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**REGIONAL COOPERATION IN THE AFTERMATH
OF THE NATO INTERVENTION IN KOSOVO**

by Thanos Veremis

Paper presented at the conference on "Regional Cooperation and Reconstruction in South-East Europe"
Rome, 29-30 October 1999

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The Impact of the NATO Bombing Campaign

Events in Southeastern Europe sometimes move in circles and generate vivid sensations of déjà vu. Seven years ago this author had an opportunity to express his worries over Balkan developments in a conference cosponsored by the Woodrow Wilson Centre in Washington DC and the Suedosteuropa Gesellschaft, in Munich.

“The most ominous development in Yugoslavia is the proliferation of weak and mutually hostile entities in a region which does not at the present moment constitute a high priority of the West. In that sense the Balkans are not the powder keg of Europe but a decaying backwater cut off from the prospect of communication with the Western Community. The implosion of nationalist strife in Yugoslavia can still create a chain reaction of developments that would undermine the economies of adjacent states and determine the future of the Balkans as the third world of Europe.”¹

Since then catastrophes have struck the Federal Republic of Yugoslavia in quick succession, drawn by its present leadership like a magnet. The West was successful in establishing several protectorates (in name or substance) in which Serbs, Croats, Bosniacs and now Kosovar Albanians, lead a separate existence with few chances of restoring their multicultural past. NATO’s recent war on FRY, regardless of the humanitarian principles that inspired it, has brought upon the wider region a devastation that may linger for the years to come.

The devastation of FRY was of course the natural outcome of fighting an air war that precluded the use of ground forces and therefore casualties, but it has in no way achieved all of its goals. Even if the Albanian refugees were finally restored to their ravaged homes, the war failed to rid FRY of its leader, to preserve the Serb community in Kosovo and ensure future democracy in FRY. What the bombing did achieve was to win the struggle of the Albanian Kosovars against the Serbs, which had commenced shortly after the province was ceded by Serbia in 1918.

Predictions of future developments do not promise stability. The Kosovo Liberation Army (UCK) and not the political elite of Pristina is now calling the shots and wields both the firepower and the resources to establish its authority and its pernicious influence in adjacent FYROM. Time will tell if this is the last irredentist episode in the Balkans or the beginning of a new round of troubles.

Be that as it may, the most formidable problems ahead have to do with FRY’s inability to support its population, the proliferation of criminal networks and illegal immigration. Countries such as Italy, Austria and Greece will be directly affected by such phenomena.

Eleven weeks of NATO bombing (24 March – 9 June 1999) have wreaked devastation on FRY that will have a long-term effect on the entire region. FRY is certainly

¹ T. Veremis, “Eine Neudefinition der Sicherheitsbeange in Suedosteuropa”, *Suedosteuropa Mitteilungen*, 1993/ 2-33, Jahrgang, p.141

in a state of emergency. In terms of GDP per capita, and destruction of fixed assets as well as national wealth, the country has reverted to its pre-World War II condition. Before the bombings the level of GDP was about 50% of what it was in 1989 and that of industrial production, at about 40%. Only agricultural production and energy remained in the 1989 level. Public and private services declined in adverse proportion to black economy services. The “outer wall of sanctions” still in force, exclude the normalisation of relations with the World Bank and the IMF. Additional sanctions by the USA and the EU bar most government related investments. Income transfers and investments from abroad, such as the 1997 purchase of 49% of the Serb Telecom by the Italian STET and the Greek OTE, had dried up by the end of 1998. The external balances of the country, therefore, depended on services in transit and transportation and on aid.

Kosovo, an underdeveloped province of Yugoslavia and with a significant outward migration, concentrated on agriculture and mining (coal, non-ferrous metals and minerals). The income generated by these sources did not exceed \$100 million per year. The absence of investment, given the anomalous circumstances prevailing among Serb and Albanians, condemned the local economy to stagnation.

According to *Group 17*, a Belgrade-based group of independent Yugoslav economists, some of whom work for the IMF and the World Bank, the total damage incurred by the NATO bombing is estimated at around \$29.6 billion.² The estimate does not include 1) human capital loss concerning the Albanian Kosovars, 2) material damages in Kosovo, 3) destruction of natural wealth or ecological damage. Of the total estimate, \$4.1 billion is the price attached to destroyed infrastructure and loss of capital in economic areas. Human capital loss adds \$2.3 billion to the account and the remaining \$23.2 billion, are opportunity costs for the whole economy, in the current value of the lost GDP.

The more detailed but earlier account of the Economist Intelligence Unit,³ gives a dim view of the country’s future. The targets of the NATO campaign were mostly civilian and included, roads, railways, communication networks, and television stations with their relays in towns and cities across Serbia. Industrial targets were the most conspicuous: oil, chemical, car, cigarette, fertiliser, construction machinery and home appliances industries were decimated. NATO bombers also hit civilian airports, power stations, bridges, fuel production and storage facilities, communication systems and mining areas. The Zastava car factory in Kragujevac made cars and trucks as well as munitions. The strikes against it have put more than 15,000 employees out of work, along with an additional 40,000 who worked as 120 subcontractors. In Krusevac, the 14 October factory of bulldozers, excavators and construction equipment, was the largest heavy machinery plant in the Balkans. Its destruction put 7,000 people out of work.

The oil industry, a candidate for privatization before the imposition of an investment ban last year, is now out of business. Both of Yugoslavia’s oil refineries, in Pancevo and Novi Sad, were badly damaged. Bombs also struck a key oil storage facility in Smederevo, as well as regional distribution centres. Yugoslavia’s largest oil supplier was the Athens-based, Moil – Coal Trading Company of the Mamidakis group, which provided two cargoes a month, dispatched by pipeline from Croatia’s port of Omisalj. Both Russia and

² The estimate was presented in *Economic Consequences of NATO Bombing: Estimates of Damage and Finances Required for Economic Reconstruction of Yugoslavia* in the 8-10 July 1999 conference in Vouliagmeni, on *Reconstruction and Regional Co-operation in the Balkans*, organised jointly by the Hellenic Observatory (LSE), The European Institute and The Vienna Institute for International Economic Studies (WIIW).

³ *The Economist Intelligence Unit, Yugoslavia (Serbia – Montenegro) 2nd quarter 1999*, pp. 33 – 39.

China who would come to the rescue of FRY, are both owed large sums for previous sales. Russian crude was pumped down the Druzhba pipeline via Hungary and Slovakia and was processed at the refineries of Novi Sad and Pancevo before they were destroyed. Before the war started, Yugoslavia's foreign trade had diminished dramatically. Exports fell by 50% in Jan.-Feb. 1999 compared with the previous year, while imports fell by 30%. The trade deficit was \$ 224 million for this period.⁴ The Danube, a waterway, 2,400 km in length, linking central Europe with the Black Sea, was closed to traffic since early April when the Varadinski Most bridge in Novi Sad, was bombed. More than 40 m tons of goods were transported through the Danube in 1998. The other four bridges over the river that have been destroyed, incapacitated not only the river trade of FRY, but that of Romania and Bulgaria as well.

"The Costs of the Kosovo Crisis" by Vladimir Gligorov and Niclas Sundström, includes a wider regional estimate of the war's impact. The two authors attempt a forecast of the spill-over effect of the bombings on the entire Southeast European peninsula and point out that "they come as an unexpected external shock to economies that are already having grave and in some cases unmanageable macroeconomic problems."⁵ The crisis is treated by the authors as an "external shock" that shifts the demand curve for the GDP of a particular country, either through adverse developments in foreign trade, or through lower investment and higher public expenditures. The cost of the Kosovo crisis has been transmitted to trade for states that use Yugoslavia as a transit country and may result in an increase of investment risks that will expand public spending at the expense of private consumption. This may also have a long-term effect on the growth and development of the entire region.

The states that will continue to bear the brunt of the war, besides the FRY, are the Former Yugoslav Republic of Macedonia (FYROM), Albania and Bosnia. The closure of the Danube will affect Romania and Bulgaria, while Hungary, Croatia and Greece will continue to be the recipients of refugees. Krajna refugees are already making their way to Croatia and more Serbs are expected to leave their country when marshal law is lifted in the FRY.

Initiatives for Regional Cooperation in the Balkans

So far the answer of the West to the ongoing crisis has been a host of institutions (governmental and non-governmental), pacts, initiatives and processes, that aspire to bring order to the unfortunate region. Despite their *raison d'etre*, competition, rather than cooperation has prevailed between them and the resources that they consume would have produced better results if they had been planed into regional projects.

The "Stability Pact for South Eastern Europe" was the product of a meeting in Cologne, on 10 June 1999, between Foreign Ministers of the EU, the Balkans (minus FRY), NATO members and Japan and a number of representatives from international and regional organizations. No statement of intent and no invocation of principles and norms enshrined in international institutions, charters and declarations, could have been more inclusive. The mechanisms of the Pact include a South Eastern Europe Regional Table, which will coordinate three working tables: a) on democratization and human rights, B) on economic reconstruction, development and cooperation and c) on security issues. A Special Coordinator will chair the entire operation.

⁴ The EIU, Ibid. p. 35 – 36.

⁵ The report was completed before the culmination of the conflict (ATS 600, No. 12, April 1999). p.i.

Of all the goals of the Stability Pact the most difficult to achieve is democratization. It will take a protracted peace and economic development to establish the process in those states that had experienced democratic rule in the past. States with no such experience, underdeveloped institutions and fragmented societies, will take much longer. Evocations of the free market are often synonymous with to a mafia laissez faire, rather than free enterprise. Soft (private armies, contraband and traffic of drugs, arms and illegal immigrants), rather than hard, security considerations, will therefore be the most daunting task of the reconstruction process.

The leaders of the forty states that joined the Stability Pact summit in Sarajevo on 30 July 1999, were aware that the span of international attention was running out and would soon be diverted toward other trouble spots in the globe. The President of the EU Commission, Romano Prodi, had already expressed his concern that the West's capacity to destroy was greater than its ability to rebuild. The outcome of the summit was full of declarations of good will and little determination to put up the several tens of billions of dollars required for rebuilding FRY.⁶

Based on a similar plan of incorporating the Southeastern European states into the EU, was the Working Document (No. 131) of the Centre for European Policy Studies in Brussels "A System for Post-War South-East Europe (3 May 1999, Revision 4). Its basic credo is that the only realistic solution entailed integrating the whole region into the EU once and for all, including post-Milosevic Yugoslavia. (p.3) Of its Nine EU policy innovations, the proposals on Market regime and Money are the most controversial. Michael Emerson, as the chief architect of this innovative proposal, suggests a multilateral, pan-European, zero-tariff free trade; budget compensation for loss of customs revenues for New Associate Members. Concerning monetary measures, he proposes to "exploit new potential for wider euro, both for economic value and symbol for inclusion in modern Europe. Euro-based currency board regimes already possible" (p. 3).

The liberal optimism of Emerson is countered by former Finance Minister of Romania, Daniel Daianu. The later believes that Balkan economies cannot profit from a shock therapy but require treatment commensurate to their stage of development. Daianu emphasizes the need for infrastructure projects of regional importance which would link Southeastern Europe with the EU. "The European Investment Bank has a major role to play in this process".⁷ His blueprint of regional assistance includes: 1) humanitarian aid which will be badly needed for the return of refugees, 2) macroeconomic support in order to deal with balance of payments gaps, budget deficits, the impact of labor dislocations, trade disruptions and the loss of markets, 3) infrastructure projects such as building pontoon bridges over the Danube and water supplies facilities in Albania, 4) the strengthening of local banks.⁸

Attempts at Regional Cooperation

Regional cooperation frameworks such as the Balkan Pact of 1934, constituted an attempt to preserve the status quo in view of great power revisionism. The statutes of the Pact provided for regular meetings of a Permanent Council consisting of the members' foreign

⁶ "For Balkan Stability", *International Herald Tribune*, 4 August 1999.

⁷ Daniel Daianu, "Reconstruction in Southeastern Europe", *The Southeast European Yearbook 1998-99*, Athens, ELIAMEP, 1999. This issue includes papers delivered at the June 20-26, 1999 Halki International Seminars.

⁸ *Ibid.*

ministers and aspired to a federation in which legislative activities would be integrated. The weakness of this first ambiguous attempt at Balkan cooperation foundered on its involvement in great power disputes. Since the Pact possessed no security arrangement to protect it from external threats, its members left the fold and sought to secure themselves through bilateral treaties with Germany and Italy.⁹

The post-war division of Europe into military camps militated against multilateralism. A Romanian Nuclear-Weapons-Free Zone initiative in the Balkans, appeared in the 1950s but was rejected by the two regional NATO members. When détente began to blossom a new careful multilateralism began to peer its head, in the 1970s and 1980s. These initiatives functioned as forums for regional consultation and cooperation on low rather than high politics. They produced a series of conferences in Balkan capitals throughout the late seventies and eighties.

The March 1988 conference of Balkan Foreign Ministers in Belgrade could not have occurred in a more timely occasion for a multilateral breakthrough. The Reagan-Gorbachev agreement on nuclear arms limitation improved East-West relations and the February meeting between the Prime Ministers of Greece and Turkey in Davos, held promise for the resolution of an old regional problem. The year 1988 would have become a watershed in Balkan multilateralism if the protagonists of the Belgrade meeting could have foreseen the impending developments in Eastern Europe. Instead low politics prevailed once again with progress made in questions of education, communications, environment, commerce and culture. Although the two subsequent meetings made some progress the implosion of Yugoslavia cancelled all further attempts at multilateralism.

The collapse of communism transformed the orientation of the former Warsaw Pact members. The EU, NATO and the WEU became the coveted goals for membership and regional initiatives appeared as attempts to divert them from their major pursuit and condemn them to a state of regional isolation from the rest of Europe – “Fearing any subregional framework that might be considered a substitute for integration (a ‘waiting room’) and thereby impede or delay integration with the West, South Eastern European countries have opposed anything more than bilateral and loose multilateral ties”.¹⁰

Post-Cold War attempts at inter Balkan cooperation were initially inhibited by the collapse of Yugoslavia and the conflicts it unleashed. A Bulgarian initiative to regenerate Balkan multilateralism produced a joint declaration on regional stability, security and cooperation. The Sofia declaration of July 1996 re-established the conference of Foreign Affairs Ministers and such meetings were hosted by Greece in 1997 and then Turkey and Bulgaria. Inter-Balkan Cooperation was thus institutionalised in order to promote regional stability through democratization, economic cooperation, trade liberalization, infrastructure projects and cooperation in preventing terrorism as well as drug and arms trafficking.¹¹

Conclusions

Before the recent war in FRY the structural problems of Southeastern Europe required a remedy consisting of long-term measures for democratization and institution

⁹ T. Veremis, *Greece's Balkan Entanglement*, Athens, ELIAMEP, 1995, pp 33-34.

¹⁰ Ian Bremmer, Sophia Clement, Andrew Cottey and Thanos Dokos, “Emerging Subregional Cooperation Processes: South-Eastern Europe, etc.” in Andrew Cottey (ed), *Subregional Cooperation in the New Europe*, London: Macmillan, 1999, p.220

¹¹ Y. Valinakis, *Me orama ke programma* (With a vision and a Programme), Thessaloniki, Paratiritis, 1997, pp.238-241.

restructuring and immediate economic incentives to stimulate investment and growth. After the bombings economic reconstruction has become a top priority. Preventing the Second World former communist states from sliding into a Third World chronic inertia, is now a foremost concern. Whereas in the past regional cooperation was viewed by the natives as a possible diversion from EU membership, it is now becoming increasingly clear that without concerted efforts the prospects of engaging the entire region in the EU constellation will fail to materialise.