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**REPORT
REGIONAL COOPERATION AND RECONSTRUCTION
IN SOUTH-EAST EUROPE**

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

REPORT

on the conference

Regional Cooperation and Reconstruction in South-East Europe

Organised by the Istituto Affari Internazionali (IAI), in collaboration with the Centro Studi di Politica Internazionale (CeSPI), the conference on " Regional Cooperation and Reconstruction in South-East Europe" took place on 29/30 October, 1999, thanks to generous funding from the Friedrich Ebert Foundation, the US German Marshall Fund, the NATO Office of Information and Press, the WEU Institute of Security Studies in Paris, the US Embassy in Rome, the British Council in Rome and the UN Association of the United States.

In the last few years, the IAI has worked intensely on regional cooperation in the Balkans in the conviction that it is the fundamental path open to reconstruction, laying the grounds for stability and democratic consolidation, strengthening the institutions of the countries in the region and integrating them into Euro-Atlantic institutions. This conference was meant to bring together experts from within and outside the region to explore various aspects of the question.

Several papers were presented at the conference:

Security Challenges in South-East Europe, Jane O. Sharp, Senior Research Fellow, Centre for Defence Studies, King's College, London

Regional Cooperation As a Conflict Prevention Tool, Thanos Veremis, Director, ELIAMEP, Athens

Stability and Economic Reconstruction, Fabrizio Saccomanni, Chairman, Working Table on Economic Reconstruction, Stability Pact for South-East Europe, Rome

Economic Aspects of Regional Cooperation: Prospects for Development and Reconstruction, Loukas Tsoukalis, Professor, European Institute, London School of Economics and Political Science, London

Organized Crime and Regional Cooperation in South-East Europe, Alessandro Politi, Advisor to the Italian Defence Minister, Rome

Balkan Regional Cooperation and the Return of Refugees, Dennis McNamara, Special Envoy to the former Yugoslavia and Albania, UNHCR, Pristina

Assessing Regional Cooperation Initiatives, Fred C. Parker, Partnership and Cooperation Section, Political Affairs Division, NATO Headquarters, Brussels

The Role of the International Organizations in South-East Europe, Ettore Greco, Deputy Director, Istituto Affari Internazionali, Rome

What follows is a brief summary of the main introductory interventions and the discussions that followed in each session. A few points were repeatedly made:

Part of the problems now being dealt with in the Balkans are the result of poor management by the West of past crises and their follow-ups. In particular, Western governments have sometimes been willing to close an eye to bad governance and the violation of human rights in certain countries in order to preserve "regional stability". But it has now become evident that regional stability goes hand in hand with not only political, economic and social viability, but also with the establishment of the rule of law and

democratisation. Even now, the international community is endorsing a contradictory policy (embodied by the UN mandate in Kosovo) of support for the principle of self-determination in some cases but not in others. Furthermore, past approaches to reconstruction were short-term and based on a segmental and prevalently "economistic" view, considering it possible to solve structural problems through quick fixes.

The European Union's Stability Pact may change all this. It should provide a comprehensive, long-term approach to the region, incorporating the myriad initiatives already undertaken in the past, and aiming at the ultimate integration of the region into the European Union. But there are problems here as well. First, the EU does not seem to have a clear idea of the future direction and pace of its eastward enlargement and these doubts are inevitably reflected upon its actions in the Balkans. Another major difficulty is the exclusion of Serbia. How can the Stability Pact operate regionally when a central actor is cut out? Thus, efforts must be made to bring Serbia back into the region, starting above all with a revision of its sanctions regime, making possible the delivery of fundamental humanitarian aid and the re-establishment of public goods such as transportation on the Danube. EU encouragement for integration into the EU must be flanked by incentives for regional cooperation among the countries in the region. Even though many Balkan countries fear this could be a diversion tactic to keep them away from their main goal of EU entry, regional cooperation is a strategic instrument for making the voice and the interests of the Balkan countries heard.

On the economic plane, the idea of a rapid introduction of the euro to replace local currencies in certain countries in the area to enhance stability was rejected because of the constraints it puts on the economies. The prevailing view was that it is essential to first aim at a consolidation of the economies of the individual countries and their gradual integration with European markets. There must be a shift from reconstruction to development, with the emphasis being put on the involvement of the private sector and, more specifically, local, small and medium-sized enterprise. At the same time, more attention must be dedicated to unemployment in the region, as it is a source of social malaise and crime.

Security Challenges in Southeast Europe

The view was expressed that the main source of instability in southeastern Europe is Slobodan Milosevic and his supporters. Although the NATO bombing has shattered the Serbian infrastructure, bringing the economy to its knees, Milosevic has not suffered an unambiguous defeat.

Little damage was done to the Serb army and police; indeed, quite a coordinated effort was made by these bodies during the summer to destabilise areas in Kosovo. At present, the opposition looks too divided to present a threat to Milosevic and the regime and not all are convinced that the coming to power of the opposition would automatically bring democracy to the country. Chances are that a substantial part of the opposition would carry the flag of chauvinistic nationalism, given that it rallies support by complaining that Milosevic has failed to live up to his promise to create a Greater Serbia. In any case, should the opposition begin to propose a real threat, there is the risk that Milosevic would try diversionary tactics, especially in Montenegro.

Russia's rush to Pristina has undermined NATO's trust in it as a reliable partner in peace-keeping operations and has thrown doubts on Russian cooperation. Russian policy, on the other hand, depends upon the balance of power between the military and the civilian

authorities in Moscow and between the various military factions in Russia. Developments in Chechnya could also influence the Russian military's standing at home, influence its policy in Kosovo and affect the way it is perceived by the West. The problem is Russia's deep humiliation brought on by its loss of empire, enlargement of NATO and lack of influence in the Balkans in the last decade. Certain factions of the Russian military, unhappy about being thwarted by the failure to divide Kosovo, are eager to exploit tensions in the Balkans, not least in the interests of embarrassing NATO, and would support Milosevic if he wanted to make trouble.

Russia does not want to lose its influence in the Balkans. Nevertheless, as is demonstrated by the fact that two countries in the region, Romania and Bulgaria, for the first time openly refused its request to allow Russian planes to overfly to reinforce the 200 troops that left Bosnia in the rush to Pristina, the spectre of Russian intervention in the region is much less dangerous today than in the past.

There are also minor sources of instability in various countries in the region. Montenegro is trying to draw away from Belgrade, but receiving little support from the West because Western governments are resisting the creation of new states in the Balkans. Although it is uncertain as to whether and how the West would intervene if something happened in Montenegro, it was stated that it is important that a deterrent be put in place in a very non-ambiguous way (by reinforcing the NATO troops in the vicinity).

In Kosovo, the NATO-led KFOR and the UN Mission in Kosovo (UNMIK) are keeping a very fragile peace. Avenge killings are still a problem and are giving both Russians and Serbs a justification to rail against the performance of international organisations, and a pretext for clandestinely bringing more Serb police into the province. It is not clear to what extent these killings have been committed by Kosovar Albanians, by gangster elements from Albania or by Serb provocateurs. It is also a fact that KLA leader Thaci has definitely lost support to Rugova. Differences between Albanians factions is a major source of instability. Until Kosovo is more stable internally, there is a risk of resurrecting a militant KLA.

Organised crime also appears to be a problem. One of the failures of the UN is that it has not recruited an effective police task force in a timely fashion. Other dangers come from Serb mines and NATO ordnances.

The poor state of the institutions and the economy continues to make Albania vulnerable to extremist politics and organised crime. Albanian assertiveness seems to be growing in Kosovo, Albania and Macedonia, fuelled by mixed signals coming from the international community. In particular, the economic and institutional weakness, and the lack of control over many parts of the country by the central authorities makes nationalism an easy tool for the political elite to resort to in order to gain support. The idea that Albania may be becoming a fundamentalist state and that anti-Western sentiments are growing because of unfulfilled Western promises was strongly questioned by the Albanians in the audience. The point is that pro-Western sentiments in Albania should not be taken for granted. It is important that Albania feel that it has continued and substantial support from the West.

The tension in Macedonia rose with the influx of Kosovar Albanians. Although the NATO presence helped to ease the refugee flow, the Macedonians perceive the NATO troops currently deployed in the country as an occupation force. Demographic studies show that by the second decade of the next century, the Albanians will be a majority ethnic group in Macedonia. In general, anti-Western sentiments are growing in

Macedonia because promises made during the war have not been fulfilled. In Bosnia-Herzegovina, the implementation of the Dayton Agreement is unsatisfactory. SFOR has been reduced by one-third, and therefore has less possibility of providing for public safety and freedom of movement. The armies of the three entities are still separate and there will no doubt be problems between these armed forces if SFOR pulls out. Greek-Turkish relations, which have a strong influence on the evolution of the region, suffer from a mutual lack of confidence. Building it should be seen as a priority. The amicable climate established after the earthquakes in Greece and Turkey should be exploited in all possible areas to do so. Cyprus is just one of the issues of contention between the two countries, but probably the most difficult to solve for a variety of reasons. Some think that the demilitarisation of the Greek islands and Cyprus could be a solution. The security risks mentioned above are exacerbated by the lack of a Euro-Atlantic or at least European strategy and by a lack of coordination on the two sides of the Atlantic. While the European allies attempt to work with the region as it is (Kosovo as a part of the FRY, a multi-ethnic FYROM, a united Bosnia-Herzegovina), the US attempts to anticipate regional shifts and changes, such as the eventuality of an independent Kosovo. Furthermore, the allies have, in the same part of the world, implemented a policy in support of the territorial sovereignty of one state, while denying the same right to another. Whereas the doors of both the EU and NATO have opened for the countries of central Europe, for those of southeastern Europe integration into Euro-Atlantic structures in the defence and economic fields is still distant. Yet, the EU-sponsored Stability Pact for southeastern Europe is based on encouraging ideas and is basically what Europe should have been doing in the 1980s.

Regional Cooperation as a Conflict Prevention Tool

This state of affairs in southeast Europe reflects several general characteristics of the region: a lack of regional coherence coupled with the lack of a regional culture of cooperation. The Balkan countries suffer from an inferiority complex: as shown by the widespread reluctance to be called Balkan. There is a historic proclivity of Balkan countries to turn to outside (great) powers rather than to their neighbours which are, instead, used as tools in competition.

Recent interventions from the outside are unprecedented in terms of volume and cost, but the basic motivations behind them are negative: to prevent spillover into Western Europe and new explosions in the future. At the moment there is no coherent strategy towards the Balkans, and for one very good reason: the Balkans no longer matter that much after the Cold War. Yet the Balkans still have a high nuisance value: they are increasingly becoming a backwater; there are substantial kleptocracies in high places, especially in Serbia (which will be very difficult to dislodge even after Milosevic goes); and there are mafia networks at work. The rate of growth of crime and the networking of black marketeers whose activities range from simple unchartered economic activity to trafficking in arms and drugs and the money that has been and will be used to corrupt the governments of adjacent states, not just in southeastern Europe, also have considerable nuisance value to attract attention to the Balkans.

Balkan countries have always been afraid that regional initiatives could divert their course away from the ultimate goal of entry into the EU or NATO. After the bombing of Kosovo, however, with the devastation of infrastructure and the economic basis of FRY and Kosovo, the goal of regional cooperation to restore democracy and generate more

economic cooperation and growth is an absolute priority. Given the persistent lack of funding from outside and the fact that investment into the region has dropped, the Balkans have been left up to their own devices and must join forces.

A great number of regional initiatives have been undertaken in the region, but all have been lacking coordination and none has been comprehensive and effective. There have been few linkages with civil society or professional or business groups. Thus, there are structural reasons for the lack of effectiveness. The Stability Pact could possibly be a breakthrough. But there are several visible problems: 1) The black hole of Serbia will have to be dealt with. It is impossible to establish a comprehensive regional framework without it. 2) There is currently a mismatch between declarations and the funds available. 3) There is a lack of coordination between schemes.

There are some doubts about the feasibility of the Stability Pact's decision not to create a new bureaucracy and to try to coordinate what already exists. What is needed is an increase in the credibility of what already exists (the Balkans would be better off if some of the resources that were sunk into regional schemes in the past had been put directly into some sectors of the economies of the countries of the region) and what might be. There is also a problem of compatibility with some existing arrangements. It is not clear, for example, how prospective association to the EU and the adherence to the Stability Pact will interact. Some thought should also be put into how to allay the fears of the Balkan countries that regional cooperation would relegate them into an interminable antechamber of the EU.

Adjacent countries (Austria, Greece and Italy), bound to receive both the illegal migration and crime, should form a kind of conference or table for consultation about initiatives to avert such phenomena. The locals, the immediate neighbours and the outside community should be involved in every step of each initiative. Russia, for example, must also be kept in as an element to generate greater consensus.

Some positive examples of current regional cooperation were given. Indeed, in addition to economic cooperation in the Balkans, there is also security cooperation: soft security and hard security. The most striking and impossible to think of only 10 years ago is the new Balkan forces with headquarters in Plovdiv which has a Turkish general and Greek and Bulgarian officers. Much credit also goes to Bulgaria for initiating inter-governmental Balkan meetings at a high political level.

But it would be wrong to think that economic forces alone can solve all problems. This was very much the basis of Western policy in the late 1980s in Yugoslavia. But even at that time, the problem was really politics, not economics. Certain political and legal problems will have to be solved first. A minimum of guarantees are needed before investment will come in.

It would be wrong to think that purely economic projects will be able to achieve what was achieved in Europe after the end of the second world war. People unite to cooperate best when it is against something. After WWII there was German defeat and a common Russian enemy. Now, one of the real problems is that Serbia was not truly defeated. The situation is more similar to the one in Germany at the end of WWI: feelings of humiliation and betrayal, of having to do everything themselves, without the chance of the hated occupiers doing it for them. Serbia is full of seething revanchism. Much more patience is called for with Serbia, political forces will have to be trusted, economics used when appropriate, but only to the extent that it fits in with local interests.

The question of sanctions to Serbia is important and needs to be discussed. In a way, the

subject is closely linked to regional cooperation in that it is a counterpart to cooperation. If sanctions were lifted, it would perhaps put the onus on the political forces in society, finally free from this outside pressure, to assert themselves. It could also be a boost to the current dynamics of opposition and civil society which are coming together. At the moment, there is the fear that even providing heating oil for two cities will play into the hands of the regime. But the two test cases should be tried. If they work, they will send a clear sign that the action taken till now was not against the Serbian people, but against the regime. There is a philosophical question of when retribution must end and reconciliation begin. An overwhelming majority of speakers and participants were in favour of alleviating sanctions against Serbia. Not only are sanctions ineffective, they penalise the wrong people, have enabled black market profiteering and are generally simply undertaken to assuage the conscience of other states and allow them to convince themselves that something has been done. Some concessions should be extracted in return, such as early presidential elections with an equitable election law and international election monitoring.

Stability and Economic Reconstruction

The Stability Pact can be described as a high level political commitment which has the advantage compared with previous experiences of bringing together all participants that have an interest in stability and peace and reconstruction in the Balkans: the EU, the G-8 countries, all southeastern European countries, including a number of observers and facilitating countries; all international financial institutions from the World Bank, the IMF, the EIB, to the EBRD; as well as all the various semi-public and semi-private initiatives that have been created throughout the years. The final objective is to further comprehensive development of the region and regional cooperation among the countries and finally to integrate the region into the Euro-Atlantic structures. The approach has to be regional in order to face globalisation. The crucial difference from the Marshall Plan is that certain preconditions have to be addressed to be able to use the money well: fundamental economic reforms have to be carried out to create an environment conducive to private investment.

The objective is also to foster a regional approach in the strategies of the international financial institutions: macroeconomic adjustments, structural reforms, projects and balance of payments finances. The Stability Pact has no money itself, but coordinates and plays an important role in convening the final decision-making instance, the donors' conferences. These have already been held, but the objective is a regional donors' conference.

There will be arrangements for a unified payment system and investment guarantees. A fixed part of investments for projects should go to local investors. The Pact will be looking for a way to involve the private sector both from the region and from industrialised countries.

The Stability Pact has three working tables which interact: Human rights, democracy, the rule of law and good governance; Internal and external security; Economic reconstruction. The working method adopted in all three tables is aimed at 1) avoiding duplication of efforts and instruments; 2) making the best use of international financial institutions and organisations; 3) making sure that the ownership of the projects is in the hands of the countries of the region.

Two main areas for action have been identified in the working table on economic

reconstruction: projects and institution-building. As far as projects are concerned, the lead management role has been assigned to the World Bank for the overall regional development, the EIB for large infrastructural projects and the EBRD private sector related projects. The last two will have to work together.

Five conditions are needed to make the Stability Pact a success: 1) the political momentum must be kept up; 2) parallel progress must be made in the field of financial assistance and fundamental structural reforms; some form of conditionality between the two has to be established; 3) Europe has to take the lead; 4) there has to be broad consensus between Europe and the US and other G-8 countries; and finally, 5) given the geographic position of Serbia, a realistic approach to the Serbian question is required.

Economic Aspects of Regional Cooperation: Prospects for Development and Reconstruction

Despite problems, there is some history and experience of regional cooperation in the Balkans. But very little came out and that which did was usually in low politics rather than in high politics. There has been a resurgence of interest both from local actors, again in low politics, and from outside actors, but nothing much has come of it.

Intra-regional trade in the Balkans amounts to almost nothing (0-2% of total trade), although some of the trade links that existed in the countries of the former Yugoslavia before 1989 have been maintained. A first step would be to reactivate them. Intra-regional investment (mainly from Greece and Turkey) amounts to even less. There is still substantial trade between Macedonia, Yugoslavia and Bosnia-Herzegovina, although it is rapidly declining. All individual countries have switched their trade increasingly to the EU, which accounts for between 50–80% of the total. Within the EU, two countries stand out: Germany and Italy. For some countries, Russia is also an important partner.

Regional cooperation is interesting and desirable not only for economic but also for political reasons. And although it could be argued that it is of value in itself, it was generally agreed that it makes sense only if tied to the prospect of EU membership. The countries are too small and too peripheral and have too little to offer each other in economic terms. The EU has to act as a catalyst not only to promote the progressive integration of individual countries into the EU, but also to use that prospect to further regional cooperation. There are four countries - Germany, Italy, Greece and Austria – which have a substantial political and economic stake in the region.

There is some doubt about what the EU should be doing. It would be a great political and economic success if the EU were to decide to use the 1.27% GDP of the EU budget limit fully. The EU's Balkan policy – if the EU were to have a Balkan policy – should refer to four main parts: trade, aid, the institutional dimension, and regional cooperation. There should be rapid trade liberalisation between the two sides. The EU could complete liberalisation for industrial goods immediately, but with an element of asymmetry, namely granting the Balkan countries a transition period, that could be differentiated by country. A rethinking of the Common Agricultural Policy (CAP) is also required. That is, its quotas for agricultural exports from the region must be progressively increased. But the WTO Seattle Round is starting soon and since the coming 12 months are election months in the US, it is unlikely that anything will be done until there is the next president. Even more unlikely is that the Seattle Round can be used to bring the EU and the US together to solve questions in the Balkans. Some dispute settlement mechanisms could, however, be put on the agenda in Seattle.

Furthermore, trade liberalisation should be linked to regional liberalisation, so that individual countries would be liberalising not only *vis-à-vis* the EU, but also *vis-à-vis* each other. It should produce a free trade area inside the Balkans.

There will be no serious solution of the Balkan crisis until there is a shift from the reconstruction to the development phase and this shift will not take place until the private sector is heavily involved. New methods must be found to involve small firms (in groups) to take active part in and get profit out of reconstruction (the Italian rather than the Irish model of development). But this requires the introduction of another element into the already complex framework set up by the Stability Pact: national governments – on the assumption that the Balkan area is not just a short-term security issue, but a long-term security and economic opportunity.

Economic aid should be aimed, in order of priority, at public infrastructure (roads and transport); employment generation (high levels of unemployment in the Balkans – in some places as high as 40% – are politically and socially destabilising); restructuring of the financial sector; and institution-building. Infrastructural aid is probably the most visible item that can send a signal to the citizens of southeastern Europe that they are going to be better connected with Europe (for example, the Danube should be considered a public good).

EU economic aid or Balkan policy has to be based on conditionality. There is no reason why these countries should not be prepared to accept it as long as they receive something in return.

Institutions and the rule of law are weak throughout the region. Any economic reconstruction undertaken without a strengthening of the institutional framework and the rule of law will be absolutely wasted.

Finally, as long as borders are not clear, people will not devote resources to reconstruction. War economies and war societies are emerging in the region, in which resources are not put to good use in terms of economic build-up. Some, if not most of the economies of the region are or are becoming aid addicted. While there is much unemployment, the invisible part of the economy is very vibrant. There are two sides to this situation: while it means that the people are getting by, it also means that there is no government control, the governments are controlled by the invisible side of the economy. Furthermore, we are witnessing a proliferation of protectorates, whether hard or soft. The special discipline of the economics and politics of protectorates has to be rediscovered. The paradox is that people in the region love sovereignty. How can the quest for identity and the normal desire of people to empower themselves and govern their own affairs be reconciled with the need for a foreign presence in the region to keep order and help build institutions?

The solving of regional issues in the Balkan region is complicated by the problems on the Western side: the EU wants free trade but not to touch the CAP; it wants to launch another ambitious project but does not want to spend more money in total; while talking about inclusion, it forces countries to practice exclusion with its fixed borders imposed by Schengen. The EU itself requires institutional reforms so that enlargement can take place effectively. Perhaps the new presidency of the Commission will keep up the momentum. There has been some talk of adoption of the euro or of currency board arrangements by Balkan countries. These countries are not yet ready to move in that direction. It is naive to believe that adopting the euro can solve the economic problems of the region. It would impose a strait jacket on economic development, increase the inflexibility of economic

policy instruments, and make management more difficult. But in many cases, some participants observed, foreignisation of the currency has already occurred. Indeed, since the Deutschmark is already widely used in the area, wouldn't it be better to use the euro, especially for trade and investment? Contingency planning is required in this respect. Bosnia was used as an example of foreignisation: the issue was one of the first to come up and once it was solved, it brought some stabilisation to the economy; not development, but a precondition for development. Nevertheless, the same example clearly shows that monetary stability is not the main problem.

There are two further obstacles to Balkan regional cooperation: the continuation of the Milosevic regime (no regional reconstruction is possible unless it includes Serbia) and the rather intransigent and short-sighted attitude adopted by the West and notably the United States in the region, especially towards Yugoslavia, which makes the likelihood of reconstruction even smaller.

Organised Crime and Regional Cooperation in South-East Europe

Economies are easily criminalised after wars. The economic resources generated by organised crime are directly and deliberately used to destabilise the society, the political system, the administration and the economy. In the Balkans, where these pillars are already very weak, the extensive network of criminality is complicating institutional and democratic reconstruction.

Furthermore, trans-national networks create a direct attack on what could be defined as territorial integrity. Grey zones make political and economic aid difficult. The criminal picture in the Balkan area is largely determined from the "outside", by Russian, Italian and Turkish/Kurdish organised criminal groups. These agglomerations create the environment in which local groups act and prosper. Finally, there are important connections with financial offshore facilities: Malta, Monaco and Cyprus.

There is then the problem of the links between political power and criminal groups. The war in former Yugoslavia cannot be explained fully without looking at the level of corruption and the interaction between militias and criminal trafficking. The financial muscle for many of the militias is managed in bank accounts either in Russia, Switzerland, Cyprus or Lebanon.

Mass forgery is a risk. There have already been forgeries of the Deutschmark, presumably there will be of the euro once it is introduced.

The advent of the new information and communication technologies has brought about a spread of new financial services via internet based networks. The ease and speed of money laundering has increased exponentially. The recent scandals with the offshore financial centers are only the tip of the iceberg. Although we have primarily low-tech forms of organised crime, at the same time the new information and communication technologies provide a huge and effective platform for the spread of criminal practices. There is a lack of specific technical knowledge within law enforcement agencies. Even the US law enforcement agencies do not have enough manpower and resources to deal with it, not to speak about the European Union and, much less, the law enforcement agencies in the Balkans. Furthermore, these agencies usually do not talk to each other and there are very few attempts at macropolitical analyses of the issues. One positive sign, however, is that it is being addressed within the larger context of the Stability Pact.

Numerous examples of cooperation were given, in many cases stimulated from outside: police administration forces, customs administrations, multinational police forces, back

channel contacts. But bland assistance without enforcement and investigative powers does not help. Existing structures must be used to coordinate a number of multi-bilateral initiatives and Europol seems to be the right forum for this, if staffing is increased. The guidelines that already exist among Schengen countries to exchange information with non-Schengen countries should be enforced. And the intelligence cooperation that already exists should be strengthened. Mechanisms should be set up in the EU's second and third pillars, that is CFSP and JHA, to manage humanitarian camps more effectively. Unless these camps adopt the rules of extra-territoriality or are given diplomatic status, it will be very difficult to avoid the human trafficking which often starts there. Finally, non-lethal weapons are useful and should be quickly developed for use in the fight against human trafficking.

An anti-corruption initiative in Bulgaria consisting of a number of NGOs that are working closely with the government was described as a positive example. Between the summers of 1997 and 1998, the Bulgarian government undertook two very important measures to counter crime and corruption and seriously undermine the economic base of organised crime: it took action against illegal activities in the insurance business and against the illegal production of compact discs. Although no data for this kind of organised crime is available, private and public surveys have pointed out that there is now a considerably lower fear of racketeering and extortion. As for cds, the annual black market which was estimated at around D-mark 20 million has been almost eliminated in Bulgaria, but unfortunately has simply moved to Russia, Moldova and Ukraine. Nevertheless, the measures have been very effective in cutting the roots of organised crime in Bulgaria.

The anti-corruption initiative or process called Coalition 2000 (website: www-online.bg/coalition2000) has established the most comprehensive anti-corruption action in all post-communist countries and a unique corruption monitoring system. But it is an expensive exercise, as anti-corruption efforts – like corruption itself – increase transaction costs, as well as slowing down the processes that they are to control. The initiative works in five main areas: creating a favourable institutional and legal environment for curbing corruption; reform of the judicial system; curbing corruption in the economy; enhancing civic control of the fight against corruption and changing the public perception of corruption; international cooperation.

It was observed, however, that the problem of organised crime in southeastern Europe must be put into perspective. There is much alarmism about it being exported from southeastern Europe and yet, not enough information is available. Sources are almost totally journalistic. Organised crime is not a specific country problem, it's a truly European problem. Indeed, Western attention towards southeastern Europe is moving away from refugees towards crime. This could suggest a change in policy towards the region. Yet, it makes little sense to focus on developing customs regimes and new police forces without development of the context within which those work professionally and legally, namely functioning states and growing economies. The real dilemma is what social science defines as the simultaneity problem: in these countries, wholesale reforms have to be carried out simultaneously in the political, economic, and social fields. This is a Herculean task.

Can the problem not be disaggregated in order to tackle it effectively? The various criminal groups of Albanian ethnicity in the various countries, for example, are quite different and not linked. The organised crime around the ports in Durres and Vlora, linked to the Italian networks, are very powerful and strong, but specific in what they focus on

and very different from the gangs in northern Albania that are using the KLA arms smuggling routes to infect Kosovo or the heroine smugglers. (Some doubt was thrown on the separateness of the various criminal groups, which were said to be high tech and often have very sophisticated links.)

Corruption in BiH and other countries is also different, although it is certainly the case that parallel structures are entrenched and strengthening, and provide a basis for organised crime. Corruption exists partly because of the war, but partly also because of the approach to peace-building and security in the region, which seems only to have strengthened these informal structures. The main effort of enforcing the Dayton Accord by the civilian structures in Bosnia is decertification. When you deny someone their elected official position, you just push them into an informal sector, you don't end their power base or their capacity, in fact, you make it easier for them to operate criminally. The same is true of the Hague Tribunal indictments. This is an important process, but if all you do is indict, then you simply give more reason to act criminally.

The production of drugs in the area is increasing: cannabis is being grown in the Neretva Valley and coca by the Columbian mafia around Vlora. This occurs when you cannot sell the kind of production that is traditional to an area. Once you shift to coca, it is very hard to shift back. Even in this regard, the need is felt for a reform of the CAP.

Of course, weak states – as was repeatedly stated – is what makes it possible for the various mafias to take advantage of this breeding ground. Protracted international protectorates only maintain weak states, they do not strengthen them. Furthermore, mixed signals have been sent to the region: on the one hand, *Realpolitik* wants stability and so one turns a blind eye to all sorts of activities of the criminalised state and criminalised economy; but this sends a completely opposite signal to all those who are trying to build institutions and to work on the simultaneity problem. Some participants observed that, in some ways, Europe is showing more determination in isolating itself from the Balkans, by strengthening its borders, than in integrating it. Indeed, if there were more legal immigration into European countries, less Schengen restrictions, wouldn't this undermine the market of the human traffickers? It would also have repercussions on drug trafficking, as it was pointed out that there are links between migration and organised crime, migration and drug trafficking: in order to pay for their passage, some people are willing to act as drug carriers.

It was emphasised that the pernicious effect of the drug issue on the countries themselves must not be forgotten. Transit countries inevitably develop consumer problems. Bulgaria now has about 70,000 heroine addicts, starting practically from zero ten years ago. It was suggested, in relation to the decriminalisation of drugs, that it might be a good idea to see how to separate the really unacceptable activities from the ones that could be managed, be acceptable, be legalised in order to recuperate the talent and energy that is put into these activities and channel it into the legal sector.

Balkan Regional Cooperation and the Return of Refugees

The refugee issue has had dynamics and implications that go far beyond its numerical dimension. There have been five million refugees in the Balkans since 1991 and today there are still 1 ½ million refugees or displaced persons, the latter mostly in Bosnia-Herzegovina. Returning minorities groups to what are now majority-held areas is now the main focus in BiH and to some extent means trying to reverse the very objectives of the conflict. It is widely held that Dayton consolidated ethnic partition rather than facilitating

minority returns. Indeed, only about 150,000 minority returns have been carried through in the region since Dayton was signed.

Kosovo, on the other hand, has been an example of majority return, with 800,000 Kosovar Albanians coming back to Kosovo since the end of the bombing campaign. Tragically, this majority return has led to a new minority exodus.

Finally, there is the refugee population in Serbia. The biggest refugee population, that is, people who have actually crossed borders, is in the FRY. The Serb refugee population there (500,000 refugees and up to 200,000 displaced persons) is going to go through an equally harsh winter in an economically deprived and depressed Serbia without basic services. This is an issue which needs to be urgently addressed.

There is a regional dimension to these population displacements; for example, some of the Krajina Serb refugees who fled to Serbia and ended up in Kosovo had to be removed and repatriated to Croatia. The criteria for return are also applicable regionally: respect for basic rights and security is the starting point for the return of displaced populations – the rule of law based on non discrimination; access to basic services; resolution of property issues; a positive political, economic and security environment. The mass destruction of documents and denationalisation are also serious problems that must be solved. In this sense, the concepts underpinning the Stability Pact are welcome.

Kosovo is specific in that it saw the most rapid refugee exodus in recent history – 800,000 in two weeks. Unpredicted by any authorities, it was unpredictable partly because it was organised, controlled, turned on and off by the Yugoslav military forces. The humanitarian war's objective was successful in that immediately after the conclusion of the NATO bombing on 12 June, the first refugees were returning from Macedonia (50,000 per day), despite pleas from UNHCR to wait. Only a few tens of thousands are left in Europe but Europe is offering incentives for voluntary returns, while considering forcible returns in some situations. The plea to these countries is to wait until after the winter, not to impose other reluctant returnees on an already highly fragile and difficult situation.

In Kosovo, the damage to the infrastructure was light, but the damage to housing was much greater than expected. In addition, the administration has simply been denuded of its expertise and a lot of its equipment. Serb employees left all key areas and in many cases took vital equipment with them.

The major challenges include security and the winter. A basic message which has not come across is that there will not be reconstruction before the winter. Expectations are high and the EU-led reconstruction programme will have to come into play very quickly in spring if a massive backlash from the population is to be avoided.

Another major challenge is the struggle for tolerance, which has been largely unsuccessful so far. Revenge attacks on Serbs and Roma, above all, have been widespread and continue on a daily and weekly basis. The overall crime rate is down, but the exodus of Serbs and especially Roma from Kosovo continues. (The issue of the Roma, which is hidden in a sense, but crucial and structural, has to be tackled at the regional and no longer at the national level and requires a European approach as well.) The Serbs live in enclaves, usually protected, probably armed, and those who do not are vulnerable to attack by the local population. The minorities who remain have no freedom of movement. It is probably too early for widespread reconciliation, but some key steps can be taken in this direction: continued attention to the UN police force; establishment of a legal system; intensification of the work of the war crimes tribunal; more forceful pressure from the international community on Albanians leaders to take a more principle stance, and more support for

moderate forces. Care must be taken here, though, as such support can backfire if too overt, damaging the opposition leaders. Friction between the local population and the UN is inevitable, partly because of the control of the administration, the substitution of a national authority by an international authority and unrealistic expectations. The confused Security Council mandate 1244 does not help. Nevertheless, many people want a stronger UN role, they want the UN to step in and fill the power vacuum.

Humanitarian action is inadequate to deal with what remains fundamentally a political and security issue in the region. It is the absence of human rights that has led to instability in the past decade. Therefore, economic reconstruction alone in the region is not enough; a deep and sustained commitment to political and institutional reform based upon democratic institutions and the rule of law is required. Even if the Stability Pact receives the necessary funds, they will be wasted without democratisation. Absence of a police or judicial system has allowed the Albanians to exact revenge more easily. This will not stop when the last Serb has left Kosovo. And those who have left or been expelled from Kosovo will not return until they are convinced that their rights are constitutionally and institutionally protected. Kosovo remains the centre of this instability; indeed, while Kosovo is too small to solve the problems of the region, it can contribute to destabilising it.

It was observed that there is a necessary link between refugee return and regional stability, especially between political and population stability. This link may appear obvious today, but until recent times, it was not obvious at all. Forced migration issues tended to be downgraded to humanitarian issues, without direct political implications. Refugees tended to be considered a sad, but nevertheless side effect of political instability and conflict and not as a cause of conflict itself.

This interdependence has two sides: in a context in which the dominating political culture envisages violence as a means of solving conflicts, political instability produces population instability, forced migrations, but population instability also generates further political instability. If this equation is true, then democratisation, on the one hand, and a certain degree of freedom of movement, on the other, are the solution and the prerequisites for stabilising the regional context.

During the period of transition to a situation of greater democracy and greater freedom of movement, population instability will continue to be a reality. Forced migration is likely to continue and forced permanence of minority groups in foreign territories or extraneous territories will also continue. New tools must be found for managing future forced migration movement in the region, such as some form of screening *in loco* for future protection needs and additional instruments for protection.

It would be a good idea to make a more detailed analysis of the experience in Bosnia-Herzegovina to single out best practices at the local level. And also to define a set of clear and strong incentives and disincentives for majority communities to favour minority returns so that the resulting social and demographic situation is sustainable. It was mentioned that the alternative strategies to return developed by UNHCR, namely local integration and resettlement or relocation, are extremely vague and have to be defined more precisely, taking into account the need for a just burden-sharing in the region. The latter is a hard issue in Europe and must be dealt with at the level of the Stability Pact. It was pointed out that during the Kosovo conflict, governments far from the area were pressing governments close to the area to accept a scheme of quotas for refugees. They collectively rejected the scheme, in a first instance of regional cooperation regarding

refugees. In fact, establishing quotas for accepting refugees only helps the policy that produced the refugee outflows.

After such a massive investment in the conflict, the post-conflict reaction is much lower-profile and rather impatient. The investment in the peace does not come close to even a part of the investment in the war. One can see the impatience to have elections, to move on, to bring people back, to turn to other things and this impatience is extremely worrying. Elections, for example, are only a part of a process. They cannot be a substitute for other processes. It would be a grave error to conduct elections before they could be free and fair: needed are a registry, a proper electoral law, and free and functioning media. This is a long-term engagement, the West has to stay with this process if the conflict and the reasons underpinning it are to be justified in the long term.

Assessing Regional Cooperation Initiatives

As concerns cooperation in security, SFOR in Bosnia-Herzegovina was given as an example. This cooperation under NATO has had both its good and bad sides. On the negative side, the NATO presence has been no more than useful. NATO has only contributed incrementally over time to stability and security arrangements; it has not set straight the problems of the Balkans. On the good side, it has changed the relationships between the participating services. Officers from different armies have always met on informal occasions and gained intelligence on each other, but when, for the first time, soldiers are meeting and their success and careers depend on making a joint project work, this creates a different set of relationships, something that is fundamentally new. When you generate the political will to cooperate, then you are supporting and encouraging regional cooperation.

Another example of regional cooperation under NATO auspices has been the Southeast European Initiative, launched at the Washington summit and based on four pillars: 1) the consultative forum on security matters with seven nations including Bosnia and Croatia, which are not members of the PfP or the EAPC; 2) the revived efforts of the EAPC's *ad hoc* working group which generates ideas and transfers them on to other working bodies in NATO; 3) the Partnership for Peace, making an additional effort to look beyond its traditional role to use its experience and activities more effectively; 4) targeted security cooperation; e.g. in Bosnia an attempt is being made to get the Bosnian entities to undertake military projects together.

As for economic cooperation initiatives in the region, five points were mentioned: 1) contrary to some comments made (and reiterated), it seems that most of the economic initiatives in the Balkans have not been conceived in the region and have come at the instigation of outside countries (CEI, BSEC, CEFTA); 2) the initiatives are generally all in the same fields of activity; e.g. the Central European Initiative and the Black Sea Economic Cooperation both cover more or less that same fields; 3) there are generally too many participating countries; when the areas covered are vast, the objective differences and differences in interests are too great, making cooperation difficult; 4) there is a general lack of funds; 5) there are probably better prospects for bi- or trilateral, small-scale cross-border initiatives which can then be enlarged stepwise, than for large-scale projects. Particularly important are cross-border initiatives including a number of countries that share real concerns and interests. The groupings should not be formed on the basis of exclusion however, but rather because there are countries that are actually ready to cooperate. The problem now is how to bring the existing initiatives into the

Stability Pact, which has good potential as a framework within which to integrate them. The scepticism concerning the Stability Pact is understandable because of the great expectations and promises made. Since action has been slow, disappointment has followed. But it should be remembered that the Marshall Plan also had its difficulties in the beginning and only started to work after a while. Furthermore, there are clear signs of lack of cohesion among the main Western actors. Yet the Stability Pact should not be condemned so soon. There are some positive aspects: first, it has a regional approach, a lesson learned from Bosnia. The Pact uses the carrot i.e. integration into the European structures, in a very clever way, setting conditions for obtaining it (no country will benefit from Western support unless it proves to be a factor of regional stability, which means internal stability, but also good relations with its neighbours). The Pact has also given momentum to a number of small but important initiatives, such as the presentation of joint projects worked out at the foreign minister level or the networking of civil society. These are small steps but they go in the right direction and manifest a new mentality deriving from the crisis in Kosovo.

It was pointed out there are also some problems, however. There are differences in the perception of the priorities of the Pact: the West puts the emphasis on democratisation and the creation of civil society. Locally, the urgency is for the economic part to start. Indeed, it is difficult to see how democratisation can realistically be expected of a population when 50% are unemployed.

What is missing in the current approach is the emphasis on education and culture. Everyone living in the region knows that economy and politics may have been important factors in the crisis, but the roots of the crisis lie in the culture existing in the region which fuels nationalism and the need for an enemy. The Balkans will never really be part of Europe as long as there is an ethnic or even tribal concept of citizenship. This requires a long-term vision of educational reform and a change in the way history is perceived. Yet, no international attention has been given to culture.

Finally, the two most important problems. There can be no integration of the region if it contains two black holes: Serbia and Kosovo. The regional approach is the right one, but it has to include the entire region. Yet, the solution is not so simple. Putting all the blame on Milosevic is very dangerous; it is not so certain that the opposition would be any better if it were to come to power. It is important that Serbia be integrated into Europe, but first it has to be integrated into the region. This means that the Serb opposition has to give signals of willingness to enter into a reconciliation process with countries with which there is a history of conflict.

In Kosovo, the situation is both embarrassing and alarming. The international community has moved very slowly and is ignoring the fact that the administrative vacuum has been filled by the KLA, whose members have simply moved into offices, taking over official positions. This will be a source of tension in the future because it will not be easy to remove these people. The West fought the war for the Kosovars and now it does not know what to do with them. This is a dangerous situation not only for Kosovo, but for the entire region.

The Role of the International Organisations in South-East Europe

In giving general considerations on the role of international organisations, especially in crisis management, in southeastern Europe, three institutions were considered: the EU/Western European Union (WEU), the Organisation for Security and Cooperation in

Europe (OSCE) and the United Nations (UN).

The EU and its CFSP continue to suffer from a credibility gap, especially evident in its action in the former Yugoslavia. In particular, the EU's bureaucratic mechanisms hinder the attainment of a common position in foreign policy. Although EU countries made every effort to reach a common position, even in spite of significantly divergent views, this often resulted in a lowest common denominator strategy. It was stated that this is still better than the old balance of power logic.

There have been several major shortcomings in EU action in the Balkans. 1) In order for the EU to develop pro-active policies, it needs a credible instrument for regular and timely monitoring of crisis situations and an effective mechanism for policy planning and the collective elaboration of possible strategies of intervention. An important step forward was the establishment of the early warning and policy planning unit, even though it cannot make use of independent expertise and its activities should be better integrated with those of other operational bodies of the Union. 2) The Union has often been unable to speak with a single voice. This has greatly undermined its credibility as a crisis manager and has complicated cooperation with the US and other international actors. The creation of a High Representative for CFSP could ensure greater consistency in EU action. 3) The diversity of the national interests involved in the various crisis situations tends to prevent the EU from making a joint assessment of the situation and defining common strategic objectives, thus hindering joint action. The EU should develop greater flexibility in the conduct of CFSP by making use of such specific procedures as constructive abstention in CFSP decision-making. 4) In general, the EU should be able to delegate responsibility for the direction and conduct of joint ventures to one or more member countries, while ensuring collective political solidarity. The systematic resort to *ad hoc* coalitions of the willing should be avoided. Effective coordination between the civilian and military components of peace missions is of key importance; the EU can make an important contribution in this field. But this would require, on the one hand, greater involvement of the Commission in the development of CFSP and, on the other, rapid incorporation of the WEU into the EU.

There have been suggestions to place all aspects of an international mission under the civilian head of mission. This does not seem to be a viable option. More realistic options are training civilian and military people to interact more effectively and to try to fill the gap between the two aspects.

Political differences among the member states of the WEU, uncertain relations between the WEU and Euro-Atlantic institutions, and the structural weaknesses of the WEU itself have prevented its activation for the conduct of major operations in southeastern Europe. Even after its eventual absorption into the EU, it is unlikely to acquire the capabilities needed to undertake large-scale intervention in non-permissive environments in the near future. It is much better suited to smaller-scale operations. There could be a certain division of labour between NATO and the WEU by assigning the WEU primary responsibility for more limited conflicts and NATO the primary responsibility for those that have a potential for escalation and spillover. The WEU is also the most suitable instrument for the conduct of military or police interventions in the context of wider international action entailing a robust civilian component. In particular, WEU action seems quite natural where the EU coordinates international activities in the civilian field. NATO, on the other hand, is bound to remain by far the most suitable instrument in non-permissive environments. There is even a certain difficulty in envisaging a European-led

Combined Joint Task Forces mission in such a situation.

The involvement of the Organisation for Security and Cooperation in Europe in crisis management in the Balkan region has been growing since 1991. Although OSCE participation has been crucial, in no case has the OSCE been assigned the lead role. It has, however, undergone a promising evolution in the last few years, with some bodies acquiring an increasing capacity for greater action. Nevertheless, the consensus rule is still a major obstacle to development of a greater security role of the OSCE. Generally speaking, the OSCE is likely to focus mainly on operational tasks because its role as a legitimising institution has proved difficult and the UN remains the main endorsing institution. A clearer division of labour is needed, however. The OSCE is likely to continue to concentrate mainly on fact-finding, monitoring activities, elections, early warning and preventive diplomacy. It has shown difficulty in developing its own peace-keeping role.

On the basis of a wide interpretation of its mandate, the High Commissioner for National Minorities has been effective in conflict prevention and mediation. It tries to have a moderating effect on minorities by encouraging them to focus on requests such as acquisition of citizenship, access to the state administration and/or parliamentary representation. Given the confidential and impartial nature of the High Commissioner's diplomacy, it is more likely to be accepted by the parties, even in the very early stages; for the same reason the HCNM interacts more easily with opposition groups and NGOs. The OSCE has also facilitated the involvement of key international actors in crisis management efforts undertaken in southeastern Europe.

Particularly two elements of the OSCE system have potential for development: 1) the missions with their growing autonomy; 2) the system assisting the Chairman in Office. Several events in the last few years have indicated that the United Nations' role in crisis management in the Balkans had been decreasing: NATO's lead role in Bosnia, its absence from Albania in 1997, the pullout of UNPREDEP from Macedonia, and its marginalisation during the bombing of Kosovo. Yet the outcome of the Kosovo conflict has renewed the involvement of the UN. But there is no clear blueprint for the resolution of fundamental institutional questions connected with the status of the region. The main rationale for assigning the UN an overarching role was to reassure Belgrade of the impartiality of the international mission. However, the UN seems ill equipped to ensure effective integration of the various civilian aspects of international intervention in post-conflict situations. The UN's role in mediation has also decreased; bodies such as the Contact Group, the G-8 and the EU appear to be more capable and flexible and often have more leverage. But there seem to be substantial obstacles to establishing sources of legitimation other than the UN Security Council that can receive broad support from governments and public opinion even in Western countries.

The Balkans have been the theatre of an ongoing tug-of-war between NATO and the UN. NATO's comparative advantage is that it is well trained in the application of military force. The events in Bosnia in the mid-nineties proved NATO a clear winner over the UN, also because the latter had been submerged with mandates without the resources to make them work. This was reinforced, at least in the US, by the new Republican Congress hostile to the UN elected in 1995. Yet in Kosovo, expectations were confounded at every step. For NATO, Kosovo was supposed to be the showcase of a new strategic concept, establishing the Atlantic Alliance as a self-authorized enforcer and intervener, sidelining the UN. The ironic outcome of the war was to put the UN back at center stage. On

American insistence, the Kosovo force was not put under UN control, reproducing the bifurcation of military from civilian authority that has bedevilled Bosnia, because the leadership of the American Congress finds it unacceptable to have American troops serving in any UN mission. It seems that, for the moment, however, the various civilian pillars are not working at cross purposes in Kosovo. Even the juridical separation of the military from the civilian side has not been a problem and this could be attributed to the fact that it is Europeans who are the commanders of KFOR and not Americans.

To conclude, however, if some of the Balkan countries are what they are today, that is, on their way to becoming full-fledged democracies and belonging to Europe, it is thanks to international organisations, starting with the CSCE which opened up the radio waves and borders, and going on with the European Union, with its Europe Agreements, and NATO and the Atlantic Club. The international organisations have been an extraordinary instrument for change within the countries. Now that European and American politicians have shown the courage to take the Balkans on the agenda, it is time for the academicians to drop their scepticism about the Balkans because they might be the frontier of Europe for the next century.