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Fall 2009

The Balkans

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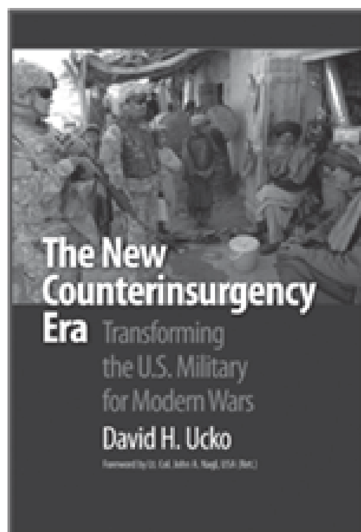

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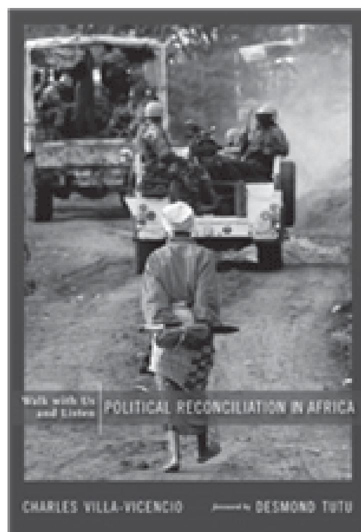

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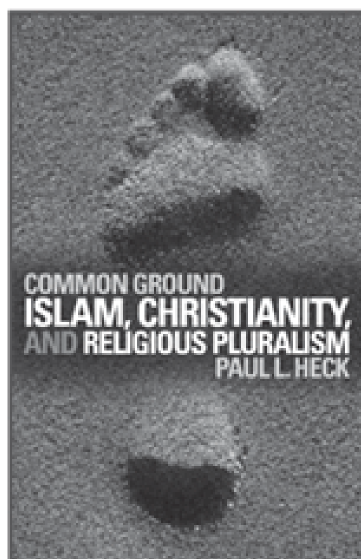

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Despite achieving much progress, Macedonian elites are now faced with the challenges of Euro-Atlantic integration and the Greek objections to its name.

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Dr. Charles W. Ingrao is Professor of History at Purdue University and directs The Scholars' Initiative: Confronting the Yugoslav Controversies (www.cla.purdue.edu/si). He has also been the editor of the Austrian History Yearbook and, since 1997, general editor of the Purdue University Press *Central European Studies* series. His publications include: *The Habsburg Monarchy, 1618-1815*, New York: Cambridge University Press, 1994; *The Hessian Mercenary State: Ideas, Institutions, and Reform under Frederick II, 1760-1785*, Cambridge University Press, 1987; *In Quest and Crisis: Emperor Joseph I and the Habsburg Monarchy*, West Lafayette, IN, Purdue University Press, 1979.
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Leaving Serbia and Serbs too long with their feelings of defeat could only fuel national resentment and a sense of self pity with unforeseen consequences.

From "Unfinished business in the Balkans," ***Pg. 31***

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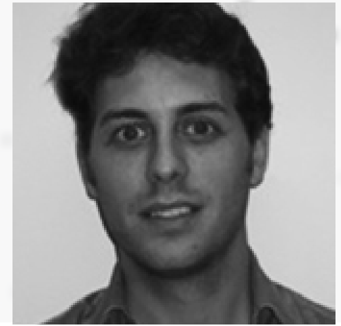

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Macedonia: Challenges ahead

By Zhidas Daskalovski

Contrary to other successor states of the former Yugoslavia, Macedonia has achieved independent statehood and democratic consolidation without major warfare. As with a number of other countries in Eastern Europe, Macedonia's reforms in the last 15 years have been focused simultaneously on two issues—state building and setting up the legal base for a functioning market economy. When Yugoslavia disintegrated in 1991, Macedonia declared independence on November 21, 1991, and today is a democratic multiparty state. During the 1990s, Macedonian political elites clashed with their ethnic Albanian counterparts over the basic idea behind the concept of the state. Following a short conflict in 2001, these elites in Ohrid agreed on a legislative reform that would clarify the rights of the members of minorities in the country. A key concern addressed in the Ohrid Agreement has been the underrepresentation of Macedonian Albanians in the public administration. In 1993, Macedonia became a member of the U.N., although obliged to use the provisional reference the former Yugoslav republic of Macedonia, and hold negotiations with Greece over the differences regarding the name of the country. In 2005, the country became a European Union candidate and applied for NATO membership.

Although Macedonian society is still split along ethnic lines, conflicts have been subdued and interethnic consolidation strengthened with the implementation of the Ohrid Agreement. Despite achieving much progress, Macedonian elites are now faced with the challenges of Euro-Atlantic integration and the Greek objections to its name. Today, Macedonia is once again facing turbulent times in a far from stabilized region. Concerns over the impact of Kosovo's independence on Macedonia have been raised. Developments in Kosovo might negatively affect the interethnic relations in the country. The government will also be under pressure to continue economic reforms and achieve stronger growth levels. Remittances are to further decline in 2009, and many export-oriented companies, especially in the metallurgical and the clothing manufacturing sector, will face lower production levels due to decline in demand in Western economies. The economic crisis and the blockade of Euro-Atlantic integration are likely to increase political instability in Macedonia. In 2009, Macedonia will face increasing tensions in the functioning of the government coalition as the ethnic Albanian coalition partner will be under pressure to leave the government, which is not able to further pursue Macedonia's integration into NATO and the EU.

Following the 2008 NATO Summit in Bucharest, where NATO leaders refused Macedonia an invitation to join the alliance after Greece de facto vetoed the decision in a dispute over the republic's name, Macedonia is faced with insurmountable obstacles in its quest for Euro-Atlantic integration. The NATO blockade was made although Greece was obliged by the Interim Agreement signed with Macedonia under the auspices of the U.N. in 1995 not to block the admission of its northern neighbor to international organizations if it was to apply under the temporary reference "the former Yugoslav Republic of Macedonia," used within the U.N., and it threatened to veto Macedonia's NATO membership application if a 'mutually acceptable solution to the name dispute' was not found. Athens insists Macedonia add a 'qualifier' to its constitutional name to differentiate the country from the northern province of Greece bearing the same name.

Since 2008, Greece has continued its pressure on NATO and EU allies to stall or reject the Macedonian integra-

tion drive until the country changes its name. While the European Council underlined that further steps in the Macedonian progress towards the EU are possible by the end of this year, maintaining good neighborly relations, including a negotiated and mutually acceptable solution on the name issue, remains essential. However, pushing Macedonia to negotiate the non-negotiable, its name and identity, amounts to posing additional and undemocratic criteria for membership to the EU and NATO, a policy that delegitimizes the principle of "conditionality", one of the main instruments of the EU in the enlargement process. Forcing Macedonia to choose between its name and identity and NATO membership amounts to the choice David (Woody Harrelson) and Diana Murphy (Demi Moore) had in *Indecent Proposal*, a 1993 drama directed by Adrian Lyne, when billionaire John Gage (Robert Redford) offered them one million dollars to spend a night with Diana. You can also compare Macedonia's possibility of a choice with that of Faust, the protagonist of a classic German legend, the basis for many literary, artistic, cinematic, and musical works, in which he makes a pact with the Devil. Macedonian citizens instinctively know what is at stake, a majority consistently opting against changes of the name even if NATO membership is at stake in various polls conducted since 2008. Macedonia is a European country and this needs to be acknowledged.

Tampering with citizens' rights to their own identity in a democratic nation is not a good principle. Doing it at this stage in the Balkans is inviting more troubles in the region. Only a settlement that recognizes the Macedonians and respects their national rights will be of lasting value and contribute to stability and tranquility in Southeastern Europe. We should not forget that Encyclopedia Britannica notes that literally, "Europa" is thought to have meant "Mainland"—as an appropriate designation of the broadening, extensive northerly lands that lay beyond, lands with characteristics but vaguely known—clearly different from those inherent in the concepts of Asia and Libya, both of which, relatively prosperous and civilized, were associated closely with the culture of the Greeks and their predecessors. Among the lands north of Greece today is also the Republic of Macedonia. A date for the start of EU accession negotiations and NATO membership would support domestic reformers and stabilize Macedonia's democracy. Democratic presidential and local elections, scheduled for the spring of 2009, will be crucial for the European perspectives of the country. A decision by the EU on a full visa liberalization is expected for Macedonia in 2009.

Obama to hold steady on Balkans

Interview with Thomas P. Melady

IA-Forum: How do you see America's role evolving towards the Balkans with the new administration?

Ambassador Thomas P. Melady: I don't see any great change from the previous administration vis-a-vis the U.S. role in the Balkans. The Bush II administration's goal was to keep the area going in the right direction. And they did a fairly good job of that. The final report in the transition from Bush II to Obama I think laid out the problems.

I felt at the beginning of late November and December, and I'm sure others did too, that for an incoming administration, you needed to look at the possible areas of trouble first. In the overall picture of the Balkans, there are a lot of good things: Slovenia and Croatia had elections that were orderly, Bulgaria is a full-going sovereign state, and the big political prize of positive change is Albania, given the problems of 15-20 years ago. Prime Minister Berisha deserves a lot of credit for giving that kind of leadership in developing a very strong bilateral relationship with the United States.

So the problems of what can go wrong in the Balkans in the beginning of this administration were A) Kosovo, and B) Bosnia-Herzegovina. The Dayton Peace Accord was a good thing and ended the killing, but obviously it's not a permanent document. The way it worked out is now you have the reality of the Republic of Serbska, which wasn't exactly planned that way. It now is a very homogeneous area. Roughly speaking, it's a country based on a culture, and it seems to be doing pretty well. The other part of the Dayton Peace Accord, the Bosnian-Croat understanding, hasn't worked out so well. The Croats are unhappy about it.

Macedonia also remains a challenge as you have two distinct languages and two religions and maybe two cultures. There's been a similar situation in Canada that I've written about. Fifty-sixty years ago, the French-Canadians in Quebec were talking about becoming independent. But now they've got a bicultural country in Canada and no one's talking anymore about independence. It's two cultures and two languages, although basically Christian people. So maybe it will work out in Macedonia.

That said, I don't see any great change with the Obama administration. Remember that the current administration has a lot of major problems on its plate: the winding down in Iraq, what's going to happen in Afghanistan, re-examining our policy with the Russian federation, and so forth. But I do not see any dramatic new initiatives in the Balkans, and I think the thing is to keep the U.S. presence, protect our interests, and so forth. I think the administration is doing a pretty good job at it so far, and there's been an absence of

any serious religious-ethnic conflict in the Balkans to deal with.

What are your thoughts on the recognition of Kosovo?

It was a dramatic event and one day we'll see the authoritative reason why President Bush decided to recognize Kosovo. I think it was ill-advised, that it was premature. But it happened. We can't de-recognize it. One must say now however, that after the recognition, the violence has subsided. I still hear from people on both sides of the fence, and everybody is wondering when will something happen, but fortunately nothing has.

It's been reported that the new NATO Secretary-General said troops in Kosovo will be significantly drawn down over the next four years, by 10,000 in January 2010. Do you think Kosovo's ready for that?

In Kosovo, there was historically deep alienation between the several cultural communities. I'm not going into the question of who caused it and who's right and who's wrong, but there is a deep cultural divide. I think it's in the interest of everybody to keep some external protective force. The alienation there is really quite deep and there is a rocky economic climate with a spike in unemployment. One thing I've studied in the past 15 to 20 years is the role of alienation and where it is deep and where it goes back generations, where it is exasperated by the continuing differences in language and religion and so forth. The problem they have in places like Kosovo, and to a certain extent in Macedonia, is that seeing the old-timers and the peasants and so forth recalls very well all the bad images of the cultural alienation. And after all, the war and the fighting came to an end in 1995, not even a generation ago.

So in the absence of external authority or a strong domestic police force, there could be problems. I would be careful about a significant drawdown.

Some consider that joining the EU can be a continuing bridge toward further peacebuilding in the western Balkans. How do you view their inclusion in the EU and potential benefits to them?

I think that the European Union is a reality, and from what I'm reading and my contacts in the west Balkans, is that they will be moving to closer cooperation with the EU. But I go back to what John Paul II advised his friends in the Polish government, where there were some Poles opposed to joining the EU. He advised against it, saying join the EU and you change them, use your influence.

I think the reality for places like Kosovo, maybe Montenegro and others, it's to certainly maintain their position and what they believe in, but to join the EU. If I were a Balkan leader, I would look for where we could simultaneously maintain our own culture edification and look at the right moment for cooperation of the broader community.

On the other hand, there is no magic anywhere, and we all have to learn that. Maybe for some of these smaller countries, just as in Slovenia and Ireland, they will join the EU and they received the big grants for road construction and other infrastructure projects.

Along those lines, what about economic development? How should external states promote economic development currently in the Balkans?

Well clearly we're past the era of talking about underdeveloped countries there. They're developed, not at the level where their sister states in Western Europe are, but there's no question further development will come through trade and investment and the private sector: breaking down the barriers of trade, the exchange of investment opportunities, and so forth.

I think the reality is they may get some technical advice and from some of our own AID programs, how to set up a business, advice on improving their investment climate so they'll attract investment and so forth. That's the kind of external aid they'll receive, realistically.

How do you see human rights progressing in the Balkans, particularly with the Roma?

There have been some unfortunate situations in regard to the Roma, not only in the Balkans, but Slovakia, for example, and the Czech Republic, and also up in the Baltics. There is a long history of cultural dislike in regard to the Roma, the gypsies. There are clear examples where their rights have been abused and they have the right to the same human rights that we all have, so I think it's the responsibility of the states, but the European Union should be involved as well.

It's really a challenge. How do you practice full integration, how do you bring them into the mainstream? Bringing them into the mainstream requires the will and also resources. In the Balkans there isn't a great deal of wealth, but other countries are working on it. Groups like the European Union can step back and say we have an obligation, and I know the Vatican is speaking to Catholics about moral obligations to help the Roma, and at the same time to respect their culture. Now some would think how do you do that if you've got a culture where children beg? So, as I said, it's complicated and a real challenge.

Balkans Scholar's Initiative works to confront the past

Interview with Charles Ingrao

IA-Forum: What was the genesis of the Scholars' Initiative and how did it progress?

Dr. Charles Ingrao: After the Dayton Peace Agreement was signed, I started traveling to the Balkans. I had followed events closely and was aware of how people in the foreign service and the media had gone into this conflict believing the nationalist myths about "age-old hatreds" without understanding the extent to which these groups had interacted in the past. So I traveled there as a public historian to learn more about conditions on the ground. It didn't take long for me to realize that the U.S. and its allies had succeeded in ending the bloodshed without either the vision or courage to challenge the elites whose rhetoric continued to divide Bosnian, Croats and Serbs into hostile camps.

In my third trip to the region, I met with people at the Serbian Academy of Sciences who were famously known for their nationalism and assisting the rise of Milosevic. I was very surprised that many of its members understood what had happened in the war. They were in denial about some things, but knew about the ethnic cleansing program, the Srebrenica massacre and, particularly, the role that Milosevic had played. Some of them were intent on rebuilding bridges with the West. I proposed to them a dialogue between Western and Serbian historians. The ostensible goal was to bring the two together to reach at least a partial consensus about what had happened, which I visualized as an important first step to discrediting the wartime myths that informed the Serbian public's broad denial of the crimes committed in their name.
Thus, by 1997, I was already starting to apply to former Yugoslavia ideas that I had developed as a Habsburg historian about mythmaking and the exclusion of inconvenient facts in the writing of national histories. It is unfortunate when patriotism impels scholars to tailor their national narrative to suit a specific political agenda. After all, they have the training to sort through accusations and distinguish between fact and fiction—and what remains unproven. Hence my desire to engage Western and Serbian scholars in a collaborative effort to examine the evidence. For example, it was inconceivable to me that anyone seeking to validate his/her status as a scholar could confront the evidence of the massacre at Srebrenica without acknowledging it as fact.

Of course, so long as Milosevic remained in power, repressive measures like the University Law of 1998 made it impossible for Serbian scholars to engage freely in public discourse. Once he had fallen (October 2000), we began the process of bringing together the Serbs and non-Serb Westerners, having our first meeting in the fall of 2001. There were about 25 Serbs and a dozen Westerners. What we needed next was money.

The U.S. Institute of Peace (USIP) encouraged us to apply for funds, but only if Croats, Albanians, Bosnians, and Slovenes would be involved as well. Within a year, we had our second meeting, which took place in Sarajevo. Bosnia's U.N. Mission Chief Jacques-Paul provided the facilities at U.N. Headquarters. There were 65 attendees from 16 countries, including 20 Serbian scholars who were visiting Sarajevo for the first time since the wartime siege. It was here that we began to configure the project so we could get Serbs and non-Serbs working together with a minimum amount of acrimony and a maximum commitment to our scholarly agenda, which involved looking at the evidence, validating or invalidating it, separating the myths from the facts, and also pointing to what additional research needed to be done. While project membership had grown to 135 people by then, more and more scholars kept joining until we had reached a little over 300 in the end. At that size administering the project was more difficult, but we decided that we could not consciously exclude qualified scholars who wanted to participate.

After the Sarajevo meeting, research was divided among 11 teams, each chaired by one Serb and one non-Serb scholar, one or both of whom typically prepared its report. Once a draft was written, it would circulate among team members, then be posted via email to all project participants for criticism and, eventually, final approval. Most reports needed to be revised and resubmitted multiple times before they were deemed ready for release. At that point the German Marshall Fund's Balkan Trust funded a series of press conferences managed by "media liaisons" in each successor state capital. Ultimately, once all 11 reports had been completed, we published them together in the project's "composite volume"—*Confronting the Yugoslav Controversies: a Scholars' Initiative.*

How did your expertise in Early Modern Europe, Habsburg and Central European history translate into working on the Balkans Initiative?

With the end of the Habsburg monarchy, all the different nationality groups rewrote their histories as a national history. That excluded the awareness and sensitivity to the other groups that they had co-existed with. So, they justified the creation of Czechoslovakia and Yugoslavia, and expansion of Romania. In justifying their nation-states, they purposely downplayed the achievements of multiethnic coexistence and of a government that had implemented parliamentary institutions and the rule of law, applied by highly professional civil and judicial officials. Yet, to this day, the national histories of most of the Habsburg successor states speak only of the "oppression" of their state-forming nation. In the process, ethnic and national groups that typically coexisted for long periods without open conflict were now cast as hereditary adversaries who should have never been placed—and oppressed—together in a single state.

Take, for example, the Czechs and Germans, who have very disparate narratives about what happened when they lived together in multi-ethnic Bohemia. What they don't want to talk about—especially the Czechs—is that they got along fine until the rise of mass political parties in the closing decades of the 19th century. The tenden-

tious Czech national narrative that evolved after 1918 rewrote the Thirty Years' War not as a religious struggle between Protestants and Catholics, but between Czechs and Germans. There were Czechs and Germans on both sides, although most of the rebels were German-speakers. Thus, when the Hapsburgs reconquered Bohemia, 20 of the 27 rebel leaders they hanged from Prague's Charles Bridge were German.

Much as Habsburg successor states like Czechoslovakia had created tendentious proprietary national narratives after 1918 to justify their independence, each Yugoslav republic had crafted its own "creation myths" to justify its actions during the dissolution and subsequent war. In this fashion, separate narratives divide societies along ethnic lines. To get the Serbs to recognize what Milosevic did, they need to reexamine their national narrative, which commemorates centuries of suffering, struggle and martial heroism. But they need company. Croats should face the inconvenient facts surrounding the Great Homeland War, including Operation Storm, much as the Albanians should acknowledge a certain level of discrimination before 1989 and crimes committed against Serbs in 1999 and 2004. Nor are Britain, France and the U.S. wholly without blame, particularly in erecting so-called safe areas so that they could avoid intervening to save the people trapped within them and, later, avoid arresting war criminals like Ratko Mladic.

What major surprises did you encounter during the project?

The biggest surprise was how easy it was to work with Serbian scholars. They were arguably the least difficult group to work with. We saw virtually no instance of Serbian scholars saying 'no, this isn't true' or insisting on myths. I was taken by the courage of Serbian scholars in coming forth and producing much of the resulting narrative.

Another surprise was the difficulty of working with academics as academics. They don't meet deadlines very well. They have their own opinions on how to do things and getting them to agree on operating procedures was often a chore, particularly when it involved their own work. And then there were a couple of North American scholars, prima donnas whose outsized egos made life very difficult for Tom Emmert and me. There were also some senior successor state scholars who wondered "Who is this guy—an early modern historian who doesn't even speak our language—that we should follow his lead and instructions?" But I believe that we overcame their doubts and suspicions over time and were able to move forward as a single group of scholars.

Another surprise was how supportive government officials and members of the media were. Among the political leaders no one was more supportive than Stjepan Mesic who told me that "this is exactly what we need" adding later that "You tell me what you want me to do and I'll do it!" The encouragement and enthusiasm of political leaders and journalists, including international media like Voice of America, was really inspiring.

What impact do you hope this will have on young people and academics in the Balkans? How do you think it will be received?

Two things here: First, when you talk to them you are not sure they are just telling you what you want to hear. I could point to a number of students and academics who say "this is important, I agree"—and they're telling you the truth. But you never really know to what extent, behind your back, they're assuming a more parochial position or accusing you of being on the side of one national group or another. With students, there's a self-selection process. Most people come because they're interested and sympathetic, while there are many who are not and, therefore, don't step forward. For the most part the scholars who joined the project supported the idea. Yet many doubtless joined because they wanted to be part of the process, but harbored very intense nationalistic views or, in the case of Albanians, are very sensitive about the need for independence that will invariably trump their commitment to the project. We have to understand that Albanians are a special case because they don't have a secure, legitimate country. So we always realized the Albanians were going to have more difficulty being self-critical because they can't come out and say things at a time when their country is trying to justify its existence. That said, I have to say that the successor state scholars, who comprised a majority of the 300, were polite and professional, and usually cooperative to a point.

Do you think that the SI will have any impact on potential EU accession candidates, perhaps among politicians?

There's very little political will within the EU or the United States to make this a sine qua non for admission. The attitude of the EU for the last decade has been, you admit countries and they will acclimate. You don't say, 'You can't enter until you rewrite your schoolbooks.' The feeling is joining the EU will rub off on the new countries.

On the other hand, one of the motivations we had is that if we could offer people a common narrative that exposes the self-destructiveness of nationalist myth-making, it might assist the process of accommodating the successor states to the more cosmopolitan official mindset prevailing in Brussels and other western European capitals. This would be especially helpful in Serbia, where there are so many myths that need to be confronted. In today's Serbia there is a solid fifth of voters who are not in denial and who fervently embrace Western democratic values. Then there is another fifth who are more nationalistic and less accepting of Western values but who, nonetheless, want to be part of the EU enough to readily make compromises. There's another fifth that resent the West, dislike NATO, and want to get into the EU mainly for the perceived economic and other advantages that it will bring. It is this swing group that has repeatedly put Boris Tadic and his coalition partners over the top at election time. But they are far from committed to the internationalist agenda that drove the Inner Six to begin the process of European integration after World War II. So long as they hold the electoral balance within Serbia, Tadic and his DS cohorts will continue to go slow both in fac-

ing the past and meeting the cultural challenges posed by EU membership.

With our project, we want to get more people in the region, especially in the case of Serbia, to accept the degree to which they were exploited by the industries of hate. This is difficult, but it's necessary, especially for those voters in Serbia who hold the balance between the Euroserbs on one side and the remaining 40 percent of voters who regularly vote for neo-fascist parties like the SRS.

What aspects of the project do you regard as unique?

There were two things that were revolutionary. The first is the common narrative where everybody validates a single set of facts. Even though there were disagreements about some things, there was an overall consensus about the broader narratives and issues that they raised.

The second thing was going to the media and bringing them together with key political, civic and religious leaders in affirming what our scholars are saying.

Public diplomacy was important to its success...

Yes, public diplomacy is very important. You have to sell the idea, but sometimes the idea sells itself so well that you don't have to convert someone like Mesic.

There are a lot of organizations that have been very supportive. Voice of America periodically does stories about the project and its findings. USIP, which initially funded the project, has been very supportive, with one of their grant directors claiming that it was one of their most successful projects. In fact, shortly before the composite volume appeared, supporters in the National Endowment for Democracy actually approached us to offer us money for the Serbian edition.

What are the next steps for the Balkans Initiative?

We have public promotions coming up in Belgrade. We've already done it in Sarajevo, Zagreb, and Pristina. We have more press presentations scheduled for the Serbian edition's appearance in November. B92 [Serbian Media] has promised media coverage, and we will also hope to complete the circle of successor state political leaders by meeting with Slovenian President Turk and Serbian President Tadic.

Media, working with government officials—this is the last opportunity for generating a cross-border discussion where leaders talk about the project findings in the public media in order to get people talking about what their scholars have already concluded and the need to accept this if they are to move forward into the EU.

In my view, the project will have succeeded even if the public doesn't recognize its

findings for 10 or 20 years. For example, maybe the Kosovars won't be able to come to grips with what happened in 1999 and 2004 for several more years until their independence has been universally recognized and the wounds of the war have had a chance to heal. Still, we will not know how successful it is and will never know because 30 years from now some political leader or university could decide to prescribe it as a required textbook. We can't measure success at the current time.

Combating corruption in SE Europe: A principled role for NATO

By Natasha Srdoc

In the heart of the European continent lies an entire region where the rule of law and protection of property rights are subverted and political corruption is rampant. The countries of southeast Europe including Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia, Macedonia, Montenegro and Romania are rated as "repressed" in the categories of protection of property rights, rule of law and perception of corruption according to the 2009 Index of Economic Freedom, jointly published by The Wall Street Journal and The Heritage Foundation. Furthermore, Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia and Montenegro are below the African average in the area of protection of property rights and the rule of law. Yet, some of these post-communist countries managed to join the North Atlantic Treaty Organization (NATO), namely, Romania and Bulgaria, followed by Albania and Croatia.

On the Brussels front, the European Union (EU) hastened Romania and Bulgaria's accession in 2007. Within months, the new EU member states from southeast Europe displayed signs of stalled reforms; in some cases, reforms were simply reversed. In 2008, the EU blocked €800 million in aid intended for Bulgaria as punishment for endemic corruption and sternly warned Romania to push forward with judicial reforms. Croatia is purported to be next in line to join the EU.

This region is also known for its sinister Balkan Route, exploited for smuggling drugs, weapons and trafficking humans from the East to the West. According to Interpol, the central path of this organized-crime trail runs through Turkey, Bulgaria, Macedonia, Serbia, Montenegro, Bosnia and Herzegovina, Croatia, Slovenia, and into either Italy or Austria.

Endemic political corruption and the absence of an independent judiciary provide fertile soil for organized crime to flourish in the region of southeast Europe. Romania's Minister of Justice, Monica Macovei, was dismissed in 2007—just a few months after Romania joined the EU. During her term as the nation's justice reformer, Ms. Macovei implemented bold reforms that set the stage for the commencement of investigations which led to the indictment and consequently the trials of cabinet ministers of Romania's government, including a former prime minister.

Croatian politicians in early 2006 orchestrated the ousting of Vesna Skare Ozbolt, Minister of Justice, a reformer who resisted pressures to appoint a politically favored and corrupt judge as the President of Zagreb's County Court. Mrs. Skare Ozbolt also dared to oppose Prime Minister Sanader's pressures to provide him with a clean title on his villa and in this process reject the original owner's request for property restitution.

Montenegro's Prime Minister Milo Djukanovic is the main suspect cited by Italian prosecutors for his alleged role in the smuggling of cigarettes and money laundering. The trial is scheduled to begin during the summer of 2009. However, as long as he holds a high-level government position, Mr. Djukanovic is protected by immunity in his own country and diplomatic immunity. According to Croatia's weekly Nacional published in May 2009, "The Italian press states that it is very likely that the Italian indictment could be reactivated after Djukanovic steps down from his high state function." On Montenegro, The Economist's Intelligence Unit mentions, "a high level of foreign influence on the government, a shoddy civil service, a government that operates on a system of political patronage and the influence of organized crime and corruption."

Instead of political expediency, which led the EU and NATO to lower their standards, it is time to apply principled solutions in order to eradicate political corruption and organized crime in Croatia and the entire region of southeast Europe. Ignoring this will be at our own peril.

During the period from early 2000 to May 2006, and shortly before Bulgaria joined the EU, there had been "more than 150 contract killings related to organized crime and not a single conviction" according to a report prepared by European Union investigators. Albanian Prime Minister Sali Berisha talked in June this year about "the widespread corruption in Albania's judicial system and government which has exacerbated the country's human trafficking problem."

During the year 2008, in which NATO leaders decided to invite Croatia to begin accession talks with NATO, there were two failed murder attempts targeting investigative journalists writing about political corruption and a separate murder attempt on an entrepreneur exposing political corruption in the construction company owned by Croatia's local government in Zagreb. In October that same year, Ivana Hodak, the 26-year-old daughter of a lawyer defending General Vladimir Zagorec, was murdered in front of her apartment, shot twice in the head. Shortly after Ms. Hodak's assassination, a bomb explosion in Croatia's capital killed Ivo Pukanic, a prominent publisher and bold critic of Croatian Prime Minister Ivo Sanader.

Mr. Pukanic was also one of the key witnesses in Zagorec's case. Prior to his extradition from Austria to Croatia, General Zagorec had mentioned that there were over 80 secret foreign bank accounts of high-ranking Croatian Democratic Union (HDZ) officials who siphoned off funds intended to buy arms during the region's United Nations arms embargo. In March 2009, Mr. Zagorec was sentenced to seven years in prison for embezzling diamonds from the government's safe. The issue of 80 secret foreign accounts with deposits of over $500 million held by high-level HDZ politicians was never brought to light.

A recent bizarre incident was unraveled on June 18, 2009, whereby a Ukrainian cargo plane that took off from Croatia's capital Zagreb and destined for Equatorial Guinea was confiscated in Nigeria. It was reported by Nigerian police that loads of Russian made arms and ammunition were found on board when the plane landed to refuel. The Ukrainian state weapons-export agency claims that the cargo belongs to Croatia. Authorities in Zagreb issued a statement that no cargo planes took off from Zagreb's airport that day. This troubling incident requires immediate attention from NATO and U.S. authorities.

In Croatia, the twin legacies of communist rule and the Balkan wars created an underground power base comprised of organized crime, the intelligence service, military, corrupt government officials and their private partners in crime. Organized crime and criminal capitalism thrives in today's Croatia under the ruling HDZ political party.

Conflicts of interest, money laundering, fixed public tenders and embezzlement of public funds have become the most common means of amassing wealth and have led to the unexplained wealth of government cabinet ministers and politicians in Croatia. The Croatian taxpayers' appeal for accountability and "checks and balances" has been ignored by unscrupulous individuals representing the authoritarian regime. These political figures engage in non-transparent transactions and are unaccountable for their actions.

At his abrupt resignation, Croatia's PM Sanader did not address the problem of corruption as the reason for leaving office. Croatian citizens and taxpayers were alarmed by the fact the Mr. Sanader intends to slip away with the wealth amassed during his time in office. Mr. Sanader's cabinet ministers, who were tainted by corruption and resigned earlier, included Croatia's Minister of Health Andrija Hebrang and Minister of Foreign Affairs Miomir Zuzul. However, they both remain unpunished, active and influential in Croatia's parliament and within the party structure. Although known for the numerous allegations of corruption, Mr. Zuzul was awarded a post as Croatia's chief representative to the Organization for Security and Cooperation (OSCE).

The relevant and compelling question ought to be highlighted—"Who are the individuals that NATO officials talk to in Croatia?" Croatia's compromised cadre just allowed former Minister of Defense Berislav Roncevic to get away free after embezzling at least $1 million. One of the HDZ officials was reported as saying, "Well, Roncevic did not put the money in his pocket. The money went for the (HDZ) party."

Croatia's current Minister of Defense, Branko Vukelic, formerly served as the president of the Brodosplit shipyard's supervisory board and then Minister of Economy when a $6 million money laundering scheme was uncovered by the Austrian Interpol in 2006. The money laundering case remains uninvestigated and unresolved in Croatia's judiciary. This transaction was even guaranteed by the state-owned Croatian Bank for Reconstruction and Development (HBOR)—with four HDZ cabinet ministers (ministers of finance, economy, agriculture and transportation/maritime) on its board of directors. The HBOR is tied to Europe and receives funds from the European Bank of Construction and Development (EBRD).

Croatia's politicians arm themselves with an unbreakable immunity. Croatia's government manipulates the state-owned media Croatian Radio and Television (HRT) to relay its propaganda. The state-owned television is also cannibalizing the commercial television market and spending vast amounts to broadcast programs such as *The Sopranos*, which feature the mob and gangland killings. Paradoxically, taxpayers are paying mandatory monthly dues to be brainwashed.

The recent report by Croatian journalist Hrvoje Appelt, delivered to the parliamentary committee tasked with combating corruption, revealed a troubling trend of political pressure on journalists and privately owned media. This report was sent to the World Bank and the EU institutions.

Regrettably, liberty is under attack by corrupt authoritarian regimes and extremist terrorist groups who are both driven by self-interest to preserve their oppressive rule over individuals. What these groups have in common is no different from former communist regimes that discarded the rule of law, protection of property rights, freedom of speech and individual liberty.

Instead of political expediency, which led the EU and NATO to lower their standards, it is time to apply principled solutions in order to eradicate political corruption and organized crime in Croatia and the entire region of southeast Europe. Ignoring this will be at our own peril. We owe it to the taxpayers and citizens of NATO's member countries and EU member countries who have sent billions of dollars aiding corrupt regimes in the region. We certainly owe it to the citizens who are victimized by authoritarian regimes and political corruption and yearn for justice, liberty and economic freedom.

An important first step would be to confiscate the wealth amassed by government officials—which individuals

could not have earned legitimately through their government income, inheritance or other legal means. This bold message should be sent: Illicit enrichment will not be tolerated. It will be punished.

In following through with this key principle and upholding the rule of law, NATO's leaders can ensure the promise of a new generation of ethical leaders drawn to the call of serving citizens and not attracted by the current trend of gaining illicit wealth and lifetime immunity.

The reverse burden of proof was effectively used in Hong Kong where "... maintaining a standard of living (or the control of pecuniary resources or property) disproportionate to individual's present or past official emoluments made him guilty of an offence, unless satisfactory explanation was given." The relevant legislation made sure to close all the known loopholes and hence included, "any person holding pecuniary resources or property in trust for or otherwise on behalf of the accused or acquired such resources or property as a gift from the accused, such resources or property shall, in the absence of evidence to the contrary, be presumed to have been in the control of the accused."

Moreover, the reverse burden of proof does not require any evidence of corrupt act and prior conviction. It would literally save the lives of journalists and protect victims of corruption who are at risk today because they are obvious targets for knowing too much.

There is abundant evidence indicating that illicit enrichment can not be prosecuted by the judiciaries of countries in southeast Europe. Ordinary citizens and taxpayers of Croatia and the countries in the region understand and welcome the idea of visiting judges and prosecutors from countries with strong rule of law traditions that will have the authority to confiscate the assets of unexplained wealth held by corrupt public officials. The citizens of the Balkan region know that this is the only way to break the vicious circle of corruption and lawlessness which is robbing them and their children of liberty, economic freedom and prosperity.

NATO and the EU institutions need to play a major role in the process of establishing the rule of law in southeast Europe.

Let us remind ourselves that NATO is an alliance of countries committed to fulfilling the goals of The North Atlantic Treaty and "are determined to safeguard the freedom, common heritage and civilization of their peoples, founded on the principles of democracy, individual liberty and the rule of law."

It is time for America's leadership and the new administration to carefully assess the performance of NATO's newer members based on the principles of democracy, individual liberty and the rule of law, which NATO is founded upon. We can no longer afford to look the other way while NATO's structures and its very purpose are weakened by its new members. These unreformed members of NATO openly subvert the rule of law and trample on the principles of the transatlantic military alliance.

President Reagan communicated this important message, "America's foreign policy supports freedom, democracy, and human dignity for all mankind, and we make no apologies for it. The opportunity society that we want for ourselves we also want for others, not because we're imposing our system on others, but because those opportunities belong to all people as God-given birthrights and because by promoting democracy and economic opportunity we make peace more secure."

The EU's illiberal Balkan friends

By Daniel Korski

European diplomats often hold out the EU's work in the Balkans as the bloc's most substantive foreign policy success. From a region torn apart in the mid-1990s, a new one has emerged helped by the "push" of ESDP missions and the "pull" of Euro-Atlantic accession. But after years of engagement, billions of euros spent in aid, and thousands of troops deployed on two of the longest military missions since World War II, European governments may also have helped sustain illiberal democracies across the Balkans.

Ten years after NATO's bombing of Serbia, a new region has emerged. One country (Slovenia) in the former Yugoslavia is already inside the EU, while another (Croatia) is on its way, having already joined NATO. In Serbia's capital Belgrade, from where so much of the region's destruction was planned, Boris Tadic's government is keen to foster greater EU links. Serbia, together with Montenegro and Bosnia and Herzegovina (BiH), officially joined NATO's Partnership for Peace (PfP) Programme in late 2006.

Though tensions remain between Serbia and newly-independent Kosovo, as well as over the un-demarcated border between Kosovo and Macedonia, nobody expects the parties to pick up arms again. The tiny country of Montenegro has had a hopeful few years since independence and once cut-off Albania joined NATO at the Bucharest Summit in April 2008. Only in Bosnia-Herzegovina have ethnic divisions defied one of the world's most intensive, multilateral nation-building efforts.

Illiberal Rule Remains

But these EU successes may be more fragile than many diplomats think. Since the late 1990s, experts have warned that getting the internationally-run protectorates in Bosnia-Herzegovina and Kosovo to produce a self-sustaining kind of statehood will be particularly difficult. Yet focus on these unique cases tends to overlook problems elsewhere in the region.

Across the Balkans, Euro-Atlantic integration has not produced fully-fledged democracies; instead, an illiberal form of democratic rule remains the norm. Though this is an improvement on the region's dictatorial past it may not be a signpost towards fully-fledged democracy—a stage to be passed—but rather a permanent condition caused not only by political traditions and the opportunities caused by the transition to free-market democracy, but perhaps also exacerbated by the nature of the EU integration process itself.

From Montenegro and Albania and further inland to Kosovo, Bosnia-Herzegovina, Macedonia and Serbia, a new post-1990s generation of political leaders has emerged. They espouse liberal ideals, and contest elections. Unlike in Ukraine, they largely respect the formal rules of their constitutions. Different than in Russia, they do not command their economies and cannot draw on an abundant supply of natural resources, obviating the need to tax voters.

Central Asia's leaders often use a KGB-style apparatus to crack-down on even mild forms of dissent; few Balkan leaders would or could even do the same. Many Balkan politicians also enjoy widespread popularity, some even of

the father-of-the-nation variety. The name Milo Djukanovic has become almost synonymous with Montenegro's independence.

But the region's leaders—Sali Berisha in Albania, Milorad Dodik in Bosnia, Nikola Greuvski in Macedonia, Milo Djukanovic in Montenegro—nonetheless resemble their post-Soviet colleagues in a number of important respects. For each one of these Balkan leaders practices an illiberal "strong-man" brand of politics.

To varying degrees, they have sought to centralize powers and to provide benefits to a close-knit group of followers, be they family, clan or party members. Patrimonial behavior—a politics based on family and clan—pervades the region. According to Transparency International, Albania is ranked 85th of a total of 180 countries. In late 2006, a World Bank survey of Albanian government ministers, parliamentarians and officials noted the following problems: endemic corruption, a lack of law enforcement, bribery in public procurement, a lack of government transparency, inappropriate links between politicians and business, and insufficient property rights. The same could have been said of a number of Balkan governments.

Playing the Nationalist Card

Though contemporary Balkan leaders for the most part eschew the vitriol and nationalistic language of their predecessors, many still tend to base their politics on fear of the "other." Examples of this abound.

Though originally an anti-nationalist, Milorad Dodik, the leader of Bosnia's Serb-dominated Republika Srpska entity, often plays on the fear of the "other"—in this case Bosnian Muslims—and is happy to conjure up a state of siege, much like Slobodan Milosevic used to in the 1990s. Last year, the Bosnian Serb leader was seen removing a pennant of the country's flag from a table during an official meeting in the southern Bosnian town of Trebinje. On the table he left two pennants, one with the flag of Trebinje, the other with the flag of the Republika Srpska entity. The message: Bosnian Serbs do not belong in Bosnia.

Further south, Macedonia's Nikola Gruevski has orchestrated similar stunts to build on his party's election-winning form of Slav Macedonian nationalism. Skopje's football stadium was recently renamed in honor of Philip II of Macedon, who ruled in the 4th century B.C. Macedonia's airport and the highway to Greece are already named after Philip's son, Alexander the Great. Statues of Hellenistic heroes are being erected across the capital city. Even in Albania, where there are only few minorities and even fewer sectarian tensions, the recent parliamentary election saw nationalist references trotted out.

Silencing Criticism

Nationalist stunts, however, only work if they are reported uncritically in press. Several Balkan governments therefore maintain an attitude towards the Fourth Estate, which can only be described as illiberal. Freedom House said the biggest drop in press freedom in 2009 occurred in Central and Eastern Europe with journalists murdered in Croatia, and assaulted in Bosnia. Elsewhere in the region, the pressure is less violent, but nonetheless palpable.

In Macedonia, for example, the government has been quick to brand any coverage it deems critical as "antipatriotic", which, according to the U.S. State Department, "impacted freedom of the press." In 2008 Albania's National Council on Radio and Television fined TV News 24, an outlet known for its criticism of the government, a large fee for broadcasting a television spot ridiculing Prime Minister Berisha. In Serbia, journalists also risk prosecution if they print information drawn from official documents. That is what happened to Dragana Kocic and Timosenko Milosavljevic,

journalists for the newspaper Narodnih Novina. In Montenegro courts often assess significant monetary judgments against the media for slander.

As the illiberal playbook also requires the silencing of alternative voices, non-governmental organizations (NGOs) often come under pressure from the authorities. On a scale of 1-7, with 1 representing the least favorable conditions for NGOs, Freedom House gives Serbia a meager 2.75, Albania 3 and Macedonia 3.25. When the Albanian government changed the legal framework that regulates civil society organizations, few NGOs dared to speak up. In Montenegro, Freedom House says the NGO sector "continues to exist in a precarious and competitive environment".

But it is not only how they govern that makes the region's leaders illiberal. It is also how they get elected. Though "free and fair" multi-party elections are conducted throughout the region, even under the watchful eye of the international community electoral fraud remains a persistent feature. In the 2008 Macedonian elections, the European Commission noted instances of suspected fraud such as broken or missing ballot boxes. Elections earlier this year in Montenegro were marred, the OSCE said, by "frequent allegations of electoral fraud and a blurring of state and party structures created a negative atmosphere among many voters". The recent poll in Albania also met with OSCE's disapproval. Positive developments had been "overshadowed by the politicization of technical aspects of the process and violations observed during the campaign which undermined public confidence in the electoral process."

Whatever else they did, the likes of Slobodan Milosevic, Enver Hoxha and Todor Zhivkov may have etched a model of leadership into the Balkan psyche. In a period of economic and social dislocation—the global economic crisis has hit the western Balkans particularly hard—many may also feel nostalgia for the powerful strongmen of old.

A History of Strong-Man Rule

The persistence of illiberal rule in the Balkans will not come as a surprise to many regional watchers. Nor are things necessarily worse than before; many (but not all of) the current crop of regional leaders took power from the first post-Communist generation, who were equally if not more illiberal. But after 10 years of EU engagement and three years after the death of Slobodan Milosevic, the region's officially last strongman, problems persist.

This may partly be explained by local factors—the political opportunities created by transition to democratic rule, the weakness of formal and informal institutions and the history of strongmen, from kings to generals to nationalist demagogues and communist-era tyrants—that have shaped local conceptions of leadership. Whatever else they did, the likes of Slobodan Milosevic, Enver Hoxha and Todor Zhivkov may have etched a model of leadership into the Balkan psyche. In a period of economic and social dislocation—the global economic crisis has hit the western Balkans particularly hard—many may also feel nostalgia for the powerful strongmen of old.

Could the EU's Role Be Negative?

However, could the nature of the EU integration process itself be partly to blame for the region's illiberal turn, not only in the protectorates of Kosovo and Bosnia, but elsewhere in the region too?
Since the Thessaloniki Summit in 2003, when the Balkan states were for the first time given a public promise of eventual EU membership, the EU has tried to use conditionality to promote the technocratic reforms necessary for implementing the aqui communitaire. If a government meets the laid-out criteria, EU-granted benefits (like aid and visa-free travel) are meant to become available. If a government falls behind on its reform agenda, the EU may threaten to delay the accession process or make clear in public that progress towards EU membership is being jeopardized. With the prospect of EU membership popular across the region, the idea is that few politicians would want to be thought of as having threatened their country's chances of EU integration.

That, at least, is the theory. In reality, the EU has struggled to keep to its own criteria. Often times, the lack of reform is met with the development of new criteria. When a country slides backwards, the EU begins searching for new ways to encourage progress. Coupled with the EU's use of diplomatic language (which is often open to interpretation), is its limited engagement with any local actors besides the government of the day, which has left the political space open for self-serving and illiberal elites to operate. In short: though the "pull" of the EU and NATO is often credited with having changed the region, the enlargement processes may be exacerbating illiberal rule by being focused on political leaders, who stand to gain electorally when their countries progress towards EU or NATO membership even if their role may have been limited.

Whatever is keeping the Balkans locked in a time capsule of illiberal rule, the EU would do well to examine how its policies are impacting the nature of the region's leadership. Blocking the accession of the Balkans to the EU would likely result in more back-sliding on reforms. But continuing on the current trajectory may snatch from the EU one of its only foreign policy successes and from the people of the Western Balkans a truly democratic future.

Without addressing the past, reconciliation in the Balkans is fleeting

By Jelena Subotic

What is the proper way to address legacies of past violence? What should new governments do with evidence of mass atrocities committed by the previous regime? The problems of dealing with the past, or "transitional justice," are perhaps nowhere as acute and visible today as they are in the Balkans. The European Union has made it a requirement for the former Yugoslav states to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague as a condition for EU accession. And while both Serbia and Croatia, after much foot dragging, finally agreed to improve cooperation with the city by getting serious about arresting and transferring icty suspects (Croatia fulfilled this requirement in 2006, Serbia has yet to arrest the number one Hague suspect, Bosnian Serb general Ratko Mladic), the memories of the war—the understanding of what caused it, who was to blame, who committed atrocities and against whom—remain deeply contested.

The root cause of this contestation is that, in the Balkans, the past is not yet over. The violence has stopped and the vitriolic rhetoric has eased, but the grand narratives of the nation, ethnicity, history, and territory have not been replaced. Serbia has emerged out of the disastrous era of Slobodan Milosevic a nation feeling wronged, isolated, and in an uncertain place between Europe and Russia. Croatia has made significant steps toward joining the European Union, but this appearance of international success has only solidified a strong feeling of historical vindication and a profound lack of interest in addressing the problematic nature of its "homeland war" and war crimes committed in its pursuit. Bosnia is back in the headlines as a troubling reminder that the Dayton Peace Process did not set the country toward a path of multiethnic coexistence, but much more toward a road to renewed instability, ethnic and cultural distrust, segregation and cycles of mutual reprisal.

In the Balkans, the links between addressing the past and democratic consolidation are direct. In Croatia, there are still significant obstacles to Serb refugee return. Very few Serb refugees have returned to the Krajina region, from which they were expelled during Operation Storm in 1995. This problem—a major one for Croatia's democratic reputation—is a direct consequence of an unchanged national ideology in Croatia, according to which Serbs were deemed enemies, undesirables, and political aliens in Croatia. The Croatian Parliament has recently passed a Resolution on Operation Storm, making it official policy of the Croatian state to remember the operation as a heroic military triumph that made the independent state of Croatia possible. The continuing denial in Croatia of mass human rights abuses committed against the Serb population during Operation Storm solidifies this view of the "homeland war" and Croatian past in the mind of both policymakers and the Croatian public. The lack of official addressing of Operation Storm crimes sends a signal to Croatian Serbs that nothing significant has changed in how Croatia views its past and its treatment of the Serb minority.

In Serbia, the continuation of nationalist ideology is also clear. The virulent reaction of the Serbian establishment and a great majority of its population to Kosovo's declaration of independence in 2008 shows that the post-Milosevic government elites did not level with the Serbian people. They did not make a clean break with the past, reject nationalistic claims or put principles of human rights above claims to a mythical history and national identity. Instead, the new Serbian government—conservatives as well as reformers—have adopted the major nationalist

framework from the Milosevic regime. This framework sees Serbia as a nation wronged, isolated, and unduly punished for crimes it did not commit. Kosovo's independence was then interpreted as another sign of Serbia's great tragedy and historical doom, and not a consequence of its misguided policies of the 1990s.

What the countries of the Balkans so desperately need are courageous political leaders who can say what was done was wrong, this is why, and this is why it can never happen again.

In Bosnia, the consequences of not addressing the past are even more dire. The two ethnic entities—Republika Srpska and the Bosnian Federation—continue to feed each other's intolerance and nationalisms by failing to acknowledge the true nature of the grave human rights abuses committed during the Bosnian war. For many Bosniac politicians and much of the public, Republika Srpska is a quasi state born through genocide and ethnic cleansing. Bosniacs have interpreted the continuing denial of and silence about Bosnian Serb atrocities as further proof that no true coexistence is really possible. At the same time, Bosnian Serbs look at increasingly heated rhetoric by Bosniac leaders as a potential opening for making even more radical claims about Republika Srpska's secession.

So, what explains this ideological entrenchment? Why has it been so very difficult for new transitional governments in Serbia, Croatia, and Bosnia to seriously address the legacies of the past and make a clean break with the previous regime at the top of their agendas?

Four factors help explain this intransigence in dealing with the past.

First, the broadly shared views about past events are fundamentally at odds with one another in different countries of the region. These incommensurable interpretations of the past are not simply disputes about particular sequence of events; they are fundamental disagreements about the nature and character of violence. Bosniacs understand the war as genocide committed by a group (Serbs) against another group (Bosniacs). Bosnian Serbs understand the war as a civil war for political control of Bosnia and a defensive posture against Bosnian Muslim majority domination. For Croats, the war was about creating an independent state of Croatia, what former Croatian president Franjo Tudjman called Croatia's "century's old dream." For Croatian Serbs, the war was about preserving territorial contiguity and political connection with the Serbian homeland. For Serbs in Serbia, the war was about helping beleaguered Serbian brethren in Croatia and Bosnia fight the aggressive and internationally aided Croatian and Bosniac forces.

The problem, therefore, is that there is no one arbiter to adjudicate these disparate and mutually exclusive claims about the past. These versions of history are so different that they simply cannot all be true. A way to potentially resolve this problem is to form a regional truth commission, an independent body that would do research, carry out hearings, listen to witness testimonies, and present evidence of crimes committed in the course of the war. Such an initiative already exists, and is coordinated by three major human rights groups in Serbia, Croatia, and Bosnia. However, as valuable as such an initiative is for future research, its findings will be largely irrelevant if there is no political will on either side to take the results seriously and streamline them into the political process. What the countries of the Balkans so desperately need are courageous political leaders who can say what was done was wrong, this is why, and this is why it can never happen again. So far, the only regional leader with some initiative in this regard has been Croatian President Stjepan Mesic, who made repeated public claims that dealing with the

past is important for Croatia's democratization and Europeanization. The region needs more of this approach, but no other politicians in the region have showed much interest in addressing past violence. In the Balkans, politicians seem to believe that dealing with the past is something that will lose you votes.

The second, interrelated, obstacle to dealing with the past is the very low social demand for transitional justice. Other than in Bosnia, where Bosniac victims continue to put pressure on the government to arrest and prosecute perpetrators of mass atrocities, in Serbia, Croatia, as well as Republika Srpska, there is simply no interest in revisiting the past. In addition to the mutually exclusive interpretations of the past, the critical factor here—and something that makes transitional justice in the Balkans that much more difficult to achieve then in other regions—is that victims and perpetrators no longer live with one another in the same state. As a result of ethnic expulsions, but also the postwar peace settlement, Serbs, Croats, Bosniacs, and Kosovo Albanians, now live in different countries or highly segregated in-country ethnic entities. This nature of the postwar settlement therefore seriously impedes transitional justice efforts, as there are no domestic constituencies with a powerful enough voice to demand justice.

The third problem is the continuing power of old regime loyalists. This has been especially the problem in Serbia and Bosnia, where powerful members of the previous regime—within the military, police, or intelligence service—have seamlessly transitioned into the new government. This deal or "pacted transition" was made in part to avoid political destabilization and a potential coup, but the consequences of allowing former power holders to continue to have sway in some of the most sensitive areas of policymaking—such as cooperation with The Hague tribunal or domestic war crimes trials—significantly impacted the speed and the scope of transitional justice in the region.

Finally, transitional justice, and especially cooperation with The Hague, was—and still is—consistently used as a domestic political wedge issue, a defining difference between various political coalitions who vie for electoral domination. In both Croatia and Serbia, for example, conservatives as well as reformers used the issue of justice at The Hague as a way to paint the political opponents as either too cozy with the international community and therefore "unpatriotic" or too confrontational in relations with the West and therefore also, but in a different way, "unpatriotic." To fulfill international requirements but also to compete for electoral votes, different Serbian and Croatian leaders at different times used the issue of cooperation with The Hague as a business transaction (arrest of war crimes suspects in exchange for international aid or negotiations for EU accession), and not as an issue of justice. This perceived barter seriously undermined the comprehensive process of dealing with the past in the region, and even further lowered the public's interest in addressing the legacy of violence.

There is a direct connection between continuing instability in the region and failures to address legacies of the past. Systematic addressing of past abuses is not just a luxury of consolidated democracies—it is particularly critical for transitioning states, for states coming out of a violent era. It is important to find the truth about past atrocities, societal complicity in them, and political and ideological structures that made them possible. It is important to justify right from wrong politics, to become a "normal" society again. It is important for transitioning states to shift to a new political practice that clearly delegitimizes violence, intolerance, and ethnic hostility as a normal way of conducting policy. Only then can we begin to talk about democratic consolidation and reconciliation in the Balkans.

Unfinished business in the Balkans

By Dragan Stavljanin

After the Dayton Agreement which ended the war in Bosnia, and nine years since the toppling of Serbian strongman Slobodan Milosevic, many believe that the Western Balkans have embarked on an irreversible path towards democratic reform and Euro-Atlantic integration.

There is probably no danger that the Balkans will fall back into the horrendous conflicts we witnessed during the wars of the 1990s. However, there are number of unresolved issues that continue to remind us that the Balkans remain the "powder keg of Europe".

As U.S. Vice President Joe Biden admitted during his recent Balkan tour, establishing real integration among ethnic groups in the Balkans today could prove even more difficult than it was to end the 1990s wars in the former Yugoslavia. There are a lot of unsettled scores, and once-warring nations still disagree over who should be held accountable for the conflicts.

The region has encountered a number of roadblocks in its progress. One of the most troubling issues is the dysfunctionality of the Bosnian state and its tendency to drift toward division and renewed conflict.

The Serb entity in Bosnia (Republika Srpska) has resisted the international community's attempts to strengthen Bosnia's federal institutions, and has even hinted at outright secession to join Serbia, particularly in the aftermath of the declaration of Kosovo's independence. Such a scenario isn't likely in the foreseeable future. But as the former High International Representative in Bosnia Paddy Ashdown pointed out, the Serb leadership in Bosnia is undermining a sense of cohesion in the country.

In many respects, Bosnia does not exist in practice as a unified state, and Republika Srpska is essentially more integrated economically, culturally and in other areas with Serbia than with the rest of Bosnia. Many Serbs in Bosnia feel disenchanted, claiming that the West applies a double standard by preventing them from seceding from Bosnia, while at the same time recognizing Kosovo's independence. Serbs in Bosnia point out "if Kosovo, why not us?" But strong, unabating national sentiments certainly hinder the possibility of placing the Western Balkans on the road to stability and prosperity.

The Kosovo issue is another stumbling block. Although it has been recognized so far by 62 states, including the majority of the Balkan region, and has been admitted into the International Monetary Fund and the World Bank, Kosovo is a far cry from being fully integrated into the international community and becoming a sustainable state. With Russia and China (both opposed to Kosovo's independence) as veto wielding members of the U.N. Security Council, Kosovo probably can't count on becoming a member of the United Nations anytime soon.

Internally, Kosovo has failed so far to implement sweeping reforms aimed at creating a viable state. The reputation of Kosovo as an unsavory region that is rife with organized crime, abject poverty, and fragile institutions remains as a result.

Leaving Serbia and Serbs too long with their feelings of defeat could only fuel national resentment and a sense of self pity with unforeseen consequences.

At the same time, the remaining few dozen thousand local Serbs living in enclaves are adamantly opposed to the idea of Kosovo being an independent state. They refuse to integrate into Kosovo's institutions, insisting it would lead to their position as second class citizens. The failure of Kosovo's institutions to create a genuinely multiethnic society contributes to that fear. In addition, Kosovo's government has failed to create favorable conditions for the return of Serb refugees. U.N. Secretary General Ban Ki-Moon recently noted that the number of returnees to Kosovo is disappointingly small, with only 137 since the start of this year.

Meanwhile, Serbs in the northern part of Kosovo have established parallel structures exerting full control over that region with support from Belgrade, depriving the authorities in Pristina from exercising their the sovereignty over the whole territory.

Serbia has, for its part, pursued a diplomatic strategy of countering Kosovo's independence at every turn, including seeking an advisory opinion from the U.N.'s International Court of Justice. Therefore, the situation is deadlocked. Kosovo's independence, on the one hand, was probably inevitable given the atrocities committed by Serbian forces in the 1990s, as well as Belgrade's failure to create conditions that would have convinced Albanians to perceive Serbia as their genuine homeland. However, Kosovo's independence has not yet contributed to regional stability as the West originally claimed. This does not mean, of course, the situation in the Balkans would have been better off if Kosovo hadn't declared independence, but certainly the current situation is far from being frictionless and calm.

Kosovo is, on the other hand, definitely lost for Serbia, and a growing number of Serbs even believe that Kosovo is an "albatross around Serbia's neck". However, Serbia nevertheless desperately tries to slow down, if not to stall, the process of Kosovo becoming a fully functional and integrated state within the international community. Therefore, the real motive behind Serbia's strategy is probably not to regain full control over Kosovo, but to at least keep a notional link with it or to win some concessions.

For that reason, northern Kosovo is a very important bargaining chip for Serb authorities as a "last line of defense" of Serbian national interests. The strategy aims to keep control over northern Kosovo as long as it takes for the West and Albanians to realize that is not realistic for Pristina to take control of that region and, therefore, it would inevitably join Serbia. The experience from the Balkan wars of the 1990s suggests that almost all ethnic groups or entities which secure control over a certain territory, despite committed atrocities, ultimately succeed in accepting those circumstances as fait accompli, even by the international community. In any case, it means that northern Kosovo will remain in the foreseeable future a frozen conflict similar to those in the southern Caucasus (Nagorno Karabakh, Abkhazia or South Ossetia) with no prospect to move on. Another option is that Serbia would accept reintegration of northern Kosovo into Kosovo's fold in exchange for allowing an independence of the Serb entity in Bosnia.

Some experts and politicians even outside Serbia, including former U.S. ambassador to Belgrade and Zagreb William Montgomery, claim it is a Western illusion to establish fully functioning multiethnic societies in Bosnia and Kosovo with no change in borders. It's somewhat

unrealistic to persuade the Bosnian Serbs to cede a significant portion of the rights and privileges given them under the Dayton Agreement to the central government. In Kosovo, the reality is that most of the Serbs have already left and will not be coming back, as Montgomery has pointed out.

However, redrawing already disputable Balkan borders is fraught with risk. A presumed secession of the Serb entity from Bosnia could cause a war that Islamic extremists from all around the world might be drawn to. If northern Kosovo was to be ceded to Serbia, it wouldn't go unanswered by authorities in Pristina and Albanian extremists. It would trigger a chain reaction. A recent assault on Serbian police officers in volatile southern Serbia (Presevo Valley), mostly populated by Albanians, signals the form of possible reactions. Their political leaders repeatedly claim that if northern Kosovo joins Serbia, then the Presevo Valley should become part of Kosovo. Albanians in Macedonia, who agreed on a federal solution following the civil war in 2001, could withdraw their commitments if Kosovo's borders change.

Therefore, a solution should be sought in a wider context of European integration. However, the persistent Western strategy of trying to induce Serbia to come to terms with its past have proved fruitless so far. The Balkans all but fell off the American agenda after the September 11, 2001 attacks, leaving it to the EU to deal with. Brussels tries to lure the Balkan countries with the prospect of the EU membership, but instead of energizing reforms and bringing the region closer to the bloc, the EU at best only achieves a disappointing status quo in the former Yugoslavia. Under such circumstances, leaving Serbia and Serbs too long with their feelings of defeat could only fuel national resentment and a sense of self pity with unforeseen consequences.

It does not, of course, mean that the European Union and the United States should appease Serbia by necessarily providing territorial concessions even as it fails to fulfill international commitments, such as the capture of war crime suspect Ratko Mladic. However, some kinds of incentives are needed to boost Serbia's perceptions of the West. The EU is plagued with its own problems including enlargement fatigue, but a strategy of placing numerous conditions on Serbia (such as the Dutch protracted refusal to ratify the Association and Stabilization Agreement) while offering only a few sweeteners, like visa liberalization, may prove counterproductive. It could lead to a dampened enthusiasm for EU integration among the Serbian electorate and entice even the moderate, pro-European Tadic government to continue a policy of leaning toward Russia.

Keeping Serbia and other Western countries too long at bay may backfire because before they eventually enter the EU—in a situation with yet unsettled accounts in combination with the detrimental effects of the global economic crisis—resurgent extreme nationalists could fill the void and bring the whole region back into a new cycle of violence. Then, the price needed to be paid would be much higher.

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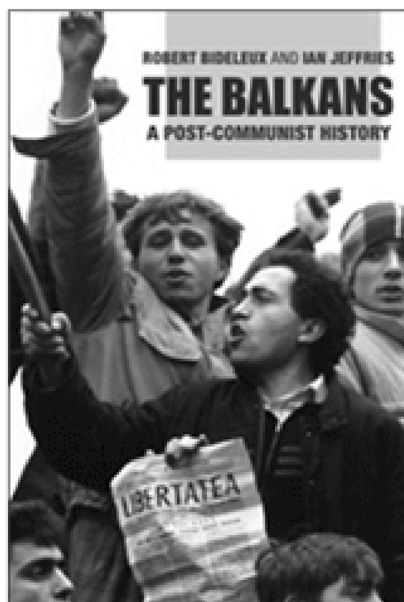

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OSCE working to address unfinished business on inter-ethnic relations

Interview with Jose-Luis Herrero

IA-Forum: As part of its police development programme, the OSCE Spillover Monitor Mission to Skopje has trained new police officers from a variety of ethnic communities. Has this improved inter-ethnic relations in the region?

Ambassador Jose-Luis Herrero: I think the answer is clearly yes. Inter-ethnic relations are now much better than they were prior to the conflict in 2001, and the police are one of the keys to these improved inter-ethnic relations. Before that, the police were perceived by one of the communities, the Albanian community, in a very negative light. This is not to say that today everything is perfect, but the perception of the police has improved tremendously. There are representatives of the minorities in the police, and that makes the trust in the police by the population much better.

What would be the proof? The best case was in the last elections in 2009, where I have to say, the level of police was very good, and it certainly helped the way the elections were conducted. I think that all of the communities benefited from the behavior of the police. As I said, it's not the end of the story. Work remains to be done in terms of equal representation within the police, equality in the police, depoliticization of the police... which we are working on now.

What other initiatives has the mission taken to minimize tensions among ethnic groups?

Many. I would say that almost everything we do has that element to it. Education is one of the key areas. At the beginning, the priority was to guarantee the basic rights of all the communities. Within those rights, one key is to receive education in your mother tongue. That right today is guaranteed all throughout the country, and that has reduced the tension. In exchange, we have a not-so-positive development, that people in schools study separately, and on that we have to work. But the problem that was present in 2001-the lack of the possibility to receive instruction in your own language-is more or less today solved.

There was a need (in the Ohrid framework agreement) to proceed with decentralization in this country. Why? Because the public administration would be closer to the citizens, [which] should also somehow make it more trusted by the citizens, especially those belonging to the minority communities. So there was a long decentralization that has been implemented. Again, progress has been tremendous, yet it is not a finished process at all.

Within the municipalities, the OSCE and the OSCE mission continue to do confidence-building measures. These are very concrete. When particular conflicts emerge, we do play a direct role in generating trust between the parties, to resolve problems in meetings that would otherwise not happen. So this is one of our major contributions. We call those confidence-building measures, and that has been working since 2001 quite intensively.

Basically, as I said, most of the things that we do have an inter-ethnic element to them. We do them always thinking of the inter-ethnic dimension.

Which of the mission's programs has been the most challenging to implement and which has been the most successful?

Everything is challenging; everything is unfinished. The inter-ethnic relations here, although they are much better today, are not yet to the point that we can say that business is finished. In the construction of sustainable democracy, progress has been massive, particularly with the last elections, yet there are still a lot of things to do. It's a very potent problem, depoliticizing the public administration-a problem that is not exclusive to this country. There is a need to really make the public sector neutral politically. This is where we are at the moment and it has proven [to be] very complicated. We work in close cooperation with the authorities, the political parties, and civil society.

Successful programs...Since I have been here, I would mention our contribution to a peaceful, successful electoral process in March of this year. We monitored as a whole mission and we did a lot, from training the electoral administration to dissipating situations of tension that occurred in the field. The public doesn't really know about it, because the public only knows about it when there are problems. When the problems are not there, the public doesn't really know why—they assume it's normal, but in fact it takes a lot of work. So certainly, I would mention the last elections as a success of the civil society, of the electoral administration, of the government, and of our mission as well.

According to Transparency International's 2008 global corruption index, the former Yugoslav Republic of Macedonia ranked among countries with serious levels of corruption. (Macedonia had an average score of 3.6 out of 10 for corruption problems, with a score of five or less indicating serious issues.) What programs and policies need to be implemented to decrease corruption?

There are two ways of attacking this. One is a standard solution: reinforcing the rule of law. We are working at it. I must say, it's a work in progress. We need the courts to be independent, to be professional, and to have the necessary legal instruments to tackle corruption. This is probably the most effective way of fighting it. Then there is also the

development of a political culture of cleanliness, and slowly, the authorities as well as the political party system are becoming aware [of that]. So I would say there are two elements: one is a proper, efficient implementation of the rule of law, and the second is the development of a culture of clean and appropriate practices in the public sector and in private businesses as well.

There has been increased discussion among Balkan leaders of improving economic cooperation in the region. How effective can this be in further stabilizing the Balkans and mitigating tensions?

The question is what comes first: does economic cooperation bring stability, or do you need stability for economic cooperation? The proof is both.
It is difficult to improve economic cooperation in the context of mistrust between neighbors, if diplomatic relations are not going smoothly—or much worse. Yet there is always hope because even at the worst moments of inter-ethnic conflict, all throughout the Balkans business was done even amongst the warring parties, which clearly indicates that economic interests are sometimes well above any other consideration.

Now, I think there is a need to reinforce that. Slowly, the Balkans are entering a period where the tensions are lessened, where hopefully we have left behind forever all of the animosity of the past, and [this] is the moment to start doing business across borders. The situation now is not the best because of the international economic crisis, which means the capacity of countries to engage in economic duty is limited. But any initiative that improves economic cooperation should be welcomed. In doing so, we have to immediately overcome other barriers. Lack of diplomatic relations and barriers to trade, to investment, to cooperation between companies and so on should be progressively eliminated, and the people will slowly see the tremendous benefit of cross-border cooperation. So yes, definitely, one factor for stability is economic cooperation and I think now we are in the stage where there is enough stability for economic cooperation.

As you mentioned earlier, the former Yugoslav Republic of Macedonia saw a great improvement in its political environment with the democratic elections of March 2009 (in contrast to the violent 2008 parliamentary polls). How do you view the political process there?

I think the last elections were an especially good chapter, no doubt about it. We have to continue and we have two overlapping processes: one is the inter-ethnic process and the other is the deepening of democracy. Sometimes they go hand in hand and sometimes they run a little bit against each other. I will try to explain this:

We have an issue which is equitable representation. We are trying to make all the ethnic groups equally represented in the public administration. In order to do so, we are encouraging the introduction of an element that goes beyond professional competition when it comes to public employment-and these two principles are a little bit contradic-

tory. We have to find a way to make them coexist: good governance, clear, competitive processes for public employment, and at the same time, some corrective mechanisms that guarantee the presence of all the ethnic communities in the public sector. This is one of the issues of the political process.

As I said before, another one of the main challenges we talk about all the time is depoliticizing the public administration to make it a neutral, professional, state machine.

In terms of inter-ethnic relations, the different parties have to come to terms with the idea that all grievances have to be put forth within the existing constitutional framework. This is the key: that grievances—legitimate grievances—may exist, yet none of them justify the questioning of the constitutional framework. This is how political problems are solved in consolidated democracies in Europe and elsewhere, and this is now the challenge [here], that all the political actors accept the constitutional framework and decide to work within it.

Kosovo and the Balkans: still global issues

By Richard Gowan

In early September 2008, as Lehman Brothers entered its death-spiral and the financial crisis ran out of control, I was in Kosovo. Wall Street might as well not have existed. With the U.N. Security Council split over Kosovo's future, global issues hardly registered with local leaders and international officials. Even Russia's invasion of Georgia—arguably a response to Western support for Kosovo's independence—inspired little controversy.

Kosovo was not isolated from the world's crises. An April 2009 survey found that three-quarters of the population believed that the economic meltdown was affecting them.[1] But the earlier sense of detachment was emblematic of a wider challenge in the Balkans.

[1] UNDP/USAID, Fast Facts—Early Warning Report 24, April 2009, p3.

The region is yet to resolve many of the tensions left over from the 1990s. Neither the U.S. nor EU can ignore the residual but real risk of new Balkan conflicts. Yet in Washington and European capitals, global concerns like climate change and nuclear proliferation take precedence—especially since President Obama has identified them as personal priorities.

On many of these global issues (plus specific crises like Iran), the West needs active support from Russia, which in turn wants to reassert its influence in South East Europe.

Western-oriented Balkan leaders fear that their interests may be sacrificed for the sake of global deals with Moscow. As Bulgarian analyst Vessela Tcherneva warned just after Barack Obama was elected, "the big chessboard on which the Balkans gained political importance during the past 20 years has disappeared."[2] Their significance reduced, the region's governments seem doomed to inhabit the "periphery of the new world order".

[2] Vessela Tcherneva, "On the periphery of the new world order", www.ecfr.eu, 12 November 2008.

Yet the Balkans cannot be dismissed so easily, even by those who prioritize global governance. The Obama administration's focus on multilateral solutions to global issues has given renewed importance to the United Nations. It has pushed for more action on Iran and North Korea through the Security Council. But the U.N.'s credibility remains, in part, dictated by Balkan questions - more specifically, the debate over Kosovo's future.

Two to three years ago, it seemed likely that Kosovo was about to drop off the U.N.'s agenda. The EU was set to take over responsibility for guiding the province to full statehood. But Russia's decision to defend Serbia's claim to sovereignty through blocking tactics in the Security Council meant that Kosovo's future dominated the U.N. agenda for much of 2008. Last September, Serbia persuaded the General Assembly to refer the territory's status to the International Court of Justice.

This has not prevented Kosovo's journey towards de facto independence. Russia has accepted a technical solution by which the U.N. maintains formal authority in the province but the EU

Far from being at "the periphery of the new world order", Kosovo is a test-case for who will write the rules in a multipolar world—or at least whether the West can advance its values through the U.N.

does all the work. Moscow's actual leverage in the Balkans is limited, not least because Serbia's government sees its future in the EU rather than in Russia's orbit.

But Russia is able to exploit the Kosovo case in debates at the U.N. In recent years, the international organization has become increasingly paralyzed by debates over human rights and sovereignty. Playing on a perception that the West disregards the sovereign rights of poorer nations, Russia and China have stood up for despotic states like Burma and Zimbabwe in the Security Council. In a study published by the European Council on Foreign Relations last year, Franziska Brantner and I showed a gradual but decisive shift away from Western positions on human rights in U.N. forums.[3] Earlier this year, Russia and China blocked the Security Council from interfering in Sri Lanka's bloody civil war.

[3] Richard Gowan and Franziska Brantner, A Global Force for Human.

Russia's defense of Serbia's claim to sovereignty over Kosovo is thus a cornerstone of a much wider strategy for opposing the U.S. and Europe at the U.N. It is sad that Serbia's liberal government is thus associated with tyrannies like Burma. Far from being at "the periphery of the new world order," Kosovo is a test-case for who will write the rules in a multipolar world—or at least whether the West can advance its values through the U.N.

Advantageously for Russia, not everyone in the West recognizes it as such. The EU has split over whether or not to recognize Kosovo, with a minority of members such as Spain and Slovakia refusing to do so. Charles Grant, director of the London-based Centre for European Reform, recently argued that "EU policy in the Balkans is messier than it has been for many years", with Slovenia blocking Croatia's pathway to EU membership.[4]

[4] Charles Grant, "The unraveling of the EU", Prospect, July 2009, p49.

The EU's muddle over the Balkans is rooted in basic political calculations. Spain fears that recognizing Kosovo would encourage Basque separatists. Slovenia and Croatia are trapped in a border dispute. Greece and Macedonia are trapped in a cycle of mistrust that can be traced back to the Balkans wars of 1912 and 1913 (and before). Nonetheless, these local difficulties have revealed broader philosophical and strategic differences.

Foremost among these are divisions over what sort of multilateral power the EU should be.

Should it accept the constraints of collective security and play Russia's game at the U.N.? Or should Europe be forceful in pursuing its interests—especially interests concerning its neighborhood in the Balkans—even if this means frictions in New York?

Realists point out that Russia has not been excessively punctilious in following international law in Abkhazia and South Ossetia. And there is some evidence that a tougher European line on Kosovo might have avoided current difficulties. China's ambassador to the U.N. reportedly told European diplomats that Beijing might have accepted Kosovo's independence if it had not received differing signals from EU governments.

If Chinese officials find the EU's disunity perplexing, their American counterparts find it utterly frustrating. Charles Grant reports that some members of the Obama administration doubt that the EU even has the will to face down any serious violence in the Balkans.[5] This spring, Spain summarily withdrew its troops from the NATO mission in Kosovo. While NATO intends to cut back its overall presence there significantly in the near future, obvious splits over its mission hardly help it deter potential flare-ups.

[5] Ibid., p48.

The divisions over the Balkans should be kept in perspective. Militarily, NATO's future will be shaped by events in Afghanistan, not Kosovo. Politically, most European leaders are far more concerned about Russia's control of energy supplies than its influence in the Balkans. Significant as the Balkans are to negotiations at the U.N., the institution spends more time debating Africa and the Middle East—and it should be judged on its role there.

Moreover, the decision to refer the Kosovo case to the International Court of Justice has reduced tensions over its status: The Court will take until next spring to come up with a judgment, and many diplomats expect its conclusions to be full of legalistic obfuscations.

Yet the basic fact remains: the future of the Balkans is not just a regional issue. It remains a significant factor in global calculations, influencing power politics at the U.N. and Europe's claim to be a force in foreign policy. This is the reality of a multipolar diplomacy. However much enlightened leaders may wish to focus on climate change or nuclear disarmament, the politics of fracture zones like the Balkans will complicate talks.

Many ordinary citizens in Pristina, Belgrade and Sarajevo wish they had heard the last of multilateral diplomacy. They complain (quite rightly) that their leaders seem more concerned with winning points of order at the U.N. than making lives better at home. They believe that some European governments—like the Netherlands, still haunted by Srebrenica—are more concerned with historical crimes than the region's current needs.

It is a truism that there has long been a tragic overlap between Balkan tensions and global rivalries. European leaders must recognize that their global clout will be defined by how well (and coherently) they manage events in the Balkans—and the Obama administration should remind them of this frequently and forcefully. If they fail to engender a lasting peace in the region, it may become a template for an unstable new global order.

New threats to stability in the Yugoslav successor states

By Stefano Bianchini

Can the recent world economic crisis have a dramatic impact on the highly vulnerable economies of the Yugoslav successor states, fuelling new social and political tensions in an area where stability remains fragile? After the wars that devastated Yugoslavia and the political changes that occurred after the year 2000, the Balkan economies strongly increased their trade dependence on EU markets, while their banking assets passed more and more into the ownership of foreign institutes.

Therefore, under the new conditions provoked by the world crisis in 2008, this foreign dependence appears to be particularly susceptible to generating a sharp decline in financial flows. Some indicators seem to support such expectations. For instance, migrants' remittances—which are a crucial source, particularly for the populations of Albania, Kosovo, Macedonia and Bosnia-Herzegovina (BiH)—are diminishing and they are expected to decrease by 10-20% during 2009.

The local banking system following a general attitude that emerged in Europe, has started to be extremely cautious in granting credits while concerns are growing about the future of the Austrian banks, which have a great influence in the area as they seem to be the most exposed. As a result, SME run the risk of closing and unemployment is soaring (around 15% in Croatia; approximately 11% in Montenegro; 40% in Kosovo and in the Federation of Bosnia-Herzegovina: only in March 2009 the layoffs recorded in the Federation of BiH involved 10,000 people and in the RS 4,000; while in Serbia the unemployment rate is close to 14%).
Exports and imports are also declining. In the first months of 2009 the following peaks were reached: -25% for imports and -5.8% for exports in Croatia; -26% for exports and +7% for imports in Montenegro; the total foreign trade of Serbia over the period 2008-2009 recorded -35% in exports and -36.4% in imports, while account deficits and external debts have reached high levels. Even Slovenia, once the best former socialist economy, has recorded bad performances with growth forecasted at -2.7 in 2009.

Inevitably, mass demonstrations have started to take place, encouraging the still weak Unions to mobilize protests. Students in Croatia have occupied their schools for weeks, claiming tuition fees should be cancelled, while a dramatic hunger strike has been carried out for 18 days by a dozen workers in the "Partizan" factory in Kragujevac, Serbia. All of these events are just the first signs of growing social tensions that might have multiple consequences in the area.

Psychologically, in particular, the crisis can have a devastating effect, as people in the area suffered from a long period of instability, sharp economic decline, the destructions of war, and increasing corruption and criminality. At the same time it can nurture great expectations of social and economic benefits, as well as general welfare derived from new relations with the EU and the prospect of inclusion, promised to the region by the European Council in Thessaloniki in 2003.

Still, the impact of the current world crisis in the Yugoslav cultural space is dramatically reminiscent of the economic and social crisis that Yugoslavia suffered during the 1980s. In this context, nationalism remains a tempta-

tion for political leaders who feel their position threatened by the crisis or perceive the crisis as an opportunity for attracting consensus thanks to nationalist slogans.

In other words, the social and economic effects of the crisis might interact with two main negative aspects: 1) the still open issues that the violent dismemberment of the country did not settle, despite the peace treaties signed between 1995 and 2001; and 2) the people's disappointment in the sharp decline of their chances for rapid inclusion into the European institutions, as the "EU fatigue" is giving clear signs that further enlargements will be postponed for a long time. Potentially, the outcome of such a mix of factors is fuel for further destabilization and state fragmentation.

Nationalism, in its extreme interpretations, is widely perceived in the region as an ideology where the civic-ethnic boundaries are vaguely defined. It erupts into violence, particularly during sporting events, with terrorist actions or menaces posed by individuals. Ethnic homogenization is understood as a determinant of group identity and a crucial factor of security to such an extent that separation (including discrimination, rejection, and intolerance against otherness) is considered a key factor for protection, able to guarantee the reproduction of the group and the purity of its culture.

This presumption first encouraged and then legitimized the Yugoslav dissolution. Moreover, this goal was pursued by undertaking the redefinition of territories and local demography through ethnic cleansing, forced assimilations and mass executions in war times. Regretfully, the peace treaties did not put an end to this process. On the contrary, they mirrored opposing state-building visions and, therefore, remained ambivalent in content.

In fact, the Ohrid treaty, with its soft ethnic "consociational approach", suggested an integrative solution for Macedonia; similarly, the Belgrade agreement of 2003 outlined a pattern of integration between Serbia and Montenegro, which was never seriously implemented.

On the contrary, the Dayton Agreement built governance in Bosnia-Herzegovina on the basis of two widely autonomous entities, thus raising expectations that a separation of the two units might become possible as soon as the political conditions would allow.

As for the Kumanovo agreement, the separation of Kosovo from Serbia occurred while U.N. resolution 1244 recognized that Kosovo was still part of the rump Yugoslavia.

In other words, the constitutional arrangements originating from the peace treaties mirrored the ambivalent solutions negotiated with the warlords or in conditions where the dichotomy of "integration/separation" was never clearly settled.

As a result, this dichotomy is still working in the Yugoslav cultural space, perpetuating numerous geopolitical uncertainties. The states in the region perceive their territorial dimension as unstable or temporary. The territorial and maritime dispute between Croatia and Slovenia is an evident example of how the legacy of the war is still operating.

Moreover, the dichotomy of "integration/separation" explains why it is so difficult to find an agreement between the local political parties for reforms, and/or for their implementation, while proposals of decentralization are welcomed with suspicion. This recently happened when the project of Constitutional reform proposed by the Serbian president Tadic got support in Sumadija, a region of Central Serbia, raising strong criticism from conservatives.

In these conditions, the process that led Kosovo to declare its independence has played a key role, being perceived as a precedent. Actually, at the international level, it has already been used in this sense in Georgia. At the local level, the growing tensions within Bosnia-Herzegovina, namely between its entities, offer a vivid example of how opposing visions of state building are still influencing the local political debate whenever the issue of constitutional revision is approached.

The appeal of partition is still an option, nurtured by a significant part of public opinion in Kosovo (particularly in the Northern area, around Mitrovica) and Southern Serbia, in Sandzak and to a certain extent also in Vojvodina.
The Catholic Church advocates a third entity in Herzegovina, which is also an aspiration of the local parties. Separation characterizes de facto the relations between the Macedonian and Albanian communities in Macedonia, where nevertheless the most relevant problem is still posed by the name of the State, which is questioned by Greece. The simultaneous facts that Greece vetoed the inclusion of Macedonia into NATO unless the issue of the name is settled, and that Albania entered into the transatlantic military organization, is encouraging the Albanian parties of Macedonia to increasingly freeze their support of the Macedonian approach to the question, while Skopje has recognized the independence of Kosovo exactly with the hope of getting the support of the Albanians in the dispute with Greece. The outcome is that a powder keg is growing under the indifference of the European public opinion.

Actually, the uncertainties that we have briefly mentioned are underestimated by the EU member states as well. They are inclined to consider them separately from the crisis of the EU integration processes. However, this is politically a great mistake. The Balkans as a whole, in fact, are acquiring a new strategic role. From being on the periphery of U.S. power interests in the Middle East (as was the case in the 1990s), they are now at the heart of the triangle of relations among Russia, the U.S. and the EU as a crucial transit area of energy supplies. Any tension in the area will affect peace and

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stability in Europe, as it happened at the beginning of the 1990s.

It was not by chance that the PM Balladur launched his initiative of a Stability Pact in 1993. Although often neglected today, this initiative led, two years later (before the Dayton agreement had been signed), to 92 bilateral treaties on borders and minority rights among EU potential candidate countries, therefore isolating the virus of nationalism that was violently dismembering Yugoslavia. And again in 2000, the German Minister of Foreign Affairs Joschka Fischer, in his famous speech at Humboldt University, made clear the "deep reasons" that were suggesting the enlargement of the European Union. Among those, the risks stemming from the Yugoslav partition in the framework of the war and peace relations have been repeatedly emphasized.

Such sensitivity has vanished in recent years in the EU member states, as soon as the failure of the referenda on the Constitutional Treaty in France and in the Netherlands marked a deep crisis for European integration. Since then, the EU has faced big difficulties in defining the 2006-2013 budget. The Constitutional Treaty has been abandoned and redrafted into the Lisbon Treaty, which has been rejected by a referendum in Ireland. The institutional "deepening" is therefore jeopardized, while the integration between new and old member states has encouraged most of the latter to express misunderstanding and "fatigue", and propose delays in further negotiations.

All these difficulties had a crucial impact in making EU conditionality weaker than in the past decade. In the Yugoslav cultural space, where stabilization is still a goal to be achieved, the fact that the EU commitment to enlargement might be postponed for years if the Lisbon treaty is not ratified can play a negative role. In other words, the EU strategy of inclusion is the only existing effective carrot that can be offered to that space. Politically and culturally, the EU integration process represents the trend opposed to nationalism and dismemberment; it still offers a convincing framework for peace and development, but this prospect remains valid only as far as the EU member states pursue it.

If they stop or postpone both their own internal changes and the policy of enlargement, the revival of nationalist rhetoric in the Yugoslav cultural space will find new room for development, despite the signing (but not always the ratification) of the Association and stabilization agreements with all the countries of the region.

In this context, the world economic crisis is going to play a crucial role: actually, its effects will be different, as its length sounds more dangerous than its depth. The length in fact can reinforce protectionist policies and the underestimation of the international/globalized impacts. As a result, a "Yugoslav syndrome" might emerge again in the Balkans with new threats to security and stability by causing the efforts made so far to vanish.

Therefore, this is not a time for hesitation. The EU is expected to increase its policies of inclusion by defining a region-wide support package able to promote the development of regional cooperation, without reducing its conditionality. This is the time for reinforcing stability, by urging the local leadership to apply the reforms consistently, giving as much consistency to the EU deepening commitments. Actually, this is the time when the former can be achieved only together with the implementation of the latter.

Please call me by my name

By Robert Hislope

Viewed from afar, the controversy between Greece and Macedonia over the official state name of the latter appears to many a silly issue. Reporters and observers often use terms like "bizarre," "amusing," and "absurd" to describe the issue. Why doesn't the political class in the Republic of Macedonia "get it"? Don't they understand that if they agree to some harmless adjective ("northern," "upper," "new") to qualify "Macedonia" that the opportunities, investments, and jobs of Euroland lay before them? You would have to be crazy to elevate historical identity issues over the future of one's economy, wouldn't you? Similar sentiments of astonishment are often expressed towards the Greeks—how could they be so "Balkan" or "Byzantine" or history-obsessed? Is there not a petty meanness in its economic boycotts and political vetoes over Macedonia's entry into international organizations, such as NATO? And have not the Greeks succumbed to wildly exaggerated fears that a desperately poor and tiny country could pose any type of threat to its territorial integrity?

Actually, this is not such a silly issue after all, but one that is deadly serious. It carries implications for the past (or how we understand and appropriate the past), the present, and the future. Popular opinion in both countries overwhelmingly takes the position of "no compromise." Thus, 84% of the Greek public supports the decision made in April 2008 blocking Macedonia's entry into NATO.[1] The intensity of this issue brought a million demonstrators onto the streets of Thessaloniki in February 1992 and March 1994, and tens of thousands came out among the Greek diaspora in Germany and America opposing the recognition of Macedonia. The same can be said of the Macedonians. Public opinion polls show a figure of 97% supporting Skopje's hardline stance on the issue,[2] and the Macedonian diaspora in Australia and North America has also mobilized to press the case of its homeland. Such national homogeneity on both sides makes it literally impossible for politicians to compromise and thereby make headway. Another indicator of the fervor this issue generates is seen in blog commentaries following a New York Times editorial entitled "Shame on Greece: Messing with Macedonia," dated April 3, 2008. This rather small article spawned 300 posts from outraged Greeks and Macedonians as each side dueled the other.

So "no," this is not a silly issue, nor one for the faint of heart, nor again one for those allergic to history. Real material issues are at stake, as well as the integrity of core identities for both nations. For Macedonia, the very future of this republic is dependent on successfully resolving this issue. Will it be able to join NATO and the EU, even though it has already met all the criteria? (Macedonia earned EU candidate status in 2005). Or will Greece's veto power force it into permanent isolation? If Macedonia is forced to take the latter route, how long will its restive Albanian population accept a minority status with nowhere to go, as it watches the state of Albania move forward with European integration? Already Albanian politicians in Macedonia

[1] "Unbefitting Behavior," Transitions Online, (April 7, 2008).

[2] A February 2009 poll found that 97% of Macedonians favored staying out of the EU if entry involved a change of the state's name. Robert Marquand, "2,300 Years Later, 'Alexander-Mania' Grips Macedonia," The Christian Science Monitor, (March 20, 2009).

have expressed frustration with the lack of progress on the issue. For Greece, the entry of Macedonia into NATO opens up the unenviable position that it may one day be called upon to defend a country whose symbols it regards as a personal affront and as a type of identity theft.

The basic bone of contention between the Greeks and Macedonians concerns which nation may properly use the term "Macedonia." Geographic Macedonia is a region covering 67,000 square miles and parts of 6 different states (Bulgaria, Greece, Serbia, Kosovo, Albania, and all of the republic of Macedonia). It was divided during the Second Balkan War (1913) as Serbia, Bulgaria, and Greece fought over the territory left by the defeated Ottoman Empire. Greece secured the largest section (51%), henceforth referred to as "Aegean Macedonia" (although the Greeks do not accept this term), Bulgaria received "Pirin Macedonia" (10%), and Serbia took control of "Vardar Macedonia" (38%), which is the territory of the independent republic. The "Macedonian Question," i.e., what to do about Macedonia once the Ottomans are removed, was a political conundrum that plagued the Great Powers during the late 19th and early 20th centuries, and was temporarily "solved" in 1913. Given the complexity of this region and its history, it should come as no surprise that both sides hold mutually contradictory national narratives that take great liberty with history, which essentially means they are no different than all other national discourses. The 19th century French thinker Ernest Renan said it best when he noted that part of being a nationalist is getting history wrong. This is true of Greek and Macedonian nationalisms, as it is, for example, of American nationalism. To complain that Macedonian national identity is deliberately "constructed," as many Greeks do, because it is obvious that the nation-building project did not begin in earnest until 1944 when the communists came to power and the "republic of Macedonia" was created, does not let the Greeks off the hook. On the contrary, just because the Greek nation-state project was successful earlier (Greece became an independent state in 1832), does not lessen its constructed quality. Work by the scholars Victor Roudometof (1996) and Peter Bien (2005) in the Journal of Modern Greek Studies, and the work of John Agnew

It is understandable that Greeks are irritated by the recent attempts of Macedonia to appropriate the symbol of Alexander the Great for their airport and national highway, and most recently to erect an expensive, huge statute of Alexander in the main square of Skopje. But irritations do not equal threats, and it is abundantly clear that Macedonia poses absolutely no danger to Greece's territorial integrity.

(2007) in the Annals of the Association of American Geographers, concur that the modern Greek national identity was "invented," "imagined," and "made," rather than organically developed by its own internal logic. The Greek state promoted an integral, ethnically homogenizing nationalist ideology, based on a romanticized Hellenism (sponsored initially by Britain and France), which denied the inconvenient facts of ethnic and linguistic diversity in the region of geographic Macedonia and the tenuous links between ancient and modern Greeks. But this is not to single out Greek nationalism for special criticism. The American state promoted, with particular success among its majority white population, the narrative themes of the "greatest democracy" ever, a country uniquely blessed by God, and a country whose foreign policy has always worked to "liberate" otherwise subjugated peoples. These simplistic ideological statements have formed the core elements of American discourse ever since the proclamations of the Founding Fathers and other important mythmakers like John Hector St. John Crevecoeur and Israel Zangwill. Facts rarely seem to dent the nationalist armor.

Additional key factors that make this issue so intractable are the roles of fear and a sense of persecution, two powerful psychological forces that animate nationalisms around the globe. Greek fears go back to the founding of its state and the understandable worry about hostile encirclement by enemies, particularly Turkey and later communist Yugoslavia. Tito's Yugoslavia exacerbated these fears by deliberately stoking the irredentist aspirations of Macedonians in order to win the loyalty of the local population. The intense propaganda by successive right-wing governments in Athens during and after the Greek Civil War (1946-1949) solidified these fears by successfully equating ethnic Slavs with communism in the popular imagination. The post-communist independence of Macedonia did nothing to dampen these anxieties, as the popular nationalist party, VMRO-DMPNE, flirted with the ideology of irredentism. However unrealizable, ridiculous, and irresponsible VMRO's rhetoric was in the early 1990s, such posturing does fulfill a felt need of Macedonians to respond to the injustices committed by the Greeks during the civil war, when Slavs in Aegean Macedonia overwhelmingly sided with the communist insurgency and paid dearly for that in terms of ethnic cleansing and lost property. These past injustices continue to animate and rankle present-day Macedonians.

So where does all this history, fear, and injustice leave us? How can this issue be resolved? I have two suggestions, both of which are directed at the Greek position. First of all, it is always morally incumbent on the stronger party to compromise. Recall what Oskar Schindler said in the famous movie Schindler's List: "power is when we have every justification to kill, and we don't." The stronger can always crush the weaker, but a greater strength is to forgive the weaker and extend a hand of reconciliation. This is what Greece needs to do. Thus far, Macedonia has made all the compromises—it modified its flag so as not to co-opt the star of Vergina, and it amended its constitution so as to clearly reject all territorial pretensions. The Greeks, in contrast, created enormous economic damage to Macedonia during its boycott in the first half 1990s. And Athens continues to persecute any expression of non-Greek Macedonian-ness in Aegean Macedonia, which is why the Greek state has been criticized by the European Court of Human Rights, the U.N., and numerous other IGOs and NGOs. It is understandable that Greeks are irritated by the recent attempts of Macedonia to appropriate the symbol of Alexander the Great for their airport and national highway, and most recently to erect an expensive, huge statute of Alexander in the main square of Skopje. But irritations do not equal threats, and it is abundantly clear that Macedonia poses absolutely no danger to Greece's territorial integrity.

My second suggestion is that it is always the prerogative of a people to determine what they wish to be called, even if others don't like it. This is certainly the lesson of the African-American struggle for dignity in America. White Americans were generally confused for a long time - they used to be "colored," then they became "ne-

gro," then "black," and now they want to be called "African-American"! Such was the grumbling of whites in the safety of private conversations. The whole process was confusing to a generation of whites who themselves never had to struggle for their identity, but instead could enjoy the status of a hegemonic and privileged group in America. Greece's national discourse towards Macedonia resembles previous periods of white hegemony in America: Dominant groups are often reluctant to accept responsibility for previous periods of repression, and can't fathom why another group would challenge them. Today, millions of Americans choose to live on both sides of the hyphen, celebrating both difference and sameness at the same time. This could not have been imagined in 1950s America. Is it possible to imagine the historic symbols of antiquity being shared between Greece and the Republic of Macedonia? It can all start by simply calling a nation by its preferred name.

Trafficking trends and challenges in Southeastern Europe

By Lynellyn Long

Trafficking reports worldwide indicate that the trade of young women and children for sexual and labor exploitation is on the rise. Global estimates of trafficking in persons range from four to 27 million in 2008 with the ILO estimating some 12.3 million persons. In the Balkans, trafficking for labor and sexual exploitation continues unabated even after the countries have largely demilitarized and are implementing political, economic, and legal reforms to qualify for accession into the European Union. The current financial crisis has reportedly increased trafficking throughout Eastern Europe even as social safety nets to address and prevent trafficking are being downsized or eliminated.

During the 1980s and 1990s, regional conflicts led to new forms of trafficking of women and children for begging, forced labor and prostitution. In some cases, the trade routes that developed over time paralleled and/or masked existing routes for the trafficking of drugs and weapons, which in turn provided sources of revenue for the Bosnia, Kosovo, and Serbian conflicts. As a tactic of war, rape and forced impregnation of women from other ethnic or religious groups undermined traditional values.

Rape, gang warfare, and militia violence created an ethos and rationale for objectifying human life in general and particularly the most vulnerable. Para-militia forces recruited young men and, with ethnic cleansing, large numbers of children growing up in those years effectively became child soldiers. In addition, post traumatic stress (PTSS) from war and in the case of Albania, years of state repression, imprisonment and isolation, may have increased levels of domestic violence and abuse. The long-term effects of conflict and repression placed enormous strains on families and communities even as welfare state systems were being dismantled.

The transition from a socialist planned to market economy created serious economic and social dislocation that left many people from the public sector and from factories and plants in manufacturing, pharmaceuticals, heavy metals, food services, etc., without work. Trafficking, which is demand and market driven, has provided a ready supply of human capital at the lowest price. For those seeking to migrate and/or looking for work, trafficking opened up new markets and employment possibilities, but at the cost of enslavement, debt bondage, and forced prostitution. Although sexual trafficking has been most widely reported, other forms of bonded and slave labor, including forced child and domestic labor, have also increased during the past two decades.

Over time, trafficking in the region appears to be driven less by the demands of military forces and conflict and increasingly, by market forces. Long term ethnic and gender inequalities, migration barriers, and rising youth unemployment are also clear predictors of trafficking streams. The continued treatment of young women and children as commodities to be traded and enslaved in peace time exposed prevailing structural inequalities that are historically rooted. Anomie, outbreaks of violence, abuse, and the effects of PTSS may also become inter-generational. In all cases, the effects of war-related trauma and repression have not been easily resolved in a few short years. In addition, as market driven economies traditionally monetize human capital and labor, notions of personal value and net worth have changed. Faced with violence and abuse at home or violence and abuse abroad where there is the potential for work and a better life, many young people take risks to migrate.

Worldwide trafficking, generating an estimated seven to 10 billion annually for traffickers, is reportedly the fastest growing and second or third largest criminal industry in the world after drugs and arms trade. However, trafficking data primarily derived from police and service providers characteristically cannot confirm these estimates. In the Balkans, both human trafficking and smuggling are lucrative operations, mainly distinguished by the degree of initial volition and involving different supply chains. Drugs, weapons, mineral, and cigarette smuggling also finance regional black markets and in the case of the cigarette trade, fuelled conflict in Macedonia. While these profits may eventually be re-invested in legitimate businesses, they also heighten economic instability and discourage new investors. Tracking financial flows from black markets is inherently difficult. Most traffickers and smugglers do not declare their incomes, pay taxes on all their operations, or keep their financial holdings in just one country. Locally they remain within a cash and barter economy.

Despite a clear definition in the "2000 UN Protocol to Prevent, Suppress, and Punish Trafficking in Persons, Especially Women and Children," interpretations of trafficking and the degree of volition are subject to local interpretation. Notions of rights, particularly those of women and children, are based on local beliefs and customs. Even recognizing that someone is being trafficked requires the willingness of a police or customs officer to recognize that the woman or child did not have the choice to engage in prostitution or other forced labor and derive little to no income from these transactions. In communities where trafficking may be the most prevalent, it is also likely to be the least recognized and reported.

Despite difficulties of enumerating both those trafficked and the profits, many formerly trafficked women, social service providers, and officials suggest that the current financial downturn is generating a growing demand for cheaper labor and sexual services. Most countries in the Balkans, for example, report an increased number of individual bar owners and domestic businesses engaged in trafficking at local levels. Worldwide, the routes and sources particularly servicing a highly lucrative pornographic industry are expanding. Begging rings are also on the rise in many European cities. Another trend is that sexual, child, and forced domestic labor is organized at local levels as micro or small family businesses, which are located in homes, bars, and apartments. In contrast, regional and international traders operate through a network of tourist, transport, and recruitment agencies, including those that offer education, immigration services, and service sector jobs. These operations and movements could be better monitored and shut down but traffickers are also quite adept at moving people around quickly and in producing false identity documents.

In the Balkans, certain routes and flows are well known. Doing business in Albania, Serbia and Montenegro requires assuming high levels of risk and corruption. Overall rankings of public perceptions of corruption are equally high or higher in Croatia and Macedonia. However, reports of actual behavior—the percentage of households that have paid a bribe over the past 12 months, Serbia at 20% and Kosovo at 13%, rank considerably higher than Croatia and Macedonia at 4%. These economies, which reward the survival of the fittest, not surprisingly continue to have well organized trafficking supply chains. Alongside a growing domestic market, Albania, Serbia, and Montenegro have also developed routes and transport systems to move women and children through and from local markets to those of Western Europe. Trafficking flows and routes through the Balkans also originate from Bosnia, Croatia, and Macedonia as well as Romania, Moldova, and Ukraine—and further afield.

Chinese migrants in particular are trafficked through the growing Chinatowns or quarters of the major cities and towns but are equally found in remote rural areas. The initial overseas Chinese community in Serbia was organized under the Milosevic regime with the Chinese Government. These migrants have been trafficked to the manufacturing and garment factories of northern Italy or as far as the U.K. cockle sands. Roma children are more likely to be trafficked than other groups of children. Girls are sold by families and children are recruited

for begging and petty trade. Rural poverty also encourages rural to urban migration that increases the risks of trafficking. Those with the least opportunities but who are most willing to take risks to make money may also be the most vulnerable.

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Debates about how best to counter trafficking remain politicized and divisive. Engaging an unusual coalition of women's groups, human rights' activists, and religious groups, a 21st-century anti-slavery movement is advocating for the abolition of all forms of enslavement and prostitution. For many of these advocates, prostitution is not a voluntary choice. The abolitionist movement is gaining ground as reflected in the legislation and policies of the U.K., Sweden, and the U.S. Yet, even with abolitionist policies in the U.K., Albanian women trafficked there are still more likely to be arrested than their clients and are still more likely to be deported than their traffickers. Others counter that sex work and forced labor will be impossible to extinguish so the focus should be towards improving working conditions, legalizing the operations and regulating the businesses. The Netherlands, for example, legalizes prostitution; while several countries, the ILO and World Bank have tried to increase the transparency of domestic and manufacturing work through managed migration and "Better Work" monitoring initiatives.

Promoting both regulation and abolition, the U.S. State Department Trafficking in Persons (TIP) Report annually ranks country efforts to abolish trafficking and conditions aid flows on these rankings. Balkan countries, including Croatia, Slovenia, and Macedonia, are considered Tier One countries that have taken the necessary steps to address and eliminate trafficking. Most, including Bosnia-Herzegovina, Serbia, Bulgaria, and Romania—are considered Tier Two countries, which are making efforts to address human trafficking in their countries. Two countries—Albania and Montenegro—are considered Tier Two Watch countries, where trafficking may be significantly increasing and/or government commitment to combat trafficking is not proven. Kosovo, which has significant trafficking, is not ranked. No Balkan country or country in Eastern Europe (other than Moldova) is ranked as a Tier Three country. For these countries, the U.S. government and international financial institutions may withhold foreign assistance which is not for trade or humanitarian purposes.

The TIP rankings in theory reflect prosecutions, convictions, length of prison sentences for traffickers; victim protection and prevention efforts; and the magnitude of the problem in that country (e.g. over 100 identified victims determines whether there are source, destination, and/or transit flows). In practice, the TIP rankings mostly correlate with GNP and Western perceptions of governance. Improved rankings also reward the efforts of a country's organized counter-trafficking infrastructure as well as national efforts to conform to the European Community's legal and judicial standards and develop National Trafficking Plans of Action. What is actually happening on the streets and back alley ways is harder to document, so countries which have the most developed and financed prostitution and pornographic industries may rank highest on the list (as Tier One states).

These counter-trafficking debates, rankings, and remedies remain curiously irrelevant to the daily lives and experiences of most young trafficked women and children in the Balkans. Children continue to be forced into begging rings and into prostitution, increasingly for pornography. Young women continue to be abducted, suffer the treachery of friends and family, and sold against their will. Even after exposure to multiple counter-trafficking messages and information campaigns, young women also report having been naive and shockingly unaware or unwittingly adventurous. Every summer they venture off to waitress or dance in the cafes and restaurants of Western Europe. Without good contacts and work visas, they may end up being trafficked. Other women continue to flee domestic violence and abuse at home. Recent graduates, who cannot find work, migrate to Western Europe to find employment and are trafficked along the way. Coming from the Balkans, they face increasing migration barriers. The asylum process has also slowed with reportedly higher rates of rejection than in the past.

Counter-trafficking efforts continue to be in response to a growing business that is looking to increase profit margins and address a rising demand for cheap sex, bonded/slave labor, and pornography. The trafficking business model easily trumps counter trafficking programs that depend on voluntary donations, decreasing government revenues, and political will to change deep rooted behaviors and profit motives with information campaigns. Demand reduction programs primarily focus on changing behavior and practices through legal sanctions, Johns' schools, and in some cases, public humiliation. Yet, the determinants of demand and effective forms of prevention must go beyond changing individual behaviors and practices. Women comprise a growing majority of traffickers and many who survive trafficking are recruited into the business. Indictments, convictions, and prison terms (if long enough) close down one supply chain leaving space for another to open. For young women who have been sexually abused and/or suffered domestic violence, remaining in the business over time becomes the most viable livelihood. Those who exit prostitution and bondage face many barriers including stigma and having to explain periods of uncompensated time. To date, few reparations have been paid and only in a few cases have the proceeds from fines levied directly benefited the complainant.

The Balkan countries have witnessed much conflict and social economic change in recent years. In Bosnia-Herzegovina, Macedonia, Serbia, Kosovo and Albania, the potential remains for conflict and violence to erupt again. Yet, these countries are also starting to develop stronger economies and more stable governments, and to undertake reforms to accede to the European Union. While trafficking is not considered a geopolitical policy concern, the levels and presence of trafficking are important barometers by which to measure levels of violence and the potential for further conflict in a given market and community. If women and children are treated as commodities to be sold at will, then life is devalued and people do not yet believe that their society offers them a secure future. While all the various laws, convictions, and National Plans of Action may improve a country's rank and chances to accede to the European Union, the real challenge for a region that has suffered war and state repression, and is increasingly market-driven, remains in revaluing human life and protecting its human capital.

Time right for new Bretton Woods

Interview with Prof. Delio E. Gianturco

IA-Forum: Are state interventions, as are occurring in the most developed capitalist economies, enacted as a short-term solution to current economic difficulties, or do they signal a major shift in the free market ideology of capitalism?

Prof. Delio E. Gianturco: I think they are short-term solutions and they have not been completely figured out. They have been taken on an emergency basis and the results of those interventions remain to be seen. I don't think they signal a major long-term shift away from free-market ideology, but they do represent a reaction to the realities of an economic depression; they are very similar to those in free market economies of the 1930s where the governments of the Western world undertook a lot of experimentation and different programs that resulted in the reconfiguration of government and a lot of innovation in the problems they faced. I think they are very similar in that respect.

One of the reforms proposed by the G-20 is the role of the IMF. What would be the benefits for developing countries of its potential new role?

To the extent that it has been announced, it seems to me the new role has two elements. One, there is a slightly greater participation in decision making by developing country members of the IMF, which is certainly not revolutionary or radical. Second, there has been a change in the flexibility shown by the IMF in determining the policy responses concerning members receiving IMF assistance. That is, they appear to have rethought the basic plots and requirements of the Washington Consensus and they have responded to the criticism of past years' "one-size-fits-all" approach. I think that part of the reason why they have liberalized the terms and conditions of the loans is that they realized many countries are going to be reluctant to accept IMF funds.

Other than that, I do not see a huge difference except that we have to mention the third major change in the IMF is that the G-7 or G-8 countries seem to be keenly aware that the IMF is going to need more money in order to move forward with an international recovery of the financial system. There is also the issue of whether the IMF is going to sell gold, which would produce substantial additional resources and would not require new money coming in from the member-nations, but that seems to be a controversial issue, which has not yet been decided.

Could the stability of the world monetary system be maintained within

the framework of the current financial architecture, or is there a need for some kind of a new Bretton Woods that will reconcile the differing interests of the G-20 members?

I think there is a need for a new Bretton Woods. The old Bretton Woods occurred more than 60 years ago. More than two-thirds of a century has passed and what was good and adequate in 1946 is not necessary, good or adequate for 2009 and thereafter. There have been such remarkable changes in international finance, I just can't believe that the world can not be better with regard to its jointly owned and operated financial organizations—the architecture, in other words. Indeed, that is the question that I gave to my students this semester in their final examination. They were asked to choose between new agencies or new roles that would be created by a new Bretton Woods. The major proposals that they were asked to address, and that the world should address, are: should there be a new international credit-insurance agency, for example; or a new international regulatory and rating agency; and/or a new international bankruptcy court; and/or a global central bank; and/or a global information agency; and/or a global restructuring agency. There are other possibilities for new architecture, which I think maybe this new crisis will bring forth. I think failure to really consider new architecture is unnecessarily limited. We have not faced this type of crisis since the 1920s, and I think that new institutions and new programs are in order to solve otherwise overwhelming problems.

If there is a need for foreign borrowing in order to finance increased deficit, what would be a better solution: to borrow from the IMF or to borrow from the international capital markets?

If one is able to borrow from the international capital market, on reasonable terms, without the IMF, then it is preferable to do so. But for most countries facing balance of payment crises or banking and currency crises of any sort, their ability to borrow on the private market can be severely restricted. So they are forced in many cases to borrow from the IMF and many have indeed come to the IMF, particularly the Eastern European countries. As part of borrowing from the IMF, it is rare that one borrows from the IMF in isolation from other borrowing. It is probably necessary, and certainly desirable, if you have put together an IMF program to sublimate that in borrowing from the IMF and other official organizations such as export credit agencies and other traditional institutions such as private banking, for example the international capital market. So, again, if one is able to borrow on reasonable terms without the IMF, one should do so; if you have to turn to the IMF, ideally do it in conjunction with other sources.

Is financial liberalization and deregulation desirable for small developing countries?

That is a very good question, as it is certainly arguable that financial liberalization and deregulation are not appropriate for small developing countries under today's circum-

stances. One has to make real progress on economic development and forward movement in the economy before one can successfully implement financial liberalization and deregulation.

How could a small, open economy reconcile the need to fight recession by increasing government spending and the need to maintain a stable, fixed exchange rate?

The IMF's answer in the past has been that you have to be extremely careful and probably not increase government spending during an economic crisis. It is a sine qua non that governments got their spending in order to eliminate deficit spending rather than increase any substantial government spending programs unless they were emergency government programs that were required to keep people from starving. In order to receive IMF loans they needed to have some sort of political and social stability and, therefore, a certain level of government expenditure. Other than that, the whole impetus of the IMF programs was of cutbacks in government activity in order to keep the deficits under control and hopefully eliminate them.

How you reconcile the need to fight recession by government spending is part of the rethinking that the IMF is doing in regard to the Washington Consensus, and how it applies to developing countries. Certainly they appear to, and have endorsed, a certain level of government spending and a deficit balance of payments in order to keep world trade from restricting and becoming drastically reduced.

A common issue present in Southeast Europe is large current account deficits, which lead to increases in foreign indebtedness. What is the best way to resolve this problem?

Perhaps the best way is to get a handle on foreign borrowing, on the part of the government, and to take measures to regulate foreign borrowing by entities that it doesn't control. Secondarily, or perhaps primarily, is to make sure that the borrowing is done on the most favorable terms. That certainly means turning to organizations like the World Bank and the IMF and to a lesser extent export credit agencies and aid organizations that are willing and able to offer capital on more favorable terms compared to commercial investment banks. A country can get lower interest rates by borrowing additionally from multinational development banks and international financial institutions.

Some transitional economies (including Macedonia) have lowered tax rates in order to stimulate investment and job creation. At the same time, government spending has been increased as an anti-recessionary measure, thereby creating an increased budget deficit, which crowds out domestic saving and investment. What is your opinion of these contradictory effects of fiscal policies?

One wants to encourage foreign investment or foreign direct investment and on the other hand, a country does not want an unmanageable budget deficit as a consequence; it ultimately comes down to a balance in those circumstances.

Global crises are usually contagious. Why has the current crisis spread with different intensity in different countries, and what are the prospects for Southeast Europe? Within this context, what is your recommendation for avoiding the worst consequences of the crisis in the countries of the SEE region?

Why crisis spreads in different regions has a lot to do with the factors mentioned above. The result is that the countries have already borrowed in the private financial markets and, therefore, already have a heavy or modest debt burden that they have to meet. Financial crisis spreads with different intensities because each country is different themselves with regard to how they have indebted themselves and the extent to which they appear business friendly and foreign lending friendly.

What are the prospectuses for the countries of SEE was, until the last eighteen months, SEE was regarded as one of the brightest spots to lend money. It appears that too much money has been borrowed and a bubble has developed in lending there and the subsequent perception is that it is now a less attractive place to invest your international capital.

From now until the next eighteen months the prospectus does not look very bright. However, eighteen months or two years will turn into the medium-term and in the medium-term, SEE's prospects will probably be very good in relation to other developing parts of the world. So, within this context, the recommendations to avoid the worst parts of the crisis for the SEE would be to take seriously the prescriptions of the Washington Conesus, even though it may no longer be a living document or one that people pay much homage to. I think the common sense approaches have proven to be, for a much longer time than the past 18 months, a way to solve banking and currency crises. Banking and currency crises, on average, take four or five years to get fully worked out. It is important for countries of SEE to not lose heart if in 18 months they have not solved the difficulties they face. I think that SEE should be looking at laying the foundations for a full recovery in the next two-four years. They are moving in the right direction by signing up with the IMF recovery programs, the World Bank, and other international financial intuitions that swing a lot of weight with the world's private lenders. Finally, if I were the Minister of Finance in one of these countries, I would certainly look to be doing a bit more than is required by the IMF under these circumstances.

What's in a name? Quite a lot actually

Interview with Dr. Harris Mylonas

IA-Forum: The former Yugoslav Republic of Macedonia asserts its right to use and be recognized by its constitutional name, the Republic of Macedonia. Why does Greece object?

Dr. Harris Mylonas: The origins of the Greek objection are historical ones. Every country has a history. Some countries' history is more recent than others. The former Yugoslav Republic of Macedonia is a country that entered the international system fairly recently. Greece entered it in the early 19th century. Greece has been narrating its past as running from Ancient Greece and the Hellenistic times, to Byzantium and then modern Greece. To most Greeks the use of the term "Macedonia"—the name of an ancient kingdom which was a vital component of the Hellenistic times—by Greece's northern neighbor messes with this constitutive story of Greece and seems to imply an entitlement to the entire legacy (and even geography) of historic Macedonia. In this sense it is unsettling to the Greeks.

At the same time, most of the people living in the former Yugoslav Republic of Macedonia—if not all—have been living in a country that has been carrying this name for all of their living memory. It is unsettling for them that their southern neighbor is denying them their right to be recognized with the name they have had for decades. They are rightfully wondering: "Why does Greece object to our name now and not before?"

All of these historical sensitivities of the Greeks having to do with ancient history would not have mattered as much if it wasn't for recent history. What was generally recognized as "Macedonia" in Ottoman times was detached from the Empire and divided between Greece, Bulgaria, and Serbia in 1913 as a result of the Balkan Wars. The territory incorporated by Serbia when the lager Macedonian region was divided was initially named Southern Serbia and later on Vardarska banovina (named after the river Vardar/Axios with runs through it). During World War II, Tito decided to reshuffle the cards in Yugoslavia in order to balance the Serbian influence in the country. One of his moves was to separate Serbia from this southern region. The outcome of this move was the creation of the Socialist Republic of Macedonia within the Socialist Federal Republic of Yugoslavia. Greece repeatedly protested this development, but to no avail.

After the dissolution of Federal Republic of Yugoslavia the situation had changed dramatically. These events meant that the former Yugoslav Republic of Macedonia would become an independent state. These changes in the neighborhood scratched unhealed wounds in many Greeks from World War II as well as—and maybe most importantly—the Greek civil war. Titoist plans to annex parts of northern Greece and a sense of insecurity surfaced in people's minds. In light of this turbulent past, the use of the name "Macedonia", more than just psychologically and historically troubling to Greeks, constitutes a real long term threat of regional destabiliza-

tion because it implies there is a "Macedonia" that should be reunited, and that Greek Macedonia is not legitimately a part of Greece. Thus the constitutional name is an implicit territorial threat notwithstanding official protestations to the contrary.

If the issue continues to be unresolved—at least in the short to intermediate term—what impact do you see it having between the two countries? The region? The EU?

I don't want to think of this scenario. The impact will be that the former Yugoslav Republic of Macedonia will not join the EU and that the dispute will escalate. If we add to this mix the presence of the significant ethnic Albanian minority, which is eager to see the country in NATO and the EU, then we can see how explosive things can become. The events that took place in 2001, when ethnic Albanian guerrillas and state security forces clashed, are still fresh in people's memory.

In other words, the issue has to be resolved. Once this happens, domestic politics in the former Yugoslav Republic of Macedonia will not be driven by this dispute and the citizens will not be responsive to popular nationalist slogans. Leaders will have to focus on the real problems of the citizens and will not be able to strategically manipulate these issues and hide their inefficiencies and corruption behind the veil of "national interest." It is important that all of the Balkan countries enter the EU for economic, security as well as political reasons.

Are the U.N. and EU doing enough to facilitate a deal between the countries?

The U.N. negotiator, Matthew Nimetz, is trying to reach an agreement and has made some important recommendations to the parties involved. However, he can be successful only if two conditions are met: First, the external powers that are involved (primarily the U.S. and the European Union) have to realize that they should use their leverage to push actively for a compromise, not to embolden uncompromising stances. And second, the leadership and the intellectual elites in both countries have to find imaginative ways to reach this compromise respecting the dignity and historical memory of both peoples and take the domestic political risks required to achieve a solution.

Is there common ground you believe that may be reached between the countries? If so, what option (or options) would you prescribe?

What should be clear is that Greece is a member of both NATO and the EU and it has more power in this negotiation than the other party to the dispute. More than just declarations of intent will be required in order to reach compromise. Filing a case against Greece at the International Court of Justice in Hague is definitely not helping.

In the early 1990s, Greece was not ready for a compromise on this issue. Time has gone by and right now the leadership in Greece is ready for a compromise: a name with a geographic qualifier before the term "Macedonia" to be used for all purposes and not just in bilateral rela-

tions between the two countries. A name the U.N. mediator has put forward, and the Greek Government has indicated it would accept is "The Republic of Northern Macedonia." The leadership of the former Yugoslav Republic of Macedonia has also indicated that they want to reach a compromise and hopefully they will accept "The Republic of Northern Macedonia" as a fair compromise. Any name chosen will leave scores of people in the two countries—as well as their co-ethnics abroad—dissatisfied. However, I strongly believe that in the long run relations will normalize and the two people will coexist peacefully within the European Union.

Despite relative stability, Kosovo still far from settled

Interview with Biljana Vankovska

Q: IA-Forum: NATO is scheduled to reduce its KFOR peacekeeping presence in Kosovo from 14,000 troops now to 10,000 over the coming months. The force may even fall to about 2,500 personnel over two years if the right security conditions are in place. Do you think Kosovo is on track for this to occur while ensuring a peaceful environment? If not, what actions need to be taken to ensure stability there?

A: **Biljana Vankovska**: Indeed, at glance, it seems as if the security in Kosovo has improved so much that it is unnecessary to keep a robust military presence any longer. On second thoughts, however, Frankfurter Allgemeine Zeitung rightly reminds us that KFOR, as a NATO-led mission, has already been in place 10 years longer than originally envisaged. Furthermore, according to many experts, this reduction, no matter how 'dramatic' it looks, is far from a point at which there will be no need for an international military presence in this region. To put it bluntly, the international community is stuck there for a very long time.

The current moves are resulting from two main factors. First of all, there is relative stability in Kosovo—a stalemate, if you prefer—and balance of power, as Kosovo is under a weird situation to be governed by a number of actors: Kosovo 'sovereign' government, Serbia's presence in the north, U.N. and EU forces.

The second factor, however, has nothing to do with Kosovo: the military forces are badly needed elsewhere, for example in Afghanistan. After Kosovo's declaration of independence nothing much has changed on the ground - few problems have been resolved in order to be able to speak about "peaceful environment". Indeed, Americans and their European allies, though not all of them, have indeed succeeded in creating a nation, a new state. But it is a week, a failed state, since its very birth. Ten years after the deployment of the robust international administration and military forces, Kosovo is still an unviable state.

Let me mention some of its major problems: de facto division of the territory and lack of sovereign control over the territory and the population exercised by the Kosovo authorities; weak institutions that cannot deliver any of the basic services to the citizens without international support; corruption is "distressingly high" according to the latest report of Transparency International; enormous presence of illegal arms and weapons; high levels of poverty, disrespect of basic human rights and especially of minority rights; and absence of viable economy, etc.

Kosovo President Fatmir Sejdiu has appealed to Kosovo's Serbs to take part in November's local elections. However, there is already resistance by the Kosovar Serbs to participate. Milan Ivanovic, president of the National Serb Council for northern Kosovo, says Serbs won't take part "in the Kosovar, that is to say Albanian, elections because they recognize neither the illegally declared Kosovar state nor the would-be Kosovar institutions." What are the prospects for garnering Serb participation in the elections?

Realistically speaking, with a share of only 7% of the Kosovo population, Serbs are really not a political factor, despite the mechanisms of "reserved seats" in the Parliament or equitable representation in the state bodies. Having lived for a decade in so-called enclaves surrounded by KFOR soldiers who are the only guarantor of their physical safety, one can hardly expect these people do accept the realpolitik logic, forget the past and look ahead. It will take a very long time for such changes to happen, if there are any. But meanwhile, they are caught in "no man's land", between Pristina and Belgrade.

The Kosovo authorities are often unable or unwilling to provide for basic human needs of these people, despite all rhetoric to the contrary. So far, there is a culture of impunity for those who were responsible for assaults, arsons, etc. On the other hand, Belgrade still sends strong political messages on "not giving up the cradle of Serbdom" and gives promises to provide for these people—which they do, but only in the north part of Kosovo, not being able to reach the other Serbian enclaves. My point is, political—electoral—rights are a luxury and farce when one does not have human security.

Human Rights Watch has published a report critical of the situation of the Romas' living in the camps Northern Kosovo. What do you think should be done about the situation?

The minority rights of all non-Albanians in Kosovo is probably one of the major failures of the 10-year international presence in Kosovo. I would agree here with a statement given by the International Commission on the Balkans that "a multiethnic Kosovo does not exist, except in the written pronouncements of the international community". Despite all those tens of thousands "internationals" present in the region for a decade, it is truly shocking to read, for instance, the latest HRW's report that indicates the tragic plight of Romas in Kosovo.

Let me say that this report speaks about "death camps" and lead poisoning among Kosovo's Roma, but the truth is much deeper. First of all, originally these camps were built by UNHCR, though as a temporary solution. So one wonders, how can now anybody there be scandalized by this situation? Let alone the fact that Romas suffer from the lead, the whole Kosovo population suffers from the remnants of the cluster bombs, or depleted uranium, since the 1999 NATO intervention. Romas have been "cleansed" systematically for more than a decade: today it is believed that almost 70% of them have fled Kosovo: most of them to Serbia, there are some still in Macedonia, while many of them face

expulsion from Germany, or other Western countries. For those still in Kosovo, probably most indicative is that the unemployment rate among this population reaches 90%.

What steps are being taken to curb organized crime and corruption in Kosovo? What needs to be done?

In order to talk about organized crime and corruption, there must be a state or, at least, state-like entity. These two phenomena are believed to be impossible without involvement and "blessing" from the officials. In this very case, unfortunately, the internationals were at the same time "state-builders" and responsible for the quality of this state, including its corrupted elites. Artificial products, such as protectorates, remain dependent on their creators. But the dependency creates precisely the things it was supposed to eliminate, such as corruption. It is well known that international representatives, even the highest ones, did not remain immune in this respect. Paradoxically, it seems as if the impunity refers both to the "internationals" and the "locals". As long as there is profit, the local elites either don't want or they can't fight against the corruption. It is not a secret that the EU has been seriously implicated in Kosovos' endemic crime and corruption. Funds for "economic reconstruction" were so far involved in 12 cases of alleged criminal activity and 27 examples of alleged breaches of rules on the awarding of contracts. For instance, the EU and U.N. have abandoned investigations into serious fraud and corruption allegations involving €80 million worth of funding for Pristina airport and the KEK electricity company.

In June 2009, Kosovo was admitted to the World Bank. In spite of this, Kosovo currently has an unemployment rate of about 40 percent, with unemployment among the younger generation around 60 percent. How effective has foreign aid been in assisting development in Kosovo?

Kosovo's admittance to the World Bank would have been a non-event in any normal circumstances. However, it is seen as an important event, but mostly in the light of its struggle for international recognition. In other words, Kosovo's accession to the IMF and World Bank is just a further blow to Serbia's ongoing case before ICJ. Having in mind that the WB and IMF are controlled by Kosovo's main friends and protectors, this is to be seen as a direct message to the international justice system as well—that's why the WB did not even mind waiting for the ICJ to rule on Kosovo's status.
But if we focus on the economic dimension of this event, it's prudent to remember Rothschild's quote of 1790: "Let me issue and control a country's money and I care not who writes the laws." In other words, Kosovo might be now eligible for getting international financial loans, but there is not such thing as a free lunch in these matters. The money will have to be paid back, and it is impossible to imagine how this can happen with a country that practically has no economy. Kosovo may have gained, although incomplete, political independence. But the economic dependency is going to last for many, many decades. In my view it is important to note that due to the global financial crisis and recession that engulfed the most developed states,

the WB and IMF are a part of the global problem, not a solution. So it seems Kosovo is hardly going to benefit under these circumstances.

Let me remind you that according to the second baseline report of the United Nations, released in Geneva in early July 2009, the Kosovo institutions are far from achieving the Millennium Development Goals, including poverty and unemployment control. Almost 44% of the population lives in poverty, while 14% live in extreme poverty. The unemployment rate among the youth of the age between 15 and 24 is 66%. The mortality rate has been reduced in Kosovo since 2000, but it is still the highest in Europe. Having in mind these figures that relate to the aspects of human security in Kosovo, regardless of the ethnic affiliation, it seems that the international community has wasted a lot of money in this province without creating an environment favorable for development and satisfaction of basic human needs.

Now with the looming global economic crisis and emergence of new military crises, one can say that Kosovo is soon to be forgotten - until a new wave of violence and unrest occurs...If these indicators are not taken in the context of early warning and conflict prevention, the future does not look very prosperous.

What do you see as the prospects for Kosovo joining the European Union?

I have just pictured the situation on the ground. Does it look like a prospective member of the EU? Especially, if countries like Croatia or Turkey are still far from the full membership, then Kosovo is a mission impossible. Also, the EU is in a deep crisis and obviously the enlargement process is among its priorities on the current agenda. The question is how much has the EU retained its power of attraction for many of the countries in the Balkan region? In any event, the EU prospects are far away, and Kosovo has problems that have to be resolved now, not in the distant future.

U.S Vice President Joe Biden has visited the Balkans, including a visit to Serbia. How do you view the current U.S. administration's role in facilitating a peaceful Balkans?

According to the U.S. Ambassador to Serbia, Biden's visit was evidence of a "deeper interest" on the part of the new U.S. administration.

The goal of his visit was to reaffirm U.S. support for Kosovo independence declared and to press Serbia to stop undermining it by encouraging non-cooperation by the Serb minority.

Obviously, the new administration in not happy with the way the EU is dealing with the problems in this region. According to some analysts Brussels is indifferent at best, and divided at worst, when it comes to the pressing issues in the Balkans. Five EU states still do not recognize Kosovo. The U.S. has invested too much in the cases of Bosnia and Kosovo, so they don't want to see their projects falling apart. Let me be direct,

Bosnia, Kosovo or even Macedonia have never truly been EU's projects. Yet, the U.S. is today overburdened and preoccupied with more burning crisis in the world, including the domestic economic crisis, so it is hard to see how they can provide for a peaceful Balkans under these circumstances.
The United States may be good at playing chess, but not in peaceful conflict resolution. A part of today's problem in this region is a legacy of the way the U.S. was militarily "resolving" problems. I am not an optimist, unless the local elites finally see that they have a serious homework to do for the best interests of their citizens. But with elites amnestied of war crimes and "ordinary" crimes, this remains a distant possibility.

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Rethinking financial liberalization

Interview with Dr. Nora Lustig

IA-Forum: One of the reforms proposed by the G20 is of the role of the IMF. What would be the benefits for developing countries of its potential new role?

Dr. Nora Lustig: I think a very important potential role is that it will probably turn into a true lender of last resort and the global economy in a way that until now it has not performed this role. What do we mean by that? Well, a lender of last resort usually lends without putting honor or conditions on the borrower based on past performance and on need. And we have seen the beginning of that role of the IMF with a reasonably large flexible credit line. This is very important in terms of what the IMF was recently and what the IMF is beginning to turn into, and it's very important for the developing countries in particular because those which have policies that have been overall considered prudent in the micro economy will have access to resources when they face adverse shocks, over which they have no control and no part. Thus far, the flexible credit line has been requested by Mexico, Poland, and Columbia, and we'll probably see more coming. In addition to the fact that it is without conditions and it's a given on past performance, it's also much larger than what the fund used to lend before. The principal countries would be eligible to borrow as much as they need and as much as a board approves. That is the new face of the IMF, i.e., becoming a lender of last resort.

The second change that is in the making, which creates some interesting questions about the role of the Bretton Woods institutions, is that the IMF may be allowed to lend not just to central banks, but also to ministries of finance. Thus far that was the role that was reserved for the World Bank and the multilateral development banks, and if the IMF begins to do that, then the difference between an institution like the IMF and an institution like multilateral development banks such as the World Bank and the American Development Bank, the Asian Development Bank, etc., begins to be blurred. And I think at some point, there's going to have to be a discussion on what does it mean for the financial architecture of the Bretton Woods institutions, those that are going to be doing the same kind of operations, i.e., being able to lend to countries for budget reports through the ministries of finance.

The third way in which I think the IMF is going to emerge as a different institution in the future, if everything goes as people expect, is a very important change in the governance in which developing countries will have more votes, more voting power, and more influence in the way the IMF performs its duties and responsibilities. That will take a little longer, and I think that's why we have seen thus far that the expansion of resources for the IMF are taking the form of either expansion of special voting rights, which needs to be approved still but people expect that to happen, or the IMF

borrowing from countries by issuing bonds that some countries have already pledged they would lend to the IMF. In the future, if there's reform of its governance, with different large emerging economies participating more within the IMF, you probably have a larger share of resources as paid-in capital. So I think the benefits for the developing world are that they will have more voice, more resources, and more resources that are more flexible and suited to their needs.

If there is a need for foreign borrowing in order to finance increased deficit, what would be a better solution: to borrow from the IMF or to borrow from the international capital market?

If the option to borrow from the international capital market is available, probably all the countries would have preferred to do that. But if that option is not available, as is the case right now, in which capital markets are not functioning properly and they have dried up not because the countries were doing something particularly wrong but as a result of the financial crisis, then maybe it's not really a choice. But countries will probably have very few outlets in which they're going to be able to borrow, and one of them clearly has to be a multilateral institution. And of all the multilateral institutions, the only one that can at this point lend on a large scale is the IMF. Having said that, even with the IMF being able to lend on a large scale, a lot of economists think that if things continue to last, that is, if the recession - the world recession - is longer than people anticipate and the recovery takes more than a couple of years, then resources that people have now considered would be sufficiently large for the IMF, which has been put at around $750 billion, may not be enough.

Is financial liberalization and deregulation desirable for small developing countries?

I think what we've seen is that the kind of financial liberalization and deregulation that has been implemented in the world in the last 10 or 15 years has not been desirable for practically anybody because it is behind much of the mess in which we are right now. Therefore I would say that for either small or large developing countries a different type of regulation and deregulation would have to be in place in order to make the world less prone to fall into the hole, the one we are in right now. The financial market has to perform its main objective of efficient financial intermediation but also be able to price in risk correctly. And what we have seen is that the current setup has not really been one in which the price of risk has been correctly estimated, and that's why we are facing the problems that we are in, both in the advanced countries as well as in the developing countries large and small. In fact, the countries that have been more cautious about what to do with the banking and financial sectors either by design or those which by default are not part of the global banking system—because they are too poor or too isolated—have not been hurt as much by the global financial crisis as those which have pursued more active policies of financial liberalization and deregulation.

If you think about Latin America, which in the past faced recurring crises—some

of them which originated in the financial sector, particularly after financial sectors were liberalized—they learned the hard way that you can't really have a financial sector which is not adequately regulated. And the Latin American governments learned and the people learned the hard way that their taxes had to be used to rescue the banking sector more than once in many other countries. Now this situation actually has not reoccurred in Latin America because the prudent regulation was finally put in place to ensure that such crises would not happen again. But we have seen that it's happened in other parts of the world, particularly in Eastern Europe, and there is some irony because if you look at what's happened in Eastern Europe now, it reminds many people of the 1980s in Latin America. So we hope that after this crisis in particular the lesson will be learned globally and we'll have a structure in which the financial intermediation role will be played but where risk is priced as correctly as possible.

How could a small, open economy reconcile the need to fight recession by increasing government spending and the need to maintain a stable, fixed exchange rate?

It depends. In general, another thing that has been learned in the context of Latin America is that fixed exchange rates are an objective and can be handy to try to combat inflation. But over the years, the disadvantages of fixed exchange rates were seen as larger than the advantages. In this current environment, many of the Latin American countries have been able to cope better because they have flexible exchange rates compared to what used to happen in the past, in which usually fixed exchange rates at some point became unsustainable, and the devaluations happened by default when the governments ran out of reserves and couldn't sustain the currency any longer, and that usually triggered huge crises of confidence.

But if you are in a situation in which you have a fixed exchange rate because you are part of a monetary union or you are pegged to a stronger currency, then the only way that you can reconcile it is if you have access to external borrowing to finance the increased government spending that you want to use for currency cyclical policies. But do it in a sustainable way, because you don't want to accumulate debt that down the road is going to generate a problem that which right now we have not seen—but we could see in the future—in which the sovereign, the government, may run into debt problems and even a debt crisis in the future. To reconcile it, you have to be able to have access to finance today, perhaps through an institution like the IMF. But you also must make sure that in the future you are going to be able to raise the revenue domestically to pay for that debt without causing any traumatic impact on the economy and without having to resort to inflationary spending so that you can reduce the amount of your debt.

G20 offers way forward in financial decision making

Interview with Dr. Terrence Guay

IA-Forum: With significant state interventions in the most developed capitalist economies in mind, are such interventions being carried out as short-term solutions to the current economic difficulties, or do they signal a major shift in the free market ideology of capitalism?

Dr. Terrence Guay: It's probably too early to tell at this point. It certainly appears to be a short term approach that most of the countries around the world are addressing this problem, in using a variety of fiscal and monetary policies to lessen the severity of the economic crisis and some of the policies being used at the international level in terms of regulatory issues.

From the short-term perspective, this is something that would be only temporary. But it depends on a couple other factors. It depends on the life of the economic crisis. The longer it continues, the greater the likelihood that it may represent a shift in approaches to free market ideology, capitalism. If this crisis seems to be alleviating by the end of 2009 as some economists, government officials, and decision-makers think, then I think it will be a temporary situation. If it extends much beyond 2009, it could lead to some rather moderate changes in the approaches toward capitalism that many countries are currently using.

It also depends to an extent on the political systems in a variety of countries. In the United States, the election of Barack Obama represents—at least for many American voters—a shift away from the current version of capitalism that has been here in the United States. There has been a backlash against the banks, financial institutions, investment banks, stock market—some dodgy things going on in these areas in recent years. I think the Obama Administration is moving, at least in some moderate directions, toward a middle-of-the-road economic ideology. I think it's going to take a while for the pendulum to swing back to the more free market system that we saw in the 1990s when the Cold War ended and many countries were being encouraged to adopt American-style capitalism.

Over the last six to 12 months, you've seen a number of countries, particularly in Western Europe, that have been critical of the American approach and have suggested that there may be other alternatives to American style capitalism that other countries should be considering.

In sum, I think what we've seen so far is short-term approaches to dealing with the economic crisis. But if this crisis continues for much longer, I think it could lead to

more permanent changes in the way countries adopt their own capitalist system.

Could the stability of the world monetary system be maintained within the framework of the current financial architecture or is there is a need for some kind of a new Bretton Woods which will reconcile the differing interests of the members of the G20?

Such a system is certainly possible and in many cases, even desirable. Clearly the world has moved well beyond the G7 economic situation and the decisions made by the powers that are part of the G7. A G20 is a much more realistic group that represents the other rising economic markets that have become much more influential in the global economy over the last couple of decades. It makes a lot of sense to have them included in a lot of the international decision-making in respect to economic issues.

This is a situation where political obstacles are going to be a major factor. Countries that are accustomed to structuring the global economic and financial architecture of the world are going to be very reluctant to being removed from that level of power. The United States is going to be somewhat reluctant but also the Europeans and Japanese. But it does reflect the political realities of the time—to keep a China or India or Brazil or South Africa away from the major decision-making is going to make it difficult to persuade those countries to agree with decisions.

Not just the G20, but other major financial institutions and organizations will need to be restructured as well, like the IMF and World Bank, which play pivotal roles in dealing with global economic issues. In particular, when these organizations are structured, who leads these organizations - the tradition of having an American head of the World Bank, a European as Director of the International Monetary Fund. This is pretty hard to sell in a world where so many other countries are now major powers in the global economy. So the current financial architecture is going to have to change in relatively fundamental ways. The G20 may not be the best approach to do this, but it is much more legitimate in the eyes of many of the world than the way the current financial institutions have been structured.

Are financial liberalization and deregulation desirable for small developing countries?

I'm not sure there is one correct answer to that. In general, financial liberalization and deregulation provide a lot of benefits. They provide for greater competition in financial markets, provide for the inflow of foreign investment which is desirable for many developing countries whether large or small. And it can lead to other liberalizing effects in other parts of economies.

For many economists, they see financial liberalization and deregulation as being a stepping stone toward greater efficiencies to other parts of the economy. That isn't to say

that countries shouldn't be liberalizing and deregulation without any consideration of the impact of what these changes will bring to their economies, in particular for smaller countries that may not have the financial institutions in place in respect to oversight and regulation and transparency and appropriate laws and regulations. This could be very damaging to their economies as in the late 1990s with the Asian financial crisis, and clearly over the last year as some smaller countries such as Iceland have seen.

I think the question is one of having a proper level of regulation to go along with the liberalization that should be taking place in many of these smaller countries. Reducing openness, making it more difficult for investment, financial flows, stock market portfolio investments, other more traditional banking and commercial loans...it certainly makes sense for small countries to be doing that. But it also makes sense for them to adopt such things as capital controls if they think it's in their best long-term interest to do that.

Capital controls in some cases can reduce the wild swings of money moving in and money moving out can lead to destabilizing situations in many smaller countries. So there might be certain instruments that governments can use to try to attract the best aspects of financial liberalization and deregulation while minimizing the wild swings that can go along with that when other institutions in the investment world rush into a country and leave a mess behind once crises necessitate that.

Some transition economies, including Macedonia, have lowered tax rates in order to stimulate investment and job creation. At the same time, government spending has been increased as an anti-recessionary measure, thereby creating increased budget deficits, which crowd out domestic saving and investment. What would be your opinion on these contradictory effects of the fiscal policies?

Both of these things have increased budget deficits, which may crowd out domestic saving and investment. But for many countries, this is essential given the current circumstances that these countries and the global economy find itself in. Decreasing tax rates makes a lot of sense if you're trying to stimulate your economy, as does increased government spending—at least on a short-term basis.

I think we're seeing a return to a more Keynesian kind of economic policy where the use of fiscal policy issues instead of monetary policy—which had been much more influential over the last 25 to 30 years beginning with Thatcherism and in the United States and which then moved into other places around the world—and economists became rather dismissive of using fiscal means as the proper way of stimulating your economy. But many countries, especially the United States and Western Europe and Japan, are using similar types of policies to try to stimulate their economy. So whether you're a small or large country, the main issue is to improve the economies of all of these countries, at least in the short-term.

In the long-term, it's going to require trying to return these budget deficits to a more reasonable level or even provide surpluses at some point in time which will be necessary in a lot of countries. But there are a lot of political obstacles to doing that in some countries facing big fiscal challenges in the coming years, even regardless of the current financial crisis. They have aging economies, a need for greater funds to deal with health care, pensions and retirement. At some point, these countries are going to have to make some very important decisions in terms of whether they are going to increase the tax rate that they had recently reduced or find ways to cut spending on these major government programs, and that's going to require political solutions. In theory, those should be able to get done at a later point in time, once their economies have stabilized and returned to a more growth oriented kind of environment. Assuming the government is responsible and citizens are responsible going forward, the current deficits that are being run-up and public debt being run-up in countries around the world should be able to be reduced in the future. But again, it's going to require some pretty serious political will to go ahead and make those very hard decisions. But that will come at a later point in time.

Everything up for grabs in wake of financial crisis

Interview with Dr. Matthias Matthijs

IA-Forum: Are state interventions, as are occurring in the most developed capitalist economies, enacted as a short-term solution to current economic difficulties, or do they signal a major shift in the free market ideology of capitalism?

Dr. Matthias Matthijs: Will significant state intervention signal a real shift away from the free market ideology we've seen over the last 30 years? I would like to believe it does. However, it seems that the politicians are not convinced of this yet. We could probably compare the current age with the 1930s or the 1970s where it seemed to be the case that there were the new ideas freshly lying around and sort of the whole new political coalition waiting to come to power to implement those ideas. In the thirties it was the ideas of Keynes, the ideas of someone like William Beveridge about the welfare state. In the 1970s, it was Milton Friedman and Friedrich Hayek. It seems that today, one political force that really should make the political debate should be the left, and the left is not currently doing that, probably mostly because they bought into most of these free market ideologies.

The current debate is whether this crisis is a crisis of free market capitalism, or if it's just a crisis of under regulation or a crisis of too much government intervention—for instance, in the housing market. It seems the one thing that hasn't been stressed is that increasingly people like Martin Wolf from the Financial Times, Danny Roderick from Harvard, and even Simon Johnson, who was an IMF economist, start to look at this crisis really being caused by ideas, by free market ideas. The same people who are in power now in the United States and the economic team of President Obama—Larry Summers, Timothy Geithner, Paul Walker—have all been there before. They were the ones who implemented these free market ideas to begin with, got rid of a lot of regulation, and bought into the emerging Reagan-Thatcher consensus. In that sense, right now, it seems obvious that we got too carried away with all of this and that the need to balance the attraction of the profit motive, or the incentive to be ever more productive, and to grow more again, needs to be balanced with things like a social safety net and a bigger role for government.

The question is still there, and we haven't answered it. It's like answering it in 1931, where the significance was the Great Depression, and nobody knew. In that sense, everything is up for grabs, and we'll know in five or six years whether this marks a significant shift. I'd like to believe that it does, because it's unprecedented, the current government interventions into the economy. And in that sense I still believe that we might see a sort of inverse u-turn of the Obama administration and maybe the governments in Britain and the rest of Europe in a year and a half—an inverse meet around

movement, a meet around movement from nationalization to privatization. Right now, we might go from privatization, or the obsession with not calling it nationalization, to a sort of more permanent, at least for a couple of years, bigger role for government. It seems to me that what the election of Barack Obama signaled was maybe a shift towards the center or at least in the leftward direction. So I think people are ready and are willing to accept, at least for now, a bigger role for government.

One of the reforms proposed by the G20 is the role of the IMF. What would be the benefits for developing countries of its potential new role?

That's a very interesting question because it was only two years ago that Dominique Strauss-Kahn was coming to Washington and had to find $100 million to save at the IMF and fired 400 economists. They were all hired by Lehman Brothers and the like, and two years later they all lost their jobs and were all hired back by the IMF to clean up the mess that they caused. So in that sense, two years ago my students were writing papers on why the IMF should close, whether the IMF was still relevant. This year they're all writing papers on a bigger role for the IMF, a more important role. Even students are asking for the IMF to have a dispute settlement mechanism the way that the WTO has, to deal with exchange rate dynamics, to deal with global imbalances.

The reform of the role of the IMF, of course, has to include a couple of things. One thing already clear is that the resources have been tripled, so it will have much more strength in responding to crises. A second thing, of course, is a readjustment of the quotas. But Strauss-Kahn himself, the managing director, made it clear in a major speech that this was not enough—it's not enough to increase the quota of Brazil from 1.3% to 1.8%, it won't make a difference. There's much bigger things we have to deal with. One thing he mentioned is the staff of the IMF were all trained in the same schools, in the same degrees, mostly Ivy League universities here in the United States, or the University of Chicago, so they've all been trained in the very same theories and think very much alike. I think what's clear from this current crisis is that there are very different symptoms and very different ideas about the crisis in very different countries. In that sense, I'm not quite sure they're going to start hiring anthropologists and sociologists from the University of Nairobi or something like that. But it does signal a willingness to rethink some of the economic orthodoxy which has reigned and reigned fully in the International Monetary Fund and in Washington, for that matter, in the last 30 years. So that, I think, is an interesting shift.

The biggest problem, however, is how the IMF will deal with the United States. There is a belief that the current global economic imbalance and the huge current economic account deficit of the United States is not only caused by the Chinese manipulating their currency, as Timothy Geithner said himself early on in January, but also that these imbalances are caused by a big imbalance between savings and investment in the United States itself. So is the United States willing to give oversight powers to the IMF

where the IMF could "punish" the United States or "warn" the United States or "tell" the United States to change its fiscal and monetary policy? And that, given the current veto power, the de-facto veto power to the United States in the IMF, it seems hard to even imagine that the United States would give that up. While I think it is at the heart of this current crisis, there are two levels—a macro level and a micro level. But from the macro level point of view, the IMF could probably make a difference.

Could the stability of the world monetary system be maintained within the framework of the current financial architecture or is there is a need for some kind of a new Bretton Woods that will reconcile the differing interests of the G20 members?

I sort of answered this partly in the earlier discussion of the IMF. Everybody knows that the Bretton Woods institutions were established in 1944 at a time when the United States was hegemonic, and there is something to Charles Kindleberger's theory of hegemonic stability theory that new regimes need to be established with a hegemonic power providing the global public goods, avoiding the free riding problem, avoiding the global public goods problem. And of course in 1944 that was the case—the United States was 50% of the world economy; and together with Britain, they had approximately 80% of world trade. So in that sense the compromise of Bretton Woods was won between Harry Dexter White in the United States and John Maynard Keynes of Britain, but it mainly reflected U.S. interests. The system that was established was one of fixed exchange rates because it was believed that the crisis of the 1930s was one of beggar thy neighbor policies and protection is needed to be avoided at all costs. So Roosevelt's vision was one of free trade, and what could better encourage free trade in an open liberal free trading system than fixed exchange rates.

Also in vogue in 1944 were capital controls, and they, combined with monetary independence and combined with fixed exchange rate, could work very well. By the late '60s, it was already clear that the world capital market was becoming ever more global, and flows of capital could cross borders very quickly, and that maintaining a fixed exchange rate through capital controls became more problematic. That was probably one of the reasons why the Bretton Woods system collapsed in August 1971 when President Nixon closed the gold window.

The question is, what will reflect today's reality, today's rising powers, today's rising economic powers; because for better or worse, we do live in a plural world when it comes to economics, maybe not as much when it comes to military power or political power, but when it comes to the economy we do. And so will the IMF—can the IMF—be reformed in a sense that reflects these new power structures? That's one thing that remains to be seen. But also, will the IMF get the powers to control or oversee exchange rates abuse or exchange rate manipulation or, basically protectionist measures through the exchange rate? That remains to be seen. There seems much less agreement on that—there seems to be agreement on more global regulation when it comes to financial flows. But what we

haven't seen is a lot of movement to really reform the whole global financial architecture, and it seems to me it's a very pragmatic way of politicians looking at this.

There is the thought that this seems to be a recession that's slightly deeper, but we'll get out of this huge government intervention through coordination of economic policies, and then we'll get back to business as usual. Well, I don't believe that. I think that this current crisis signals much deeper problems, and it can only be addressed within newly emerging international monetary system. What the shape of that will be is not clear yet because there are a lot of ideas floating around, but none of them have, can really become dominant. And secondly, maybe because this crisis just hasn't gotten big enough or deep enough or bad enough to usher in real big change.

Is financial liberalization and deregulation desirable for small developing countries?

I think we don't really need to draw the lessons from this crisis. The lessons of the '90s were already clear enough. It's interesting that while Washington was preaching financial and trade liberalization all over the world, that this came to a crashing halt in the Asian crisis with the Thai baht collapsing in '97 and spreading all through Asia and then later through Russia and Brazil. But I think then it was already clear that capital market liberalization, without the right institutions or institutions who could deal with significant capital flows in place, that we had to be very cautious and very careful about. So in that sense, the move from unilateral opening, whether in trade or especially in capital flows, the Asian lessons, and especially you can see that in China today, was no: we need to do this gradually, we need to control capital. And also, the emphasis much more on foreign direct investment rather than portfolio investment or government borrowing. Foreign direct investment is longer term, it's more stable—it sort of hints at a long-term commitment of the foreign investor into the economy. They're not just going to take their money out whenever things get a bit rough. It's a 10-year, 15-year investment. Portfolio investment, as we've seen in the case of Korea and other Asian countries in '97, '98, can be withdrawn overnight, and in that sense it makes these economies very vulnerable.

If there are some lessons China took from the Asian crisis of '97, '98, they were: keep your exchange rate low, don't just grow through investment but also through exports, capital controls—control investment, control capital coming in from abroad with an emphasis on foreign direct investment, and build up international reserves, which they've done in a quite significant way. The United States, and especially on Capitol Hill, doesn't seem to be very happy with it. But from a Chinese point of view, it's a perfectly rational strategy. So that's what developing countries' lessons will be. Capital is a wonderful thing if it comes and it does sort of bridge this financing gap. If you want to grow fast, you need more savings; if you don't have the savings, get them from abroad. However, if this capital comes in too quickly and it's a short-term commitment, this can be very dangerous. So in that sense I think the China model seems at this moment a much more attractive one for many developing countries than the United States or

the United Kingdom, which is based on much more short-term, shareholder value, make quick profits, and make quick money for investors.

How could a small, open economy reconcile the need to fight recession by increasing government spending and the need to maintain a stable, fixed exchange rate?

Coming from Belgium myself, I'm very familiar with small, open economies and the need for fixed exchange rates. One thing that this crisis again has proven is the need more than anything for fixed exchange rates. The problem with fixed exchanges, as we've seen in the '90s, is that they are very prone to speculative attacks. We've seen this in Europe, with the crashing down of the EMS system in '92, '93. We've seen it in Asia; we've seen it in Mexico in '94 in the Tequila Crisis.

I think for small, open economies—especially in Eastern Europe and Southern Eastern Europe—it will probably speed up their enthusiasm for joining the Euro. When I was in Budapest in early January, many people were telling me it was a national shame that Slovakia had joined the eurozone and Hungary hadn't. Ten years ago it looked like Slovakia was lagging way behind. But one thing that the Euro has given Slovakia is a certain stability. Iceland, given their disaster, is suddenly all enthusiastic about joining the European Union. So are Sweden and Denmark. So in that sense, for small, open economies, who really rely on trade, locking in your exchange rate in a more durable arrangement through joining the Economic and Monetary Union, or in the western hemisphere, through paying it through the dollar, but paying it in a more durable way. Currency boards, after Argentina's experience, are maybe somewhat discredited. But this could cause a world of currency blocks. It could cause the Asians to look much more seriously at a currency union. In the Gulf Corporation Council, they really are quite serious about it and have a deadline of 2010, even though it doesn't look like they're going to achieve this. But the only way to avoid the problems with, you know, floating exchange rates is to lock in your exchange rate with your main trading partners like the Europeans have done and then there is indeed a little bit more room for fiscal stimulus, even thought that is limited, obviously given the growth and stability pact of the European Monetary and Union. But the one good thing is that, you know, of course, the European Central Bank's monetary policies could be helpful in monetary stimulus.