives, including working with U.S. intelligence agencies and the U.S. military to shut down and seize the assets of terrorist-front organizations in Albania and Bosnia. Furthermore, Albania, Bosnia-Herzegovina, and FYROM-ROM have contributed troops to the United States–led wars in Iraq and Afghanistan. As of June 2010, the new NATO members Albania and Croatia have approximately 250 and 280 troops deployed, respectively, in Afghanistan, and FYROM-ROM has 210 troops stationed in Afghanistan. Bosnia has a small contingent of 10 soldiers helping NATO's International Security Force in the country.¹⁵ As the West Balkan countries become fully integrated into Euro-Atlantic structures, they can become even more important allies of the United States.

Policy Recommendations

After helping to end the wars of the 1990s in the region and working to stabilize the region, the United States has advocated for the European Union to exercise greater responsibility and leadership in its own neighborhood. At the same time, Washington is cognizant of the fact that it has more influence and credibility in parts of the region, whereas the EU is often viewed as divided by its members' diverse national interests. U.S. policymakers surely understand that a complete or sudden American withdrawal from the region would simply undermine previous stabilization efforts. Therefore, in the twenty-first century, the United States must be clear and consistent in its commitment and policies toward the Western Balkans as the region overcomes its challenges and meets its Euro-Atlantic integration goals. The United States must be consistent in its efforts to promote reforms in the region, to facilitate solutions to bilateral disputes, and to guide both monetary and technical assistance in support of the region's Euro-Atlantic integration. Ambivalence in Washington only encourages disunity among the European Union member states, as well as hinders the region's reform efforts at a time when guidance is needed most.

The countries of the region are at a critical juncture in seeking to meet the stringent requirements for EU and NATO integration. Yet even with the EU's prominent and increasing role, American support, solidarity, and guidance remain essential.

15. See NATO, "International Security Assistance Force Contributing Nations," <http://www.isaf.nato.int/en/troop-contributing-nations/bosnia-and-herzegovina/index.php>, and Wikipedia, "International Security Assistance Force," http://en.wikipedia.org/wiki/International_Security_Assistance_Force#ISAF_Troop_Contributing_Nations.

5

THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON THE BALKANS

Barbara Balaj

The global financial crisis began in the financial and housing sectors of the United States and other developed countries in late 2008, and it rapidly spread to developing regions and countries. Indeed, “financial innovation and integration . . . have increased the speed and extent to which shocks are being transmitted across assets classes and countries, and have blurred boundaries.”¹ The crisis also highlighted the tension between globally active (especially, American and European) financial institutions and banks and the nationally based regulatory and supervisory agencies that oversee them. In its impact on the world economy, this crisis has been the worst since the Great Depression, leading to global financial deleveraging, a historic contraction of international trade, a drying up of capital flows, a global credit crunch, and growing poverty. Worldwide losses from the crisis are estimated by the International Monetary Fund at \$4.1 trillion, with another \$1 trillion required to fix the problems. The consequent loan and asset losses in the United States alone have totaled \$2.7 trillion, while Western Europe has experienced \$1.2 trillion in losses. The financial crisis is likely to result in a permanent loss in global output, and the recovery is expected to be slow and uncertain.

On the Heels of the Food and Fuel Crisis

The global financial crisis hit hard on the heels of two other crises: global food and fuel price spikes. Both led to increases in inflation and higher food and fuel prices between 2005 and 2008, pushing an additional 200 million people into poverty worldwide. The IMF estimates that food prices surged 45 percent on average from 2007 to 2008, with substantial price increases in particular for staples such as wheat, corn, rice, and soybeans. Increased demand for food from emerging economies such as India and China, lower crop yields due to climate events and conditions, the diversion of corn to biofuel sources, and higher energy prices contributed to surges in prices worldwide. Global food price hikes have moderated somewhat; however, prices remain higher than before the crisis.

Fuel price surges were driven by population growth, strong global industrial growth and attendant demand pressures (especially in emerging markets), supply-side capacity constraints (especially in refining and new investment), tight market conditions, and some speculative activity. Oil prices doubled from \$30 per barrel in 2003 to \$60 in 2005, and eventually reached a high of \$147 in mid-2008. Prices have since moderated to about \$72 per barrel. The crisis was transmitted to developing countries, including those in Southeast Europe, through a variety of channels, including foreign direct investment and private capital flows, trade, tourism, development assistance, and migration and remittances.

1. “The Current Macroeconomic Outlook 2009: Issues of Systemic Stability,” speech by IMF first deputy managing director John Lipsky, December 10, 2008.

The Overall Impact of the Global Financial Crisis

The crisis cut a wide swath across the global economy. Indeed, the impact of the global financial crisis is evident when examining trends in global growth and trade, private capital flows and foreign direct investment, remittances, development assistance, and unemployment and poverty rates.

Global Growth and Gross Domestic Product

The worst of the global financial crisis may finally be over. However, the prospects for sustained global economic recovery still remain fragile, uncertain, and uneven. Global gross domestic product figures for the past two years and estimates for future years paint a cautionary picture. IMF figures indicate that global GDP declined by 6.8 percent in 2008, and by 2.2 percent in 2009. These estimates indicate a modest global recovery of 4.2 percent growth in 2010, and 4.3 percent in 2011. However, this growth is being tempered by continuing difficulties in the high-income developed countries, where the crisis originated. Growth in these developed countries is projected to be 2.3 percent in 2010 and 2.4 percent in 2011. By contrast, growth in developing countries is expected to be higher—6 percent in 2010, and 6.3 percent in 2011, with much of it driven by China and India.

Global Trade

As a result of the international financial crisis, global trade experienced its most severe contraction since the Great Depression, declining by 12.2 percent in 2009. This was due to a declining demand for goods and services and to a liquidity crisis with an attendant decrease in the availability of trade finance, along with some increases in trade protectionist measures, such as higher tariffs and subsidies, and the introduction of some nontariff barriers. Looking ahead to global trade projections for 2010, the World Trade Organization predicts that trade will rebound and grow by 9.5 percent in 2009: “Exports from developed economies are expected to increase by 7.5 percent in volume terms over the course of the year while shipments from the rest of the world (including developing economies and the Commonwealth of Independent States) should rise by around 11 percent as the world emerges from recession.”²

Global Private Capital Flows and Foreign Direct Investment

Private capital flows to developing countries fell from \$1.2 trillion in 2007 to about \$363 billion in 2009. Capital flows to emerging market economies declined from \$1.2 trillion in 2007 to \$780 billion in 2008 and \$435 billion in 2009. Looking ahead, the World Bank forecasts capital flows at \$722 billion in 2010 and \$798 billion in 2011. Over the medium term, capital is likely to become scarcer and more expensive for developing countries. The global financial crisis adversely affected global flows of foreign direct investment (FDI), which fell by 39 percent in 2009 relative to 2008—from \$1.7 trillion in 2008 to \$1.0 trillion in 2009, according to the UN Conference on Trade and Development (UNCTAD). This decline in FDI was widespread across developed and developing economies alike. All components of FDI were negatively affected by the crisis, including equity capital, mergers and acquisitions, and new investments. UNCTAD predicts a modest rebound in FDI in 2010.

2. “Trade to Expand by 9.5% after a Dismal 2009,” World Trade Organization, March 26, 2010.

Global Remittances

Remittances have also been negatively affected by the crisis. Remittances to developing countries in 2009 declined 6.1 percent from 2008 levels—from \$338 billion in 2008 to \$317 billion in 2009. The World Bank predicts that remittance flows will recover somewhat in 2010 and 2011, but that the recovery is likely to be shallow. The World Bank also notes that remittance flows to developing countries are projected to increase by only 1.4 percent in 2010 and by about 3.9 percent in 2011. Despite economic pressures, existing migrant populations are not returning to their home countries, where economic conditions may be worse than in host countries. However, new migrant flows have decreased due to immigration restrictions and controls placed in developed countries, as well as weak job markets in developed countries. Increasingly, South–South migration patterns are becoming as important as South–North migration. Remittances, though lower than before the financial crisis, have proven to be more stable than private capital flows to developing countries.

Global Development Assistance

Global development assistance flows were negatively affected by the crisis, with levels relatively static at \$120 billion in 2008, \$121 billion in 2009, and only \$107 billion projected for 2010. The 2010 estimated development assistance figure falls short of the 2005 Gleneagles’ Summit pledge of \$128 billion. Recent analyses indicate that development assistance has been able to offset the negative effects on developing countries. However, when economic crises originate in developed countries, aid levels tend to fall. “Banking crises in donor countries are associated with a substantial additional fall in aid flows, beyond any income-related effects, perhaps because of the high fiscal costs of the crisis and the debt hangover in the post-crisis periods. Aid flows from crisis-affected countries fall by an average of 20 to 25 percent. . . . and bottom out only about a decade after the banking crisis hits.”³ Because of the severity of the crisis, donors made exceptional pledges to the international financial institutions (IFIs) in general, and to countries in Europe and Central Asia (including the Balkans).

Global Unemployment and Poverty

Growing unemployment represents yet another wave of the global financial turmoil. A total of 212 million people globally are now unemployed, an increase of 37 million from 2007 (according to data from the International Labor Organization, the ILO). Youth, migrants, and other vulnerable groups have been particularly hard hit. Global unemployment rose from 5.8 percent in 2008 to 6.6 percent in 2009. Confirming the economic theory that job growth tends to be a lagging indicator in economic recessions, global unemployment is projected at 6.5 percent for 2010 (ILO). Unemployment in developed countries is expected to remain at about 9 percent in 2010 and 2011 (IMF). Poverty levels have increased, particularly in developing countries, with an additional 73 million people falling into extreme poverty, defined as living on less than \$1.25 day, and this number is expected to increase to 64 million by 2010 (World Bank).

3. Hai-Anh Dang, Steve Knack, and Halsey Rogers, *International Aid and Financial Crises in Donor Countries*, World Bank Policy Research Working Paper (Washington, D.C.: World Bank, 2009).

The Regional Impact: The Global Financial Crisis and the Balkans

The global crisis affected the Balkans through a variety of transmission channels, including trade, foreign direct investment and capital flows, banking and credit, remittances, and tourism. The region was adversely affected in terms of GDP, trade, foreign direct investment, tourism, employment, and remittances. In addition, the Greek debt crisis has had negative reverberations in the region, given the high level of engagement by Greek banks and companies. Fortunately, the international donor community has been active in mitigating and averting some of the worst effects of the crisis on the region.

The Region's Recent Economic History

The Balkan economies still bear the imprint of their historical legacy. North-south differences reflecting whether countries were subsumed under the Austro-Hungarian or Ottoman empires are still apparent. So too, the impact of communism has left the region with economic distortions that have yet to be fully removed. In the Western Balkans, north-south differences between lesser and more developed regions intensified under Tito's leadership and eventually contributed to the break-up of Yugoslavia. The fall of communism in 1989 and subsequent conflicts (the secession of Slovenia and Croatia, the Bosnian war, the Kosovo conflict) devastated some of the successor countries and affected the timing and rate at which they eventually adopted market-based economies—in most cases, falling behind the ongoing transition among their Central and Eastern European neighbors.

During the past 10 to 15 years, successful reconstruction has taken place in most countries, economic and sector reforms have accelerated, economic growth has been good (averaging 5 percent a year since 2000), and inflation has been contained. Regional cooperation and integration have proceeded apace. Progress has been made in reintegrating returning refugees and displaced people. However, the recovery has been a jobless one. Integration into regional and global structures progressed, particularly with respect to membership in IFIs, the World Trade Organization, the European Union, and other regional integration structures (e.g., the Stabilization and Association Process, the Central European Free Trade Agreement, the Southeast Europe Energy Community Treaty and Market, and the Southeast Europe Core Regional Transport Network).

Regional Effects of the Crisis

Economic crises, especially those on a global scale, often hit fragile democracies and transition economies especially hard. The Balkans proved to be no exception. Just before the crisis, the Balkan economies were also adversely affected by higher international prices for food and fuel and attendant increases in inflation rates. Indeed, the global fuel, food, and financial crises have been the most severe to hit the region since the fall of communism and the Balkan wars of the 1990s. Transmission channels of the global crisis to Southeast Europe came through trade, FDI and capital flows, banking ties and credit, remittances, and tourism—especially with those countries from which the crisis originated. As an IMF analysis observed, “How hard countries were hit by the decline in trade and capital flows was determined by the openness of the economy and quality of policies and institutions

Table 5.1 The Impact of the Global Crisis on Gross Domestic Product in the Balkans—Growth/Contraction Rates (percent)

Country	2007	2008	2009	2010 projected
Albania	6.0	7.8	2.8	2.3
Bosnia-Herzegovina	6.8	5.4	-3.1	0.5
Bulgaria	6.2	6.0	-5.1	0.2
Croatia	5.5	2.4	-5.4	0.3
Kosovo	5.0	5.4	3.8	4.3
Macedonia	5.9	4.9	-1.6	1.0
Montenegro	10.7	7.5	-4.1	-2.0
Romania	6.0	7.1	-8.0	1.3
Serbia	6.9	5.4	-4.0	0.0
Slovenia	6.8	3.5	-4.7	0.6

Sources: European Bank for Reconstruction and Development; International Monetary Fund.

Table 5.2 The Impact of the Global Crisis on Merchandise Exports (billions of dollars)

Country	2007	2008	2009
Albania	1.1	1.3	1.1
Bosnia-Herzegovina	4.2	5.1	4.6
Bulgaria	18.5	22.5	15.8
Croatia	12.6	14.3	10.6
Kosovo	0.23	0.29	0.23
Macedonia	3.3	3.9	2.3
Montenegro	0.90	0.94	0.76
Romania	40	43	37
Serbia	8.7	10.9	8.0
Slovenia	27.1	29.6	23.6

Sources: European Bank for Reconstruction and Development, Statistical Office of Kosovo.

rather than by the East/West geographical divide. These different points of departure will also make for a multispeed recovery.⁴

The Impact on GDP

The crisis led to declines in trade (especially exports), remittances, FDI and capital flows, credit, remittances, and tourism, with the result that the Balkan economies experienced significant contractions in their GDP in 2008 and 2009 (table 5.1). Only a very modest recovery is projected for most economies in 2010.

Trade Effects

The Balkans is primarily an export-oriented region. Most trade is conducted with the original 15-member EU and includes products such as agriculture, chemicals, energy, machinery, metals, transport equipment, and textiles and clothing. The export base of the Balkans is quite narrow and is subject to the vagaries of global commodity price fluctuations—commodity prices that took a major hit as a result of the global financial crisis. During the crisis, European demand for Balkan commodities and products declined (table 5.2). Indeed, the Balkans' total trade with the enlarged 25-member EU fell by almost a third from its peak in July 2008.⁵

Foreign Direct Investment and Capital Flows

The Balkans possess many advantages with respect to attracting FDI, including (1) a well-educated, skilled, and relatively low-cost workforce; (2) relatively

4. "Multi-Speed Recovery Seen for Europe," *IMF Survey*, December 28, 2009.

5. Regional Cooperation Council, "Western Balkans in 2020: Overcoming the Economic Crisis and Developing Competitive Economies," February 24–25, 2010, http://www.rcc.int/admin/files/docs/RCC%20February%20conference%20proposal%20Final_journalists.pdf.

low, competitive tax rates; (3) improving conditions for doing business; (4) proximity to EU markets; (5) EU and IFI investments in infrastructure; and (6) increasing regional integration with the energy, trade, and transport structures of the EU, Central and Eastern Europe, and Southeast Europe. Western Europe and the United States are the primary sources of FDI flows to the Balkans, with Austria, Germany, and Italy being the most important sources of new green-field investments. More than 60 percent of FDI projects are in labor-intensive manufacturing sectors, such as automotive components, chemicals, electronics, food, mineral products, and plastics. Additional FDI has flowed to the service sector (especially banking, insurance, and telecommunications), construction, real estate and tourism, and business and support services. Even before the crisis, FDI was low and, indeed, below the regional potential. To date, Croatia, Serbia, and Slovenia have received most of the FDI, much of it through privatizations (table 5.3). As credit and liquidity have dried up during the crisis, no country has been immune to the adverse effects.

Table 5.3 The Impact of the Global Crisis on Foreign Direct Investment (billions of dollars)

Country	2007	2008	2009
Albania	0.7	0.84	0.7
Bosnia-Herzegovina	2.1	1	0.60+
Bulgaria	11.4	8.4	5.7
Croatia	4.7	4.5	2.7
Kosovo	0.60	0.54	0.48
Macedonia	0.70	0.61	0.30
Montenegro	0.72	0.81	0.64
Romania	9.6	13.5	4.9
Serbia	2.5	2.7	1.4
Slovenia	-0.27	0.52	-0.25

Sources: European Bank for Reconstruction and Development, Kosovo Central Bank.

The Fiscal Policy Impact

Even before the crisis, most of the Balkan economies ran sizable fiscal deficits. The crisis led to increased fiscal pressures on local economies and even higher deficits. Public revenues, the value-added tax, and import duty collections declined sharply, and public borrowing became more difficult. Governments are either freezing or reducing the public-sector workforce, and any wage demands (Bosnia, Croatia, Romania, and Serbia). Pension reform remains a pressing issue in all countries. At the same time, there are increased pressures on governments to maintain and increase—as well as improve the targeting of—social safety nets and payments to the most vulnerable sectors of society. In addition, governments are dealing with unemployment by supporting job creation efforts, especially for small and medium-sized enterprises. Governments are also trying to increase capital and infrastructure investments (Albania, Macedonia, and Romania). Some countries (Bosnia, Romania, and Serbia) have gone to the IMF for help in stabilizing their fiscal (and balance of payments) accounts. Most countries have also received support from the IFIs for private-sector development and job creation efforts, tourism, and infrastructure and capital investments.

Monetary Policy and Banking Effects

Central banks attempted to increase liquidity and credit to households and companies. Many countries' banks experienced a lack of confidence and large withdrawals of household/private

and company deposits (Albania, Slovenia, Bosnia, and Montenegro). Governments responded by supporting and/or raising insurance guarantees on bank deposits (Albania, Bosnia, Bulgaria, Croatia, Montenegro, Romania, Serbia, and Slovenia). In some cases, bank reserve requirements were lowered on local and foreign currencies (Bosnia, Bulgaria, Croatia, Montenegro, Romania, and Serbia). Some governments (Serbia and Slovenia) also responded with capital injections into the banking system.

Banks are also struggling with nonperforming loans and cleaning up their balance sheets, although most banks remain solvent. Banking restructuring and consolidation are needed. Credit has contracted; it remains tight and expensive. Foreign/parent banks and their subsidiaries play a key role in the Balkans, helping to mitigate the crisis's impact and stem outflows. Foreign banks (Austrian, Italian, and Greek) dominate many of the regional banking sectors, from 75 percent in Serbia to 95 percent in Bosnia (according to data from the European Bank for Reconstruction and Development). The Vienna Initiative of IFIs, governments, and banks helped to support foreign banks and their subsidiaries in maintaining exposure in the East, mitigating risk, continuing lending, and preserving overall banking stability. Parent banks continued to refinance and recapitalize their subsidiaries and branches. However, in some countries the banking system remains fragile and will need continued support from parent banks, governments, and IFIs. Some local currencies (the Albanian lek, Macedonia denar, and Serbian dinar) came under pressure during the crisis. With falling currencies, upward pressures on prices took an additional toll on already-stretched households and firms. Nonetheless, most currencies have since stabilized.

Plunging Stock Markets

In the last quarter of 2008, the Balkan stock markets and indices plunged as a result of the crisis. For example, the Croatia-Zagreb stock exchange index fell 42 percent, and the Bosnia-Sarajevo stock exchange fell 19 percent. In 2008 as a whole, the annual decrease in the Bosnia-Sarajevo stock exchange was 65 percent; and in the Serbia-Belgrade stock exchange and index, 75 percent.⁶

Tourism

Tourism is an important component of GDP for some Balkan countries, especially Croatia (22 percent of GDP) and Montenegro (20 percent of GDP). Tourism in countries such as Albania, Bulgaria, Croatia, and Montenegro has taken a downturn as a result of the crisis. Many tourists from Europe have scaled back holiday travel plans in general, and to the region in particular.

Metals and Commodities Industries

The price of metals fell by almost two-thirds during the crisis. Metals are critical for many of the Balkan economies, including steel (Bosnia, Macedonia, Romania, and Serbia), and aluminum (Bosnia and Montenegro). For example, Montenegro's aluminum plant, Kombinat Aluminijum Podgorica, and related industries that account for 40 percent of industrial output, were adversely affected by falling prices and lower demand. In Bosnia, the two biggest metal exporters, Zenica's ArcelorMittal Steelworks and Mostar's Aluminij plant, announced drastic cuts in production be-

6. Council on Foreign Economic Relations, "Global Financial Crisis and its Impact on Balkans," March 11, 2009, Skopje, <http://coferweb.org/wp-content/uploads/2010/03/global.pdf>.

cause of falling commodity prices and demand in global markets. Primary commodities account for 42 percent of Bosnia's exports, and base metals for 27 percent. With demand (especially from Europe) and prices down, Balkan companies in all the major export industries were forced to slow and/or halt production and adopt wage freezes or cuts, leading to additions to the unemployment rolls.

Employment Effects

Balkan labor markets are distorted and rigid. They are characterized by low participation rates; low formal employment; a large gray/informal labor market; high youth and female unemployment; and high worker dependency ratios, including a large number of pensioners. All Balkan countries need to deal with aging populations and pension reform. The region is also still dealing, in some cases, with shedding excess public-sector and (formerly) state-owned-enterprise workers. Even before the crisis hit, unemployment was a chronic and endemic regional problem—a common condition in conflict-affected countries and regions.

The crisis led to the largest increase in unemployment rates in the developed and EU countries (about 2.4 percent), while unemployment rates increased in the Balkans by about 2 percent. Exports account for about one-fifth of regional employment. As exports fell, workers in those industries began to experience layoffs and prolonged unemployment. As FDI slowed, fewer new jobs were created. Many privatizations of large-scale enterprises have been delayed until the international climate is more conducive, thereby postponing opportunities for job creation and growth. Construction (Bosnia, Bulgaria, Croatia, Montenegro, and Romania), tourism (Bulgaria, Croatia, and Montenegro), metals (Bosnia, Bulgaria, Macedonia, and Montenegro), and textiles (Bulgaria, Macedonia, and Romania) have been hard-hit with worker layoffs, and in some cases, with attendant protests and labor unrest. Planned commercial and residential real estate developments have been scaled back or postponed. Downsizing and layoffs have also taken place at many state-owned and private enterprises.

To the extent that they have fiscal expansionary space (provided in some cases by donor financing to deal with the crisis), some Balkan governments have put in place programs aimed at stimulating employment, such as wage subsidies for hiring youth (Macedonia and Serbia), increasing capital and infrastructure expenditures and investments (Albania, Macedonia, and Montenegro), reducing the employer's rate of social contributions (Macedonia and Montenegro), and supplying credit to small and medium-sized enterprises (Montenegro). Other countries that still must grapple with long-term fiscal tightening have laid off public-sector workers and/or frozen or reduced public-sector and state-owned enterprises' wages (Bosnia, Bulgaria, Croatia, Macedonia, and Serbia); some have also frozen pensions (Serbia) (table 5.4).

Remittances

Remittances are a significant economic factor in conflict regions. External labor markets and cash flows have been crucial for maintaining living standards, especially during periods of conflict. The Balkans region has one of the highest remittance rates worldwide. Indeed, remittances are one of the largest sources of external finance, amounting to more than \$5 billion a year, and are estimated to exceed 20 percent of GDP in some countries—for example, 12.6 percent of GDP in Kosovo, 20.3 percent in Bosnia, and 21.7 percent in Albania. Exact figures for each country are difficult to obtain, but there is evidence to indicate that remittances to the Balkans mirror the same global remittance trends noted above—that worker remittances have declined because of the crisis. For ex-

Table 5.4 The Impact of the Global Crisis on the Unemployment Rate in the Balkans (percent)

Country	2007	2008	2009 (estimate)
Albania	13.2	12.7	12.8
Bosnia-Herzegovina	43.2	40.6	42-43
Bulgaria	6.2	5.1	7.8
Croatia	9.7	8.7	10.0
Kosovo	43	42-43	45
Macedonia	34.9	33.8	32.2
Montenegro	16.8	17.5	11.2
Romania	4.1	4.4	6.9
Serbia	18.8	14	17-18
Slovenia	4.8	4.3	6.2

Sources: European Bank for Reconstruction and Development, World Bank, International Labor Organization, International Monetary Fund.

ample, Kosovo's remittances fell from 12.6 percent of GDP in 2007 to 11.9 percent in 2008 to 10.7 percent in 2009 (IMF).

Delayed Privatizations and Market Reforms

The crisis has delayed many planned large-scale privatizations of state-owned enterprises (e.g., Croatian shipbuilding, Serbian mining) until the overall investment and credit climate improves. In addition, many market reforms aimed at meeting EU integration and accession requirements have been put on hold until more favorable economic conditions prevail. It is particularly important, however, that there have been no major retrenchments or reversals in market reforms.

The Regional Impact of the Greek Debt Crisis

Greece is a key player in the Balkan region in terms of investment, banking, and job creation, and as a source for migrant (particularly Albanian) remittances. Some 3,500 Greek companies are active in the Balkans in sectors such as construction, clothing and textiles, energy, food processing, and telecommunications. Greek FDI in the region is estimated at more than \$20 billion.⁷ Some of Greece's largest banks—Alpha Bank, EFG Eurobank, the National Bank of Greece, and Piraeus Bank—are active in the region, holding about \$95 billion in assets, or 15 percent of the regional financial sector's share.⁸ In addition, in 2002 the Greek government launched a multilateral effort, the Hellenic Plan for the Reconstruction of the Balkans, aimed at funneling \$750 million in investments in public infrastructure and private initiatives. With the financial crisis, in late 2009, the Greek Central Bank called on Greek banks to retrench and focus lending and other financial activities on the home front. Nonetheless, Greek banks remain committed to maintaining regional exposure for at least two years under the Vienna Initiative. New investments seem to have been adversely affected. The government's Hellenic Plan, scheduled to run until 2011, is unlikely to meet its investment goals in the region.

The Response of the International Donor Community

The international donor community responded swiftly with substantial resources to bolster faltering economies in general and the Balkan economies in particular. IMF lending resources

7. "A Greek Tragedy?" *FDI Magazine*, April 15, 2010.

8. "Balkan Banks Wary of Greek Retreat," *Financial Times*, March 18, 2010.

increased from \$250 to \$750 billion, a short-term liquidity facility was created, and conditionality was streamlined. The World Bank also stepped up its support with an additional \$100 billion in lending over three years, and the opening of special lending windows and facilities for trade, finance and microfinance, food, energy, bank recapitalization, and infrastructure. In addition to its regular programs, the European Bank for Reconstruction and Development (EBRD) provided another \$11 billion to aid recovery from the crisis.

Up until the crisis, bilateral and multilateral donors had committed \$10.5 billion in aid to the region. Per capita aid for the region was equivalent to €100. The crisis reversed a trend in donor assistance, which had been trending downward since the resolution of the major Balkan conflicts. Indeed, lending by all donors has increased since the crisis. For example, the IMF provided Stand-By Agreements balance of payments support for Bosnia (\$1.57 billion), Romania (\$17.4 billion), and Serbia (\$4 billion). Before the crisis, the World Bank had provided \$5.8 billion in lending and grants for projects covering a wide range of sectors, including agriculture, business environment reform, education, energy, the environment, health, infrastructure, institution building, judicial reform, land management and administration, private-sector development, public administration and governance, tourism, transport, and water and sanitation. Since the crisis, the World Bank has committed an additional \$12.5 billion for fiscal years 2008 and 2009 to Europe and Central Asia (including the Balkans). These funds will be allocated to positioning the region for a postcrisis period characterized by recovery and growth. Specific projects will include support for establishing an improved business climate, creating a skilled workforce, enhancing public administration and financial management, building infrastructure (including transboundary programs), political risk insurance, social service delivery, and stabilizing the financial sector.

The EBRD committed an additional €7 billion to its entire lending region in 2009 to help mitigate the impact of the crisis. EBRD investments in the Balkans rose 16 percent, to €534 million, in 2009. With respect to the Balkans, the EBRD invested \$1 billion in 2009 for banking, the financial and corporate sectors, small and medium-sized enterprises, and regional infrastructure (energy and transportation) programs. In addition, the EBRD administers the multidonor Western Balkans Fund, which provides support for key infrastructure, trade, and private-sector developments. New lending mechanisms, such as the Mid-Sized Corporate Facility and Trade Facilitation Program, have also been developed to help meet the region's needs.

The European Union's aid to the Balkans, formerly conducted through the Community Assistance for Reconstruction, Development, and Stabilization (CARDS) program, has been rolled into a new program called the Pre-Accession Assistance (IPA) program. The EU has allocated nearly \$18 billion through this program for 2007–2013, of which the Balkans would receive about \$1 billion a year, for a total of \$7 billion. Joint initiatives have also been formed to leverage resources and knowledge in helping the Balkans cope with the crisis. For example, the EBRD, the European Investment Bank (EIB), and the Council of Europe Development Bank together created the Balkans Investment Framework, which includes a Joint Lending Facility to support infrastructure projects and a Joint Grant Facility to support priority projects to help with EU accession. As an EBRD official explains, "The Framework was conceived as a way to pool resources at the European level, thus harmonizing cooperation between international financial institutions and increasing their aid and financing effectiveness in the Western Balkans. The global financial crisis has given new impetus to such collaboration."⁹

9. "Coordinating Investments in the Western Balkans," EBRD, December 17, 2009, <http://www.ebrd.com/new/stories/2009/091217.htm>.

In February 2009, the EBRD, EIB, and World Bank pledged €24.5 billion to support financial institution lending to businesses hit hard by the global economic crisis. The Vienna Initiative or European Bank Coordination Initiative was another key component of the multilateral response to the crisis. It was designed to address the potential problem of foreign-owned banks pulling out of emerging European countries, including the Balkans. The initiative brought together IFIs (the IMF, World Bank, EBRD, EIB, and the EU), home-country and host-country governments, and banking institutions. With the financial programs and guarantees provided by the IFIs, the banks maintained their presence in and exposure to these countries, and subsidiaries were recapitalized and refinanced as needed. Unlike in previous crises, these preventive actions helped to avert sovereign defaults and currency runs.

U.S. aid to the Balkans totaled \$293.6 million for fiscal year 2009, and \$284.8 million in 2010. It supports programs for anticorruption and antitrafficking, strengthening civil society, good governance, market reforms, independent media, and legal and human rights. However, U.S. officials see the EU as playing the lead role in providing assistance to reform the West Balkan countries along EU lines, eventually leading to EU membership. As these countries move closer to EU standards, the more advanced countries are expected to “graduate” from U.S. assistance.

Policy Recommendations

The global financial crisis and the recent Greek debt crisis are likely to decrease the likelihood of EU members admitting newcomers to the club. However, given the potential for instability, the EU and the United States would do well to keep the region on track toward greater regional integration. The American, European, and Balkan governments can work together to support a number of actions that will help the region through the crisis, integrate into the regional and global economy, and move toward greater peace and prosperity. In this respect, it is possible to offer a number of policy recommendations:

- Include the Balkans in regional and global financial-sector regulation reform efforts.
- Support *intra*regional Balkan integration and the creation of a single economic space.
- Provide support for integration and accession efforts with the EU.
- Encourage continued progress toward integration with Central and Eastern Europe.
- Assist with business and investment climate improvements.
- Support programs to reduce corruption and criminality.
- Promote efforts aimed at good governance, effective public administration, strong institutions, and a well-functioning judiciary.
- Provide continued support for trade finance and improved trade competitiveness.
- Support political risk insurance to attract foreign private investment.
- Invest in private-sector development and job creation.
- Promote the peaceful resolution of remaining conflicts.

6

ALBANIA Elez Biberaj

In December 2010, Albania will mark the 20th anniversary of the student demonstrations that led to the demise of the country's Communist regime. Under Enver Hoxha's dictatorship, Albanians had endured unimagined brutalities and privations. Thus, 20 years ago, the predictions about Albania's democratic prospects were predominantly gloomy. Of all the former Communist countries in Eastern Europe, Albania was the least prepared for a transition from Communist totalitarianism to a genuine pluralistic democracy and a market economy. It faced a serious moral and spiritual crisis, with large segments of the population having lost hope in their country's future and desperately looking for ways to flee abroad.

Yet despite these serious odds, Albania has undergone radical political, social, and economic transformations, and it has made great strides in building a functioning procedural democracy and institutionalizing democratic freedoms. It has developed a special relationship with the United States, becoming an important part of Washington's vision of building a Europe whole and free. In 2009, it became a member of NATO; and in November 2009, the European Council backed its application for candidacy to the European Union. Though it was once the most reclusive and isolated state in the Western Balkans, it has emerged as a strong proponent of regional cooperation and reconciliation.

Nevertheless, 20 years after the demise of Communism and after a series of parliamentary elections, Albania finds itself in the midst of a complicated transition. Most observers agree that it has a low quality of democracy, with pervasive corruption and an inability of political elites to find a consensus on the main challenges facing their country.¹ Democracy continues to be undermined from within by the fierce competition between the country's two largest political forces—the ruling Democratic Party and the opposition Socialist Party—along with poor governance and daunting social and economic challenges.

The Democrats narrowly won the June 2009 parliamentary elections,² but the Socialist Party, claiming that the vote had been rigged, refused to recognize the results and demanded a ballot recount. In an attempt to force the government to open the ballot boxes, the Socialists boycot-

1. Freedom House, *Freedom in the World 2010*, country report on Albania, <http://www.freedomhouse.org/template.cfm?page=22&country=7766&year=2010>; FRIDE, "Democracy Monitoring Report: Albania," Madrid, April 2010, <http://www.frider.org/publication/758/democracy-in-albania>; Commission of the European Communities, *Albania 2009 Progress Report* (Brussels: Commission of the European Communities, 2009), http://ec.europa.eu/enlargement/pdf/key_documents/2009/al_rapport_2009_en.pdf; Institute for Development Research and Alternatives, "Corruption in Albania: Perception and Experience, Survey 2010," Tirana, 2010; Transparency International, "Corruption Perceptions Index 2009," http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table.

2. Office for Democratic Institutions and Human Rights, Organization for Security and Cooperation in Europe, "Republic of Albania: Parliamentary Elections 28 June 2009," Warsaw, October 11, 2009, http://www.osce.org/documents/odihr/2001/10/1170_en.pdf.

ted parliament and staged street protests. The dispute dragged on for almost a year, leading to a political stalemate, paralyzing parliamentary activities, and harming Albania's prospects for membership in the EU. It was only after intense international pressure and mediation that the two parties agreed in late May 2010 to engage in negotiations to end the political stalemate. The lack of political will to find a compromise, even at a time of enormous national challenges, was a glaring testimony of how much more Albania needs to do.

Political Overview

Under Enver Hoxha, Albania had the misfortune of being ruled by one of the most repressive Stalinist regimes of any country in Eastern Europe during the twentieth century—and for a longer period.³ During his reign of uninterrupted terror, Hoxha succeeded in establishing a system whereby the Communist Party attempted to control all aspects of life, preventing any signs of open dissent, abolishing private property, and closing down all religious institutions. As a result of his dogmatic policies, Albania was totally ostracized internationally. After Tirana's break with Moscow in 1960, Albania allied itself with China—at the time the most dogmatic Communist regime. China's rapprochement with the United States in the 1970s led to Tirana's break with Beijing. From the late 1970s until Hoxha's death in 1985, Albania curtailed its links with the international community, pursuing a highly debilitating policy of self-reliance. Faced with a collapsing economy and under tremendous domestic and international pressure, Ramiz Alia, Hoxha's successor, attempted to carry out some cosmetic changes, including loosening the Communist Party's grip on society and establishing ties with selected countries. But these carefully controlled changes fell far short of growing internal demands for fundamental reform.⁴ Finally, in December 1990, a year after the demise of Communist regimes in the other Eastern European countries, Alia accepted demands by demonstrators from Tirana University for political pluralism, sanctioning the creation of non-communist political parties.

The legacy of Communist authoritarianism, a lack of a democratic tradition, and serious economic and social problems, combined with the general failure of postcommunist political elites to abide by democratic rules and to look beyond their own personal or party interests, account for the fact that Albania's transition has been painful and its pace of democratization slow.⁵ Since the end of Communism, it has witnessed the emergence of more than 30 political parties, ranging across the political spectrum. Nevertheless, its politics has been dominated by the country's two main political forces—the center-right Democratic Party and the Socialist Party, the successor to the Albanian Communist Party. These two parties have tended to view elections as a zero-sum game, often disregarding democratic norms, manipulating electoral procedures, intimidating the judiciary and the media, and contesting any unfavorable results.

3. Nicholas C. Pano, *The People's Republic of Albania* (Baltimore: Johns Hopkins University Press, 1968); Elez Biberaj, *Albania: A Socialist Maverick* (Boulder, Colo.: Westview Press, 1990); William E. Griffith, *Albania and the Sino-Soviet Rift* (Cambridge, Mass.: MIT Press, 1963); Arshi Pipa, *Albanian Stalinism: Ideo-Political Aspects* (Boulder, Colo.: East European Monographs, 1990); Peter R. Prifti, *Socialist Albania since 1944* (Cambridge, Mass.: MIT Press, 1978); Anton Logoreci, *The Albanians: Europe's Forgotten Survivors* (London: Victor Gollancz, 1977).

4. In his recently published memoirs, Alia acknowledges that the changes he introduced were too little, too late. See Ramiz Alia, *Jeta ime: Kujtime* [My Life: Memoirs] (Tirana: Toena, 2010).

5. Elez Biberaj, *Albania in Transition: The Rocky Road to Democracy* (Boulder, Colo.: Westview Press, 1998); Derek Hall, *Albania and the Albanians* (London: Pinter Reference, 1994); Miranda Vickers and James Pettifer, *Albania: From Anarchy to a Balkan Identity* (New York: New York University Press, 1997).

Twenty years ago, there were deep philosophical differences between the two parties, and they thus held contrasting views on most issues. Because the Democratic Party was unambiguously anticomunist, it advocated implementing radical market reforms, promoted Albania's Euro-Atlantic integration, and strongly supported the nationalist demands of ethnic Albanians in Kosova and other parts of the former Yugoslavia. The Socialist Party, conversely, was slow in distancing itself from the Communists, opposed the rapid socioeconomic reforms introduced by the Democrats, and openly criticized Albania's close ties with the United States and NATO. In fact, the party was dominated by hard-line Communists who had turned Socialist and who only reluctantly agreed in 1996 to renounce Marxism-Leninism.

During the last decade, however, the ideological gap between the two major parties has narrowed and their programs have become less distinguishable. Both advocate the deepening of economic reforms and the consolidation of democratic institutions. Albania's foreign policy has not differed substantially from one government to another. Both Democrats and Socialists have been strong advocates of Albania's integration into Euro-Atlantic institutions, the deepening of its strategic partnership with the United States, and its expanded cooperation with other countries in the region.

Albania's two major parties have alternated power and have largely governed in a partisan and nontransparent fashion. Albania's first multiparty elections, held in March 1991, were won by the Socialist Party. The Socialists, however, could not hold on to power, and early elections were held a year later. The Democratic Party, which was publicly embraced by Washington, won an overwhelming victory. Alia resigned as president and was succeeded by Democratic Party leader Sali Berisha. President Berisha's government reintegrated Albania into the international community and began the difficult task of building democratic institutions, completely revamped the nation's constitutional order, and created a new system with checks and balances, safeguards for fundamental rights and freedom, and judicial review. Berisha also instituted radical economic and political reforms and steered a distinctly pro-Western course, developing close political and military links with the United States and Western European powers, and becoming the first Eastern European leader to seek his country's membership in NATO and the EU.

The United States was a strong supporter of Berisha's government, providing substantial assistance for Albania's efforts in the realm of democracy promotion and economic development. But Washington grew weary of Berisha in the wake of the flawed 1996 elections, the government's restrictions on basic political action, its adoption of a restrictive media law, and its toleration of corrupt firms engaged in pyramid schemes. The collapse of these firms in 1997 sparked an armed revolt, plunging the country into a deep political, social, and economic crisis. In March 1997, Berisha reached an accord for the creation of a national reconciliation government, headed by the Socialist Party's Bashkim Fino. "Snap" elections three months later swept the Socialist Party back into power. Fatos Nano, the Socialist Party chairman who had been imprisoned on corruption charges but pardoned by Berisha in the wake of the uprising, became prime minister. The party's general secretary, Rexhep Meidani, succeeded Berisha as president.

During the next eight years of Socialist rule, Albania recovered from the pyramid scheme crisis, experienced significant economic growth, adopted a new Constitution, and enacted important legal reforms. However, the Socialists were unable to produce good governance because of the fierce struggle between different party factions led by Nano and the former head of the party's youth organization, Ilir Meta. Nano resigned in September 1998 following the assassination of Azem Hajdari, leader of the 1990 student demonstrators and a senior Democratic Party leader.

Then, after only a year in office, Nano's successor, Pandeli Majko, was forced to resign, paving the way for Meta to become prime minister. Nano and Meta reached a truce during the campaign for the 2001 parliamentary elections. But soon after the Socialists won the elections, Nano mobilized the Socialist base and launched a well-coordinated campaign against Meta, forcing him to resign in January 2002. Nano was disconcerted that Meta had attempted to marginalize him and his supporters and had refused to endorse the Socialist Party leader's candidacy for president. With his presidential ambitions frustrated, Nano took over the reins of government, giving Meta the post of foreign minister. Meta, however, felt marginalized, and resigned in 2003. A year later, he left the Socialist Party and formed his own party, the Socialist Movement for Integration. Political infighting within the Socialist Party had an adverse impact on the country's political development and diverted attention from more important issues.

Internal divisions and the rising disenchantment with Socialist rule resulted in the party losing the parliamentary elections in July 2005 and the Democrats' return to power. Nano resigned as the Socialist Party leader and was succeeded by the mayor of Tirana, Edi Rama. The 2005 elections represented a remarkable comeback for Berisha, who had been held primarily responsible for Albania's implosion in 1997. Having drawn lessons from the time when he was president, he had formed a broad preelection coalition, welcomed back into the Democratic Party former prominent officials who had left it in the 1990s, and invited 40 young experts from civil society groups to draft the party's electoral platform. Many of these young experts, members of a Policy Orientation Committee, were subsequently appointed to important Cabinet posts.

Berisha formed a coalition government with several smaller parties, securing a comfortable majority of 81 seats in the 140-member parliament. He announced an ambitious program to address the economic crisis, improve the business environment, fight corruption and organized crime, and speed up the country's integration into NATO and the EU. During its first four-year mandate (2005–2009), his government achieved significant progress.⁶ Building on the achievements of the Socialist administration, it implemented structural and institutional reforms, which resulted in strong economic growth, infrastructure improvements, significant reductions in poverty and unemployment, increased pensions and wages in the public sector, and an overhaul of the country's financial sector.

During this period, Albania experienced an annual growth in gross domestic product of 7 percent. Poverty declined to 12.4 percent of the population, from 25.4 percent in 2002; unemployment fell from 15.8 percent in 2002 to 12.7 percent in 2009; and wages in the public sector rose by 36.5 percent between 2005 and 2009. The country's business climate improved markedly with the introduction of a "one-stop-shop" registration system, which reduced the time and cost required to open a business. The World Bank's *Doing Business 2009* report ranked Albania 82nd out of 183 countries; in 2008, Albania was ranked 135th. The government also launched a massive public infrastructure program, including the construction of a highway linking Albania's port city of Durres with Kosova.

The Democratic Party's electoral program in 2005 had identified the fight against corruption as fundamental to Albania's further democratization. Berisha had pledged that if the Democrats regained power, they would govern "by clean hands." Throughout his first four years as prime

6. World Bank, *Country Assistance Strategy Progress Report for Albania for the Period FY06–FY08*, Report 43346-AL (Washington, D.C.: World Bank, 2008); European Bank for Reconstruction and Development, *Strategy for Albania 2009–2012* (London: European Bank for Reconstruction and Development, 2009).

minister, Berisha maintained a strong anticorruption stance. With the assistance of international experts, Albania adopted a new strategy to combat corruption (2007–2013), introduced new public procurement and bribery legislation, strengthened the independence and transparency of the Public Procurement Agency and the revenue administration, and took measures against corrupt officials.

Berisha's key foreign policy objectives remained the strengthening of the strategic partnership with the United States, which since the early 1990s had served as the most important external factor promoting Albania's democratization. Washington was a strong advocate of Albania's admission into NATO and was instrumental in Kosova gaining independence from Serbia. Tirana was very supportive of the U.S. policy of fighting extreme nationalism and promoting regional stability and cooperation in Southeast Europe.

Albania was decidedly in favor of increased regional cooperation, deepening its political, economic, and cultural ties with neighboring countries as well as with Kosova and Albanians in Macedonia and Montenegro. Tirana also pursued a diplomatic rapprochement with Serbia—at a time when Belgrade was waging a fierce, worldwide diplomatic campaign to prevent other nations from recognizing Kosova's independence. The Albanian government was widely praised for its significant contribution to stability at what was one of Europe's most acute flash points. Tirana currently enjoys very good relations with all its immediate neighbors.

Berisha made significant progress in advancing Albania's aspirations for Euro-Atlantic integration, the country's major foreign policy objective. He termed Albania's achieving membership in NATO in 2009 as the most important event in his country's history since gaining independence in 1912. Albania has emerged as a staunch supporter of NATO engagements, deploying troops in Afghanistan and Iraq, and deepening its political and military relations with other NATO members. Albania has also focused on its other major foreign policy objective: accession to the EU. Tirana signed a Stabilization and Association Agreement with the European Union in 2006, and in April 2009 it applied for full membership. In November 2009, the European Commission praised Albania for the progress it had made and authorized the preparation of an assessment of its readiness for membership. In April 2010, Berisha traveled to Brussels to deliver Albania's answers to the European Commission questionnaire. The Commission is expected to give its assessment in 2011 on whether Albania meets the criteria to become an EU candidate country. However, Albania is not likely to receive a positive assessment if its current political stalemate is not resolved.

Contemporary and Emerging Challenges

Although it has achieved remarkable progress in its political, economic, and social transformation, Albania still faces significant challenges, and its democracy can be described as a “work in progress.” As the European Commission noted in its most recent annual progress report on Albania (October 2009), much remains to be done to strengthen the rule of law, intensify the struggle against organized crime and corruption, ensure the proper functioning of state institutions, respect the independence of the judiciary, and improve conditions for media freedoms.⁷

The authorities face a particular challenge in tackling corruption, which remains pervasive. According to Transparency International, Albania ranks among the most corrupt countries in the

7. Commission of the European Communities, *Albania 2009 Progress Report*.

region. Transparency International ranked Albania 95th out of 180 countries on its 2009 Corruption Perceptions Index.⁸ Despite the progress achieved in recent years, the public's perception of corruption among public officials remains very high. According to a 2010 study conducted by the Tirana-based Institute for Development Research and Alternatives and funded by the U.S. Agency for International Development, 91.8 percent of respondents said corruption among public officials was "widespread" or "somewhat widespread." The study also found that trust in public institutions remains very low, with the judiciary and political parties ranking among the least-trusted institutions.⁹

Although Albania seems to be weathering the global economic crisis fairly well and was the only country in Southeast Europe in 2009 to record positive growth (3 percent), it ranks among the poorest countries in the region, with a per capita GDP of only \$6,500. Its poverty and unemployment rates remain high, and a significant proportion of its population is dependent on remittances from relatives abroad. Since the collapse of Communism, about 1 million Albanians, accounting for 22 to 25 percent of the country's population, have emigrated in search of a better life abroad, most of them settling in Greece, Italy, and the United States. Migrant remittances have played a critical economic role, accounting for 10 to 14 percent of GDP. In this regard, Greece's current economic crisis is likely to have a significant impact on Albania. There are an estimated 800,000 Albanians in Greece, most working in construction, agriculture, and tourism, and Greeks are the biggest foreign investors in Albania (\$1.2 billion). Greece's macroeconomic crisis is likely to lead to a significant drop in capital and remittance inflows. The economic downturn may prompt Albanian migrants to return home, and their reabsorption in the society could be problematic.

One of the greatest challenges facing Albania is the debilitating confrontation between its two major political parties, as was reflected by the controversy surrounding the June 2009 parliamentary elections. These elections, the seventh since the demise of Communism, represented a unique opportunity for Albania's political forces to convince the international community that democracy had matured and that the winner would translate electoral victory into good governance. As a member of NATO and a potential candidate for EU membership, Albania was held to significantly higher standards than in the past. Observers from the Organization for Security and Cooperation in Europe acknowledged that the elections "did not fully realize Albania's potential to adhere to the highest standards for democratic elections" but validated that they had indeed met key international standards.¹⁰

The election results showed that the Albanian electorate remained deeply and closely divided among the two major political parties. The Democrats won 68 out of 140 seats, 3 more than their Socialist opponents did. Ilir Meta's Socialist Movement for Integration emerged as the kingmaker, with 4 seats. Two parties allied with the Democrats, and one allied with the Socialists, won 1 seat each. Though the Democratic Party emerged with most parliamentary seats, it fell short of the majority required to form the government. During the election campaign, Berisha had ruled out the possibility of a coalition with Meta, but in an abrupt about-face, Berisha entered into a coalition agreement with the Socialist Movement for Integration, denying the Socialists the chance to form the new government. Meta became deputy prime minister and foreign minister. His party also received two other posts—the leaderships of the Ministry of Health and the powerful Min-

8. Transparency International, "Corruption Perceptions Index 2009."

9. Institute for Development Research and Alternatives, "Corruption in Albania."

10. Office for Democratic Institutions and Human Rights, Organization for Security and Cooperation in Europe, "Republic of Albania: Parliamentary Elections, 28 June 2009."

istry of Economy, Trade, and Energy. In addition, the agreement provided that the Socialist Movement for Integration could appoint its people to 20 percent of all senior posts in the administration.

The accord was met with disbelief among many government and opposition supporters. Berisha and Meta were bitter rivals and held divergent views on major issues. However, though both domestic and foreign observers have questioned the coalition's durability, thus far it has functioned relatively well. The loss of the election by a very narrow margin marked a serious setback for Rama and caused turmoil in the Socialist ranks. Rama had been overly confident of victory, waging a highly personalized campaign and marginalizing many senior party activists. He made a serious miscalculation by declining Meta's desperate and repeated calls to join forces against Berisha. The two leftist parties combined had won more votes than the Democrats. Most analysts believed that political bickering among the Socialists and Rama's failure to form a preelection coalition with Meta had paved the way for the Democrats to win a second mandate.

In a move that many saw as an attempt to deflect attention from his own leadership problems and consolidate his position as Socialist Party chairman, Rama refused to accept the results, although international observers had deemed them sufficiently credible. He claimed that the vote had been rigged by the Democrats. After pursuing its complaints through established legal mechanism, the Socialist Party announced that it would boycott parliament and stage street protests unless the government agreed to open the ballot boxes. Rama apparently hoped that the protests would become disruptive enough to dislodge Berisha's government or at least force the prime minister to accept his demands. But the Democrats rejected his demands, contending that such complaints had been rejected by the Central Electoral Commission and the Electoral College, the country's highest judicial body empowered to address electoral complaints. Berisha offered to set up a parliamentary commission to investigate the conduct of the elections and to give the Socialists the majority on this commission.

Rama faced a challenge from senior members of the Socialist Party's leadership, who demanded his resignation, holding him personally responsible for the election defeat and Meta's defection to Berisha's camp. Members of the group opposed Rama's confrontational stance and strategy of boycotting parliament and street protests, and accused him of imposing authoritarian rule over the party. In contravention of his party's stipulation that in the event of an election defeat the party chairman must resign and ignoring his own preelection pledges, Rama rejected calls that he step aside. But despite stiff opposition from a group of leading party officials, in September 2009 Rama was overwhelmingly reelected as party leader. He heightened his antigovernment rhetoric, organizing protests in Tirana and other major cities. He refused to heed repeated calls by the international community to end the boycott of parliament, thus denying the Socialists international support. However, despite Rama's rhetoric, his campaign had little to do with electoral transparency. It was clear that his real objectives were to consolidate his leadership position in the Socialist Party, deny legitimacy to the Democrats, and press for early elections.

In late February 2010, only days before the six-month legal deadline to take up their seats in parliament was to expire, the Socialist deputies returned to parliament. However, the political deadlock had not been broken, because the Socialists refused to participate in parliamentary sessions. It was clear that the Socialists had decided to return to parliament in order to preserve their mandates and salary entitlements.

Although the controversy threatened to devalue Albania's democratic credentials and delay its EU entry bid, both sides refused to engage in substantive negotiations that could end the

gridlock. The Socialists resorted to threats, ultimatums, and disruptive actions in pursuit of their demands. Drawing parallels with popular uprisings in Ukraine, Georgia, and Kyrgyzstan, Rama vowed to oust Berisha's government by force. The prime minister responded by accusing Rama of being at the head of a dangerous mafia group and accused the Socialists of attempting to sabotage the country's EU integration and stalling the introduction of important reforms. The incendiary rhetoric corroded civility and stifled debates about important issues.

The dispute over the elections came at a time when Albania could ill afford to be engulfed in a prolonged period of political discord. The inability of the country's leaders to solve their political problems significantly damaged its image. Although the government claimed that the crisis did not affect its capacity to govern, the postelection period saw little progress in deepening fundamental reforms. The approval of legislation necessitating a three-fifths majority, which was required to align Albania's laws with EU legislation, has been delayed. With the opposition's refusal to participate in parliament, the Democrats promulgated many laws in a hasty manner and without much debate or public input.

The crisis reached a high level of passion and acrimony in early May 2010, when 20 Socialist deputies and more than 100 of their supporters announced a hunger strike and camped out in front of the prime minister's office. The hunger strike was seen as a last-ditch attempt by the Socialist leadership to galvanize opposition to the government. Rama's strategy of boycotting parliamentary sessions and organizing disruptive street protests had been largely ineffective. With the exception of two rallies in Tirana, the protests had not attracted significant domestic or international support. The situation was defused, at least temporarily, on May 19, when the Socialists ended their hunger strike after Berisha and Rama accepted an invitation to travel to Strasbourg for face-to-face talks with the leaders of the center-right and socialist groups in the European Parliament and the EU enlargement commissioner, Stefan Fuele. The two leaders pledged to engage in serious negotiations after they reportedly received a stern warning that if the stalemate were to be prolonged, Albania's EU membership application would be unlikely to proceed swiftly. Both sides appeared to have softened their positions, and there was hope that an accord would be reached.

Policy Recommendations

Albania finds itself at a crossroads. Despite its significant accomplishments in recent years, there is much that is tentative and fragile about the quality of its democracy. Its future democratic prospects will largely depend on the willingness of its main political forces to abide by democratic rules and avoid destructive infighting, and its government's ability to produce good governance, pursue greater economic growth, ensure the rule of law, and tackle corruption with much more vigor. The long-standing rivalry between the Democrats and Socialists, driven more by personal ambitions and narrow party interests than by policy and ideological differences, has impeded attempts to establish a fully functional democracy and could derail Albania's efforts for integration into the EU. Specifically:

- To govern effectively, the Democrats must find ways to cultivate bipartisanship and reach out to the half of the population that voted for the Socialists. The opposition, for its part, must respect democratic rules and wage its political struggles inside parliament without engaging in disruptive activities or attempts to bring down the government by force. Albania faces the real prospect of realizing its dream of being securely anchored in Europe. It cannot afford to permit the pursuit of narrow party interest to squander this historic opportunity.

- The EU and the United States have made substantial political and economic investments in Albania's democratic development. At a time of a growing anti-enlargement mood in the EU, domestic instability and destructive political infighting understandably could lead to "Albania fatigue." However, any timidity in promoting the strengthening of Albania's democratic institutions and economic prosperity will seriously undermine the country's democratic prospects.
- Arguably, with Washington's changing priorities and engagements in other countries and regions of more vital national interest, the U.S. commitment to Albania may likely wane. Indeed, there are already signs of this. Since President George W. Bush's historic visit in 2007, Tirana has not hosted a visit by a senior U.S. official. Vice President Joseph Biden and Deputy Secretary of State James Steinberg excluded Tirana from their visits to the region in 2009 and 2010, respectively. Nonetheless, Albania matters, and it has proven itself as a very constructive American partner in Southeast Europe. It is imperative that the United States' policy of active engagement with Albania continues unabated. And thus it is important that Albania be included in the U.S. administration's senior-level diplomatic outreach to the region. Making Albania part of a stable, prosperous, and democratic Southeast Europe is in the national interest of the United States.

7

BOSNIA-HERZEGOVINA

Edward P. Joseph

No conflict since World War II has produced as many books, articles, and reports as Bosnia. This small country of 4.5 million people, with limited geostrategic importance, locked inside a region known mostly for its querulous nature rather than economic potential, has somehow generated outsized and enduring academic interest long after its war ended. Even as Bosnia has faded from mainstream consciousness, and dropped far down the agendas of U.S. and European policymakers, the profusion of reports and occasional diplomatic activity has not ceased. There are already too many policy prescriptions for policymakers to digest. To be salient, the commentator must not only prescribe but describe the enduring dynamics that make Bosnia so resistant to well-intentioned engagement, as well as an irresistible subject for commentary.

Bosnia's Original Sin

One overarching question towers over all the rest: Why is Bosnia still so mired in stagnation almost 15 years after a peace agreement that not only stopped the fighting but also set out a comprehensive basis for both the country's institutions and its internal relations and external relations? The question has a skeptical tone. Those who contend that it has "only" been 15 years since the war ended or who maintain that a lot of progress has been made forget that Bosnia is the recipient of the largest amount of assistance per capita ever provided to a postconflict country. Besides international largesse, Bosnia has a number of other inherent advantages that make its bleak performance stupefying. Unlike Afghanistan, Bosnia's population is not only literate but also highly educated and reasonably well provided for, and the country is blessed with abundant natural resources and good infrastructure. Unlike Iraq, Bosnia's population, including the plurality Bosniak Muslims, overwhelmingly shares European (liberal Western) values, embracing without significant resistance the principle of equality for women.

Unlike Iraq and the most of the Middle East, Bosnia has a viable, productive point of strategic orientation: the EU and NATO. In other words, the country faces no serious competition over its core destiny; there are no (significant) mullahs calling for a caliphate, no hang-ups over dealing with "infidels," and no complexes about living in the modern world. Only the most virulent Serb or Croat nationalist would maintain (unconvincingly) that Bosnia's Muslims do not share the fundamental point of Euro-Western orientation.

Given the severity of the challenge in subduing Iraq and Afghanistan, and in dealing with Iran and Pakistan, the absence of Islamist pathology in Bosnia is stunning. Even during the darkest days of war, having endured unspeakable cruelty, there was not a single reported incident of suicide terrorism from Bosniaks. Suicide terrorism is the scourge of the Islamic world, and its total absence from the Balkans is remarkable. It means that Bosnia (and Kosova) are likely, given reasonable progress, to remain immune from the "civil war" that fractures much of the Islamic world

and Wahhabi or jihadist influences in Bosnia remain marginal. Ironically, the only challenge to the prevailing Euro-Atlantic orientation comes not from Bosnia's Muslims but from its Serbs, some of whom espouse an alternate path with Russia. But even as Moscow opportunistically cultivates its relationship with Belgrade and Banja Luka, and consolidates its expanding energy interests, the Balkans still remain peripheral to Russia's relationship with Europe and the United States. Opportunism suits both Russians and Serbs, but it does not change the fact that Bosnia, including its Republika Srpska, has an established Western orientation.

Unlike Africa, Bosnians have no sense of being permanently adrift in a continent of kleptocracies, with little real perspective of change. Corruption may be rife in the Balkans, and a problem in southern Europe as a whole, but the prospect of developing strong institutions and the rule of law is far more than a slogan. For Bosnia and its neighbors, the mostly successful absorption of former Warsaw Pact countries into NATO and the EU is proof that transition is not a fool's dream. The country is saddled both with the legacy of communism and of bitter war, but neighbors to the north and east survived the far more stultifying Warsaw Pact with stable transitions to NATO and the EU. Taken together, these examples say something profound about Bosnia's malaise. Compared with other conflict-addled countries, Bosnia is easily the best endowed—underscoring just how disappointing and unnatural is its stagnation. Something is holding Bosnia back, and the first job of any analyst is to provide the diagnosis. Identifying the source of Bosnia's slide toward malaise and seemingly permanent dysfunction is not complicated, although arresting and resolving the core dilemma is.

Bosnia's core problem is *political*—not economic (the absence of policies that encourage trade and investment), not legal (the absence of the rule of law), and not historical (the absence of integral factors among the three constituent peoples). Bosnia's core political problem is the Serb question. And the reason that the Serb question is unresolved is straightforward: the Dayton *territorial* settlement.

Bosnia's underperforming economy, the polarized educational system, the persistent ethnic polarization, and the weak legal system are all symptoms, not causes, of Bosnia's political paralysis. Ample proof of this lies in comparison with its conflict-challenged neighbors, Croatia, Macedonia, and Kosova. Although Croatia has made substantial progress in the rule of law, the differences in justice, economy, and even history among these four former Yugoslav republics are a question of degree, not of kind. The rule of law in Macedonia and Kosova are not superior to Bosnia, and yet these two countries, unlike Bosnia, are no longer paralyzed by ethnic issues. Politics infects the Bosnian economy; in this respect, the World Economic Forum identified six barriers to the country's competitiveness and development: inefficient administration, political instability, corruption, government instability, the tax burden, and organized crime. Five of these obstacles are institutional or political in nature. In addition, direct taxation policies and social welfare transfers have produced constant problems of ineffective coordination between Bosnia's two entities, the Republika Srpska and the Bosniak-Croat Federation. It is these two entity governments that negotiate with foreign investors and retain authority over the privatization of state-owned companies.

The relatively superior economic performance in Republika Srpska (however inflated by a major windfall from the sale of the country's telecommunications monopoly) has only aggravated, not assuaged, divisions with the other entity, the Bosniak-Croat Federation. Contrary to the notion that economic growth is the panacea for ethnic polarization, it appears that it may be a further disintegrative factor. In other words, given that corruption, venality, and ethnic antagonism are present among Bosnia's former Yugoslav neighbors that are making progress, and that

the relatively improved growth in the Republika Srpska has only accelerated inter-entity polarization, we must cease looking at Bosnia's faltering economy or weak legal system to explain away the fundamental issue: an unresolved political dispute.

Just as the break-up of Yugoslavia imposed the Bosnia question (would this multiethnic country accept living under Belgrade's Serbo-centric hegemony, or would it seek independence?), so Bosnia's (and Croatia's) independence imposed the question of what would happen to the country's largest "minority" group, the Serbs. In Croatia, the question was settled by a failed bid for Serb secession followed by the expulsion and flight of the bulk of the country's Serbs. In Bosnia, the question has yet to be settled. The country's paralysis is almost wholly a function of the fact that the power relationship between the Serb entity and the Bosniak-dominated central government in Sarajevo is unresolved.

The fact that Croats have grievances against Serbs, or that there are substantial disputes between Croats and Bosniaks, does not vitiate the main point: Bosnia flounders because of the still-unanswered Serb question. Just as the Croat attempt to secede from Bosnia did not start with independence but followed by nearly a year the Serb assault on the fledgling country, so the Croat destiny, ultimately, depends on resolution of the Bosniak/Serb dispute. Only when a stable equilibrium is reached over the relationship between Banja Luka and Sarajevo will a more satisfactory resolution emerge for Croat grievances with both Bosniaks and Serbs. The Croat question in Bosnia is an important dependent, not independent, variable.

Bosnia's Predicament

The threshold question—why has Dayton failed after nearly 15 years of intensive effort, given all of Bosnia's advantages—has a corollary that is rarely asked: Why has the Ohrid Framework Agreement in Macedonia succeeded? There are three possible explanations. One is that Ohrid is not really a success and that Albanians and Macedonians could fight again. Whatever Macedonia's future holds, it is incontrovertible that the Ohrid Agreement of 2001 succeeded by averting full-scale war and creating an integrative framework in which adversaries quickly moved from the battlefield to the corridors of parliament and government. The Albanian leader, Ali Ahmeti, had been branded a terrorist by much of the Macedonian public in 2001, yet he soon was allowed to enter parliament and government as the leader of the main Albanian political party.

The international presence in Macedonia has scaled down dramatically; political intrusion by the U.S. Embassy and the EU special representative, once as commonplace and decisive as intrusion by Bosnia's high representative, is now rare to nonexistent. Albanians and Macedonians still squabble, but within the country's state institutions. Indeed, the fact that ethnic differences persist in Macedonia only reinforces the reality that Ohrid has succeeded where Dayton failed. Skopje has virtually completed the strategy set out for Bosnia: It has met NATO membership criteria and rapidly approaches the final stages of the EU accession process. By any measure, the international community would be thrilled with a Macedonian–Albanian level of cooperation in Bosnia.

A second possible explanation holds that Macedonia's war was not as bitter as Bosnia's, and that there are only two sides, not three, to the conflict. Macedonia's war may have been mercifully brief, but it had all the earmarks of a Balkan conflict, including the obligatory ethnic expulsions. Almost 10 percent of Macedonia's population was displaced in a few months of fighting in 2001, and the war shattered what minimal trust existed between Albanians and Macedonians—two

segregated communities that never enjoyed Bosnian-style levels of intermarriage or interaction. The fact that there are only two communities and not three is beside the point; for if it were central, Croat grievances would have to be the primary cause of Bosnia's miasma. Croat issues were neither the cause of war in Bosnia in 1992, nor are they primary to the lack of progress today. In Kosovo, there are only two main communities in conflict, and yet efforts to bridge the gap between Albanians and Serbs (particularly those living in Mitrovica) have eluded mediators.

The third and only plausible explanation is that the Ohrid Agreement is fundamentally different from the Dayton Agreement. The Ohrid Agreement consists largely of concessions by the country's majority ethnic group, the Macedonians, to its main minority, the Albanians. These concessions include changes to the country's Constitution, transforming Macedonia into something approaching a binational state. In exchange, the Albanians agreed to lay down their arms and operate wholly within state institutions. However, the crucial difference with Dayton is not what Ohrid included but what it omitted: territory. The Albanians' political demands (which are analogous to those of the Bosnian Serbs) were assuaged only with the promise of more rights within Macedonia's existing territorial construct. The Albanians did not obtain an entity nor any cantons. The country remains organized along the lines of a central government in Skopje (where a substantial number of Albanians live) and municipalities, whose powers were restored roughly to the level they had under Marshal Tito.

The absence of an ethnoterritorial solution for Macedonia made all the difference. To achieve their ethnic aspirations (through language use and national symbols, as well as greater dominion over their wider political and economic life), the Albanian leaders must participate in national institutions. Contrary to the Serbian role in Sarajevo (which consists largely of obstructing the workings of government), the Albanians are active participants and fierce competitors in Skopje's state institutions. For example, Ahmeti's party stormed out of parliament after a round of elections when the winning Macedonian party chose his Albanian rival as a governing partner.

For the Bosnian Serbs, thanks to Dayton's entity structure, the incentives are precisely the reverse. For the Serbs to obtain their national aspirations (which, again, are virtually identical to those of the Albanians), they must minimize their participation in Bosnia's national institutions. Instead, the Serbs' interests reside in strengthening their entity, which is the political unit that protects their dominion over political and economic life. In short, Dayton's entity structure has saddled Bosnia with a debilitating, zero-sum relationship between the Serb entity and the Bosniak-dominated capital. Had Bosnia's Serb population not fled Sarajevo after the war (as permitted by the international community), then the situation would be somewhat different. As in Macedonia, there would be a substantial minority population in the capital, creating a constituency for coexistence. Bereft of virtually any Serbs or Croats, Sarajevo has become a mono-ethnic city redolent to Serbs and Croats alike of perceived Bosniak domination. This only further fuels the bedrock aim of the Serbs to maximize the separateness of their citadel, the Republika Srpska. The brutal wartime dispute, chiefly between the Bosniaks and Serbs, has been converted into a near-permanent political rivalry—not of political leaders, but between an entity and a competing political center. Truly, politics in Bosnia is war by other means.

To summarize, Bosnia remains dysfunctional, despite a host of attributes, because there is a straightforward political dispute between the country's plurality group, the Bosniaks, and the minority group that make up approximately one-third, the Serbs. The dispute is no longer over territory but over the Dayton territorial settlement, aggravated by an electoral system that rewards parochial politics and locks the parties in near-perpetual antagonism. Obdurate personalities like

the current Republika Srpska prime minister, Milorad Dodik, can aggravate relations, just as moderates, including the Bosniak SDA party leader, Sulejman Tihic, can attenuate divisions; but the essential polarizing, zero-sum dynamic endures. The former high representative, Miroslav Lajcak, encapsulated the problem when he stated that Bosnia is a prisoner of Dayton.

There are three explanations for the fact that the international community has not adjusted its policies to tackle this core dilemma. First, a misguided ideology has confused an understanding of the problem. Instead of searching for a mechanism that could bring the Republika Srpska and the central government in Sarajevo into a stable, functional equilibrium (via substantial change to the Constitution), precious political energy has been dissipated in a useless campaign to get Bosnians to “take ownership” of their affairs. Under this view, much favored in Brussels, the meddling international community, personified by the high representative, perpetuates Bosnian dependency by arrogating control over policymaking that rightly belongs to Bosnian officials. Allegedly, the presence of the international community insulates Bosnian leaders from the verdict of the people who, but for the outsized presence of the international community, would otherwise hold their leaders accountable for the lack of progress towards EU membership.

Moreover, the ownership school holds, the high representative has committed serious policy blunders, in large part because of a lack of accountability. According to these critics, the Office of the High Representative (OHR) is a fundamentally “undemocratic” institution; and therefore, instead of supervising the Bosnia “protectorate,” the OHR should be replaced by an EU office that relies on the magnetic appeal of EU membership for all three of Bosnia’s constituent peoples. There is one serious problem with this ownership-dependency view: Almost no empirical evidence exists to support it. The fact is that intervention by the OHR is a symptom of Bosnia’s structural dysfunction, not its cause. Indeed, the very “Bonn Powers” that have allowed the high representative his plenipotentiary ability to remove intransigent officials and impose legislation were an afterthought, implemented two years after Dayton. From their inception, the Bonn Powers were a reaction to dangerous intransigence by the parties, not a grab for power. High representatives, including Paddy Ashdown, have uniformly sought to encourage the parties to come to terms on their own.

Ashdown’s predecessor, Wolfgang Petrisch, repeatedly emphasized the theme of ownership amid a tenure that witnessed the removal of dozens of officials. He stated that he would divide his three-year term as high representative into two parts. The first, which lasted for about a year and a half, was marked by an intensive and direct engagement in all aspects of political life. During that period, he had to remove about 70 politicians—among them the Croat member of the Bosnian presidency, a cantonal governor, several ministers, and a number of mayors—for obstruction of the peace implementation process. Because of persistent nationalist obstruction of essential legislation in parliament, Petrisch had to impose laws on a wide range of issues necessary for strengthening state institutions and reforming the economy.

The second part of his term was marked by efforts to establish partnership with the non-nationalist forces that came to power after the elections of November 2000, and to show them that they, too, are responsible for the future of Bosnia. During this second phase, Bosnia made significant strides toward a progressive transfer of ownership to its citizens and institutions. Politicians became more capable of independent problem solving and decisionmaking, as demonstrated by the passage of the Election Law in August 2001 and, above all, the negotiations on entity constitutional reform, which culminated in the March 27, 2002, Mrakovica–Sarajevo Agreement. The Council of Europe provided important recognition of Bosnia’s progress when it granted the

country full membership on April 24, 2002. Petrisch stated that not only has ownership always been the preferred *modus operandi* for the international community, but that its prerequisite is a modicum of political consensus among the parties. When the moderate Alliance for Change coalition entered government and demonstrated an ability to forge a compromise, Petrisch was able to step back.

Petrisch's pragmatic approach toward ownership (in response to improvement by the parties) contrasts sharply with that of the ill-fated Christian Schwarz-Schilling, Petrisch's and Ashdown's successor as high representative. Fully imbued with ownership-dependency dogma, Schwarz-Schilling opened his tenure by renouncing the use of the Bonn Powers except in extreme circumstances. Bosnia's leaders resorted to form, and the momentum toward unification made under Schwarz-Schilling's predecessors halted. Arguably, the country has never recovered from the ensuing confrontation. Schwarz-Schilling's tenure was marked by the failure of the April 2006 constitutional reforms, torpedoed by Haris Silajdzic, leader of the Bosniak Party for Bosnia-Herzegovina. The responsibility for this step belongs to Silajdzic, who may not have been able to take such a dramatic step had not Schwarz-Schilling emasculated the OHR position.

The argument that "imposed reforms" are unsustainable and undemocratic also fails examination. Ashdown, sometimes working via the Bonn Powers and sometimes through domestic commissions, left a legacy of progress that has survived determined efforts at rollback by the Serbs. These have included defense reform (resulting in one army at the division level, from the three wartime units): intelligence-sector reform; a value-added tax; and breakthroughs in the rule of law, with the establishment of the High Judicial and Prosecutorial Councils and the State Court. The key mistakes of the Bosnia implementation have been ones of omission, not commission: the failure to stop the Pale regime from organizing the mass exodus of Sarajevo in early 1996, which sealed Bosnia's wartime division; the failure to resist Serb demands allowing such transplants to vote in their new homes, further corroding any chance of creating mutual multiethnic interests; the failure to aggressively pursue war-crimes indictees from the outset, which allowed the malign influence of Serb nationalists to choke politics in the aftermath of the war; the failure to challenge the entity-led privatization process, which saw some \$5 billion worth of property converted into ethnic ownership; and the failure to back High Representative Miroslav Lajcak in the fall of 2007 during his attempt to resuscitate the Bonn Powers and streamline government decisionmaking.

The notion that OHR actions are "undemocratic" ignores the institution's legal basis under Dayton. The Dayton, or Paris, Agreement is a peace treaty with only three parties (along with Croatia and Serbia)—the representatives of each of the country's three peoples, hitherto locked in war. Virtually every provision authorizing action on the part of a nonparty like NATO or the OHR begins "the parties request/agree that . . . [NATO or the OHR]." These provisions represent the voluntary and wholly legal surrender of part of the country's sovereignty to outsiders in a document formally recognized as authoritative by the UN Security Council. There is no requirement for the Dayton Agreement or any of its provisions to be put to a referendum or to be again offered to the parties for their review in order to satisfy any democratic norm.

Having agreed to the fulsome presence of the international community, the parties to the Dayton Agreement need not, for example, approve of the OHR's continued presence or its decisions. The law recently passed by the parliament of the Republika Sprska, which establishes procedures for holding referenda ostensibly on the Bonn Powers decisions of the OHR, is therefore gratuitous and contrary to the spirit and even objective of Dayton. Far from being a benign expression of democratic will of the Bosnian Serbs, the law inspires anxiety; after all, nearly all the wars in the

former Yugoslavia began with similarly tendentious referenda. However, in February 2010 the Peace Implementation Council (PIC) Steering Board failed to agree on language condemning the provocative gesture.

The ownership question is again in the grips of the narrow ideology of Schwarz-Schilling rather than the pragmatism of Petrisch. In February 2008, the PIC Steering Board had set out exacting requirements of five objectives and two conditions in order to close down the OHR. Despite the fact that these requirements have not been met (a consequence of the endemic political stalemate), prominent figures in Europe have been obsessed with closing the OHR. There is no reason to believe that Bosnia's leaders, once "liberated" from the tyranny of the OHR, will become responsible; and yet Brussels acts as if shuttering the OHR and assuming ownership are axiomatic without having an agreed-on plan for the successor EU special representative.

Second, the appeal and impact of European Union membership for Bosnia has been vastly exaggerated. It does not trump electoral politics. There is a complete dearth of evidence for another blithe assumption: that Bosnia's voters, once the OHR is gone, will change their habits and begin to demand that their leaders put aside ethnonational interests in favor of compromise for EU membership. In the country's dozen elections, there is no example of voters having mobilized to demand that leaders eschew the communal interest for the wider national interest of joining the EU. Only once did a moderate coalition even prevail in a national election—the Alliance for Change in an aberrant election in 2000. Moderate parties remain competitive because of their vigorous opposition politics and not through ideological appeals to cross-ethnic solidarity or fidelity to Brussels. The notion that Bosnian voters, once the OHR is gone, will band together to demand national progress remains one of the most enduring and destructive illusions held by diplomats.

In sharp, instructive contrast to Bosnia, Iraq's March 2010 elections saw substantial outreach across the ethnosectarian divide to garner political support. Although negotiating a government in Baghdad will be difficult and continued violence is likely, the electoral experience in Iraq is proof that communal politics need not paralyze intercommunal compromise. Unfortunately, despite Bosnia's infinitely lower rates of interethnic violence, its electoral system simply provides no similar incentive or even possibility for cross-communal electioneering. Under the country's system, politicians can gain power with narrow, monoethnic appeals. And because they are beholden primarily to ethnic constituencies, their bargaining at the governing level is highly constrained by parochial considerations. Sulejman Tihic, a Bosniak leader, took an exceptional risk with his "Prud initiative" in 2008 (a dramatic effort for a breakthrough with his Serb and Croat counterparts on fundamental political issues). Tihic survived a reelection challenge to his party leadership, in part due to an open expression of support from U.S. vice president Joe Biden during his trip to Sarajevo in May 2009. Tihic remains an outlier; he was the only major Bosniak politician who supported the revised or weakened Butmir package of constitutional revisions proposed by the United States and the EU in the fall of 2009.

Another moderate Bosniak leader, Zlatko Lagumdzia, heads the nominally multiethnic Social Democratic Party. Lagumdzia should be Bosnia's version of Ayad Allawi, an Iraqi Shiite who has strong appeal to minority Sunnis. However, Bosnia's electoral system offers only the most limited possibility for recruitment of Serb votes; most Serbs and Croats see Lagumdzia as just another Bosniak politician who must advance his ethnonational interest. Iraq serves as a reminder that communal politics per se does not undermine multiethnic states; rather, it is the absence of incentives to bargain across ethnosectarian divides, particularly during elections.

Getting Bosnia's politicians to change the system that they have learned to master is a near impossibility. This stark fact of life is lost on diplomats, particularly from Europe, who address "the Bosnian leadership" as if such existed. There is sadly no "national leadership" elected to represent the national Bosnian interest. There is only a group of officials elected to represent mostly parochial interests, and lecturing them to "take ownership" is a waste of time. Bosnian leaders do not "take ownership," because they are in a near-constant struggle over who should be the owner, in a system bereft of incentives to seek constituent support across the communal divide. Ownership advocates overlook the last time that Bosnians took "full ownership" over their affairs: It was called war.

The EU Factor

There are examples in the region of the salutary impact of the EU magnet on otherwise intensely nationalistic politics. In Croatia, former prime minister Ivo Sanader staked his nationalist Croatian Democratic Union (HDZ) party's fortunes on progress toward NATO and the EU, and he was rewarded with a rare second mandate—now being served out by his successor, Jadranka Kosor. In Serbia, the EU's offer of a Stabilization and Association Agreement in 2008 helped swing parliamentary elections in favor of President Boris Tadic's moderate Democratic Party. However, neither Croatia nor Serbia is burdened with doubt about which ethnic group predominates. Politics remains almost wholly intraethnic, with minority parties consigned to the margins. In Bosnia, politics *is* ethnicity. The Social Democrat Party (SDP) struggles to convince anyone, including its well-wishers in the international community, that its appeal transcends the Bosniak community. Indeed, the current Croat member of the Bosnian presidency, Zeljko Komsic, is a member of the SDP widely seen by Bosnian Croats as a phony surrogate for Bosniak interests, elected by Bosniak votes.

The notion that Bosnian voters will ditch their ethnic interests for the appeal of the EU has little substance. One can hope that civil society groups will eventually emerge that forge bonds on issues such as environmental protection that span the ethnic divide. Unfortunately, the new generation of Bosnia's Serbs, Croats, and Bosniaks is growing up in near-total ethnic isolation, without even the memory of a shared existence. The centrifugal appeal of Zagreb to Croats and Belgrade to Serbs makes a mockery of the notion that somehow a European/EU consciousness will lead to a greater bond with Sarajevo. A glance at the experience of current EU members demonstrates how the ownership-dependency school overstates the transformational impact of the accession process. The recent dispute over minority issues between Slovakia and Hungary is a cautionary reminder of the persistence of ethnic prejudice and the limitations of even EU membership to constrain it. If highly politicized ethnic bigotry in these two stable posttransition countries is impervious to EU values, then why should anyone think that the distant hope of joining the EU will assuage bitterness in fractured, polarized Bosnia?

Likewise, the lament in Brussels over chronic corruption in Bulgaria and Romania suggests that these two Balkan states can no longer be trotted out as proof of the unassailable success of the EU accession model as opposed to the OHR model custom devised for war-torn Bosnia. In short, the appeal of the EU, however essential in driving reform, is no panacea. Instead of overconfidently pushing for the demise of the OHR in favor of the Office of the European Union Special Representative, European diplomats should act with humility. Only one EU member—Cyprus—joined despite ongoing, unresolved ethnic conflict. Nicosia, which entered the EU without its Turkish

north, is simply another reminder of the limitations of EU accession for assuaging deep-set ethnic differences.

The United States' Interests

The United States' interests in Bosnia are inherently limited. This point continues to escape well-intentioned and well-informed analysts, who call for a U.S. special envoy for Bosnia and the region or a new Dayton-type conference. Even during the war, U.S. engagement was late in coming. President Bill Clinton acted decisively to end the war in Bosnia in 1995 not because of a belated awareness that it mattered, but because the collateral risk to the transatlantic relationship was unacceptable. It was for reasons external to Bosnia—the future of NATO and the Atlantic alliance—that produced the breakthrough at Dayton engineered by Richard Holbrooke. The tone for the U.S. posture was set during the George H. W. Bush administration by James Baker with his ill-fated “we don't have a dog in that fight” remark, as Yugoslavia teetered on the brink of war. The question for those who seek greater U.S. engagement is: How can America expect a more active role when war no longer rages, when Milosevic no longer reigns, and when Dayton is no longer primarily a U.S. endeavor?

The sad truth is not that Bosnia does not matter to the United States (Vice President Biden's trip to Sarajevo, and the follow-up effort at Butmir led by Deputy Secretary of State James Steinberg are proof that it does) but rather that it does not matter enough. With Kosova's status settled (however incomplete its recognition), and with the U.S. foreign policy agenda overcrowded, it is natural if unfortunate that Washington has settled into a partnership, instead of a leadership role, with Europe over the Balkans. Indeed, Washington's central policy challenge has shifted from getting the Bosnians to cooperate to goading the Europeans to act. Although Brussels has far more at stake than Washington does, and although it finally has a collective foreign minister (in Baroness Ashton), it still acts only when galvanized by the Americans or by crisis, or both. The current high representative, Valentin Inzko, and his predecessor, Miroslav Lajcak, were both denied support from Brussels at critical junctures. EU defense ministers would like to withdraw their troops from Bosnia. EU foreign ministers disagree over what to do in Bosnia and even whether the situation is serious. EU ambassadors in Sarajevo frequently operate at cross-purposes. Even after the EU's belated approval of the Lisbon Treaty, the dearth of strategic interest for the United States in Bosnia is matched by disinterest and division within the EU.

The Washington-inspired effort at Butmir in the fall of 2009, which was aimed at getting a compromise package of constitutional reforms that would clarify state-level authorities, did not begin with an effort to reach a deal among Serbs, Bosniaks, and Croats but rather with an exhortation for Brussels to throw itself into constitutional reform. And yet the ostensible aim of the proposal was not to reshape Bosnia into Washington's image but simply to create the minimum conditions for the country to proceed on the path toward EU membership. It was not surprising that the ensuing package avoided dealing with Serb capabilities to frustrate central government operations. With a partner inclined only reluctantly to make constitutional reform a priority, Butmir would never become an ambitious effort to rectify the flaws of Dayton but only an attempt to craft a reasoned compromise for unreasonable parties. Without the will to compel recalcitrant figures such as Prime Minister Dodik to negotiate in good faith over the initial offer, the revised version failed to win the approval of Dodik's adversaries.

Policy Recommendations

There is no shortage of policy recommendations for Bosnia; but which of them could work given the highly adverse landscape of a country locked in near-perpetual antagonism by a flawed peace agreement; an electoral and governing structure that gives the main belligerent party (or any party) little incentive to work across the ethnic chasm; an ownership ideology, combined with a headlong rush to close the OHR that allows the intransigent to act with impunity; exaggerated reliance on the magnet of EU membership; limited interest by the United States matched by limited interest and effectiveness in the EU; and the parties' rejection of the major attempt by the United States and the EU to broker an accord on changing the Constitution. However, it is important to balance this bleak assessment with the point that Bosnia's underperformance is unnatural. This is cause, implicitly, for optimism. If only policymakers would examine the root causes more carefully and objectively, jettisoning the illusion of "ownership," then some significant adjustments in policy might be possible.

Renowned historians such as Noel Malcolm have debunked the myth that Bosnia is an artificial country bedeviled by ancient tribal hatreds. More difficult to eradicate, however, is the lingering and even growing prejudice against a "Muslim state in Europe." Bosniaks suspect that anti-Islamic prejudice has, since the war, imbued the Bosnian policies of a number of European capitals. The tendency has only worsened since the terrorist attacks of 9/11 in New York and Washington and 7/7 in London. The irony is that it is precisely the disinterest toward Bosnia, including the possible acquiescence by Brussels in the country's de facto division, that has the greatest potential to produce the feared result: an aggrieved Muslim community that is more receptive to Islamist appeals. And it is this scenario that provides the strongest argument for sustained and intensified U.S. and EU engagement.

Despite the bitterness and, more important, the physical and political polarization that is the legacy of war, Bosnians retain sufficient integral characteristics to live in a whole and functioning country. Tito suppressed expressions of ethnonationalism in Yugoslavia, but national identity was still formally recognized in Yugoslavia and survived communism. As much as Tito encouraged a Yugoslav consciousness, he could not force couples to marry outside their ethnicity; yet Bosnians did so with relatively high frequency, and much more often than Serbs or Macedonians married Albanians. Vestiges of intercommunal coexistence persisted even after the outbreak of war. On Liska Street in Mostar, there stands a cemetery with the graves of Catholic Croats and Muslim Bosniaks, both resting side by side in eternal solidarity as victims of Serb artillery in 1992. The cemetery is a reminder that for more than a year into the war, the now abjectly divided Croat and Bosniak communities of Mostar shared a bond strong enough that families would bury their loved ones alongside others, without regard to religion.

Bosnia's potential can be recaptured, not by a dramatic and unrealistic revival of the aftermath of the Dayton Agreement, but rather by a small yet significant shift in policy. Instead of making EU membership the centerpiece of strategy, the United States and its European allies should put the emphasis on accelerated NATO accession. The reason is simple: NATO membership is a goal that Bosnia can attain in a reasonable amount of time, measured in years. Time makes a difference in overcoming Bosnia's logjam of political differences, and NATO accession has the potential to alter the political calculus for the country's politicians. If Washington were to announce that its policy on Bosnia were now centered on accelerated NATO membership—with a specified target date—then the political climate for fundamental reform could change dramatically.

Instead of protecting themselves against the charge of “selling out” (as at Butmir), Bosniak and Croat politicians would vie for who would take maximum credit for bringing Bosnia into NATO. Hard-liners like Haris Silajdzic would have to think carefully before snubbing an imperfect constitutional reform package, risking the blame for keeping the country out of NATO. But what about the Republika Srpska, whose prime minister has made a number of anti-NATO remarks and threatened a referendum on NATO membership? In reality, for all three parties (Bosniaks, Serbs, and Croats), NATO membership means the same thing: the permanent end to the existential political dispute over Bosnia. In short, NATO membership means “the game is over,” with no more potential secessions and no more talk of doing away with entities.

Western diplomats and observers may not perceive NATO membership in this way, seeing it more as a values-based organization that does not need problem members. But it is time to look at NATO from the perspective of Bosnians. NATO retains supreme credibility, not only from its decisive engagement at the end of the war and from the effectiveness of its Implementation Force and Stabilization Force, but also from the fact that the United States remains both NATO’s leader and the unparalleled superpower. Bosnians—whose land is bereft of suicide terrorism, and who are secure in the knowledge of where they belong (in the modern world, in Europe)—have no interest in or hope of waging an asymmetrical insurrection. With respect to NATO, Bosnia, including the Republika Srpska, is supine.

When faced with the real choice of an offer to join NATO in the context of fundamental concessions on the Constitution, Milorad Dodik’s defiance will dissolve. Indeed, when pressed to give Vice President Biden his affirmation of interest in NATO, Dodik did not hesitate. However much Dodik exploits anti-NATO populism, he and most of his Republika Srpska colleagues know that their destiny lies in the West, not with Russia. NATO membership, for all of the populist fuss over the bombing of Serbia and the Republika Srpska, serves Banja Luka’s strategic interests. It means that the entity will be permanently secure against any legal, political, or military challenge. And it will also secure the Western-oriented direction of the country’s Bosniaks, removing any question of incipient radicalism. Neither Moscow nor Belgrade is likely to present a credible obstacle to the Republika Srpska’s accession to NATO. Indeed, Belgrade will give tacit support to the move, knowing that Bosnia’s accession to NATO will only accelerate the realization of its own aims to join the EU and, one day, NATO as well.

Popular opposition to NATO membership among Bosnian Serbs is distorted. Even in neighboring Croatia, which was the beneficiary of NATO action, opposition to membership was substantial. The official who led Croatia’s successful NATO accession project, Deputy Defense Minister Pjer Simunovic, has noted that lukewarm attitudes changed almost overnight once the United States pronounced its clear support for Zagreb’s accession by the time of the Bucharest summit in April 2008. With a target date espoused by Washington, Croatians knew that the goal of NATO membership was not some rhetorical device being used simply to obtain concessions. Support skyrocketed, and talk about a referendum for Croatian accession to NATO evaporated. The challenge will be greater in the Republika Srpska, but the fundamentals remain the same: NATO serves the Republika Srpska’s interests, and as the benefits of entry become apparent to the Serb citizenry, attitudes toward membership will improve.

NATO membership will provide an opportunity to finally fix the political obstacle at the root of Bosnian stagnation: the relationship between the Republika Srpska and the central government. Constitutional reform, in the context of NATO accession, becomes a realistic endeavor. The critical step remains the presentation of a conditional target date for membership. Simply retaining the

current “open door” policy will not transform the climate for fundamental reform. However, U.S. support for Bosnia’s NATO membership must be based on two completed conditions: substantial reform of the Constitution, and fully satisfactory fulfillment of NATO’s defense-sector reform criteria. This prescription—accelerated NATO integration leading to fundamental constitutional reform—is the way to reverse Bosnia’s unnecessary and unnatural slide toward disintegration.

8

CROATIA

Dragana Ignjatovic

Croatia stands at the cusp of achieving its long-held desire to become part of the “European club” of nations. Croats have always identified themselves more closely with Central and Western Europe than the Balkans. However, this dream has been fraught with obstacles throughout the twentieth and early twenty-first centuries, including the decision to participate in the Kingdom of Yugoslavia after World War I and the Socialist Federal Republic of Yugoslavia (SFRY) after World War II. The formation of the Croatian republic within the SFRY essentially paved the way for the formation of an independent Croatia in the 1990s, because before this, there had been no territorial definition of the state. Croatia could have completed its journey to become an EU member nation considerably faster had the country not been faced with substantial obstacles in the postindependence period. These obstacles included violent disintegration, a decade of autocracy and nationalism, and the lack of a developed democratic system. This reality effectively extinguished initial attempts to join the EU and left the newly independent Croatia lagging in its political and economic transition compared with Central and Eastern Europe.

The West has been a constant companion to Croatia throughout the last two decades, supporting its declaration of independence and its war of independence as well as its political and economic transition. Croatia has actively worked with the West to ensure its progress, pursuing difficult and sometimes unpopular reforms to accede to NATO in 2009 and edging steadily closer to becoming a member of the European Union. Independence alone was not enough to allow Croatia to make steps toward its European future, because it was accompanied by the violent disintegration of the SFRY and by domestic autocracy, which stifled democratic development. Despite the progress made in the past 10 years, challenges still remain with respect to Croatia’s targeted EU accession date of 2012. These include prevalent corruption, tensions with neighbors, incomplete cooperation with the International Criminal Tribunal for the former Yugoslavia, and economic challenges highlighted by the 2009 recession.

Background: Independence, Nationalism, and Democratization

Croatia’s reputation as a model of Balkan transition has been hard won following a less than auspicious start. The start of Croatia’s transition was marred by a nationalist surge in the late 1980s and a slide into autocracy in the 1990s. The creation of an independent Croatia occurred in tandem with the collapse of the SFRY. Economic deterioration coupled with the eroding power and influence of Soviet-led Communism in Central and Eastern Europe exacerbated existing ethnic divisions and encouraged the groundswell of nationalism within the SFRY’s six republics: Slovenia, Croatia, Montenegro, Bosnia-Herzegovina, Serbia, and the Former Yugoslav Republic of Macedo-

nia. The SFRY's collapse was expedited by the changing nature of global politics. The disintegration of the Soviet Union and European Communism brought an end to the bipolar world upon which the SFRY had based its economic and political development and success. The collapse of the bipolar world essentially removed the historical and economic reason for the SFRY's existence.

The Croatian Democratic Union (HDZ), a strongly nationalist movement closely linking identity to territory and the Roman Catholic faith, won the first multiparty elections held in Croatia in 1990 on a proindependence platform. The HDZ leader, Franjo Tudjman, became the country's first president later that same year. The HDZ's assumption of power ensured that the ethnic divisions that had governed relations inside the SFRY throughout the 1980s became entrenched in the country's polity. The Croat parliament declared independence on June 25, 1991, with only a vague concept of the form and direction the newly independent state should take. The declaration of independence was supported by Croats; however, it led to the emergence of substantial internal divisions and external conflicts. Given that Croatia declared independence before the collapse of the SFRY, the external conflict was with the SFRY government and the Yugoslav National Army (YNA). Under the Communist Constitution, the YNA was constitutionally bound to protect the country's territorial integrity against internal and external threats. The declaration of Croat independence was seen as a provocation that needed to be suppressed militarily.

Internal divisions, however, proved to be considerably more problematic for the newly independent state. The root of these was the Serbian minority living in the newly independent Croatian state, who refused to accept its newly acquired minority status or the declaration of independence. Although independence was intended to serve as a platform for the realization of the Croat desire to be a member of European institutions, the internal and external problems faced by the newly declared state made a slide into war almost inevitable and derailed Croatia's journey to the West.

The 1992–1995 war was fought by the Croatian government against the Serb-controlled YNA and also local Serb irregulars. The Serbian minority demanded to remain within Yugoslavia or to have new boundaries drawn up within Croatia for full Serbian autonomy. The Croatian government viewed this as a violation of its sovereignty, with the position of all sides becoming entrenched as they settled into the violence of a four-year war. Croatia's war of independence had the characteristics of a civil conflict, stunting the country's political and economic development. The conflict was bloody and brutal, with thousands of deaths and the devastation of local infrastructure. Both sides committed human rights violations, specifically ethnic cleansing, despite the presence of United Nations peacekeepers on the ground.

The conflict also had serious regional repercussions, leading to the widening of the conflict to neighboring Bosnia-Herzegovina. One of the most high-profile aspects of the conflict was the mass exodus of Serb civilians from Croatia during the concluding days of the war. The last major offensive of the Croatian war of independence, known as Operation Storm, was conducted in August 1995. This large-scale military offensive enabled Croatia's armed forces to regain control of Serb-controlled areas. While establishing the sovereignty of the Croat state, the war of independence caused massive damage to the young country and created major long-term challenges for its European future.

The four-year war and strong centralized leadership exerted by President Franjo Tudjman contributed to stifling Croatia's political development. The descent into war following the proc-

lamation of independence increased the need for strong leadership in the face of weak or non-functioning state institutions. Tudjman effectively filled the void by using strong personal leadership, eventually emerging as an autocrat despite the semipresidential system outlined in Croatia's 1990 Constitution. In line with its principles, the HDZ also fostered a deep sense of nationalism throughout the war years and their aftermath, essentially linking Croatian independence with the concept of ethnonationalism and territory. Although the nationalism and strong leadership embodied in Tudjman were credited with helping Croatia win the war of independence and emerging as a sovereign state, it also caused stagnation in the development of the country's democratic institutions. The period of autocratic rule also hindered economic development and the development of minority rights.

Tudjman's popularity started to substantially wane in the latter half of the 1990s as tough economic realities set in and the dream of joining the EU failed to gather momentum. The growing negative perception of Tudjman at home and abroad was exacerbated by a highly controversial privatization process in the late 1990s conducted in an opaque manner through the president's personal connections. The winners in this process were individuals who had helped Tudjman during the war of independence. The program of denationalization largely failed to yield positive economic results, instead prompting the collapse of industry while ensuring the expansion of personal connections and nepotism.

Compounding the problems of the corrupted privatization drive, unemployment consistently registered above 20 percent, while gross domestic product plummeted, inflation spiraled, and profitable economic relations among the successor states of the former Yugoslavia struggled to be recreated in the wake of the destructive wars. The reestablishment of Croatia's international financial relations began before the end of the war, with membership in the International Monetary Fund and World Bank being awarded in 1993. This was pivotal in helping Croatia rebuild in the wake of the economic disintegration that had occurred during the wars. However, the potential of international funds was not fully realized because of the high levels of corruption and underdevelopment.

The turning point in Croatia's convoluted journey to the West came in 1999 with the death of Tudjman. His death was closely followed one year later by the replacement of the nationalist HDZ by the center-left Social Democrat Party (SDP) following Croatia's first fully free and fair general elections in January 2000. When the SDP took office, reforms in Croatia were restricted because the authorities had restricted the independent media, meddled in the judiciary, and circumvented international demands for human and civil rights protection. The SDP government renewed Croatia's status as a democratic state by passing constitutional changes and transforming the country's political system from a semipresidential one into a parliamentary democracy.

Under the SDP, internationally accepted democratic standards were developed, the importance of nationalism as a defining characteristic of Croatian identity was shed, and minority rights protection was emphasized, with Serbian refugees who had fled during the war starting to return home. The SDP's four years in power were also an important period of respite for the HDZ, allowing the former ruling party to transform itself into a democratic center-right party, thus enabling it to return to power in 2004 with a firmly European-focused agenda. One of the SDP government's main initiatives was to apply for NATO membership, with the country formally entering NATO's Partnership for Peace program in 2000. Croatia's journey toward EU accession began with a formal membership application in 2003.

Persistent Problems

Although ideological divisions within Croatia's political elite continue to exist, the commitment by the majority of the country's politicians to pursue Euro-Atlantic integration has only been matched by the determination of the international community to help it succeed. Croatia achieved NATO accession in 2009, completing the process of realigning its security paradigm from the strong national security state it had pursued throughout the 1990s to one of collective security, as well as carrying out practical reforms of the security apparatus to abolish conscription and modernize its armed forces.

The West has proven to be highly committed to Croatia's Euro-Atlantic integration. NATO's 2007 decision to hold its annual military exercises in Croatia—the first time such an honor was bestowed on a nonmember state in the organization's 60-year history—was in large part designed to win over the reticent public and demonstrate the positive relationship fostered by local politicians and the West. The political elite has proved largely consistent in its belief that joining NATO was the best way to ensure Croatia's security from global as well as regional threats.

With regard to European Union membership, Croatia has also made rapid progress in fulfilling the majority of the political, economic, and security preconditions for accession. At the core of these stipulations are the Copenhagen Conditions, established in 1993 to decide whether a country is eligible for accession. The first condition encompasses political criteria, including the presence of democracy, the rule of law, respect for human rights, and the protection of minorities. The second condition requires the presence of a functioning market economy, while the last condition is that the aspirant accepts the obligations and intent of the EU (including harmonization of national laws and implementation of the EU's entire body of legislation, the *acquis communautaire*). For the Balkan countries a fourth condition, good neighborliness, was established to ameliorate the negative consequences of the SFRY's violent disintegration. Despite the progress Croatia has made in adopting the necessary reforms, major questions still need to be addressed for it to become a member of the EU in 2012, including cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY), regional cooperation, prevalent corruption, and economic difficulties.

ICTY Cooperation

Full and complete cooperation with the ICTY in The Hague has been established as a nonnegotiable precondition for Euro-Atlantic integration for Croatia as well as all other former Yugoslav republics. The ICTY is a United Nations court established in 1993 to prosecute crimes committed during the wars in the former Yugoslavia. ICTY cooperation, which was originally premised on the arrest and extradition of indicted war criminals, was completely ignored by the HDZ administration in power before 2000. The root of the administration's refusal to recognize the ICTY's legitimacy stemmed from the government's interpretation of the 1992–1995 war as a war of liberation in which, by definition, the defending side could not commit war crimes.

Even since 2000, cooperation with the ICTY has proven problematic because the majority of Croatian citizens view many alleged "criminals" as war heroes who helped win independence. This view is also represented within the ranks of the reformed HDZ, which came to power in 2004. The HDZ continues to experience internal party divisions over the ICTY, with its moderate center-

right members, now in the majority, clashing with its nationalist faction over the extent of collaboration with the ICTY. The cooperation pursued by the SDP government in 2000–2004 was largely an elite decision, given that much of the public continued to oppose cooperation with the ICTY.

Despite the public misgivings and internal divisions within the ruling party, Croatia has successfully fostered cooperation with the ICTY since 2005, when it extradited its last remaining indictees. Since 2005, the ICTY's annual review of cooperation (the green light demanded by Euro-Atlantic institutions if they are to consider closer integration with the Balkan nations) delivered to the United Nations has issued positive recommendations for Croatia—holding it up as an example to the other Balkan nations. This was true until 2009, when the ICTY's chief prosecutor issued a number of assessments criticizing Croatia's lack of full compliance.

The root of the problem is that the gauge of “complete” cooperation with the ICTY is no longer solely based on the extradition of indicted war criminals but also on the provision of documents to aid cases being conducted against those extradited to The Hague. Croatia has been accused of not providing the ICTY with access to military documents related to Operation Storm, which, as noted above, was the large-scale military operation launched by the Croatian military in August 1995 to regain control over Serb-dominated territories and which precipitated the mass exodus of Serbs from Croatia. Zagreb has disagreed with the ICTY's assessment, stating that it is cooperating fully. Nonetheless, the government created a special commission to oversee and facilitate the sharing of documents with the ICTY in a bid to once again receive the ICTY's stamp of approval. Despite these efforts, the question of ICTY cooperation has the potential to further delay Croatia's EU membership.

Regional Relations

The recognition of the newly independent states emerging from Yugoslavia was conducted on the basis of the European Union's Badinter Commission, which required that the borders of new states respected the republican borders under the SFRY. However, these boundaries were not always fair or clearly delineated, which has resulted in a number of border disputes between the newly independent states. In a bid to ensure that the EU did not get dragged into these lingering border disputes, or other regional conflicts, the Badinter Commission established the additional membership precondition of good neighborliness for any West Balkan nations seeking to become part of the EU. Croatia has at times struggled to engage in constructive dialogue with regional neighbors, frequently clashing throughout the past decade with both Serbia and the EU member state Slovenia over border issues. Although the frequency of these clashes is diminishing, Croatian politicians from the nationalist old guard have at times exacerbated the problem by making provocative statements.

Croatia is at present attempting to ameliorate two main territorial disputes with its neighbors. The most high profile is the conflict with Slovenia over their common maritime border in the Adriatic Sea, which saw Croatia's EU accession pushed back by one year due to a veto by the EU member Slovenia. Although the issue remains open, tensions subsided following an agreement that the border dispute would be resolved through international arbitration at the International Court of Justice, whose opinion would be legally binding. Mediation efforts should in effect ensure that the dispute does not reemerge to once again derail Croatia's EU aspirations. A similar dispute remains unresolved with Serbia over borders on the River Danube. Since coming to power in February 2010, the new president, Ivo Josipovic, a member of the SDP, has reinforced efforts to

resolve disagreements with Croatia's neighbors and foster new economic and security cooperation by holding regional summits as well as bilateral dialogues. He has proven committed to resolving border disagreements and to ameliorating any lingering ethnic tensions.

Corruption and Organized Crime

Endemic corruption and organized crime remain one of the biggest obstacles to EU accession for the Balkan states, and Croatia is no exception. Zagreb has struggled to bring the problem of corruption, organized crime, and the gray economy under control for most of the last decade. The most effective way to combat corruption and organized crime is by strengthening the country's laws and fostering economic development. This anticorruption campaign is pivotal if Croatia is to benefit from the EU's postaccession funds. However, efforts to change ingrained patterns of behavior and long-standing societal norms cannot succeed overnight. Nonetheless, it is important to note that according to the corruption watchdog Transparency International's annual corruption perception index, in 2009 Croatia's standing on the corruption issue is already better than some existing EU member states, notably Greece, Romania, and Bulgaria.

Regarding the struggle against organized crime, Croatia has taken substantial steps to reduce the incidence and attractiveness of criminality. Since 2008, the Croatian government has pursued the issue with vigor. In a bid to demonstrate its commitment to resolving the problem, it has created special courts to fast-track cases, introduced legislative reform to allow for the seizure of assets obtained through criminal means, depoliticized the national police service, and strengthened the work of the Office for the Suppression of Corruption and Organized Crime. Accompanying these internal regulatory changes, Croatia (with the help of the EU) has stepped up regional security cooperation in a bid to minimize trafficking, increase arrests, and facilitate extraditions. In pursuing internal regulatory changes and fostering regional cooperation, Croatia has demonstrated itself as committed to improving the security both of its own territory and that of the wider Balkans. Nonetheless, corruption and organized crime will remain serious issues for Croatia in the coming years and are unlikely to be completely erased in the foreseeable future.

The Changing Economic Landscape

The Croatian economy, once the second richest in Socialist Yugoslavia, took a considerable battering during the four-year war of independence and the stalled transition process, with a collapse in output and soaring inflation. Due to the war and the period of political instability that followed, Croatia initially struggled to ignite investor interest, after missing the first wave of investment in Central and Eastern Europe. Following the installation of a pro-market government in 2000, investor interest has steadily improved.

Between 2000 and 2007, the growth of gross domestic product ranged between 4 and 6 percent as the country rehabilitated its tourist industry and experienced a credit boom. Transport infrastructure, in particular, benefited from increased availability of domestic and foreign financing. However, along with economic growth, Croatia experienced a widening of its external imbalances, as a stable kuna encouraged high levels of foreign borrowing from the household and corporate sectors. As a consequence of increasing current account deficits, the total external debt surged from 53.5 percent of GDP in 2000 to 81.9 percent in 2008. Servicing these mounting external liabilities has become even harder as growth prospects have deteriorated in the wake of the global recession.

With falling revenues from tourism and construction and the drying up of available credit, Croatia's economy expanded by a mere 2.4 percent in 2008 and contracted by 5.8 percent in 2009. The tough economic conditions seen over the past two years have also exacerbated structural problems, such as high unemployment. An inadequate regulatory and institutional framework has stifled the efficient allocation of capital and labor, while also limiting the diversification of the economy.

Croatia's economic downturn has been met with a determined government response designed to limit the fiscal deficit and restore macroeconomic stability. The government has pursued a range of fiscal tightening policies, including a crisis income tax, plans to reduce the number of public-sector employees, and a wage freeze. It has also sought to tackle the lack of structural reforms over the past decade while meeting EU requirements for higher market competitiveness. In a bid to demonstrate its ability to manage its own affairs, Zagreb has also refused to seek aid from the International Monetary Fund—a move that won it high praise from the EU. Croatia's Central Bank has pursued measures designed to ensure the continued functioning of markets and address liquidity shortages through foreign currency interventions, repurchase agreement auctions, and shifting regulatory requirements. It has also strengthened regulatory oversight of the banking system and engaged in more frequent stress tests in a bid to support foreign investor and depositor confidence in the credit sector and the national currency.

The long-term prospects for the Croatian economy remain strong, with the tourism and energy industries likely to be the main growth engines. Furthermore, accession to the EU will boost the potential of domestic manufacturing, with wider market access, higher capital inflows, and positive technological spillovers. Another avenue for economic development is likely to be the energy sector, given Croatia's already strong presence in the regional network.

The EU will require Croatia to meet tighter rules for economic reporting and transparency following the lessons learned from Greece's fiscal collapse. Croatia will also be urged to pursue structural reforms, including the completion of the restructuring and privatization process for loss-making state-owned enterprises and a further loosening of the labor market regulatory framework. The implementation of these measures and a continuous assessment of their effects are likely to promote higher productivity and encourage economic diversification.

Macrofinancial stability will remain a priority for Croatian policymakers. The Central Bank and the government have already indicated that shortly after accession to the EU, they will vigorously pursue fulfillment of the conditions for the adoption of the euro. Increased fiscal and monetary stability will have a beneficial effect on foreign trade and investment inflows.

Within Reach of the EU Goal

Croatia is nearing the fulfillment of its long-held goal of becoming a member of all the European institutions. Barring any serious breaches of criteria or changes in attitude within the EU, Croatia should become the EU's 28th member state in 2012. If Zagreb meets this target date, it will have completed the transition in the fastest time of any postcommunist state. This accolade is of course based on the starting bell to transition being sounded in 2000 when reforms began in earnest. With the financial support and guidance of the EU, Croatia is expected to overcome the last remaining obstacles to its accession within the allocated time frame. The government and political elite have taken concrete steps to neutralize any threats posed by lingering regional disputes, while pursuing regulatory reforms to ensure that Croatia meets the core EU requirements for competitiveness.

Croatia is also committed to regaining the green light from the ICTY. As a result, full and complete cooperation should be on the country's horizon. The issue of corruption and organized crime is set to be the hardest to sanitize, given that any substantial achievements in this area require changing ingrained patterns of behavior and societal norms. Croatia's accession is also important for the EU. Enlargement demonstrates that the EU remains a growing and vibrant entity, despite the problems that have plagued it since the start of the economic downturn. Croatia's accession would also allow the EU to start closing the West Balkan "black hole" by enabling the EU to increase its influence in the region.

Policy Recommendations

- To ensure Croatia's economic and political readiness for EU membership, the EU must not soften its stringent conditions in order to meet the 2012 target for accession.
- The EU must strengthen existing initiatives, such as promoting information exchanges and twinning programs designed to boost Croatia's knowledge base, helping to eliminate corruption, and fostering stronger regional ties. Furthermore, the EU should encourage Croatia to fulfill its pledges to reduce the size and pervasiveness of its public bureaucracy, which has often inhibited reform efforts and allowed the proliferation of corruption.
- Western partners will play a pivotal role in providing funds for investment in education and research and development, coupled with the development of active labor market programs needed to improve productivity and promote the diversification of the economy toward more value-added sectors and products.
- Although labor costs remain competitive in the country, it is likely that many skilled workers will leave Croatia after it joins the EU. In a bid to retain human capital essential for continued economic development, while boosting the country's attractiveness to foreign skilled workers, the legal system needs to be enhanced and infrastructural modernization must be accelerated. A more skilled labor force, coupled with a more efficient legal system, would also boost Croatia's appeal as a destination for foreign direct investment.
- Although Croatia's level of debt is relatively low, fiscal achievement has been disappointing even in years of strong nominal GDP growth. This means that the government would need to specify a medium-term budgetary framework aimed at achieving sustained primary surpluses while allowing the flexibility to deal with the business cycle. The European Commission could support the Croatian government's credibility to achieve such a target while also promoting the stability of the country's banking industry through the creation of bilateral banking supervision agreements.
- Market regulation and the tax system need to be targeted toward achieving higher competitiveness. Network industries—such as utilities, telecommunications, and transportation—need particular attention because of the upward pressure they exert on inflation. If Croatia is to seriously pursue euro zone entry, it will need to meet the stringent inflation and fiscal criteria imposed by the European Union.

9

KOSOVA David L. Phillips

Kosova is the world's newest state. It declared independence from Serbia on February 17, 2008, and was soon recognized by the United States and most European countries. On July 22, 2010, the International Court of Justice (ICJ) determined that Kosova's declaration "did not violate international law." While the ICJ's opinion is expected to boost greater global recognition, legitimacy is not just a legal matter. Kosova must now focus on state building and a more pro-active approach to combating corruption and criminality. Transparency and accountability are the keys to realizing Kosovo's national aspirations.

Kosova's Statehood and Politics

The Principles of the Comprehensive Proposal for the Status Settlement, facilitated by the UN envoy and recipient of the 2008 Nobel Peace Prize, Martti Ahtisaari, were incorporated into Kosova's Constitution, which came into force on June 15, 2008. The Constitution provides extensive guarantees to minorities, such as decentralization and self-rule for Serbian-majority municipalities, and protection for Serbian religious and cultural sites. Kosova, with its population of 2.1 million, of which 93 percent are ethnic Albanians, is evolving into a multiethnic democracy.

Kosova is governed through a parliamentary system. The Democratic Party of Kosova (PDK) and the Democratic League of Kosova (LDK) formed a coalition government on January 9, 2008. Hashim Thaci, a prominent former guerrilla (Kosova Liberation Army) leader, is head of the PDK and currently serves as prime minister. The country's president is Fatmir Sejdiu, who inherited the LDK leadership from Kosova's founding father, Ibrahim Rugova. Ramush Haradinaj, the postwar prime minister, is chairman of Alliance for the Future of Kosova, the main opposition party. He was acquitted of war crimes charges by the International Criminal Tribunal for the Former Yugoslavia. However, prosecutors appealed, claiming that witnesses were intimidated, and Mr. Haradinaj was rearrested on July 22, 2010. Kosova's municipal elections on November 15, 2009, were peaceful and well run, and national parliamentary elections are planned for November 2011.

Since independence, the government of Kosova has undertaken the difficult task of building state structures and establishing the legal framework for a market economy. With the euro as its official currency since 2002, Kosova is a tax-friendly environment for European and other investors. Taxes, which are capped at 10 percent on personal and corporate income, are among the

This chapter is based on the author's interviews with Kosovar officials, politicians, media representatives, and members of the Albanian-American community. Discussions were also conducted with U.S. State Department officials and staff of the U.S. Congress. Source materials include documents prepared by the U.S. government, the European Union, the World Bank, and other international financial institutions, media articles, and reports by international and in-country nongovernmental organizations.

lowest in Europe. Compensating for lost revenues from the global economic crisis (2009–2010), a nontax revenue boost is expected from the sale of Kosova Post-Telecom (PTK), projected at about 5 percent of gross domestic product.

In addition to PTK, the government of Kosova has other major privatization plans, including Prishtina Airport and power stations. The Kosova Privatization Agency, formerly the UN-led Kosovo Trust Agency, has so far privatized 90 socially owned enterprises. Those that have done especially well include Ferronikeli, the iron and steel giant that employs 1,000 workers; the Peja Brewery; the Rahovec winery; and several flour mills. Kosova's mining sector, including the potential redevelopment of the Trepca Mines, also has the potential of contributing to future economic growth. To date, about €500 million has been raised through privatization activities. Most of this amount has been temporarily frozen in response to objections from Serbia about ownership rights.

The government of Kosova has undertaken an ambitious program to build rural roads and upgrade other infrastructure. It is building a highway from Prishtina to Albania at an estimated cost of €650 million. The government is also taking steps to address the nation's future energy requirements, which are projected to grow by 7 percent in 2010. In March, Kosova qualified four companies to bid on the construction of large lignite coal-fired power stations estimated to cost €1 billion. Construction will take five years.

The government of Kosova is committed to environmental protection. In accordance with the EU Directive for Large Combustion Plants, it is closing the highly polluting coal-fired "Kosova-A" power plant. The World Bank is helping address the resulting electricity supply gap by joining with the EU to sponsor the "New Kosovo" power plant, which will reduce ash yield by 50 percent. The government is also making plans to remove 10,000 tons of hazardous chemical waste. Efforts to reduce carbon emissions include plans for wind and hydroelectric power.

Kosova became a member of the World Bank and the International Monetary Fund in June 2009. Even before Kosova achieved membership, the IMF cooperated with its government by providing advisers to its central bank and helping to set up a banking system that meets the IMF's regulatory standards and provisions for preventing financial crimes. Upon joining, Kosova began servicing its share of the Yugoslav debt. Kosova is currently on the verge of membership in the European Bank for Reconstruction and Development. With the pledged support of 42 countries, only 2 more are needed for Kosova to gain accession.

Membership in these international financial institutions is an important step in Kosova's efforts to secure foreign aid and gain greater global recognition. In 2008, €1.2 billion was pledged at a donor's conference. Support from the international community is ongoing. On July 21, 2010, the IMF approved a loan package of \$140 million. About twice that amount was pledged by the World Bank and European Commission.

Problems Ahead

Kosova faces many of the same problems that have confronted other postcommunist and post-conflict countries, including ineffective governance, a weak judiciary, and widespread corruption. Problems are compounded by the global economic crisis, which has affected foreign direct investment and remittance flows. Gross domestic product is declining; growth fell to 4.4 percent in 2009, from 5.8 percent the previous year. GDP volume relies heavily on public expenditures, which grew 39 percent from 2008 to 2009 and represented 60 percent of GDP in 2009. Public expenditures

resulted in a fiscal deficit that was 11 percent of GDP in 2009. GDP has been bolstered by remittances, which represented about 14 percent of GDP in 2009. That year, donor-financed activities accounted for 7.5 percent of GDP. Kosova imported almost all its consumer goods and reconstruction materials after the 1999 war. More than a decade later, balance of trade problems persist. The current account deficit was 37 percent of GDP in 2009, with exports representing only 10.3 percent of imports and just 6 percent of GDP in 2009. Last year saw a steady decline in remittances, private credit, and foreign direct investment, which decreased from €350 million in 2008 to €250 million in 2009.

External debt is rising. The minimum cost of the energy sector for GDP is 3 percent annually. The government of Kosova is financing construction of the highway to Albania; debt could escalate as a result of cost overruns. Other uncertainties include the level, duration, and degree of concessional donor support. The government's share of the Yugoslav debt is an additional burden. Unemployment is high. More than 40 percent of Kosovars are unemployed, of which half are under 25 years of age. The unemployment rate for persons age 15 to 24 is 70.5 percent. Of these, 96.3 percent have never held a job. About 30,000 people join the job market each year, with no prospect of employment. In 2009, Kosova had a 45 percent poverty rate, with 15 percent living in extreme poverty. Kosova is the poorest country in Europe, with an average annual per capita income of only \$2,500.

Doing business is difficult. Kosova was ranked 113th overall by the World Bank in *Doing Business 2009*. Some performance areas were particularly problematic. Kosova was ranked 164th for "starting a business," 176th for "dealing with construction permits," 172nd for "protecting investors," and 157th for "enforcing contracts." Business registration and licensing procedures, especially at the municipal level, are bureaucratic, politicized, and corrupt. According to Transparency International, between 13 and 22 percent of those surveyed indicated that they had bribed a public official in 2009. A total of 38 percent believe that the judiciary is Kosova's most corrupt institution. Government cronies have been appointed to prosecutorial and judicial posts responsible for combating corruption. Watchdog groups report that an increasingly narrow clique of government-related friends and family control procurement contracts, and receive them. Perceptions of corruption and cronyism are exacerbated by the government's reluctance to take action against high-profile violators, including ministers in the Cabinet, deputy ministers, and political party apparatchiks.

Organized crime also permeates some power structures. Though SHIK, the PDK's covert intelligence structure, was officially disbanded in April 2008, former commanders of the Kosova Liberation Army allege that SHIK members still generate huge sums through bribery, extortion, racketeering, and protection services. There are criminal links between Albanian and Serbian gangs and other transnational criminal networks. Not only does Kosova's judiciary lack the political will to tackle the informal sector; the legal basis for investigating organized crime is inadequate due to legislative gaps. Kosova does not have an "anti-mafia law" or a law governing the confiscation of criminal assets. Witness protection provisions are nonexistent. With Albania effectively cracking down on human trafficking, Kosova has become a hub for the international sex slavery trade.

Despite vigorous contestation in the 2009 municipal elections, Kosova is trending toward personality and single-party politics. The country's patriarchal political culture centers on individuals rather than policies and programs. Confronting the "political machine," Kosova's youth are losing faith in state institutions and are becoming cynical and disengaged. Even the government's effort to build roads and schools is seen as a populist approach aimed at winning votes.

Civil society is also affected. Critical journalists who report on corruption are harassed, pressured, and even threatened, including those at TV-Radio Kosova (RTK). Government officials use economic leverage to dissuade advertisers from doing business with critical newspapers, such as *Koha Ditore* and *Zeri*. Workers for one of the most critical television programs, *Life in Kosova*, which is coproduced by Balkan Investigative Reporting Network and RTK, received death threats after airing a report critical of a PDK mayor. A leading nongovernmental organization representative who referred to the government as “a joint criminal enterprise” was labeled “antistate” by a government spokesman, and critics are accused of being “Serbian spies.”

The challenges are compounded by Serbia’s undermining of Kosova’s independence. By strengthening its cooperation with ethnic-Serbian municipalities in Mitrovica and north of the Ibar River, Serbia seeks to partition Kosova. Rejecting Kosova’s control and refusing to cooperate with the EU, Serbs in the north have established parallel institutions, elected a local legislature, and benefited from Serbia’s financial support. Serbian security personnel have also fomented violence between Albanians and Serbs, which erupted in ethnic riots on March 17 and 18, 2004.

Albanian–Serb relations are less volatile than in the past. To his credit, Prime Minister Thaci has been forward-leaning in implementing the Principles of the Comprehensive Proposal for the Status Settlement (known as the Ahtisaari Principles) on minority rights and promoting reconciliation through cooperation with the Serbian Liberal Party (known as the SLS). Approximately 30 percent of Serbs participated in last year’s local elections. Although Serbs in North Mitrovica continue to be intimidated by the Belgrade authorities, they are tired and frustrated after more than a decade of isolation. An increasing number want to normalize relations with Kosova. Annexation of the northern municipalities to Serbia would also abandon the majority of Kosova’s Serbs who live in enclaves across the country.

International Stakeholders

The United States is beloved by Kosovars. Presidents Bill Clinton and George W. Bush are widely respected—Clinton for leading NATO’s military action, and Bush for stewarding Kosova’s independence. The United States provided \$120.9 million for political and economic reform in fiscal year (FY) 2009 and \$100 million in FY 2010. Kosova has also been included under the Generalized System of Preferences, which reduces tariffs for goods from Kosova. The United States–led rescue of Kosova, whose population is mostly Islamic, is an important statement to the broader Muslim community at a time when the Obama-Biden administration is refurbishing America’s image worldwide.

From 1999 to 2006, the United Nations Mission in Kosovo (UNMIK) administered Kosova, as required by UN Security Council Resolution 1244. After Martti Ahtisaari facilitated the Principles of the Comprehensive Proposal for the Status Settlement, UNMIK gradually ceded its powers to the Kosova authorities. However, Kosova’s UN membership will be impossible for as long as Russia and China oppose it in the Security Council. Russian recalcitrance has also stalled the full transfer of UNMIK’s competencies to the European Union. The International Civilian Office (ICO) was established in 2008. The United States and members of the International Steering Group selected an international civilian representative (ICR), who also serves as the EU representative in Kosova. With an American deputy, the ICR heads the ICO, which is responsible for implementing the Ahtisaari Principles.

Kosova was included in the EU's Stabilization and Association Process (SAP) and the European Partnership in 2006. Although the Union's "tracking mechanism" falls short of a Stabilization and Association Agreement, the SAP gives Kosova a European perspective, incentivizing reforms and encouraging efforts to harmonize legislation with the *acquis communautaire*. According to the EU foreign affairs minister, Catherine Ashton, "Kosovo belongs in Europe. It is very important that we build together a kind of economic development that will enable people in Kosovo to reap the benefits of moving closer to the European Union. And that we can do through trade, through projects, and through economic growth."

The government of Kosova wants more than words. Kosova's candidacy and ultimate membership are blocked by five EU member states that refuse to recognize its independence. In 2009, visa liberalization was awarded to Serbia and Macedonia, while Kosovars were denied the same treatment. It is likely that the European Commission will offer visa-free travel to passport holders from Albania and Bosnia-Herzegovina in October 2010, but there is no timetable for Kosova's Visa Liberalization Dialogue.

The international community was focused on stability since the war. Now, however, it emphasizes the rule of law. The European Rule of Law Mission (EULEX) was established to advise the government of Kosova on the rule of law and the administration of justice, including the courts, police, and penitentiary system, as well as measures to combat corruption. Despite recent raids on the Ministry of Transport, the EULEX Anti-Corruption Task Force has failed to fulfill its mandate. EULEX, which is headed by a former French general, Yves de Kermabon, is hamstrung by a lack of consensus in Brussels. It is risk averse and process oriented and pursues consensus to the point of inaction. Though EULEX has 2,500 personnel, including 1,600 international staff, senior posts are vacant and personnel often spend long weekends on the beach at Thessaloniki.

NATO undertook its first combat mission in Kosova on March 24, 1999. Billboards across Kosova read: "NATO, thank you. We love you." After the cessation of hostilities, the Kosovo Force (KFOR) was established as the NATO-led multinational peacekeeping force for Kosova. KFOR is no longer involved in policing. It now works to build the Kosovo Security Force, which includes 2,500 soldiers. As a deterrent force, there are still about 1,480 U.S. soldiers as part of 9,900-member international force equipped with small arms but no heavy weapons. Efforts are under way to reduce KFOR's numbers in response to improved security, and to meet NATO requirements elsewhere. By the end of 2010, KFOR will be reduced to 5,700 troops and will be eliminated entirely by 2013.

Policy Recommendations

- *Gain global recognition:* Kosova must develop transparent and effective governance anchored by the rule of law and a strong private sector in order to motivate the United States and its allies to encourage other countries to recognize the state. The recognition of Kosova within its current borders is paramount. The de facto division of Kosova or the annexation of northern Kosova to Serbia risks a regional conflagration. Partition would inspire demands by ethnic Albanians in Macedonia, potentially leading to Macedonia's violent dissolution. It could also spark conflict in the Presevo Valley, an ethnic Albanian enclave in Serbia, and engulf Bosnia-Herzegovina should the Republika Srpska declare its formal association with Serbia.

- *Emphasize security:* While sticking to its timetable for withdrawal by 2013, KFOR's mandate should be maintained in case there is a need to rapidly replenish forces. Meanwhile, it would be useful to integrate international police into Serbian security facilities and checkpoints north of the Ibar River, thereby reducing the possibility that an incident would precipitate a spiral of violence.
- *Provide a European perspective:* The European Commission should provide a road map to the government of Kosovo in its 2010 Progress Report and upgrade the SAP "tracking mechanism" to a Stabilization and Association Agreement. In addition, the Commission should accelerate the Visa Liberalization Dialogue with Kosovo. To assuage concerns that this would imply recognition, an accompanying statement could indicate that allowing visa-free travel is "status neutral."
- *Reform EULEX:* The European Parliament should hold hearings reviewing EULEX's performance, and adopt benchmarks and deadlines for specific tasks and milestones. In addition, a European Parliament monitoring group should evaluate the performance of EULEX judges and publish a scorecard. EULEX has been discredited by its poor performance. If EULEX is unable to demonstrate a more proactive approach in fulfilling its mandate, it should be disbanded.
- *Diversify U.S. assistance:* The Millennium Challenge Corporation (MCC) can work with the government of Kosovo to develop non-UN data sources as the basis for evaluating Kosovo's suitability as an MCC beneficiary. Initially, the MCC should welcome Kosovo into its "Threshold Program" and earmark funds for good governance, as a step toward Kosovo becoming an MCC "Compact Country." A Kosovo–American Enterprise Fund is another development tool that could be established drawing on the experience from similar enterprise funds—in, for example, Poland, Hungary, and the Baltic states—that were set up through the Support for Eastern European Democracies Act.
- *Strengthen the rule of law:* Respect, access, and demand are the key principles in judicial reform. Respect means nobody stands above the law. Via Fulbright and Muskie fellowships, the United States can ratchet up activities to train a new generation of lawyers and judges. Assistance is needed to strengthen Kosovo's Electoral Management Body in preparation for national elections in November 2011, including reform of the electoral law and streamlined procedures for domestic and international election observers.
- *Crack down on corruption:* Responsibility for anticorruption policies rests with the government of Kosovo. Prishtina can demonstrate that it is serious by dismissing or arresting ministers involved with corrupt practices and holding other high-level violators accountable. The family members of government officials cannot be exempt. Kosovo's political leaders should strengthen the Anti-Corruption Agency and implement the Strategy and National Plan. EULEX should push the government to be more proactive and, if the government is unable or unwilling, EULEX's prosecutors must take the lead. Diplomats can also condemn corrupt practices more vocally and, for the most flagrant abusers, name names.
- *Combat organized criminality:* The government of Kosovo should address legislative gaps for fighting organized crime while harmonizing legislation with EU standards. SHIK's operations need to stop and, under a defined parliamentary process, its operatives should be integrated into a government intelligence agency mandated to protect and defend the people's interests, not those of political parties. To strengthen regional and international partnerships, the

government needs observer status at meetings of Southeast Europe regional bodies, such as the Southeast European Cooperative Initiative Regional Center for Combating Trans-Border Crime and the South East Europe Police Convention, as well as a liaison office in Interpol.

- *Build institutional capacity:* Efforts should focus on state institutions, political parties, and civil society with the overall goal of reducing the government's role and empowering private initiative. A special donor-funded grant program for civil society anticorruption watchdog groups should be established. In addition, the contributions of Albanian-Americans could be more systematically harnessed through an Albanian-American diaspora initiative with a skill-set database and matching system aimed at engaging the diaspora in state building and economic activities.
- *Bolster independent media:* Members of the U.S. Congressional Human Rights Caucus and Albanian Issues Caucus should write the government of Kosova expressing concern about the harassment of journalists. Kosova's leading journalists should be recognized by receiving the International Press Freedom Award from the Committee to Protect Journalists.
- *Improve the business environment:* Small and medium-sized enterprises (SMEs) are the engine of market-led economic growth and are critical for broadening the tax base. "One-stop shops" for business registration and licensing, including online registration and tax payments, would further streamline the process of conducting business, depoliticize the registration process, and help counter corruption. At the municipal level, measures are needed for standardized registration procedures, uniform rules for construction permits, and effective contract enforcement.
- *Focus on specific sectors:* Agroindustries, information technologies, and tourism are potential sectors of opportunity. Building rural roads enabling market access for farmers to rural cooperatives and food-processing facilities would boost the agricultural sector. So would steps by the European Commission to relax restrictions on the importation of food and wine products. Kosovar youth are highly motivated and well educated, especially in urban areas. With 377,000 Internet users, they could be trained in computer programming and other types of Web and online services. Given how many Kosovars speak English, Kosova would be an ideal setting for long-distance telephone call centers and help desks. The government of Kosova should initiate a long-term tourism development plan considering infrastructure and strategies to attract visitors to destinations such as Brezovica and Rugova, where there are 150 days of skiing in the winter as well as summer opportunities for hiking, camping, and ecotourism.
- *Facilitate financing for SMEs:* The European Bank for Reconstruction and Development could work with private banks to increase financing for SMEs through a loan guarantee program, partially mitigating the exposure of Kosova's nascent banking sector. The government of Kosova can infuse capital into the credit system by dedicating a portion of the privatization trust fund to setup an SME loan program offering low-interest financing and other concessional terms. A mechanism for involving judges in business mediation and dispute resolution would liberate capital tied up in legal proceedings. In addition, the government needs to proactively manage risks in the banking and insurance sectors.
- *Manage privatization:* The optimum time for privatization was 2003–2005, when international interest in business opportunities was higher and more capital was available. While proceeding with privatization, the government of Kosova must not allow a cheap sell-off. It should refurbish assets, maximizing their value by—in the case of the state-owned electricity corporation,

KEK—strengthening its balance sheet through improved billing and collection rates using cost-based pricing, improved customer relations, service interruptions for customers who do not pay, and performance incentives for KEK staff.

- *Promote the rights of Serbs:* The best way to dismantle parallel institutions consistent with the Ahtisaari Principles is via constitutional arrangements for autonomy, providing local control over political, economic, cultural, and environmental affairs. The government of Kosova can use various incentives in this process, including directing some funds from the frozen privatization account to finance social services for Kosova Serbs, financing joint enterprises such as the redevelopment of the Trepca Mines, and joint projects including food processing facilities and veterinary centers south of the Ibar River that service clients from the north of the country.
- *Develop a strategy for relations with Belgrade:* The solution to restoring Kosova's territorial integrity does not reside in Belgrade. Giving Serbia decisionmaking authority just placates a dwindling radical minority that still supports Milosevic's project of partition and population transfer. Besides, Serbia is focused on its EU aspirations and does not want to be put in the position of deciding the fate of Kosova's Serbs. Both Kosova and Serbia need a European perspective in order to advance their national interests and overcome differences, and they can only realize the goal of European integration by avoiding conflict and embarking on a process of cooperation.

10

THE REPUBLIC OF MACEDONIA / FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Janusz Bugajski

Since it gained independence from Yugoslavia in 1992, the Republic of Macedonia (ROM)—according to its constitutional name—or the Former Yugoslav Republic of Macedonia (FYROM)—according to its designation in the major international institutions—has made substantial progress in transforming itself into a contender for European Union and NATO membership. In particular, following the brief Albanian insurgency in the summer of 2001, and with intense Western involvement, significant steps have been taken by the government to integrate the large Albanian minority into the country's institutions. However, the path to both NATO and the EU has not proceeded smoothly, because the ROM/FYROM needs to resolve its dispute with Greece over the country's name given that this has become a primary condition for further multinational institutional incorporation. In this setting, Washington and Brussels must continue to play a pivotal role in maintaining the ROM/FYROM's stability and seeking solutions to Skopje's stalemate with Athens.

Progress and Problems

The ROM/FYROM has successfully constructed a pluralistic and democratic system where regular elections are held that meet the requirements of monitoring bodies such as the Organization for Security and Cooperation in Europe (OSCE). The country has also established a free market economy, although much like its neighbors, official corruption and nontransparent interest groups continue to operate. Human and civil rights are respected, and the Albanian population has been gradually incorporated into the country's major political, security, and economic structures commensurate with their proportion of its population since the signing of the Ohrid Framework Agreement in September 2001. The rights of other smaller minorities—including Turks, Romas, Vlachs, Serbs, and Bosniaks—are also widely considered to be sufficiently protected in the country.

A series of bi-ethnic and multiparty coalitions have governed the country over the past 18 years. Most recently, a coalition between the largest Slavic Macedonian party (VMRO–Internal Macedonian Revolutionary Organization) and the largest Albanian Macedonian party (DUI–Democratic Union of Integration) was formed following parliamentary elections in June 2008. This current government has taken several positive steps to stabilize its neighborhood. In particular, its recognition of Kosova as an independent state and the demarcation of borders with the new country have been welcomed by Macedonian Albanians and has, at least temporarily, pacified domestic frustrations over the name dispute. Skopje has also tried to tackle the full array of rights demanded by Albanian leaders—on questions ranging from language rights to educational benefits. The Albanian leadership can in turn play a constructive role by raising the commitment of Macedonia's Albanian citizens, toning down Macedonian nationalist rhetoric, and lowering the temperature with Athens.

Although the government has been reasonably stable, dangers lurk ahead for the coalition if the country's progress toward joining NATO and the EU is indefinitely stalled. If there is no solution over the name dispute with Athens, this could rebound negatively on perceptions of the country's political stability, affect investor confidence, preoccupy the government and parliament, increase manifestations of ethnonationalism, halt progress in necessary structural reforms, and potentially undermine national stability.

Time appears to be working against Skopje, for five main reasons. First, the EU member countries have either lined up behind Greece or have remained neutral and will not support Skopje in its dispute with Athens. It is also unlikely that the Barack Obama administration will pressure Athens to drop its demands, especially at a time when the new PASOK (Panhellenic Socialist Movement) government is seeking to maintain social stability while introducing severe austerity measures to reduce the mammoth budget deficit. Indeed, there is a pervasive belief that with strong U.S. backing, Skopje would have to make a compromise with Athens. Meanwhile, EU institutions have not been involved in the name dispute process because the EU considers itself to be an interested party and cannot mediate with a member state.

Second, the VMRO-led government has made several provocative decisions designed to reinforce claims to an ancient regional identity that have raised the temperature with Athens and actually reinforced Greek intransigence. The decision in 2007 to rename the airport in Skopje after Alexander the Great, the ancient king of pre-Slavic Macedonia, seemed calculated to provoke Greek sensitivities over ancient Macedonia's Hellenic heritage. By subsequently blocking the country's NATO and EU integration, Greece appeared to contravene its undertaking in the 1995 Interim Accord not to allow the name issue stand in the way of the country's membership in international organizations. Athens countered that Skopje had broken its own pledges by usurping the heritage of Ancient Macedon and implicitly making claims to Greek territory. The fact that other NATO and EU members did not intervene undermined the Macedonian position and the government's self-confidence that it would gain invitations to join EU and NATO.

Third, an indefinite postponement of NATO and EU accession could result in economic stagnation and even reversals in the reform process. The ROM/FYROM, like all the countries in the region, has been hard hit by the global financial crunch and economic recession. Its gross domestic product shrank by 1.6 percent in 2009, official unemployment exceeded 32 percent, and the budget deficit exceeded \$225 million. The economic recovery in 2010 has been slow and stuttering, and any a longer-term stagnation or decline could unsettle the coalition government.

Fourth, the long-term failure to find a renaming solution could negatively affect the Albanian coalition partner, the DUI, especially because the key foreign policy priority for all Albanian representatives in the Balkans is to join NATO and move closer to the United States. The ROM/FYROM's stalled NATO entry is a source of concern for Albanian leaders because it could lead to isolationism and nationalism, in which the Albanians would be left stranded or even the target of ethnic conflict. The current government could find itself in a spiral of instability in which the Albanian position hardens and the Social Democrat opposition increasingly criticizes the VMRO administration for failing to devise a formula for a solution with Greece on moving the country into NATO and the EU. Rival Albanian party leaders may push for decentralizing, confederalizing, or even fracturing the state, a scenario that could negatively affect the broader region.

And fifth, the ROM/FYROM could become another useful "frozen state" for the Russian authorities in Southeast Europe, alongside Kosova and Bosnia-Herzegovina. Moscow calculates

that a Macedonian state that remains outside NATO and the EU will become a growing source of dispute and even conflict that can preoccupy Washington and Brussels while Moscow pursues its expansive political agenda in Europe to roll back U.S. influence and undermine NATO's security functions. Moscow's ambitions are another important reason to resolve the name dispute, because this would help the ROM/FYROM to maintain itself as a single state that is not isolated from its neighbors, in turn reinforcing NATO's position throughout the Balkans as a source of national and territorial protection.

The ROM/FYROM is also locked in disputes with Serbia over two main questions: the status of the Orthodox Church, and border demarcations with Kosova. The Macedonian Orthodox Church–Ohrid Archbishopric (MOC-OA) proclaimed its autocephaly (or independence) from the Serbian Orthodox Church (SOC) in 1967, and the two bodies have been in dispute ever since. The role of the Church has risen in Serbian politics since the fall of Milosevic, and some analysts contend that by refusing to recognize the MOC-OA, the SOC is actually denying Macedonia's statehood.

Relations between Serbia and the ROM/FYROM also deteriorated after Skopje recognized Kosova as an independent state in October 2008 and subsequently concluded border demarcations with the new country. Belgrade does not recognize any border agreements between Kosova and its neighbors and argues that these can only be conducted with Serbia. This dispute could further delay the ROM/FYROM's progress into the EU, because bilateral border agreements between the former Yugoslav republics are considered paramount for regional stability and for progress toward EU accession.

European Union Connections

There are no credible alternatives for the ROM/FYROM other than to join the two most important multinational institutions, the European Union and NATO. This is not an era of neutrality unless a country can qualify as a Switzerland or a Lichtenstein with a substantial banking portfolio and a unique economic niche, which Skopje does not possess. Switzerland and Lichtenstein are surrounded by NATO and EU members, and even former European neutrals such as Austria and Finland have moved into the EU and are now seriously considering future NATO accession.

With regard to the EU, steady progress has been made by Skopje during the past 15 years since it signed an Interim Accord with Greece on September 13, 1995. In December 1995, the ROM/FYROM formally established diplomatic relations with the EU after all Union members recognized the independence of the new state that had emerged from the defunct Yugoslavia. In March 2000, the Delegation of the European Commission opened its offices in Skopje; and in June 2000, at the EU Summit in Fiera, a perspective of future membership was offered to the new state.

In November 2000, the EU's Stabilization and Association Agreement (SAA) was initialed with the ROM/FYROM during the EU–Western Balkans Summit in Zagreb. The SAA, together with the Interim Agreement on Trade and Trade Issues, was formally signed in Luxembourg in April 2001. In February 2004, the Macedonian parliament adopted a declaration on its application for EU membership and submitted this document on March 22, 2004. In December 2005, the European Council granted the ROM/FYROM EU candidate status, but no date was set for the start of accession talks.

In April 2007, the Visa Regime Facilitation Agreement and the Readmission Agreement with Skopje were initialed in Brussels. Both were signed on September 19, 2007, and entered into force

on January 1, 2008. Macedonia's parliament adopted a Resolution on the Priorities for the Accession to the EU, established the National Euro-Integration Council in December 2007, and opened talks on membership. In February 2008, the EU adopted an Accession Partnership with Skopje and listed eight core priorities for the government, including judicial reform, an effective anticorruption campaign, depoliticization of the civil service, and full implementation of the law on the police. As a result of Skopje's shortcomings in these areas, at the close of 2008 the European Commission did not recommend a date for opening accession talks with the ROM/FYROM. In addition, irregularities and even acts of violence during the June 2008 parliamentary elections proved a setback to the country's aspirations.

Following the EU summit in June 2008, the resolution of the name dispute with Athens was added as a precondition for EU accession. In October 2009, the European Commission (EC) Progress Report finally recommended opening negotiations on the country's EU accession, thus elevating the ROM/FYROM from candidate to accession status, and in December 2009, the EU began allowing visa-free travel for Macedonian citizens. The EC report specified that Skopje's key Accession Partnership priorities include anticorruption efforts and reform of the police, judiciary, and public administration. Corruption remains prevalent in the country and is a serious impediment to an equitable legal framework.

The EC report concluded that Skopje had fulfilled most of the political criteria for EU accession and was given high marks in the implementation of the Ohrid Framework Agreement, with progress on the language law, decentralization, and equitable representation for Albanians. With regard to the economic criteria for EU entry, the ROM/FYROM is considered well advanced and should be able to cope with competitive pressures and market forces within the Union, provided that it vigorously implements its reform program to reduce significant structural weaknesses. The EC also commended Skopje for maintaining full cooperation with the International Criminal Tribunal for the former Yugoslavia and for actively participating in regional cooperation initiatives, including the South East European Cooperation Process, the Regional Cooperation Council, and the Central European Free Trade Agreement.

The EU has implemented a number of concrete programs in the ROM/FYROM over the past decade. In the security sector, it has engaged in operations to strengthen and reform the country's security capabilities. In March 2003, the EU launched its first military mission in the ROM/FYROM, named Concordia, taking over from a small NATO presence that had been positioned for several years along the border with Kosova. This was followed after December 2003 with an EU police training mission, Proxima, which finished its operations in December 2005.

The Instrument for Preaccession Assistance (IPA) Program has been the main vehicle in the SAA process and is scheduled to be in effect until 2013. Its objective is to enhance the efficiency and coherence of EU assistance through a single framework incorporating the previous preaccession and stabilization and association assistance mechanisms. The EU has offered the ROM/FYROM financial aid since 2007 under the IPA program. In 2008, the EU allocated €70.2 million to Skopje. The program was divided into five categories: transition assistance and institution building, cross-border cooperation, regional development, human resources development, and rural development.

Among the concrete projects funded through the IPA program, the European Instrument for Democracy and Human Rights entered into force in January 2007. It has focused on the promo-

tion of democracy and human rights; €0.6 million was allocated in 2008 for civil society development, interethnic reconciliation, and social rights, particularly with regard to the Roma minority. The IPA program replaced several existing EU initiatives, including PHARE (Poland and Hungary Assistance for Restructuring Economies), of which several West Balkan states were also beneficiaries; and CARDS (Community Assistance for Reconstruction, Development and Stabilization), a program in operation between 2000 and 2006, and the main component of the EU's SAA Process.

All the ROM/FYROM governments have demonstrated their commitments to regional stability and have participated in peacekeeping or postconflict missions. For instance, in July 2006, Skopje signed an agreement to contribute to the EU's EUFOR ALTHEA mission in Bosnia-Herzegovina, which replaced NATO's Stabilization Force operation. After four rotations of helicopter detachments from 2006 to 2008, Skopje decided to scale down its contribution to a medical team at the ALTHEA camp in Butmir. ALTHEA is the third and largest military operation that the EU has undertaken involving the European Military Force under the auspices of the European Security and Defense Policy. The EU mission was launched in December 2004 with the presence of 7,000 troops and subsequently reduced to 2,200 soldiers in February 2007.

NATO Requirements

All the ROM/FYROM governments have canvassed for NATO membership since the mid-1990s, when enlargement became a core NATO policy. In December 1993, parliament adopted a resolution on the country's aspirations to enter NATO, and in November 1995, the ROM/FYROM joined NATO's Partnership for Peace (PfP) program and hosted its first PfP training exercise. In June 1998, the first NATO air force exercise was conducted in the country.

On April 25, 1999 at the NATO Summit in Washington, the ROM/FYROM officially became a candidate for NATO accession and was given its first Membership Action Plan (MAP) and included in NATO's PfP Planning and Review Process. Following the outbreak of a small-scale Albanian insurgency, in June 2001 NATO endorsed a plan for the deployment of troops in the ROM/FYROM, known as Operation Essential Harvest, designed to ensure a cease-fire. After a political accord was reached between Macedonian and Albanian leaders, the mission was renamed Amber Fox in September 2001, and subsequently Allied Harmony in December 2002. The mission was handed over to the EU in March 2003.

The commencement of Skopje's NATO accession talks have been supported by all member states pending an acceptable resolution of the name dispute with Greece. By 2008, the ROM/FYROM had fulfilled all the criteria for entering NATO but was not issued a membership invitation during the Bucharest Summit in April 2008 because of a veto by Greece that was not opposed by other members. Since then, little progress has been made in resolving the dispute or in determining a time frame for NATO accession.

Beyond the emphasis on military reforms, NATO has also stressed the contribution of aspirants to NATO-led operations in the Balkans region and other trouble spots. Since the beginning of NATO's Kosova operation in the spring of 1999, Skopje has provided valuable logistical support to NATO forces and to the Kosovo Force contingent transiting the country through the Host Nation Support Coordination Center. This has included accommodation, medical services, fuel supply, escort, protection, and securing the main military communication lines passing through

Macedonian territory. In June 2007, Skopje took over the entire logistical support for the NATO mission through the Kosovo Force support center, thus helping to significantly save NATO funds and labor power.

The ROM/FYROM has also contributed to the International Security Assistance Force (ISAF) in Afghanistan since August 2002. Its military has participated in the mission with a company securing the ISAF Headquarters in Kabul, together with a combined medical team composed of members from the Adriatic Charter countries, working within the Czech Hospital. As of January 2010, Skopje had 149 troops in Afghanistan.

Relations with the United States

The United States officially recognized the ROM/FYROM in February 1994, and the two capitals established full diplomatic relations in September 1995. In December 1999, American diplomat Matthew Nimetz was appointed as the personal envoy of the United Nations secretary-general for the Greece–ROM/FYROM talks. Following the onset of the Albanian insurgency in western Macedonia in the summer of 2001, Washington became closely involved in the mediation process through the highly respected ambassador James Pardew. On August 13, 2001, the United States, together with its EU counterparts, monitored and assisted in the signing of the Ohrid Framework Agreement between the ethnic Albanian National Liberation Army (NLA) and the Macedonian authorities.

The implementation of the Ohrid Agreement to expand the rights of the Albanian population started slowly but gathered pace in the following years. An opposition-sponsored referendum in November 2004, which aimed to halt plans for the decentralization and local governmental reforms called for under Ohrid, failed to pass because of low voter turnout. On the eve of the referendum, on November 4, 2004, Washington announced its decision to recognize the country by its constitutional name, the Republic of Macedonia, rather than the Former Yugoslav Republic of Macedonia. This was intended to express support for a multiethnic and democratic state but did not resolve Skopje's dispute with Athens.

In March 2003, Washington agreed to terminate the NATO mission Operation Allied Harmony in the ROM/FYROM and transferred security oversight operations to the EU. The United States also included the country in the U.S.-Adriatic Charter, or the Partnership Charter, in May 2003, together with Albania and Croatia. This American initiative was intended to fortify and coordinate progress toward meeting the criteria for NATO entry. Under the George W. Bush administration, in June 2003 Skopje sought to prevent the United States from withdrawing its military aid by signing "Article 98" with the United States, despite EU pressure against this decision. Article 98 was a bilateral agreement guaranteeing that U.S. citizens would not be extradited to the International Criminal Court. To further solidify relations, on May 7, 2008, U.S. secretary of state Condoleezza Rice and Macedonian foreign minister Antonio Milososki signed a joint Declaration of Strategic Partnership and Cooperation.

The ROM/FYROM benefits from nondiscriminatory trading status and most-favored-nation status with the United States. It is also included in the Generalized System of Preferences (GSP), which provide duty-free treatment for about 3,400 export items, giving them a competitive edge on the American market. For example, during the first six months of 2008, U.S. imports from

Macedonia under the GSP totaled \$21.6 million, representing a 254 percent increase over the same period in 2007.

In terms of concrete programs, the United States has provided assistance under the Support for East European Democracy (SEED) program. The principal goal of the SEED Act of 1989 was to promote democratic and free market transitions in the former communist countries of Central and Eastern Europe and enable them to become reliable and productive members of the Euro-Atlantic community. U.S. aid has been specifically geared toward enhancing law enforcement, military organizations, judiciary, educational system, business growth, investments, and exports. For instance, the total U.S. Foreign Operations Appropriated Assistance for fiscal year 2009 reached \$23.32 million.

The U.S. Agency for International Development (USAID) has been involved in the ROM/FYROM since 1993, assisting both the public and private sectors, particularly in building sound democratic and educational institutions. Since that time, it has invested nearly \$500 million in programs that have reduced corruption, created new jobs, and improved the quality of education. USAID has provided assistance to improve the country's business environment and stimulate foreign investment. It also helped the ROM/FYROM gain World Trade Organization membership in 2003, as well as promoting better governance by helping nongovernmental organizations become more effective in representing citizens' interests.

On the political front, USAID has endeavored to develop the national parliament and mainstream political parties. It has also assisted in judicial reform by helping to enact the legal framework for administrative decentralization and democratic parliamentary elections. And it has been instrumental in the development of Skopje's National Anti-Corruption Strategy, which led to improved scores on international measures of corruption. Other sources of program funding have come through Foreign Military Financing, International Military Education and Training, and Nonproliferation, Antiterrorism, Demining, and Related Programs. The Peace Corps has also been involved in Macedonia since 1996 and has sent more than 200 volunteers. Its activities consist of two programs: English Education Development and Community Development; the former helps to improve and spread the teaching of the English language across the country, and the latter focuses on improving the organizational and management skills of local organizations.

Policy Recommendations

The key challenge for the ROM/FYROM is to resolve its name dispute with Athens, which would help unblock the country's path toward NATO and European Union accession. Basically, there are three stark choices: indefinite stalemate and no solution, which could destabilize the ROM/FYROM; pressing Greece to accept the current constitutional name and potentially undermine the Greek government at a time of economic and social convulsion; or convincing the authorities in Skopje to qualify the country's name. Of the three, the name qualifier is likely to be the least destabilizing both for the ROM/FYROM and for Greece, as well as the broader region. On the basis of this premise, the United States would need to pursue the following approach:

- Skopje should publicly state its readiness to accept the proposal of the UN mediator that the country's name be qualified, whether as the Republic of North Macedonia or as Vardar Macedonia. This name should be used in all international organizations and bilateral relations. Ath-

ens in turn should respond by acknowledging the national identity and language of the majority population of its northern neighbor as Slavic Macedonian and accepting Skopje's assurance that the use of this name does not imply any exclusivity or historical or territorial claim to the northern Greek province of Macedonia or to the Hellenic heritage of ancient Macedon.

- Given that both Athens and Skopje dispute the meaning of Macedonian identity and believe that their rivals are either denying or claiming their identity in order to pursue a hidden agenda of irredentism or destabilization, a distinction needs to be made between Slavic Macedonian and Greek Macedonian in defining language and ethnic identity. However, the "Slavic" adjective cannot be included in the country's name, because it would potentially alienate non-Slavic Macedonian citizens, including the large Albanian population.
- The resolution of the name dispute needs to be tied to issuing a formal NATO membership invitation to Skopje at the NATO Summit in Lisbon in November 2010 or shortly thereafter. If no permanent solution is reached by November, both countries could agree that Skopje may receive a NATO invitation under the FYROM label pending a full settlement. Successful NATO integration for ROM/FYROM would help stabilize Greece's northern border and raise Athens' stature in the EU at a time when Greece faces its own domestic economic and social problems. NATO membership would in turn eliminate the insecurities expressed in Skopje that qualifying the country's name would destabilize the state and eradicate its identity. On the contrary, the country's integration in NATO would strengthen its position in all international institutions.
- To achieve these results, more high-level engagement by the Obama administration to reinforce the current UN mediation process would be helpful. It is not a question of American pressure, but of potential incentives for both parties to come to an agreement with U.S. assistance. This would also necessitate a clear message from Washington that in the absence of resolution, the Balkan region will become more insecure, to the detriment of both Skopje and Athens.

11

MONTENEGRO

James O'Brien

Montenegro has almost entirely succeeded on its path from junior partner in the aggressions of the 1990s to full member of the democratic transatlantic community. This storyline is compelling and touches several broad themes. As the smallest state in the Balkans—with fewer than 700,000 people—its successes and struggles are on a human scale, and the choices of the people involved deserve detailed attention. This chapter takes a different approach, however, viewing Montenegro as a prism through which to examine those changes in international policy toward the Balkans that may have glossed over significant internal developments and personal stories that have been part of Montenegro's journey.

This chapter deliberately widens the horizon in order to illuminate the achievements of Montenegrins. Since 1998, each substantial development in Montenegro has been a harbinger of significant change in the Western Balkans and even a catalyst for alterations in international attitudes toward the region. Montenegro's contribution in this regard must be acknowledged, and its success in the membership processes of the European Union and NATO should become another inflection point, leading to a renewed effort to bring the countries of the Western Balkans fully into the EU—and for those that so aspire, into NATO as well. My concern is that Montenegro, as a small country still challenged by its own transitional issues, may not provide the momentum needed for a troubled EU enlargement process.

War, Political Opposition, Self-Governance, and Statehood

For most of the 1990s, Montenegro was the junior, and largely impotent, partner in what was left of the former Yugoslavia. Serbia, the senior partner, was under the control of Slobodan Milosevic. In 1998, Milo Djukanovic, the president of Montenegro, broke from Milosevic, evidently calculating that Belgrade's policies were leading Montenegro down a blind alley. The split between Serbia and Montenegro had significance for the international community. It served as an early indication that the Serbian regime was entering a period of difficulty. In U.S. policy circles, Milosevic had been seen as a masterful survivor, improvising his way through domestic challenges. In 1995 and 1996, U.S. diplomacy in some ways relied upon Milosevic's ability to direct ethnic Serbian politics, especially in Bosnia and in the formerly Serb-held areas of Croatia. His image as master of the game, at least in areas he controlled, helped him reinforce control at home, particularly when faced with a strong political challenge from the opposition, which united briefly as Zajedno late in 1996.

By 1997, the situation began to change. The United States began to urge Milosevic to focus on democracy at home and limited its reliance on Milosevic in Bosnia. Rising Albanian militancy in Kosovo challenged Serbia's control over the province. Eventually, in 1999, Milosevic's excessive reaction in Kosovo intensified sanctions and led to war with NATO, after which Milosevic was

isolated internationally. But in 1997 and 1998, Milosevic's Kosovo stance stoked nationalist fervor at home and was used to justify changes in the leadership of the military and security services. Serbia's political opposition had split; some political activists were testing the waters for what would become a broad civil society campaign against Milosevic several years later, but the effort was hesitant and small.

As a consequence, by late 1997 there were few signs that change could come, and it appeared that Milosevic and his regime would be fixtures in an explosive region for years to come. A split with Montenegro was not necessarily a signal that the end was coming, but the new fissure was important. For one thing, it offered clues to divisions within the autocracy born from Milosevic's rise. These splits were to come to the fore in subsequent years, as disputes over money and power led to changes in the military and intelligence hierarchies, along with murders among those directly involved in money laundering, smuggling, and violence.

Even more important, the Serbia/Montenegro split posed a choice for the international community. In 1993 and again in 1996, Milosevic was helped by a failure of the international community to recognize and act upon his weakness. The decision in 1998 was not to miss another opportunity. The international community, spurred by Robert Gelbard, the U.S. presidential envoy for the Balkans, began to provide diplomatic, financial, technical, and security support for Montenegro. In addition, Montenegro became an important platform for political activity against Milosevic. Serbian political parties could find some measure of safety in Montenegro. The opposition leader, Vuk Draskovic, moved there after a failed assassination attempt, and others traveled to Montenegro regularly. Local politicians could meet one another in Montenegro, enabling them to better coordinate their activities opposing Milosevic.

The Montenegrin authorities made one significant miscalculation in 2000. That summer, Milosevic rammed through several amendments to the federal Constitution, which enabled him to run for president of the country but also diminished Montenegro's role in federal institutions. Having been insulted by this move, the Montenegrin authorities came to believe that their coalition could not stay together unless they demonstrated their opposition; as a result, they committed themselves to play no role in federal events, including the pivotal election of 2000. A defeat of Milosevic at the polls would presumably be the single greatest step toward safety for Montenegro. The Montenegrin authorities, however, concluded that the Serbian political opposition could not oust Milosevic.

If Montenegro refused to participate in the federal elections, Milosevic and his supporters would be assured of controlling Montenegro's seats in the federal parliament and thus the federal parliament as a whole. This made it likely that, if Milosevic remained in power, over time he would use the legislature to squeeze out all his opponents, including representatives of Serbian civil society, mayors and leaders of opposition parties, independent media outlets, and the government of Montenegro. Seen from this perspective, by refusing to participate in the elections, Montenegro was creating a situation in which it would be faced with a stark choice: Surrender or secede. The Montenegrin authorities were helping to force the option of independence.

This attitude of the Montenegrins presented international policymakers with one of their more important decisions during the summer of 2000, while the drama was being played out on the streets of Serbia and Montenegro. The risks of violence in Montenegro would increase dramatically if Milosevic emerged from the elections strengthened, while the Montenegrin authorities would pursue separation. Verbal threats from Belgrade against the Montenegrin authorities had intensi-

fied throughout the summer of 2000. Additionally, a large percentage of Montenegro's population identified itself as Serb, enabling Milosevic to claim the authority—backed by decisions of the parliament he controlled—for forcible action against Podgorica.

For some in the international community, such a prospect was to be avoided at all costs, and they urged that any available measures be brought to bear in pressing Montenegro to participate in elections. This could include restrictions on assistance and denial of support should violence break out. Others, however, felt that the Montenegrins knew their own domestic political situation best. If they believed that a boycott was necessary to preserve their anti-Milosevic coalition, that decision should be respected. It would be better to focus attention on Serbia, with Montenegro supporting the effort, than to enter into a dispute over the parliamentary elections, which were essentially a sideshow.

A compromise was reached, in which Montenegrin authorities would take a careful vote count (to prevent inflated pro-Milosevic tallies from affecting the results in Serbia) and would ensure that there was no violence around polling stations. From an international standpoint, this result raised the stakes considerably: The only election to be contested in the fall of 2000 would take place in Serbia, and it would be for the presidential election. Milosevic lost the 2000 election, and soon after the balloting he fell from power. The Montenegrin authorities immediately began to discuss options for independence or at least severely attenuated relations with Serbia. Their concern, shared by the Kosovar Albanians (then under UN transitional governance), was that a democratic Serbia would have international support to retain the boundaries of Yugoslavia.

Their timing was problematic. Late in 2000, there was little if any international support for Montenegro's independence. In addition, the Montenegrin population was deeply split on the question, raising concerns about internal stability. Montenegro's institutions were still nascent, and there was no clear EU perspective or offer of sufficient technical help to prepare them for governing an independent state. In addition, Serbia's newly installed democratic authorities warned that they might be vulnerable to revanchism at home, on the grounds that early in their tenure they had lost territory regarded by many Serbs as part of their homeland.

Perhaps more important, however, was the fact that the international community was simply tired. The overwhelming sense from ministers and heads of state at the time was relief that there could be fewer headlines from the Balkans. In lengthy conversations during late 2000, this point was made repeatedly—let people catch their breath. The velvet divorce of Czechoslovakia occurred only four years after the momentous events of late 1989; the message was to take at least as long before pursuing this question. Even in the United States, which was more supportive of Montenegro than most European nations (particularly some of Montenegro's neighbors), patience was urged. The new George W. Bush administration was likely to be much less interested in, or sympathetic to, Montenegro (despite the presence of some individuals who were very supportive), especially if its drive for independence was regarded as an outgrowth of an initiative of the Bill Clinton administration.

Primarily for domestic reasons, Montenegro's authorities wanted to push forward on independence. This resulted in some tensions, even with longtime friends, such as when senior Bush administration officials refused to meet with Djukanovic early in 2001. Over time, a compromise developed, along the lines discussed late in 2000: Montenegro would develop its institutions for self-government and would receive substantial international aid for that purpose; it would insist on its interest in independence but would take no irrevocable steps to that end.

The Montenegrin authorities had the right to raise their interest in independence, and they were right to note that the issue would not disappear simply because Milosevic had left the political scene. In fact, by insisting on its right to press for independence, Montenegro forced the international community to change its objective for the Western Balkans. During the 1990s, the goal in practice had been to end violence. Issues that were not sectarian, ethnic, or criminal were regarded as something other than urgent.

In the case of Montenegro and Serbia, however, the issue could not be cast solely in terms of long-standing ethnic or religious tensions, although those also existed. Instead, the issue was largely whether to acknowledge the aspirations of a recognizable political unit to govern itself and to become a subject of international law. The differences between Montenegro's case for independence and the violence that surrounded other cases compelled the international community to think more about how people in the territory in the Western Balkans would govern themselves, and in what units, once conflicts ended. The idea finally took root that it was in the interests of the EU for the states of the region to be democratic, stable, and in all ways compatible with European norms. The best way to promote this result would be to encourage the adoption of European standards, and the EU's only effective process for doing so lay in its membership process. The shift took root in the 2001 Thessaloniki Declaration, where the EU for the first time declared its commitment to work with states toward possible membership.

This shift ensured continued international support for the development of governance in Montenegro. It left open the question of whether Montenegro would be one of those states. The issue moved to a head late in 2001 and early in 2002. With the United States no longer much focused on the Balkans, the EU took the initiative in addressing Montenegro's desire for independence. The EU's high representative for common foreign and security policy, Javier Solana, and his adviser, Stefan Lehne, reached a temporary solution, signed in Belgrade on March 14, 2002, creating a weak "State Union of Serbia and Montenegro," which included an agreement that either state could leave the union after three years. The State Union's constitutional charter was adopted in February 2003, starting the clock toward a referendum on Montenegro's independence.

The State Union never worked well, and there was almost no expectation that it would work. Instead, the state of "Solania" was a halfway house while each state focused on internal improvements and political preparations before the inevitable moment that Montenegro sought the right for independence. Nonetheless, the agreement was important in that it gave the Serbian authorities time before controversial territorial issues such as Montenegro and Kosovo were addressed. And it allowed the Montenegrin authorities to improve their performance and test themselves before their people while permitting internal debate to evolve.

Even though the percentages of the population in favor and opposed to independence did not change, some of the edge was removed because the choice no longer seemed tied to violence or persecution. There was also another, almost certainly unintended, consequence concerning Kosovo. The Kosovar Albanians of all political stripes concurred that Kosovo could never be inside a Serbian state. This held out the possibility to some international players that Kosovo might remain in a loose union on an equal footing with Montenegro. But with Montenegro independent, Kosovo would seek to follow.

Moreover, the Belgrade Agreement showed a significant shift in international attitudes. International policy in the Balkans had opposed a change in international borders. Kosovo and Montenegro made clear their desire to revisit this approach throughout this period, but following

Macedonia's internal conflict in 2001, international policy remained against a change in international borders. By 2002, there was no express change in approach, but competing priorities were tilting the calculations. International interests were well served by improvements in local governance, even if that required changes in borders. The limitation that emerged is that the new units needed both to make governing sense and to enjoy legitimacy (and were not the result of violent ethnic cleansing and population displacement). Even so, inertia would have argued against considering any changes in borders, except that Montenegro would not accept silence, and the arguments against independence were not overwhelming. After three years, Montenegro moved to act on its right to hold a referendum. A period of jockeying over the rules to be applied took place, but ultimately independence was approved by just over 55 percent of the voters—in other words, by a margin of 10 percent of the total population. Independence was declared on June 3, 2006.

The relatively slim margin in favor of independence could have signaled difficulties for the new state. The yes vote was approximately the same percentage of the population identified by opinion polls in 2000 as favoring independence. The percentage met international thresholds, which had been carefully negotiated before the vote; and this considerably reduced any controversies. But the most important vote was given over time: Support for independence appeared to be stable and even increased slightly. In effect, the government's performance since independence has been an ongoing referendum. The opposition parties have now dropped demands to reconsider independence; for the first time, in 2010 the main opposition party's slogan in local elections urges voters to support them for a "Better Montenegro."

Euro-Atlantic Membership Perspectives

Perhaps the most significant inflection point has been the situation regarding Montenegro's integration into the EU and NATO. At the time of the Dayton Agreement in 1995, there was little discussion of the possibility that Balkan states could become members of the European Union. The text of that agreement includes only one reference, passing and ambiguous, to a European future for these states. They were out of NATO's area, and on Europe's mental map they belonged to another empire, almost another continent. This changed late in the decade. During the war over Kosovo, Secretary of State Madeleine Albright persuaded President Clinton to view the long-term prospects of these states as important to securing peace and stability in the region. In effect, the Balkans should be integrated into European and transatlantic institutions. Soon after the war ended, at a summit held fittingly in Sarajevo, the heads of the European states spoke openly about the possibility that the Balkans could earn "integration into Euro-Atlantic structures"—a vague enough reference, but one holding open a promise of both NATO and EU membership. At its summit in Thessaloniki in 2003, EU leaders joined Balkan leaders in declaring that "the future of the Balkans is within the EU," with each state adopting "European standards" before becoming a member.

Again, Montenegro was an early mover in this direction. By the time of the Thessaloniki summit, Croatia's application for EU membership had already been delivered, but Montenegro had for several years been working with European states to adopt a European currency and to prepare its laws and institutions for membership. In this regard, Podgorica has made enormous strides in applying for membership to NATO and the EU. In December 2009, it was granted a Membership Action Plan for NATO and, if it continues its military reforms, can be expected to enter NATO as an ally in the next three to five years.

Podgorica's efforts concerning the EU are even more remarkable. In December 2008, Montenegro applied for membership, and several months later it received the questionnaire provided to prospective members. By all accounts, Montenegro's process of preparing answers has been professional and relies on strong political support. After a round of follow-on questions, in the spring of 2010 Montenegro responded with complete answers. If it receives a favorable evaluation by the staff of the EU Commission, it may be invited to become a candidate as soon as December 2010.

Montenegro's progress in its pursuit of EU membership represents another inflection point. Montenegro is qualitatively different from the Balkan states that have become members of NATO or the EU. It is the first country subject to NATO military action to seek membership in NATO. It has the hallmarks of states that lag in membership—a contested identity, difficult relations with its larger neighbor, a democracy not yet fully developed (at least if the peaceful alternation of power between political parties is an important benchmark of development), and a transition from its early, opaque financial arrangements. Perhaps most significant, it is the first of the ex-Yugoslav states that were not part of a Western empire for centuries to make the EU grade. Slovenia and Croatia are ahead of Montenegro in making the transition, but each has Catholic, Western imperial roots.

The inflection point that may come soon would see Montenegro as also leading to EU candidacies for Serbia, Macedonia, Bosnia, Kosovo, and Albania. It is unclear whether Montenegro can play this role, however. European exhaustion over EU enlargement, especially in Germany, is a problem. Montenegro's own internal difficulties hamper its ability to lead others. Its democratic system seems to be maturing, but it is still remarkable that a single party has held power through all the changes and elections over the last decade and a half. There is no clear candidate to succeed Mile Djukanovic, although there are rumors that he may again leave office within the next year. And Montenegro's institutions remain fragile enough for concern, especially when it comes to wrestling with the transition to full transparency and investigating those who may have benefited from opaque business transactions since the mid-1990s. For many states, these are reasons enough not to move forward with Montenegro's candidacy. In actuality, Montenegro's problems are typical for transitional states, and reform will advance more quickly if Montenegro receives EU candidacy status.

Nonetheless, the concerns delineated here will provide ammunition for EU capitals seeking to slow the process of enlargement. More generally, Montenegro is small, and EU states might make a small state wait, although there are signs that Montenegro may be judged on its own merits and not those of its neighbors. It would have been expected that Serbia would take the leading regional role, but Serbia now cannot take the lead, having been hampered by its failure to fully cooperate with the International Criminal Tribunal for the Former Yugoslavia and by its own reluctance toward NATO accession. However, Serbia may be spurred to action by Montenegro's further progress.

Policy Recommendations

The chapter has traced four inflection points in international policy toward the Western Balkans: the end of conflict, the development of democratic governments, the emergence of new states, and membership in the transatlantic community. In each of these areas, events in Montenegro have been an early sign that change was needed and that old ways of addressing the region were inadequate. This is not to say that Montenegro caused the shift. Each time, changes were brewing across the region, and Montenegro alone was unlikely to cause the larger international community to rethink its approach.

Nevertheless, Montenegro has shown how progress could be made, and in each case Montenegro has acted and not been acted upon. Its leaders have pursued its interests, as they have envisaged them, and have been persistent enough that the international community has been required to react. Typically, the change in international approaches has not been made solely for Montenegro; it may have been judged too small to warrant its own new policy. Instead, Montenegro's pursuit of its interests has led to changes that have affected and benefited the region as a whole.

This brings us to contemporary developments and the possibility of a fifth inflection point. For the West Balkan states, the prospect of full membership in the EU as well as in NATO has been a powerful incentive for reform. But its initial attraction is fading. Membership remains far away, both because of EU enlargement fatigue and because the states of the region need time to improve their performance. More immediately, the problem is that the most effective tool for improving performance—the membership process itself—is being delayed in each state over political conditionality that is not germane to the process itself. Consequently, Macedonia is restricted by the ongoing dispute over its name, Bosnia-Herzegovina by various issues associated with its governance structure, and Serbia by its failure to demonstrate that it has cooperated fully with the International Tribunal in The Hague.

Montenegro faces none of those obstacles, a fact that is testimony to the skill of its leaders and the relative maturity of its political culture. It should be granted candidacy status when it is judged ready, perhaps as soon as December 2010. NATO's decision to distinguish between Montenegro and other candidates might suggest a new refinement in international policy. One can also hope that Montenegro's progress will again call for a rethinking in international approaches to the region as a whole. It would be best for all those countries if the most effective technique for improving governance—the relentless, grinding pressure of implementing the EU's *acquis communautaire*—can begin to be applied as soon as possible. Membership itself can wait, but reform should start soon, without regard for the political conditions that have become reasons not to grant membership. This will necessitate a change in EU procedures, perhaps as slight as moving forward *de facto* with opening and closing *acquis* chapters before granting full candidacy.

A Europe free—democratic, without state control of markets and personal life—and whole—from the Adriatic to the Arctic, from the Atlantic to the Black Sea—has been the vision animating transatlantic security and economic policy since 1945. It remained only a slogan until, after the Balkan wars ended in 2001, the EU created a meaningful membership track for all states in the region. But European integration remains under strain. The economic forces at work can be managed; the question is whether the leaders of Europe's large states have the will and vision to acknowledge that they must be managed. They also need the foresight to recognize that a solution to current EU economic problems—*austerity* measures among the leading economies on Europe's southern edge, and concomitant restrictions on bank lending and debt purchases around the region—will place pressure on reformers in the Balkans, as investments from Greece, Spain, Portugal, and Italy will almost inevitably decline.

The large states of Europe will not have the money to replace what will be lost for the Balkans. They can, however, bring the EU to support reform in the Balkans. The most direct and effective step will be to bring all states, as quickly as possible, into full candidacy status, directing all the power of the *acquis* process onto countries still struggling with decades of Communist and Yugoslav legacies. It will take years for these countries to become ready for EU membership, so the immediate costs will be minimal. The benefits will come in stability, in small markets and eager workforces, and in a confirmation of the political vision that motivated Europeans for decades—

that the ideal of a Europe whole and free can encourage people to work toward their own improvement, as part of a community of states dedicated to peace, democracy, and the welfare of their people.

Montenegro offers an example of what can result from the lure of an EU membership that is realistic and grounded in hard work. The country has deep Yugoslav roots, habits of patronage, an inadequately developed democratic system with weak traditions of rotating power, divisions over identity, little history of independent management of its affairs, and contested relations with a larger neighbor. In short, it reflects all the features that frighten the established EU states about their small neighbors to the south. The goal of EU membership, as used by Montenegro's political leaders, is producing in Montenegro a state that is stable and contributing positively to its West Balkan neighborhood. Small states like Montenegro cannot succeed on their own, however, if their neighbors are left without an anchor in a broader community. Europe and the United States need, together, to reinforce the political vision that has succeeded since 1945—of a Europe whole and free. In today's world, that means moving toward the acceptance of the Western Balkans into full membership in the European Union. This promise will take time to realize, but if progress along the way is accompanied by discipline and by steps apparent to the citizens of the West Balkan nations, it will produce stability and prosperity.

12

SERBIA Obrad Kesic

On February 17, 2010, U.S. assistant secretary of state Philip Gordon declared in a speech at Harvard University that Serbia's current government is the most democratic and pro-European that it has ever had and added that U.S.–Serbian relations could be a model of productive partnership. In Serbia, these comments by an American official were heralded as proof that relations between the two countries are on an upswing and that Serbia is rapidly becoming America's most important partner in the Balkans. Although there is little doubt that relations between the two states can be described as generally good, nonetheless it is difficult to escape the conclusion that the current state of relations is extremely fragile and that they could quickly become strained. The biggest problem with U.S.–Serbian relations is that they have developed on the basis of consistent mutual misunderstanding, self-delusion, and a desire to avoid addressing the two most fundamental issues—conditionality in U.S. policy regarding Serbia, and the status of Kosovo—that continue to preclude a more genuine and productive relationship. Even as Serbia's president Boris Tadic, following the International Court of Justice's July 22, 2010, decision on Kosovo's declaration of independence, was able to form a strategic consensus with the Progress Party (the largest opposition party) over a correction to Serbia's Kosovo policy—which in effect signaled that Kosovo was of secondary importance to Serbia's national and state interests and that Belgrade was prepared to accept the “reality” of Kosovo's independence—a significant improvement in relations with the United States remained uncertain.

During the last 20 years, relations between the United States and Serbia have been at times highly emotional or characterized by confrontation, conditionality, and misunderstanding. Starting with the disintegration of Yugoslavia, the United States has generally focused on Serbia as a factor of instability in the Balkans. It was only after the collapse of the regime of Slobodan Milosevic on October 5, 2000, that the United States began to modify its view of Serbia. Over the last few years, Serbia has emerged as a key factor of stability, at least in the rhetoric of U.S. and Serbian officials, for the broader Balkan region, and this in turn has fueled hopes in Serbia that contacts with the United States were finally showing signs of normalization. For this hope to be translated into reality, several things need to happen, beginning with a sober assessment of mutual interests that could bring the two states closer together and of the problems that confront them and serve as a barrier to full rapprochement. This chapter attempts such an assessment and lays out one approach for placing these relations on a more stable foundation that could benefit both Washington and Belgrade and contribute to regional stability.

U.S.-Serbian Confrontation

Before the mid-1980s, most Serbs tended to have a positive, even highly idealized, view of the United States, which was primarily based on the premise that Serbs and Americans were historic

and eternal allies. This view was founded on the fact that Serbia and America had been allies in both world wars, but it also conveniently sidestepped the role of the United States in supporting the Winston Churchill initiative to divide Europe into an East dominated by Communist Moscow and a West under the influence and protection of the United States and the United Kingdom, effectively abandoning the Serbian monarchy and pushing Serbia into a new Yugoslavia dominated by Communists led by Josip Broz Tito. Serbs, especially those exiled in the West, readily embraced a narrative that fully blamed Churchill for the betrayal of Serbia and all but absolved America of all responsibility for this national tragedy. America became a haven for Serbian royalists, enabling them to dream of the day that Serbia would be freed from Communist rule.

Tito's Yugoslavia maintained an opportunistic and contradictory relationship with the United States, at times portraying itself as a potential ally in the Cold War while consistently criticizing American foreign policy and "capitalist excess." For the most part, this did little to dampen the positive view of America among most Serbs. The overall idealistic view that Serbs held of America only began to change in the 1980s, in the period following Tito's death and during the time leading up to Yugoslavia's disintegration. Idealism began to change with the emergence of unrest in Serbia's autonomous province of Kosovo, where Albanians sought greater autonomy and eventually independence. Serbia was singled out as a violator of human rights and as a factor of instability by a series of legislative measures initiated by senators Bob Dole and Don Nichols in the 1980s, and this strained relations with Milosevic and other leaders in Serbia.

In a shortsighted move, Milosevic boycotted American ambassador Warren Zimmermann and ignored all criticism from the U.S. Congress and government. This decision became a turning point for Serbia's relations with the United States, and in effect punished Serbia by limiting American access to Serbia's views on most of the important issues that were fueling Yugoslavia's disintegration—thus ensuring that Serbia's opponents had a relatively open and unchallenged position from which to influence U.S. policy. From a position of self-imposed isolation, Milosevic and other Serbian leaders embraced a defensive, conspiratorial, and myopic worldview that increasingly portrayed America as the main villain in the destruction of Yugoslavia. For the United States' part, its officials began to equate the Serbian people with Milosevic and showed little understanding and appreciation for Serbian fears and aspirations fed by the chaos of the disintegrating Yugoslav state, the collapse of the political structure, and the ghosts of past conflicts. Thus, for the United States, Serbia became the principal problem in the Balkans, and it had to be contained and punished—and this perception would dominate U.S. policy for the next decade.

As violence erupted in Slovenia and then engulfed Croatia and Bosnia, the George H. W. Bush administration was determined not to be sucked into the conflict, and so it pushed the then-European Community to take the lead in trying to end the fighting and deal with the aftereffects of a dying Yugoslav state. International sanctions on weapons were passed by the UN Security Council, and these were followed in May 1992 by economic sanctions imposed against the Federal Republic of Yugoslavia (Serbia and Montenegro). This marked the beginning of conditionality as a foundation for U.S. policy toward Serbia.

The Bill Clinton administration had entered office with stinging criticisms of Bush policies toward the conflicts in former Yugoslavia and adopted a harsh public policy toward Serbia, which was widely seen as being the aggressor in the conflicts, calling for a lifting of the arms embargo for the Bosnian government, a tightening of international sanctions against Serbia, and NATO airstrikes against Bosnian Serb military and command positions. This became the bedrock of U.S.

policy through 1995, when Slobodan Milosevic emerged as a peacemaker in a process of talks led by Richard Holbrooke and culminating in the Dayton Agreement for Bosnia-Herzegovina. The Dayton Peace Accords led to a phased easing of sanctions against Serbia and to a more positive U.S. view of Milosevic that in effect undermined support for the opposition in Serbia and fed a bizarre but widespread belief among Serbs that Milosevic had been “America’s man” all along. This was especially frustrating for Serbia’s democratic opposition, because perceived U.S. indifference and reliance on Milosevic added to their inability to effectively challenge Milosevic’s hold on power. This was clearly seen in the tepid U.S. reaction to Milosevic’s crackdown on independent media in 1996 and to his attempted election fraud following local elections in November 1996. The absence of any serious American criticism of these acts until after strong condemnation by the EU seemed to indicate that the United States preferred stability to democracy.

Nonetheless, throughout this time, conditionality remained as sanctions were eased but not completely removed, and Serbia’s full integration into international institutions was conditioned upon its support for U.S. and EU actions in Bosnia and later, as street demonstrations gained momentum in 1996 and 1997, easing repression against the media and opposition parties and accepting national election results. Nonetheless, Milosevic used the strategic importance he gained at Dayton and the visits of Holbrooke and other U.S. diplomats to portray himself as the only viable option for stability and improved relations with the West. This approach was fairly successful until 1998, when armed attacks against Serbian police and officials in Kosovo by the newly emerged Kosovo Liberation Army (KLA) led to a violent response from the Milosevic regime.

The KLA insurgency strained Milosevic’s relations with the United States as images of well-armed police and army units pounding Albanian villages dominated the Western media and as the Serbs reassumed their role as the designated “bad guys” in the eyes of Washington policymakers. Conditionality was strengthened through new sanctions, and it soon gave way to outright threats and ultimatums from Washington, the EU, and NATO, culminating in the NATO bombing campaign and in NATO’s occupation of Kosovo in 1999. Of course, for Albanians and for many NATO member states, this was seen as being equivalent to liberation. The actual administration of the province fell to a reluctant United Nations through the signing of the Kumanovo Agreement on June 9, 1999, and through the passage of Security Council Resolution 1244.

After Milosevic

At some point in early 1998, regime change in Serbia once again emerged as a priority for the Clinton administration. Greater effort was put into maintaining contacts with the opposition in Serbia; additional funds were made available for support of the opposition, independent media, nongovernmental organizations (NGOs), and municipalities in which the opposition had won in the 1996 elections. This revitalized U.S. efforts to assist democratic forces within Serbia, but because of strong doubts and outright skepticism among senior U.S. officials concerning the ability of the opposition to maintain unity in light of petty quarrels and combustible egos, much effort was also devoted to strengthening the government of Prime Minister Milo Djukanovic in Montenegro and in using it as a main funnel for funds to opposition parties and NGOs.

Adding to the skeptical view of the Serbian opposition held by most senior officials in the U.S. government was a perception that the opposition was more nationalistic than Milosevic and by definition that perhaps it would be an unreliable partner for U.S. efforts in Bosnia and

Kosovo. Nonetheless, given that it would have been nearly impossible to have regime change without someone from the opposition replacing Milosevic, U.S. officials almost grudgingly began to strengthen their contacts with opposition leaders. A turning point in these relations occurred on July 20, 1998, when Ambassador Robert Gelbard, the special representative of the president and secretary of state for the Balkans, met with representatives from the newly created Alliance for Change (Savez za Promene) led by Milan Panic, Dragoslav Avramovic, and Zoran Djindjic in The Hague and an agreement was reached that NATO would work to gather all major opposition forces, including Vuk Draskovic, under its umbrella and that they would maintain a unified front against Milosevic. In return, the United States would support these efforts and would take greater care in the public messages sent by officials meeting with Milosevic.

As with the Milosevic government, conditionality was also a cornerstone of the relationship developed by Washington with opposition leaders. In addition to including demands for public support for the Dayton Peace Accords and international efforts in Bosnia, it also included demands that the opposition leaders set aside petty rivalries and create a united front against Milosevic. Conditionality had become a standard element of cooperation with U.S. government institutions and representatives for both the Serbian government and opposition. Although this did not present serious problems for the opposition (because opposition politicians had no real power and simply told U.S. representatives what they wanted to hear and promised most anything that was asked of them), it did exacerbate the generally negative view of the U.S. government that was already prevalent among the Serbian public. This was only offset by fatigue resulting from the wars in Croatia and Bosnia, international isolation, a desperate economic situation, and by the hope shared by most Serbia citizens that everything could be fixed with the United States and the EU if Milosevic were removed from power.

The actions of Albanian paramilitaries in Kosovo led by the KLA and the violent response from the government created a new set of circumstances that led to rapidly worsening relations with the United States for both the government and the opposition. The government found itself once again being identified as an aggressor and generator of regional instability, just as during the wars in Croatia and Bosnia. This disoriented Milosevic, who believed that his service to American interests in isolating the Bosnian Serb political leadership and assuming full authority to come to an agreement at Dayton had rehabilitated him, had turned him into a partner of the United States, and had given him a green light to crack down on the KLA.

Milosevic had insisted that the Kosovo question not be included in the Dayton negotiations, and he later believed that the United States viewed the emergence of the KLA as a classic case of insurgency and thus would expect Serbia, like any other state, to deal with it forcibly. This belief was strengthened by Ambassador Gelbard's public classification of the KLA as a terrorist group. The opposition had no desire to insert itself in the debate over Kosovo, fearing that it would lose popular support if the state media again cast its members as traitors willing to sell out Kosovo for help in taking power in Belgrade. As a result, it was soon marginalized once again as Kosovo became the most important issue in Serbia's relations with the United States.

Within the opposition, no one welcomed the American-led NATO bombing, and most felt that it ultimately benefited Milosevic by rallying Serbs in defense of the country and by forcing the opposition to end all actions against his regime. There was a consensus among opposition leaders and many average citizens that the bombing prolonged Milosevic's rule. This perception dominated the view of the United States in Serbia, because Serbs doubly blamed Washington for

their suffering—first, for leading the bombing against their country, and second, for unintentionally propping up Milosevic at a time when he was perceived to be at his weakest. This was at odds with the assessment of senior policymakers in Washington, who believed that the bombing would weaken Milosevic because Serbs would conclude that he was to blame for the bombing and thus would demand that he resign or overthrow him.

Some, especially within Serbia's NGO community, privately hoped that the bombing would be linked to regime change in Serbia, but they were quickly disillusioned as it became clear that the bombing would ultimately end in some kind of deal that would be signed by Milosevic. As it became clear that Milosevic would emerge once again as a "peacemaker," many began to worry that this would lead Washington to again allow him a free hand within Serbia in return for his support in forming an international protectorate in Kosovo. The indictment of Milosevic by the International Criminal Tribunal for the Former Yugoslavia (ICTY) was viewed with some skepticism, and it did little to ease fears that Washington was once again adopting a position that favored stability, even if it came in the form of Milosevic, over a democratic transformation of Serbia.

These fears proved ill founded, however, because U.S. policy now focused on assisting regime change in Serbia. The democratic opposition and NGOs slowly resumed their efforts to mobilize popular pressure on the regime. Milosevic's decision to call an early presidential election for September 24, 2000, caught everyone by surprise, for his term did not expire until June 2001 and he did not face any serious pressure from the opposition at that time. The choice of Vojislav Kostunica as the candidate of the combined opposition (later renamed the Democratic Opposition of Serbia, DOS) confirmed the popular view that only a candidate who was seen as strong in his national politics and had a skeptical view of the West had a chance to defeat Milosevic at a time when the NATO bombing was still fresh in people's minds and fear of further instability and state fragmentation had led many Serbs to remain cautious toward the opposition.

Kostunica at times ran a campaign that was as much directed against Washington and Brussels as against Milosevic. He reassured most voters that he was a guarantor of both change and stability. More important, he was widely perceived to be honest and patriotic which greatly contrasted with the corrupt and opportunistic Milosevic, who was also perceived to be a loser of several wars. Kostunica promised voters that he would restore their national dignity and end the disintegration of the state. U.S. policymakers, encouraged by mass support for Kostunica, increased assistance to the Serbian opposition parties, the independent media, and NGOs such as the youth-led Otpor (Resistance). A total of \$41 million was allocated by Washington for democracy building in Serbia; the regime, however, claimed that the figure was in the hundreds of millions. Determining the actual total sum spent by the United States and the EU to help bring about regime change is difficult, because some of the money came from unclear sources, it is sometimes difficult to differentiate between humanitarian assistance and democracy building funds, and much of the funding was spent on salaries for consultants and administrative costs for American and European institutes.

Kostunica not only distanced himself from the U.S. and EU support given to the opposition but also implied that he was troubled and even revolted by outside meddling in Serbia's internal affairs and elections. This reflected the feelings of many Serbs, who after years of being portrayed as aggressors in the bloody disintegration of Yugoslavia by Western media and government officials remained unsettled by the suspicion that the West was attempting to use them for some murky and perhaps destructive purposes. Far more effective in consolidating public support for Kostunica were the promises made by Washington and the EU states that if Milosevic were to be defeated,

Serbia's isolation would end, sanctions would be lifted, and Serbia would be welcomed into international institutions. These promises encouraged many citizens to risk voting for change and later would fuel deep resentment as people felt betrayed by the conditionality that Serbia faced from the United States and the EU, even after they had done their part in ridding Serbia of Milosevic.

Serbia's Democratic Transition

The street revolution that finally toppled Milosevic on October 5, 2000, was heralded in Washington and across the world in an atmosphere of euphoria. For a brief period, it seemed as if Serbia had succeeded in restarting its relations with the United States and the EU. Some sanctions were immediately lifted, and Western officials rushed to embrace Kostunica. Yet even in the midst of this triumphal embrace of Kostunica, there were early signs that the relationship with America would face serious problems.

When Kostunica met with James O'Brien, then special adviser to President Clinton and Secretary of State Madeleine Albright on October 12, 2000, he asked that Ambassador William Montgomery not be sent to Belgrade for some time because this would send the wrong message, given that Montgomery was perceived in Serbia to have been the key organizer of funneling financial and other resources to opposition forces seeking to overthrow Milosevic. This would be interpreted as proving that the victory over Milosevic had been determined by the United States. Kostunica also asked that he be given some time to consolidate his hold on power before having to deal with the ICTY indictments against Milosevic and others in Serbia. Kostunica believed that he had assurances from Washington that both requests would be honored, but the new ambassador evidently disregarded these commitments and made plans to take up residency in Belgrade. This created bad blood between Kostunica and Montgomery, which in turn fueled other misunderstandings. Kostunica and most other opposition leaders felt that the United States was unfairly taking primarily credit for Milosevic's defeat.

After parliamentary elections in December 2000, Kostunica, now the president of Yugoslavia, found himself in a bitter struggle with Serbian prime minister Zoran Djindjic that blocked most reform. Montgomery was caught in the middle of the dispute and mostly sided with Djindjic, who he saw as being more pragmatic and dynamic. The period until Djindjic's assassination in March 2003 witnessed increased strains in U.S.–Serbian relations as conditionality linked to cooperation with the ICTY began to overshadow all other issues. Relations hit their lowest point following the extradition of Milosevic to the ICTY in June 2001, as even Djindjic became frustrated with continuous American pressure to extradite Serbian army generals to The Hague.

Djindjic and his allies believed that with Milosevic's extradition, demands to deliver others to the ICTY would diminish and that eventually they might be tried in Serbia. When this did not happen, Djindjic thought that the United States had intentionally deceived him and that the policy of conditionality tied to the ICTY was directly hurting his reform efforts as it undermined popular support and created an anti–United States and anti-EU atmosphere in Serbia. In addition to the strained relations with the United States over the ICTY, Djindjic and Kostunica developed an intense dislike for Ambassador Montgomery, who they perceived as being too involved in local politics and whose behavior they began to view as being akin to that of an imperial governor.

Following Djindjic's death, Kosovo once again reemerged as a major issue in U.S. relations with Serbia. The United States was perceived by both the government and general public as being

at the forefront of efforts to partition Serbia and to create an independent Kosovo state. Following Kosovo's proclamation of independence in February 2008, Serbian frustrations and resentment led to mass protests in Belgrade and to attacks on the U.S. Embassy, one of which led to the death of a young protester and the torching of the Embassy.

Current Issues and Problems

The attack on the U.S. Embassy transformed then-Serbian prime minister Kostunica into a pariah for the U.S. government. When he was defeated in elections and a new government was formed in July 2008, many U.S. officials rushed to embrace the new governing coalition led by the Democratic Party of the late prime minister Djindjic, currently led by Serbian president Boris Tadic, and the Socialist Party of the late Milosevic, currently led by Serbian deputy prime minister Ivica Dacic. The U.S. ambassador, Cameron Munter, took a public role in convincing key business leaders and the Socialist leadership that a coalition with Tadic's DS party was the only acceptable outcome that would not delay Serbia's entry into the EU. Once again, Serb expectations were raised that the United States would end its policy of conditionality in its relations with the new government and that a genuine partnership would be formed on the basis of shared interests. This expectation was strengthened by the arrest and extradition of Radovan Karadzic, the Bosnian Serb wartime leader who was indicted by the ICTY.

For a brief period, it looked as if the United States had fully accepted Serbia as an important partner and potential ally as Washington increased its public show of support for the new Serbian government and high-level officials made a series of visits to Belgrade. The high point came with Vice President Joseph Biden's trip in May 2009. Both Belgrade and Washington agreed to put the issue of Kosovo aside, or "agree to disagree." Nonetheless, Kosovo's shadow still looms over every aspect of U.S.-Serbian relations, and conditionality has been maintained as a tool to encourage Serbia to abandon its opposition to Kosovo's independence. Most recently, momentum has emerged in Washington for linking Serbia's aspirations to join the EU to its acceptance of Kosovo's independence. Regardless of any sugarcoating, the recognition of Kosovo as an independent state is proving too large and bitter a pill for the Serbian government to swallow.

Beyond the Kosovo issue, U.S. conditionality toward Serbia also consists of the expectation that Serbia will do everything it can to influence and pressure the Serb Republic in Bosnia and the government of Prime Minister Milorad Dodik to extradite the remaining two indicted individuals, General Ratko Mladic and Goran Hadzic, to the ICTY. The Serbian authorities and public have continued to be frustrated with the conditions set by the United States and the EU, believing that this conditionality is never-ending, with new conditions constantly added to the original ICTY demands for cooperation that have now been in place for close to a decade. Furthermore, Serbs view conditionality as a form of collective punishment that does not acknowledge the numerous successes that Serbia has had in consolidating its democracy and in dealing with the Milosevic legacy.

By placing so much emphasis on the questions of Kosovo and the ICTY, the United States has failed to concern itself with the actual process of democratic transition in Serbia. This has created an impression that the United States is insincere in its expressed desire to see Serbia become a stable and democratic state. By continually insisting that Serbia's governments embrace very painful and unpopular actions tied to the ICTY and Kosovo, this has actually undermined support for these governments and forced them to sacrifice their own political interests for the sake of better

relations with the United States. In the case of the current government, this has been especially frustrating because it has shown considerable courage in some areas—such as dealing with war crimes committed by Serb forces in Croatia, Bosnia, and Kosovo—and has gone out of its way not to overly antagonize either the United States or the EU as they pursue their claims with respect to Kosovo.

Conversely, this situation has given the Serbian government an almost complete pass on most issues tied to the democratic transition that are not directly related to the conditions set by the United States. With respect to the current government in Belgrade, this has meant that Washington has praised its democratic credentials while ignoring the fact that it has passed a repressive media law, has politicized the appointment of judges, has curbed the ability of the opposition to participate in parliamentary debate, and, like all its predecessors, has consistently generated scandals of corruption and incompetence.

Serbian officials and politicians have contributed to the dysfunctional relationship with the United States by developing a quasi-dependency mentality that enables them to evade some responsibility for painful reforms by claiming that they were forced to enact them by the United States and the EU. Many politicians have also maintained a desire to win U.S. backing in the hope that this will keep them in power or even catapult them to power, for they perceive this to be the case with current and previous governments. Because of these factors, relations with the United States are often privatized and bypass government and official institutions. Thus, during the Kostunica/Djindjic conflict, both men maintained communications with Washington through unofficial envoys, often high-level members of their cabinets. This arrangement continued during the short cohabitation between Kostunica and Tadic and continues to this day. Not only does this cause confusion; it also creates an impression that Serbia does not function as a state and that policy statements by Serbian officials are only made to pacify public opinion while real government policies are expressed privately by designated envoys. Under these circumstances, it is difficult to see how relations between Serbia and the United States can be improved when they are founded on a series of misunderstandings and a lack of willingness by Washington to end the principle of conditionality in its relations with Belgrade.

Policy Recommendations

It is almost certain that either U.S. relations with Serbia will witness another confrontation or Serbia will eventually accept the reality pushed on it that Kosovo is independent and it must thus choose between the promise of a better future in the EU or a past it will never be able to recapture. Either way, this promises to push Serbia into deep instability or political conflict, which will affect the entire region, beginning with Kosovo and Bosnia. The only way forward is to redefine and restructure the core elements that have shaped the United States' relations with Serbia during the last two decades:

- Whereas it would be best to terminate all political conditionality but this is unlikely to happen, conditions must be clearly defined by the United States; and once this is done, there should be no shifting of goalposts by adding new conditions.
- An attempt to solve the impasse over Kosovo's status should be based on the premise that Serbia should not be asked to lose everything, nor should the Kosovo Albanians be perceived as

receiving everything. This could mean supporting a land-for-peace deal through partition, or it could mean freezing the current status quo in a way that allows Serbia to make progress in its aspirations toward EU membership while the Albanians in Kosovo are allowed to function as an independent state but one that is not a member of the UN or officially recognized by most states, a status similar to that of Taiwan.

- U.S. diplomats and government officials should avoid becoming involved in Serbia's internal politics and must not become directly tied to individual political leaders or parties. Instead, they should concentrate on encouraging democratic processes and the implementation of the rule of law, even if this would favor unpalatable political options in the short run.
- Serbia should be encouraged in its efforts to normalize relations with all its neighbors, but how this is done should be left up to Belgrade and its neighbors. The United States should not push Serbia to involve itself in pressuring Banja Luka or in weakening premier Dodik, because this will probably be unsuccessful and could further undermine the government's credibility and legitimacy among its own citizens. Furthermore, by encouraging Serbia to adopt a patron-client relationship with Banja Luka, this could further undermine the cohesion of the Bosnian state and could backfire if a change in government in Belgrade brought to power a more nationalist and less cooperative leadership.
- The United States should insist that communication, diplomacy, and negotiations by the Serbian government and president must be conducted through government and official institutions and not in private ad hoc visits from Serbian cabinet officials and informal envoys. The relationship with Serbia should be established in a transparent way, with the goal of demystifying U.S. policies and encouraging the development of a democratic political culture in Serbia.

The adoption of these five recommendations, though it would not bring immediate relief to U.S.–Serbian relations or solve all the problems plaguing them, would eventually bring a certain honesty and positive dynamic that is necessary to transform the platitudes now being mutually exchanged between officials into substantive cooperation and a genuine partnership.



APPENDIX: WESTERN BALKANS CHRONOLOGY, 1988–2010

1988

February	Serbia	Slobodan Milosevic's wing of Serbian Communist Party ousts Serbian president Ivan Stambolic. He is replaced by Petar Gracanin.
October 5	Serbia	Yogurt Revolution: Around 150.000 people gather in Novi Sad (Vojvodina) to protest against provincial government. It is forced to step down the following day, and is replaced by Milosevic's loyalists.

1989

January 10	Montenegro	Pro-Milosevic supporters overthrow Communist leadership of Montenegro and install Momir Bulatovic.
March	Serbia	Parliaments of Vojvodina, Kosova, and Serbia adopt amendments to Constitution aiming at centralizing Serbia's control over law enforcement and the judiciary in the two autonomous provinces.
May 8	Serbia	Slobodan Milosevic becomes president of Serbia.

1990

January	Albania	Demonstrations in Shkodra force authorities to declare a state of emergency.
January 22	Yugoslavia	Communist Party of Yugoslavia is dissolved.
April 8	Slovenia	Democratic Opposition of Slovenia (DEMOS) wins first multiparty elections. Lojze Peterle becomes prime minister.
April 22	Croatia	Croatian Democratic Union (HDZ) wins first multiparty parliamentary elections.

July	Albania	Albanian president Ramiz Alia grants Albanian citizens the right to travel abroad, restores religious freedom, and adopts free market measures.
July 2	Kosova	Kosova parliament proclaims the Republic of Kosova. In response, the Serbian parliament abolishes the Kosova parliament.
August 17	Croatia	Beginning of Log Revolution: Serbs proclaim Serbian Autonomous Oblast of Kninska Krajina and block roads connecting Dalmatia to the rest of Croatia.
September 3	Kosova	Albanians begin a general strike.
September 28	Serbia	Autonomy of Vojvodina and Kosova within Republic of Serbia is revoked.
September 30	Croatia	Serbian National Council proclaims the autonomy of Serbian-inhabited lands in Croatia.
November 18	Bosnia-Herzegovina	First multiparty parliamentary elections; nationalist parties win most of votes among all three major ethnic groups—Bosniaks, Serbs, and Croats.
November 25	ROM/FYROM	Internal Macedonian Revolutionary Organization (VMRO-DPME) wins first multiparty elections. Nikola Kljusev becomes prime minister. Kiro Gligorov becomes president
December	Albania	A multiparty system is introduced.
December 9	Serbia	Serbian Socialist Party (SPS) wins first multiparty elections. Milosevic elected Serbian president.
December 9	Montenegro	League of Communists of Montenegro wins first multiparty elections.
December 21	Croatia	Proclamation of Serbian Autonomous Region of Krajina.
December 22	Croatia	Introduction of a new Constitution. Franjo Tudjman elected president.
December 23	Slovenia	Slovenians vote overwhelmingly in favor of independence.
December 23	Serbia	SPS wins a majority in parliament.
December 23	Montenegro	Momir Bulatovic sworn in as president of Montenegro.

1991

February 15	Montenegro	Milo Djukanovic becomes prime minister.
February 22	Albania	Fatos Nano becomes prime minister.
March 31	Albania	Party of Labor wins first multiparty parliamentary elections.
April 1	Croatia	Serbian Autonomous Region of Krajina declares its independence from Croatia.
April 9	Croatia	Creation of a separate Croatian military.
April 29	Albania	Ramiz Alia reelected president.
May 19	Croatia	Croatians vote overwhelmingly in favor of independence.
June 5	Albania	Ylli Bufi becomes prime minister.
June 10	Albania	Party of Labor renounces to its past ideology and become Socialist Party of Albania.
June 19	Albania	Albania becomes an Organization for Security and Cooperation in Europe (OSCE) member.
June 22	Montenegro	League of Communists is renamed Democratic Party of Socialists.
June 25	Croatia Slovenia	Croatia and Slovenia declare independence from Socialist Federal Republic of Yugoslavia (SFRY). European Commission urges Croatia to place a three-month moratorium on the decision.
June 27	Slovenia	Beginning of Ten-Day War with Yugoslav National Army (YNA).
July 1	Slovenia	West Germany recognizes Slovenia
July 6	Slovenia	End of Ten-Day War. YNA prepares to leave Slovenia.
August	Croatia	Full-scale war erupts.
September 8	ROM/FYROM	Skopje declares independence from SFRY.
September 30	Kosova	Kosovars vote in favor of independence.
September 30	Albania	Tensions with SFRY arise as Albania recognizes Kosova's independence.
October 8	Croatia	Croatia cuts all remaining political ties with Yugoslavia.

November 10	Bosnia-Herzegovina	Bosnian Serbs organize a vote against Bosnia's independence from SFRY.
November 17	ROM/FYROM	Introduction of a new Constitution despite opposition of ethnic Albanians.
December 10	Albania	Vilson Ahmeti becomes prime minister.
December 19	Croatia	Krajina proclaims itself Republic of Serbian Krajina.
December 23	Slovenia	Introduction of a new Constitution.

1992

January 6	Croatia	Ceasefire between Croat and Serb forces. UN mission deployed.
January 9	Bosnia-Herzegovina	Bosnian Serbs proclaim Republic of the Serb People of Bosnia-Herzegovina.
January 11	ROM/FYROM	Albanians organize a referendum on territorial autonomy.
January 15	Croatia Slovenia	European Community recognizes Croatia and Slovenia.
February 21	Croatia	UN Security Council sends UNPROFOR peacekeeping force.
February 29	Bosnia-Herzegovina	Croats and Muslims vote overwhelmingly in favor of independence. Serbs boycott vote.
March 1	Bosnia-Herzegovina	Beginning of Bosnian war between Bosnian government and Serbian rebels.
March 1	Montenegro	A referendum confirms Montenegro's attachment to Yugoslavia.
March 22	Albania	Electoral victory for Democratic Party. Aleksander Meksi becomes prime minister.
March 24	Croatia Slovenia	Croatia and Slovenia become OSCE members.
April 5	Bosnia-Herzegovina	Bosnia-Herzegovina proclaims independence from SFRY. Siege of Sarajevo begins.
April 7	Bosnia-Herzegovina	United States and European Community recognize Bosnia-Herzegovina. Bosnian Serbs proclaim independence of Republika Srpska.

April 7	Slovenia	United States recognizes Slovenia.
April 9	Albania	Sali Berisha becomes president.
April 27	Yugoslavia	Introduction of new Constitution; SFRY becomes Federal Republic of Yugoslavia (FRY).
April 30	Bosnia-Herzegovina	Bosnia-Herzegovina becomes OSCE member.
May 14	Slovenia	A vote of no confidence forces Lojze Peterle to step down. He is replaced as prime minister by Janez Drnovsek.
May 22	Slovenia	Slovenia becomes a UN member.
May 24	Kosova	Ibrahim Rugova is elected president of self-proclaimed republic of Kosova.
May 30	Yugoslavia	UN imposes sanctions on FRY.
June 15	Yugoslavia	Dobrica Cosic becomes president.
July 3	ROM/FYROM Greece	Skopje adopts new state symbols, increasing tensions with Greece.
August 2	Croatia	Franjo Tudjman wins presidential elections. Croatian Democratic Union (HDZ) wins parliamentary elections. Hrvoje Sarinic becomes prime minister.
August 17	ROM/FYROM	Branko Crvenkovski replaces Nikola Kljusev as prime minister.
September 14	Bosnia-Herzegovina	UNPROFOR's mandate is extended to Bosnia-Herzegovina.
December 6	Slovenia	Milan Kucan wins first presidential elections. Liberal Democratic Party wins parliamentary elections. Janez Drnovsek is confirmed as prime minister.
December 11	ROM/FYROM	UNPROFOR is extended to ROM/FYROM.
December 16	Albania	Albania applies for NATO membership.
December 20	Montenegro	Democratic Party of Socialists (DPS) wins parliamentary elections. Milo Djukanovic confirmed as prime minister. Momir Bulatovic wins presidential elections.

1993

April 3	Croatia	Hrvoje Sarinic replaced by Nikica Valentic as prime minister.
April 8	ROM/FYROM	ROM/FYROM becomes a UN member under the name of the Former Yugoslav Republic of Macedonia.
May 14	Slovenia	Slovenia becomes member of Council of Europe.
May 15–16	Bosnia-Herzegovina	Bosnian Serbs overwhelmingly reject Vance-Owen peace plan.
May 25	Yugoslavia	UN establishes International Criminal Tribunal for the Former Yugoslavia (ICTY).
June 1	Serbia	Large protests against Milosevic erupt in Belgrade.
June 19–20	Croatia	Krajina Serbs vote in favor of the unification of all Serbs in one state.
June 25	Albania Greece	Ties between Greece and Albania are strained over minority rights for Greeks in Albania.
June 25	Yugoslavia	Zoran Lilic becomes president.
August 20	Bosnia-Herzegovina	Owen-Stoltenberg peace plan; accepted by Serbs and Croats, rejected by Bosniaks.
August 24	Bosnia-Herzegovina	Bosnian Croats proclaim Croatian Republic of Herceg-Bosnia.
December 16	ROM/FYROM	EU states establish formal diplomatic relations with ROM/FYROM.

1994

February 9	Bosnia-Herzegovina	UN authorizes NATO airstrikes. A cease-fire around Sarajevo is agreed upon.
February 16	ROM/FYROM Greece	Greece imposes an embargo on ROM/FYROM.
February 23	Albania	Albania joins NATO's PfP program.
March 18	Bosnia-Herzegovina	Washington Accords establish Federation of Bosnia-Herzegovina between Bosniaks and Croats.
August 3	Bosnia-Herzegovina	Bosnian Serbs reject Contact Group peace plan.

October 3	ROM/FYROM	President Kiro Gligorov is target of assassination attempt.
October 30	ROM/FYROM	Social Democrats win parliamentary elections. Branko Crvenkovski is confirmed as prime minister.
November 6	Albania	New Constitution is turned down in a referendum.
November 19	ROM/FYROM	Kiro Gligorov is reelected president.

1995

May 1	Croatia	Operation Flash aims at retaking Western Slavonia from Serbian insurgents.
July 13	Albania	Albania becomes member of Council of Europe.
July 13–22	Bosnia-Herzegovina	Srebrenica massacre of about 7,000 Bosniak males by Bosnian Serb military.
July 25	Bosnia-Herzegovina	ICTY indicts Radovan Karadzic and Ratko Mladic for genocide.
August 4	Croatia	Operation Storm forces Serbs out of Croatian territory in Krajina region.
August 30	Bosnia-Herzegovina	NATO airstrikes against Bosnian Serb positions.
September 14	Greece ROM/FYROM	Greece agrees to lift its embargo after ROM/FYROM modifies its state symbols and Constitution.
October 29	Croatia	HDZ wins parliamentary elections. Zlatko Matesa becomes prime minister.
November 9	ROM/FYROM	ROM/FYROM becomes member of Council of Europe.
November 15	ROM/FYROM	ROM/FYROM joins NATO's PfP program.
November 1–21	Bosnia-Herzegovina	Participants in Bosnian war negotiate a peace deal in Dayton, Ohio.
November 22	Yugoslavia	UN lifts its sanctions against Yugoslavia.
December 14	Bosnia-Herzegovina	Dayton Agreement is signed to terminate war in Bosnia-Herzegovina. Office of the High Representative is created to oversee civilian implementation of the peace deal.
December 20	Bosnia-Herzegovina	Emplacement of NATO's Implementation Force (IFOR) mission.

1996

January 15	Croatia Montenegro	UN deploys peacekeeping mission to monitor demilitarization of disputed Prevlaka Peninsula.
February	Bosnia-Herzegovina	Siege of Sarajevo is officially lifted.
March 21–22	Albania Greece	Sali Berisha and Kostis Stephanopoulos agree on normalization of Greek–Albanian relations.
June 2	Albania	Democratic Party wins parliamentary elections. Opposition parties allege fraud.
June 10	Slovenia	Slovenia officially applies for EU membership.
September 9	Croatia Yugoslavia	Croatia and Yugoslavia restore diplomatic relations.
September 20	Bosnia-Herzegovina	Nationalist parties win first postwar elections. Alija Izetbegovic elected to presidency of Bosnia-Herzegovina.
November 3	Montenegro	DPS wins parliamentary elections. Milo Djukanovic is confirmed as prime minister.
November 6	Croatia	Croatia becomes member of Council of Europe.
November 10	Slovenia	Liberal Democrats win parliamentary elections. Janez Drnovsek is confirmed as prime minister.
December 21	Bosnia-Herzegovina	IFOR mission is transformed into NATO's Stabilization Force (SFOR).

1997

January–February	Albania	Collapse of investment pyramid schemes provokes massive riots.
March 3	Albania	Having been boycotted by the opposition, Sali Berisha is confirmed by parliament for a second term as president.
March 11	Albania	Bashkim Fino becomes prime minister.
May 22	ROM/FYROM	Constitutional Court forbids use of Albanian flag, sparking protests.
June 4	Albania	Martial law declared.
June 15	Croatia	Franjo Tudjman reelected president.

June 21	Albania	Socialist Party wins early parliamentary elections. Fatos Nano becomes prime minister.
June 24	Albania	Rexhep Mejdani becomes president.
July 23	Yugoslavia	Slobodan Milosevic elected president of Yugoslavia.
October 17	Montenegro	Milo Djukanovic wins presidential elections and replaces Momir Bulatovic.
November 23	Slovenia	Milan Kucan reelected president.
December 9–10	Bosnia-Herzegovina	Bonn Conference expands Office of the High Representative's powers, allowing high representative to sack officials and enact laws.
December 21	Serbia	Milan Milutinovic wins presidential elections.

1998

January 1	Slovenia	Slovenia becomes nonpermanent member of UN Security Council.
January 15	Croatia	Croatia resumes control of Eastern Slavonia, Baranja, and Western Srem from Serbian rebels.
January 15	Montenegro	Milo Djukanovic sworn in as president. Filip Vujanovic takes over as prime minister.
January 18	Bosnia-Herzegovina	Milorad Dodik appointed prime minister of Republic of Sprska.
March	Kosova	Firefights begin between Albanian insurgents and Yugoslav forces. Milosevic rejects calls for international action in Kosova.
May 18	Yugoslavia	Momir Bulatovic becomes prime minister.
May 31	Montenegro	Proindependence coalition led by Milo Djukanovic wins parliamentary election. Filip Vujanovic confirmed as prime minister.
June 22	Bosnia-Herzegovina	Bosnian currency is introduced and pegged to DEM.
September 12–13	Bosnia-Herzegovina	Nationalist parties win general elections.
September 24	Yugoslavia	NATO issues ultimatum to Milosevic to stop crackdown on Kosova Albanians or face airstrikes.

October 2	Albania	Pandeli Majko replaces Fatos Nano as prime minister.
October 11	Albania	Albania put its airspace and territorial waters at disposal of NATO for military intervention against Yugoslavia.
November 2	Montenegro	Montenegro adopts DEM as its currency.
November 2	ROM/FYROM	VMRO-DPMNE wins parliamentary elections. Ljubco Georgievski becomes prime minister.
November 28	Albania	Introduction of a new Constitution.
November 30	ROM/FYROM	Elections bring into power a coalition government led by Ljubco Georgievski and includes Albanian representatives.

1999

March 5	Bosnia-Herzegovina	Brcko Final Award settles dispute between Republika Srpska and Federation of Bosnia-Herzegovina in Brcko area.
March 18–19	Kosova Yugoslavia	Kosova Albanians sign a peace deal in France, which Belgrade rejects.
March 24	Kosova	NATO begins bombing campaign against Serbia. Serbian forces engage in mass expulsion of Albanian residents from Kosova. Thousands of refugees flee to neighboring countries.
April 18	Yugoslavia Albania	Yugoslavia breaks diplomatic relations with Albania because of its involvement in NATO bombing campaign.
May 27	Yugoslavia	Milosevic indicted as a war criminal by ICTY.
June 10	Kosova Yugoslavia	End of NATO bombing campaign. Serbian troops leave Kosova. UN establishes UN Mission in Kosova (UNMIK).
June 10	Regional	Albania, Bosnia-Herzegovina, Bulgaria, Croatia, ROM/FYROM, Romania, and Yugoslavia establish Stability Pact for South Eastern Europe.
June 12	Kosova	NATO-led Kosova Force emplaced in Kosova.
September 3	Kosova	UNMIK designates DEM as Kosova's official currency.
November 14	ROM/FYROM	Boris Trajkovski wins presidential election.
December 10	Croatia	Franjo Tudjman dies.

2000

January 3	Croatia	HDZ is defeated by Social Democratic Party in parliamentary elections. Ivica Racan becomes prime minister.
February 7	Croatia	Stjepan Mesic elected president and vows that Croatia will join EU and NATO.
September 26	Yugoslavia	Vojislav Kostunica wins presidential elections. Slobodan Milosevic does not concede defeat until 6 October.
April 5	ROM/FYROM	Stabilization and Association Agreement (SAA) talks with EU begin.
May 3	Slovenia	Janez Drnovsek steps down and is replaced by Andrej Bajuk as prime minister.
May 25	Croatia	Croatia joins NATO's PfP program.
October 15	Slovenia	Liberal Democrats retain their majority in parliament. Drnovsek returns as prime minister.
October	Bosnia-Herzegovina	Bosniak member of presidency Alija Izetbegovic steps down for health reasons.
November 10	Yugoslavia	Yugoslavia becomes an OSCE member.
November 11	Bosnia-Herzegovina	General elections see moderate parties win in Federation and nationalists in Republika Srpska.
November 24	Croatia	SAA talks with EU begin.
December 23	Serbia	Democratic Opposition of Serbia wins parliamentary elections in a landslide. Zoran Djindjic becomes prime minister.

2001

January 3	Croatia	HDZ is defeated by Social Democratic Party in parliamentary elections. Ivica Racan becomes prime minister.
January 12	Bosnia-Herzegovina	Milorad Dodik steps down as prime minister of Republika Srpska and is replaced by Mladen Ivanic.
January 19	Albania Yugoslavia	Albania and Yugoslavia reestablish diplomatic ties.
January	ROM/FYROM	Launching of Albanian insurgency in western part of country.
March 31	Serbia	Milosevic is arrested and transferred to The Hague on June 29.

April 22	Montenegro	Proindependence coalition "Victory Belongs to Montenegro" wins parliamentary elections. Filip Vujanovic confirmed as prime minister.
July 8	Albania	Socialist Party is reelected. Ilir Meta confirmed as prime minister.
July 24	Yugoslavia	Dragisa Pesic becomes prime minister.
August 13	ROM/FYROM	Ohrid Framework Agreement ends Albanian insurgency, and minority rights are improved.
November 16	ROM/FYROM	Parliament amends Constitution and grants more rights to Albanian minority.
November 17	Kosova	Democratic League of Kosova wins parliamentary elections. Bajram Rexhepi (Democratic Party of Kosova) becomes prime minister in a coalition government.
November 18	Bulgaria	Georgi Parvanov (Socialist Party) wins presidential elections.

2002

January 1	Regional	Greece joins the euro zone. Kosova and Montenegro adopt euro as their currency.
February 22	Albania	Pandeli Majko replaces Ilir Meta as prime minister.
March 4	Kosova	Ibrahim Rugova elected president.
April 24	Bosnia-Herzegovina	Bosnia-Herzegovina becomes member of Council of Europe.
July 24	Albania	Alfred Moisiu becomes president.
July 25	Albania	Fatos Nano replaces Pandeli Majko as prime minister.
September 15	ROM/FYROM	Social Democrats win parliamentary elections. Branko Crvenkovski returns as prime minister.
October 5	Bosnia-Herzegovina	Victory for nationalist parties in parliamentary elections.
October 6	Slovenia	European Commission announces Slovenia has met criteria to become an EU member.
October 13	Serbia	Presidential elections are declared invalid due to low turnout.

October 20	Montenegro	Proindependence parties win parliamentary elections. Milo Djukanovic gives up presidency to become prime minister. Filip Vujanovic becomes president.
November 21	Bulgaria Romania Slovenia	Bulgaria, Romania, and Slovenia are invited to start talks to join NATO.
December 1	Slovenia	Janez Drnovsek wins presidential elections and is replaced by Anton Rop as prime minister.
December 8	Serbia	Presidential elections are declared invalid due to a low turnout.
December 10	Croatia Montenegro	Croatia and Montenegro begin talks to demilitarize Prevlaka Peninsula and decide to settle all disputes before International Court of Justice.
December 22	Montenegro	Presidential elections declared invalid due to a low turnout.

2003

January 1	Albania	SAA talks with EU begin.
January 1	Croatia	Croatia joins CEFTA.
January 1	Bosnia- Herzegovina	European Union Police Mission to Bosnia-Herzegovina is deployed.
February 4	Serbia- Montenegro	Federal parliament of Yugoslavia creates State Union of Serbia and Montenegro.
February 9	Montenegro	Presidential election is declared invalid due to low turnout.
February 21	Croatia	Croatia officially applies for EU membership.
March 7	Serbia- Montenegro	Svetozar Marovic becomes chairman of Council of Ministers.
March 12	Serbia	Prime Minister Zoran Djindjic is assassinated.
March 23	Slovenia	Slovenians vote overwhelmingly in favor of EU and NATO membership.
April 3	Serbia- Montenegro	State Union of Serbia and Montenegro becomes a member of Council of Europe.
May 11	Montenegro	Filip Vujanovic wins presidential election.

October 19	Bosnia-Herzegovina	Former president Alija Izetbegovic dies.
November 23	Croatia	HDZ wins parliamentary elections and Ivo Sanader becomes prime minister.
November 30	Serbia	Presidential election declared invalid due to low turnout.
December 28	Serbia	Tadic–Kostunica alliance wins parliamentary elections. Vojislav Kostunica appointed prime minister.

2004

February 26	ROM/FYROM	President Boris Trajkovski dies in a plane crash.
March 3	Serbia	Vojislav Kostunica becomes prime minister.
March 17	Kosova	Violent attacks against members of Serbian minority are eventually contained by NATO.
March 22	ROM/FYROM	Skopje applies for EU membership.
March 29	Slovenia	Slovenia joins NATO.
April 1	ROM/FYROM	SAA enters into force.
April 28	ROM/FYROM	Branko Crvenkovski wins presidential elections. Hari Kostov becomes prime minister.
May 1	Slovenia	Slovenia becomes a member of EU and leaves CEFTA.
June 27	Serbia	Boris Tadic wins presidential elections.
October 3	Slovenia	Slovenian Democratic Party wins parliamentary elections. Janez Jansa becomes prime minister.
October 24	Kosova	Democratic League of Kosova wins parliamentary elections. Ramush Haradinaj (Civic Alliance of Kosovo) becomes prime minister in a coalition government.
November 18	ROM/FYROM	Hari Kostov replaced by Vlado Buckovski as prime minister.
December 2	Bosnia-Herzegovina	EUFOR Althea replaces NATO-led Stabilization Force.

2005

January 1	Slovenia	Slovenia presides over OSCE.
January 16	Croatia	Stjepan Mesic is reelected president.
February 1	Croatia	SAA enters into force.
February 1	Slovenia	Slovenia ratifies treaty establishing a Constitution for Europe.
March	Kosova	Prime Minister Ramush Haradinaj is indicted for war crimes by ICTY. He steps down and turns himself in.
July 3	Albania	Democratic Party wins parliamentary election. Sali Berisha returns as prime minister.
October 10	Serbia-Montenegro	SAA talks with EU begin.
November 25	Bosnia-Herzegovina	SAA talks with EU begin.

2006

January 1	ROM/FYROM	ROM/FYROM joins CEFTA.
February 10	Kosova	Fatmir Sejdiu is elected president of Kosova.
March 11	Serbia	Slobodan Milosevic dies; his trial ends without a verdict.
May 21	Montenegro	Montenegrins vote in favor of independence.
June 3	Montenegro	Parliament declares the independence of Montenegro.
June 5	ROM/FYROM	VMRO-DPMNE wins parliamentary elections. Nikola Gruevski becomes prime minister.
June 22	Montenegro	Montenegro becomes an OSCE member.
June 28	Montenegro	Montenegro becomes a UN member.
September 10	Montenegro	Coalition for a European Montenegro wins first parliamentary elections since independence. Zeljko Sturanovic becomes prime minister.
October 1	Bosnia-Herzegovina	Nationalist parties win general elections. Haris Siladjic becomes member of presidency of Bosnia-Herzegovina. Milorad Dodik becomes prime minister of Republika Srpska.

December 14	Regional	Bosnia-Herzegovina, Montenegro, and Serbia join NATO's PfP program.
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2007

January 1	Slovenia	Slovenia joins the euro zone.
January 1	Regional	Albania, Bosnia-Herzegovina, Montenegro, Serbia, and Kosova join CEFTA. Romania and Bulgaria leave CEFTA.
January 21	Serbia	Tadic-Kostunica alliance wins parliamentary elections. Vojislav Kostunica is confirmed as prime minister.
May 11	Montenegro	Montenegro becomes member of Council of Europe.
July 24	Albania	Bamir Topi becomes president.
October 22	Montenegro	A new constitution is adopted.
November 11	Slovenia	Danilo Turk wins presidential elections.
November 17	Kosova	Democratic Party of Kosova triumphs over Democratic League of Kosova in parliamentary elections. Hashim Thaci becomes prime minister.
November 25	Croatia	HDZ wins parliamentary elections. Ivo Sanader confirmed as prime minister.
December 21	Slovenia	Slovenia enters EU's Schengen Area.

2008

January 1	Slovenia	Slovenia presides over European Union.
January 10	Bosnia-Herzegovina	Bosnia-Herzegovina adopts NATO Individual Partnership Action Plan (IPAP).
February 3	Serbia	President Boris Tadic reelected for a second term.
February 16	Kosova	European Union Rule of Law mission to Kosovo (EULEX) is deployed.
February 17	Kosova	Kosova declares independence from Serbia. United States and several EU countries recognize Kosova.
February 27	Regional	Regional Cooperation Council replaces Stability Pact for Southeastern Europe.

February 29	Montenegro	Prime Minister Zeljko Sturanovic steps down and is replaced by Milo Djukanovic.
April 3	Regional	Albania and Croatia are invited to join NATO at NATO summit in Bucharest. An invitation to ROM/FYROM is blocked by Greece. Bosnia-Herzegovina, Montenegro, and Serbia begin process of Intensified Dialogue with NATO.
April 6	Montenegro	Filip Vujanovic is reelected president.
April 24	Slovenia	Slovenia ratifies Lisbon Treaty.
May 11	Serbia	Boris Tadic's coalition "For a European Serbia" wins parliamentary elections. Mirko Cvetkovic appointed prime minister.
June 1	ROM/FYROM	VRMO-DPMNE wins parliamentary elections. Nikola Gruevski confirmed as prime minister.
June 19–24	Montenegro	Montenegro adopts NATO's IPAP.
July 21	Bosnia-Herzegovina	Former president of Republika Sprska Radovan Karadzic is arrested in Belgrade and transferred to ICTY on 30 July.
September 21	Slovenia	Social Democrats win parliamentary elections. Borut Pahor becomes prime minister.
October 8	Kosova Serbia	UN General Assembly adopts a Serbian initiative seeking opinion of International Court of Justice on Kosova's independence.
December 7	Slovenia Croatia	Slovenia blocks opening of new EU <i>acquis communautaire</i> chapters in Croatia's accession process because of a maritime border dispute.
December 15	Montenegro	Montenegro applies for EU membership.

2009

March 29	Montenegro	Coalition for a European Montenegro wins parliamentary elections and Milo Djukanovic is confirmed as prime minister.
April 1	Albania Croatia	Albania and Croatia officially join NATO.
April 1	Albania	SAA enters into force.
April 5	ROM/FYROM	Gjorge Ivanov wins presidential elections.

April 28	Albania	Albania applies for EU membership.
May 12	Slovenia	Slovenia presides over Council of Europe.
June 28	Albania	Democratic Party wins parliamentary election. Sali Berisha is confirmed as prime minister in a coalition government. Opposition Socialist Party begins a boycott of parliament.
July 6	Croatia	Following Ivo Sanader's resignation, Jadranka Kosor becomes prime minister.
September 11	Slovenia Croatia	Croatia and Slovenia agree to negotiate their border dispute under EU supervision. Slovenia ends its blockade of Croatia's EU accession.
December 22	Serbia	Serbia applies for EU membership.

2010

January 10	Croatia	Ivo Josipovic (SDP) wins presidential election.
February 24	Albania	Socialist Party briefly suspends its parliamentary boycott
March 20	Regional	Regional cooperation summit hosted by Slovenia and Croatia fails to bring together all West Balkan leaders. Serbian officials refuse to attend because Kosova is represented as an independent state.
April 22	Bosnia- Herzegovina	Bosnia-Herzegovina obtains NATO's Membership Action Plan.
May 1	Montenegro	SAA enters into force.
May 1	Albania	Opposition members begin hunger strike to pressure government into a recount of election.
May 24	Albania	The opposition accepts to end its parliamentary boycott under EU pressure.
May 29	Regional	Presidents of Croatia, Serbia, Montenegro, and Bosnia-Herzegovina adopt statement aimed at promoting cooperation and EU accession.
June 2	Regional	Regional summit in Sarajevo reaffirms West Balkan region's EU membership prospects.
July 22	Kosova Serbia	The International Court of Justice (ICJ) issues an advisory opinion that Kosova's declaration of independence in February 2008 does not violate international law.



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