

Limited Sovereignty and Economic Security: Survival in Southeast Europe
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This paper focuses on why shared sovereignty in general has been problematic and why the political economy of liberal peace has had limited impacts on poverty and the role of crime in Southeast Europe. The analysis begins with shared sovereignty and its relevance to economic development. The paper then outlines the discouraging economic situation evidenced by documentation and fieldwork. I then ask the question ‘how do people cope?’, and try to answer this with reference to the labour market and the non-observable economy. The argument is that economy of survival has been both a negotiation with, and resistance to, economic policies introduced from outside. Finally, the paper contemplates political economy approaches that emphasise production and employment creation.

1. Shared Sovereignty for a Liberal Peace

Quite apart from the alleged hollowing out of states by economic processes of globalisation, state sovereignty is a highly flexible concept, constructed to provide various meanings in different historical contexts.¹ It is often merged, and confused, with a capacity to govern. Indeed recent articulations suggest that incapacity is an obstacle to sovereignty. States deemed to be weak, collapsing, ‘failed’ or war-torn are considered to lack the necessary mechanisms of sovereignty² – like trusteeship territories after the First World War that required nursing into sovereign statehood. Prolonged effort by trustee powers, colonial protectorates or international administrations are therefore regarded as essential to build up state sovereignty. However, the capacity criterion is also highly contingent and normative, for there is another kind of contention based on a concept of right. Some states are said to invalidate their sovereignty through failure to abide by rules of international behavior.³ In this case, they have too much capacity, have to be weakened, even invaded and converted into war-torn societies. In both cases, sovereignty is negotiated with the external world and mediated by the most powerful members of the international system who decide upon issues of failed capacity and failed validity.

The contingent and normative nature of sovereignty also raises the question of whether states should be reconstructed at all, and whether the problem lies in an idealised vision of statism and the dominant narrative framework of the developmentalist state. Normal is defined as integrated, and the primary role of the state ‘is increasingly geared far more towards the reproduction of the private national economy against normative standards set by an ideal-typical economic ‘globality’.⁴

¹ For the normative conceptualisation of sovereignty, see Thomas J. Biersteker and Cynthia Weber, *State Sovereignty as a Social Construct*, Cambridge: Cambridge University Press, 1996.

² William Zartman (ed.) *Collapsed States: The Disintegration and Restoration of Legitimate Authority*, Boulder, CO: Lynne Rienner, 1995.

³ See, Thomas Franck, *The Power of Legitimacy Among Nations*, Oxford: OUP, 1990, p.8.

⁴ Angus Cameron and Ronen Palan, *The Imagined Economies of Globalization*, London: Sage, 2004, p.19. The poor are no longer part of society but efforts to ‘include’ mean that that they are treated as

Territories in South-east Europe illustrate several of these issues. The perceived illegitimacy of Serbia's sovereignty in Kosovo, the imagined future of Bosnia and Herzegovina (BiH) as a unitary state, the protectorate administrations in Kosovo and BiH, and quests to submerge South-east European sovereignties into an EU supra-sovereignty may seem to indicate the absence of a single, guiding paradigm. But this is to ignore the liberal peace, a framework of governance introduced by external actors to war-torn societies and states in so-called 'transition'.⁵

In many contexts, from Timor-Leste to Iraq, it has been argued that peacebuilding and state-building has not worked particularly well. In some cases, peace itself remains disputed; in others, constitutions arising from peace generate discontent; and in others, reforms stall. One interpretation is that the liberal peace assumptions are fine but the implementation is flawed. Coordination among peacebuilding agencies would provide an answer, for example. But mostly the problems lie with the 'hosts' who are characterised as corrupt, incompetent or underdeveloped. Another interpretation is that state building projects have met resistance or lacked sustainability not merely on account of maverick spoilers or paucity of administrative skills. The assumptions in the liberal peace project are flawed and have weak foundations in political sovereignty.

David Chandler notes the important shift written into the report of the Independent Commission on Intervention and State Sovereignty.⁶ The Commission stressed that the rights of sovereignty could coexist with an international right to protect because sovereignty now meant a state's accountability to the 'community of responsible states' as well as to its own population. The new concept was 'partnership', which in practice signified that the accountability of local partners to external agencies rather than to their own people. Sovereignty is thus normalised by adherence to certain forms of behavior (strict budgets, human rights observance, 'good governance'). Weak and failed states, or strong states made weak by regime change, are to be relieved of sovereignty and accorded – in Stephen Krasner's phraseology – 'shared sovereignty'.⁷ This is not only a moral commitment to protect victims but a new right: the right of the interveners to determine what happens next. For economist Paul Collier this is imperative because conflict risks are asymmetrical: 'Most of the costs of conflict are for neighbours and the wider community. And so we can't allow sovereignty. We have rights.'⁸

'flawed consumers' where rules of globalisation do not apply (p.20). See also, Lionel Cliffe and Robin Luckham, 'Complex Political Emergencies and the State: Failure and the Fate of the State,' *Third World Quarterly*, vol. 20, no. 1, 1999, pp.27–50.

⁵ See, Mark Duffield, *Global Governance and the New Wars*, London: Zed, 2001; David Chandler, 'Imposing the Liberal Peace', in Alex J. Bellamy and Paul Williams (eds), *Peace Operations and Global Order*, London: Routledge, pp.64–66.

⁶ See the International Commission on Intervention and State Sovereignty, *The Responsibility to Protect: Research, Bibliography, Background*, Ottawa: International Development Research Center, 2001, p.11.

⁷ Stephen D. Krasner, 'The Case for Shared Sovereignty', *Journal of Democracy*, Vol.16, No. 1, 2005, pp. 69-83.

⁸ Paul Collier, 'Private Sector Development and Peacebuilding', conference organised by GTZ, DFID and International Alert, Federal Ministry of Foreign Affairs, Berlin, 14–15 September 2006 (text transcribed from a keynote address recording at

From a critical perspective this capacity building is highly ambiguous because the construction of international administrative power is privileged over domestic political processes. Moreover, in Chandler's view, the underlying goal of the external partners is 'not to create independent, autonomous, self-governing entities' and restore a Westphalian sovereignty, but to avoid responsibility for the exercise of power – a denial of empire.⁹ Shared governance in *post-bellum* conditions thus disguises a dual impact on sovereignty: the evasion of responsibility for power and attenuation of the ability of communities to govern themselves.¹⁰ The notion that life can be reorganised administratively and is beyond politics seems to be particularly relevant in the sphere of economic development, perhaps because it requires deference to the necromancy of econometrics that ordinary mortals cannot aspire to understand.¹¹ At any rate the internationals have had extraordinary powers of direction over economic agendas. This is not to deny the coincidences of interest among local elites and international planners. Indeed economic reform creates new opportunity structures that often benefit war entrepreneurs. But economic conversion has long been a touchstone of liberal peacebuilding, and it would be surprising if locals elites did not resist it initially.

2. Economic Transition

Indeed, it is reasonable to argue that in the economic field, not even shared sovereignty has been part of the deal. At both Dayton and Rambouillet economic transition was nailed firmly to mast of intervention, and was embedded in the constitutional arrangements for both BiH and Kosovo.¹² In effect the economic future

www.businessenvironment.org/dyn/be/besearch.details?p_phase_id=108&p_lang=en&p_phase_type_id=6).

⁹ David Chandler, *Empire in Denial: the politics of state-building*, London: Pluto, 2006, ch.2.

¹⁰ The administrative denial of power, in Chandler's terms, is: 'dishonest, reactionary and elitist', for it insinuates that power can do little to produce change, even leading to a rejection of its capacity for social progress entirely. *Ibid.*, pp.193–4.

¹¹ However, there is a growing political economy literature for BiH and a *South East European Journal of Economics and Business* began publishing in Sarajevo in 2006. See: Vesna Bojčić-Dželilović, Fikret Caušević and Rajko Tomaš, 'Bosnia and Herzegovina – Understanding Reform', Global Development Network Southeast Europe, June 2004; Susan L. Woodward, 'Economic Priorities for Successful Peace Implementation', in Stephen Stedman, Donald Rothchild and Elizabeth Cousens (eds), *Ending Civil Wars: The Implementation of Peace Agreements*, Boulder, CO: Lynne Rienner, 2002, pp. 183-214; Raiko Tomaš, 'Efficiency Constraints on the Economy of Bosnia and Herzegovina', in Christopher Solioz and T.K. Vogler (eds), *Dayton and Beyond: Perspectives on the future of Bosnia and Herzegovina*, Baden-Baden: Nomos, 2004, pp.99-119; Peter Andreas (ed.), *Problems of Post-Communism*, Vol.51, No.3, May/June 2004; Michael Pugh and Neil Cooper with Jonathan Goodhand, *War Economies in a Regional Context: Challenges of Transformation*, Boulder CO: Lynne Rienner, 2004; Nikolaos Tzifakis and Charalambos Tsardanidis, 'Economic reconstruction of Bosnia and Herzegovina: The lost decade', *Ethnopolitics*, Vol.5, No.1, March, 2006, pp.67–84; Neil Cooper and Michael Pugh (eds), 'War Economies, Peace and Globalisation', *Conflict, Security and Development*, Vol.6, no.3, special issue, October 2006; Fikret Caušević, *Foreign trade policy and trade balance of Bosnia and Herzegovina*, Sarajevo: Economic Institute, 2006; Berit Bliesemann de Guevara, 'Bosnia's Political Economy', in Michael Pugh and Neil Cooper (eds), *Critical Perspectives on War Economies* (forthcoming 2007).

¹² In Annex 4 of the Dayton accords, the BiH Constitution seeks 'general welfare and economic growth through the protection of private property and the promotion of a market economy'. In the Rambouillet

was mapped out under the control of the peacemaking powers. It was also implemented by them. UNMIK exercised almost exclusive authority for the economy in Kosovo, acting through the EU's responsibility for economic reconstruction ('almost' because USAID commanded a regulatory framework for the financial sector outside UNMIK). This external control extended to the privatisation process once the Kosovo Trust Agency became the exclusive landlord of social and public property. In BiH the economy was also in 'protectorate' hands, mainly the World Bank, IMF and EBRD. The IMF controlled the budget until 2005, and the Central Bank/Currency Board was under the direction of an international figure. The whole purpose was not classical development, but to build capacity, harmonise and to jump start BiH into the post-industrial EU environment.

As elsewhere in the region, the IFIs and international agencies have been instrumental in introducing policies in BiH to support low inflation, budget balancing, a stable currency and enhanced tax revenue. The IMF insists on VAT revenue being used to balance the budget rather than for investment, and has also tried to cut maternity leave rights and agricultural subsidies. Strategic thinking by domestic political elites and experts was also reflected in the country's Medium-term Development Strategy.¹³ Economic growth has been largely dependent on dismantling the state-led economic system and creating an environment favourable to business and FDI.

At the same time that macroeconomic austerity was introduced in BiH, localised construction booms and buoyant growth rates occurred from infusions of aid, thereby ensuring a degree of recovery. In terms of commercial law, property rights, macroeconomic policies, budgets, taxation and trade, the OHR and the IFIs introduced significant reforms, including abolition of the old payments bureaux and sales tax. But in 2000 BiH was still operating at 48% of pre-war gdp per head and reform implementation has been stumbling at best. After a 10-year presence the internationals had made an impact, but an Independent Commission on the Balkans noted alarming levels of public distrust in politics and the economic future, and described the whole region as becoming a marginalised ghetto.¹⁴ By most accounts the economy of BiH has not moved as fast or as far forward as anticipated. In broad terms, growth in production is weak, FDI slow, unemployment high; and there is a large foreign trade imbalance.

Official statistics and basic indicators (see appendix) give only a partial picture of experience and do not explain how ordinary people have coped. Statistics gathering and analysis in BiH has certainly improved since 1995 and there are now regular surveys. But basic indicators should be treated with caution for the following reasons:

document, Chapter 4, Economic Issues, article 1(1) stated that 'the economy of Kosovo shall function in accordance with free-market principles'. The ideology was subsequently included in the constitutional framework.

¹³ (EPPU, 2006).

¹⁴ Especially in Bosnia where over 70% of respondents rated both the situation and the government as 'bad'. The Commission was chaired by former Italian Prime Minister, Giuliano Amato, and comprised almost entirely of serving and former regional (male) politicians of impeccably conservative credentials. International Commission on the Balkans, *The Balkans in Europe's Future*, April 2005 (available at: www.balkan-commission.org/activities/Report.pdf), pp.10–11, 40

- There is no accurate statistic for the size of population (estimated at 3.85m in 2005). The most recent census was in 1991, and although the war exiles and returnees have been measured, there has been no record of outward migration since the end of the war. This is believed to be significant, particularly among dual passport-holding Croats. Emigration is also assumed to be illicit in part.
- There is no accurate series for gdp, let alone gdp per capita. Until 2004 gdp excluded rents, and in 2006 still excluded cooperative farm production. The gdp figures are frequently refined.
- By definition there is no accurate figure for the non-observable economy (NOE), and the possibility of flawed or fraudulent information offered to auditing authorities, such as the Central Bank. For example, anecdotal evidence suggests that international agencies have been known to overstate salaries they actually pay.¹⁵
- There are no reliable indicators for FDI outflows.
- Finally, unemployment is variously defined and rates need careful interpretation.

In addition to economic data, BiH is regularly surveyed for perceptions. The difficulties of evaluating perceptions are well-known. In a small survey I conducted of almost a hundred people throughout the country 24% agreed with the statement that the economic situation was improving (no-one ‘agreed strongly’). On the other hand, 51% disagreed or disagreed strongly. Had I asked the question: ‘do you think the situation is better or worse than in 1991, or in 1995?’ the answers would perhaps have been different. Nevertheless, there is a degree of consistency about the response to UNDP early warning surveys over time on one question in particular: ‘would you leave BiH if given a chance?’ In the first quarter of 2006, 71% of 18–35 year olds said ‘yes’.¹⁶ Overall, in the first quarter of 2006, 70.6% described the economic situation as generally or very bad.¹⁷ Perhaps because of an earlier time-lag in reconstruction in RS, general expectations for all ages were improving in Serb majority areas in the first quarter of 2006, whereas anticipation of economic deterioration was higher in Bosniak and Croat dominated areas. In Bosniak areas 20% expected to lose their within 3 months.¹⁸ Confidence in politics, institutions and administration remained very low, and in a three-quarter year period to March 2006, 50–60% of respondents had negative views of a range of measures taken by the OHR: around 30% having positive views.¹⁹

It is important to remember, however, that location is as significant as the overall picture presented by national data.

3. Borderlands and Spatial Divergences

In any discussion of economic transition it is vital to remember that spatial divergences are manifested in various ways – in spite of the sustained effort by Bosniaks and international agencies to recentralise the state.

¹⁵ Interview with local manager of EU training projects, Sarajevo, 4 Sept. 2006.

¹⁶ UNDP, *Early Warning System Quarterly Report*, January-March 2006, annex table V, p.56.

¹⁷ *Ibid.*, annex table III, p.55.

¹⁸ *Ibid.*, table V1, p.31.

¹⁹ *Ibid.*, annex table V, pp.72–73.

- First, there are continuities in the varied levels of geographical distribution of wealth and growth. Some of the poorest areas in former Yugoslavia continue to be very poor and rely heavily on remittances. Sarajevo and Banja Luka continue to attract resources and generate employment.
- Second, the war and geostrategic situation after Dayton, left some areas without infrastructure and officially-regulated trading and consumer hinterlands. Eastern and south-eastern parts of RS have experienced economic collapse as a consequence. In the north, Tuzla's connections with towns in RS were attenuated.
- Third, areas dependent on specific productive capacities have declined dramatically. The cities of Zenica and Tuzla have declined through failure to generate industrial production. Areas heavily dependent on agriculture throughout BiH have been disadvantaged by policy neglect (see below).
- Fourth, borderlands are difficult to categorise since they have both internal and classic characteristics. Some became inter-state borderlands after being internal, such as Livanjsko Polje on the Croatian border. Others, around Doboј for example, were scenes of bitter fighting in the war and are inter-entity borderlands internal to the state. Both types have been important sites of smuggling and other illegal activities. But they have also seen a revival in co-operative supplies for food processing that link poor to wealthier areas. Doboј is a base for the Vegafruit Company with 5,000 co-operatives (2,000 of which are in the poorer eastern part of the RS). This, and another company Meggle Bihać, also supplied by co-operatives, bring deprived and richer areas together.

Taking the unreliability of statistics and these uneven spatial transitions into account, how is the general picture to be explained?

4. Explanations

Of course persistent structural problems from the Yugoslav period were not easily dismantled. For example, the lack of FDI in greenfield sites is probably due to perceived instability and excessive red tape and charges/bribes, especially in securing construction permits. In BiH the most frequently-observed factors are: the levels of administration created by Dayton; the institutional/capacity deficit; political and ethnic obstacles; dependency on aid; tax evasion; corrupt elites and enriched war entrepreneurs who protect their criminal activities.²⁰

These explanations tend to assume a clash between a neoliberal modernity and a pre-modern 'Balkan way'. But this underestimates linkages between the reformist impulse and nationalist–mafia–clientalist elites, many of them enriched by primitive accumulation during the wars. The international presence and reform policies have

²⁰ See, e.g., Nikolaos Tzifakis and Charalambos Tsardanidis, 'Economic reconstruction of Bosnia and Herzegovina: The lost decade', *Ethnopolitics*, Vol.5, No.1, March, 2006, pp.67–84; Raiko Tomaš, 'Efficiency Constraints on the Economy of Bosnia and Herzegovina', in Christopher Solioz and T.K. Vogler (eds), *Dayton and Beyond: Perspectives on the future of Bosnia and Herzegovina*, Baden-Baden: Nomos, 2004, pp.99-119.

created opportunity structures for local elites. To take one example, it is apparent that in both BiH and Kosovo nationalist war entrepreneurs were in the best position to ‘capture’ state assets and to exploit the privatisation processes.²¹ International administrators/advisers and locals are also bound together by a reciprocal evasion of responsibility, blaming each other for lack of progress. Both externals and war entrepreneurs had a pliant, impoverished population in the economic sphere that could be exploited for loyalty (by the war entrepreneurs) and moulded for modernization (by the externals). Above all, the external administrators and local elites are inclined to privilege business and private wealth (whether through FDI or support to SMEs) as the motor for economic change. A third of EU pre-accession agreement funds go to support SMEs, though this is a relatively costly model for BiH, compared to development programs in Africa, for example.

I have written elsewhere about the beliefs and practices in the political economy of peacebuilding.²² The values vary from agency to agency but have a common basis in development theories, and were taken to an extreme perhaps under Paul Bremer in Iraq. The protectors introduce a model of economic transition, which ultimately derives from an imagined or idealised view of a free-market economy. By ‘imagined’, I do not mean that capitalism and its advantages do not exist in practice. I mean that the ideal is conflated with the real by ignoring inconsistencies and discords. To take an example pertinent for Southeast Europe, agricultural protection is accepted in advanced economies but regarded by external agencies as an obstacle to transformation elsewhere.

In this respect it is essential to disaggregate the capital sector. Briefly, the banking, trade and service sectors exhibit social networks that have the greatest interest in maintaining poor regulation and stifling agricultural and industrial production. Industrial production is less vulnerable to corruption, has employment potential and could be galvanised by investment, flexible employment practices, import substitution and temporary protection. It has been largely unsupported and its infrastructure neglected, and only two people in ministerial offices in Sarajevo have responsibility for industrial growth.²³ Agriculture has been even more neglected by policy elites, and in 1995–2000 accounted for only 3.82% of reconstruction value, compared to 8.20% in credit lines for the business sector.²⁴ Politicians resisted the establishment of a Ministry of Agriculture (in spite of EU pressure). When, eventually, Adnan Terzić as chair of the Council of Ministers agreed to the idea this was regarded by some in the RS as further evidence of over-centralisation in

²¹ Michael Pugh, ‘Postwar Political Economy in Bosnia and Herzegovina: the Spoils of Peace’, *Global Governance*, vol.6, no.4, 2002, pp.467–82. In Kosovo, for example, UNMIK supported \$1bn of sales to local entrepreneurs, with 80% of the proceeds placed in a ‘legacy fund’ for other claimants. But the assets were sold to government cronies at knock down prices – so that the 80% represented very little in absolute terms.

²² E.g., ‘The Political Economy of Peacebuilding: A Critical Perspective’, *International Journal of Peace Studies*, Vol.10, No.2, autumn/winter, 2005, pp.23–42; ‘Post-war Economies and the New York Dissensus’, *Conflict, Security and Development*, Vol.6, no.3, special issue, October 2006, pp.269–89.

²³ Interview with Fikret Caušević, Director, Economic Institute, Sarajevo, 5 Sept. 2006.

²⁴ International Management Group Databases, Summary Report: Donor Aid to BiH: Economic Task Force Secretariat, Vol. 3, Issue 5.

Sarajevo.²⁵ Nevertheless, food imports and lack of investment have hit many areas particularly hard, and led to protests, including a long-running ‘camp-out’ near the twin towers in Sarajevo (illustrated).



By contrast, creating a business environment has been a very high priority and this is particularly evident in the approach to growth and employment, which *is* an issue of contention.

5. The Labor Market and Abuse

The official data for unemployment based on registration is extraordinarily high: a rate above 45% in 2006. A more restrictive definition, based on people actively seeking work, as used by the International Labor Office (ILO), puts the figure closer to 30%. Most observers agree, however, that both of these measures inflate unemployment because they exclude people who are working in the grey economy. Data for 2001 indicate that 362,000 were working unofficially throughout BiH, which makes the true rate for unemployment about 20%.²⁶ On the other hand, countervailing variables also come into play: the high rate of unemployment discourages people from seeking jobs at all, and some people get struck off the registers for failing to turn up to the Employment Service for whatever reason. There are three further points to make. First, even an average rate of 20% is well above the west European average, and has been increasing steadily since 1998. Second, there are pockets where the rate is much higher, for example, in Brcko District and Zenica. Third, in order to register as

²⁵ Interview with Želko Kabanja, proprietor *Nezavisne Novine*, Banja Luka, 7 Sept. 2006.

²⁶ A World Bank calculation for 2001 claimed that about 36% of the employed was working informally. ‘Bosnia and Herzegovina, Labor Market in Postwar Bosnia and Herzegovina: How to Encourage Businesses to Create Jobs and Increase Worker Mobility’, Human Development Unit, South-East Europe Country Unit, Europe and Central Asia region, World Bank Report no. 24889-BIH, 4 November 2002. By contrast, Rajko Tomaš used labour inspection reports of municipalities in RS in 2006 to calculate that about 240,000 workers are in regular jobs; 140–150,000 are ‘unemployed’, of whom about 40,000 are working on the black market (about 20% of workers). This provides a rate of 18–20% for the RS. Rajko Tomaš, Živka Pržulj and Ivan Šijaković, *Nezaposleni: recurs ili socijalni problem?* Banja Luka: Gradfid, 2004. Interviews with Professor Rajko Tomaš, Banja Luka, 8 September 2006; Zlatko Hurtić (Economic Adviser, BiH Prime Minister), Sarajevo, 4 June 2006.

unemployed, workers have to be employed for a month. To do this they often pay employers to work.

In both the registered and unregistered markets, abuse of labour rights is quite usual. The survey I conducted in June–September 2006, the first of its kind, revealed that 14.1% of respondents had experience of failure by employers to pay at all; 57.6% had experienced failure by employers to pay on time; 26.1% had experience of only being paid part of their money; 72.8% had been required to work longer hours than contracted; 23.9% had been dismissed without notice or good reason; 21.7% had been harassed or asked to do something illegal. It made little difference whether the employer was in the formal or informal sector. Of the respondents, 35.9% had experienced rights denial in a public company, 56.5% in a private company, 5.4% from an individual and 1.1% from an international organisation or NGO. Over a third who had experienced denial of labour rights thought that an international agency had provided assistance to an employer who had engaged in this kind of abuse.

Clearly, the labor market needs to be more dynamic. Worker mobility has been modest, reflecting a skills gap. The workforce is ageing as established workers hold on to their privileges. Labor force participation is low, especially among women (only 28%, c.f. men at 62%). Deregulation of employment protection in 2000 has made it easier to fire people, but the World Bank and other institutions still cavil about highly structured and formalised wage bargaining that add to production costs.²⁷ Above all, job creation is low. SMEs may be the main source of new jobs, for that is where international assistance has gone, but job losses outweigh gains in that sector. Incentives to seek work depend heavily on work being available.

Yet the mission statement of the Economic Transition Unit (ETU) makes no mention at all of jobs, unemployment or poverty. It stresses activities have a bearing on improving BiH's fiscal architecture and making its business environment more attractive to international and domestic investors.²⁸ The Jobs and Justice program introduced in 2002 was similarly indicative of the priorities of the OHR and other agencies, relying heavily on the indirect effects in the operation of market forces, rather than direct invention of an employment policy.²⁹ The program's authors even denied that the state could create jobs, conveniently forgetting that their own salaries were paid by states or intergovernmental institutions.

6. How do People Cope?

²⁷ Bosnia and Herzegovina. Labor Market in Postwar Bosnia and Herzegovina: How to Encourage Businesses to Create Jobs and Increase Worker Mobility, Human Development Unit, South-East Europe Country Unit, Europe and Central Asia region, World Bank Report no. 24889-BIH, 4 November 2002.

²⁸ The ETU website is at www.ohr.int/ohr-dept/econ (accessed 20 March 2006).

²⁹ '@Jobs and Justice' was to serve a political as well as economic purpose. Politically, it was to assist the cross-ethnic Social Democratic Party (SDP), keystone of the Alliance for Change Government, to get re-elected. In this it failed miserably as the electors turned back to nationalist politics. The reasons had less to do with the Jobs and Justice manifesto than with the fractures in the Alliance in the context of a very narrow majority in parliament.

Poverty indicators for BiH have been tracked by the World Bank, a Living Standards Measurement Survey, and the Economic Policy and Planning Unit for the Council of Ministers. Analysis in May 2005 indicates that poverty in 2001–2004 remains at about 18%. Given, also, that 5.7% of respondents to a UNDP survey in the first quarter of 2006 claimed that they had no form of cash income, and a further 45.5% claimed they received less than 400KM a month,³⁰ the question obviously arises: how do people cope and survive? There are several reasons that have very little to do with the macroeconomic policies for transition introduced from outside. Indeed, some of the factors discussed below, such as the size of the informal economy, are antithetical to reform.

First, BiH benefited from international aid and transfers. Whereas aid still represented about 3% of gdp in 2006, transfers in the form of spending by externals, was about 9% of gdp. This may have generated a dependency culture but transfers and employment with international agencies enabled many people to get by.

Second, entitlements (veterans benefits, pensions and welfare for victims of war) have been 'life-savers'. Research on poverty indicates that entitlements are particularly important in female-headed households in the form of widows' benefits, for example.³¹ It is easy to criticise these for being a drain on the budget but the largesse is not all it seems. Entitlements are not always paid, have to be fought for, and provide a meagre source of income.³² Child benefits have already ended in most Federation cantons, even though the number of children in a household is a key factor in poverty. Health provisions are basic and often need supplementing with a bribe to get reasonable service (the bribe for an appendix operation in a Central Bosnian city is 250KM).³³

Third, the non-observable economy (NOE) is a source of income. This takes many forms and needs to be disaggregated.

- **Black economies.** Corruption and fraud have been particular features of the BiH transition, and is in part a legacy of the pre-war as well as wartime periods. This is entirely consistent with the underground economies of the second world war (when a

³⁰ UNDP, *Early Warning System Quarterly Report*, January-March 2006, p.77. Household status perceptions indicate that about 20% (67.7% in Brcko) claim to be barely subsisting, *ibid.*, p.86.

³¹ Female headed households have higher consumption than male-headed: Luigi Cuna, 'Assessing Household Vulnerability to Employment Shocks: A Simulation Methodology Applied to Bosnia and Herzegovina', unpublished paper, University of Bologna, 2004.

³² After a long campaign by women victims of the war, the Amended Law on Social Benefits created a special category for women civil war victims, i.e. those who were raped and sexually abused. They qualify by proving a 60–70% disability. In theory they are then entitled to financial benefits, priority employment, priority housing, vocational training, psychological and legal assistance. Since the law was implemented 1 September 2006, women who had qualified for this status were supposed to start receiving 350KM a month on 1 October. This did not happen, and the women were told that payments would commence at 514KM, with the probability of a 4% decrease subsequently. As of mid-February 2007 this had not been paid and women had usually not received any of the other entitlements. Information from Michaelina Jakala, Grbavica, 18 February 2007.

³³ Based on interviews in Zenica in June and September 2006.

host of new crimes were also created by legislation).³⁴ Lack of regulation and the legitimization of war elites have also played a role in the activities that deprive the government of revenue. Organised crime has been significant in sustaining the activities of war criminals, and is manifested in the plethora of petrol stations used for money-laundering. However, the BiH criminal networks, while dangerous, are not big players by regional standards and have not been targeted by external networks. However, it also has to be recognised that criminal activity provides employment and a cushion against poverty for some people at street level. If it is the case that 50% of Montenegrin gdp is based on cigarette smuggling, then such criminality clearly involves a large number of people.³⁵

- Coping economies

– *Shadow employment*. As indicated above, informal employment is such a significant aspect of the labor market that it is clearly an essential element in household consumption. It almost certainly keeps people above the poverty line, particularly in rural areas (agriculture being the biggest informal employer) and among households headed by women who are more likely to take part-time, temporary and low-income jobs.³⁶

– *Illegal trading*. In contrast to Afghanistan and Iraq there is no obvious source of widespread illegal production in Southeast Europe, such as poppy or oil. Rather, the illegal survival and coping economies depend largely on petty trading, smuggling, bribery and tax evasion. Interviews suggest that this is particularly widespread and, of course, based on cash.

– *Legal remittances and transfers*. One of the most significant, non-observable coping mechanism in BiH, Kosovo and Macedonia is the availability of diaspora remittances and transfers, continuing a pre-war tradition. These are cited variously as accounting for anything between 11% and 30% of the BiH gdp and are significant in servicing the current account deficit.³⁷ Nationally, the average amount remitted by diaspora individuals was perceived by my respondents to be worth about 200–250 KM per month. In poor, rural Herzegovinan cantons they represent a disproportionate source of income. This sector can be further disaggregated into:

observable electronic transfers, accounting for about 53% of remittances;

³⁴ In the UK, organised gangs conducted armed robberies with limited risk during the blitz. Prostitution and other rackets flourished. Administrators in government service stole from stores, especially petrol. Some 200,000 military deserters created new identities, laundered money at race tracks, traded black market goods and forged ration books. Thefts from the army were enormous. This was not merely a reflection of hostility to the command economy (shopkeepers simply could not survive on selling rationed goods). For the most part rationing was considered fair. The ‘crime’ was partly a response to new opportunity structures, the great uncertainty of life and was a way of ‘doing good turns’ to people who you might never see again. Donald Thomas, *An Underworld at War: Spivs, Deserters, Racketeers and Civilians in the Second World War*, London: John Murray, 2004.

³⁵ Peter Andreas ‘Criminalizing Consequences of Sanctions: Embargo Busting and Its Legacy’, *International Studies Quarterly*, vol.49, p.349.

³⁶ Fikret Caušević, *Foreign trade policy and trade balance of Bosnia and Herzegovina*, Sarajevo: Economic Institute, 2006.

³⁷ Interviews with Zlatko Hurtić (see above); Amir Hadziomeragić, Head of Economic Research and Statistics Unit, BiH Central Bank, Sarajevo, 5 September 2006.

non-observable cash remittances brought by couriers;
seasonal labour abroad;
in-kind transfers and diaspora expenditures (e.g. on car repairs and dentistry).

For households, diaspora assistance is essential for daily living expenses, special needs (such as medical treatment), housing, consumer goods and capital investment. But as contacts abroad attenuate and diasporas tend to increasingly invest in their new country, the diaspora slice is shrinking.

Fourth, the ‘tricks of life’. These are everyday negotiations, characterised as ‘tricks of everyday life’ by Béatrice Pouligny, have a fundamental impact on local adaptation that promote survival, social relations and social inclusion.³⁸ This kind of activity, not to be equated with morally heinous trafficking, continues a tradition, often with inter-ethnic transactions that are not mediated by the externals, and in which volatile ethnicity issues are marginalised. The tricks of life do not conform to the rationalism of the current economic engineering, nor to what the externals write off as a red-tape socialist past, but to a traditional quest for sufficiency and subsistence, quite independent of the constructed view of a transition to a particular future.³⁹ They enable people to participate in ‘free markets’ par excellence, in the sense that they are not regulated by authority but offer ‘daily reinvented social norms around the claim to subsistence’.⁴⁰

In sum, there is a case for arguing that people cope not only because of the benefits of an international administration and presence but also in spite of it. The dismissal of ‘tricks of life’ as socially corrosive and leading to moral collapse,⁴¹ is to misunderstand the social cement that it provides in conditions where social corrosion is fostered by increasing disparities of wealth under shared sovereignty. Further more, although ‘corruption’ undoubtedly accounts for a high proportion of gdp in the region, in absolute terms it pales into insignificance with corruption in Iraq and the main sites of capitalism and their offshore tax havens.⁴²

This asymmetry of morality and power in shared sovereignty is further illustrated by the issue of immunity.

³⁸ Béatrice Pouligny, *Peacekeeping Seen From Below*, London: Hurst, 2006.

³⁹ Larisa Jašarević ‘Everyday Work: Subsistence Economy, Social Belonging and Moralities of Exchange at a Bosnian (Black) Market’, in Xavier Bougarel, Elissa Helms and Ger Duijzings, *The New Bosnian Mosaic: Identities, memories and Moral Claims in a Post-War Society*, Aldershot: Ashgate, 2006, pp.274 (n.2), 284.

⁴⁰ *Ibid.*, p.292.

⁴¹ Andreas, p.344.

⁴² See, Raymond W. Baker, *Capitalism’s Achilles Heel: Dirty Money and How to Renew the Capitalist System* New York: John Wiley & Sons, 2005; ‘Corruption: the ‘second insurgency’ costing \$4bn a year’, *The Guardian* (London), 2 Dec. 2006, pp.16–17; George Monbiot, ‘The parallel universe of BAE: covert dangerous and beyond the rule of law’ *The Guardian*, 13 Feb. 2007, p.29; Duncan Campbell, ‘Britain is “as corrupt as worst African states”’, *The Guardian*, 4 Sept. 2006, citing John Christensen, Director of the Tax Justice Network.

7. International Immunities

Political economy is also an arena in which the accountability of the externals can be considered an issue. It might be presumed that an international body that sustains a legal regime should be held accountable in respect of the violations of that regime by its personnel effectively controlling areas and populations.⁴³ In practice the protection of privileges and immunities of missions and their personnel is secured through denial of jurisdiction, the discretionary interpretations of mandates and the idea that international organizations are not like states directly administering a society but reside at some Olympian distance from the heat in the kitchen.⁴⁴ The preservation of immunities at international and domestic level cannot be divorced from the political origins of the dispensations that grant a kind of trustee status. Although the Council of Europe's Commissioner for Human Rights has argued that in UN administrations legal and political responsibility lies with the Secretary-General's Special Representative as head of the administration, the absence of any appellate mechanisms to challenge his or her decisions is a serious issue.⁴⁵ UNMIK has exercised exclusive control and regulation over economic policy and personnel, and over public and socially-owned property and enterprises. Moreover, the constitutional framework for Kosovo specified that the Special Representative would decide the parameters of budgetary and monetary policy.

Providing remedies for citizens and domestic authorities claiming injury is thus problematic when defendants are directly employed by an international agency, which claims immunity. This was the case when the privatisation strategy in Kosovo ran into difficulties and was suspended in 2003 because international officials were unsure of being covered by immunity.⁴⁶ In BiH the international head of the Indirect Tax Authority in BiH reportedly claimed immunity when the RS Prime Minister filed a lawsuit in a domestic court concerning flawed process and economic damage in the distribution of VAT proceeds.⁴⁷ As Matteo Tondini points out, the possibility of

⁴³ Carsten Stahn, 'Accountability and Legitimacy in Practice – Lawmaking by Transitional Administrations'; Stahn, "Justice Under Transitional Administration: Contours and Critique of a Paradigm" (2005) 27, *Houston Journal Int'l Law* 311. A lawsuit was registered against the Dutch Government in February 2007 in relation to the Srebrenica massacre.

⁴⁴ Ralph Wilde, 'Accountability and International Actors in Bosnia and Herzegovina, Kosovo and East Timor, vol.7, no.2, *International Law Students Association Journal of International and Comparative Law*, 2001, p.458; Matteo Tondini, 'The "Italian Job": How to Make International Organizations Compliant with Human Rights and Accountable for their Violations by Targeting Member States', paper for international conference on Accountability for Human Rights Violations by International Organisations, Brussels, 16–17 March 2007.

⁴⁵ Tondini cites: CoE 16 October 2002, Kosovo : The Human Rights Situation and the Fate of Persons Displaced From Their Homes, CommDH(2002)11, www.coe.int/Defaulten.asp, sec. V 1(2).

⁴⁶ Bernhard Knoll, 'From Benchmarking To Final Status? Kosovo And The Problem Of An International Administration's Open-Ended Mandate', 16 *Eur.J.Imm'l L.* at pp.654–5; Matteo Tondini, 'The privatization system in Kosovo: Rising towards an uncertain future', Pristina, December 2003 (www.osservatoriobalciani.org/filemanager/download/37/Privatization%20SystemPDF.pdf).

⁴⁷ Although his term of office was extended by three months by decision of the High Representative, this was also condemned as contravening the authority of the Bosnian Council of Ministers in appointing members of the Governing Board. Interview, 9 September 2006, with former senior OHR official; N. Diklić, 'Board Chair Dixon; Dodik: RS lost KM 40 million due to some "ITA omissions" ... We are going to sue Joly Dixon', *Nezavisne Novine*, (Banja Luka), 6 March 2006, p.5; 'B-H Prosecutor's Office investigating Joly Dixon pursuant to RS lawsuit', *Nezavisne Novine*, 2 June 2006.

locating concurrent responsibility (and thus judicial liability before either human rights regional bodies or domestic courts) with state participants in international policing and administration is perhaps the most promising avenue, which could open the way to a more comprehensive political and legal response to the issue.⁴⁸

8. Recommendations

Statebuilding

Whether BiH can become a traditional unitary state is rather doubtful, and the answer to domestic sovereignty may be to recognise local autonomies while diminishing ethnicity as a fulcrum of political disbursement. The first quarter of 2006 saw protracted negotiations over constitutional changes, leading to an agreement between the SDA, SNSD, SDS, HDZ and SDP. The proposals affected the powers and responsibilities of the state's components and had the strong support of the EU and United States. The BiH presidency, for example, was to be reformed into a single president and two vice presidents. The House of Peoples was restricted to issues of vital ethnic interest, and core state responsibilities were expanded. But entity voting was retained for the BiH Parliamentary Assembly and the entity-based structure of the state was not changed. Nor did the reforms reduce the Cantonal governments in the Federation, a layer of authority often bemoaned by the external actors for adding to corruption, the costs of government and bureaucratic obstruction. The agreement failed to progress.⁴⁹ In spite of this, negotiations with the European Commission for a Stabilisation and Association Agreement (SAA) continued but were stalled by failure to secure full cooperation with the Hague Tribunal, a public broadcasting law in the Federation that would have ended ethnic channels and police restructuring to abolish the RS police autonomy. The European Commission's conditions for progress were clearly not being met.

As critics have made clear, however, the attempt to contrive politics without grass-roots support has been highly problematic. The external engineering of elections to achieve a power-sharing, consociational model has not worked.⁵⁰ An outright majority nationalist government came to power in the RS under Dodik in October 2006. But for all its numerous flaws and reification of ethnic divisions, the Dayton agreement did accommodate the political impulses in BiH for decentralisation. If statebuilding in BiH is to involve abolition of the entities, thereby denying the pre-war

⁴⁸ Matteo Tondini, 'The "Italian Job": How to Make International Organizations Compliant with Human Rights and Accountable for their Violations by Targeting Member States', paper for international conference on Accountability for Human Rights Violations by International Organisations, *Leiden J. Int'l Law* (forthcoming, 2007). See also, Henry H. Perritt, jr. 'Providing Judicial Review for Decisions by Political Trustees', 15 *Duke J. Comp. & Int'l L.*, winter 2004. pp.1–58.

⁴⁹ Bosniak parties, notably Haris Silajdžić's Party for BiH, campaigned for a unitary system. The HDZ split with a breakaway opposition group – the 'HDZ 1990'. Small radical parties in the RS objected to the move for more centralisation. In April 2006, the agreement failed to get a two-thirds majority in the Assembly.

⁵⁰ Roberto Belloni, 'Peacebuilding and consociational electoral engineering in Bosnia and Herzegovina', *International Peacekeeping*, Vol.11, No.2, pp.334–53; David Chandler (ed.), *Peace without Politics? Ten Years of State-Building in Bosnia*, London: Routledge, 2005.

unrest brought about by perceived and actual over-centralisation of resources and authority at both Yugoslav and Republic levels, then violent resentment rather than reconciliation may recur. Paradoxically the RS bureaucracy is more straightforward for external actors to deal with than either the Federation with its cantonal government system or the BiH state.

The contours of regional autonomy need to be recognised. A centralised unitary state will be contested. A decentralised unitary state may not be enough to satisfy the quests for autonomy by the RS. A confederation (an idea subject to the vitriolic attacks of US founders, Madison and Hamilton) is nowadays more fashionable (and favored by the SDS) but is probably too ambitious for the BiH context, which lacks the forcing house of external threats. A centralised, unitary state will not undo ethnic cleansing or stall pressures for a decentralised political arrangement. On the other hand, the constitution could be altered to eliminate ethnic/religious discrimination. This may yet be the outcome of an application to the European Court of Human Rights launched by Jakob Finci, a Jewish leader, to lift the prohibition on Jews and other minorities running for the Bosnian presidency. And there are signs that prohibitions are weakening. The Minister for Education in RS is a Croat, and an SDP candidate, Željko Komsić, who during the war fought with the Bosniak Army against fellow Croats, won the Croat seat in the presidency in October 2006, thereby threatening the monopoly of the ethnically-pure Croat parties.

Borderlands

Economic enterprises that link borderlands across frontiers and bind poor areas to wealthier ones could be supported. In the BiH case, the role of farm co-operatives that feed processing industries, in milk products and fruit, for example, have been relatively successful in linking deprived areas to growth centres.

Macroeconomic Stability

The impacts of macroeconomic stability should be revisited. The IFIs have generally lacked flexibility and long-term vision in their approaches to production and equitable growth and have lacked flexibility. For example, as a quid pro quo for engaging foreign investors, states should be allowed credit or a system of concessionary bond issues. In this way the Bechtel organisation got the Croatian government to deficit finance the building of a highway.

Production

The emphasis on a service and trading economy has provided more space for organised crime and corruption. A new emphasis should be on supporting production, temporary protection, new infrastructure and import substitution. The absence of institutional support for industry and agriculture has been remarkable. The new government in Macedonia of October 2006 may provide a model in this respect. It is establishing a state marketing agency for production and processing and has introduced a lower VAT rate of 5% on agricultural equipment and materials. Co-operatives in BiH should be registered in order to provide support and tax relief on implements and materials – as well as to improve gdp measurement. Diaspora remittances are a major source of finance for post-conflict reconstruction but are

overwhelmingly directed into short-term private consumption rather than long-term investment. Policymakers should consider how to make remitting easier and cheaper and offer incentives and concessions for diaspora investment in productive capacity.

The absence of trade restrictions has created opportunities for growth in some areas (the export of hydroelectric power for example). But competition in the global market is tough and, unlike in Africa for example, large investments are required to make enterprises pay. They tap a small market, and several go bankrupt or struggle to keep afloat (e.g. Široki Brijeg paper factory). Paradoxically, the BiH Trade Protection Treaty ended in 2004–05, having operated at a time when BiH had very little to protect.

Privatisation and FDI

The process of privatisation has already been documented and analysed in the literature, but the impact of the process on production, employment, shadow economies and economic change needs investigation. The picture has been mixed. The banking sector is considered the greatest success in privatisation, whereas production and service enterprises sometimes became milch cows, notably Telecom, Energoinvest and Elektroprivreda. Privatisation and FDI have not been panaceas. The processes of privatisation have been corrupt and FDI is a fickle mistress that can diminish and extract wealth as much as improve and generate it. FDI is needed to bring in new ideas and to improve transparency. But it should be regulated to ensure investment is not carpet-bagging but accompanied by social investment.

Revenue Generation

Special attention should be paid to revenue because of its key role in state building and economic reforms. The creation of a revenue enhancing National Border Service was a significant step in BiH that has cut smuggling and duty evasion. But high employment taxes have had a depressing impact on growth and should be pitched lower. A single rate of VAT has been problematic for the vulnerable because social programs meant to compensate for hardship have not been implemented as a consequence of low institutional capacity. What is good enough for the rest of the EU in the form of variable rates good enough for the BiH. A single rate may have been easier to administer but the EU has managed the process with minimum finesse and maximum political aggravation, ratcheting up inter-entity hostility, second only in political impact to the ICJ case. Another issue in the audit regime is that there is no law requiring people to reveal the origin of their property.

Shadow Economies

There have been major strides in customs, policing and the EU's Customs and Fiscal Assistance Office is now much reduced in activity since 2001. The Single Registry of Transaction Accounts and the introduction of VAT has had a significant impact on reducing fraud and money laundering.⁵¹ But policing and administrative measures alone do not provide adequate incentive structures for formal activity because shadow

⁵¹ Interview with Dinka Antić, Indirect Tax Authority, Banja Luka, 8 Sept. 2006.

operations are easily displaced into other shadow activities. Reduction of shadow economies will depend on a more buoyant, formal employment situation.

Employment

Retraining and labour flexibility is a major problem for employers. Mittal replaced general contracts with individual contracts at the Zenica plant and will shed elderly workers. But without adequate social protection, the burden of transition falls heavily on those affected. Reduction of rigidities in the labour market (numbers, skills, capacity) should be accompanied by social protection in line with the ILO's Decent Work Agenda, EU employment policy and the Laeken criteria.⁵² But this requires strong institutions and local authorities, including employment services, to manage social protection. The aim is to provide incentives through social protection to increase productivity, mobility and willingness to adjust. It can also make allies of workers who are in a position to 'blow the whistle' on corruption. Treating the unemployed as irrelevant and surplus to requirements undermines social stability. The role of external actors could be more focused on job creation, poverty reduction, and support for the self-employed. A variety of labor-based programs generated by the ILO over the past 20 years have refined the concept of public works for reconstruction, sometimes with World Bank support. They can generate two to four times the number of jobs compared to equipment-intensive programs and, with a finessed approach, are not simply 'make-work' schemes but contribute to transition.⁵³

Conclusion

The focus of this paper has been on BiH. But there are parallels elsewhere in the region that reflect the legacies of earlier systems as well as the impact of conflict. The frontiers of Kosovo are disputed: both their status and location. On the Macedonia/Kosovo frontier (unpatrolled by UNMIK and the Macedonian forces), there is a clear instance of a classic borderland used for smuggling migrants and goods through mountainous terrain. The lack of infrastructure in this border area makes its potential for growth currently limited, but there are large, virtually abandoned, former enterprises in the valleys (e.g. cement works) that could generate economic development. Macedonia and Kosovo also have a duplication of institutions to answer the needs of ethnic groups. In Macedonia, Albanians have contrived to create their own chamber of commerce; in Kosovo, social protection in northern Mitrovica is subsidised by the government in Belgrade. In addition, both territories reveal flaws in transition processes. These include:

- the tensions arising from nationalist claims in statebuilding,
- geographical and social sector disparities in wealth and economic dynamics,
- the collapse of industrial production and mining,
- the significant role of shadow economies and high levels of corruption
- the importance of diaspora remittances to improve coping rather than for capital investment

⁵² Sandrine Cazes and Alena Nesporova, *Labour Markets in Transition: Balancing Flexibility and Security in Central and Eastern Europe*, Geneva: ILO, 2003.

⁵³ See particularly, Mike Shone, 'Labour-based Infrastructure Rebuilding', in Eugenia Date-Bah (ed.), *Jobs After War: A critical challenge in the peace and reconstruction puzzle*, Geneva: ILO, 2003.

- the paucity of FDI
- inability to compete internationally and lack of import substitution
- the neglect by internationals and local elites of high unemployment.

The common orthodoxy is that EU expansion to the region would reintroduce missing incentives to reform and provide a stabilising framework for crisis management, as it did in Macedonia. This strategy – repairing state weakness and preparing for integration – is a widely-supported solution even by populations and by critics of external intervention.⁵⁴ In BiH membership of the EU is supported by large majorities, ranging from 88% in Bosniak areas to 62% in Serb-dominated areas.⁵⁵ Yet much analysis of Southeast Europe fails to address the region’s vulnerability to economic integration with the EU, ignores the strains that liberal economic policies have introduced, and does not question whether reliance on export-led growth is an optimal economic strategy for economically weak states emerging from a war environment.

The International Commission on the Balkans noted the lack of sustainability of the small markets, and recommended that the history of economic interdependence in the region could be mobilised to create a common economic space.⁵⁶ It conforms to historical patterns of development, whereby selective protection and import substitution generates economic activity and growth – which then facilitates integration and the reduction of protection. Other economies, including the EU states and the United States (50 per cent of whose federal revenue derived from tariffs in 1900), have been through this process. Southeast Europe is expected to achieve it in ten years rather than 50.⁵⁷ Analysts generally do not discuss the region’s vulnerability to economic integration with the EU, ignore the strains that liberal economic policies have introduced, and do not question whether reliance on SMEs and export-led growth is an optimal economic strategy for an economically underdeveloped and weak states emerging from war.

What does this mean for the future of shared sovereignty? As the philosopher Terry Eagleton writes: ‘Unless authority entwines itself with the roots of people’s experience and identity it will remain too abstract and aloof to win their loyalty’.⁵⁸ Moreover, empowerment in countries that resist integration lies in what John Burton called meeting ‘basic needs’. In his critique of US global social policy Francis Fukuyama recognises:

[t]he reason that Washington has so little to offer in the social sphere is that American politics itself has focused on cutting back on the state sector

⁵⁴ B. Steil and Susan L. Woodward, ‘A European New Deal for the Balkans?’, *Foreign Affairs* Vol.78, No.6, November-December 1999, pp.95–105.

⁵⁵ UNDP, p.91.

⁵⁶ International Commission on the Balkans, *The Balkans in Europe’s Future*, April 2005 (available at: www.balkan-commission.org/activities/Report.pdf), pp.31–2

⁵⁷ Susan L. Woodward, ‘Economic Priorities for Successful Peace Implementation’, in Stephen Stedman, Donald Rothchild, and Elizabeth Cousens (eds.), *Ending Civil Wars: The Implementation of Peace Agreements*, Boulder, CO: Lynne Rienner, 2002, pp.183–214.

⁵⁸ Terry Eagleton, ‘Those in power are right to see multiculturalism as a threat’, *The Guardian*, 21 Feb. 2007, p.32.

and social services in the past generation...[but] if true supporters of liberal democracy and free markets are ever to compete successfully with the Islamists and populists of the world, they need to have a social agenda that gives some hope not just to the middle-class and educated, but to those isolated and excluded as well.⁵⁹

In the UNDP's surveys of BiH, the economic stability index is always the weakest element in the raft of indexes, and the economic record of the OHR is rated as negative by 54.1% of respondents. More than any other causes, the loss of work, inability to find work, pensions and repossession of property would bring people out to protest or strike, however futile such gestures might seem. Yet work and income generation, which would increase consumption power, does not seem to have been a particularly high priority for local elites and external actors. Certainly, it is essential to deal with the issue of shadow economies through policing, regulation and the creation of a beneficial business environment. However, these efforts have not so far sufficed to wean people off non-observable economies, including 'crime' and informal employment. Other, creative approaches now also need to be considered.

⁵⁹ Francis Fukuyama, 'Commentary: Keeping Up With the Chavezes', *The Wall Street Journal*, 1 Feb. 2007.

Appendix: BiH Economic Indicators, 1998–2006

Indicator	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nominal GDP: million KM	7,650	8,990	10,050	10,480	11,651	12,303	13,440	14,361*	
Real GDP: % change (ex. NOE, inc. inflation)	n/a	9.9	5.5	3.8	9.9	4.5	8.5	4.0*	
GDP per cap. current prices	2,413	2,685	2,886	2,758	3,066	3,238	3,537		
GDP per cap inc. NOE	n/a	n/a	n/a	n/a	4,424	4,668	n/a		
Registered Unemp (%)	37.4	38.9	39.7	40.0	n/a	41.3	41.9	43.3	47.0
Unemp rate ILO criteria (1)	n/a	n/a	n/a	16.1	20.9	n/a	23.8	n/a	31.1
Self-evaluated % Unemployed	n/a	n/a	n/a	16.1	20.9	n/a	23.8		
Employed	n/a	n/a	n/a	44.3	45.4	n/a	45.4		
Inactive	n/a	n/a	n/a	39.6	38.7	n/a	30.8		
Poverty (% below poverty line)	n/a	n/a	19.1	19.5	n/a	15.4	17.8		
FBiH RS	n/a	n/a	n/a	16.3					
	n/a	n/a	n/a	24.8					
Income share of Richest 1/5 th (7)	n/a	n/a	35.8	n/a	n/a	n/a	37.1		
Agric prodn % change	n/a	n/a	-6.8	+4.8	+2.6	-6.5			
Industrial prodn % real change	+8.0	+7.9	+4.9	+5.7	+5.1	+12.1	+11.0		
CPI: % p.a.	n/a	5.6	4.9	3.1	1.3	1.1	0.7	2.9*	
Government Budget (% GDP)	-7.8	-7.0	-3.3	-0.2	+0.8	+1.0			
Current a/c bal. (% of GDP)	-10.2	-8.7	-16.9	-22.1	-24.5	-22.3	-21.8	*	
FDI inflows € millions	165.9	158.6	132.8	281.8	337.6	400.4	240.0		

Notes: n/a not available; NOE non-observable economy; CPI consumer price index; FDI foreign direct investment.

* estimated.

† The unemployment rate is based on the size of the active labor force. For definitions and ILO criteria, see *Labour Force Survey*, April 2006.

Sources: European Commission, *European Economy: The Western Balkans in Transition*, Occasional Paper no.1, DGA Economic and Financial Affairs, Brussels, January 2003; Central Bank of BiH; BiH Statistics Agency; IMF and World Bank reports; Vienna Institute for International Economic Studies (WIIW) and

Balkan Observatory; *Living Standards Measurement Survey*, 2001 and panel surveys in 2002-04; *Living in BiH* surveys, 2001-04; BiH Economic Policy Planning Unit working paper, No.1, 2006; *BiH Medium-term Development Strategy Paper*, 2006; *Preliminary Report of Poverty in BiH for 2001-2004*, May 2005; *Labour Force Survey*, 2006; quarterly UNDP Early Warning surveys.