The Political Economy of Peacebuilding in Post-Dayton Bosnia

Timothy Donais

Contemporary Security Studies

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This book examines the political economy of the peacebuilding process in Bosnia-Herzegovina in the aftermath of the country's 1992–95 war. Starting from the position that little progress has been made to date in transforming Bosnia's war-shattered economy into a functioning market economy, the book seeks to understand and explain the principal dynamics that have led to this disappointing result, and to place Bosnia's economic transition process within the context of the country's broader post-conflict peacebuilding process.

The book's central argument is that much of Bosnia's ongoing economic crisis, and its current reform stalemate, can be explained by exploring the interactions of an inappropriate international model of economic reform with the country's particular post-conflict and post-socialist political economy. In making this argument, this study draws on recent theoretical literature on the political economy of post-socialist transitions and on the political economy of conflict, attempting to draw lessons from each for the Bosnia case.

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First published 2005
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

Simultaneously published in the USA and Canada
by Routledge
270 Madison Ave, New York, NY 10016

Routledge is an imprint of the Taylor & Francis Group

leading role in roUnited Nations High Commissioner for RefugeesTransferred to Digital Printing 2006

Typeset in Times
by Keystroke, Jacaranda Lodge, Wolverhampton

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging in Publication Data
Donais, Timothy.
The political economy of peacebuilding in post-Dayton Bosnia / by Timothy Donais.
p. cm. – (Contemporary security studies)
Includes bibliographical references and index.
ISBN 0-415-35731-4 (hardcover)
1. Bosnia and Hercegovina–Economic policy.
2. Peace-building–Economic aspects–Bosnia and Hercegovina.
3. Bosnia and Hercegovina–Politics and government–1992–
4. Dayton Peace Accords (1995)
I. Title. II. Cass contemporary security studies series.
HC402 . 5. D66 2005
949 . 703–dc22
2004023373

ISBN10: 0-415-35731-4 (hbk)
ISBN10: 0-415-40792-3 (pbk)

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Acronyms

BiH	Bosnia-Herzegovina (Bosna i Hercegovina)
CAFAO	Customs and Fiscal Assistance Office
CNB	Czech National Bank/Croatian National Bank
DA	Dnevni Avaz
DM	Deutschmark
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ESI economic recovery: uc,	European Stability Initiative
EU	European Union
FIPA	Foreign Investment Promotion Agency
FDI	Foreign Direct Investment
FPA	Federation Privatization Agency
GAO	General Accounting Office
GDP	Gross Domestic Product
HDZ	Croatian Democratic Union (Hrvatska demokratska zajednica)
HRW	Human Rights Watch
ICG	International Crisis Group
IFI	International Financial Institution
IFOR	Implementation Force (NATO)
IMF	International Monetary Fund
IPTF	International Police Task Force
KM	Konvertible Mark
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
NIC	Newly Industrialized Country
OHR	Office of the High Representative
OSCE	Organization for Security and Co-operation in Europe
PDP	Progressive Democratic Party
PfP	Partnership for Peace
PIC	Peace Implementation Council
PIF	Privatization Investment Fund
PLIP	Property Law Implementation Plan
PMC	Privatization Monitoring Commission

PRP	Priority Reconstruction Program	
PRSP	Poverty Reduction Strategy Paper	
RS	Republika Srpska	
SB	Slobodna Bosna	
SCMM	Standing Committee on Military Matters	
SDA	Party of Democratic Action (Stranka demokratske akcije) “The Political Economy of Stalemate: Organized Crime, Corruption, and Economic Deformation in Post-Dayton Bosniaer	Social Democratic Party
	SDP	
SDS	Serbian Democratic Party (Srpska demokratska stranka)	
SFOR	Stabilization Force (NATO)	
SMEs	Small and Medium-sized Enterprises	
SP	Stability Pact	
SRS	Serb Radical Party (Srpska radikalna stranka)	
UN	United Nations	
UNCTAD	United Nations Conference on Trade and Development	
UNDP	United Nations Development Program	
UNHCR	United Nations High Commissioner for Refugees	
UNITA	National Union for the Total Independence of Angola (Uniao Nacional para a Independencia Total de Angola)	
US	United States	

The complex interplay of politics and economics across various post-conflict situations suggests, unsurprisingly, that economic reform efforts cannot be undertaken in isolation from the broader political context, just as the economic impact of political decisions must always be carefully weighed up. In Afghanistan, the exercise of what Michael Ignatieff (2003) has labeled “empire lite” has not only perpetuated warlordism outside of Kabul, but has also led to the country’s re-emergence as the world’s top producer of illicit drugs, which represent a sizable proportion of Afghanistan’s GDP and a lucrative source of income and sustenance for many Afghans. In Iraq, chronic insecurity and the ongoing failure to restore the rule of law has indefinitely set back the process of economic recovery, while the decision to disband the Iraqi army has pushed hundreds of thousands of young Iraqi men into unemployment. At the same time, troubling questions persist about the US government’s economic strategy in Iraq, and the extent to which this strategy is designed to serve US economic interests rather than those of ordinary Iraqis. In the meantime, the gray and criminal economies expand as more and more Iraqis abandon hope of making their living through “legitimate” means. Similar, if less dramatic situations persist from Bosnia to Kosovo to East Timor, where the combined impacts of organized crime, corruption, poverty, and unemployment have strained the resources of both international and domestic">East European Politics and Societies, 1,CS administrations, sustained underground economies, and hampered the process of institution-building and peace consolidation.

While the political economy of post-conflict transformation is a central element of this study, also underlying the analysis which follows is an understanding of Bosnia as a state “in transition.” In this sense, the study will draw on the considerable body of literature that focuses broadly on transitions from authoritarianism. As the regional focus of this literature has shifted over the years from Southern Europe to Latin America to Eastern Europe and the former Soviet Union, the complexity of the situations with which it has been confronted has also increased. While the early transition literature focused largely on political transitions from authoritarianism to democracy, the later literature dealing with the former socialist world has had to confront not only the transition to democracy, but also – and simultaneously – from socialism to capitalism.

Post-Dayton Bosnia is a particularly difficult case, since it is simultaneously undergoing at least three separate transitions. Not only is Bosnia, with considerable international assistance, making a halting and uncertain transition to democracy and to capitalism, it is also attempting to make the transition from contested to consolidated “stateness.” Stateness, as Linz and Stepan have defined it, refers to the degree to which a consensus exists – internally and externally – on both the territorial and social limits of a given state. A stateness problem exists, therefore, “when there are profound differences about the territorial boundaries of the political community’s state and profound differences as to who has the right of citizenship in that state” (Linz and Stepan 1996: 16). Clearly, the Bosnian conflict arose from competing visions of stateness among the country’s three main ethnic communities, and the Dayton Peace Accords can be viewed as having succeeded – at least to this point – in displacing this conflict from the military to the political realm. Whether this process will be successful, or whether it will produce a form of stateness significantly different from that outlined at Dayton, remains to be seen. It is this triple transitiotroublesome. For rather than each of these dimensions of transition running parallel to each other, all are interconnected, with each impacting, and impacted by, the others in myriad and complex ways. It is within this nexus of transition dynamics, as well as within the interplay between international and domestic forces, that one must look for answers as to why, nearly a decade after the signing of the Dayton Accords, so little progress has been made towards re-making Bosnia in the image of a modern, peaceful, European market democracy.

The rough road from socialism

As Susan Woodward has written, one of the greatest ironies of the entire Yugoslav tragedy is the fact that Yugoslavia was in many ways better placed than most of its Eastern European neighbors to make the transition to a market economy (1995: 1). After Tito's break with Stalin in 1948, Yugoslavia developed its own unique socialist model, focused internally on concepts such as worker self-management and externally on positioning itself both as a Cold War buffer between East and West and as a leading member of the Non-Aligned Movement. As a result of these policies, which produced a hybrid form of socialism combining both market and socialist elements, during much of the Cold War period Yugoslavia enjoyed a reasonable degree of economic prosperity. Its economy was relatively open, it possessed a skilled and educated workforce, and it ">East European Politics and Societies, 1,CSenjoyed relative social peace. At the same time, the success of the rapid industrialization program instituted after World War II rapidly transformed what had been a poor agrarian country into a middle-ranking member of the "Second World" (Vejvoda 1996: 14). Despite the post-Yugoslav rhetoric about the country's long-suppressed ethnic animosities bursting into the open after Tito's death, in reality Yugoslavia was held together not by an iron dictatorial fist, but by "a complex balancing act in the international arena and a mixed economy and political system that provided governmental protections of social and economic equality and of shared sovereignty among its many nations" (Woodward 1995: 22).

The idea of worker self-management, based on the notion that individual workers and citizens should be given the tools and the authority to manage their own communities and workplaces, lay at the heart of the Yugoslav political economy (Woodward 1995: 41). As Gojko Vuckovic has suggested, underlying these ideas was a utopian philosophical position that the transfer of administrative and management functions to local workers' associations would lead to Marx's predicted withering away of the state, while at the same time the replacement of private property with social property would eventually eliminate not only class cleavages but national and ethnic cleavages as well (1998: 355). In practice, worker self-management did provide some degree of autonomous decision-making authority to workers' councils, yet this would always be limited by the overarching authority of the Tito regime. Vuckovic, in fact, suggests that self-management was always more slogan than reality, and that the real effect of the system and its perennial experiments in constitutional tinkering was decentralization, and a gradual shift of power from the center to the ethno-nationalist periphery, a process which set the stage for Yugoslavia's eventual collapse (1998: 355).[2]

Despite the institutional and constitutional peculiarities of its political economy, Yugoslavia still suffered "from exactly the same systemic weaknesses as all other command-type economies, including the semi-command economies: low economic efficiency, a lack of technological dynamism and an inability to adapt" (Bojicic 1996: 28). As Yugoslavia's post-war dynamism began to dissipate in the 1970s, a result not only of internal dynamics but also of changes in the international economy, these weaknesses began to be felt more acutely. Yugoslavia's privileged access to international capital markets temporarily shielded it from the social impacts of accelerating economic decline, but also allowed the process of fundamental economic restructuring to be put off until it was almost too late. By the early 1980s, the Yugoslav economy was in considerable trouble, its foreign debt had risen to nearly $20 billion, and the death of Tito further shifted the country's political balance towards decentralization.

Between Tito's death in 1980 and Yugoslavia's death in 1991 (when Slovenia and Croatia formally declared independence), both economic and political crises combined to drive the country apart. As noted above, decentralization had always been an important element of the Yugoslav system, with successive constitutional revisions aiming, but ultimately failing, to conclusively resolve the tensions between regional autonomy and centralization. The country's 1974 constitution, the last major constitutional revision, "[took] the devolution of power and empowerment of federal units to unparalleled heights," and resulted in the de facto confederalization of the Yugoslavminority return international state (Vejvoda 1996: 15). While the rationality of the internal Yugoslav market had always been strained by efforts on the part of the country's constituent republics to develop their own "internal" industrial bases, further decentralization in the midst of general economic decline exacerbated these tensions, heightened regional inequality, and gradually transferred the locus of political authority and accountability to the republic level.

These centrifugal tendencies were greatly exacerbated as Yugoslavia's economic crisis came to a head during the early 1980s. Caught between the global economic crisis of the time and its own lagging economy, in 1982 Yugoslavia turned to the International Monetary Fund (IMF) for help. In return for a three-year standby loan, the IMF insisted on a radical austerity program that included an anti-inflationary macroeconomic stabilization policy, trade and price liberalization, and market-oriented institutional reforms aimed at imposing monetary discipline and real price incentives on both firms and governments. The impact of this austerity program hit Yugoslavs fast and hard, as food subsidies were immediately abandoned, prices for other basic goods and services, such as heating fuel, jumped by one-third, and the importation of all consumer goods was prohibited. Inflation and unemployment levels grew rapidly, while wage and income restrictions sent average household incomes plummeting (Woodward 1995: 49–51). Both socially and politically, these austerity measures generated enormous insecurity among the Yugoslav population. The gradual erosion of the welfare state led citizens to seek security in other social formations, and in the circumstances of the time the republican leaderships were only too eager to exploit such insecurities in their own struggles against Belgrade and against each other. In other words, "atomised individuals in a disabled society were confronted with loss of existential certainty and ejection from the socialist welfare cocoon in which they had been living. The new certainty being offered them was another safe haven of security: that of national homogeneity" (Vejvoda 1996: 20).

When the political and economic crisis reached its height in the late 1980s and early 1990s, and the imperative of both economic and democratic transition became unavoidable, Yugoslavia collapsed, largely because it no longer had the institutional or popular means to save itself. Austerity and decentralization had hollowed out its central institutions (save perhaps for the Yugoslav National Army), and the increasingly nationalist republican leaderships had become far more interested in carving up the Yugoslav state than in reforming it. The only question that remained at this point was what form the carve-up would take, and the path ultimately chosen could scarcely have been more wrenching. As events would soon reveal, Bosnia's status as the most multi-ethnic of Yugoslavia's constituent republics would reserve for it the greatest misery as the drama of dismemberment unfolded.

Seen from the other side of the conflict, it is not immediately apparent why any of this history matters in terms of the effort to put Bosnia back together again after the killing was stopped. After all, Bosnia in 1996 bore very little resemblance economically, politically, socially, and demographically to Bosnia in 1989. However, and particularly because Bosnia has often been referred to as a “mini-Yugoslavia,” Yugoslavia’s collapse does have concrete lessons to teach as the struggle to reconstitute Bosnia continues. First, an accurate understanding of why Yugoslavia collapsed in the first place is crucial to the ongoing debate about whether rebuilding Bosnia is either possible or feasible. On the one side of this debate are realists/primordialists, who insist that a new life somewhere elseBG7partition is the only solution to the Bosnian question because ancient ethnic grievances combined with more recent wartime atrocities mean that Bosnia’s ethnic communities cannot live together.[3] On the other side are constructivists, who argue that since identity is constructed it can be reconstructed, and therefore the project to rebuild a multi-ethnic Bosnia, while daunting, is not impossible.[4] Despite the prevalence of primordialist sentiments during the war, a careful reading of events leading up to Yugoslavia’s collapse points to the conclusion that, in Susan Woodward’s terms, “the real origin of the Yugoslav conflict is the disintegration of governmental authority and the breakdown of a political and civil order” (1995: 15). This suggests not only that violent ethnic nationalism is a product of particular historical and political circumstances rather than a genetic condition, but also that reconstituting legitimate governmental authority must be an essential element of Bosnia’s peacebuilding process.

The history of Yugoslavia’s last decade also underlines the importance of economic factors in the country’s decline, and particularly the role of international financial institutions in exacerbating, either inadvertently or deliberately, the underlying economic and social conditions that contributed to the collapse.[5] If international economic policies played a significant negative role in Yugoslavia’s final days, then to the extent that the policy prescriptions of the international financial institutions for Bosnia’s post-conflict economic reform resemble these earlier prescriptions, this raises serious questions about the impact of such policies on current peacebuin proclding ess that makes the Bosnian sitefforts.

Finally, examining Yugoslavia’s rise and fall also provides a useful reminder that despite the ravages of conflict, places like Bosnia still possess considerable assets, most notably a well-educated and relatively sophisticated population.[6] This is a useful antidote to the common international perception of Bosnia as a post-conflict wasteland, where everything must be reconstructed from scratch and where local populations are obstacles to peace rather than agents of peacebuilding.

From violent conflict to tenuous peace

The sad story of Bosnia's bitter and bloody 44-month conflict has been well chronicled.[7] From the siege of Sarajevo to the fall of Srebrenica, the conflict captured the world's attention for almost four years, and along with the Rwandan genocide laid to rest the hopes of a peaceful "new world order" emerging at the end of the Cold War. While the conflict's physical toll was immense, with few regions escaping war-inflicted damage to industry, to housing stock, and to infrastructure, the conflict's toll in human terms was greater still. By the time the fighting ended at the end of 1995, more than 200,000 Bosnians had lost their lives, and more than 2 million others – fully half of the country's pre-war population – had been displaced either internally or abroad.

The three-week exercise in pressure-cooker diplomacy that resulted in the Dayton peace agreement came after almost four years of in post-Dayton Bosnia047 international indecisiveness. This indecisiveness produced a long series of failed peace proposals, much anxious and ineffective shuttle diplomacy and map-making, and an ill-conceived UN peacekeeping mission reduced to escorting humanitarian aid convoys – and serving as convenient international hostages for the local protagonists – in the midst of a conflict in which there was clearly no peace to keep. It was only in the late summer of 1995, after more than three years of brutal warfare and ineffectual diplomacy, that events – militarily and politically – converged in such a way as to make a peace deal possible.

Convened by a US administration which had until that point waffled more than led on the Bosnia issue, the Dayton peace negotiations brought together most of the key players in the conflict at the Wright-Patterson Air Force Base near Dayton, Ohio. Notably absent was Bosnian Serb leader Radovan Karadzic, who had been declared persona non grata by the Americans following his indictment on war crimes charges. The Bosnian Serb side was therefore led by Serbian President Slobodan Milosevic, a man who would later join Karadzic on the international list of indicted war criminals, with the Bosnian Croats represented by Croatian President Franjo Tudjman and the Bosnian Muslims (or Bosniaks) by Bosnian President Alija Izetbegovic.[8]

In retrospect, it is clear that the American negotiating team – led by the tenacious US assistant secretary of state Richard Holbrooke – had few clear strategic goals at Dayton other than stopping the war. Beyond this, the main goal of the negotiations was to produce a division of territory acceptable to all three sides in the conflict – a goal that had eluded all previous international peace negotiators – and to rescue what could be salvaged out of the Bosnian state.

On November 21, 1995, precisely three weeks after the three Balkan presidents arrived in Dayton, US President Bill Clinton announced that a peace agreement had been reached. Under intense international pressure, the three leaders had agreed on a cessation of hostilities, a map, a constitution for the new Bosnian state, and a peace implementation plan. Bosnia would survive with its pre-war borders intact, but would become a highly decentralized confederal state. Refugees and displaced persons would be allowed to return to their original homes, while elections aimed at giving Bosnian citizens some measure of democratic control over their future were to be held no later than nine months after the signing of the peace deal. This democratic commitment was accompanied by a parallel commitment "to promote the general welfare and economic growth through the protection of private property and the promotion of a market economy" (OHR 1998: 34). While the parties to the agreement – formally the governments of Croatia, Bosnia, and the Federal Republic of Yugoslavia but in practice the leadership of Bosnia's Serb, Croat, and Bosniak communities – were to bear primary responsibility for implementing the agreement, the deal also authorized a 60,000-strong NATO Implementation Force to guarantee, by force if necessary, compliance with Dayton's military provisions. Similarly, international supervision of the non-military aspects of implementation was to be the responsibility of an internationally appointed High Representative, who was also given the task of coordinating international peace support efforts on the civilian side. Soon after Dayton was signed, international donors committed themselves to a five-year, $5.1 billion reconstruction package aimed at rebuilding Bosnia's war-shattered infrastructure and smoothing the country's minority return international transition to a market economy.

However, despite the agreement of the local parties and the considerable resources committed by the international community, from the moment the deal was struck it was clear that as difficult as it had been to reach an agreement at Dayton, it would be tougher still to implement it. As Holbrooke noted on the day the deal was initialled: "On paper, we have peace. To make it work is our next and greatest challenge" (Holbrooke 1999: 312).

Despite the obvious challenges of implementation, Dayton's initial timelines were hugely ambitious and, ultimately, deeply unrealistic. Bosnia's first round of democratic elections in September 1996 was supposed to signal the beginning of the international withdrawal from Bosnia, with international powers gradually being transferred to democratically elected local authorities. Nearly ten years after Dayton, however, the international community remains firmly entrenched in Bosnia, and shows few signs of an imminent withdrawal. As a state, Bosnia remains fragile, and it is by no means certain that it could survive without continued international support. Writing in 1999, Ivo Daalder and Michael Froman noted that "instead of moving towards self-sustaining peace and economic growth, the country's economy, politics, and even its security remain firmly dependent on foreign, rather than Bosnian, efforts" (1999: 107).

At the same time, much of the Dayton agreement remains unimplemented. More than a million Bosnians – about one in four – remain displaced either within Bosnia or abroad, despite a significant acceleration of the return process beginning in 2000.[9] Political institutions, particularly at the state level and within the Muslim-Croat Federation, remain fragile and largely dysfunctional.[10] While political moderates have made some gains at the ballot box in recent elections – frail coalitions of non-nationalist parties even held power at the state and Federation levels between 2001 and 2002 – Bosnia remains dominated by the same nationalist parties which prosecuted the war.[11] These parties have used their political and economic power to block return, prevent meaningful economic reform, undermine democratic development and hinder the effective functioning of Bosnia's central institutions. Most of the major advances towards creating a functioning Bosnian state, therefore, have been imposed by the international community.

Bosnia's economic situation – and the situation of most individual Bosnians – remains wretched. Bosnia's GDP remains at roughly half its pre-war level, while economic growth is weak and overly dependent on international assistance. Foreign investment remains negligible, while strict macroeconomic stabilization policies have severely limited the prospects for domestic-led economic recovery. Estimates of unemployment range from 20–40 percent, while social unrest is increasingly visible.[12] Fully 62 percent of young Bosnians say they want to emigrate and start a new life somewhere else (UNDP 2000: 35). Most troubling of all, Bosnia faces the prospect of an even deeper economic crisis as international aid flows decline.

While the bulk of Bosnia's economy remains stagnant – with most major industries both obsolete and war-damaged – the one area of economic lifeOrganization for Security and Co-operation in Europe international that is thriving is organized crime and corruption. The criminalization of the Bosnian body politic, suggests Peter Singer, now represents the primary obstacle to Dayton's full implementation. As he notes, "instead of the expected shift from ethnic nationalism and war to political pluralism and economic liberalism, there is only a tightening vise of corruption and cronyism" (2000: 31). Economic power in today's Bosnia remains concentrated in the hands of three ethnically divided and geographically separated cartels, which group the nationalist political parties, organized criminal elements, and remnants of the socialist-era nomenklatura. These cartels retain tight control of state-owned enterprises, running them largely as party fiefs; they operate complex networks of illegal party financing; and they are implicated in everything from drug smuggling and customs evasion to the trafficking of women. In the words of Kristina Hemon, "There's an entire world that needs to be uncovered and dismantled for the economic system and the rule of law to function here. This is a tremendous task, and a dangerous one."[13]

Frustrated by the slow pace of progress, the international community – while promoting the concept of "local ownership" of the peace process[14] – has, as noted above, taken a much more activist approach to the question of rebuilding a multi-ethnic Bosnian state according to the Dayton blueprint. Meeting in May 2000, the international Peace Implementation Council expressed its dissatisfaction with the slow pace of peace implementation and called for accelerated progress in three key areas: economic reform aimed at generating self-sustaining market-driven growth, the return of refugees and displaced persons, and the creation of functional and accountable common institutions.[15] In practice, much of the real work of reform in these areas – from the drafting of legislation to the promotion of a transparent privatization process to the drafting and implementation of property laws aimed at enabling returnees tuationo recl so complex and so aim their pre-war property – is being undertaken by international actors. With a few key exceptions, much of the local political activity around these areas has been characterized by either passive indifference or active obstruction. As the political tug-of-war between international and local actors drags on, the prospect of declining international commitment to, and patience with, the Bosnian peace process has lent a tone of both urgency and exasperation to international peacebuilding efforts. Nearly a decade on, however, Bosnia's peace process stumbles along, and while the country is clearly a much happier place than it was in 1995, only the most determined optimist would declare it to be firmly on the path to sustainable peace and prosperity.

Methodology and organization

This study has been carried out very much in the midst of Bosnia's turbulent post-conflict transition process. As a work of current history, it has been unable to rely on the benefits of temporal distance, when the dust has settled, when outcomes become clearer, and when patterns and regularities become more apparent to the outside observer. Rather, the study focuses on the moving target that is post-Dayton Bosnia, which, for all the talk of the country's current transition stalemate, remains a context that is dynamic, evolving, and often difficult to read. What follows, therefore, is a mid-stream attempt to trace and to one-quarter of the FederationmeCSunderstand the principal dynamics affecting the country's troubled post-conflict transition process, in part by drawing on insights gleaned from the evolving literature on the political economy of transition and on the political economy of conflict.

In examining the political economy of the Dayton peacebuilding project, this study will argue that the disappointing results of Bosnia's post-war economic transition are the product of two primary factors. The first is the flawed international economic strategy for Bosnia, which has been inadequately integrated into the broader political goals of the Dayton process, haphazardly implemented, and guided more by an ideological commitment to a neoliberal economic agenda than by a consideration of local economic, political, and social factors. On the one hand, because the economic aspects of the Dayton process have been treated primarily as "technical" issues, their inherently political nature has been largely obscured. On the other hand, the neoliberal commitment to a limited state – championed by the key international financial institutions active in Bosnia and rooted in the ideological prescriptions of the Washington consensus – has also worked counter to Dayton's state-building goals. While the survival of Bosnia will require reasonably effective and activist central institutions in order to give citizens of all ethnicities a stake in the center, international economic policy-making in Bosnia, together with Dayton's decentralizing constitution and the country's mutually hostile elites, has worked against the establishment of strong central institutions. As a result, the way in which the economic transformation has been managed in Bosnia has in some cases failed to support key aspects of the political transformation, and in other cases has directly undermined broader political goals.

Given the complexity of the political situation in post-Dayton Bosnia, and the challenges of creating a functional and peaceful market democracy from the wreckage of almost four years of war, it would be unfair to simply condemn international economic policy in Bosnia as inherently misguided, and unwise to argue against the need for fundamental market-oriented economic reform. Clearly, given that the Bosnian economy is currently characterized by stagnation, inefficiency, and serious levels of corruption and organized crime, there is a pressing need for restructuring. The key question is not whether reform is necessary, but rather what the scope and focus of such reforms should be, how and at what pace they are carried out, and whether the process contributes to or undermines the broader peace- and state-building project underway in Bosnia. The challenge, clearly, has been to put in place a process that not only lays the foundations for long-term and broad-based prosperity, but which in the short to medium term also contributes to increasing the viability of the Bosnian state and the sustainability of the peace process. As subsequent chapters of this study will argue, the current model of economic reform being applied to Bosnia has accomplished neither of these goals.

The second primary factor in Bosnia's stalled economic transition has been the persistence throughout the post-Dayton period of mutually reinforcing, ethnic-based, and largely antidemocratic local power structures. These structures are rooted in the three main nationalist political blocs that have dominated Bosnia since Yugoslavia's collapse. Those in control of these structures, which continue to dominate most aspects of economic, social, and political life in post-Dayton Bosnia, have had a clear vested interest in the status quo of stalled or incomplete reforms and unconsolidated peace. Not only has this status quo enabled them to enjoy the substantial benefits of economic and political pow Program Manager, United States Agency for International Development; Sarajevo, er

economic and political food chain (even though, paradoxically, as in other post-socialist contexts poorly regulated transition processes also provide individual elites with ample opportunities to enrich themselves). In fact, one of the most explicit political goals of international peacebuilding efforts in Bosnia has been to create space in which moderate political forces can emerge by progressively eroding the powerful grip of the dominant ethnic-based power structures. To date, however, these structures have either successfully resisted internationally sponsored economic reforms, or have managed to exploit tensions within international policy to redirect such reforms in directions that either serve, or do not directly threaten, their own political and economic interests. This is not to suggest that Bosnia's transition is not plagued by real and profound differences around questions of identity and territory, but rather that dominant political forces have both tapped into and manipulated these differences to bolster their own political and economic positions.

In combination, these two factors – the international community's efforts to reconstruct the Bosnian economy along neoliberal lines and the counter-efforts of the country's nationalist political elites to consolidate their own power, often by directly resisting reform efforts – represent the main forces impacting Bosnia's post-war political economy. Combined with the effects of an ambiguous, highly decentralizing peace agreement, they have undermined the restoration of a functional Bosnian state, without which neither peace nor democracy nor economic prosperity is possible. The bulk of this study will consequently focus on these forces and the ways in which they have interacted during the post-Dayton period. Chapter 2 lays out a theoretical frnding the nature of each of these phenomena, and for understanding the results of their interactions. Specifically, it offers a critical overview of the orthodox approach to economic transition, and examines some of the assumptions of the model that have persisted despite the difficult transition experience of most Eastern European countries during the 1990s. It also provides a critical overview of recent literature on the political economy of conflict, which focuses on the economic dimensions of conflict and its after-math in an effort to provide a more nuanced and multifaceted understanding of the emergence and persistence of violent conflict. The chapter concludes with a discussion of the convergences and disjunctures between these two frameworks, and an attempt to understand the ways in which the various processes each describes can be expected to interact in contexts like Bosnia, which are both post-socialist and post-conflict.

Against this theoretical backdrop, Chapter 3 provides an overview of the post-Dayton process in Bosnia, focusing both on the tensions and contradictions inherent in the agreement and on the international state-building strategy that has gradual a new life somewhere elseBG7ly taken shape as the peacebuilding process has unfolded. More than any of the others, this chapter addresses the "political" in Bosnia's post-war political economy, emphasizing the nature of the different international and domestic political actors involved, as well as the peculiar dynamics of attempting to construct a state largely through international willpower.

Chapters 4 and 5 offer a detailed treatment of the main domestic and international influences on the development of Bosnia's political economy in the post-Dayton period. Chapter 4 investigates the internal dynamics of nationalist resistance and retrenchment and the impact of these dynamics on economic reform. It focuses on the emergence and perpetuation through the post-war period of Bosnia's political economy of conflict, and on the development of political power structures which benefit from the current status quo and which, consequently, stand directly opposed to the types of marketization and democratization strategies that the international community has pursued in the post-Dayton period. This chapter pays particular attention to the politics of organized crime and corruption, and to the ways in which the penetration of organized crime and corruption into Bosnia's political economy has distorted the country's various transition processes. It also addresses institutional barriers to reform, and particularly post-Dayton constitutional arrangements that reinforce decision-making inertia and make domestically driven reform efforts next to impossible. The chapter concludes with a discussion of peacebuilding's blind spots, and the ways in which conventional international peacebuilding operations are poorly equipped to deal with the types of political and economic challenges that Bosnia has thrown up.

Chapter 5 shifts the empirical focus from the domestic to the international, and examines both the theory and the practice of the international economic reform effort in Bosnia. Through a detailed examination of the main pillars of the international reform strategy, the chapter shows how this strategy has been driven largely by an orthodox approach to economic transition, which has proven both inappropriate and inadequate as a means of transforming Bosnia's post-conflict political economy. While isolated elements of the international strategy have been successful, overall it has delivered little in terms of concrete benefits for the Bosnian population and has failed to make a significant contribution to peace and stability. Flaws in both conception and implementation, and a failure to attend to the ways in which the international reform agenda would play out vis-à-vis domestic dynamics, have allowed certain elements of the transition strategy to play into the hands of the ruling oligarchs and their interest in maintaining the unreformed status quo. At the same time, many of the fundamental challenges to reform, such as crime and corruption and microeconomic reforms, have either not been addressed at all or only in the most piecemeal and ad hoc manner. The chapter concludes by calling for fundamental reassessment of the interactions between political and economic reform in post-conflict societies. In particular, greater attention should be paid to the particularities of specific post-conflict contexts in designing reform strategies, while economic reform efforts should be, if not subordinated, then at least much more carefully coordinated with broader peacebuilding processes.

The final three empirical chapters take the form of extended case studies,">East European Politics and Societies, 1,CS focusing on particular issue areas in which the political and the economic, as well as the domestic and the international, have interacted in the post-Dayton environment to produce suboptimal outcomes. Chapter 6 addresses the politics of privatization, and argues that the international community's desire to get public assets into private hands as quickly as possible produced a poorly designed privatization process which has reinforced ethnic divisions, strengthened the hands of the ruling nationalist parties, and contributed very little towards economic regeneration.

The focus of Chapter 7 is on the political economy of return, and the tensions between economic restructuring and modernization and the push to return war-displaced Bosnians to their pre-war homes of origin. This chapter suggests that the international commitment to ethnic reintegration has been undermined not only by the absence of a coherent international economic strategy to make return sustainable, but also by a broader model of economic reform which has delivered very little in the way of economic recovery. Chapter 8 turns, finally, to the social dimensions of Bosnia's post-conflict peacebuilding process. The chapter focuses on the reform of the social sector, understood as those institutional arrangements – such as health and education systems, labor market structures, pensions, and social assistance mechanisms – that impact on the rights or abilities of citizens to meet their livelihood needs.[16] It argues that social sector reform has been a relatively underemphasized component of the international peacebuilding project in Bosnia. Even in recent years, which have seen increased attention devoted to social sector issues, reform efforts have been limited by the neoliberal tendency to see social security and social safety nets primarily as a by-product of, rather than a precondition for, the development of a functioning market economy. At the same time, many current reform efforts have been directed more at addressing the worst distortions of Bosnia's constitutional and political structures than at creating the social and economic foundations of human ameworsecuk for understa

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The Washington Consensus Meets the Political Economy of Conflict

While the previous chapter established the broader context for this study, this chapter will develop a theoretical framework for understanding Bosnia's current economic transition process. This framework will be developed by exploring and juxtaposing two particular bodies of literature: the first on the political economy of post-socialist economic transition and the second on the political economy of conflict. The aim of this chapter is to examine the core arguments of each approach, to point out contradictions and convergences between them, and to examine the implications of applying orthodox economic transition policies in environments dominated by the political economy of conflict. Ideally, this discussion will yield insights which can be applied to situations – such as post-Dayton Bosnia – in which post-conflict peacebuilding and post-socialist market-building are taking place simultaneously.

The attempt to bring together contemporary thinking on the political economy of economic transition and the political economy of conflict reflects a conviction that – both theoretically and empirically – too little thought has gone into examining how market-building and peacebuilding fit together in the context of post-conflict environments. Where the link between economic transition and peacebuilding has been made explicit, it is usually to simply assert the importance of economic recovery to the peace process. Yet to suggest that lasting peace requires economic recovery and sustainable economic growth says little about the process through which this is to be achieved, or about the ways in which both the peace process and the economic reform process impact on each other as they unfold. As Robert Rothstein has suggested:

Much of the economic literature on the peace process and its aftermath simply extrapolates from the more general arguments about the benefits of market-oriented reforms. But this perspective may very well be insufficiently contextual or political in the context of the need to devise prudent economic policies after a weak peace has been negotiated.

(1999b: 235–6)

The lack of a coherent synthesis between peacebuilding and economic reform strategies extends well beyond the relatively narrow world of post-socialist transitions. More generally, “there has been little systematic discussion of how economic policy should be reshaped in the special circumstances of a country emerging from civil war” (Boyce and Pastor 1997: 287). Typically, international financial institutions (IFIs) have pursued the same strategies of macroeconomic stabilization and structural adjustment in post-conflict states as they have in “peaceful” states. The result has been, more often than not, a disconnection between economic reform and peacebuilding strategies. Writing about El Salvador's post-conflict peace process in the early 1990s, for example, Alvaro de Soto and Graciana del Castillo lamented the fact that neither the IFIs nor the UN peace support mission in El Salvador was sufficiently informed of the other's activities. In fact, far from a coordinated international response to El Salvador's post-conflict needs, "it was as if a patient lay on the operating table with the left and right sides of his body separated by a curtain and unrelated surgery being performed on each side" (1994: 74). While the World Bank in particular has attempted in recent years to respond Foreign direct investment in selected European transition states, 1997er

There is clearly, therefore, a pressing need to interrogate the ways in which internationally imposed economic measures impact on questions of peace and security within particular states. In the case of Bosnia, both the break-up of Yugoslavia and the recent history of the post-Dayton process raise important questions regarding the relationship between economic reform and peace. As noted in the previous chapter, the analysis that follows is rooted in the theoretical proposition that the disappointing results of Bosnia's economic reform process are a product both of the application of inappropriate international policies and of the particular – and persistent – political economy of conflict that characterizes contemporary Bosnia. Developing a better understanding of these two dynamics and their interactions, therefore, may shed light on the reasons for, and possible solutions to, Bosnia's current economic impasse.

Beyond the Washington consensus? Transition orthodoxy and its critics

In the aftermath of communism's collapse in Eastern Europe and the former Soviet Union, Western policy prescriptions – enthusiastically shared and embraced by many post-socialist elites – generally followed the lines of the Washington consensus. Championed by the Washington-based international financial institutions and the US government, and already familiar from the wave of structural adjustment programs implemented throughout the developing world in the 1980s, the core of the Washington consensus is a particular belief in the relative roles of state and society in economic life.[1] Advocates argue that most of the work of economic development, and economic transformation in the context of transition states, should be left to market forces. The role of the state, in this scenario, is two-fold: first, get out of the way of market forces as much and as soon as possible; second, provide a regulatory framework in which market forces can function most efficiently. The primary role of the state, in this sense, is to regulate, not to allocate, to redistribute, or to produce. As Joseph Stiglitz, a former World Bank chief economist who has become increasingly critical of this market-focused orthodoxy and the way it has been applied to the post-socialist states, has noted:

The Washington consensus policies were based on a rejection of the state's activist role and the promotion of a minimalist, non-interventionist state. The unspoken premise is that governments are worse than markets. Therefore, the smaller the state the better the state.

(1998a: 5)

While the intellectual and policy hegemony of the Washington consensus has been challenged on both theoretical and empirical grounds, it remains, with the support of powerful institutional champions, the dominant model of economic transition. In fact, much of the criticism leveled at consensus-inspired policies has emphasized the narrowness of the original conception, focusing on its absences rather than on its contents. Many of the calls for a "post-Washington consensus" have accordingly sought to add additional elements to the original formulation rather than question its foundations. Give> (accessed October 200 international n the ongoing influence of the neoliberal core of the consensus, particularly among the major international financial institutions, it is therefore hardly surprising that it has significantly shaped international policy towards Bosnia's post-conflict economic transition. In fact, if the influence of international economic policy is one of the two key forces affecting Bosnia's post-war political economy, then assessing these policies to a major extent involves an assessment of the Washington consensus itself. This section, accordingly, will lay out the main tenets of the consensus as they have been applied in post-socialist transition contexts, and then outline the major critiques of the consensus and the extent to which these critiques have forced a re-evaluation of orthodox policies and prescriptions. Finally, it will place these debates within the context of Bosnia's own belated and rather tortured transition.

Shock therapy in theory and practice

In Eastern Europe, the architects of transition – most famously the Harvard economist Jeffrey Sachs – proposed that the prescriptions flowing from the Washington consensus be implemented as "shock therapy." Taking advantage of the window of "extraordinary politics" (Balcerowicz 1994: 86) in the immediate aftermath of the socialist collapse, shock therapists such as Sachs advocated a rapid flurry of policy reforms that would jolt transition economies into the capitalist world. In the case of the post-socialist transition states, the policy prescriptions of the Washington consensus became distilled into the now familiar three-pronged strategy of stabilization, liberalization, and privatization. In theory, these reforms would simultaneously stabilize the macroeconomic situation in the post-socialist economies, eliminate market-distorting conditions, enable the price mechanism to inject rationality into economic decision-making, and transfer ownership and management of key economic resources from the inefficient and moribund public sector to an emerging and dynamic private sector.

As the "shock" element of the therapy implies, speed was an essential element of the strategy, as the goal of the reformers was to lock in key market reforms before defeated communists or newly empowered electorates – who would bear the brunt of the reform shock – had a chance to react. As both critics and advocates of shock therapy noted, the need for speed was at least as much a result of political considerations as it was a product of economic necessity. In the words of Anders Aslund, one of shock therapy's most vocal and consistent champions:

The slower the destruction of the old system, the more trouble and pain the transition brings: given time, communist-holdover officials will find ways to transform their remaining power into property … thus exacerbating inequalities, undermining public confidence in the state, and preparing the ground for potentially antidemocratic opposition.

(1994: 64)

Shock therapy represented, therefore, a bulldozer approach to economic transition, aimed at removing as quickly and as comprehensively as possible any vestiges of the former socialist system, and at making the transition irreversible. As Sachs himself once argued, "many of the economic problems solve themselves: markets spring up as soon as central planning bureaucrats vacate the field" (cited in Muller and Pickel 2001: 5).

US President Bill Clinton international As Eastern Europe's transition process began to unfold, however, it quickly became clear that the pain of transition would be immense while the promise of market-based prosperity would remain, for the vast majority, an elusive and distant goal. While even optimists expected the impact of the initial liberalization/stabilization shock to produce a short-term decline in output and temporarily high levels of unemployment as workers were shifted from less productive to more productive industries, few anticipated the profound and persistent transitional recessions into which the transition economies sank in the early 1990s. The post-socialist slump represented, by some estimates, the largest single peacetime recession in history, with the entire region losing about one-third of GDP over the course of seven years, and with the number of people living on less than a dollar a day rising from 7.1 million to 24 million between 1990 and 1998 (Kolodko 2000a: 109). A full decade after the beginning of the transition process, economic growth in the region continued to be sluggish, with only Poland, Slovenia, and Slovakia having restored GDP to 1989 levels by the end of the millennium (Muller and Pickel 2001: 13).

The dynamics of the early transition years in Eastern Europe are well documented. The initial liberalization/stabilization shock, which simultaneously freed prices, de-controlled interest rates and reduced trade barriers while imposing restrictive monetary policies and sharp reductions in public spending, was supposed to enable market signals to efficiently redirect investment and production while reducing direct government intervention in the economy and controlling macroeconomic imbalances. Rather than redirect economic activity from less productive to more productive activities, however, the initial shock of transition triggered recession, as enterprises responded to the firming up of budget constraints and the liberalization of prices not by becoming more efficient, but by cutting wages, shedding workers, and reducing production. For ordinary citizens, the impact of recession was particularly severe since stabilization policies were simultaneously eroding relatively well-developed social safety nets.

The market response to stabilization and liberalization policies, which reformers hoped would quickly ease the burden of the transition recession, was anemic at best. The stabilization-induced credit crunch left enterprises without the resources necessary to restructure and modernize, while a combination of the dismantling of the Comecon trading bloc, domestic recession, and the failure of Western countries to open their own markets to Eastern goods meant that "for all the talk of creating a market economy … there were no effective markets in which firms could sell their goods" (Amsden et al. 1994: 6). The viability of enterprises in transition countries was further undercut by the liberalization of imported goods, which forced domestic industries to compete with far more efficient, and often subsidized, Western competitors (Inotai 1995: 99–100).

Privatization also proved to be no quick fix to the problems of economic transition. In post-socialist contexts, privatization quickly ran into the challenge of creating "capitalism without capitalists," since few individuals in the former socialist East – almost by definition – possessed the means to acquire state-owned enterprises, most of which required major capital investments in order to operate profitably. Given this reality, great hopes were placed on the shoulders of foreign investors, who were expected both to provide the necessary capital to modernize Eastern European economies and to integrate these economies into the global capitalist system.

As it t> (accessed October 200 international urned out, however, with the possible exception of Hungary the anticipated wave of foreign investment was more of a trickle, with the entire former Soviet bloc attracting between 1989 and 1993 less foreign capital than China attracted in 1992 alone (Gowan 1995: 40). Those foreign investors who did arrive managed to buy up key state enterprises for next to nothing, while the biggest players were more interested in gaining monopolistic control of local markets than in revitalizing local industries and re-employing workers through reinvestment. In some cases Western investors engaged in the worst sort of predatory capitalism, n0018" href="kindle:pos:fid:0046:off:00000006QJ" aid="AFM7A">2

Early and rapid privatization programs also almost invariably produced massive levels of corruption, as well-connected insiders used the "fog of transition" to help themselves to assets and enterprises formerly belonging to the state. In the case of Russia, where privatization-related corruption was most egregious, "the Russian oligarchs simply purloined what previously belonged to the state and in the process became instant millionaires, if not billionaires" (Goldman 2000: 217). Once entrenched, these new economic elites often endeavored to leverage themselves into monopoly positions and regularly resisted further market-oriented reforms, since their own interests were best served in a situation of partial marketization (Muller and Pickel 2001: 18).[3] In many cases, such activities, combined with deteriorating social conditions and widespread impoverishment, sufficiently soured Eastern European electorates on the market adventure to allow former communist parties to regain power in the aftermath of radical reform experiments.

Critiques: from gradualism to the post-Washington consensus

Volumes of critical analysis now exist on the early years of the transition process in Eastern Europe, and many share the broad view that the region's transitional slump was the product of a systemic and institutional vacuum that existed in the immediate aftermath of the socialist collapse. Kozul-Wright and Rayment, for example, speak in terms of an "institutional hiatus," contending that "what was special about the transition economies after 1989 was that the old command system had collapsed before the new coordinating mechanisms of the market economy could be put in its place and generate effective responses" (1997: 645). Western advisors and Eastern reformers, in other words, failed to account for the fact that economic structures could be dismantled much more quickly than capitalist replacements could be erected. At the same time, there was a somewhat naive expectation that capitalist economic institutions, processes, and dynamics would generate spontaneously once the "dead hand" of socialist planning was removed. Under such conditions, what existed in many post-socialist states in the early years of the transition process – and what continued to exist in some states a decade later – was a situation of "neither plan nor market," which typically combines the worst features of both systems.

Much of this debate over institutional vacuums has been framed in terms of shock therapy vs gradualism, with the former promoting a comprehensive, rapid, root-and-branch approach to reform and the latter advocating a more incremental, piecemeal, and adaptive approach, with an over the past several yearsmeCSemphasis on building upon existing institutional frameworks rather than razing the old to make way for the new.[4] Over time the debate has deteriorated into a relatively sterile and largely stalemated battle of metaphors, with the favorite image of shock therapists being one of "jumping across the chasm in one leap," which was in turn countered by the gradualist vision of "crossing the river by groping for the stones one at a time" (Stiglitz 1999: 22–3).

Beyond the metaphorical elements, the shock therapy/gradualism debate did refocus attention on both the market and non-market institutions which necessarily underpin any market economy. This shift was also driven by real-world events which undermined simplistic "markets good, states bad" arguments, such as the East Asian economic miracle, the growing dynamism of communist China, and the dramatic failures of the Russian experiment in radical reform. As many transition scholars have noted, neoclassical economic theory simply takes the existence of appropriate institutional underpinnings for granted, rather than acknowledging that such underpinnings have evolved over decades, if not centuries (Kolodko 1999: 239). In many ways, the post-socialist transition process has forced a recognition of this oversight, as well as a critical evaluation of the sorts of institutional frameworks that are necessary in order to enable market relations to function smoothly, and of how these frameworks might best be established.

The more narrowly conceived institutionally focused critiques of the orthodox approach to transition, as noted above, amount to little more than additions to the original Washington consensus-inspired policies. Shafiqul Islam, in fact, adds institutionalization as a fourth element to the original stabilization/liberalization/privatization triad, arguing that:

A market-based economy requires a wide-ranging set of measures including reform of the constitution, the legal system, political bodies, the fiscal administration, and the banking system. Also needed are appropriate accounting and regulatory procedures, capital and equity markets, social insurance and other safety nets.

(1993: 60)

While arguments such as this hardly represented a major challenge to the prevailing transition orthodoxy, they did help make the case for gradualism over shock therapy, since the implication was that the most appropriate pace of transition is one compatible with the imperatives of institution-building, which is almost by definition a lengthy and time-consuming process.

While the importance of properly functioning formal institutions such as banking, taxation, and legal systems cannot be denied, equally critical to the transition process is the existence of informal or non-market institutions that support market relations. In fact, if one defines institutions in Douglass North's terms, as "the rules of the game in a society or, more formally, humanly devised constraints that shape human interaction" (1990: 3), then it becomes clear that the institutional dimensions of transition extend far beyond narrow technical or economic considerations, and involve a fundamental social and cultural transformation. As Carl-Ulrik Schierup has suggested, echoing Karl Polanyi's much earlier warnings about the dangers of self-regulating markets:

A functioning capitalist economy is fundamentally dependent on political regul">Slobodna Bosna, pp. 5–,CSation and on historically established and morally sanctioned cultural institutions. Left to unbridled dominance, fundamentalist liberal principles of pure gain and market driven social self-regulation will sooner or later devour the institutional and moral ground for their own accomplishment.

(1999: 5)

In other words, this line of critique argues that a basic sense of political community – encompassing social trust and civil norms, a fundamental set of shared values, a broad consensus on the balance between freedom and responsibility and between the single-minded pursuit of self-interest and a commitment to the broader social good, and an overall level of respect for the rule of law – is a core characteristic of any successful market economy. Absent such socially accepted norms of behavior, backed by the rule of law, even the most elegantly constructed market institutions may fail to take hold in transition societies (Stiglitz 1999: 8).

Critics who stress these institutional elements of the transition process also rightly note that rather than seeking to reinforce the "social glue" holding post-socialist societies together, standard neoliberal prescriptions have sought "the elimination of all institutional, sociostructural, and normative barriers to the postulated individualism of social actors" (Muller and Pickel 2001: 10). In this context, it is entirely relevant to question the extent to which orthodox transition policies have contributed to, rather than simply encountered, the problems of corruption and ethnic nationalism that have characterized the post-socialist period.

Unsurprisingly, the growing focus on institutions in the transition debate has been paralleled by an increased focus on the importance of the state. Not only are states themselves bundles of institutions (courts, legislatures, constitutions, police) that are essential in any market economy, but states also establish, regulate, and sustain other formal and informal institutions (property rights, social safety nets, respect for the rule of law) on which markets depend and which also provide the necessary social stability to allow market systems to operate. The early experience with post-socialist transition has, in fact, led to at least a partial rebalancing of the relative roles of state and market within mainstream economic transition theory. While shock therapy was in many ways an assault on the state, there is an increasing recognition that many of the pathologies of transition can be directly linked to excessively weakened states (Poznanski 2001a: 218). Dani Rodrik, similarly, has suggested that recent experience shows that markets and states "are not competing ways of organizing a society's economic affairs; they are complementary elements that render the system sustainable. Every well-functioning market economy is a mix of state and market, laissez faire and intervention" (1999: 13). Even within mainstream transition debates, the state was officially "brought back in" with the launch of the World Bank's 1997 World Development Report, entitled The State in a Changing World.

While none of these propositions is particularly controversial, it is one thing to assert that a properly functioning market economy needs to be supported by an effective state and quite another to set out with any precision, within the context of transition economies, what precise institutional functions the state should perform vis-à-vis the market. Nor does the assertion that effective markets require effective states make any headway towards adequately addressing questions of the balanceUS President Bill Clinton international between equity and growth, and between international competitiveness and domestic social welfare in the face of globalization. In other words, if it is uncontroversial that the state should supply certain goods such as public order, social and physical infrastructure, and an effective regulatory regime, there is much less consensus on the extent to which states should interfere in market processes to ensure equitable growth, foster competition, and initiate broad-based industrial development strategies.

Of course, even before the "rediscovery" of the state many critics of transition orthodoxy have made strong cases not only for an effective state, but for a state that actively intervenes in the necessarily imperfect markets of the post-socialist world, and which takes upon itself some of the tasks that orthodox frameworks suggest should be the exclusive preserve of markets. Grzegorz Kolodko, for example, argues that the circumstances of most post-socialist transition states call for more, not less, state intervention: "The government must step in, correct market imperfections vis-à-vis the allocation of capital, and provide financing in areas where the market cannot do so" (2000a: 131).

Drawing on the experience of the East Asian NICs, Alice Amsden et al. have also argued that state-led industrial development strategies, which can include controlling prices, encouraging production, and directing investment, are as essential in Eastern Europe as they were in East Asia. In conditions of "catch-up" capitalism, which in Eastern Europe have been exacerbated by the absence of basic market infrastructure, market forces alone cannot be expected to organize the domestic forces of production in the most rational and productive manner; there is therefore necessarily an active role for the state in supporting long-term investment and risk-taking (Amsden et al. 1994). Arguably, the post-Yugoslav success of Slovenia has been the result of precisely such a strategic industrial approach, based on a clear state-led vision and strategy, rather than on adherence to abstract neoliberal prescriptions (Likic-Brboric 1999).

In questioning the orthodox emphasis on privatization over competition, Joseph Stiglitz has also made a case for greater state intervention in the machinery of emerging post-socialist markets. Stiglitz contends that privatization and liberalization are themselves not sufficient, and perhaps not even necessary, conditions for the emergence of a competitive and innovative economy, and offers the Chinese experience as empirical proof for this case. As he notes, "industrial restructuring to improve competitiveness has proven one of the most difficult and intractable parts of the transition process. Hopes that privatization would lead to restructuring 'by the market' have been widely disappointed" (1999: 15). Under conditions of systemic reorganization, what is needed instead, he suggests, are wise policies regarding the best way to employ workers given a state's particular capital stock, policies which can only be provided by states, not by markets.

Stiglitz and others have similarly challenged transition orthodoxy's preoccupation with a few relatively narrow economic indicators, such as inflation rates, budget and balance of payments deficits, and growth in GDP. Analysts such as Kolodko argue that this emphasis betrays a confusion between means and ends, since the ultimate goal of any transition strategy should be not only sustained but also equitable growth, as well as a healthier standard of living (1999: 245). While valid, such concerns also raise troubling questions regarding the extent toUS President Bill Clinton international which the forces of economic globalization, which have increasingly penetrated Eastern Europe's economic space, now preclude transition strategies that emphasize equitable growth and broad-based social welfare. For if market forces themselves cannot deliver such outcomes (and there is considerable and growing evidence from the neoliberal experiment that they cannot), these outcomes will have to be provided by an active, interventionist, redistributive state that is increasingly anathema to both global and domestic investors. Given both the importance of such capital holders to the ongoing transition process, and the increasing ease with which capital can take flight from situations, and states, where it perceives its interests to be at risk, the current international economic infrastructure sets considerable limits on the flexibility of states to pursue the types of equitable and poverty-reducing development strategies that even the World Bank now champions.

Fifteen years after the fall of the Berlin Wall, there remains little genuine consensus as to the means and ends of transition strategy. Nevertheless, it is probably fair to say that while the debate is far from resolved, more than a decade of intellectual exchange, policy experiments, and practical experience has moved the post-socialist economic transition debate forward somewhat. Now, more than ever, there is an emphasis on both the formal and informal institutional underpinnings of market economies, and on the importance of a reasonably effective state as an essential partner, rather than an unwelcome obstacle, in the transition process. There is also a growing recognition that key elements of the original shock therapy toolkit, in particular privatization, are inevitably more complex and time-consuming to implement than originally envisaged, and may in many cases not lead to superior outcomes.

Beyond these generalities, however, many questions remain as to the specific mix of state and market, and the specific mix of particular policies, that will produce the best outcomes, and questions too about what the best outcomes are. In one sense, this is both inevitable and desirable, since the search for definitive answers to such questions makes the dangerous assumption that there is one right approach to the problems of transition that can be applied to states with markedly different histories, resources, geographies, and cultures. As Dani Rodrik has suggested, there is no single right set of market institutions, and "we need to maintain a healthy skepticism towards the idea that a specific type of ibuyingnstitution – a particular mode of corporate governance, social security system, or labor market legislation, for example – is the only type that is compatible with a well-functioning market economy" (1999: 13). This, then, is an argument for bottom-up development of a market economy, relying on local knowledge and experimentation, rather than the top-down imposition of a made-in-Washington template.

At the same time, however, the sheer number of different factors at play in any discussion of transition inevitably forces real and difficult trade-offs in the face of complex and often contradictory realities. The need to balance the goal of equitable domestic growth with the globalization-induced imperative of attracting foreign investment and appeasing global financial markets is one such trade-off. Another is the difficulty of balancing responsible macroeconomic behavior with the demands of an effective state that can pay its public servants adequately, maintain public order, and address poverty and social inequality. Even the best-placed and most cohesive transition states have struggled mightily with such issues over the first decade of transition. And while latecomers such as Bosnia might have been expected to benefit from the lessons of the transition pioneers,> (accessed October 200 international Bosnia in particular has begun the transition process from perhaps the worst imaginable starting point.

Implications for Bosnia

While it may be tempting to dismiss Bosnia as a "special" case of post-socialist transition, given its recent history and its current status as a quasi-protectorate of the international community, in many ways Bosnia is going through precisely the same transition struggles that its Eastern European neighbors have grappled with over the past dozen or so years. Like other post-socialist transition states, Bosnia is laboring under the challenges of re-employing its workers, resuscitating and modernizing its capital stock, restoring basic social infrastructure, building up institutions compatible with a modern market economy, and finding a niche for itself in the global economy. The fact that Bosnia is simultaneously struggling to establish a sustainable peace, functional institutions of government, and a minimum level of popular acceptance of the legitimacy of its own existence makes the challenges of economic transition more acute, but not fundamentally different.

In this context, then, what is perhaps surprising about the Bosnian experience is that, despite its late start down the transition path and its peculiarities as a highly dysfunctional and incomplete state, Bosnia has been just as much a laboratory for orthodox economic transition strategies as were Poland and Russia in the early 1990s. Despite the lessons of the past decade, the mantra of stabilization, liberalization, and privatization continues to be the official model of transition being pushed by the international community in Bosnia.

That this has been so testifies to the durability of the Washington consensus, and to the inability or unwillingness of its champions to admit that Eastern Europe's bumpy transition has been anything less than a vindication of orthodox policies. Yet to accuse international economic policy-makers of willful blindness and leave it at that would be to tell only part of the story. The current Bosnian situation is also to a certain extent the product of "orthodoxy by default," since to the extent that they have been undertaken, the broader state- and institution-building tasks that critics of transition orthodoxy have rightly insisted upon as essential to any successful transition have been largely stalemated, or distorted to meet the needs of the country's ruling nationalists. On the other hand, stabilization has been possible only because the international community shifted macroeconomic policy-making authority from domestic to international hands as part of the peace agreement, while liberalization and privatization have moved forward – at various speeds and with various pathologies – over the course of the post-Dayton period according to the degree to which these policies served the interests of domestic political elites. In short, post-Dayton Bosnia is an environment in which state-and institution-building efforts appear almost destined to be either bogged down in political inertia or hijacked by narrow nationalist agendas. In this context, it becomes easier to un up Eaderstastern enterprises primarily asnd why international transition efforts have tended to focus primarily on narrow market-based solutions as an alternative, non-nationalist path to reform, and why the international community has only recently begun to pay serious attention to a state-building and an institution-building agenda.

Ultimately, therefore, post-Dayton Bosnia has witnessed a very specific form of "shock therapy," in which the familiar policies of stabilization, a new life somewhere else12

Clearly, therefore, the story of Bosnia's post-Dayton economic transition cannot be told by focusing solely on the means and goals of international economic strategy, or on the ongoing influence of the Washington consensus and its international backers. The dynamics of Bosnia's domestic political economy are equally relevant, and the following section will examine some of the theoretical aspects of the political economy of conflict, which has powerfully shaped post-Dayton Bosnia's political and economic landscape.

The political economy of conflict

Given the conventional separation within the field of international relations between international political economy and security studies, it is unsurprising that until very recently relatively little attention has been focused on the economics of both conflict and post-conflict situations. Typically, both the emergence and the conduct of warfare have been treated in primarily political terms, with an examination of economic factors accorded at best a secondary role. This state of affairs has been slowly changing over the past decade, as scholars begin to pay more attention to conflict's economic dimensions. Today, while the relative importance of economic factors as causes of conflict remains a matter of some debate, "the need to incorporate, at some level and in some form, the 'economic dimension' in order to better understand the causes and the persistence of conflict is uncontroversial" (Berdal and Malone 2000: 1).

In part, the study of the political economy of conflict has emerged in response to concrete developments in the post-Cold War era. Internal conflicts in the aftermath of the Cold War have demonstrated a much more obvious economic nature, largely because of the relative decline of ideological conflicts and the reduced ability of conflicting parties – be they rebels or governments – to rely on financial support from external sponsors. During the Cold War, for example, both sides in Angola's civil war, or in El Salvador's, could rely on considerable support from super-power backers pursuing by proxy their own ideological and geopolitical aims. With the evaporation of the East–West confrontation, contending sides within civil conflicts now have to fend for themselves in terms of financing their military activities (Duffield 2000: 73). As a result, control of vital economic resources, be it diamonds in Sierra Leone or Angola, timber in Cambodia, or drugs in Colombia, has become a key battleground in recent civil conflicts.

At the same time, the gradual emergence of the study of the political economy of conflict as a subfield of international relations is part of the ongoing effort to better understand the dynamics of contemporary conflict. This has become increasingly relevant in the present era, in which the international community has come under growing pressure to respond to conflict with peacemaking and peacebuilding strategies. Following the logic that "a good doctor will need to get some idea of the nature of the disease before rushing to the medicine cabinet to pull out a remedy" (cited in Berdal and Malone 2000: 20), there has consequently been a renewed emphasisUS President Bill Clinton international in recent years on understanding the underlying dynamics of war. Focusing on the economic dimensions of civil conflict as one piece of a larger puzzle, in this sense, provides a more promising avenue for potential international responses than earlier approaches, which have tended to see conflict as irrational and therefore not amenable to constructive international intervention. Even today, most mainstream analyses of civil conflicts – including, for example, the growing literature on the phenomenon of "failed states" – continue to view such conflicts as breakdowns, or as deviations from a normal state of affairs, with the goal of international intervention being the restoration of normalcy. As Gilles Carbonnier has noted, students of international security have not been alone in considering violent conflicts as aberrations. Until very recently, in fact, "the overwhelming majority of economists and development agencies tended to consider war an external event, not amenable to economic analysis, 'which disrupts from time to time more normal conditions under which economic laws apply'" (Carbonnier 1998). One danger of this perspective, of course, is that it tends to obscure the extent to which the roots of any particular conflict can be found in the assumed "normalcy" of the status quo ante.

By focusing on the rationality of violent conflict and on the positive functions of war for at least some of its participants (if not for affected societies at large), the literature on the political economy of conflict moves away from a perspective that views contemporary civil conflict as an untreatable disease which must simply be quarantined and allowed to run its course. As David Keen has pointed out, contemporary conflict may in fact be considerably more rational than the types of conflict that have until very recently dominated Western civilization:

It could plausibly be argued that 19th and 20th Century Western notions of war presuppose their own kind of madness. According to these notions, war is an occasion for risking death in the name of the nation state with little or no prospect of significant financial gain. It may take months of brainwashing, including a certain amount of ritual humiliation of the new recruit, to convince people of this bizarre convention. Now consider an alternative conception of war, where the aim is simply to make money while not getting killed. This could plausibly be considered far more rational behaviour.

(1997: 68)

The point of examining the political economy of conflict, ultimately, is to assess the degree to which certain parties benefit directly from conflict, and thus have an incentive to continue to perpetuate the conflict rather than to seek peaceful solutions. Rather than viewing conflict in conventional terms as a struggle between two (or more) sides with victory as the primary goal, this type of analysis asks whether the goal might not perhaps be to create the conditions under which economic advantage can be gained, or sustained. Through this lens, therefore, phenomena such as ethnic cleansing appear in a somewhat different light, and can be seen to be driven at least as much by economic motivations – ethnic cleansing read here as asset transfer – as by more strictly political or military motivations (Griffiths 1999: 62).

Admittedly, focusing on questions related to the political economy of conflict may seem somewhat misplaced within the context of a broader investigation of the political economy of a “post-conflict” society such as Bosnia. Yet it is in fact one of the key insights of the l Foreign direct investment in selected European transition states, 1997er

David Moore has also suggested that the conflict/post-conflict distinction serves a useful rhetorical function for international financial institutions with an interest in re-aligning the economies of war-torn states along neoliberal lines. Declaring a war-torn society to have moved from active conflict into a “post-conflict” period, he suggests, allows internationally imposed structural adjustment strategies to reign as usual (2000). Similarly, Moore’s analysis of recent World Bank literature reveals a tendency to view post-conflict situations as blank slates upon which a new economic order can be written. In other words, the “post-conflict” moment – either due to the existence of a newly legitimized regime or simply because the rules of the game are in flux in the interim between the breakdown of the old system and the consolidation of the new – presents an opportunity for dramatic steps to be taken towards the imposition of neoliberal forms of state, economy, and society (Moore 2000: 14). Such a move, of course, prematurely forecloses the debate on what type of political economy – from laissez faire to interventionist – is most appropriate for fragile states emerging from war. While Moore's primary emphasis is on Africa, his analysis is also relevant to the post-socialist world, where structural adjustment is more benignly portrayed as "post-socialist transition."

Greed and grievance

One of the more provocative bodies of work to emerge in recent years on the political economy of conflict has come from Paul Collier of the World Bank. Within the context of the Bank's ongoing project on the economics of civil wars, crime, and violence,[5] Collier has carried out intensive quantitative research into the causes of war. Focusing specifically on explaining the emergence of civil wars as the product of either greed or grievance, Collier finds the former to be a much more significant trigger of conflict than the latter. As he concludes, "the true cause of much civil war is not the loud discourse of grievance but the silent force of greed" (2000: 101).

Given the degree to which ethnic grievance has been directly linked to civil conflicts in the post-Cold War world, this conclusion is somewhat surprising. Y in post-Dayton Bosnia?CSet Collier argues that grievance-based rebellions often fail to take hold in large part due to the collective-action problem faced by rebel groups in encouraging individuals to risk their lives in pursuit of dangerous and uncertain goals, particularly since those same individuals could benefit equally from the overthrow of an oppressive regime even without directly participating in the movement. This free-rider problem, Collier suggests, is less prevalent in greed-based rebellions, since only those who actively join the rebellion can expect to reap rewards from it. Similarly, greed-based rebellions promise more immediate rewards – whether through pillage, extortion, or the capture of key productive assets such as diamond mines – than grievance-based rebellions, the rewards of which come, if at all, only after a long and arduous struggle. As Collier concludes, "rebellions based purely on grievance face such severe collective action problems that the basic theories of social science would predict that they are unlikely to occur, and the empirical evidence supports this prediction." Those grievance-based rebellions that do take hold, he suggests, usually combine some form of material payoff for the rebels with the original grievance (2000: 98–100).

It is this last point which might provide an acceptable middle ground for those uncomfortable with the idea of the theoretical pendulum swinging too far in the direction of a conclusion that civil conflicts are almost exclusively driven by economic interests. And it may indeed be the case that Collier's quantitative toolkit is insufficiently nuanced to sort out the precise mix of motivations that push groups towards armed rebellion, particularly since the motivations of different elements or even individuals within a movement may differ, and since discerning true motivations will in any case be a difficult task. In this sense, therefore, discerning true motivations behind the instigation of individual conflicts through the type of large-n quantitative methods used by Collier may provide insights only in very broad strokes.

A more useful approach, therefore, might be to recognize that civil conflicts almost invariably involve a mix of greed and grievance, and that the real challenge lies in understanding the interactions between the two. To what extent, for example, do economic gains become the raison d'être of conflict, as opposed to simply a means of financing the broader goal of military victory? To take the case of Angolan diamonds raised above, did the exploitation of these resources become the sole motivation for UNITA's military activities, or did diamonds serve a convenient double role of making those who control them wealthy and financing ongoing efforts at state capture, which presumably carries with it the prospects of even greater economic rewards? Similarly, David Keen has raised the question of the extent to which conflicts that begin as grievance-induced may mutate over time and become driven by more short-term economic goals, thereby giving certain parties an incentive to prolong the conflict rather than to win it (2000: 25, 27). This latter point may be of particular relevance to cases such as Bosnia, where economic motivations for the conflict – while present in some form from the beginning of the conflict – may have taken on added importance in the post-Dayton period.

Economic motivations for conflict

The most self-evident questions confronting researchers probing the economic dimensions of Foreign direct investment in selected European transition states, 1997er

Looting and pillage are the most obvious economic activities associated with armed conflict. Such activities have a long historical connection with warfare, as during the medieval era the "spoils of war" served both as an incentive spurring on mercenary soldiers and as a key source of military finance (Keen 1997: 70). In the modern era, such activities are often deployed simultaneously for both economic and political ends. Ethnic cleansing, as noted above, involves not only seizing assets from victimized groups but also driving such groups from their homes as a means of consolidating military advances.

Modern civil conflicts have also seen the emergence of more sophisticated forms of war-related economic activity. In some cases, control of territory by rebel groups enables them to establish protection rackets, extracting "war taxes" from enterprises still operational in such areas in return for allowing the enterprises to continue functioning. Even more significant, particularly in war-torn states possessing significant natural resources, is the phenomenon of rebel groups seizing control of such assets and operating them as private businesses. The ability of Angola's UNITA rebels to sustain the civil war in that country had much to do with their control of diamond mines in the north of the country, and with their ability to produce and sell the products of these mines on global markets. Similarly, Sierra Leone's civil war was driven as much as anything by control of diamond-producing activities, while the drug trade plays a similar role in Colombia's ongoing civil conflict.[6]

Conflict also provides opportunities to control trade in broader terms. War disrupts the normal operation of markets, pushing some traders out of the market entirely, while creating monopoly or near-monopoly conditions for those who remain, or for the politically connected who enter the market specifically to take advantage of conflict-generated opportunities. Profit margins, accordingly, go up as a result of reduced competition and the collapse of state regulation and taxation, since the control of transborder flows is often one of the first casualties of war (Keen 1998: 16). In addition to enabling rebels who capture valuable natural assets to sustain and enrich themselves through the international trade of valuable commodities such as oil, drugs, or diamonds, conflict situations also create conditions for profitable trade in other goods or services – both legal and illegal – not originating in the war-torn state. Sanctions-busting, for example, has provided criminalized entrepreneurs with lucrative trading opportunities in conflict zones as varied as Yugoslavia and

Angola.[7] Trade in small arms, particularly within the context of UN-imposed arms embargoes, is often one of the most lucrative of wartime enterprises. At the same time, poor or non-existent border control makes war-torn states key transit points for international smuggling operations involving women, drugs, and illegal migrants.

in post-Dayton Bosnia?CS

Finally, within the context of international humanitarian operations, which in the post-Cold War era have been the international community's most visible response to internal conflicts, the injection of significant amounts of humanitarian aid into a war-torn state has also provided warring parties with another potentially lucrative source of resources. In the midst of crisis, warring parties are often able to extract significant concessions from international aid providers in return for allowing relief supplies to go through, or in other cases simply help themselves to unarmed aid convoys. Even after a peace deal is signed, significant portions of the continuing flow of international assistance may end up in the pockets of the "formerly" warring sides. In 1999, for example, the New York Times reported that upwards of $1 billion (US) in international reconstruction funds devoted to post-Dayton Bosnia had been lost to corruption and graft (Hedges, 17 August 1999). It is worth considering, therefore, whether such windfalls create incentives for the beneficiaries to resist an overly rapid return to political stability and normalcy, in order to prevent the international aid spigot being turned off earlier than absolutely necessary.

In addressing the specifically economic motivations parties may have in prolonging the conflict, however, it should not be forgotten that the parties themselves may have equally powerful political motivations for perpetuating a state of insecurity during or in the immediate aftermath of armed conflict. Elites may continue to perpetrate violence, and to play up the continuing threat of violence to already insecure populations, as a means of managing their own political environments. The "extraordinary" environment of a conflict or a post-conflict situation, for example – whether genuine or manufactured – provides elites with considerable latitude in dealing with internal dissent. It also tends to deflect attention from other pressing political issues and allows elites to emphasize their exclusive ability – at least in relation to internal opposition – to protect the threatened "us" from the threatening "them." As subsequent chapters will demonstrate in greater detail, each of Bosnia's three main nationalist power blocs have retained their grip on power largely by playing up both the continuing threat posed by the others and their own role as the sole credible defender of the "ethnic interest." Coupled with the more overtly economic interests at stake in the perpetuation of insecurity and conflict, therefore, such tendencies pose serious obstacles to any international peacebuilding agenda.

Conflict, economics, and globalization

If globalization is indeed as all-pervasive a phenomenon as both its champions and critics make it out to be, it should come as no surprise that globalization has also had an impact on the nature of contemporary conflict. This is especially true in terms of the political economy of conflict, where warring parties are increasingly reliant on the outside world as both market and supplier. In other words, "today's so-called warlords or failed states may act locally, but to survive they have to think globally" (Duffield 2000: 84).

This is not, of course, to suggest that globalization itself is directly responsible for the conflicts that have marked the "new world disorder" of the post-Cold War era. Glo to return to their "homes of origin. ntbalization has, however, facilitated the efforts of warring parties to establish the transborder economic linkages that are increasingly essential to their survival (Duffield 2000: 74). Since the number of diamond buyers in impoverished war-torn states such as Sierra Leone and Angola is relatively small, the warring parties in control of these resources need to be able to tap into global markets in order to realize these local assets. Similarly, the link between drugs and ongoing conflict – be it in Bosnia or Colombia – is dependent on international criminal networks to move the product from producer to consumer. The flip side of this supply-driven reliance on global markets is a similar demand-driven reliance on international networks to provide warring parties with such necessary war supplies as weapons and fuel. And since, in a globalizing world, the ability – or willingness – of national or international authorities to regulate or control such transborder activities, both legal and illegal, is severely limited, such networks have become an integral element of the conduct of modern internal conflicts. To a large extent, as Duffield notes, the outside world, including northern banks, governments, and businesses, is complicit in the development of these networks, either out of an ideological commitment to liberalization or out of economic self-interest (2000: 84).

At the same time, while the degree to which the nation-state is "withering away" in response to globalization may be somewhat overstated in regard to the industrialized North, the trend towards globalization, combined with the ongoing efforts of the international financial institutions to restructure the economies of developing states in market-friendly ways, has serious implications in an international environment in which the phenomenon of "failed states" is becoming increasingly prominent. On the one hand, "if the institutions of the state (such as schools, social security, police, and the army) are eroded by international pressures for austerity or by economic crisis more generally, the state will find it hard to address the needs that may otherwise be met through a resort to violence" (Keen 2000: 28–9). On the other hand, while an erosion of state capacity may make states more susceptible to the types of civil conflicts that have marked the post-Cold War era, similar concerns surround the question of states being able to recover from conflict. Fragile states making the transition from war to peace under the constraints of internationally imposed structural adjustment or austerity programs may in fact find it next to impossible to restore the type of collective goods – such as security and economic opportunity – that were met by other means during the conflict. One of the key tasks of a post-conflict regime is to restore a certain degree of allegiance to the very idea of a particular state among those who had turned against it during wartime, and if the state itself has little to offer in terms of concrete benefits, the transition from war to peace may prove elusive. In these terms, therefore, there may be much truth in Mohammed Ayoob's notion of "subaltern realism," in that the re-establishment of a relatively strong, stable, and effective state, for all its faults, is a key element in any successful peacebuilding strategy in war-torn states (Ayoob 1997).[8]

From conflict to peace

Predictably, a political economy-centered approach to the question of conflict tends to produceUS President Bill Clinton international somewhat different policy recommendations with regard to peace-building than an approach that sees the post-conflict period in terms of a "return to normalcy." In the first place, the former approach suggests that would-be peacemakers should be wary of the motivations of the signatories to any peace deal, and should be mindful that one or more parties might have a vested interest in undermining or delaying implementation of the peace agreement. In this regard, it may in fact be naive to expect former enemies to quickly turn from conflict to collaboration on the basis of a signed peace agreement, not only because of lingering mutual distrust and insecurity but because each has economic or political interests in maintaining a certain level of tension.

One of the key dilemmas, therefore, in any peacebuilding strategy concerns the role that the former warring parties should play in the post-peace agreement period. Given the polarization of the political landscape during wartime, in most cases it is unlikely that there will be alternative domestic political formations in existence that can step in and play a leading role in the immediate post-conflict period. Almost without exception, therefore, the dominant parties during wartime will remain the dominant parties in the immediate aftermath of a peace agreement, and the continuing pursuit of wartime political and economic goals by such parties can seriously compromise prospects for consolidating peace. The revival of the notion of international trusteeship in the post-Cold War era has been one response to this problem, and has been attempted to various degrees in Cambodia, Bosnia, Kosovo, and most recently in East Timor. Yet the unwillingness of the international community to take on long-term trusteeship responsibilities, reinforced by both local and international concerns over domestic sovereignty, has meant that early elections have been seen as a means of handing back sovereignty – even if only in very circumscribed forms – to the citizens of a war-torn state as soon as possible.[9] In most cases, elections are held well before alternative political movements have a chance to crystallize, with the result that initial post-war elections tend to reflect and even reinforce wartime cleavages and return to power those responsible for prosecuting the war.

The difficult question in any peacebuilding environment, therefore, is how to deal with situations in which influential groups that continue to benefit from ongoing conflict – and are therefore more likely to work against than for the establishment of a sustainable peace – remain in positions of power. As Paul Collier has noted:

the small groups that have an economic interest in sustaining or reviving conflict are disproportionately influential … if such groups cannot be bought off, then they have to be overcome. Interventions that reduce their profits from conflict can work both to reduce their incentives for conflict and, perhaps more important, to reduce their capacity to influence decisions.[10]

(2000: 105)

If post-conflict political dynamics make it difficult to marginalize hardliners who stand to benefit from the perpetuation of conflict, it may therefore be more productive to attempt to change the incentive structure faced by such groups. And since war economies are dependent on global integration, they may also be vulnerable to international control and regulation. Consequently, “reducing the pr over the past several yearsmeCSofitability and effectiveness of conflict- a mearelatens of eliminating potential cod transborder trade networks should be seen as complementing more conventional confidence-building and political reform measures to establish peaceful relations within countries” (Duffield 2000: 85). In other words, finding ways to make peace more profitable than conflict may be an essential part of any post-conflict peacebuilding strategy, and this may entail actions at the international level as much as at the domestic level. Of course, given the current dominance of the neoliberal agenda and its emphasis on liberalization, it is far from self-evident that inducing changes in the international environment aimed at altering the incentive structure facing local actors in war-torn countries will be any easier than inducing similar changes at the domestic level. In fact, this is one of the intersections between conflict and economics at which prevailing economic strategies at the international level may directly undermine peacebuilding strategies at the domestic level.

Internally, attempts to change the incentive structure faced by dominant parties can take a number of forms. On a political level, most efforts have focused on the design of electoral formulas that require parties to generate support from all relevant political groups in society, rather than allowing them to rely on a single ethnic group. Theoretically, such strategies reward moderation and discourage ethnic extremism (Horowitz 1993). Economically, the effort to alter incentives faced by elites has focused more on the imperatives of developing and consolidating institutional structures – the most important of which is the rule of law – as a means of channeling economic activity from the gray realm of corruption, organized crime, and clientelism into more legitimate, transparent, and regulated forms of market activity. As such, the re-establishment of political and economic institutions is no less critical in post-conflict environments than it is in post-socialist environments.

Convergences and disjunctures

The previous sections have outlined two different theoretical frameworks: the first has informed conventional international economic policies towards post-socialist transition states; the second provides a foundation for coming to terms with the political economy of conflict and post-conflict states. Both frameworks are essential for understanding the political economy of situations – such as contemporary Bosnia – which are both post-conflict and post-socialist, and for grappling with the complex issues of peacebuilding in such contexts. However, since the practices that the first framework prescribes and the second describes do not exist in isolation from each other, but interact in complex ways at a number of different levels and across a variety of different issue areas, understanding the political economy of peacebuilding in post-Dayton Bosnia requires an analysis of these interactions, in terms of both disjunctures and convergences. In other words, what might be expected to happen when orthodox transition policies bump up – as they inevitably must – against the prevailing political economy of conflict in peacebuilding situations such as that in Bosnia? Which of these interactions can be expected to contribute to broader peacebuilding goals, and which might work against sustainable peace? Given the relative absence of comprehensive studies in this area, the hypotheses and conclusions advanced here will necessarily be tentative, but will hopefully provide some basis for further investigation.

Economic rationality in over the past several yearsmeCSpost-socialist/post-conflict environments

One of the major problems with applying orthodox economic principles to turbulent post-conflict and post-socialist environments lies in the particular notion of rationality underpinning neoclassical economics. For mainstream economists, the basic unit of analysis is homo economicus, who is expected to act in a rational, self-interested manner in response to market signals. The difficulty with this type of analysis is that it tends to assume that the market produces signals in a natural and unproblematic fashion. As Gilles Carbonnier notes, economists as well as international financial institutions “tend to take for granted the basic underpinnings of the economy, with a well-established legal system to enforce property and contracts and well-defined social norms” (1998). Of course, it is precisely these “basic underpinnings” that are either non-existent or under-developed in both post-conflict and post-socialist societies, and which do not simply emerge spontaneously as soon as a peace agreement is signed or once the rubble of socialism is cleared away.

This absence of appropriate institutional underpinnings in post-socialist/post-conflict societies has led economic actors to view rational decision-making in terms beyond the narrow range assumed by mainstream economists. As Stephen Holmes has argued in the case of Russia, rational economic actors will only engage in the type of long-term investment strategies necessary to re-invigorate enterprises and re-employ workers if they have some assurances that their investments will be safe over the long term. This underlines the importance of trust in any market economy, and trust is possible only when it is backed by an effective state willing and able to enforce the rules of the game. As Holmes suggests, “one function of the liberal state is to lengthen the time horizons of private actors by predictably enforcing known and stable rules. Property is worthless if you, and potential purchasers, do not believe in the future” (September 1997).

Clearly, such concerns are of even greater relevance in fragile post-conflict contexts. Not only do potential investors have to worry about "lethally armed extortionists" (Holmes September 1997) in environments in which the rule of law is at best selective and at worst non-existent, but they also have to worry about the possibility of renewed warfare if the peace process collapses. Those with cash, therefore, quite logically put a premium on liquid and portable assets, which can be easily relocated or exported at the first sign of trouble (Collier and Gunning 1995). In essence, "macro-level instability, added to the high level of criminality and political insecurity, often discourages the acquisition of visible assets and perpetuates the premium on liquidity that emerged during the war" (Carbonnier 1998).

Consequently, attracting fixed-capital private investment by either foreigners or locals in insecure environments such as Bosnia will almost inevitably be an uphill struggle, and strategies of economic recovery that rely on large and relatively quick infusions of foreign investment capital – as the standard orthodox economic transition strategy does – may be of dubious utility in post-conflict contexts. What emerges here therefore is a vicious circle: private investment may be a prerequisite to economic recovery and eventual political stability, while political stability (and to a certain extent economic recovery)[11] may similarly be a prerequisite for private investment. This conclusion therefore raises doubts about the in post-Dayton Bosnia?CSability of the private sector to act as the engine of economic recovery and growth in post-conflict states over the short to medium term.

Liberalization, privatization, criminalization

Given the high levels of corruption and criminality that typically characterize states making the transition from socialism to capitalism and those making transitions from war to peace, it seems logical to assume that states undergoing both processes simultaneously will be characterized by high or even extreme levels of extralegal behavior. Partly, this stems from the absence of the rule of law that characterizes the political economy of conflict, and from the fact that conflict places some groups above the law and others – usually the vast majority – below it (Keen 2000: 31). Conflict situations legitimize illegality, and this state of affairs almost inevitably extends, to greater or lesser degrees, into the post-conflict period. Restoring the rule of law must therefore be one of the key priorities of any peacebuilding project, since the restoration of peace can be measured to a significant degree by the extent to which the rule of law replaces the rule of violence. Similarly, in post-socialist transitions the rule of law is one of the first casualties of the "institutional hiatus" that typically characterizes the transition process. The development and consolidation of laws and enforcement mechanisms governing economic activities tends to lag behind events, thereby enabling entrepreneurs to take advantage of the fog of transition to help themselves to assets once belonging to the state.

At the same time, however, there is also considerable evidence that the standard transition prescriptions flowing from the Washington consensus have contributed to or implicitly encouraged the proliferation of criminal or extralegal economic activities. The emphasis on speed, particularly in the early days of the transition process in Eastern Europe, generally involved a certain degree of acceptance that some parts of the transition process would be carried out through methods of dubious legality. In fact, given the emphasis on entrepreneurialism embedded within early transition strategies, it was hardly surprising that these models would benefit those criminal entrepreneurs who managed to thrive during the socialist era, and encourage the emergence of others like them. As

Sabrina Ramet has argued, “in its own perverse manner, crime is, ironically, the quintessential expression of the principles of free enterprise and laissez-faire, the twin pillars of a free-market economy” (1996: 101).

To a certain extent, it was even expected that criminal entrepreneurs would form the core of the emerging capitalist class in post-socialist states. One early Western advisor to the Ukrainian government, for example, went so far as to urge “the need for the development of what he called ‘bandit capitalism’ in Ukraine and drew a favourable parallel with the great robber barons of American capitalism in the nineteenth century” (Gowan 1995: 48). The expectation was that, over time, the bandit capitalists could be encouraged to “go legitimate.” There is now, however, considerable evidence from countries such as Russia that the bandit capitalists, far from going legitimate, have captured a significant portion of economic activity and financial resources, and that the Russian economy has been “fatally criminalized” (Melich 2000: 155). Despite this, the view that gangsters can be converted into responsible capitalists persists within the international community. W in post-Dayton Bosnia?CSith regard to the privatization process in post-Dayton Bosnia, for example, international officials overseeing the country’s privatization process have displayed little concern for the fact that most privatized enterprises are ending up in the hands of nationalist mafias, and remain convinced that over time these elements can be folded into “normal” market relations.[12]

In their own way, each of the core elements of the orthodox transition approach contributes to the criminalization of the economy. Macroeconomic stabilization packages that severely contract state spending usually produce drastic wage cuts for civil servants at all levels, thus undermining the professionalism of the public service and encouraging the rise of corruption and bribery as standard bureaucratic practice (Carbonnier 1998). Similarly, states whose operational capacities are undercut by strict stabilization policies are no match for organized criminal networks, which in many transition states have been able not only to act with virtual impunity but also to co-opt significant portions of the state apparatus.

Liberalization, similarly, provides heightened opportunities for organized criminals. As Mark Duffield has suggested, liberalization as part of the broader process of globalization has enabled localized criminal networks to expand their reach and their power through linkages across national boundaries. As he notes, “though liberalism and integrationist tendencies may characterize the core regions, through a combination of economic crisis, political change, and liberalization, assertive and illiberal transborder circuits have grown in importance on the periphery” (2000: 80). This at least partly explains the emergence, across Eastern and Southeastern Europe, of complex illegal trade networks engaged in the traffic of women for prostitution, of drugs, and of migrants.

Finally, nowhere has the reach and extent of the criminalization of economic activity been more apparent in transition states than in the area of privatization. From the very beginning, the prioritization of outcomes over process – such that getting state assets into private hands as quickly as possible has been viewed as more crucial than the process by which this is accomplished – has implicitly condoned enormous levels of corruption, the extent of which has largely discredited privatization in the eyes of many Eastern European populations. Regardless of the type of privatization process followed, few states have been immune from widespread abuses, as those actors in a position to take advantage of the easy pickings offered by privatization rarely let the opportunity slip away. In some cases, nomenklatura privatization, in which former managers of state-owned enterprises managed to transfer ownership of these enterprises directly to themselves, was the norm, while elsewhere individuals from the underground economy emerged to help themselves to former state-owned assets.

Clearly, these same tendencies can be expected to be even more pronounced in societies simultaneously undergoing post-socialist and post-conflict transitions, particularly since conflict environments tend to enhance the power and profile of criminalized elements. In fact, in post-conflict Bosnia a rather unholy alliance has emerged among the ruling nationalist parties, the ethnically segregated mafia, and elements of the former socialist-era nomenklatura (Barry 20 July 1999), and the line between legitimate political actors and organized criminals has become increasingly difficult to distinguish. As Mark Duffield has noted in the context of conflict zones such as the former Yugoslavia, Angola, and Somalia, "the crisis facing the (democratic a to return to their "homes of origin. ntnd secular) international community thus lies in its inability to curb the development of predatory and totalitarian social formations which exist beyond the conventional economy, while also protecting the victims of these processes" (1994: 65).

The political and the apolitical

If there has been, as a number of authors suggest, a general disconnection between economic policy and peacebuilding in the post-Cold War era, at least part of the reason for this is the way in which the major international financial institutions approach their mandates within post-conflict settings. Specifically, both the World Bank and the International Monetary Fund identify themselves primarily as "technical" or apolitical organizations, and have therefore been reluctant to involve themselves in issues such as security sector reform or institution-building, because the inherently political nature of such issues goes beyond both organizations' narrowly economic remit.

Of course, to observers who see the international financial organizations as little more than agents of an ideologically driven project to re-invent the political economies of states across the non-Western world, this claim to technical impartiality rings rather false.[13] In fact, for many left-leaning observers of international political economy, the very claim to objectivity on the part of the IFIs is itself part of a political effort to obscure the inherently ideological project in which they are involved. In other words, if people and societies can be convinced that definitive answers to questions of fundamental economic organization have been discovered – to the extent that it is no longer necessary to debate such fundamentals – then what remains is simply the technical application of these solutions to the real world. In this sense, then, the IFIs have attempted to "de-politicize" economic transitions, and to view the complex issues involved "in terms of technical problems involved in monitoring a transition to plural democracy and market economy, the form and content of which is seen as already given" (Schierup 1999: 21).

Within the context of post-conflict environments, where peacebuilding inevitably entails both political and economic components, this attempt on the part of the IFIs to isolate the political from the economic can be particularly problematic. In El Salvador, for example, the IFIs sought to maintain a clear separation between economic policy-making and peacebuilding. In practice, therefore, both the World Bank and the IMF "held fast to their macroeconomic policies of fiscal and monetary restraint, arguing that domestic funding for peacebuilding was a political matter outside their mandates or competence" (Boyce and Pastor 1997: 294). This reluctance on the part of the IFIs to place their policy-making within the context of El Salvador's broader peace process represented a major missed opportunity, as carefully designed economic policies could have done much to address the root causes of the country's civil war and contribute to the consolidation of peace (Boyce and Pastor 1997: 294).

This rigid separation between the economic and the political within international peacebuilding missions may have even more serious implications in the context of simultaneous transitions from war to peace and from socialism to capitalism. As Jiri Melich has argued, ampetition (Gowan 1995: 44). Slobodna Bosna, pp. 5–,CSdistorted (pathological) fusion of the political and economic spheres, with all the negative implications for managing economy and politics (corruption, criminalization of economic activities, social polarization, moral decline, etc.)" (2000: 136). In contexts where these conditions are compounded and exacerbated by conflict, the attempt to keep distance between "technical" economic issues and the messy world of politics simply cannot be sustained. To the extent that it is attempted, the application of technical solutions to what are inherently political problems risks being futile at best and, at worst, reinforcing and perpetuating the very conditions that produced the conflict in the first place.

Ultimately, there is a strong case to be made that all efforts to re-order economic arrangements are inherently political, and that this applies to an even greater extent in situations which are both post-conflict and post-socialist, where the political and the economic are often indistinguishable. If this is accepted, it is then a logical step towards attempting to merge peacebuilding and economic reform agendas in such a way as to make them mutually supporting. Of particular relevance in this regard is the role of post-war macroeconomic stabilization, since aggressive stabilization strategies which succeed on their own terms may in fact undermine broader state-building and peacebuilding processes. In recent years, in fact – perhaps in response to some of this criticism – the IFIs have taken more seriously the question of whether peacebuilding situations call for a more nuanced approach to economic reform. The World Bank, as noted previously, has established a post-conflict unit dedicated to developing economic policies appropriate to states emerging from civil war. To date, however, little of this advice has made it from the theoretical level to the practical level, and there is as yet little concrete evidence on the ground in post-conflict states of even a moderate shift from conventional IFI orthodoxy.

Institutions matter

One area of substantial overlap between the literature on post-conflict transitions and that on post-socialist transitions centers around the question of the importance of institutional development. Indeed, given the experiences of the past decade, it could be argued that the decisive element in determining transitional success – both from war to peace and from socialism to capitalism – has been the degree to which, and the speed with which, effective institutional arrangements have emerged.

Recalling Douglass North's definition of institutions as "the rules of the game in a society," it is clear that both post-socialist and post-conflict states find themselves in the midst of fundamental change from one type of institutional framework to another. This interregnum is typically characterized by the absence of many core institutions and/or the emergence of malign institutional arrangements that tend to favor the strong over the weak. To a large extent, therefore, both peacebuilding and market building involve a degree of institutional re-engineering in order to restructure the ways in which individuals and groups interact within any given society and are directed towards particular goals.

As noted previously, the role of institutions in the post-socialist transition process has been a source of an ongoing and largely stalemated debate between shock therapists and gradualists, with the latter camp arguing that effective transitions must necessarily unfold at a pace compatible with the imperatives of institution-building. This> (accessed October 200 international , of course, inevitably implies a much longer time frame than that contemplated by the shock therapy camp. To a certain degree, the transition recessions that afflicted all post-socialist states in the early 1990s vindicated the gradualist argument regarding the importance of institutions. In the words of Grzegorz Kolodko:

the Washington consensus has partially failed with respect to the transition economies because it has neglected the significance of institution-building even when the other fundamentals are by and large in order … in real economic affairs, it is not possible to sustain fundamentals if they are not backed by solid institutions.

(Kolodko 2000a: 123)

Similarly, in the emerging literature on post-conflict transitions, it is increasingly recognized that a fundamental goal of peacebuilding is to establish appropriate institutional arrangements as a means of progressively replacing the rule of coercion and violence with the rule of law. Krishna Kumar, for one, has argued that in the context of war-torn states, the international community now recognizes that "rebuilding institutional infrastructure shattered during conflict is as important as physical infrastructure – if not more important" (1997: 25). Of course, it is also increasingly recognized that in the context of post-conflict states what is required, more often than not, is the establishment of new institutions rather than the re-establishment of old ones, since the previous institutional arrangements almost inevitably played a role in generating the original conflict. As noted above, however, this process involves not simply the establishment of institutions on a tabula rasa, but the contentious and highly political process of undermining war economies and the positions of those who benefit from them, while at the same time altering the incentive structure of actors in order to induce them to conduct their economic activities in the open, where they can be taxed and regulated by legitimate government authorities.

For some theorists, logically prior to the question of what kinds of institutions are to be established is the importance of establishing institutions in the first place, and in particular re-establishing the authority of that bundle of institutions that makes up the state. According to this argument, neither market economics nor peaceful social relations are possible without the stability and order provided by the modern state. As Ivan Ivekovic contends, "whether one likes it or not, the modern nation-state is not only the dominant, but also the unavoidable form of political and economic organisation of society in the contemporary world" (1999: 64).

The argument that effective statehood is a necessary prerequisite to the types of social, economic, and political practices that are seen as the end-point of the transition process echoes the subaltern realist arguments of Mohammed Ayoob. According to him, most modern conflicts, which are overwhelmingly concentrated in the developing or former socialist world, are the inevitable result of the same lengthy and bloody processes of state formation that the industrialized West went through between the sixteenth and nineteenth centuries. This inevitable process of establishing political order, he argues, is in many ways the most fundamental element of institution-building since “in the lack of political order, social and individual values are meaningless; they cannot be realized, nor can they be protected from assault, violence and chaos” (1997: 132). Simply put, modern market economies depend to an enormous extent on a stable and predictable network of rules and regulaUS President Bill Clinton international tions governing everything from currency exchange to the enforcement of contracts, and no one has yet discovered a better mechanism of providing this network than the modern state.

This basic question of political authority, clearly, is the fundamental difference between Bosnia and most of the Eastern European transition states. While the establishment of legitimate political authority is still very much a live issue in Bosnia, states such as Hungary or Poland, for all the turbulence of transition, never suffered serious challenges to the legitimate authority or territoriality of the state. In situations of contested statehood, consequently, it may be folly to expect that a market economy can develop within the context of an ongoing state-making struggle. What is worse, attempting to impose a market economy in such conditions may perpetuate the very conditions of conflict that must be resolved before markets can operate effectively.

While the establishment of fundamental political order may be a prerequisite for the establishment of stable economic and social arran many unanswered questions regarding the types of institutions that need to be established, and what ends such institutions should serve. For while order in and of itself is crucial, its foremost value lies in the fact that it enables all sorts of other values to be pursued (Ayoob 1997: 132).

For proponents of the mainstream approach to economic transition – who have generally taken the establishment of fundamental political order as given – the foremost goal of transition policies has been economic growth. Thus, success or failure of economic transition has typically been measured in terms of increases or decreases in gross domestic product, while alternative measures of social well-being, such as the unemployment rate, levels of absolute poverty, or the gini coefficient of economic inequality have been accorded, at best, secondary importance. More recently, however, those seeking the grounds for a “post-Washington consensus” have argued for a broadening of the goals of economic transition. Joseph Stiglitz, for example, suggests that the economic goals of transition should be not just economic growth, but overall increases in living standards, including improved health and education, in a manner that is both equitable and sustainable (1998b: 31). Such concerns may carry even greater weight in the context of post-conflict environments, where the establishment of a stable and equitable political order is crucial if a return to open conflict is to be avoided. Unequal growth, particularly if it follows wartime cleavages, carries with it the real danger of exacerbating political tensions and thus undermining peacebuilding efforts. Yet while a growing number of economists have pointed to the existence of a virtuous cycle in the relationship between growth and equity, with equitable growth being more sustainable than inequitable growth, it is far from clear that orthodox models of economic development and transition can effectively deliver on the promise of equitable growth. This is particularly the case given the dominance of the neoliberal agenda within the current wave of economic globalization, which is arguably undermining, even within developed countries, the bases for sustainable and equitable growth.

Given this reality, there are few easy answers to the question of what kinds of institutional arrangements – and what mix of state-led and market-led development strategies – are most appropriate to reach the goal of broad-based, sustainable growth which boosts living standards in transition states. As Boris Young has argued, all of the Yugoslav successor states, Bosnia included, have been effectively limited to two major models on in post-Dayton Bosnia?CS which to re-organize their economies: the minimal-state model of the gementWashins, thigton consensus and the East Asian developmental state model. As Young notes, however, the state sectors of almost all of these states are currently too weak to reap the benefits of either approach:

None of the new states, except possibly Slovenia, can consistently supply the minimum public goods, such as law and order, contract enforcement, public safety or a stable banking system, that the neoliberal theory requires, let alone the kind of interventionism, labour discipline or industrial policy required by the [East Asian] model.

(1999: 154)

In this regard, it is perhaps useful to return to the notion of heterodox institutionalism as a means of attempting to sort out the most appropriate economic transition strategies for fragile post-conflict/post-socialist states such as Bosnia. According to the heterodox model, the search for viable solutions should start with the particular economic and political circumstances of the transition state, and be tailored to the particular needs of the state, rather than relying on an overly simplistic and insufficiently nuanced set of off-the-shelf policy prescriptions designed for other times and other places.

Unfortunately, owing to the perceived constraints on the activist state imposed by globalization, the ongoing political crisis within Bosnia, the short time-lines of post-conflict peacebuilding operations, and the continued allegiance of the IMF, and to a lesser degree the World Bank, to the basic principles of the Washington consensus, it has been all too easy to conclude that in the case of Bosnia there is no alternative to orthodox transition policies. Thus, despite the questionable benefits of neoliberal policies in other Eastern European contexts, and the even more questionable prospects of the same policies in post-Dayton Bosnia, where the situation is much worse, the same policies continue to be applied, and discussions of alternative models which might better support both the needs of peace and the needs of economic recovery continue to be foreclosed.

Conclusion

This chapter has attempted to expose and explore, on a theoretical level, some of the tensions between dominant neoliberal approaches to post-socialist transition and the imperatives of peacebuilding within contexts dominated by the political economy of conflict. In short, the central argument has been that the application of orthodox economic transition policies in such contexts may undermine peace-and state-building processes and reinforce distorted and malign political economies that thrive on insecurity and political turmoil. This chapter has also tried to highlight the importance of institutions in both post-socialist and post-conflict environments, and to demonstrate how the current practices of both market-building and peacebuilding work against the inevitably slow and patient work of institution-building.

3
State-Making the Dayton Way

In the very broadest sense, the post-Dayton process in Bosnia is an ambitious international experiment in state-building. If the Dayton Peace Accords represented more of a ceasefire than a solid foundation for a viable democratic state, then the intervening period can be read as an attempt by the international community to lay these foundations. The post-Dayton state-building agenda, in other words, has been an effort to create the conditions for self-sustaining peace through the establishment of a liberal, democratic, multi-ethnic Bosnian state able eventually to take its place within the broader European family of nations.

This bold and somewhat idealistic international agenda has been fraught with difficulty from the outset. Many of these difficulties are rooted in the peace agreement itself, which was "beset by so many internal contradictions that it was not clear what kind of peace it would establish if it could succeed in sustaining peace at all" (Caplan 2000: 214). From failing to address the fundamental causes of the conflict itself, to placing substantial responsibility for state-building on the shoulders of local partners with vested interests in the continued weakness of the Bosnian state, to expecting the peace implementation process both to separate the warring parties and bring them back together again, the Dayton Peace Accords are quite literally a bundle of , Minneapolis: University of Minnesota Press.

rouccessfulcontradictions. The fact that many of these contradictions, and accompanying ambiguities, may have been necessary to produce a peace deal in the first place has in no way lessened their impact on the unfolding peace process.

The post-Dayton state-building process has also been deeply affected by the broader ideological overtones of contemporary global capitalism, with its deep distrust of activist and interventionist government. Somewhat paradoxically, therefore, the post-war Bosnian state is often simultaneously defined as both under-developed and over-intrusive: lacking basic capacities and competencies to exercise effective governance while continuing to wield inordinate influence over the remains of the Bosnian economy. In the process of attempting to rebuild and reconfigure the Bosnian state, external actors have often, as Michael Pugh has suggested, found themselves trapped in the contradictions between state-building and state ds noted, national governments emolition (2001: 8).

At the same time, the international community's state-building agenda has been plagued by the challenges of attempting to build a democratic state by democratic means. While Bosnians have cast more than their share of ballots since Dayton – going to the polls no less than eight times in municipal, entity, and state-level elections over the past nine years – none of these elections have helped resolve lingering and fundamental questions around Bosnian "stateness."[1] Instead, significant outstanding issues remain concerning the nature, membership, and territorial limits of the Bosnian "political community" and its state, differences which have obvious and profound impacts on any state-building project. More specifically, the ongoing dispute over the nature of the Bosnian state has been played out repeatedly (if inconclusively) at the ballot box, and has helped ensure the fairly consistent return to power of nationalist political forces. This has, of course, confronted the international community in Bosnia with a serious dilemma, since the country's nationalists, particularly on the Serb and Croat sides, have consistently obstructed the full implementation of the Dayton Accords. Increasingly, therefore, the international community has found itself in the position of thwarting the democratically expressed will of the Bosnian people in an effort to push the peacebuilding and state-building process forward.

This chapter will explore these various dimensions of the state-building process in Bosnia, focusing both on the obstacles to the creation of an effective Bosnian state and the means by which the international community has attempted to overcome these obstacles. It will argue, primarily, that despite some progress in recent years Bosnia remains an unconsolidated, weak, and incomplete state, unable to effectively carry out such basic state functions as tax collection, social welfare provision, or the establishment and maintenance of the rule of law. While this situation has clear implications for Bosnia's still-uncertain peace process, it has also had a profound impact on the country's potential for economic regeneration, recovery, and growth.

Dayton and its dilemmas

It is not possible to understand the political economy of the Dayton peace process without first understanding the peace accords themselves, or the context in which they came into being. For all their flaws, the accords are at the heart of almost everything that has happened in Bosnia since the fighting stopped. While even supporters openly acknowledge the imperfections of the Dayton Accords, they contend that the deal was the best that could be ac, it is perhaps unsurprising international complished given prevailing conditions at the time of negotiations. They also insist, quite legitimately, that any attempt to renegotiate the accords would run the risk of losing hard-fought gains, since there is no guarantee that the parties would continue to support the main provisions of the original agreement, let alone agree to strengthening them in the form of a "Dayton II" (Borden and Serwer 12 December 2000). Dayton, therefore, has become the touchstone of all international efforts to rebuild Bosnia; a near-sacred text invoked constantly by international administrators and local authorities alike to ground or justify their actions (even if, as detailed below, the international community has of late engaged in a selective rereading of this text in an effort to invest state institutions with more authority and responsibility). Deviation by domestic authorities from either the text or the "spirit" of Dayton can be costly: dozens of directly or indirectly elected local officials – including one entity president and one member of Bosnia's tripartite state presidency – have been sacked by the international High Representative over the past several years for "anti-Dayton" activities.

Despite the centrality of the Dayton agreement to the unfolding peace process in Bosnia, it remains a profoundly ambiguous document, and while ambiguity may be the ally of those negotiating peace agreements, it is plainly the foe of those responsible for implementation. In this sense, Dayton is clearly a weak peace agreement, and weak agreements, as Robert Rothstein has suggested, rarely produce genuine peace. Rather,

What we usually get, after a period of euphoria and dangerously rising expectations, are frustration, disillusionment, misunderstandings about what has and has not been agreed to, the exacerbation of underlying structural conditions … and perhaps a return to violence and terror.

(1999b: 223)

While Bosnia has not returned to violence and terror, the inherent weaknesses within the Dayton agreement have severely compromised the effectiveness of the implementation process. Crucial ambiguities and contradictions in the agreement have, in its aftermath, become political battlegrounds in which stalemate and intransigence have been more prevalent than compromise and conciliation. As will be seen below, where the Dayton negotiating process was about stopping a war, the Dayton implementation process has been about building a state, and the compromises necessary for the former project have made the latter project immensely more difficult. Four unresolved tensions in particular have plagued the implementation process from its inception. These include tensions between partition and unity, between collective and individual rights, between marginalization and rehabilitation of the country's ethnic leadership, and between local ownership and external imposition.

Partition vs unity

If the central issue over which the war was fought was whether Bosnia would remain a single, multi-ethnic country or be divided into ethnically pure statelets, then reaching an agreement at Dayton required a creative compromise on this issue with which each side could live. Rather than deciding between partition and unity, therefore, Dayton in fact endorsed an uneasy balance between the two. The Dayton solution was a confederal Bosnia which would retain its pre-war republican borders but which would be divided into two highly autonomous entities. Under the Dayton architecture, 51">89–cantons. If post-Dayton Bosnia is a fragile and unstable construct, however, so too is the Federation, which was cobbled together under enormous American pressure in 1993 in the aftermath of vicious fighting between Bosniaks and Croats in central and western Bosnia. The remaining 49 percent of the country – including most of northern and eastern Bosnia – would be governed by Bosnia's Serbs as Republika Srpska (RS).

The political architecture designed to support Bosnia's new political geography represented a similar balancing of partition and unity. On the one hand, the agreement asserted that Bosnia "shall continue its legal existence under international law as a state," with formal state rights to sovereignty, territorial integrity, political independence, and a seat at the United Nations (OHR 1998: 34). The new Bosnian state was to be led by a three-member, directly elected presidency, comprised of one member from each of the country's Serb, Bosniak, and Croat communities. Dayton also provided the new state with a bicameral legislature, a council of ministers and a constitutional court. Collectively, these state institutions were given primary responsibility for foreign policy, as well as for international and inter-entity aspects of trade relations, transportation, communications, law enforcement, and economic policy.

Despite this institutional framework, however, most real power in the new Bosnia lies at the entity level. Tellingly, the parties agreed at Dayton that defense would be an entity rather than a state responsibility, with each entity retaining its own army. Similarly, state institutions have almost no independent revenue sources, and are dependent on transfers from the entities. For the year 2000, for example, the combined entity budgets were more than six times the size of the state budget, and more than 20 times as large if one excludes the debt-servicing portion of the state budget. Out of a total state budget of KM 265 million, a mere KM 3 million was provided from state institutions' own revenue sources.[2]

Predictably, this imbalance of power between the state and the entities has exacerbated centrifugal tendencies. As Janusz Bugajski has argued, each entity possesses the power "to veto legislation; paralyse important policy initiatives, operate their own economic, military, and security structures; and consolidate their own sovereignty and independence" (1996: 64).

Rather than resolving the unity/partition debate, therefore, Dayton institutionalized it. The post-Dayton period has been characterized by a constant power struggle between the entities' assertion of their rights and prerogatives and international efforts to construct a viable Bosnian state. These efforts – which include confidence-building measures aimed at the eventual integration of the country's armed forces and economic measures geared towards the establishment of a single Bosnian "economic space" – have been restricted by the country's constitutional framework, which institutionalizes a weak and anemic Bosnian state.

Collective vs individual rights

The Dayton agreement also walks a difficult line between affirming individual rights and acknowledging group rights in post-Dayton Bosniaomro. The tensions between these two principles are most apparent – and seemingly irreconcilable – with regard to the question of the return of refugees and displaced persons. On the one hand, Annex 7 of the agreement declares that "all refugees and displaced persons have the right freely to return to their homes of origin." For the 2 million plus Bosnians uprooted from their homes during the war, this annex contains both a commitment to allow returns to take place and a promise that their property would be restored to them.[3] Given the context of the conflict, this is one of the most important and controversial provisions of the entire peace agreement, since it implies reversing the ethnic cleansing that was so central to the conflict.

On the other hand, however, this commitment to return is in direct contradiction to the agreement's recognition of ethnically defined territories. For at the same time that Dayton recognized – implicitly if not explicitly – that ethnic cleansing was a fait accompli through the creation of a Muslim-Croat Federation and a Serb Republika Srpska, it also committed the parties to turning these ethnically labeled territories back into multicultural communities. Not surprisingly, therefore, return has been the post-Dayton period's most vexing issue, with majority communities – most notably in areas under Bosnian Serb and Bosnian Croat control – actively resisting the return of minorities. As a result, for four full years after Dayton the vast majority of returnees returned not to their original homes but rather to communities in which their own ethnic group is in the majority, while even today over a million Bosnians remain displaced either within Bosnia or abroad.[4] Those who have returned to minority situations are faced with widespread discrimination, both illegal and legal. Not only are returnees regularly subjected to threats, harassment, and intimidation by members of the majority group, they also face institutionalized political discrimination. The Republika Srpska member of the state presidency, for example, can only be a Serb, a restriction that clearly discriminates against non-Serbs living and voting in the RS.

Again, this tension between individual and group rights lies at the heart of the Bosnian conflict, and rather than resolving the issue Dayton simply ensured that the struggle over whether Bosnia would be a state defined in ethnic or in civic terms would continue into the post-Dayton era.

Co-opting vs marginalizing ethnic hardliners

A third central dilemma of the Dayton process involves the question of how to deal with those leaders responsible for leading Bosnia's descent into war in the first place. At Dayton, as in other peace negotiation contexts, local leaders were in the ambiguous position of being seen both as the problem and the solution. With the exception of Radovan Karadzic, excluded from the Dayton negotiations because of his unacceptability to American negotiators, those responsible for producing the war were given primary responsibility for delivering the peace. The ethnic cleansers, in the words of The Economist, "were asked to re-mix their communities and arrest themselves" (Unger 24 January 1998: 6). And because none of the leaderships would have ">89–The great hope of the international community in the aftermath of Dayton, therefore, was that the leaderships of Bosnia's Serb, Croat, and Bosniak communities would either turn their backs on warmaking in favor of peacemaking, or be tossed out of power by the country's voters in favor of more moderate leaders committed to peace and reconciliation. However, neither scenario was realistic in the immediate post-Dayton period, since each side's continued pursuit of wartime goals – including ethnically defined state-building agendas – pushed those advocating conciliation or moderation to the margins of political life. In Bosnia's volatile post-Dayton environment, in fact, early elections served to consolidate the power of ethnic nationalist parties on all sides of the conflict and to solidify ethnicity as the country's sole relevant category of social organization and political contestation.

While there has in fact been a gradual erosion of electoral support for the country's main nationalist parties over the course of a half-dozen post-Dayton elections, Bosnia remains dominated by political forces that are at best ambivalent, and at worst openly hostile, to the full implementation of the peace agreement. This reality has had a profound effect on the final key dilemma of Dayton, between local ownership and external imposition, and has gradually shifted the international community's role in Bosnia from that of shepherd to that of emperor.

Local ownership vs external imposition

Conventional wisdom holds that neither peace nor liberal democracy can be imposed by outsiders, but must rather be nurtured from within ahave i sociencreasingly gone from being buty. As Ken Bush has argued:

from an international vantage point, the challenge of rebuilding wartorn societies is to nurture and create the political, economic and social space, within which indigenous actors can identify, develop, and employ the resources necessary to build a peaceful, just, and prosperous society.

(1996: 86)

Yet by and large, this nurturing process in Bosnia has failed to yield a strong domestic political constituency willing to fight for a locally defined vision of peace, democracy, and liberal economic development, even if it is clear that few desire a return to war or to the socialism of pre-war Yugoslavia. Since Bosnian civil society remains fragmented and disorganized, questions of implementation often come down to a power struggle between international actors committed to the full implementation of Dayton and local actors for whom peacebuilding, market-building, and democracy-building represent threats rather than aspirations.

The past several years since the Dayton agreement have indeed been marked by growing international impatience with the pace of peace implementation. This impatience has translated into increased powers being given to the High Representative in social security and social safety nets primarily as a bymeCS Bosnia to impose decisions in cases where local authorities are deadlocked, and to remove obstructive local officials. Thus, key elements of Bosnian statehood, from the state flag to the State Border Service, are the product not of a domestic legislative process but of international decree. Similarly, dozens of domestic officials – including duly elected entity and state-level presidents – have been dismissed in recent years because of anti-Dayton activities.

While the shifting balance of power between international and domestic actors has raised serious questions regarding the durability of an externally driven peace process, it is also clear that Bosnia's own leaders are more committed to the maintenance of their own power than to the consolidation of peace, democracy, and a market economy. Determining which actors in the post-Dayton drama are the best representatives of "the Bosnian people," therefore, is far from straightforward.[5]

Dayton and state-building

While conceptually distinct, the four tensions outlined above are all rooted in the same unresolved struggle, which has characterized both the pre-Dayton and the post-Dayton context in Bosnia, between ethnic and civic forms of state. The local parties to the conflict – in particular Bosnia's Serb and Croat leaderships but to some extent the Bosniak leadership as well – have continued to pursue competing, ethnically defined state-building projects in spite of Dayton. This has left the international community as the main advocate of a multi-ethnic Bosnia based on civic rather than ethnic nationalism. As Michael Ignatieff has argued, civic nationalism maintains that the nation should comprise all those – regardless of social, religious, cultural, or linguistic characteristics – who share a common attachment to a set of political practices, values, and institutions associated with a particular state (1994: 6). In the absence of a strong local constituency willing and able to take up, promote, and actively pursue the cause of a civic Bosnian state, the international community has been left with little choice – if the civic option in Bosnia is to stand a chance – but to take offers between domesticUS Presin this role itself.[6]

If the negotiations at Dayton were about stopping a war and creating the space in which a more durable solution to the conflict could be found, then for the international community the post-Dayton period has been about providing this solution through the construction of a viable civic Bosnian state, while in the process defeating alternative state-building projects based on ethnicity. This model of state-building, in which outsiders take a leading role in reshaping the institutions, values, and symbols of a state-in-formation, is highly unconventional to say the least. As Charles Tilly reminds us, state-building has historically been a bloody, coercive, and violent process in which local authorities forcefully consolidate their sovereignty against both external opponents and internal threats (1985: 170). In the case of Bosnia, what is being attempted is an externally driven, non-violent state-building project which is attempting to replace popular and elite commitment to exclusive ethnic nationalisms with a commitment to inclusive civic nationalism.

In this sense, peacebuilding and state-building in the Bosnian context are one and the same. Peace, according to the Dayton formula, will be achieved once Bosnian statehood has been consolidated, and once a minimum level of a new life somewhere elsebntconsensus is achieved among all of Bosnia's ethnic communities regarding the legitimacy of the Bosnian state. Many international initiatives, from the imposition of a Bosnian state flag and a common currency to the ongoing efforts to generate self-sustaining central institutions to the attempt to create within Bosnia a single economic space, can be understood in this light, even if, as argued below, the overall international state-building strategy has been somewhat inconsistent and often contradictory. Clearly, however, the legitimacy and direction of the international state-building project has not gone uncontested by Bosnia's own ruling elites, who claim democratic mandates to pursue policies at odds with the notion of a civic and multi-ethnic Bosnian state. At the time of writing, this contest continues with no sign of abatement, and the failure of either side to deliver a knockout blow has meant that the ultimate resolution of Bosnia's stateness problem continues to be deferred, a situation that has had profound impacts on the consolidation of peace, the establishment of democracy, and the creation of a functioning market economy.

International state-building strategies

Given the seemingly obvious links between state-building and peacebuilding in the Bosnian context, it is somewhat surprising to note that overt efforts to build up the institutions and the infrastructure of the Bosnian state were relatively low-priority items on the international agenda prior to mid-2000. Until this point, the majority of international efforts were devoted to issues such as physical reconstruction, stabilizing the security situation, pushing the return of refugees and displaced persons, and organizing elections. At best, such efforts can be considered as indirect contributions to the state-building process. Particularly on the elections front, for example, the overriding international hope was that the electoral process would begin to produce moderate and conciliatory political leaderships, who could themselves take the leading role in state-building efforts.[7]

As Marcus Cox has noted, not only were the first few years of peacebuilding efforts in Bosnia notable for the absence of any coherent state-building strategy but "in fact, aspects of the international mission in Bosnia have tended to undermine the state, or support forces hostile to its development" (2001: 10). In other words, the challenge of developing effective common institutions of governance has often been adversely affected by the imperatives of peacekeeping, which is premised on maintaining a balance of armed force and which implicitly tolerates ethnic separation, and by the demands of humanitarian and reconstruction aid, which has often meant dealing with, and thereby legitimizing, local warlords and extra-constitutional political structures (Cox 2001: 19). Similarly, as noted above, the growing international tendency to impose legislation and dismiss obstructive domestic politicians has seriously undermined Bosnia's democratic institutions and rendered the exercise of Bosnian democracy increasingly hollow.[8]

Formal and explicit recognition that Bosnia could not survive, let alone prosper, without effective state structures and institutions came at the meeting of the international Peace Implementation Council (PIC) in Brussels in May 2000. In the words of the European Stability Initiative (ESI), the Brussels meeting marked “a dramatic shift in international priorities,” whereby HDZ leader Ante Jelavic, er

Recent years have indeed witnessed a much more concerted effort to nurture and develop the basic institutions of a modern, democratic state. Bosnia now possesses, for example, a state-level court (in addition to the constitutional court established at Dayton), a functioning state border service, and the beginnings of a State Information and Protection Agency that will be responsible for cross-entity and organized crime-related issues. Efforts to strengthen the state-level Council of Ministers, the closest thing Bosnia has to a central government, have similarly been stepped up, and the number of state-level ministries, and their responsibilities, is slowly expanding. Similarly, the restructuring and regulation of the telecommunications and media sectors have been managed at the state level through the Independent Media Commission and the Telecommunications Regulatory Agency (since combined into a single, state-level Communications Regulatory Agency) (OHR 2 March 2001).

The task of rationalizing Bosnia’s taxation and customs regime has also been taken up in earnest by the international community in recent years, propelled in part by the imperative of tapping into at least some of the hundreds of millions of konvertible marks (KM) that the current system loses each year through fraud and evasion. Here again, centralization is the name of the game, and the international community has been united behind the position that a single, state-wide customs administration and a single, state-wide value-added tax (VAT) are “non-negotiable” reforms (SFOR 21 January 2003). To this end, an Indirect Taxation Authority was established in 2004 to sort out the details of VAT implementation and other taxation issues, while the complex task of merging Bosnia’s entity-based customs administrations into a single state-level body is now expected to be complete by mid-2005. Particularly within the RS, both reforms have been treated as attacks on the entities’ constitutional rights, and are proceeding solely on the merits of consistent and concerted international pressure. Already, however, there is evidence of foot-dragging on the implementation front, suggesting that there may be some merit to the theory that while the ruling parties, particularly on the Serb and Croat sides, no longer openly challenge the international community on contentious policy reforms, their current strategy is to delay and obstruct reforms at the level of implementation (Kovac 18 November 2002).

Equally controversial have been international efforts to gradually integrate Bosnia’s armed forces into a single, state-level military. As noted above, under Dayton the Bosnian state was given no responsibility for defense. Each entity was therefore permitted to maintain its own armed forces, with a Standing Committee on Military Matters (SCMM) established as an inter-entity coordination body. Recent international efforts, however, have been directed at strengthening the SCMM Secretariat, which is an instrument of the Bosnian presidency, to the point where it becomes a de facto if not de jure state-level defense ministry. Progress on the military integr HDZ leader Ante Jelavic, er

Taken together, these various measures, combined with similar measures in a wide range of social, economic, and political areas, can be read as an attempt by the international community to rewrite

Dayton by stealth by shifting power and responsibility up the constitutional order. This exercise in back-door constitutional re-engineering is both a recognition that the original Dayton formula is unworkable as the basis for a functioning state, and an acknowledgement that re-opening the constitutional question for formal renegotiation could potentially jeopardize the entire Dayton project. As Marcus Cox has argued, summarizing the international strategy:

The excessive decentralization and institutional duplication of the existing constitutional structure can be overcome by building a core of essential functions at state level, particularly in the economic sphere … by exploiting points of flexibility within the state constitution, it may be possible to initiate a process of ‘functional integration’ at state level, whereby co-operation on essential state-level matters delivers economic benefits to Bosnian businesses and the general public, creating domestic constituencies in favour of the further development of the state.

(2001: 20)

Of course, much of this international state-building agenda can be read as anti-Dayton, since it runs directly counter to the peace agreement’s decentralizing tendencies. Predictably, Bosnia’s main nationalist parties, and virtually all political parties from Republika Srpska, have been at pains to point this out, to the extent that Serb nationalists are now in the unfamiliar position of being among the staunchest defenders of a literal interpretation of the Dayton Accords.

The international community’s strongest argument for pushing ahead with its state-building agenda, however, is that without reasonably strong and effective state structures and institutions Bosnia has no chance of eventual European integration or membership in broader Euro-Atlantic institutions. Regarding NATO membership, for example, NATO officials have consistently reiterated that reducing the size of Bosnia’s armed forces and uniting them under a single command is “an absolute prerequisite” for membership in the alliance’s Partnership for Peace program, which is itself a stepping-stone to ultimate NATO membership (SE Times 13 March 2002).[9] Economically, in the absence of an array of state-level regulatory and inspection agencies, Bosnia’s ability to take advantage of European tariff reductions on a wide range of Bosnian products has been severely limited. Similarly, Bosnia’s path towards a Stabilization and Association Agreement with the European Union will require substantial progress towards integrating the Bosnian market into a single economic space (EC April 2002: 20). More generally, the international message over the past several years has been that Bosnia’s integration into European and Euro-Atlantic institutions is dependent on the establishment of a range of effective state institutions able to ensure that the country meets its international obligations.

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Significantly, one of the key elements of the international state-building strategy in Bosnia has been its emphasis on the “European-ness” of Bosnian citizens, rather than on any notion of Bosnian “nation-ness” or the common history or culture drawing Bosnians of all ethnicities together. While it is true that the international community has been the strongest advocate of a civic Bosnian state, it is one of the peculiarities of the post-Dayton state-building exercise that efforts to strengthen the Bosnian state have been pitched largely in instrumental terms rather than in terms of a more conventional civic nationalism. Indeed, in one recent speech to the Republika Srpska National Assembly, High

Representative Ashdown referred to Bosnia's "obstacles on the road to Europe," "the next phase of BiH's journey towards Europe," and the need to tackle "the underlying problems that all the other transition countries have had to tackle on their way to Europe" (OHR 29 April 2003). The focus here, as elsewhere, was not on Bosnia "becoming" a state, but rather on Bosnia "becoming" a part of Europe. On the one hand, this reluctance to attempt to resurrect any sense of civic Bosnian consciousness is understandable, since the politics of identity are still very much alive, and very raw, across the country, and there is still little consensus on the question of to whom the Bosnian state really belongs. At the same time, however, there are real risks of pitching Europe as the deus ex machina of the Bosnian stage, since Europe currently appears as far away as ever for most Bosnians.[10] Similarly, recalling Michael Ignatieff's argument that states built on civic nationalism are held together by common attachments to state institutions, practices, and values, as well as Carl-Ulrik Schierup's notion that a functioning capitalist economy must inevitably be embedded within historically established and morally sanctioned cultural institutions, the elusive promise of Europe may in any event provide a weak foundation both for the strengthening of the Bosnian state and for the consolidation of a market economy (Ignatieff 1994: 6; Schierup 1999: 5).

In the post-conflict and post-socialist context of contemporary Bosnia, the international state-building strategy has also implied a considerable degree of state dismantling. For while Bosnia's institutions and infrastructure of governance largely collapsed as a result of the conflict, Yugoslavia's economic legacy of state planning and state ownership persisted into the post-conflict period. Notably, these levers of economic control fell to the country's main ruling nationalist blocs during Yugoslavia's last days, and have been developed during and in the aftermath of the conflict as a fundamental pillar of nationalist rule in Bosnia. As discussed in greater detail both below and in Chapter 4, the nationalist political structures that have successfully merged political and economic power in Bosnia over the past decade have been the principal obstacles to both peacebuilding and state-building in Bosnia. Dismantling these structures, or at least severing political power from econodent Bmic poweill Clinton international socr, has therefore been as crucial to state-building as the establishment of common institutions.

It is here, in fact, that the international community's twin objectives of fostering economic restructuring and weakening the nationalist grip on power in Bosnia have come together. While rarely articulated in specific terms, the overall hope has been that liberalizing and privatizing the Bosnian economy would">89–11

There are, therefore, legitimate grounds to question whether the rejuvenated state-building strategy to emerge from the May 2000 PIC meeting is a case of too little, too late, and whether any state-building process that lacks powerful domestic allies can be sustainable. For while some of the blame for the persistent weakness of the Bosnian state can be placed on the shoulders of the architects of the Dayton Accords, and still more on the broader international community for its relatively late discovery of the importance of institution-building, there is no avoiding the fact that the lion's share of responsibility for keeping the Bosnian state weak and dysfunctional rests with the nationalist forces that have dominated Bosnia since the early 1990s.

Domestic political realities

Any discussion of Bosnia's domestic political structures and the Bosnian "body politic" must begin and end with the fact that, in reality, there is not a single Bosnian body politic but three, each aligned to greater or lesser degrees around a single nationalist power structure. As international peacebuilders descended on Bosnia in 1996 to begin the task of rebuilding the country along liberal democratic lines, it rapidly became clear that each of these structures had its own post-Dayton agenda, and that in many respects these agendas were in serious conflict with the international blueprint for rebuilding Bosnia.

For at least the first two years after the signing of Dayton, the dominant nationalist parties on each side of Bosnia's ethnic divide enjoyed almost unchallenged authority, and it is undeniable that they remain the country's most powerful political forces. In Republika Srpska, Radovan Karadzic's Serb Democratic Party (SDS in Serbo-Croatian), found itself in the aftermath of Dayton with near-sovereign control over a virtually mono-ethnic entity.[12] Taking advantage of Dayton's ambiguity, the SDS chose to focus on those aspects of Dayton a new life somewhere elsebnt that emphasized the sovereignty of the RS, and for almost ten years has successfully blocked the effective functioning of Bosnia's central institutions as well as the return of displaced non-Serbs to what most Bosnian Serbs unsurprisingly consider to be "their" entity. According to the International Crisis Group (ICG), under the influence of the SDS "Republika Srpska remains institutionally hostile to everything non-Serb and actively opposed to endowing the Bosnian state with anything approximating a central government" (October 2001: 2).

Without question, the past several years have seen a notable moderation within the ranks of Republika Srpska's political elite. This has been the result partly of the removal from office by the High Representative of many of the entity's most intransigent nationalists (such as former entity president Nikola Poplasen), which has paved the way for the emergence of younger, less strident political voices. Another factor has been the growing impoverishment of the RS, both in absolute terms and in comparison with the Federation, which has led at least some RS politicians to advocate closer cooperation with the international community.[13] Yet while the voices calling for the establishment of a "Greater Serbia" have grown quieter in recent years, and many Bosnian Serbs appear to have accepted that their fate is to remain a part of Bosnia for the foreseeable future, there remains a substantial political consensus that the RS should remain as autonomous as possible within the Bosnian confederation.[14] Across the political spectrum, even the most moderate political parties outbid each other in an effort to position themselves as the defenders of Republika Srpska's integrity. During the October 2002 election campaign, for example, former entity prime minister Mladen Ivanic – who has become the international community's most favored Serb politician – campaigned on a platform of the RS "becoming European and remaining Serb" (Slatina et al. 2 October 2002). Particularly with regard to Republika Srpska, therefore, the state-building agenda has become a zero-sum game, with every effort to strengthen the Bosnian state seen by Bosnian Serb politicians as an attack on their constitutionally protected autonomy.

Bosnia's Croat community has been, and continues to be, dominated by the Croatian Democratic Union (HDZ), the Bosnian Croat branch of former Croatian president Franjo Tudjman's nationalist movement. Unlike their counterparts in Republika Srpska, Bosnia's Croats found themselves in the post-Dayton period without an entity to call their own, and the HDZ has taken advantage of this perceived vulnerability to pursue a consistently hard and obstructionist line, regularly calling for a "third," Croat-majority, entity within Bosnia and periodically withdrawing from participation in government institutions. Despite significant political changes in neighboring Croatia, which have left hard-line Croats in Bosnia without powerful backers in Zagreb, the HDZ remains at best ambivalent and at worst openly hostile to the international state-building agenda in Bosnia.

The HDZ's ability to negatively influence the peace process was, however, significantly weakened following the political crisis in the aftermath of national elections in November 2000. After an election campaign marked by dire HDZ warnings "about the extermination of the Croats in Bosnia" and an unofficial HDZ-sponsored "referendum" on their status, the HDZ withdrew from v, it is perhaps unsurprising international irtually all Dayton-mandated political structures and declared Croat "self-rule" in Bosnia (ICG April 2001: 144). The international community responded aggressively to these moves, sacking HDZ leader Ante Jelavic, and the self-rule movement was further undermined by the refusal of most Croats to walk away from their positions in Federation institutions. The ultimate failure of the self-rule initiative left the HDZ divided, weakened, and disoriented, while the international community has taken advantage of this situation by attacking the pillars of HDZ power, such as Mostar-based Hercegovacka Banka, and by working with the non-nationalist government formed in the aftermath of the elections to undermine parallel Croat political structures. Despite these advances, the HDZ and its political allies in Western Bosnia remain a significant political force – as seen by their return to power in the most recent round of national elections – and remain no less committed to protecting Bosnian Croat "interests" against the incursions of the international community.

The Party for Democratic Action (SDA), the Bosniak counterpart to the HDZ and SDS, has for its part been less single-minded and more conflicted over the course of the post-Dayton period. Led by Bosnia's wartime president Alija Izetbegovic, the SDA continued to champion the idea of a multi-ethnic Bosnian state throughout the war, but has also taken on a much more nationalist tinge in recent years. Despite a visible split between moderates and hardliners, most within the party continue to see the ideal outcome of the Dayton process as a Bosniak majority within a multi-ethnic state, and have actively pushed for the return of displaced Bosniaks to their homes of origin in both Serb-controlled and Croat-controlled areas. Weaknesses within the SDA have grown more visible in recent years, and the party saw its electoral support slip badly during elections in 2000 before rebounding strongly in the recent round of elections in October 2002.

Of all three of Bosnia's main nationalist parties, it is the SDA and the Bosniak political elite that revolves around it that could have been expected to be the strongest supporters of a civic state-building project within Bosnia, since this project resembles quite closely the vision of a multi-ethnic Bosnia that the SDA-led government fought for during the war years. Yet the influence of nationalist hardliners within the party, combined with the party's own struggle to retain power through means both fair and foul, has seriously undermined the party's potential to be a useful ally of the international community in the ongoing struggle to construct a civic Bosnian state.

While these three parties have dominated Bosnian politics both during and in the aftermath of the Bosnian war, and appear from recent elections to have entrenched themselves as the country's dominant political forces for the foreseeable future, it is also the case that politics in Bosnia have been characterized by gradually increasing plurality as successive rounds of elections have unfolded.[15] This is particularly the case in Bosniak-majority areas of the country, where the SDA faces fierce competition from the Social Democratic Party (SDP) and the moderate-nationalist Party for BiH. To a certain degree this is also the case in Republika Srpska where, while the SDS remains the single most popular party, its support has been eroded sufficiently in recent years to allow more moderate parties to claim a share of power. Only in Croat-majority areas of the country has the HDZ's dominance remained relatively undisturbed.

This increasing plurality – while still not sufficient to in post-Dayton Bosniaomro have tipped the balance in Bosnia decisively in favor of pro-Dayton political moderates – did lead to the formation of the country's first post-war non-nationalist governments, which governed at the state level and within the Federation for almost two years beginning in February 2001. These governments, fragile coalitions built around the SDP, provided the first concrete sign of the emergence of a "civic" option in post-Dayton Bosnia, even if their formation was to a large degree facilitated by the international community.[16] Ordinary Bosnians expecting rapid improvements in the political and economic climate, however, were soon disappointed as infighting within the so-called "Alliance for Change" underlined the fragmentation of iety athe cond theuntry& international economy to bein#x2019;s non-nationalist opposition, produced familiar levels of political inertia, and led directly to the return to power of the country's main nationalist parties following the elections of October 2002.[17]

The Alliance for Change experience also highlights the degree to which Bosnia's political pluralism is the product of an increasingly activist international community, and perhaps, therefore, not as deeply rooted in Bosnian society as international spokespersons claim. For there is little question that without aggressive brokering by international officials anxious to exclude the country's nationalists from power, a coalition among the disparate members of the Alliance would not have been possible. More generally, through post-election engineering, removal from office of outspoken nationalist hardliners, and not-so-subtle pleas to Bosnian voters to support non-nationalist, progressive, and pro-Western parties, the country's international minders have expended considerable energies in the effort to push the main nationalist parties off the political stage. In fact, of the many post-Dayton storylines, the single most consistent theme has been the struggle between the international community to diminish, isolate, co-opt, or otherwise tame nationalist political forces in the name of multi-ethnic market democracy, and the counter-efforts of these forces to assert and deepen their control over politics and economics in the areas they control.

Indeed, despite their differences, Bosnia's three main nationalist power structures share an overwhelming desire to hang on to power, both political and economic. Unfortunately for those championing Bosnia as an emerging market democracy, the nationalists' struggle to retain power has left Bosnia, as the International Crisis Group has noted, "poor, dysfunctional, divided, corrupted, unreconstructed, and hopeless" (August 2002: 2). While belated, the international community's increased institution-building efforts in recent years have represented a conscious attempt to reverse this state of affairs and to fill out the empty shell of the Bosnian state. Without question, important progress has been made on a number of fronts, and the establishment of state-level institutions such as the State Border Service and, potentially, a state taxation and customs administration holds considerable promise for moving the state-building process forward. Nevertheless, the recent resurgence of Bosnia's nationalist parties, even in less bellicose incarnations, also suggests that progress on the state-building front will continue to be slow and subject to considerable resistance from domestic political elites. How this struggle plays itself out in the next several years may well determine Bosnia's ultimate fate.

Conclusion

If state-building, as Mohammed Ayoob has argued, consists primarily of "the construction of credible and legitimate political apparatuses with the capacity to provide order – in many respects, the foremost social value – within the territories under their juridical control" (1997: 31), then it is clear that Bosnia's state-building process remains incomplete. And while alternative state-building projects with claims on Bosnian political and territorial space, such as "Greater Serbia" or "Greater Croatia," appear to have receded, at least for now, considerable obstacles remain to the effective consolidation of Bosnian statehood. Indeed, despite the recent increase in international state-building efforts, the resurgence of nationalist political forces who remain in important ways opposed to the consolidation of the Bosnian state suggests that the state-building process is, if not stalemated, at least seriously strained.

The implications of this situation for the Bosnian peace process cannot be overestimated. There can be little doubt, for example, that Bosnia's democratic processes and institutions have been deeply affected by the reality that "stateness" issues continue to dominate the country's political life. There is, in fact, a direct link between this reality and the reality that nationalist movements remain Bosnia's pre-eminent political forces, despite having presided over the country's catastrophic decline over the past decade. Simply put, the unconsolidated nature of the Bosnian state has resulted in the perpetuation of popular fear, uncertainty, and insecurity, which the nationalist parties – as the self-declared protectors of the interests of "their" nation – have consistently been able to translate into electoral support. The absence of an effective Bosnian state, and the failure or inability of the country's democratic process to produce domestic coalitions committed to state-building, has similarly forced the international community to step in and not only play a state-building role but also to perform essential functions of state.

Bosnia's unresolved stateness issue has also had profound implications for the effort to fashion a functioning market economy from the post-socialist ruins of war. Here, as subsequent chapters will explore in greater detail, Bosnia's stateness problem has interacted in complex ways with the neoliberal blueprint for the country's economic transition. On the one hand, Bosnia's state-building dynamic has been directed at creating a particular kind of state, one which fits roughly within the parameters prescribed by the Washington consensus. The broad international state-building strategy for Bosnia aims at creating a "limited but strong state" (Ellman 1997: 31) capable of protecting borders and external sovereignty, of efficiently collecting taxes and providing for public goods such as health, education, and a basic social safety net, of maintaining an appropriate and market-friendly macroeconomic environment, and, perhaps most importantly, of establishing and maintaining the rule of law and adequate regulatory control over economic and social affairs.

Notably absent from this list of responsibilities is any state role in economic development or industrial policy, beyond creating the "appropriate" policy environment within which private economic actors can generate employment and economic growth. Recent experience in most of the developing and former socialist world has demonstrated the difficulty of creating the conditions in which markets can prosper in the absence of an effective and reasonably activist state (Amsden et al. 1994: 7). As Chapter 5 will argue in more detail, the lack of any common vision or strategy for economic development in Bosnia, combined with "do-nothing microeconomic policies" (Muller and Pickel 2001: 12), have been deeply problematic elements of the international approach to Bosnia's transition, and have compounded the already enormous challenges Bosnia faces as both a post-conflict and a post-socialist transition state.

Yet of equal significance for the long-term development and survival of the Bosnian state has been the extremely slow and uneven pace at which effective instruments of governance have been established, and particularly those institutions related to the rule of law and the economy. Far from being able to articulate a coherent vision of economic development, the Bosnian state continues to lack the basic ability to enforce the law or protect property rights. Similarly, Bosnia remains what Stephen Holmes has called an insolvent state, in the sense of a state "that cannot extract, in a way that is widely deemed to be fair, a modest share of social wealth and then channel the resources extracted into the creation and delivery of public services, rather than into the pockets of incumbents and their cronies" (September 1997). In thg . ab01C;transmissi

4
Resistance and Entrenchment

Ethnic division, domestic power structures, and economic reform

The biggest security threat to this country is not nationalism; it's criminality, corruption and unemployment.

Donald Hays, Principal Deputy High Representative
(OHR 5 September 2002)

In June 2002, Republika Srpska's finance minister was forced to resign over a customs scandal involving textile imports into Bosnia from Turkey, Bulgaria, and Hungary. In return for substantial bribes (reportedly as much as KM 14,000 per shipment) corrupt customs officers agreed to charge duties based on undervaluations of the incoming goods by as much as 90 percent. The scam, details of which were contained in a leaked report by the European Commission-funded Customs and Fiscal Assistance Office (CAFAO), is estimated to have cost the RS treasury at least KM 30 million between September 2001 and June 2002. According to one media account of the CAFAO report, the "customs mafia" managing the scheme "could not have acted without the knowledge of senior politicians," and in the aftermath of the revelations there was considerable speculation that funds generated from the arrangement were being used by the nationalist Serb Democratic Party to protect Radovan Karadzic, Bosnia's most famous war crimes indictee. At the same time, because customs duties are collected and spent by Bosnia's two entities separately, the textile import scheme diverted customs income that might normally have been collected by the Muslim-Croat Federation, since the undervaluations meant that importers – even taking the required bribes into consideration – still found it cheaper to import their goods into Bosnia through the RS than through the Federation. The ultimate irony in this case, therefore, is that revenues that might otherwise have gone into Federation coffers, for the benefit of that entity's primarily Bosniak and Croat communities, may have been used to protect their greatest wartime enemy.[1]

The RS customs case, typical of a long series of corruption cases that have populated the Bosnian press in recent years, illustrates a number of key aspects of post-Dayton Bosnia's political economy. Most importantly, even if the allegations concerning Karadzic are unfounded, the case suggests a certain institutionalization of crime and corruption within social security and social safety nets primarily as a byonco Bosnia, and points to a significant degree of collusion among Bosniaweak state is the enemy of str019;s criminal elements, government officials, and members of the country's nationalist ruling parties. The case also suggests that a significant number of political decision-makers still benefit directly from the status quo of a largely unreformed economy, and that there remains within Bosnia a substantial constituency either directly opposed to the types of market-oriented reforms being promoted by the international community, or willing and able to manipulate such reforms to their own advantage. Finally, the example of one customs service under-cutting the revenues of the other points to the peculiar dysfunctionality of Bosnia's post-war institutions, which are not only economically suboptimal but also channel virtually every political issue along zero-sum ethnic lines, making compromise and cooperation extremely difficult.

Such conclusions could, of course, be easily dismissed were the RS customs case the exception rather than the rule in post-Dayton Bosnia. Yet, increasingly, both international and domestic attention in Bosnia is focused on the extent to which crime and corruption now represent as great a threat as ethnic nationalism to the success of the Dayton peacebuilding project. Lord Paddy Ashdown, the latest international High Representative in Bosnia, assumed office in May 2002 promising to “tackle the dangerous and debilitating nexus of criminals and politicians that threatens to strangle civil society in BiH” (OHR 5 September 2002), while a US congressional investigation concluded in 2000 that “endemic crime and corruption is impeding the successful implementation of the economic, political, and judicial reform goals of the Dayton Peace Agreement” (GAO 2000: 5). Similarly, academic analysts such as Peter Singer have written of the tightening vise of corruption and cronyism and the “criminalization” of the Bosnian body politic, suggesting that “the road onto which Russia and Belarus seem to have veered off, dominated by corrupt oligarchs and Mafiosi, may very well be where Bosnia is headed in the twenty-first century” (2000: 31).

This chapter will examine the domestic political economy of post-Dayton Bosnia as one side of an equation that must be understood in order to comprehend Bosnia’s persistent post-war economic crisis.[2] The principal argument to be advanced is that the nexus between organized crime and corruption on the one hand, and nationalist political forces on the other, represents the most significant domestic obstacle to the development of a market economy and to the integration of Bosnia into the European economic space. Combined with a largely dysfunctional institutional framework, ongoing mutual distrust and acrimony among Bosnia’s various political elites, and the strength of vested interests which benefit from the current status quo, this mix of crime, corruption, and politics has ensured the absence of any domestic momentum for reform throughout the post-Dayton period, and has profound implications for the sustainability and survival of the Bosnian state.

The political economy of stalemate

Like virtually every political community, socialist-era Yugoslavia had its criminal elements, and corruption existed both within and alongside the formal socialist economy. However, as Yugoslavia’s economic and political crisis deepened throughout the 1980s, and an already decentralized economy became further fragmented, crime and corruption became more prominent features of the country’s political landscape. As Vesna Bojicic and Mary Kaldor have described it, “the l,” Stability Pact for South Eastern Europe international ong process of economic and political dissolution in Yugoslavia resulted in a disorganized, weak, and increasingly criminalized society” (1997: 154). Within Bosnia itself, the Agrokomerc scandal of 1987 – involving financial malfeasance of almost Enron-esque proportions – exposed substantial rot at the core of the republic’s political economy, and deeply eroded public confidence in its leaders. Combined with the country’s broader and seemingly unstoppable economic decline, the fall from grace of Bosnia’s elites helped lay the groundwork for ethnic nationalism to emerge as the successor to a decaying socialist system (Andjelic 2003: 70).

Both the influence of, and the linkages among, ethnic nationalists and criminal elements in Bosnia evolved rapidly as Yugoslavia's collapse accelerated and Bosnia descended into war. In 1990 the HDZ, SDS, and SDA emerged as local successors to the Yugoslav League of Communists. As Xavier Bougarel has argued, the ethnically based division of power and its spoils that marked the interim period between the rise to power of the nationalists and the beginning of the war produced "a progressive paralysis of public institutions and services, a comprehensive dismantling of the state, and was accompanied by the growing criminalisation of economic and political life" (1996: 99). With the beginning of open conflict in April 1992, wartime conditions and the breakdown of the rule of law not only made certain classes of citizens fair game for violence, exploitation, and expropriation, but also legitimized previously illegitimate economic behaviors and actors.

The most prominent manifestation of the political economy of conflict in Bosnia was the emergence of paramilitary groups on all three sides of the war. Lacking anything resembling a real army when the war began, both the Bosnian Croats and the Bosniaks relied heavily on whatever forces they could muster. In the early days of the conflict, therefore, Sarajevo was simultaneously defended and looted by some distinctly unsavory characters, including notorious gangsters such as Ismet Bajramovic ("Celo") and Jusuf Prazina ("Juka") (Andreas 2004: 37).

Paramilitary forces were also a key component of the Bosnian Serb war effort, and included some of the war's most notorious paramilitary groups, including Arkan's "Tigers" and Vojislav Seselj's "White Eagles." These forces were responsible for much of the ethnic cleansing that took place in Eastern and Northern Bosnia during the early months of the war, combining random killing, rape, and looting with the deliberate targeting and execution of prominent community leaders.[3] As Mary Kaldor has argued, "paramilitary groups were 'hired' to do the dirty work necessary to instil the 'fear and hate' which was not yet endemic in Bosnian society" (1999: 53).

While much emphasis has been placed on the political and military objectives of the paramilitaries, there was also a crucial economic dimension, and motivation, to their activities. Payment often came in the form of being allowed to be the first to loot, while many paramilitary leaders, Arkan being among the most prominent, took advantage of wartime conditions to engage heavily in smuggling and other black-market activities, often cooperating across confrontation lines. In a very real way, therefore, "the mafia economy was built into the conduct of warfare, creating a self-sustaining logic to the war both to maintain lucrative sources of income and to protect criminals from legal processes which might come into effect in peacetime" (Kaldor 1999: 53–5). in post-Dayton Bosniamant

If criminal elements benefited from conflict conditions in terms of both credibility and opportunity, they also performed essential functions for all three sides. Not only were they willing to carry out the dirty work of ethnic cleansing, but with the breakdown of the formal economy their smuggling and black-market operations provided (for a price, of course) essential supplies such as food and weapons. This was particularly crucial for the Bosniaks, who were largely cut off from the outside world, as well as subject to an international arms embargo, for most of the war, and were therefore reliant on what could be brought in through clandestine routes. Ultimately, therefore, a symbiotic relationship developed between the political and military leaderships on all sides of the conflict and the criminalized elements in their midst.

In another example of how the conventional distinction between wartime and post-conflict environments sometimes hides more than it reveals, these close links between the ruling parties and their underworld clients did not simply evaporate once a peace agreement was signed. While the nationalist parties managed to retain power in the post-war period, those who spent the war running paramilitaries and underground smuggling networks managed to exploit their close links with the ruling parties and channel the considerable wealth accumulated during the conflict into equally lucrative, and no less shady, post-war economic activities. According to the US congressional report cited above, "war-time underground networks have turned into [political] criminal networks involved in massive smuggling, tax evasion, and trafficking in women and stolen cars" (GAO 2000: 14).

At the same time, a new post-war symbiosis emerged between those at the top of Bosnia's largely criminalized political economy and the country's political elites. The same GAO report suggests, in fact, that "having used illegal networks for military and economic ends during the war, political parties are now inseparable from criminal organizations" (2000: 14). At the very least, what has emerged in the post-war period is a complex web of alliances between mafia and criminal formations, nationalist political parties, and elements of the old socialist nomenklatura.[4] These alliances, which have collectively maintained control over much of the economic and political power in Bosnia throughout most of the post-Dayton period, have benefited from the very slow restoration of the rule of law, the absence of fundamental economic reforms, and ongoing tension across ethnic dividing lines. The interests of the ruling alliances in sustaining these conditions, which provide a cover for the ongoing operations of a criminalized political economy and ensure a level of uncertainty sufficient to keep traumatized and fearful electorates united behind their nationalist protectors, contrast sharply with those of the international community in reforming the economy, establishing the rule of law, and promoting reconciliation. Thus, while it is an open question whether the challenge posed by organized crime and corruption in Bosnia is greater than elsewhere in the region, this challenge is of particular relevance in the Bosnian case because of the mutually reinforcing effects of criminality and nationalist politics.

The nature of organized crime and corruption

Organized crime and corruption are, by their very nature, difficult to study and even more difficult to quantify. Nevertheless, the statistical evidence that does," Stability Pact for South Eastern Europe international exist, combined with a wealth of anecdotal evidence, leaves little doubt that organized crime and corruption in Bosnia together have acted as a tremendous drag on economic recovery, and also have major implications for the country's post-war political development. Peter Singer, for example, estimates that the black market makes up roughly 50 percent of the Bosnian economy, and is in many ways the most sophisticated element of the country's economic system (2000: 32). At the same time, estimates from the international community regularly suggest that costs to the entity budgets from tax evasion and customs fraud alone run into the hundreds of millions of konvertible marks.

While organized crime and corruption are often mentioned in the same breath, it is important to distinguish more precisely the meaning of these terms. Interpol's definition of organized crime refers to "any association or group of people taking part in continuing illegal activity for profit, regardless of national boundaries" (McClure 2000). While the precise level of organization required for a particular network to achieve the status of "organized" crime is rarely defined, by and large organized criminals act in areas requiring a relatively high level of coordination and sophistication, such as cross-border trafficking in human beings, drugs, weapons, or other high-value goods such as cigarettes, fuel, or alcohol. Organized criminal networks also frequently attempt to control the trade in such commodities – through violence or the threat of violence – within particular territorial spaces.

Corruption, on the other hand, is typically defined as the use of public office for private gain,[5] and can encompass activities ranging from administrative personnel accepting (or demanding) bribes for the provision of services to high-level officials approving (or overlooking) particular economic activities in return for kickbacks, or using their positions as a base from which to operate privately owned enterprises. In a similar vein, the World Bank distinguishes between two forms of corruption. Administrative corruption, according to the Bank, "refers to the intentional imposition of distortions in the prescribed implementation of existing laws, rules and regulations to provide advantages to either governmental or non-governmental actors as a result of the illicit or non-transparent provision of private gains to public officials." At the lower levels of the political spectrum, administrative corruption is often simply a coping mechanism, allowing citizens to access services and officials to supplement inadequate incomes. State capture, on the other hand, refers to actions of both the public and private sector actors to influence the formation of laws, regulations, decrees, and other government policies to their advantage (World Bank 2001: iii). As Rasma Karklins has suggested, state capture can imply the establishment of a hidden political regime at odds with the constitutional purpose of state institutions, as well as the penetration of corrupt or criminal networks into executive institutions (2002: 27). In her typology of post-communist corruption, Karklins adds the third, intermediate category of self-serving asset stripping by officials, which encompasses the diversion of public resources into private hands, malpractice in public procurement, nepotism, clientelism, and the "selling" of jobs, as well as profiteering from privatization (2002: 24).

In Bosnia's case, it is evident that in the post-Dayton period the country faces serious challenges in terms of all of these forms of corruption. One recent World Bank sur London: Pluto Press.

In the absence of the rule of law in Bosnia, both organized crime and corruption have flourished – with the former taking advantage of the latter to protect and further its interests. Together, they form part of a parallel economic system that needs to be dismantled at the same time as a market economy, based on the rule of law, is constructed. One of the fundamental conditions that has allowed this situation to persist is the lack of institutional separation between politics and economics within Bosnia, and this situation in turn reflects the success of the country's ruling elites in resisting international efforts to reduce their direct influence over the economy (ESI October 1999: iii).

The rule of the party

One of the fundamental challenges of economic transition in any post-socialist state lies in managing the orderly retreat of the state from areas of the economy considered to be more appropriately the realm of private economic actors. Indeed, reconfiguring the relationship between state and economy, and creating space in which a competitive private sector can emerge, is at the very heart of the transition process. And while the scale, speed, and form of that retreat remain key points of debate among students of transition, few today would support maintaining state involvement in the economy at socialist-era levels. In much of Eastern and, more recently, Southeastern Europe, the retreat of the state has been undertaken as a collaborative effort between international actors and domestic governments. While this collaboration has rarely been frictionless, there have been no cases of successful transition where a powerful local constituency for reform did not exist.

In the case of post-Dayton Bosnia, however, the economic transition process has been driven almost exclusively by the international community. Despite declarations of commitment to the reform process by political parties spanning the political and ethnic spectrum, Bosnia's political elites, and particularly its nationalist elites, have in practice fiercely resisted giving up their economic prerogatives. As a result, public sector spending as a percentage of GDP (one admittedly rough measure of progress along the transition continuum) remains at approximately 64 percent in Bosnia, compared to 25 percent in the Czech Republic and 20 percent in Hungary (World Bank 2002: 17; ICG August 2001: 5). While no consensus exists on the optimal balance between the public and private sectors within a market economy, Bosnia's current balance suggests that the state, and the political parties which control it, still retains control over the bulk of economic assets.

For Bosnia's ruling elites, retaining socially owned companies in public hands (or maneuvering to maintain control over privatized companies) provides an important source of economic, political, and social power. By controlling membership of management boards of public companies, for example, the ruling parties not only maintain a firm grip on key enterprises and their revenues, they also retain the ability to provide scarce employment, itself a powerful lever of social control (ESI October 1999: 5). Much of this power is exercised by the ruling parties at the level of individual cantons or municipalities. The municipality of Sanski Most, for example, was for much of the post-Dayton period London: Pluto Press.

Dani, Alagic "ruled sacredly over people, money, positions, property, bought tractors as gifts, took from the municipal budget and gave to relatives, friends and cronies" (Pecanin and Selimbegovic 27 August 1999). Some scholars have, in fact, seen the consolidation of both political and economic power in party hands as the emergence of a type of neo-feudalism, linking ordinary citizens with powerful local party bosses through clientelistic relations. As Paul Stubbs has suggested:

Rather than witnessing a process of democratization, pluralism and a move towards a well-regulated, open, market economy, it is probably more accurate and useful to see contemporary [Bosnia] as a 'virtual' or 'neo-feudal' state in which powong markets" (2001a: 21er is concentrated locally, in mini-states, based on patronage, influence peddling, and mafia-like elites.

(2001: 101)

The country's dense and largely unreformed regulatory environment has also enabled the ruling parties to exercise wide discretionary power over the emerging private sector. Until they were finally abolished in 2000, all financial transactions had to be processed through payment bureaus (predictably, three separate, ethnically controlled payment bureaus operated in Bosnia), which not only gave the ruling parties control over the financial sector in areas under their control but also provided them with a ready pool of liquid assets that could be tapped largely at will. Likewise, Bosnia's socialist and war-time legacy also provided the ruling parties with "a range of other regulatory tools for controlling private business, including the allocation of premises, licensing and inspection regimes, import/export licenses, and tax assessment, operating as a barrier to market entry and ensuring that political connections are required for commercial success" (ESI October 1999: 5).

Beyond the obvious reason that economic power is also political power, the ruling parties are driven by a number of motivations in their efforts to maintain control over economic activity. While raw greed is undoubtedly one important factor, a more benign reading of the motivations of local authorities in resisting market-oriented reforms suggests that politicians genuinely fear the social impacts of marketization, if only on their own prospects for re-election. For example, one of the key outcomes of privatization in at least the short to medium term will be large-scale unemployment, and therefore maintaining enterprises in state hands keeps the current unemployment crisis below socially explosive levels. Similarly, the potential social unrest that massive unemployment could trigger is contained by soaking up excess labor into Bosnia's public service, already bloated because of the country's complex Dayton-mandated constitutional structures.[6]

A third explanation relates, as is so often the case in post-Dayton, to the unresolved nature of the conflict. For the ruling parties on each side of the ethnic divide, the merging of economic and political control is a means of generating the necessary resources to continue to fight for the rights of "their" constituent people. This explanation may to some degree simply be a convenient cover allowing senior party leaders to enrich themselves. It is, however, also the case that the HDZ, for example, has used its considerable economic leverage – including control of one of the country's most profitable industries, relatively little attentionmeCSAluminium Mostar – to finance the parallel (and illegal) governmental structures that have persisted throughout much of the post-Dayton period.

Regardless of the weighting one gives to these various motivations, it is clear that one of the main obstacles to the development of a market economy in Bosnia, and one of the main enabling factors behind the country's organized crime and corruption plague, is the determination of ethnically based ruling structures to keep public assets in party hands as a means of perpetuating their rule.

Organized crime and corruption in post-Dayton Bosnia

Bosnia is in many ways the ideal environment for organized crime. It lies at the heart of a turbulent and unstable region, its borders are porous and its poorly paid officials easily bought off, and the rule of law barely exists, making the country a low-risk environment for organized crime. If one adds to this list the linkages that have developed between criminal elements and nationalist elites over the past decade, then the fact that organized criminals thrive in Bosnia is hardly surprising.

Evidence of organized crime is, in fact, visible in virtually all sectors of the Bosnian economy. In recent years, for example, trafficking in people – both illegal migrants and women brought into and transported through the country for purposes of prostitution – has become big business in Bosnia. The traffickers are well organized, well connected, and largely immune from prosecution. According to one senior international official, "we have very strong indications that the authorities collude in both the trafficking of people and smuggling in illegal immigrants at the very highest level" (cited in Beaumont et al. 28 January 2001). Those who traffic women for sexual exploitation also benefit from accommodating local police forces and from a largely dysfunctional judicial system (HRW November 2002). Bosnia has also become in recent years a haven for drug traffickers, cigarette smugglers, and has – at least until the clean-up of a major market in Stolac – boasted a booming market in stolen vehicles. Money laundering is a growing phenomenon as well, with the Office of the High Representative suggesting that as much as KM 3 billion may be laundered through Bosnia every year (OHR 6 December 2002).

The best-documented examples of organized criminal activity in Bosnia, however, relate to the cross-border smuggling of goods, particularly high-excise goods such as fuel, tobacco, and alcohol. While some forms of smuggling – such as the use of non-official border crossing points, concealing illicit goods in otherwise legal shipments, and undervaluing incoming goods – are relatively simple, other forms display considerable sophistication. One common strategy, for example, has been the use of fictitious companies as end destinations for imported goods. While customs duties are paid at the border, once inside the country the goods "disappear" en route to the buyer, who has had – until recently – ultimate responsibility for collecting sales or excise taxes on the imported goods. Because the companies allegedly receiving final delivery exist only on paper, they cannot be held accountable for the failure to collect sales tax on the imported goods. Officials with the Customs and Fiscal Assistance Office (CAFAO) in Bosnia estimated in 2002 that, as a result of such schemes, sales tax was paid on no more than 40 percent of commodities sold in Bosnia.[7 relatively little attentionmeCS] Because of the dramatic impact of this phenomenon on government revenues, however, this situation has gradually been addressed, in part through shifting the tax collection point for high-excise goods from the point of retail sale to the point of production or import. The adoption of an EU-compatible value-added tax, now likely to be in place by 2006, is expected to further reduce the possibilities for tax evasion and fraud (PRSP 2004: 126). Bosnia's smugglers have, however, displayed considerable flexibility, as demonstrated both by the "Orao" affair, which involved efforts to smuggle military equipment to Iraq in defiance of international sanctions, and the more recent "sugar affair," which bears a striking resemblance to a similar scheme in Serbia in which imported sugar was illegally re-exported to take advantage of EU subsidies.

There is also little question that Bosnia's lucrative smuggling operations could not exist in the absence of cooperation by low-level officials and high-level politicians. Regularized undervaluations of imported goods, for example, require the active complicity of border officials, while government efforts to curtail the operations of fictitious companies have been faltering and halfhearted, in part because many politicians have profited handsomely from their existence.[8]

Collusion with the operations of organized criminal networks is, of course, one major component of the corruption that has spread across all levels of Bosnian society in the post-war period. According to the Bosnian journalist Drazen Simic:

Bosnia-Herzegovina's problem is not corruption itself, which has entered every nook and cranny of everyday life, but corruption as a state of mind of the vast majority of ordinary people. According to them, it is perfectly normal for every new set of ruling politicians to do what they please with state money, including using it for the benefit of their relatives, many friends and acquaintances, and, of course, for their own party which helped them rise to power.

(October 2001)

Paradoxically, corruption in Bosnia is a product both of the failure of the rule of law to take hold in the country, and of the persistence of an oppressive socialist-era regulatory environment that makes it virtually impossible for legitimate entrepreneurs to operate, let alone make a profit. On the one hand, therefore, the fact that Bosnia is governed largely by the party rather than the law has given those in power a relatively free hand to line their pockets with impunity, and a strong interest in prolonging the status quo. On the other hand, small businesses and ordinary citizens are forced to contend with a maze of often contradictory regulations and the largely arbitrary power of regulators, leaving them with little option but to engage in petty corruption as a survival mechanism.

At the upper levels of the political spectrum, few senior politicians in Bosnia have escaped accusations of fraud or corruption in recent years, and official corruption has been high on the public agenda since the New York Times reported in 1999 that nationalist leaders from all three ethnic groups had embezzled as much as $1 billion (US) in public funds and international aid since the signing of the Dayton Peace Accords (Hedges 17 August 1999). Corruption cases hit the local press on an almost daily basis. Among the more recent are those relating to corruption and mismanagement within Bosnia's ethnically divided hydroelectric utilities, particularly in in post-Dayton Bosniamant Republika Srpska and in HDZ-controlled western Herzegovina. An internationally mandated audit of Elektroprivreda RS, for example, concluded that the utility is losing upwards of KM 166 million annually through "mismanagement, conflicts of interest, theft and neglect," while a similar audit of Elektroprivreda Mostar hinted strongly that the utility was bankrolling HDZ activities (OHR 26 February 2003; OHR 6 March 2003). Privatization, similarly, has generated a strong stench of corruption, and the process has been replete with examples of authorities stripping assets from companies in the pre-privatization phase, driving down the value of enterprises slated for privatization as a means of creating bargains for themselves or their allies, and manipulating sales in order to ensure that privatized companies end up in the "right" hands.

From the perspective of the peace process, however, a more troubling dimension of Bosnia's corruption problem involves the efforts of the main nationalist political parties to consolidate power through the establishment of intricate party-coordinated networks linking lucrative state-owned enterprises with the financial system and the activities of organized criminal networks.[9] Particularly in Republika Srpska and HDZ-controlled areas of western Bosnia, these networks also benefited until recently from external benefactors in Zagreb and in Belgrade. Cracks in the nationalist power structures did begin to appear once external sources of funding dried up following regime changes in both Croatia and the Federal Republic of Yugoslavia, and further strains were caused by the exclusion of the SDS, HDZ, and SDA from power at both the state and Federation levels following elections in November 2000 (ESI October 1999: iii). Despite these setbacks, however, nationalist power structures have demonstrated considerable resilience. With nationalists emerging victorious in the most recent round of elections, it would be unwise to consider ethnic nationalism as a spent force in Bosnia, despite some indications that all three parties have adopted more moderate stances in response to international demands.

The most spectacular example of the extent to which nationalist party structures pervade the economy and societies of the three (still largely mono-ethnic) territories that comprise post-Dayton Bosnia began to come to light in April 2001 when international auditors, backed up by NATO troops, raided the Mostar-based Hercegovacka Banka.[10] The raid was prompted by international suspicions that the bank was a key link connecting organized criminal activities with HDZ efforts to construct a parastate in western Herzegovina. An international provisional administrator was put in charge of the bank and tasked with uncovering its inner workings; her report, submitted in December 2002, is a damning indictment of top HDZ leadership. According to the report, Hercegovacka Banka was the nucleus of a trading and financial conglomerate headed up by HDZ leader Ante Jelavic, who was elected in 1998 to Bosnia's tripartite presidency. Between 1998 and early 2001, the bank received deposits of close to 650 million Deutschmarks from the Croatian government, money ostensibly meant for Bosnian Croat soldiers, pensioners, and war widows. According to the report, however, one-third of these funds were diverted either to support HDZ efforts at establishing a de facto third entity or into the pockets of senior HDZ leaders. At the same time, the conglomerate reportedly made use of some 120 fictitious companies to import high-value goods tax free, laundering the proceeds through the bank (Numanovic 20 December 2002). The presence of HDZ relatively little attentionmeCS loyalists in key government and regulatory positions ensured the smooth operation of this network until early 2001, when the crisis over Croat autonomy led to Jelavic's dismissal by the High Representative, followed by the SFOR bank raid. In early 2004, more than a year after the report of the provisional administrator was filed, Jelavic was arrested along with two other key members of the Hercegovacka Banka group and charged with fraud and embezzlement. The case, which is ongoing as of early 2005, will be an early, controversial, and highly public test for the organized crime and corruption division of Bosnia's newly established state court.

While similar, if less dramatic, cases have also embroiled senior SDA politicians in recent years, in Republika Srpska the nexus between organized criminal activities, corruption, and hardline nationalist politicians is, if anything, even more pervasive than in the Federation. Cases such as the recent customs scandal suggest, in fact, that the SDS has increased its grip over the entity over the past several years, despite having been formally excluded from power between 2001 and 2002 in an internationally brokered deal that allowed SDS members to join the government as so-called "independent experts." Many now see this arrangement as having given the SDS power without responsibility, while "the party's interest in maintaining its control of such sources of wealth as the pauperized RS has to offer renders the chances of economic reform under its auspices virtually nil" (ICG August 2001: 7). Despite some high-level movement on issues such as a state-level value-added tax, the evidence since the SDS's formal return to power in 2002 largely bears out this depressing conclusion.

Below the machinations of Bosnia's ruling classes, corruption also takes its toll in the everyday lives of ordinary Bosnians. As noted above, paying a bribe for a service is considered standard practice, while most drivers accept that being pulled over for a traffic violation, real or alleged, is as much about supplementing the police officer's meager income as about enforcing road laws.

For a country struggling to generate a market economy, however, pervasive everyday corruption has serious consequences. For most businesses, as noted above, corruption is a coping mechanism, a means of getting by within a largely unreformed regulatory environment that is decidedly unfriendly to business. It is in the area of business regulation, in fact, that internationally promoted liberalization strategies have had the least impact, and restrictive socialist-8). Inera regu Bosnia's case, the abslations – compounded by administrative overlap and aggressive "disciplining" strategies imposed by the ruling parties for political purposes – continue to be the norm across Bosnia. For example, even though Lord Ashdown assumed the position of High Representative promising to streamline the country's hugely complex business registration procedures, more than two years later the relevant legislation continued to meander through Bosnia's parliamentary process.

Similarly, unreformed tax codes also act as a significant deterrent to following the letter of the law. Despite recent reforms, wage taxes and other employer contributions remain sufficiently high that many businesses, just to stay afloat, have little choice but to formally employ only a portion of their staff, with the rest paid "under the table."

In addition to these obstacles, struggling businesses also have to contend with what is best described as a country-wide inspections racket, which is sustained by a complex and intrusive maze of business regulations. Inspectors often have the right to shut down a business o in post-Dayton Bosniamantn the spot, and have not only a personal interest in finding violations – and collecting a bribe in return for lenient treatment of the offender – but also a professional interest, since fines make up a significant portion of each entity's revenues. At the same time, inspections are often wielded as a political tool, either to harass or drive out a favored company's competitors, or to punish owners or managers who fail to follow the party line. The Sarajevo daily newspaper Dnevni Avaz, for example, felt the full wrath of Federation inspectors after it abandoned its pro-government position in mid-2000 and became increasingly critical of corruption within the ruling SDA (Selimbegovic 23 June 2000). One Tuzla-based company, presumably lacking the proper connections within ruling circles, reportedly faced 140 days of financial inspections over the course of a single year. In yet another case, potential investors were frightened off after a criminal investigation was launched into the finances of Sarajevo's profitable brewery, in an effort to ensure that the brewery remained within the SDA's grip (ICG August 2001: 11).

Such practices, to say the least, have a detrimental impact on efforts to create a self-sustaining market economy in post-Dayton Bosnia. In its various shadings of gray and black, the workings of Bosnia's post-war economy not only deprive the state and its component governments of badly needed revenue, but also create a decidedly uneven playing field for legitimate businesses, who cannot compete against competitors who are largely free of the burdens of paying taxes or of complying with a tangle of Byzantine rules and regulations. And while the real impact of organized crime and corruption is considerable, equally important is the country's growing reputation as a hornet's nest of crime and graft, where only the very courageous or the very foolish would dare invest. Given the market-hostile environment that currently exists in Bosnia, what is perhaps most surprising is how little has been achieved over the past decade in overcoming this hostility. The High Representative's much-publicized "bulldozer committee," established in November 2002 with the explicit aim of reducing the burden of business regulation, has generated some useful reforms, but has yet to make the kind of impact that its heavy-machinery imagery would imply.

Aggravating institutional factors

Sadly, the challenges facing Bosnia in terms of moving from its current political economy to one characterized by transparency and the rule of law go beyond the daunting task of cracking down on the criminal and the corrupt. While controlling crime and corruption is vital, the country's problems run much deeper and are rooted in the very nature of the current Bosnian state and its institutions.

Post-Dayton Bosnia is a weak state built upon a complex and highly unstable set of compromises between unity and partition, between mono-ethnicity and multi-ethnicity, and between individual and collective rights. These compromises, rife with ambiguity and contradiction, were aimed far more at stopping a war than at establishing a solid foundation for a liberal democratic state, and have resulted in a complex, fragmented, competitive, and arguably unsustainable set of governing structures. Bosnia, in fact, possesses many of the characteristics of "consociationalism," a theory of democratic power-sharing in ethnically divided societies most closely associated with the work of Arendt Lijphart. While the principles of consociationalism – which include executive power-sharing relatively little attentionmeCS among all major groups, the right of veto for minorities over key issues, proportionality of political representation, and substantial group autonomy – have shown promise in terms of managing multi-ethnic democracies, they can also be a recipe for paralysis. As Florian Bieber has argued in a recent comparative assessment of consociational arrangements in Bosnia and Belgium, "as consociational democracies have to be more highly regulated than regular democracies, there is a danger of rendering the system immobile and inflexible" (1999: 90).

Some of the peculiar characteristics of the post-war Bosnian state have been mentioned previously, such as the right of each entity to maintain its own armed forces and the fact that the central government possesses virtually no independent revenue sources. At the same time, however, Bosnia is also one of the world's most over-governed states. With an estimated post-war population of 3.7 million, governance in Bosnia is divided among state, entity, cantonal (in the Federation only), and municipal levels. The International Crisis Group has estimated that the various levels of the current governance structure in Bosnia support at least 181 separate cabinet ministers, and has calculated that if the same ratio of ministers to population were applied to Germany, that country would have more than 4,200 ministers (August 2001: 2).

Compounding the complexity of the country's governance structures, of course, is the reality that the commitment of those at the top of these structures to good governance and the integrity of the Bosnian state has been uncertain at best. The ambiguity of the Dayton Accords, moreover, has facilitated an ongoing and largely stalemated struggle between advocates of extreme decentralization and those who champion a greater role for the center in the governance of the Bosnian state. Unsurprisingly, therefore, this combination of a proliferation of governance structures and perpetually feuding governors has produced almost no forward momentum for reform at the domestic level. It is precisely this situation, combined with the persistence of powerful vested interests that profit tremendously from the status quo, which has entrenched a formidable inertial logic to post-war Bosnian politics.

A virtually endless stream of examples can be cited as evidence of how Bosnia's dysfunctional institutions have stymied both political and economic reforms, and have obliged the international community to step in and play both a legislative and executive role. As noted above, the country's institutional inertia has prevented all but the most modest steps towards reforming and rationalizing the country's taxation and economic regulatory mechanisms. In addition, failure to make progress towards establishing a single economic space in Bosnia has also brought considerable economic costs. At the end of 2000, for example, the European Union announced tariff breaks on a wide range of Bosnian products, but the country's failure to put into place functioning, state-wide standardization and inspection institutions that meet European standards has meant that Bosnian exporters have to date been unable to take advantage of these opportunities.[11] On the domestic side, Coca-Cola, one of the few foreign enterprises to have invested in Bosnia over the past few years, has also complained about what it considers to be discriminatory tax policies brought about by the fact that, including the Brcko district, there are three distinct economic spaces within Bosnia. In practice, this has meant that Coca-

Cola has been taxed on profit from its Republika Srpska branch, even though on a state-wide basis, the company has not recorded a profit. Regardless of one's sympathie relatively little attentionmeCSs for Coca-Cola, the broader point is that Bosnia's current trifurcated economic space imposes considerable burdens on both foreign and domestic businesses attempting to operate on a state-wide basis, including the possibility of double taxation and having to file multiple tax returns.[12]

More generally, Bosnia's political dynamic and institutional arrangements have collectively conspired to keep the Bosnian state weak, despite increasingly intrusive efforts by the international community to invest the Bosnian state with real power and real authority. At the heart of much of the resistance to investing state institutions with the powers of a "real" state is Republika Srpska, whose leaders have consistently opposed any measures, either economic or political, aimed at strengthening central government institutions or powers. RS politicians from all political parties tend to brand as anti-Dayton any proposed measures that threaten to erode the near-sovereignty of their entity. Of late, international pressure appears to be gradually prevailing over ethnic politics with regard to specific reforms, such as the implementation of a state-level value-added tax, the centralization of customs collection, and the establishment of a state-level defense ministry. These developments, indeed, are somewhat surprising given both the symbolic and economic implications of each of these reform areas, and may represent a strategic calculation on the part of the RS political elite that some compromise is necessary to ensure their own survival and that of their entity. Current RS president Dragan Covic, for example, now stresses that while building up state-level powers may be possible, it should not be done at entity expense (OHR 30 August 2004).

The international community's role in the day-to-day management of Bosnia's affairs has also raised serious issues of moral hazard, specifically with regard to the country's own democrence oaticalf econly eleomic recovery has much to do wcted leaders. As it has become increasingly clear that difficult or controversial pieces of legislation will be imposed by the High Representative anyway, domestic legislators have been relieved of the burdens of taking politically unpopular stands or grinding out difficult political compromises with former enemies. This process has accelerated the transfer of legislative authority from Bosnian to international actors, and reinforced the politics of inertia within domestic institutions. At the same time, the international community's willingness to rectify serious budgetary deficits in both entities has helped sustain an otherwise economically unsustainable situation, as funds siphoned off or lost due to corruption, fraud, and incompetence have largely been replaced with international donor assistance.

Equally problematic from the perspective of economic reform and recovery has been the international community's greater tolerance for corruption among the more moderate of the country's political elites. In an effort to bolster non-nationalist political forces during the periods and in the regions in which they have held power, the international community has tended to overlook or downplay corruption among its favored local politicians. In the RS, for example, the relatively moderate and pro-Western Milorad Dodik remained a favorite of the international community long after he had gained a reputation within the entity for being at least as corrupt as his predecessors.

In combination, these factors add a crucial layer of analysis to understanding Bosnia's post-conflict political economy, and suggest that overcoming the political economy of crime and corruption inevitably involves more than simply removing hardline London: Pluto Press.

continued to wield considerable power and influence in all areas of political and economic life throughout the post-Dayton period, in many places and for considerable spells of time they have been out of power. Tellingly, these periods have not corresponded with an opening of the floodgates of reform, nor with a significant decline in levels of organized crime and corruption. Indeed, one of the primary factors in the comprehensive defeat of the multi-party Alliance for Change in the November 2002 national elections was the coalition's failure to significantly advance the reform agenda.

To a certain extent, the failure of reform during periods of moderate rule in Bosnia can be pinned on the fact that many of the so-called moderates have been no less willing than their hardline predecessors to help themselves to the spoils of power. It is also true that Bosnia's governments of moderates have been large coalitions, riven by ideological differences and personality conflicts. The Alliance for Change, in particular, was never able to formulate a coherent reform strategy due to major rifts over both policy and patronage (ICG August 2002). At the same time, however, Bosnia's moderate governments have been hampered by the inertia-inducing political and institutional dynamics described above. Simply put, thorough-going reforms in post-Dayton Bosnia require too much coordination by too many political actors who share too few common interests. Add to this the tendency of the international community to trump the domestic legislative process and the concurrent international willingness, at least to date, to plug budget gaps and thereby soften the pain of Bosnia's deteriorating economic situation, and it is hardly surprising that a decade after Dayton, the train of Bosnia's post-socialist economic transition has barely left the station.

Peacebuilding's blind spots

The preceding analysis of Bosnia's conflict and post-conflict political economy indicates quite clearly that societies emerging from conflict are far from blank slates on which the international community can write a new political and economic order. Rather, such societies possess their own political and economic structures, and however flawed such structures may be by the standards of Western liberal democracy, the fact that they have been forged through war may in fact make them particularly resilient. The challenge of peacebuilding, therefore, lies not only in laying the foundations for a peaceful and prosperous post-conflict order, but in finding ways to dismantle the very structures that prevent such a post-war order from taking root, and which in many ways replicate and reinforce the logic of conflict. The real adversary in post-war contexts such as Bosnia, as Hugh Griffiths has noted, “is not a series of individuals as is often supposed, but rather a politico-economic structure which has survived the end of open conflict” (1999: 56). In this context, the dynamics of Bosnia's post-conflict political economy expose a number of crucial issues with regard both to the nature of post-conflict peacebuilding and to the particular way in which the international community has operated in Bosnia.

First, any serious analysis of Bosnia's post-Dayton struggles must address the consequences of the weak and ambiguous peace agreement that both ended the war and established the framework for everything that came after it. Bosnia's recent history has demonstrated quite clearly the extent to which political arrangements and compromises necessary to achieve a peace settlement may be less than satisfactory as “governance a new life somewhere elseed million” arrangements, and can lock in dynamics that are both politically and economically dysfunctional. Overcoming such dynamics in the post-Dayton period has proven to be enormously difficult, both because of the fear that re-opening negotiations over key institutional arrangements may risk unraveling the entire peace process, and because of vested interests on the part of the signatories in maintaining key provisions that suit their interests. In this sense, the failure of reform in Bosnia has much to do with the fact that the country has been hobbled by dysfunctional political arrangements that have been constitutionalized as part of the peace agreement.

A second and related issue concerns the question of co-opting versus marginalizing wartime leaderships. By placing much of the burden of peace implementation on the shoulders of the former warring parties, the architects of Dayton virtually guaranteed that the process would be held hostage by those with both the political and the economic motivations for preferring the agreement to be implemented selectively or not at all. In what might retrospectively be characterized as extreme wishful thinking, the international community placed its hopes for regime change on the electoral process, anticipating that the perceived benefits of peace would convince Bosnia's electorates to turn their backs on the hardliners who brought them war in favor of moderates who could deliver on sustainable peace and economic recovery. An earlier and more careful assessment of the nature of the nationalist power structures that survived the end of the conflict might have shown that such hopes were misplaced given the preponderance of power wielded by nationalist forces. Given the glacial rate at which political change is occurring through the ballot box, the international community has increasingly attempted to accelerate this process by both sacking unreconstructed nationalist hardliners (and, in the case of the Serb Radical Party, banning entire parties from the electoral process), and by championing political moderates. The success of this strategy has been limited, however, as even dismissed politicians continue to exert power from the sidelines, while the banning of the Radicals served only to increase support for the equally nationalist SDS. As for overt international support for moderates, it is perhaps telling that almost all of the individuals, parties, and coalitions championed by the international community over the past half-decade – including the Alliance for Change and the Sloga Coalition which put Milorad Dodik in power in Republika Srpska – have suffered embarrassing setbacks in subsequent elections.

The literature on conflict resolution deals with the role of wartime leaderships in the post-war period partly through the language of spoilers. According to Stephen John Stedman, spoilers are "leaders and parties who believe that peace emerging from negotiations threatens their power, worldview, and interests, and use violence to undermine attempts to achieve it" (1997: 5). Stedman suggests that spoiler management is largely a matter of calibrating the international response (from inducement to socialization to coercion) to an assessment of the type of spoiler being confronted (limited, greedy, or total). Yet much of the discussion of spoiler management assumes that the motivations of spoilers are primarily political, and fails to address in any comprehensive manner the potential economic motivations of spoilers, which may present an altogether different management challenge. This is particularly the case since, as noted previously, economic spoilers may be less interested in winning the conflict than in simply prolonging it in order to extract maximum economic benefit. Managing economic spoilers, in this sense, may be a matter of cutting off the economic benefits that flow directly to the parties as a result of the persis a new life somewhere elseed milliontence of conflict (Duffield 2000: 85). In Bosnia's case, such a conclusion points specifically to measures aimed at cutting the direct links between ruling parties and lucrative state-owned enterprises, at shutting down conflict-induced transborder trade and smuggling networks, and at more effective strategies for combating organized crime and corruption.

Discussions of spoiler management also tend to assume that the international community is in a position to “manage” spoilers, with the real issue being one of strategy, not capacity. Yet despite the fact that the international community is regularly criticized for the intrusive nature of its involvement in Bosnia, one of the real lessons of the post-Dayton process is the uneven nature of international authority. Generally speaking, the extent of international authority in Bosnia weakens as one moves from the political to the economic realms, and from the state level to the local level. While the High Representative has made extensive use of his powers to remove uncooperative local officials and to impose an impressive range of legislative reforms, removing officials does not fundamentally alter structures of power and imposing laws is very different from enforcing them. Until very recently, however, international influence has been particularly ineffective in coming to terms with organized crime and corruption. On the one hand, despite a few high-profile successes, not even the Office of the High Representative has the resources to unravel the networks of organized crime and corruption that extend throughout the country. On the other hand, exhortations from the international community to Bosnia’s political elites to tackle the crime and corruption that effectively keeps them in power have had predictably minimal impact.[13] A hybrid approach, employing national and international judges and prosecutors to try cases related to organized crime, economic crime, and corruption, has been adopted of late and has made a promising start, with several high-profile prosecutions now underway. As Erik Larson has noted, “at long last, the international community appears to be getting serious about helping Bosnia end years of partisan ethnic politics and rule by mafia-controlled politicians” (16 February 2004), even if it remains to be seen whether the overall impact of these new judicial and prosecutorial structures will be more substantive than symbolic.

Similar issues animate the discussion about “local ownership” of the peace process. While the international community’s peacebuilding and state-building capacities are clearly limited, growing pressure to “indigenize” the Bosnian peace process largely ignores the fact that those who would be in charge of a domestically driven peace process may have little interest in its success.[14] As the European Stability Initiative has noted, “it is clearly unhelpful to talk of handing over responsibility for building a State, reintegrating the ethnic groups or modernizing the economy to power structures fundamentally opposed to these programmes” (October 1999: iii).

In this context, and particularly regarding the struggle to reform a largely criminalized political economy, the international “enforcement gap” in Bosnia is particularly stark. On the one hand, NATO’s Stabilization Force (which replaced the original Implementation Force at the end of 1996) has been remarkably conservative with regard to its mandate in Bosnia. Focusing on the maintenance of a “safe and secure environment,” SFOR has only in recent years begun to actively go after">Regeneration of War-Torn Societies, New York: St Martin’s Press.

A significant factor in the persistent influence of organized crime and corruption in Bosnian political life is, therefore, the reality that neither domestic nor international law enforcement agencies, as currently constituted, are capable of tackling these problems.[15] In fact, there is considerable evidence that local police forces (and even international police to a certain degree) have been part of the problem rather than part of the solution.[16] Combined with the fact that Bosnia’s judicial system is only slowly emerging from years of politicized dysfunctionality, Bosnia’s ongoing enforcement gap has provided free rein for corruption and organized crime to prosper.

If, as senior members of the international community in Bosnia are now fond of saying, crime and corruption now collectively represent the greatest threat to the country's peace process, then the fact that the international community has been largely unprepared to deal with this challenge indicates a major gap in the post-conflict peacebuilding toolkit. Furthermore, the experience of Bosnia seems to indicate that, at least in the early stages of a peacebuilding operation, domestic political dynamics are such that only an international force can effectively carry out this task. Even within developed countries, taming organized crime and corruption is a complex, time-consuming, and often dangerous task, which no doubt explains why there have been few volunteers within the international community to take on this burden in the context of post-conflict environments. Yet given the extent of the problem, and the limited and ad hoc international response to date in tackling it, it may well be on this issue that the international community ultimately loses the battle over Bosnia's future.

Conclusion

This chapter has attempted to identify the primary domestic factors that bear some degree of responsibility for Bosnia's disappointing and deteriorating economic situation after a decade of peace implementation efforts. First and foremost, there is little doubt that organized crime and corruption have played a serious and ongoing role in hindering economic transition. While crime and corruption have been prominent elements in virtually every post-socialist transition country, the fundamental difference in Bosnia lies in the close linkages between these elements and the nationalist political structures that seem intent on preventing the country from moving beyond its tragic past and troubled present.

The nature of these post-war power structures is by now quite clear, even if the specific mechanics of their operations often remain murky. At the center of these structures lie the three main ethnically based political parties which have dominated Bosnia since the early 1990s. These parties have deep and intricate connections with organized criminal elements, and have exerted enormous influence through their control">Regeneration of War-Torn Societies, New York: St Martin's Press.

Wealth becomes a vital source of political power, used both to reward supporters and to fund the intelligence and security services which suppress political opposition. The redistribution of the spoils of war, in the form of scarce public-sector employment, housing, or invalids' and veterans' benefits, can be used to buy support for key constituencies. In the post-conflict environment, this concentration of wealth and power is the most overt obstacle to restoring a functional state.

(2001)

Another key feature of these networks is their mutual dependence. Despite the very real and very deep antagonisms between each of the nationalist networks, a result of nearly four years of brutal ethnic conflict, each provides the others with a convenient "bogeyman," which is both a source of fear and uncertainty that is used to rally the nationalist vote during election periods and a means of managing intra-ethnic opposition. The mutually antagonistic/mutually dependent post-Dayton dance of the nationalist party networks has also kept Bosnia in a state of near-permanent crisis, which has not only helped sustain ethnicity as the only relevant social category in post-Dayton Bosnia, but has also maintained a suitably unsettled environment through which those at the top can continue to reap the political and economic rewards of power. For

5
Business as Usual

International prescriptions for Bosnia's economic transition

A vision for Bosnia and Herzegovina in the medium term is of an open and unified economy oriented to the market and integration with Europe … growth is generated by an increasingly private-sector led economic recovery, principally driven by export-oriented production and services that provide jobs and raise domestic incomes and savings.

World Bank and European Commission, Assessment of
BiH Priority R in post-Dayton Bosnia: uc–econstruction Program (WB/EC 1999: 26)

When t period 2002–04, the ovhe Dayton Peace Accords were signed in late 1995, the Bosnian economy lay literally in ruins. Nearly four years of war had taken a severe toll on an economy that had already been one of the weakest of Yugoslavia's six republics. By war's end, the country's per capita GDP had fallen below $500 (some 20 percent of its pre-war level), unemployment had reached levels of 80–90 percent, while a similar percentage of the population was dependent on food aid for survival.[1] The terrible human cost of the war – 250,000 dead and more than 2 million displaced – also had profound implications for post-war economic recovery, as it left much of the country's human capital base in disarray.

The destruction of Bosnia's physical infrastructure presented an equally imposing challenge for recovery. Transportation, telecommunications, and electrical networks were decimated, while the bulk of the country's industrial capacity was either destroyed, damaged, or idle. World Bank estimates put the total productive capacity destroyed by the war at $15–20 billion, while the Bosnian government's figure for overall war damage was $50–70 billion. Adding to the burden of recovery was the foreign debt that Bosnia inherited from the former Yugoslavia, which stood at some $3.4 billion at the war's conclusion.

Putting Bosnia back on its feet was not, however, simply a question of reconstruction but also, fundamentally, a question of transition. In this sense, post-Dayton Bosnia joined the ranks of other former socialist states in Eastern Europe and the former Soviet Union that were struggling to successfully make the transition from command to market economies. Combined, these twin challenges of reconstruction and transition implied a literal reinvention of the Bosnian economy. At the same time, this economic transformation was enormously complicated not only by the legacy of the war but also by the legacy of the peace agreement, which left many of the conflict's most contentious issues unresolved. Bosnia's economic transformation, consequently, would have to unfold simultaneously with the ongoing struggle over the very nature and existence of the Bosnian state.

Given the condition of the Bosnian state at the time Dayton was signed, and the problematic nature of Bosnia's institutions of governance up to the present day, the blueprint for Bosnia's economic transformation has largely been a product of the international community. Despite considerable rhetoric in recent years promoting Bosnian “ownership” of the overall peace process, the locus of policy-making – not only from an economic perspective but also from the perspective of the broader state-building project – has remained within the international community. Given this reality, this chapter will focus on international prescriptions and strategies for the reconstruction and transformation of the Bosnian economy within the overall context of the Dayton peace process. While subsequent chapters will focus on particular elements of this transition strategy and how each has played out against the peculiar backdrop of Bosnia’s post-war political economy, the current chapter will provide a critical overview of the international approach to economic transition in post-war Bosnia. In doing so, and in light of the considerations raised in Chapter 2, it will also assess the success with which Bosnia’s economic transition strategy has navigated the tensions between the prescriptions of mainstream transition strategy and the realities; margin-top: 2em; margin-bottom: 1em; margin-right: 0em; margin-left: 0em; text-align: left; line-height:130%;} h international of the political economy of conflict and post-conflict environments. At its core, this chapter will argue that despite the complexity of the political and economic environment in Bosnia, the international community has taken a surprisingly orthodox approach to the country’s economic transformation, and this adherence to orthodoxy has had considerable implications for Bosnia’s post-war economic revival.

The international vision

As this chapter's opening quote implies, the international community's vision for Bosnia's economic future is broadly consistent with the core tenets of the Washington consensus. While recognizing that a massive international effort would be required in the initial reconstruction process, the architects of the country's post-war economic transition strategy – primarily the World Bank, the International Monetary Fund, the European Union, and the United States – have been guided by the principle that Bosnia's post-war growth and recovery should be driven overwhelmingly by the private sector. As the Bosnian economist Dragoljub Stojanov has argued, the basic reform package for Bosnia "contains all the elements of the theory and practice adopted in the East European countries. The exception to this, a very important one which was unnecessary in other East European countries, concerns the physical reconstruction of BiH" (2001b: 50). In Bosnia's case, this "basic package" prescribed placing restrictive limits on governmental capacity to act in the economic realm, establishing a rigorous framework for the establishment and maintenance of macroeconomic stability, and transferring ownership of state-owned enterprises into private hands as quickly as possible. It also prescribed liberalizing the Bosnian economy both internally, through the easing of government restrictions on market transactions, and externally, through lowering tariff barriers, maintaining domestic currency convertibility, and facilitating entry of foreign firms into the domestic market.

Key elements of this economic vision are built into the Dayton Accords. Perhaps most importantly, the Dayton-mandated constitutional arrangements for post-war Bosnia require that the country's Central Bank operate as a currency board for its first six years.[2] This arrangement, discussed in greater detail below, has provided post-war Bosnia with a common currency and a relatively stable macroeconomic framework, but also acts as a fiscal and monetary straitjacket, since it almost completely rules out an activist role for the state in economic policy.

Dayton also created one of the world's most decentralized states, further restricting the central government's role in state-wide economic affairs. As noted in Chapter 3, real power in post-Dayton Bosnia lies in the hands of Bosnia's two entities, the Muslim-Croat Federation and Republika Srpska, each of which has responsibility for most key levers of power.[3] Responsibilities of the central government, on the other hand, were limited to "the bare minimum necessary for BH to be considered as a single sovereign country," including foreign policy, international trade and debt, customs and monetary policy, as well as immigration, international law enforcement, and air traffic control, plus inter-entity aspects of law enforcement, communications, and transportation (Woodward 1998: 9). The Bosnian state has virtually no independent revenue sources, and is almost entire">World Policy Journal, 1,CSly dependent on transfers from the entities (two-thirds of the state budget is to be provided by the Federation and one-third by Republika Srpska).[4]

At the time of the signing of the Dayton Accords, both stabilization and decentralization appeared justifiable in view of prevailing circumstances. Attempting to achieve greater centralization of political power would have been a deal-breaker at Dayton, while currency board arrangements were considered "the only way to ensure effective macroeconomic policy-making in a decentralized system with a high level of political conflict and inertia" (Woodward 1998: 34). Yet these arrangements may arguably have gone too far in denying the state any role in economic policy-making. As Stojanov has argued, for example, the failure to allow for any instruments aimed at shaping Bosnia-wide macroeconomic policy

ties the hands of the central state concerning the formulation of a uniform strategy for economic development, including industrial policy. In practice, Bosnia-Herzegovina lacks the power to formulate and implement independent monetary, fiscal, price and foreign exchange policies, and policies regarding privatization, incomes and social welfare. Moreover, industrial policy-making is, in effect, impossible under the rules applied to the country by the World Bank and IMF.

(2001b: 46)

While the Dayton arrangements removed the levers of macroeconomic policy-making from the hands of the Bosnerall ian gopicture of a country held hostvernment – quite literally, in fact, since the constitution also requires that the governor of Bosnia's Central Bank be an IMF-nominated foreigner – in other areas the Bosnian authorities have been expected to take a leading role in the transition process.[5] In a 1996 report, for example, the World Bank recommended that the primary focus of the Bosnian authorities should be "on establishing a sound legal, regulatory, and institutional framework that promotes smooth functioning of free markets; and on providing essential public goods and social services, such as defense, public order and basic education and health care" (1996: xxvi). In other words, beyond the rather delicate tasks of macroeconomic management, from the outset the Bosnian authorities were seen as key implementing partners in the economic transition process. This is consistent with the belief, noted in Chapter 2, that the signing of a peace agreement signals a definitive break with the past, and that the post-conflict period represents a fresh beginning in which a new economic order can be established in partnership with responsible and committed political elites. This assumption, of course, is particularly flawed in the case of Bosnia, as the post-Dayton period has been dominated by the same issues, and most of the same political elites, which were dominant during the war. The core issues preoccupying Bosnia's nationalist leaderships in the post-Dayton period – multi-ethnicity vs ethnic apartheid, unity vs partition, and the consolidation of their own political and economic power – have therefore changed little from the pre-Dayton period. The approach of Bosnia's political leadership to issues of economic transition, therefore, must be seen through this prism: while economic reform has generally received rhetorical support at all levels, in practice the implementation and speed of key reforms – at least in those areas controlled by local actors – reflects the broader political goals of each of the ruling parties above in post-Dayton Bosniay million all else.

In this context, progress on the economic reform front has been immensely complicated by the way in which Bosnia's complex ethnic struggle has played out in the post-war period. For all the talk, particularly among the international financial institutions, of an apolitical transition to a market economy, Bosnia's economic transition has been in many ways subsumed into the complexities of the country's ethnic politics. Almost inevitably, this has produced a complex relationship between international and domestic authorities, as the international community has been forced to condition continuing aid and assistance on local cooperation with the reform process, and has increasingly arrogated the power to simply impose key elements of the economic transition package.

At its core, the international strategy for Bosnia's transition to a market economy has focused on two key elements: first, an internationally funded reconstruction phase aimed at restoring basic infrastructure and services to pre-war levels; and second, a policy-reform phase aimed at creating a permissive and favorable domestic environment for private enterprise. In other words, international reconstruction assistance was to be gradually replaced by private investment as the main engine of economic recovery as the Dayton process unfolded. From the outset, however, this strategy has faced two fundamental challenges. First, it has relied heavily on the cooperation and good faith of the Bosnian authorities in creating the conditions in which a dynamic private sector could emerge, even though Bosnia's own political elites quickly demonstrated an inability, or an unwillingness, to follow the international reform script. Second, it has relied equally heavily on the private sector as the engine of Bosnia's economic transition, and has assumed that not only will Bosnia be able to quickly generate the effective institutions, the permissive regulatory environment, and the political stability necessary to attract private investment, but that such conditions are not only necessary but also sufficient to unleash powerful and growth-producing market forces.

Rebuilding

To be sure, the one area where international economic strategy has differed in Bosnia in comparison with other Eastern European contexts has been in the area of post-war reconstruction assistance. Given the extent of the destruction across Bosnia, no measure of economic recovery would have been possible without a sustained and early effort to rebuild basic infrastructure. Indeed, in the aftermath of the signing of the peace accords the international community, led by the World Bank and the European Union, began to put together what would ultimately be a $5.1 billion reconstruction package for Bosnia known as the Priority Reconstruction Program (PRP). Focusing primarily on physical reconstruction, the PRP was designed "to reconstruct war-damaged physical assets, jump-start economic recovery, attract home the millions of refugees and displaced, and build a framework for sustainable growth" (WB/EC 1999: 6).

Estimates vary substantially – by as much as $1 billion – as to the total amount of funding that Bosnia has actually received through the PRP (Hertic et al. 2000).[6] Yet despite this, and despite the reality that at least part of the pledged aid went towards international salaries and payments on Bosnia's foreign debt, and still more was lost to corruption, the post-war reconstruction effort has achieved a great deal. As the Director of the World Bank's Resident Mission not remain displaced either withinmeCSed in 1998, less than three years into the proposed four-year program, "you can now travel throughout the country on rebuilt bridges and roads; telephones are again operational; key electric power lines rebuilt; power stations are back in operation with some electric power even being exported; water supplies, gas supplies [have been] re-established" (O'Sullivan 1998). Largely on the strength of international reconstruction assistance, Bosnia's economy grew by 50 percent in 1996, 35 percent in 1997, and some 25 percent by 1998 (O'Sullivan 1998).[7]

Despite these achievements, the reconstruction process did not unfold entirely unproblematically. As noted above, despite the seemingly apolitical nature of rebuilding schools, roads, and bridges, donors were almost unavoidably drawn into Bosnia's unresolved ethnic conflict, and the use of donor conditionality quickly became a key lever in international efforts to ensure progress in Dayton implementation. Most dramatically, the uncooperative nature of the Republika Srpska authorities – who refused to attend the first international donor's conference and dragged their heels on paying their share of the state budget – resulted in the withholding of most aid from that entity for the first two years of the post-war period. In 1996, a mere 2 percent of total reconstruction assistance flowed into the RS, with the balance shifting only marginally the following year (Hertic et al. 2000: 348).

While on the one hand political conditionality was the international community's most potent weapon in pushing the peace process forward in the face of local resistance, conditionality also had its drawbacks. In the case of the RS, for example, withholding donor assistance perpetuated the entity's severe economic crisis and bred considerable resentment among a population already highly suspicious of international motives. As Susan Woodward has noted, the fact that by the second year of the peace process unemployment had fallen markedly in the Muslim-Croat Federation, while it remained at around 90 percent in Republika Srpska, "did little to improve Serbs' commitment to Bosnia and the accords" (1999: 151).

The issue of political conditionality also caused a rift among key international actors in Bosnia. On the one hand, the World Bank objected to conditionality on the grounds that it would delay reconstruction and “enmesh the Bank in the consideration of ‘political criteria’ outside the economic mandate set forth in its Articles of Agreement” (Hertic et al. 2000: 339).[8] On the other hand, the United States and the Office of the High Representative saw conditionality as a fundamental tool for ensuring the implementation of the peace agreement, and this argument ultimately prevailed. The Peace Implementation Council’s Sintra Declaration of 1997, consequently, stated unequivocally that “international assistance with economic reconstruction should be conditioned upon full compliance with the Peace Agreement” (cited in Hertic et al. 2000: 347).

Despite this, however, international donors continued to display considerable inconsistency on the conditionality issue, and much of the donor community appeared more concerned with the rapid disbursal of funds than with the political implications of reconstruction activity. This was particularly the case in the Federation, where local authorities quickly learned the value of offering at least in Republika Srpska,CStoken support for Dayton principles in keeping the money flowing. And since the formation of representative government structures at various levels took considerable time – democratically elected governments at the municipal level, for example, were not in place in most cases until well after the municipal elections of September 1997 – international agencies tended to deal with whoever happened to be in charge at the local level. As Marcus Cox has noted, “this enabled local warlords and separate ethnic power structures to benefit from the reconstruction programme – both materially, through control of construction companies, and politically, by being able to nominate the beneficiaries of international aid” (Cox 2001: 11).[9] In other woass="trds, a reconstruction effort aext_indent" aid="DB7TV">At the same time, the PRP’s prioritizing of physical reconstruction meant that the equally critical issues of institution-building, job creation, or social reintegration received less attention than they deserved in post-Dayton Bosnia’s crucial early years. Physical reconstruction, despite the questions around conditionality, offered in many ways the path of least resistance for the international community, at least in comparison to the complex and highly contentious questions surrounding the creation of viable institutions. Donors also appeared more willing to sponsor visible and high-profile reconstruction projects, as well as those projects which served their own political agendas (the reconstruction of housing, for example, allowed donor governments to accelerate the removal of Bosnian refugees from their own territories).[10] Consequently, despite the fact that PRP documenimed at contributing to the rets continually emphasized the importance of institutions, policy reform, and employment, as the program wound down it became increasingly clear that while significant progress had been made in restoring infrastructure to near pre-war levels, progress was far less impressive in terms of rebuilding institutions of economic governance or solving the country’s employment crisis. The danger, clearly, was that the massive international reconstruction effort in Bosnia would fail to lay the foundations for sustainable economic growth, leading to an inevitable economic crash once donor funding dried up. As one assessment late in the reconstruction program noted, “after $4.5 billion of multilateral commitments in 1996–98 and a massive inflow of bilateral aid, the Bosnian economy is scarcely more viable than it was when the Dayton Accord was signed in 1995” (Steil and Woodward 1999: 96).

The employment-generation strategies embedded in the PRP were complicated by the fact that the infrastructure rehabilitation program paid relatively little attention to the country’s industrial infrastructure.[11] From 1996 to 1998, in fact, investment in Bosnia’s manufacturing sector amounted to a mere 2.3 percent of total PRP expenditures (ICG April 1999: 5). As a result, most of the employment generated through the PRP was either the result of short-term reconstruction employment or small-scale credit programs for small or micro-enterprises.

The neglect of Bosnia's industrial sector in the reconstruction program was the product of a deliberate choice on the part of the international community that decisions regarding the rehabilitation of large-scale enterprises – war-damage a vehicle for liquidating citizen claims against the BG7d or otherwise – should be left to market forces. Consequently, industrial-sector rehabilitation was to be contingent on the privatization of these enterprises. Since delays in the privatization process have meant that even today many of Bosnia's large industries remain unprivatized, the result has been that most of the country's industrial assets sit idle, forcing the majority of those employed in these enterprises prior to the war to seek work elsewhere.

Finally, the reality that the reconstruction program was the overwhelming fact of economic life in Bosnia over the first four years of its post-Dayton existence has created a classic aid-driven economy. Even after the official end of the PRP, it is aid, rather than private investment, that continues to be the lifeblood of the Bosnian economy, a situation exacerbated by the presence of thousands of foreign soldiers, police officers, aid workers, and diplomats on Bosnian soil. Bosnia has become dangerously donor-dependent, and few doubt that the local economy would collapse if the international community withdrew in the near future. As elsewhere, this donor-driven economy has skewed the domestic employment market, and international agencies remain rich in highly qualified local staff who work as interpreters for salaries several times higher than they could make in their chosen professions within the local economy. This situation has further complicated efforts to "normalize" the Bosnian economy and facilitate the shift from donor-led recovery to private sector-led economic sustainability.

From reconstruction to transition

Beyond the particular characteristics of Bosnia's post-war reconstruction experience, however, the strands of international policy advice for Bosnia's transition to a market economy have been consistent with policy prescriptions offered in other transition contexts. The overall transition strategy has therefore focused on redefining the role of the state – "moving away from the all-encompassing government functions performed in the past and toward a more focused facilitation and regulatory role" (World Bank 1996: 44) – and creating a market-friendly policy environment. The most important aspects of this approach can be broken down into the same troika of policy prescriptions so familiar from other Eastern European contexts: stabilization, liberalization, and privatization. Each of these components will be discussed in turn below.

Stabilization

Much of the recent literature devoted to the economic dimensions of peacebuilding points to an inherent tension in the aftermath of conflict between achieving macroeconomic stability and regenerating economic activity. As Elizabeth Cousens and Charles Cater have noted in the specific context of Bosnia, "this tension between the fiscal austerity and monetary stabilization policies preferred by international financial institutions and the demands of postwar societies for quick infusions of spending has been increasingly recognized, though resolving the tension in practice remains a recurring challenge" (2001: 97). While proponents of strict stabilization policies emphasize that recovery is impossible if macroeconomic imbalances persist, in fragile post-conflict conditions overly rigid stabilization policies can also undermine state capacity, neutralize the state as a constructive economic actor, and at the same time fail to unleash productive forces within the private sector.

It would appear at least theoretically possible to find a middle ground remain displaced either withinmeCS between these two positions – a stabilization package that might be second best from a purely economic standpoint but which contributed to the reconstitution of state capacity while at the same time providing the state some leeway in terms of economic policy-making. In Bosnia's case, however, the stabilization policies put in place in the aftermath of the Dayton agreement – anchored in a post-war currency board – clearly prioritize the goal of macroeconomic stability above all others. Presumably, Bosnia's status as "one of the most highly assisted countries in the world" (OHR June 2000) has been seen as a justification for strict macroeconomic rigidity, since donor assistance was seen as providing the economic stimulation necessary to steer Bosnia onto the path of sustainable economic growth.

Currency boards operate by establishing a fixed exchange rate between the local currency and a stable foreign currency, such as the Deutschmark or the US dollar. While fixed exchange rates are common enough, "a currency board goes further in that it legally requires that the central bank hold enough foreign reserves to match the whole supply of the domestic currency – which is then said to be fully backed by foreign reserves" (Hunter 1998). For every additional unit of domestic currency issued, therefore, an additional unit of foreign currency must be held in reserve. This effectively prevents authorities from printing money as a means of financing government activities, and it similarly excludes the Central Bank from extending credit either to the government or to the private sector. In short, under currency board rules "monetary and credit policies are essentially excluded as instruments for jump-starting the economy and for supporting economic expansion" (World Bank 1997a: 10).[12]

In Bosnia's immediate post-war context, a currency board offered several appealing characteristics from a macroeconomic perspective, one of which was precisely that it removed discretion over monetary policy from the hands of local authorities. As David Woodward has argued, in Bosnia's case such discretion could easily have led either to decision-making inertia (as decisions over monetary policy would have required elusive inter-ethnic consensus) or to hyperinflation as a result of competitive inflationary financing (1998: 33). In other words, one of the overarching concerns of international policy-makers was that local authorities would be either incapable or unwilling to manage macroeconomic policy responsibly in the absence of a currency board regime. By removing discretion in the making of monetary policy, therefore, the currency board has kept inflation low and forced governments at all levels to live and to spend within their means.[13]

At the same time, the country's currency board facilitated the creation of a new – and stable – Bosnian currency, the konvertible mark (KM), which officially came into existence in 1998. Until this point, the Bosnian economic space had been carved up into separate currency zones, with the Bosnian dinar and the Deutschmark (DM) used in Bosniak-majority areas of the country, the Croatian kuna the currency of choice in most Croat-majority areas, and the Yugoslav dinar used throughout Republika Srpska (although use of the Deutschmark was also widespread throughout the country). The fact that the KM was able to achieve common acceptance relatively quickly, even in parts of the country dominated by ethnic hardliners, has been widely seen as a positive sign both economically and politically for; margin-top: 2em; margin-bottom: 1em; margin-right: 0em; margin-left: 0em; text-align: left; line-height:130%;} h international the viability of the Bosnian state.

Despite this, the fact that the currency board has effectively denied Bosnian authorities any control over one of the most important levers of macroeconomic policy has also sent a clear signal about the limits of sovereignty in the new Bosnia, and the constraints on domestic policy-making in the economic field. And while proponents of currency boards stress the effectiveness of such arrangements in curbing inflation, even within the mainstream economic community there is no consensus that this should be the over-arching goal of macroeconomic policy. Joseph Stiglitz, for example, has argued that while hyperinflation is clearly catastrophic, there is in fact little evidence that inflation below levels of about 40 percent annually is detrimental to an economy. Conversely, he argues, "the single-minded focus on inflation may not only distort economic policies – preventing the economy from living up to its full growth and output potentials – but also lead to institutional arrangbirth ements tof the Bosnian state was simulhat reduce economic flexibility without gaining important growth benefits" (1998b: 9).

In Bosnia's case, the prohibition on Central Bank lending to any part of the domestic economy also contributed to a serious credit crunch familiar from other Eastern European transition contexts, which hampered even modest levels of enterprise restructuring and regeneration in the immediate post-war period. Even for the most viable of enterprises, reorganization, regeneration of production, and re-employment of workers required capital, and in post-war Bosnia capital was in critically short supply. The supply of investment capital from the international donor community was relatively modest, and restricted for the most part to small or micro-enterprises, while private foreign investors were – and continue to be – predictably skittish about post-war Bosnia as an investment destination.[14] Combined with an undercapitalized and barely functioning domestic banking system, a central government constitutionally prohibited from injecting new capital into the economy, the war-induced collapse of both foreign and domestic markets, high taxes and prohibitively high domestic interest rates, and an oppressive regulatory regime, it is hardly surprising that the private sector has failed to fulfill expectations in the post-war period.

Concurrently, obliging Bosnia's various levels of government to live within their means – either from their own revenue sources or from donor receipts – has had important implications for Dayton's state-building agenda. Regenerating state capacity to deliver key social services such as pensions, education, and health care – let alone create effective institutions for market governance – has been complicated by the extreme fiscal restraints under which governments at all levels have been forced to operate. To be sure, as noted in the previous chapter, this is far more than simply a fiscal issue. Both of Bosnia's entities, preoccupied with the country's ongoing ethnic struggles, have simultaneously managed to spend considerable amounts of off-budget resources on the maintenance of separate armies, while the ruling parties have their own reasons for dragging their feet on market-oriented reforms. Indeed, one of the most vexing issues of the entire post-Dayton period for the international community has involved the struggle to strengthen the state and state institutions without simultaneously strengthening the ruling nationalist parties.

Issues of foreign and domestic liabilities have also complicated Bosnia's post-Dayton macroeconomic picture. In the immediate aftermath of the war, remain displaced either withinmeCS domestic liabilities – in the form of unpaid obligations to pensioners, soldiers, and civil servants, as well as frozen foreign currency accounts – amounted to some 10 billion DM, an amount which far outstripped the government's ability to repay. A key priority in the post-war period, therefore, has been the search for ways in which to liquidate these citizen claims against the state in a manner consistent with macroeconomic discipline (World Bank 1997a: 18–19). The ultimate solution has been to liquidate these claims via privatization vouchers, which recipients could use to invest in the privatization of either socially owned property (their pre-war flats, for example) or state-owned enterprises. As the next chapter will discuss in greater detail, using the privatization process as a vehicle for liquidating citizen claims against the state has had considerable, and largely negative, implications for the outcome of the privatization process.

Similarly, as noted above, as a Yugoslav successor state Bosnia inherited its share of Yugoslavia's foreign debt. At the time of the Dayton Accords, the amount of this debt (with accumulated interest) stood at $3.4 billion. Despite rescheduling and significant write-downs – the product of post-war negotiations that enabled Bosnia to rejoin the IMF and the World Bank – debt servicing still accounted for some 60 percent of the state budget in 1998, and will require annual payments of $200–250 million through 2005. While rescheduling arrangements provided Bosnia with somewhat of a grace period during its reconstruction phase, "the state's external debt payment obligations will increase substantially in the near future, just as donor assistance is likely to diminish" (Cousens and Cater 2001: 93).

Liberalization

If stabilization is meant to create the macroeconomic stability needed to underpin economic growth, liberalization is literally about freeing up those productive forces that will act as the engine of that growth. Since mainstream economics tends to view liberalization as universally beneficial, it is perhaps unsurprising that the liberalization prescription for Bosnia has differed little from other Eastern European contexts.

As Laszlo Andor and Martin Summers suggest, despite its ubiquity the idea of liberalization is remarkably vague: "In fact, it could only be defined by what it was not: 'regulation'" (1998: 48). In Bosnia's case, those advocating early and comprehensive liberalization focused on the benefits that openness to the global economy could bring Bosnia in terms of know-how, investment, and competitiveness. While certain liberalization issues, such as the freeing of prices, had resolved themselves by the time Dayton was signed, and others, such as currency convertibility, were addressed by the Accords themselves, many other issues remained on the liberalization front for international policy-makers.

Trade liberalization

Liberalizing Bosnia's post-Dayton trade regime meant, primarily, reducing tariff and other barriers to the free entry and exit of goods across state borders. The World Bank recommended as early as 1997 that the Bosnian authorities establish a common external tariff structure as low as possible (suggesting 8 percent for all goods); enact a foreign trade law limiting scope for intervention and limiting quantitative restrictions; and take immediate steps towards joining the a vehicle for liquidating citizen claims against the BG7World Trade Organization and signing free trade agreements with neighboring states (1997a: 38). To date, progress has been made on all of these fronts. In 2001, within the context of thtaneously helping to entrench e Stability Pact for South Eastern Europe, the countries of the region signed a memorandum of understanding on liberalization and trade facilitation and, by early 2003, Bosnia had free trade agreements in place with each of its regional neighbors (SP June 2004). With the exception of agreements with Albania (which Bosnia has signed but not yet ratified) and Moldova, these have been asymmetrical trade arrangements, meaning that Bosnia's trading partners have agreed to the immediate removal of tariffs on Bosnian goods, while Bosnia has between three and five years to lower its barriers (Brkic 2003: 13). Bosnia currently has observer status with the World Trade Organization, and hoped to become a full member by the end of 2004. Customs duties, similarly, have been reduced, and with an average ad valorem rate of 6.395 percent Bosnia's customs duties are the lowest in the region (Brkic 2003: 11). Foreign direct investment has also been encouraged through the adoption, in 1998, of a foreign investment law that grants national treatment to foreigners even though, as discussed below, the challenges of attracting foreign investors to Bosnia extend far beyond questions of formal legal equality.

Conversely, the international community has, as elsewhere in the region, consistently opposed measures aimed at either protecting Bosnia's recovering industries or supporting domestic exporters. In Bosnia's evolving Poverty Reduction Strategy Paper (PRSP) – a process being carried out under World Bank tutelage – trade protection or the provision of subsidies to key Bosnian industries are similarly ruled out. Rather, the PRSP suggests that the best form of support for domestic production is the elimination of unfair competition through bringing smuggling and the gray economy under control (PRSP 2002b: 6). In other words, Bosnian enterprises – both those producing for export and those producing for the domestic market – would have to quickly learn to compete with international producers in order to survive.

Internal and cross-entity trade liberalization and harmonization

Removing internal barriers to trade and creating a “single economic space” within Bosnia has also been a key international priority both from a market-building and a state-building perspective. The orientation of the Federation towards Croatia and of the RS towards Serbia from even before the signing of the Dayton Accords led to the development of differential customs, trade, taxation, and regulatory policies that have inhibited trade and other commercial linkages between the two entities.[15] If one adds the autonomous region of Brcko, there are in reality three distinct economic spaces in Bosnia, which has created all manner of distortions and barriers to internal trade. Companies operating across inter-entity boundaries are regularly required to register, pay taxes, and report on their activities in both entities, with all of the associated bureaucratic procedures involved. Goods, such as bottled water, moving between entities have been treated as imports, and taxed accordingly (OHR 19 March 2003). At the same time, the absence of state-wide regulatory and standardization bodies has hampered Bosnia’s ability to take advantage of tariff reductions that have been offered for its goods in a range of jurisdictions. Meat and other agricultural products, for example, cannot be exported into EU countries because Bosnia lacks proper state-level veterinary and phyto-sanitary regulations and regulatory bodies (PRSP 2002a: 5). In recognition of these problems and in laying out a state-building framework for Bosnia, the declaration of the Brussels Peace Implementation Council called for “a harmonised, country-wide approach in a number of areas, including: taxes, competition, public procurement, financial services, standards and regulations, banking, public utilities, electric power, telecommunications and transport/railways” (OHR June 2000). Given the sensitivities around issues of sovereignty and state-building that continue to plague post-Dayton Bosnia, the removal of inter-entity barriers and the harmonization of legislation between entities has proven to be a slow process. For similar reasons, many of which were noted in the previous chapter, the building up of state-level institutions as a means of ensuring that economic actors are subject to one consistent (and consistently applied) set of rules has been equally slow.

Tax, regulatory, and labor market reforms

“Lowering the rate and broadening the base” has been the catchphrase of international efforts to reform Bosnia’s taxation structures. As the World Bank has argued, “tax policy is characterized by extremely high and distortionary rates, particularly on wages and foreign trade, and numerous, arbitrary tax exemptions that have substantially narrowed the tax base” (1997a: 20). In addition to recommending a significant lowering of tariffs on foreign trade, international reform efforts have emphasized the reform of the country’s payroll taxes, which in the immediate post-war period stood at levels of between 45 and 50 percent (World Bank 1997a: 22). While rates have come down marginally in recent years, it is still the case, as the International Crisis Group has argued, that “too many separate taxes at too high rates are being paid by too few people – and disproportionally by business” (August 2001: 12). High taxation rates act as a considerable deterrent to enterprises to engage employees “officially,” and have contributed to the burgeoning of Bosnia’s underground economy, the size of which has been estimated at between one-third and two-thirds of GDP.

Similarly, the improvement of tax collection capacities has been seen by the international community as key to boosting domestic government revenues. Towards the end of 2002, OHR estimates suggested that Bosnia was losing KM 600 million to customs fraud every year, with an additional KM 720 million forgone due to sales tax evasion (OHR 23 October 2002). In an effort to improve collection rates and discourage illegal imports, the European Union's Customs and Financial Assistance Office (CAFAO) has been working with entity authorities since 1996 to render the country's borders less porous, while similar efforts have been ongoing at a variety of levels to improve the efficiency and effectiveness of internal tax collection. From a strictly technical perspective, simultaneous progress towards lowering tax rates and improving tax collection should be revenue-neutral or even revenue-positive, as higher collection rates should more than compensate for reduced levels of taxation, while lower tax rates should in principle encourage at least some entrepreneurs operating fully or partially in the gray economy to make the jump to the formal economy. Yet as Chapter 4 has detailed, taxation and the non-payment of taxes are inherently political issues in Bosnia, and there exist powerful forces both inside and outside of government with vested interests in maintaining a situation of high tax rates, porous borders transborder trade networks 98 v, and selectively applied enforcement of taxation laws, even if the overall result of such a system is to undermine the development of a market economy. Ultimately, while in the Bosnian context lowering tax rates, broadening tax bases, and improving tax collection are all essential if Bosnia is to be transformed into a fully functioning, competitive market economy, these issues are less about the technical merits of such proposals than about the configuration of political and economic forces which stand opposed to their implementation.

Similar considerations apply to the question of rationalizing the dense web of regulatory provisions, many of them carried over from the socialist era, which hinder enterprise development at a micro-level. As already noted, in conjunction with the obstacles posed by Bosnia's fragmented space and its somewhat oppressive taxation regime, Bosnian entrepreneurs are faced with myriad and overlapping regulatory systems, such that "the typical business is visited by an endless parade of sanitary, market standards, environmental, municipal, customs and financial inspectors, some of whom are replicated at every level of government" (ICG August 2001: 10). The fact that this inspections system has often been wielded for political purposes or for extortion has simply added to the burden on businesses, and to the country's overall chilly atmosphere for business. While this situation has long been recognized by the international community, it was only with the establishment of the Bulldozer Committee in late 2002 that the political will to tackle this issue appeared to emerge.

Finally, labor market reform has been another key international priority, particularly since a skilled and relatively inexpensive labor force is widely considered to be Bosnia's most important competitive advantage. Yet making the most of this advantage required dismantling most of the socialist-era protections and benefits that workers enjoyed. New labor legislation, accordingly, was introduced in both entities in 2000, designed mainly to make it easier to hire and fire workers. The new legislation was also meant to come to terms with the problem of "wait-listed" workers: those workers who were de facto unemployed but still officially on the payroll of public companies nominated for privatization, and whose uncertain status was seen as a deterrent to potential investors. Despite these reforms, the World Bank continues to characterize Bosnia's labor market as "static" and “sclerotic,” suffering from an overly rigid wage determination system (whereby collective agreements set by governments and trade unions establish minimum wages and benefits for entire categories of workers), from ethnically based employment discrimination, and from an inadequate system for bringing job-seekers and potential employers together (Vodopivec 2002: xiii).

In sum, the liberalization strategies and results outlined above suggest that Bosnia remains in a state of partial liberalization. While considerable progress has been made towards liberalizing the country’s foreign trade regime, significantly less progress has been achieved in bringing down the barriers to economic activity internally, or towards turning Bosnia into a regional export dynamo, the ultimate goal of the international liberalization strategy. Ironically, therefore, Bosnia’s liberalization process to date has done more to facilitate the entry of foreign goods into the country than to promote the export of domestically produced goods abroad. The result has been a continuation of the country’s extremely high and unsustainable trade deficit, which for the January–November 2002 period stood at KM 5.3 billion, with exports covering a mere 26.4 percent of imports (in Republika Srpska,CSOHR January 2003: 10).

While it would be difficult to sustain an argument against at least some degree of liberalization of the Bosnian economic space as a means towards achieving the goal of a market economy, it is possible to interrogate some of the assumptions that underline the international prescription for early and thorough-going liberalization in the case of post-war Bosnia.

In the first place, in Bosnia as elsewhere in Eastern Europe, the full range of liberalization strategies has been geared to a large extent at attracting foreign direct investment (FDI), which has long been considered the holy grail of transition. Yet the reality has been that, even for those countries that have bent over backwards to facilitate FDI, profound liberalization has rarely triggered massive foreign investment inflows. As Stojanov has suggested, “experience of transition countries gained so far, as well as the historical experience of different Latin American countries, has shown that not enough foreign direct investment goes even to those markets which are politically stable and which are most advanced in the transition process” (2001b: 61).

Table 5.1 Imports vs exports – selected periods 2000–03

	BiH Federation			*Republika Srpska*		
	Imports	*Exports*	*Import/ export coverage (%)*	*Imports*	*Exports*	*Import/ export coverage (%)*
Jan.–Sept. 00	3,200	900	28	1,300	500	38
Jan.–Dec. 01	5,113	1,746	34.1	1,697	599	35.3
Jan.–Nov. 02	5,204	1,380	26.5	1,968	517	26.3
Jan.–Nov. 03 (RS Jan.–Oct.)	5,609	1,673	29.8	1,789	428	23.9

Note: Figures other than percentages are in KM millions.

Sources: OHR (January 2001; March 2002; January 2003; January 2004).

In this respect, the expectation that foreign investment would naturally follow foreign aid in the case of Bosnia appears in retrospect to have been spectacularly optimistic. On the one hand, it assumed that several years would be sufficient to knit the country back together again as a single economic space offering lucrative investment opportunities and a stable political framework. On the other hand, it assumed the existence of a domestic political class willing to embrace the cause of liberalization and push it forward aggressively. Given recent experience, this latter assumption clearly either underestimated or ignored the extent to which the maintenance of an illiberal economic framework served the interests of the ruling parties. Unlike macroeconomic management, which was largely taken out of the hands of local politicians with the signing of the Dayton Accords, control over the liberalization process has remained – although to a decreasing extent as international executive power has been enhanced – in the hands of Bosnian elites, and they have used this power to block or delay substantial portions of the liberalization agenda. Today, therefore, in a partially liberalized Bosnian economy a relatively open trade regime and a highly bureaucratized and stifling regulatory environment have joined to produce one of the most corrupt economic spaces in all of Europe. The country's distorted liberalization process, as well as its unfavorable legacy as the host of Europe's worst conflict since World War II and its continuing status as one of the continent's least stable countries, has done little to alleviate the fears of foreign investors, despite the existence of a number of investment insurance schemes backed by the donor community. From 2000–01, Bosnia attracted close to $300 million in FDI, up from just above zero in the immediate post-war period but still far too little to make much difference in the overall economy. In contrast, the Czech Republic, with a population roughly 2.5 times the size of Bosnia's, attracted more than $10 billion in FDI over the same period (UNCTAD 2002).

While FDI has been the great but elus in Republika Srpska,CSive hope for the renaissance of the Bosnian economy, liberalization – to the extent it has unfolded – was also expected to stimulate local enterprises, parthe poticularlsitiony those s of local political actors, mproducing for export. Reorienting

Table 5.2 Foreign direct investment in selected European transition states, 1997–2003 (in millions US$)

	Bosnia	*Croatia*	*Czech Republic*	*FYR of Macedonia*
1997	1.0	550.7	1,300.4	16.0
1998	54.6	1,013.6	3,717.9	118.0
1999	148.8	1,635.2	6,324.0	32.0
2000	131.5	1,126.8	4,986.3	177.7
2001	164.0	1,442.1	5,639.0	442.0
2002	376.3	1,124.0	9,319.0	77.2
2003	244.5	1,955.9	2,582.6	94.6

Sources: UNCTAD (2002); UNCTAD (2003); CNB (2004a); CNB (2004b); FIPA (2004); Damcevski (2004).

local production for export has long been a prominent feature of the neoliberal agenda, with the primary aim being to generate sufficient amounts of hard currency to pay for imports while avoiding unsustainable trade imbalances.[16] Yet liberalization invariably implies competition, and in the immediate post-war period, as noted above, Bosnia's unrehabilitated and unrestructured enterprises were expected to compete not only in export markets but also against foreign imports. As Stojanov has argued, “a quick liberalization of external trade is inane, since it exposes our firms to the merciless competition of far more efficient international producers” (2001a). At the same time, the international focus on making small and mediumsized enterprises (SMEs) the backbone of Bosnia’s post-Dayton economy has not necessarily been compatible with the goal of export promotion. As Amsden et al. have noted in the general context of post-socialist transitions, there is an argument to be made that size matters when it comes to international competitiveness (1994: 97). Indeed, one of Bosnia’s biggest exporters – currently accounting for one-quarter of the Federation’s exports – is Aluminium Mostar. Even though it is currently operating at only partial capacity, with a workforce down to 810 from a pre-war high of some 5,000, Aluminium Mostar is still one of the country’s largest enterprises, with sufficient profile and resources to have enabled it to re-establish an international presence (EBRD 2001: 18). The argument that bigger is better when it comes to competing on international markets is even stronger in cases, such as Bosnia, where the state’s export promotion capacity is virtually nil, and where local SMEs interested in exporting are largely left to their own devices. While limited empirical data on this issue exists, one recent study of three separate Bosnian municipalities found that the proportion of the products of local businesses that were sold in the local area ranged from 65 to 89 percent, with less than 11 percent of all locally produced products exported (DFID 2002: 28). Similarly, as David Woodward noted several years ago, there is evidence of “a strong sectoral bias in SME development so far, at least in the Federation, toward trading, retailing, and other services such as restaurants and transport, with much less activity in the productive sectors – especially in the production of internationally tradeable goods” (1998: 45).

Liberalization, ultimately, has yet to deliver on its promise as the primary vehicle for economic transformation and regeneration in Bosnia. Much of this, of course, has to do with the incomplete nature of the country’s liberalization process, and the fact that while foreign trade has been liberalized, doing legitimate business in Bosnia remains extremely complex, deeply frustrating, and rarely profitable. In this sense, at least, accelerated efforts to make legitimate business activity easier to transborder trade networks 98 vcarry out are clearly justified. At the same time, however, even a flawlessly executed and de-politicized liberalization process may not have produced the economic take-off that liberalization advocates predicted. Free trade, for example, carries both risks and opportunities, and a liberalizing state may actually lose out from liberalized trade relations if its enterprises can neither compete internationally nor generate the resources to do so. As Bosnia’s draft Poverty Reduction Strategy Paper warned: “Given its lower level of development, regional liberalization could leave BiH in an even less favourable position unless an appropriate industrial policy is adopted and implemented” (PRSP 2002a: 7).

In the real world, however, Bosnia’s liberalization process has been both highly politicized and deeply flawed in execution, creating a partially liberalized economic space that has done little to alter Bosnia’s continuing status as an economic basket case, plagued by high unemployment, stagnant growth, and enormous trade deficits.

Privatization [17]

While privatization in virtually every transition state has proven to be far more complex and difficult than originally envisaged, Bosnia's post-war landscape was particularly unfavorable for a smooth privatization process. From an institutional perspective, post-Dayton Bosnia lacked even the most rudimentary market infrastructure to support a privatizing economy. In terms of the potential new owners of privatized enterprises, on the other hand, it was perhaps to be expected that foreign investors would be difficult to attract, while those in the country with serious cash to invest were likely to be members of the growing post-war alliance between ethnic nationalists and local mafia.

Despite these challenges, privatization quickly rose to the top of the international agenda in Dayton's aftermath. This is, of course, hardly surprising, since the rapid transfer of state-owned enterprises into private hands held out the twin promise of both reducing the government role in the economy and contributing to the growth of the emergent private sector. As Joseph Stiglitz has commented, summarizing the position of the Washington consensus on privatization:

Not only were state enterprises inefficient, their losses contributed to the government's budget deficit, adding to macroeconomic instability. Privatization would kill two birds with one stone, simultaneously improving economic efficiency and reducing fiscal deficits. The idea was that if property rights could be created, the profit-maximizing behaviour of the owners would eliminate waste and inefficiency. At the same time the sale of the enterprises would raise much needed revenue.

(1998b: 20)

Given the potential of privatization to contribute to the broader goal of marketizing the Bosnian economy, it is perhaps also unsurprising that speed also emerged as the international community's most important criterion for privatization. One early international policy document argued that a "clear preference" should be given to rapid privatization schemes, while another suggested that "the rapid pace at which the rest of the world privatized during Bosnia and Herzegovina's civil war places a high priority and imposes a short time frame on privatization work; margin-top: 2em; margin-bottom: 1em; margin-right: 0em; margin-left: 0em; text-align: left; line-height:130%;} h international " (World Bank 1996: xxix; 1997a: 47).

Speed was also seen as an essential element of Bosnia's privatization program because of the international position that stagnant post-war firms should not be restructured prior to privatization, since it was assumed that the market would do a superior job than the government or international advisors of picking winners and losers from among the country's industrial assets. Consequently, rapid privatization was seen as necessary in order to get Bosnia's most viable enterprises operating as quickly as possible, while facilitating the liquidation of unviable enterprises and the redistribution of their assets into productive activities. Yet the adoption of a privatization-before-restructuring sequence made enterprise restructuring, and hence revival, contingent on a privatization process that, if the experience of other post-socialist states was any indication, would inevitably take longer than anticipated. The other "wild card" in the Bosnian context was the fact that the privatization process remained largely in the hands of the Bosnian authorities themselves, and given the realities of post-Dayton Bosnian politics this effectively removed the possibility that privatization could be carried out efficiently as simply a technical exercise in property exchange.

At the same time, experience with privatization elsewhere – Russia being the most extreme case in point – suggests that the faster and earlier privatization is carried out, the more corrupt the process is likely to be. Those with means, connections, and resources typically take advantage of the institutional vacuum of the early transition period to help themselves to the most lucrative of privatizedany of enterpr whom were openly hostile to tises. Bosnia appeared destined to head down precisely this road as its privatization process got underway, since very few safeguards against corruption were built into the process, and the ruling parties were essentially given carte blanche to privatize in the manner – and to whom – they saw fit. In Bosnia's case, the flip-side of ethnicized corruption within privatization was ethnicized obstruction, with the ruling nationalists seemingly content, in many cases, to delay privatization as long as possible, since for their purposes a state-owned enterprise was effectively a party-owned enterprise.

The other important feature of Bosnia's privatization strategy was the adoption of a voucher component. As noted above, the use of privatization vouchers was primarily a vehicle for liquidating citizen claims against the Bosnian government, although it also provided a partial solution to the problem of finding buyers for privatized enterprises in a capital-poor economy. Yet at the time Bosnia's voucher scheme was being designed and implemented, the weaknesses of voucher privatization in other contexts – notably the Czech Republic – were becoming evident. In short, voucher privatization – which essentially amounts to a giveaway of public enterprises – generates no revenue for the state while at the same time creates significant corporate governance problems by placing enterprises in the hands of those who lack the resources or incentives to invest in the long-term health and viability of the enterprises, and who are therefore much more likely to engage in asset-stripping rather than reinvestment. As David Ellerman has recently suggested, "if the wave of voucher privatization in the early 1990s is now seen as tragedy, then the current efforts of diehard voucheristas to install voucher programs in war-torn Bosnia should be seen as farce – if it were not for the adverse consequences for the citizens" (2001: 36).

Both the political and economic environment of post-Dayton Bosnia and the institutional design of the country's privatization program, therefore, seemed to doom Bosnia to a privatization process whereby the majority of state-owned enterprises either a) remained in the hands of ruling parties; b) were privatized on an ethnic basis to the ruling parties themselves or their friends or allies; or c) were privatized on a voucher basis without any real hope for survival, let alone regeneration.[18] While defenders of privatization often argue that flawed privatization is better than no privatization at all,[19] in Bosnia's case at least some of the flaws were the product of rigidity in international thinking from the beginning of the process. Prohibiting enterprise restructuring before privatization, for example, has condemned most Bosnian enterprises to stagnation and obsolescence, and most Bosnian workers in these enterprises to ongoing unemployment. Pre-privatization restructuring assistance, on the other hand, would have provided jobs and stimulated growth in other areas of the economy, and need not necessarily have implied handing money to the nationalists in control of state-run enterprises, since such companies "could have been distanced, and can even today be distanced, from the state in the same way as the central bank is distanced from the state by means of a foreign governor" (Stojanov 2001b: 63). At the same time, giving international blessing to what has essentially been an ethnically divided privatization process appears to be clearly inconsistent with broader international goals of multi-ethnicity and ethnic reintegration.

Finally, the international community's privatization agenda in Bosnia has extended well beyond the context of state-owned enterprises. The privatization of socially owned housing has been a prominent feature of the post-Dayton environment, with a substantial portion of privatization vouchers, for example, having been used by individuals and families to purchase the socially owned flats in which they lived prior to the war. Similarly, the privatization of the banking sector has been an early and ongoing international priority. The World Bank has also suggested opening up the provision of public goods – including education and health care – to the private sector, based on “mounting evidence worldwide that the private sector can effectively deliver public goods and services provided that an appropriate regulatory framework is established and enforced” (1996: 47). In short, the international community’s wide-ranging privatization strategy for Bosnia is entirely consistent with the position that when it comes to state intervention in the economy, less is definitely more.

Missing pieces, neglected elements

From the perspective of Bosnia’s overall post-conflict transformation, there are reasonable grounds for questioning both the theory and the practice of each of the three main components of the international economic transition strategy. Equally important, however, is a consideration of the strategy’s missing elements. This is particularly so since orthodox transition policies tend to overestimate the number of tasks that can be left to market forces, meaning that errors of omission are often more significant than errors of commission.

First, in the context of the international community’s oft-stated desire to convert Bosnia from an aid-dependent to an export-driven">World Policy Journal, 1,CS economy, the near-complete absence of a state-wide economic development strategy is a major gap in the international reform framework. Currently, the closest thing Bosnia has to such a strategy is its evolving Poverty Reduction Strategy Paper (PRSP 2004), which contains few specifics about the overall direction of the country’s economic development, as well as nascent regional development agencies that are slowly forming as part of the OHR-inspired bulldozer process. The gap in this area stems not only from a crucial lack of state capacity, but from the preference within neoliberal policy prescriptions for markets, rather than states, to decide the course of economic development.

Yet if Bosnia is to develop economically, let alone export at the levels required to cover its current trade deficit, the current status quo of simply encouraging Bosnian producers to export appears woefully inadequate. By and large, Bosnian producers lack the technology, the resources, and the managerial expertise to become internationally competitive through the sheer pull of market forces. At some point, therefore, decisions will have to be made regarding the country’s comparative advantages, and resources will have to be devoted towards developing industries in these areas. Industries with export potential will require both increased access to seed capital and considerable technical support, and in the same manner that Bosnia now has a Foreign Investment Promotion Agency, it will require an Export Promotion Agency to help Bosnian producers rediscover and redevelop foreign markets. In the absence of such structural supports, Bosnian enterprises will be hard-pressed to become internationally competitive.

More generally, while much has been made of the importance of a proper macroeconomic framework, and of the need to reduce taxes and other administrative barriers to economic activity, there is also a pressing and as yet largely unmet need for micro-level business development support, and for the development of local-level offices for economic promotion and development. In this sense, it is telling that various international organizations maintain considerable field presences across Bosnia, staffed with political, human rights, and democratization officers, yet there are remarkably few international economic development advisors operating at the community level.[20]

As discussed in the previous chapter in regard to organized crime and corruption in Bosnia, the economic reform strategy for Bosnia has also suffered considerably from the glacial pace at which the rule of law has been consolidated across Bosnia. As Lord Ashdown acknowledged recently, “In hindsight, we should have put the establishment of the rule of law first, for everything else depends on it” (5 November 2002). Attempts to push through liberalization and privatization in the absence of a viable and enforceable legal framework can be expected to almost invariably produce unanticipated and distorted outcomes, particularly when implementation is left largely in the hands of political forces with a demonstrated interest in maintaining conditions of partial marketization. Similarly, as noted previously in the context of state-building, market economies require, first and foremost, the presence of a stable, predictable, and enforceable set of rules that can offer investors and entrepreneurs enough confidence to invest now for future returns. Attempting to encourage business development or long-term investment in the absence of such a framework, as the Bosnian experience has shown, is a recipe for frustration and disappointment.

Consistent with the lessons of Eastern Europe’s transition noted in Chapter 2, therefore, Bosnia’s recent transition experience seems to underscore the point that market-building, institution-building, and state-building must go hand in hand. Particularly given the political obstacles to the consolidation of the Bosnian state and the institutions of which it is comprised, therefore, this suggests an inevitably slower and more gradual transition to a full market economy. Simply put, there can be no functioning market economy without a functioning state. In Bosnia’s case, the ongoing stateness struggle has undermined efforts to develop a market economy by keeping political energies focused on issues of territory and identity, by maintaining in power political forces committed more to the perpetuation of their own rule than to a market reform agenda, and by blocking the development of state institutions. Ironically, the distorted manner in which key elements of the international transition strategy have been implemented, from selective liberalization to ethnicized privatization to the early provision of reconstruction aid to mono-ethnic power structures, has perpetuated the country’s stateness stalemate and further delayed the establishment of the necessary environment for the development of market institutions.

The international community’s slow realization that “a market economy cannot function without the institutions of a market economy,” and that such institutions do not spring up overnight, particularly in unconsolidated states, also generated widespread international indifference to employment issues (Stojanov 2001a). It was expected that Bosnia’s employment problems would be solved through a rapid transition to a market economy, and little consideration was given, therefore, to questions of how ordinary Bosnians would sustain themselves as transition timelines inevitably lengthened. In the midst of systemic reorganization, as Joseph Stiglitz has argued, the crucial queshis gotion tal.

More generally, social issues – including the reform of pension, health, and education systems and the reconstruction of a viable social safety net for the country’s most vulnerable citizens – have not received the attention they deserve in the international community’s overall reform strategy.[21] In the broader context of a post-conflict transition to a peaceful market democracy, it would seem uncontroversial to assert that the social aspects of this transition are crucial. For beyond the comparatively narrow tasks of formal institution-building – establishing a Central Bank, for example, or a state customs service – broader state-building goals must invariably take into account social elements of citizenship, since state-building ultimately must involve convincing those within the state that it is indeed worth building. In the case of Bosnia, in other words, the sustainability of state-building ultimately means convincing Bosnians that they have more to gain by working collaboratively within the context of the current framework of statehood than by dismantling it. Even the World Bank, whose commitment to social concerns is often – and rightly – criticized, has recognized that “providing all Bosnians a stake in the country’s economic future will be key to BH’s development into a stable, peaceful, and prosperous society in post-Dayton Bosniay million and to poverty reduction” (2000: 12).

While the treatment of social issues is critical in any post-socialist context, given the well-developed social safety nets that existed prior to socialism’s collapse, social issues loom particularly large in post-conflict transitions precisely because of the massive overhang of social problems that are inevitably inherited from wartime. In Bosnia, this legacy includes high levels of unemployment, the collapse of most social services, including health care, as well as the conflict’s enduring toll in terms of physical and mental disability and social dislocation.

Despite these considerations, international social sector reform policies have been driven primarily by the international financial institutions, and have consequently been preoccupied with questions of affordability within the broader context of macroeconomic austerity. As Michael Pugh has noted in the Bosnian context,

The [international financial institutions] have substituted ‘poverty reduction strategies’ for ‘structural adjustment programmes’ in dealing with developmentalism, but they have not changed their macro-economic conditionalities or provided additional and adequate means to sustain public social services, employment and local productive capacity.

(2001: 12)

These tendencies towards prioritizing fiscal austerity over societal stability have been exacerbated by the complex interplay between Bosnia’s complex constitutional arrangements and its ethno-political dynamics, which have left the post-war remnants of Bosnia’s social support structures fragmented, ethnicized, and grossly inefficient. Rather than laying the foundations for a new social compact, therefore, international social sector reform efforts have oscillated between preaching fiscal restraint, praying for private-sector growth, and attempting to mitigate the worst distortions and inefficiencies of the social systems that have developed under the Dayton-mandated institutional framework. In the meantime, however, the gap between needs and resources remains immense, and is growing as international support for basic needs – both in the form of bilateral and multilateral financial support and direct assistance provided by international humanitarian organizations – is scaled back. As David Woodward has noted, even during the high point of the international reconstruction program, international assistance for social needs was insufficient in terms of both quantity and duration. The World Bank’s high-profile Emergency Social Fund, for example, which was intended to provide a minimum level of support to the Federation’s poorest households, amounted to about $0.13 per person per day, and only lasted 12 months (Woodward 1998: 57). The failure to close the gap between needs and resources has caused renewed strains on a still-fragile state, and social discontent has become increasingly open in recent years. If not reversed, these trends could significantly erode the possibilities for political moderation, inter-ethnic reconciliation, and for the success of the overall peace process.

Conclusion

By way of conclusion, and following from the idea that the international agenda in Bosnia is largely about "rewriting the rules" of political and economic life, the foregoing discussion points to two fundamental questions concerning international economic reform efforts in Bosnia. First, to what extent does the internationally designed institutional and policy $5.1 billion reconstruction package er

Regarding the issue of "fit," there has been surprisingly little debate regarding the appropriateness of the international economic agenda for post-Dayton Bosnia. The debate, both within international organizations themselves and among international think-tanks such as the International Crisis Group and the European Stability Initiative, has largely focused on questions of implementation rather than design. Yet the international community's record in shepherding Bosnia towards a market economy, however, raises legitimate questions about both the means and the ends of international economic policy in Bosnia.

Clearly, in a state such as Bosnia which i

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The Politics of Privatization

In the early 1990s, Sarajevo's Holiday Inn became a well-known symbol of the Bosnian conflict. As the hangout of choice of the international press corps covering the war, the unlovely yellow hotel became something of an icon, its battered façade appearing with regularity on television screens around the world. Throughout the siege, the fact that the hotel – considered by some to be among the world's ugliest buildings – remained standing amid the surrounding destruction was for many observers one of the most poignant of the war's many ironies. As the American journalist Peter Maass has written in his account of the Bosnian war, "from an architectural standpoint, it's qu transborder trade networks GD">32, In the aftermath of the Dayton Peace Accords, Sarajevo's Holiday Inn again became a symbol of Bosnia's unhappy fate. As a result of a shady privatization deal which transferred majority control of the state-owned hotel into the hands of a local businessman for a fraction of its value, the Holiday Inn has come to symbolize the new Bosnia, where corruption is rampant, and where well-connected insiders of the "right" ethnicity can gain control of key state-owned assets for a pittance while the vast majority of the population remains destitute.

More broadly, the Holiday Inn deal – which ultimately fell apart only after an outcry by international officials and a lengthy investigation by the local financial police – is symptomatic of Bosnia's troubled transition process.[1] Like the sale of the hotel, Bosnia's economic transition to date has been heavily tainted by ethnic politics and corruption, has exposed rifts not only between the goals of the international community and local political actors but also among international agencies, and has ultimately produced little in the way of concrete benefits for ordinary Bosnians.

This chapter will examine the privatization process as it has unfolded in post-Dayton Bosnia.[2] As a key element of the standard transition package implemented – with decidedly mixed results – in other Eastern European contexts throughout the 1990s, privatization has everywhere been designed as a mechanism for freeing the productive assets of a transition society from the dead hand of socialism. Privatization advocates have consistently argued that privatization is necessary both to de-politicize economic life and to provide the basis for economic recovery and growth. This chapter's central argument, however, will be that in the case of post-Dayton Bosnia, privatization has thus far failed on both counts. As in other areas of Bosnia's post-war experience, this failure stems largely from the encounter of a supposedly universal model of economic transition with the country's unique post-conflict and post-socialist political economy. As a consequence of this encounter, what international advisors originally envisaged as an apolitical, rapid, and orderly transfer of assets from public to private hands has become a corrupt, ethnicized, and protracted struggle for power, which has done little to stimulate economic growth or promote inter-ethnic reconciliation. These results are even more lamentable since they could have been mitigated, if not entirely avoided, had the lessons learned from the experiences of other post-socialist states been absorbed by those who have championed rapid privatization as a universal prescription for economic transition.

Technocrats and nationalists

From the beginning of Bosnia's peace process, privatization was seen as a core element in the broader strategy for economic regeneration and market transformation. But while the initial international strategy envisaged the orderly and staged progression from humanitarian relief to reconstruction assistance to economic reform, from the outset the privatization process marched to a different beat. On the one hand, Bosnia's privatization program was put together under the guidance of the United States Agency for International Development (USAID), and was therefore largely separate from the economic reform processed to take a leading roleer

3 Significantly, this meant that privatization was to be a done deal before the broader economic reform and institution-building process was even fully underway.

In retrospect, this ambitious schedule appears oddly naive given the known difficulties of privatization experienced elsewhere in Eastern Europe and Bosnia's own complex political circumstances. Almost without exception, privatization in post-socialist states has been far more complex and problematic than originally conceived. Privatization programs have been plagued by substantial delays and by serious corruption, and even in cases where state-owned enterprises have been successfully transferred into private hands, the newly privatized companies did not prove to be the engines of economic growth that reformers hoped they would be.

Given these challenges, the last several years have seen somewhat of a reassessment of the mainstream approach to privatization. The first element of this reassessment is an abandonment of speed as a fundamental priority. As John Nellis has suggested, particularly in weaker transition states (among which Bosnia must surely be counted) there is a strong case to be made for "a necessarily slower and less dramatic form of case-by-case or tender privatization, aimed at creating, from the bottom up, the climate in which monied, core, competent investors can and will take over the presently stagnant and decapitalized firms" (1999: 27). Similarly, others have suggested that more important than speed is the establishment of an appropriate competitive environment and the institutionalization of mechanisms to ensure effective corporate governance of assets, whether privatized or unprivatized (Kolodko 2000a: 115). Implicit in these conclusions is the notion that the disappointing results of privatization can be at least partly explained by the failure of reformers to fully appreciate the importance of solid institutional foundations to the privatization process, and by their over-confidence in the ability of markets to spontaneously and benignly organize themselves. In other words, in the absence of an appropriate institutional framework – including those institutions underpinning the rule of law, functioning and well-regulated capital markets, and an effective banking system – privatization was bound to have unpredictable and often perverse consequences.

Even leaving aside the question of the desirability of rapid privatization, those assuming that Bosnian privatization could be carried out quickly and efficiently clearly underestimated the complexity of the country's political situation. This reality meant, for example, that rather than creating a single state-wide privatization agency as elsewhere, Bosnian privatization was to be carried out at the entity level. Complicating matters further was the fact that the country's Muslim-Croat Federation was itself divided into ten cantons, with both Bosniak and Croat nationalist parties demanding control over the privatization process in cantons they controlled. Ultimately, therefore, Bosnia was saddled with an immense and cumbersome privatization infrastructure of ten cantonal and two entity privatization agencies.

Not only has this arrangement precluded speed and efficiency, it also raised immediate concerns about the ethnicization of the process. Haris Silajdzic, for example, a relatively moderate ex-member of Bosnia's Council of Ministers, refused to delivered very little in the way ofmeCSapprove framework privatization legislation in the absence of an international monitoring body responsible for ensuring fairness for all ethnic groups (PMC 2000: 5). While a Privatization Monitoring Commission was ultimately established, it proved unable to prevent privatization from becoming another battlefield in Bosnia's ongoing ethnic conflict.

For its part, USAID's own perspective on Bosnia's privatization program was based on the belief that economic recovery could only be generated through the rapid transfer of state-owned enterprises into private hands, regardless of whether or not the institutional underpinnings to support both the process and its aftermath were in place. To be fair, such an approach in the Bosnian context was not entirely unreasonable, given that most state-owned companies were stagnant and increasingly under ruling party control, yet it ignored the inherent dangers of privatizing in an institutional vacuum. It is also clear, however, that most USAID officials saw the process more in technical than in political terms, and were more concerned with the fact of privatization than with the identity of the new owners.[4] They appeared largely untroubled by the fact that international investors would not rush to invest in a rickety post-conflict state such as Bosnia, nor by the fact that in post-Dayton Bosnia, virtually the only locals with resources to buy state-owned enterprises were members of a rather unholy alliance between the ruling parties, the increasingly powerful mafia, and elements of the old socialist-era nomenklatura. Nor was there great concern that the voucher component of Bosnia's privatization program (discussed below) would consolidate even greater power into the hands of the wealthy, the corrupt, and the politically connected. As elsewhere in Eastern Europe, there was – and remains – a general consensus among international economic officials in Bosnia that even if state-owned enterprises end up in the hands of crooked ethnic nationalists in the first instance, over time the market will ensure that the new owners will either become, or will cede ownership to, "good" capitalists.[5] Given the privatization experiences of other Eastern European states – notably Russia – this insistence on the magical power of market forces seems at best misplaced and at worst irresponsible.

For their part, Bosnia's ruling nationalists have had no illusions about an orderly, apolitical, and technocratic privatization process, and few reservations about manipulating the process for their own political ends. In general, the experience of privatization in Bosnia reveals a two-pronged strategy by ruling parties on all three sides of Bosnia's ethnic divide: first, delay the process as much as possible, since within the tripartite Bosnian partocracy a state-owned enterprise is as good as a party-owned enterprise; and second, ensure that whatever privatization does take place leaves former state enterprises in the hands of either the ruling parties themselves or their friends and allies.

One key difference between Bosnia's privatization process and those of other Eastern European states is the absence, in the Bosnian case, of a local political constituency committed to the process. Consequently, the primary driving force behind Bosnia's privatization process has been the international community, while the country's own political elites appear far more preoccupied with the continuing national question and the maintenance of their own political power than with genuine and transparent economic transformation, which they often perceive – quitAs Marcus Cox has noted, international e rightly – as a threat to their core interests. This reality is complicated by Bosnia's awkward division of power, which has left the actual implementation of the privatization process in the hands of local governments while the international community acts as both advisor and supervisor.

In such circumstances, it is unsurprising that the ruling parties have largely failed to conscientiously embrace the cause of privatization. As the International Crisis Group reported in 1999, "the ruling political parties deliberately and consistently find bureaucratic reasons for delaying the start of privatization, so as to retain their hold over the economy and policy, as well as to profit from the financial gain accruing from state-owned assets" (April 1999: 12). At the same time, politically appointed directors of many state-run firms have regularly sought to reduce the book value of their firms in the hope of positioning themselves to buy up the enterprises for next to nothing when privatization does take place. This technique – familiar from other Eastern European contexts – has had predictable consequences for profitability and productivity in the state-owned sector (ICG April 1999: 12). Consequently, as of early 2001 not only were the vast majority of state-owned firms stagnant and unproductive, but fewer than 10 percent of large-scale enterprises within the Muslim-Croat Federation had been privatized, while in Republika Srpska the figure was less than 5 percent. Exasperated at the lack of progress on the privatization front, in May 2000 the High Representative sacked the politically appointed head of the Federation Privatization Agency's management board, while later in the year USAID temporarily suspended its support for the privatization process in the Federation.

From the perspective of the peace implementation process, as troubling as the persistent pattern of delays and obstruction on all sides have been the outcomes of cases in which privatization did go ahead. Given that one of the core goals of international efforts in Bosnia is to undermine the strength ofx201D; (Cousens 2001: 10). In the hardline nationalist parties on all sides, there has been surprisingly little concern over the fact that, in the majority of cases, the ruling parties essentially sold public enterprises to themselves or their allies through shady and non-transparent privatization deals. A report in May 2000 on Bosnian corruption by the US General Accounting Office raised a red flag over the issue of ethnicized corruption within the privatization process, noting that the majority of already privatized companies belong to the nationalist parties (GAO 2000: 31). Similarly, in 1999 the head of Bosnia's non-nationalist Social Democratic Party charged that the privatization process was a "robbery in progress," in which the ruling nationalists were selling the state's wealth to themselves "for petty cash" (DA August 1999). One unofficial study in the eastern Republika Srpska, for example, discovered that out of a random sample of 17 small enterprises privatized through public auction, 14 ended up in the hands of the previous company director or an influential local SDS member (ICG October 2001: 16).

The Holiday Inn sale is a typical case demonstrating this trend. In the immediate aftermath of the sale, one Sarajevo news magazine published details of the cozy business relationship between the buyer – a prominent Sarajevo business figure named Nedim Causevic – and the state-owned telecommunications monopoly, adding that the director of the Federation Privatization Agency (FPA) was a former senior telecom official with close connections with Causevic. Not incidentally, the FPA director is also a close relative of Edhem Bicakcic, a senior SDA figure who has since been barred from holding public office for abuse of a vehicle for liquidating citizen claims against the 12

Dani, has suggested, “you can only guess, but the fact that the hotel was sold for 10 times less than its real value suggests that opportunities were created for the buyer by politicians.”[6]

While similar stories abound in both the Federation and in Republika Srpska, a somewhat different process has unfolded in the Croat-majority areas of Herzegovina. During the war and its immediate aftermath, the ruling nationalist HDZ party encouraged what has become known as “co-capitalization,” in which companies from neighboring Croatia invested heavily in Croat-controlled areas of Bosnia. The result was to transfer majority ownership – in a legally dubious fashion – from the Bosnian state to Croatian companies or, in the case of Mostar’s profitable aluminum factory, to the company’s Croat employees. In the case of a number of municipalities currently under Croat control but which were overwhelmingly populated by Serbs before the war, virtually every enterprise is now controlled by a Croatian company (Buff May 2000: 7). And since such companies – operating within notoriously hardline areas – are unlikely to re-employ returning refugees or displaced persons from minority communities, this situation acts as a powerful deterrent to sustainable minority return, a key pillar of the peace agreement. In the western Bosnian town of Drvar, for example, it is estimated that while 7,000 Serbs have returned to the area, only 300 are employed in the formal economy, and local Serbs complain of “economic ethnic cleansing.”[7] At the same time, an international audit commissioned by OHR to look into the privatization of Aluminium Mostar came under fire for suggesting that the arrangement be allowed to stand, underlining the fact that for the most part these “spontaneous” privatizations have been accepted as a fait accompli by the international community (Kebo 27 September 2001).

Overall, the way the privatization process has unfolded in Bosnia indicates that the process has done more to date to entrench the economic positions of the country’s nationalists and reduce the prospects of ethnic reintegration than to establish the foundations for sustained economic growth and recovery. Extrapolated into the future, such trends also suggest that at the end of the process, not only will ethnic hardliners consolidate their control over Bosnia’s economy, but Croats will control all former state assets in Croat-majority areas, Serbs will own all former state assets in Republika Srpska, and Bosniaks will be in a similar position in Bosniak-majority areas. Such a situation is, of course, hardly consistent with Dayton’s overall goal of ethnic reintegration. Daniel Besson, the former head of OHR’s Economics Department, has argued that the Bosnian variation on crony privatization is a case of the cure being worse than the ailment: “I would say that what we are creating with this type of privatization is worse than what existed before.”[8]

Voucher games

One of the key dilemmas of privatization in post-socialist states has surrounded the question of finding competent, responsible owners for newly privatized enterprises. Transition states almost by definition lacked a dynamic capitalist class ready to step into the breach left by the withdrawal of the state from economic life. As Peter Gowan has suggested, in most cases “those in the target state with the cash to buy a steel mill would be very few in number and without question former or current crooks at the head of Mafia pyramids” (Gowan 1995: 15). And while inflows of foreign direct investment were initially expected to compensate for the lack of local capital, for the most part privatization has not triggered the massive inflows of foreign investment that reformers anticipated.

In response to the difficulty of finding deep-pocketed buyers for ailing state-owned enterprises, many Eastern European states turned to voucher privatization. This strategy, adopted most comprehensively in Russia and the Czech Republic, involved the free distribution of vouchers to the general population, which individuals could then convert into shares of privatized enterprises, either directly or through managed investment funds. While offering a relatively quick fix to the problem of transferring state assets into private hands, as well as helping to secure public support for privatization, this solution meant abandoning any hope of generating badly needed revenues for the state through the sale of public enterprises.

More significantly, perhaps, voucher privatization by itself had no answer to the problem of generating capital for enterprise restructuring and modernization. Voucher sales have often been little more than transfers of paper, with the new owners being just as likely to engage in asset-stripping as to make long-term investments in the future health and viability of the firm. At the same time, this method of privatization has contributed to the consolidation of economic power in the hands of the few by enabling those with means, connections, and resources to engage in active secondary trading of vouchers, buying vouchers from impoverished citizens for a small fraction of their face value and using these accumulated vouchers to buy up state-owned property and assets for next to nothing.

Despite these drawbacks, voucher privatization was adopted in Bosnia primarily because of its appeal as a means of facilitating a quick and efficient transfer of state assets into private hands and as a mechanism for liquidating citizen claims against the state. These claims – in the form of frozen foreign currency accounts, unpaid wages for soldiers, and general claims of citizens who had contributed to the pre-war economic development of Bosnia – were to be converted into vouchers that could be used to purchase socially owned flats or shares in privatized enterprises.

Unsurprisingly, despite the best intentions of international advisors, the initial distribution of vouchers to citizens was not immune to the machinations of Bosnia's nationalist elites. In both entities, the ruling parties in control of the process generously interpreted their obligations to certain categories of claimants from their own "side" of the conflict – especially unpaid soldiers and war veterans – with these categories receiving nearly half of the total vouchers distributed (Buff May 2000: 2). Within the Federation, for example, despite warnings from the Office of the High Representative that valuing military claims at a a vehicle for liquidating citizen claims against the 12

2000: 28). The result was a disproportionate distribution of vouchers to the core constituencies of each of the Federation's ruling nationalist parties.

The voucher distribution process in Republika Srpska, which – unlike in the Federation – required citizens to register in order to receive vouchers, similarly favored the majority community at the expense of minority refugees and displaced persons. This registration requirement has been widely acknowledged as an attempt to deter minorities – notably displaced Bosniaks and Croats now living elsewhere in Bosnia or as refugees abroad – from participating in privatization. And while the RS government eventually responded to international pressure on this issue by opening several registration offices on the territory of the Federation and extending registration deadlines, the registration requirement undoubtedly limited the numbers of participating refugees and displaced persons.

There have also been reports of RS authorities permitting Serb refugees from Croatia to register for privatization, even though as non-citizens such refugees are technically ineligible (Buff May 2000: 4). These trends point to a clear ethnic bias in the registration process in order to inflate the number of Serbs – and deflate the number of non-Serbs – participating in the process, a conclusion which becomes even more significant given the method used for valuing vouchers in the RS. While in the Federation vouchers have a face value, in the RS the value of a voucher depends on the number of investors interested in a given company. The greater the number of investors, the lower the value of each voucher invested. There is therefore good reason to suspect that inflating the number of Serbs participating in the process is aimed at least in part at reducing the value of vouchers held by non-Serbs, thereby reducing the chances that minority returnees will gain control of key enterprises.

Within the Muslim-Croat Federation, on the other hand, the fact that vouchers have a generally overinflated face value in relation to their market value has produced, as in other transition states adopting voucher privatization, an active secondary market for vouchers. While many citizens used their vouchers to purchase socially owned flats, in the desperately poor conditions of post-war Bosnia many others have chosen to sell their vouchers for whatever they could get for them. For those with money – notably members of the nationalist–mafia–nomenklatura networks – the desperation of ordinary citizens has been a golden opportunity, as they have been able to buy up certificates for as little as 3 percent of their face value and turn around and invest these certificates in privatized enterprises at their full face value. In the case of the Holiday Inn, for example, the tender offer of KM 5 million in cash was supplemented by an additional KM 10 million worth of vouchers collected for next to nothing from individual Bosnian citizens.[9]

Even leaving aside the ethnic and political machinations surrounding voucher privatization, there has also been considerable criticism of the process in strictly economic terms. The Privatization Monitoring Commission, for example, noted that while vouchers can be successful in privatizing non-productive assets such as apartments, in no case have they been used successfully to revitalize the productive assets of a transitioned to take a leading roleer

management, know-how, and cash, and was doomed to failure in the absence of appropriate institutional underpinnings. As the Commission noted in its final report, “a familiarity with other countries’ experience of voucher privatization should have, even in the particular political context of BiH, warned people off this method of privatization” (PMC 2000: 33).

Despite all this, voucher privatization moved forward at an accelerated pace throughout 2001, with shares in some 850 enterprises in the RS and over 1,000 in the Federation being made available to either individual voucher holders or to privatization investment funds (PIFs), which are managed pools of privatization vouchers. On the one hand these public offerings of shares represent a major step forward on the privatization front, since they have been relatively open and transparent, and have transferred a significant portion of enterprise capital from state into private hands. By mid-2003, in fact, 78 percent of small-scale firms in the Federation had been privatized, while in the RS the figure was 55 percent; across Bosnia, some 40 percent of larger firms had made the transition from public to private ownership (OHR May 2003: 5). On the other hand, the results of the voucher privatization process will inevitably have implications for ethnic reintegration, particularly given the discrimination against ethnic minorities in the voucher distribution process. At the same time, the RS government has effectively gutted its voucher privatization program by issuing an order stating that even though an investment fund can acquire as much as 55 percent ownership in a privatized company, it can only name two members to the company's governing board (typically made up of eight to ten members). As the International Crisis Group has noted, by preventing majority owners from exercising effective control over a company, craft"this latest ruling miged with the express purpose of sabotaging the privatization of state-owned enterprises in the RS, and leaving them as playthings of the regime" (ICG August 2001: 23).

Given the combination of the inherent problems with voucher privatization and Bosnia's especially acute institutional vacuum, it is perhaps unsurprising that its experience with voucher privatization has produced disappointing results in terms of economic revitalization, while the prospects for the future are little better. In the aftermath of the initial public offering of shares in the Federation, for example, the issue of inherited debt became a source of tension between the government and those PIFs that had just become owners of formerly state-owned enterprises. Because of a glaring absence of fresh capital for investment and the recommencement of production, let alone for clearing the backlog of inherited debt, many of the hundreds of newly privatized enterprises immediately faced the very real possibility of imminent bankruptcy (Simic 28 September 2001). This problem has been exacerbated by the fact that the most viable of Bosnia's state-owned enterprises have been set aside as "strategic enterprises," leaving only more marginal companies up for grabs through voucher privatization.

Changing course?

In 2000, in the wake of the suspect Holiday Inn sale and USAID's suspension of privatization funding, the international community in Bosnia began to alter its approach to privatization in Bosnia. The initial response and transparent,CS was the establishment of an international advisory group on privatization, which brought together most of the large international agencies including USAID, the EU, OHR, the World Bank and IMF, and the European Bank for Reconstruction and Development. In recognition of Bosnia's troubled privatization process to that point, the group recommended setting aside some 140 "strategic" enterprises – 86 within the Federation and 54 within the RS – for which international investors would be sought. In order to ensure transparency, international consultants were to be assigned to each file.

This revised approach reflects the general consensus that the long-term hopes for economic recovery in Bosnia rest on the country's ability to attract foreign investment. At the time of writing, however, there is little concrete evidence that this new approach has been any more effective in attracting major foreign investors to Bosnia. As of the end of 2003, only 18 strategic companies in the Federation had found buyers, while only four had been sold in Republika Srpska (EC March 2004: 10). Given the attractive terms under which many strategic enterprises are being offered, these numbers merely underline the extent to which Bosnia remains an unstable, corrupt place with a small, divided market, few functioning institutions, and a decidedly unfriendly business environment.

In light of these considerations, OHR's Economics Department has also taken a much more active role in the privatization process, particularly in the effort to create a more favorable institutional environment in which privatization can take place. Over the past several years, for example, OHR has pushed through a series of measures designed to further the reform process, including reform of the labor and pension laws, banking sector reforms, greater harmonization of the entities' tax regimes, and new rules to ensure the transparency of the privatization process.[10]

Ironically, some of these measures – and in particular the reform of the entity labor laws – reflect an uneasy compromise between narrow economic rationality and social justice. Provisions relating to the rehiring or compensation of minority employees who lost their jobs during the war presented a key dilemma in this regard. In the end, the interests of economic rationality prevailed, as returning refugees and displaced persons may have the right to modest compensation for illegal dismissal (a right which very few, in practice, have been able to secure), but have few rights with regard to reinstatement. While the economic goal has been to facilitate privatization by allowing enterprises to clear from their books outstanding obligations to employees, from a political perspective it makes it even less likely that returnees can sustain themselves economically in vulnerable minority situations.

The other positive development with respect to the future of Bosnia's privatization process was the establishment in February 2001 of Bosnia's first non-nationalist governments since the break-up of Yugoslavia. Within the Federation at least, the installation of a non-nationalist government has helped accelerate privatization, while the removal of nationalist hardliners from the governing boards of major unprivatized enterprises cut into, at least temporarily, the economic power bases of the former ruling nationalists. In Republika Srpska, however, the situation is much less hopeful, as the continued dominance of the hardline SDS party has acted as an effective brake on the economic reform process. More generally, the return to power of nationalist parties across Bosnia following elections in November 2002 coincided with a transborder trade networks . nt return to inertia on the privatization front. With voucher privatization having largely run its course, the challenge of finding monied investors for Bosnia's ailing strategic enterprises in a climate of economic crisis and political uncertainty remains, and cases of successful privatization remain very much the exception rather than the rule.

Conclusion

Bosnia's current economic situation, as Michael Pugh has suggested, "makes for dismal viewing" (2001: 5). While it has become a reflex on the part of the international community in Bosnia to blame the lack of progress towards economic recovery on the intransigence of local authorities, it is difficult to escape the conclusion that the international community itself must bear some of the responsibility for Bosnia's current economic morass. This conclusion applies to an even greater degree in the area of privatization, where international advisors and donors have relied more on orthodox economic models than on a detailed assessment of local conditions and needs.

First, the initial emphasis on early and rapid privatization appears in retrospect to have been clearly misguided, as it ignored the political complexities of post-Dayton Bosnia, the recent history of privatization in other transition countries, and the risks of undertaking privatization in an institutional vacuum. In this sense, the persistent obstruction by the ruling nationalist parties could almost be considered a stroke of good fortune, as this has allowed at least the beginnings of an institutional infrastructure to be put into place prior to the privatization of the largest state-owned firms.

Second, at least until recently there has been an overemphasis on the fact of privatization and an underemphasis on outcomes. This has led to relative indifference on the part of the international community to both abuses of the voucher privatization process and to the fact that the nationalist parties and their allies were gaining control of virtually everything that was privatized. The impact of ethnic and party privatization – to the extent that it has taken place – has hardly been consistent with the broader goals of the Dayton Peace Accords.

Third, expectations regarding foreign investment in Bosnia were – and remain – overly optimistic. To the extent that the international advisors recognized the dangers of ethnic privatization, they anticipated that such problems would ultimately be resolved by the involvement of foreign investors in the process, either in the initial round of privatization or in the subsequent buying and selling of enterprises. There were similar expectations with regard to the injections of capital required to revitalize key enterprises in the post-privatization period; given Bosnia's own capital deficiencies, foreign capital continues to be considered the only hope for a sustainable Bosnian economic recovery. With a few prominent exceptions, however, foreign investors have been wary of Bosnia, with good reason. As long as Bosnia remains unstable and corrupt, with few signs of domestic-led economic growth, the great hope of foreign investment will remain largely unfulfilled.

Fourth, from the outset of the Dayton implementation process, the economic and political tracks of the reform agenda in Bosnia were insufficiently integrated. Even today, international officials and agencies working on economic issues approach Bosnia's problems more from a technical than a political perspective, while those with specifically political mandates tend to lack a consistent focus on economic issues. The way the privatization process has unfolded – with the vastAs Marcus Cox has noted, international majority of privatization taking place on an ethnic basis and the new labor laws doing little to protect the economic rights of minorities – has in fact done much to discourage sustainable return. The reluctance of the internationht as al cwell have been

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The Political Economy of Return

In early 2000, the office of the UN High Commissioner for Refugees conducted a survey of minority returnees in Republika Srpska.[1] Among the survey's findings was that, out of 194 persons interviewed, the only one who had managed to find a job within the entity worked for an international organization (Alfaro 2000: 29). While based on a relatively small sample size, this one statistic suggests that, despite enormous international efforts to promote the return of refugees and displaced persons to their pre-war "homes of origin," getting uprooted persons physically back home is only half a vehicle for liquidating citizen claims against the political co the task of recreating a functioning multi-ethnic society in Bosnia. The other half – and in many ways the more difficult half – involves fostering the conditions in which minority returnees can survive and reintegrate themselves into their old/new communities. As the authors of the report noted:

The return process constitutes more than the physical act of moving back into a pre-conflict home. There are numerous obstacles and fears which returnees have to overcome and cope with during and after the return process which will determine if their return is sustainable, such as employment and financial insecurity, lack of health and educational facilities, poor living conditions and limited funds for reconstruction.

(Alfaro 2000: 35)

This chapter will examine the political economy of the return process in Bosnia, and will suggest that, despite the centrality of return in the country's post-war peace process, ensuring the sustainability of those returns has been surprisingly low on the list of international priorities. For the most part, international return efforts have focused on quantity rather than quality, and insufficient attention has been paid to the socio-economic conditions to which refugees and displaced persons return. Consequently, while continuing ethnic tensions and the persistence in power of ethnic hardliners are usually blamed for the slow pace of return, the relatively poor record of return – both quantitatively and qualitatively – increasingly has as much to do with socio-economic factors as with political or security factors.

The return process has been undermined not only by the absence of a coherent international economic strategy to make return sustainable, but also by a broader model of economic reform which has to date delivered very little in the way of economic recovery across the country as a whole. While enormous amounts of international energy and resolve have been directed towards facilitating returns at a political and legal level – particularly through the vigorous implementation of property laws – Bosnia's persistent and deepening economic crisis invariably limits the success of such initiatives.

This chapter will unfold as follows: the first section will sketch the politics of the return process, and detail some of the socio-economic issues affecting the sustainability of return, which is the real benchmark of success in terms of Bosnia's future as a multi-ethnic state. The second section will place the return process within the broader context of Bosnia's rather dismal economic climate, and assess how international economic transition strategies and particular domestic political dynamics have combined to affect the process of return and reconciliation. The third section will explore tensions between international political and economic goals in Bosnia, and the extent to which such tensions impede the achievement of objectives such as sustainable minority return. The concluding section will draw the strands of the argument together, and question the wisdom of aggressively pursuing a minority return agenda in the absence of broader economic or political change.

The politics and socio-economics of minority return

In much the same way that the creation of ethnically pure territories was at the heart of the conflict that tore Bosnia apart in the early 1990s, the reversal of ethnic cleansing has been the central issue of Bosnia's post-conflict period. Annex 7 of the Dayton Peace Accords asserts the right of all those uprooted by the conflict the reversal of ethnic cleansing98 v to return to their "homes of origin," and commits the parties to the agreement to creating "the political, economic and social conditions conducive to the voluntary return and harmonious reintegration of refugees and displaced persons, without preference for any particular group" (OHR 1998: 44). Since issues of territory and identity remain central to the Bosnian conflict, much of the post-Dayton period has therefore revolved around the struggle to achieve ethnic reintegration – and rebuild a genuine multi-ethnic Bosnian polity – in the face of determined resistance by local elites.

If Bosnia's future is measured against the success of the return project, then prospects have only recently gone from grim to fair. By almost any standard the pace and magnitude of return in post-Dayton Bosnia was disappointing for the first four years of the peace process, and only in 2000 did minority returnees begin to return home in significant numbers. Still, of more than 2 million Bosnians uprooted by the war – half the country's pre-war population – as of May 2004 some 442,000 people had returned to areas controlled by another ethnic group, a figure which represents slightly more than 20 percent of the total number of refugees and displaced persons.[2] While close to 1 million uprooted Bosnians have been registered by UNHCR as "returned," the bulk of these returnees have settled in areas under the control of their own ethnic group, suggesting that the return process has done as much to consolidate the country's ethnic divisions as to overcome them.[3]

Table 7.1 Return of refugees and displaced persons to Bosnia, 1996–2003

	Federation of BiH		*Republika Srpska*		*Total BiH*	
	Total	*Minority*	*Total*	*Minority*	*Total*	*Minority*
1996–7	347,837	44,398	83,518	1,125	431,355	45,523
1998	125,440	32,605	14,130	8,586	139,570	41,191
1999	58,115	27,987	16,920	13,020	75,035	41,007
2000	44,327	34,377	28,117	27,558	72,444	61,935
2001	52,986	46,848	40,919	40,253	93,905	87,101
2002	56,945	51,814	42,012	41,345	98,957	93,159
2003	34,062	25,130	18,566	18,051	52,628	43,181
Total	719,712	263,159	244,182	149,938	**963,894**	**413,097**

Note: Figures listed here do not include returns to Brcko district; minority returns are a subset of total returns.

Source: UNHCR (2004a; 2004b).

Yet numbers alone do not tell the full story of Bosnia's return process. Indeed, if numbers were the only criteria for success, the accelerating pace of return in recent years would provide considerable grounds for optimism, both as an indication of the willingness of ordinary Bosnians to live amid former enemies and of the inability of Bosnia's ruling nationalists to rigorously enforce ethnic apartheid. If the overall goal of return is to help recreate a genuine multi-ethnic society in Bosnia, however, it is also necessary to explore the quality of returns.

While there is little hard statistical data on the demographics of minority return, enough anecdotal evidence exists to paint a relatively clear picture of minority returnees.[4] Most, regardless of ethnic origin, live in conditions of dire poverty, and lack the means to sustain themselves at more than a marginal level. Most survive off of subsistence agriculture, and from assistance provided by aid agencies or family members living elsewhere. Most minority returnees are older or even elderly, and many return because of strong emotional connections to their land. Return is much less attractive for younger people, particularly if they were active participants in the conflict. Even for those younger people who do brave the risks of returning to minority situations, many do so only temporarily, and quickly move on in search of jobs if none are to be found in the immediate area all three sides,CS (Cox 1998).

There is also a strong rural dimension to minority return, in part because Bosnia was one of the least urbanized territories in Europe prior to the war, and because Dayton's "homes of origin" clause has been read literally as meaning return to the physical structure (or at least what's left of it) in which refugees and displaced persons lived prior to the war. At the same time, return to rural areas has been far less problematic politically, since many destroyed rural villages remain abandoned, and returns to these areas represent less of a threat to the majority community. As one analyst has noted, "minority return may be tolerated to empty villages without economic or strategic significance, or in small numbers into large urban centres, but outside those marginal situations it is consistently opposed" (Cox 1998).

There are many reasons why achieving minority returns, both quantitatively and qualitatively, has been an enormously difficult and complex task. The first is the unresolved nature of the Bosnian conflict, which has meant that return, and particularly minority return, has become one of the most highly charged and contentious issues of the post-war period, and a key arena in which the country's ongoing stateness struggle is being played out. Given the stakes, nationalist hardliners, particularly in Republika Srpska and in Bosnian Croat-controlled areas of the country, have been prepared to resort to violence, intimidation, and other tactics as a means of deterring minority returns and the remixing of communities.

Second, the awkward division of power that has evolved within Bosnia between the international community and local political institutions has also complicated the return process. The international community has been unable to fully impose its will against the resistance of local political actors, despite the expansion of international authority in recent years. Similarly, many have charged that the failure of the international community to aggressively pursue indicted war criminals has also deterred minority return, as many of those most responsible for the country's ethnic cleansing remain not only at large, but in positions of authority.

These political factors have very often played out in socio-economic terms on the ground. While minority returnees have often been subject to violence and intimidation, they are also victims of socio-economic discrimination at virtually every level. Across the country, returnees face systematic employment discrimination, and minority returnees have little chance of being hired in enterprises under the control of the majority ethnic group since, as the UNHCR has noted, “the few existing economic opportunities are reserved for those who provide political support to the dominant political parties” (September 2001: 23).

One prominent example of this phenomenon is Aluminium Mostar, probably the country’s most profitable enterprise. While employing a multi-ethnic staff prior to the war, virtually all non-Croats were expelled from the workforce during the conflict, and the company is now considered to be a key economic support for the HDZ, the ruling Croat nationalist party. The company’s manager, a key member of the HDZ elite, has gone on record as declaring that the company was Croat (i.e., owned, managed, and operated by Croats) and would remain so (ICG August 2001: 25). At the same time, legislation in both entities has required employers to give priority in hiring to demobilized soldiers, military invalids, and family members of fallen soldiers, thereby discriminating against minority returnees who were on the “wrong side” of the conflict (UNHCR 2000: 24).

O the reversal of ethnic cleansing98 vf equal significance in this regard is new labor legislation in both entities, which attempts to address the reality that not only were hundreds of thousands of Bosnians cleansed from their homes during the conflict, they were cleansed from their workplaces as well. Whereas the international community has steadfastly supported the right of displaced persons and refugees to return to their “homes of origin” as mandated by the peace agreement, it has done comparatively little to reverse ethnic cleansing on the economic front.[5] Working from the premise that most post-war Bosnian enterprises are only marginally viable and therefore incapable of restoring employment to pre-war levels, the international community actively pushed for reforms that would require enterprises to do no more than pay compensation to their “cleansed” employees. Even though such compensation has been characterized as “largely symbolic,” these provisions remain largely unimplemented. Of some 120,000 former employees who applied for compensation under the new laws as of early 2002, fewer than 4 percent actually received payouts. The process, according to one UNHCR official, has been “a nightmare,” and the wider international community has shown little willingness to push their local counterparts on this issue.[6]

Beyond the employment challenge, returnees have also faced widespread bureaucratic discrimination, and have been regularly charged excessive fees, or required to produce unattainable documents, in order to have basic utilities such as power or water restored to their homes. In some cases, in order to restore telephone service, returnees have been forced to pay the phone bills of those who illegally occupied their homes during and after the war. Similarly, minority returnees with children have been faced with majority-dominated education systems with inappropriate and often offensive curricula, symbols, and even facilities from the perspective of minority communities. At the same time, because of Bosnia’s ethnically fragmented pension system, until recently older minority returnees found it virtually impossible to access their pensions – often their sole source of income – once they had returned to their homes on the other side of the country’s inter-entity boundary line.

Despite the daunting obstacles and underwhelming results, the international community has, particularly over the past four years, made minority return the centerpiece of its peacebuilding effort in Bosnia. This commitment is based in part on a strong desire not to let the consequences of ethnic cleansing stand.[7] As Marcus Cox has pointed out:

Strong opposition to the ideology, methods and results of ethnic cleansing has given the international intervention in Bosnia and Herzegovina a prominent moral dimension. The international community has made its principal goal the reversal of ethnic cleansing through the return of refugees and displaced persons to their homes of origin.

(1998)

The past several years, therefore, have seen myriad international efforts aimed at achieving a long-awaited "breakthrough" in minority returns. Starting in 1997, UNHCR devoted almost its entire operational budget in Bosnia to supporting minority returns, including its "Open Cities Initiative," which was aimed at rewarding municipalities that opened themselves up to minority returnsI">More recently, the main international civilian organizations in Bosnia have invested considerable resources in the Property Law Implementation Plan, which is aimed (and has had considerable success) at securing the full implementation of revised property laws in both entities that empower displaced persons and refugees to lay legal claim to their pre-war property.

Despite this multifaceted political offensive on the part of the international community in support of minority returns, comparatively little progress has been made in overcoming the socio-economic obstacles to sustainable return. As noted above, one area of progress has been in the field of pension reform, where two of the three pension funds have recently been merged and an agreement signed allowing pensioners to access their pensions regardless of where in Bosnia they reside.[8] Elsewhere, however, progress has been slow or non-existent. In the area of employment – which many returnees or potential returnees cite as one of their major concerns[9] – international efforts have largely been limited to promoting "fair employment strategies" and introducing anti-discrimination clauses into legislation. These initiatives have had predictably marginal impacts in a context of ongoing ethnic polarization. While numerous micro-credit initiatives have been targeted at minority returnees, such initiatives are aimed more at poverty alleviation than at economic development per se, particularly in the absence of a broader framework of economic recovery. On utilities, despite a decision by the High Representative limiting the amount returnees could be charged for telephone reconnections, returnees still face layers of obstruction in accessing basic services. Similarly, access to health care remains problematic for minority returnees, both because of ongoing complications with health insurance coverage and because of the overall deterioration of the Bosnian health system. On the education front, discrimination, segregation, and bias remain problems, despite concerted international efforts in recent years to create a state-wide curriculum and encourage multi-ethnic classrooms.

Given the overall lack of progress in overcoming obstacles to sustainable minority return in Bosnia, it is unsurprising that even significant recent improvements in the security situation have not radically changed the country's demographic composition. While the acceleration of so-called "spontaneous returns" certainly cannot be ignored, particularly since many returnees are returning to hardline areas previously considered closed to return, most of these returns replicate an already familiar pattern: "Those who return are often the elderly who resettle in rural isolated communities, living off tenuous sources of income and as such not truly contributing to long-term sustainability" (Belloni 2001a: 16).

For a variety of reasons, therefore, many of which will be explored in more detail below, the international community has not coupled its commitment to physical return with a similar commitment to ensuring the sustainability of those returns. As one former UNHCR field officer has noted, “the success or failure of minority return [has] tended to be measured in quantitative, rather than qualitative terms. This [has] translated into counting heads of so-called ‘returnees’, regardless of the voluntar all three sides,CSiness and sustainability of the return” (Ito 2001: 119).

Return and the broader socio-economic context

While discrimination by majority communities against minority returnees is one key element of the minority return conundrum, capturing the full story requires broadening the focus to include Bosnia's overall socio-economic climate. For even if all of the micro-level obstacles to return identified above could be overcome – and the socio-economic playing field leveled for minorities and majorities alike – the current state of the Bosnian economy would still have a chilling effect on minority return, and would continue to make life difficult if not impossible for those who do return home.

From the perspective of sustainable minority return, two elements of the country's current economic malaise are particularly relevant. The first is that, unsurprisingly, the overall lack of economic opportunity not only makes it more difficult for minority returnees to sustain themselves, but offers precious few incentives to return for those still displaced. In combination with more overt economic discrimination, this reality has had a number of implications for the minority returnee experience. It has compelled many returnees, particularly those living close to the inter-entity boundary line, to lead dual lives: living a minority eareas where their own ethnic group predominates to work or receive health care, and sending their children back to majority areas to attend school. For those without the luxury of being able to commute between minority domiciles and majority workplaces, the dire economic situation has tended to produce a particular type of returnee living a particular type of existence: mostly elderly, surviving on pensions and small-scale agriculture, and living in isolated communities largely out of sight and out of mind of the majority community.

The rather hostile economic environment facing minority returnees has led many potential returnees who have been able to successfully reclaim their property to quickly sell it or rent it out and take the proceeds back to "their" entity. While little empirical data on this practice exists, it is telling that property claim applications from Serbs displaced from the Federation increased sharply after the High Representative decreed an end to a two-year moratorium on the re-sale of reclaimed property (ICG December 2002: 11). While no one can really blame individuals and families for not wanting to expose themselves to the often harsh realities of minority life in Bosnia's still-polarized post-war environment, the aggregate effect of such practices also gives solace to the ethnic cleansers by encouraging the belief that ethnic apartheid can still be maintained even if the process of reclaiming pre-war property is allowed to run its course.

Lastly, while the motives and pressures driving refugees or displaced persons to either stay put or return are complex, the overall economic environment is hardly conducive to sustainable return. Ironically, therefore, just as post-war tensions are easing sufficiently to enable minority returns to all corners of Bosnia, the country's deteriorating economic situation is raising additional barriers.

The combination of a lack of economic opportunity and ongoing socio-economic discrimination also helps explain why, increasingly, it is exodus as much as return that characterizes demographic trends in contemporary Bosnia. If close to a million people are now considered to have "returned," this number must be balanced by the fact a vehicle for liquidating citizen claims against the bnt that hundreds of thousands – including close to 100,000 young people – have left Bosnia in the post-war period to join the 700,000 or more refugees who have permanently resettled abroad.[10] As Zarko

Papic has noted, "it is particularly disquieting that the phenomenon is gathering momentum instead of diminishing after the war … unless the trend is reversed, it is possible that the 'exodus' from the country will be a greater problem than 'return'" (2001: 6).

The second crucial dimension of Bosnia's current economic situation from the perspective of minority return relates to the peculiar type of political economy that has emerged and blossomed in the country's post-socialist and post-conflict landscape. As detailed in Chapter 4, "the prevailing political economy in Bosnia is essentially an extension of the wartime economy, characterised by political instability, social insecurity, and extra-legal economic processes" (Griffiths 1999: 57).

The persistence in power of Bosnia's three main nationalist power structures, and their largely successful efforts to consolidate economic and political power within ethnically defined territories, has been largely responsible for the frustratingly slow pace of return in the early years of the post-Dayton process, and for the intimidation, harassment, and marginalization of those minorities who have decided to return. Much of the anti-returnee violence in recent years – such as Bosnian Croat rioting in Drvar in March 1998 in protest against Serb returns and the demonstrations in May 2001 by Bosnian Serbs against the attempt to re-lay the foundation stone of Banja Luka's Ferhadija Mosque – has been linked back to HDZ and SDS authorities, respectively. Virtually no progress has been made towards reversing the results of ethnic cleansing in state-owned (but party-controlled) enterprises, while the situation in the public service is also bleak from the perspective of minority hiring. In the RS Ministry of Displaced Persons and Refugees, for example, as of late 2002 only 22 out of 520 employees were non-Serbs. Similarly, despite considerable Bosniak returns to the Prijedor area in recent years, there are only three Bosniaks on the city's 150-member municipal administration, a figure which nevertheless still makes Prijedor one of the entity's most integrated municipalities (ICG December 2002: 16, 27).

Resistance on the part of nationalist elites to minority return stems not only from the persistence of nationalist ideology but also from the nationalists' strong desire to sustain themselves in power. In an environment in which politics and economics remain under the relatively centralized control of nationalist power structures, the prospect of mass minority return threatens to upset a status quo with which Bosnia's current elites are quite content. Not only does minority return contain the potential to disrupt established clientelistic relations, it also potentially threatens the electoral base of those currently in power. For even if they remain largely excluded from the dominant processes that characterize the current Bosnian political economy, minority returnees cannot of course be expected to vote for the nationalists of the dominant ethnic group. Even early on in the Dayton process, refugees and displaced persons in places such as Drvar and Srebrenica – voting initially by absentee ballot and gradually in person as returns increased – succeeded in changing the ethnic dynamic within municipal power structures.[11 in post-Dayton Bosnia ofeffective] As Ayaki Ito has suggested, therefore, minority return "directly challenges the monopoly of power enjoyed by the wartime leaders" (2001: 99).

Paradoxically, however, the divisive and controversial politics of minority return also serves the interests of the nationalist elites, enabling them to focus political attention on questions of national survival and the imperative of ethnic solidarity, and helping to prevent the emergence of a more "normal" politics in which the economic activities of the elites might come under closer scrutiny. In other words, “using international influence to ‘enforce’ minority return tends to harden the stratxistenegic pce in their place of return buositions of the ethnic groups, strengthening the hand of nationalist forces and making it more difficult to achieve grassroots reconciliation” (Cox 1998).

International policies in other areas have also reinforced the influence and the legitimacy of the politico-economic networks described above, indirectly undermining the return process. As Marcus Cox has noted, this collusion between international and local actors was evident from the beginning of the reconstruction process, when international donors eager to implement reconstruction projects dealt with whoever happened to be in control at the local level (2001: 11). A similar pattern has characterized the early stages of Bosnia’s privatization program, as noted in the previous chapter.

While international policies geared at economic reform and regeneration have done little to facilitate the minority return process, recent developments have complicated the politics of minority return even further, and often in contradictory ways. First, the aggressive push by the international community in recent years, through its Property Law Implementation Plan (PLIP), to remove obstacles to the repossession of property by displaced persons and refugees has achieved considerable success. By May 2004, in fact, first-instance decisions had been made on more than 99 percent of all property claims (OHR May 2004). While the PLIP has been at least partially responsible for the recent acceleration of minority returns, the experience has also revealed the limitations of a narrow, property-based return strategy. As the International Crisis Group has recently argued, “local governments, particularly in the RS, have collaborated in permitting ever larger numbers of refugees to repossess their homes because they have also been left free to pursue other policies that discourage real return,” including the socio-economic and employment-related discrimination described above, and because they have also been able to count on the dire economic situation to deter potential returnees (December 2002: 10–11).

Nationalist regimes have also worked to ensure that displaced persons from their own ethnic community do not choose return over resettlement. This goal has been pursued largely through the free distribution of land, construction materials, and business premises to displaced persons, but also through the illegal construction of housing (often on socially owned land) in which the long-term displaced can be settled. In HDZ-controlled areas, this has been part of a long-standing strategy to keep the Bosnian Croat population concentrated in the southwestern region of Herzegovina. The RS authorities have employed similar strategies to keep as many Serbs as possible in their entity and dilute the demographic and political impacts of minority return.

A more recent and potentially more significant development has been the decision of Bosnia’s Constitutional Court to declare unconstitutional those provisions of the entity constitutions that grant privileged status to Serbs in the RS and Bosniaks and Croats in the a vehicle for liquidating citizen claims against the bntFederation. While the decision was released in 2000, it is the constitutional amendments drafted and imposed over the course of 2002 that contain the potential to drastically alter Bosnian politics and the prospects for sustainable minority return. Recently imposed changes to the entity constitutions, for example, now require the RS government to be genuinely multi-ethnic, with 16 ministerial positions divided among eight Serbs, five Bosniaks and three Croats. A similar arrangement has been imposed in the Federation, with the ministerial structure to include eight Bosniaks, three Croats, and three Serbs. Key administrative functions are similarly to be divided among the three groups in each entity, while municipal and cantonal governments are to reflect the national composition of the relevant jurisdiction according to the last pre-war census of 1991. These provisions are to remain in place until Annex 7 of Dayton is deemed to have been fully implemented, at which point they become somewhat less restrictive. Cantonal and municipal administrations, similarly, are to reflect the ethnic makeup of the canton or municipality according to the 1991 census (ICG December 2002: 33–8).

If fully implemented, these constitutional provisions will have an enormous impact on the reintegration of the country, the regeneration of multi-ethnicity, and the capacity of minority returnees to make lives for themselves. Not only will returnees be constitutionally guaranteed substantial, and in many cases even majority, representation in local and regional governments, and consequently greater say over the allocation of scarce resources, the provisions also contain the potential of opening up considerable job opportunities for returnees, particularly in the public sector.

Of course, as in other areas of the Dayton implementation process, the devil lies in the gap between imposition and implementation. This is even more the case with the constitutional court decision both because of its potentially enormous demographic, socio-economic, and political implications and because of the recent return to power of Bosnia's mainline nationalist parties, who have been expected to carry the burden of implementing policies that threaten the very core of their power structures. While governments were formed on the basis of the new power-sharing arrangements in the aftermath of elections in November 2002, there are few indications that the new system has seriously disrupted the largely mono-ethnic political and social structures that have persisted throughout the post-Dayton period. In fact, a recent investigation by the Sarajevo magazine Slobodna Bosna suggested that the entire process was something of a farce. Large segments of the new constitutional arrangements are simply being ignored, and in other cases minority "constituent peoples" are represented by powerless place-holders, while the international community appears to have lost interest in the issue (Savic and Ahmetasevic 3 June 2004). Ultimately, this may prove to be another issue on which the international community – in this case partly through its own indifference – is unable to fully impose its will against recalcitrant nationalist leaderships.

International disunity?

As this and preceding chapters have attempted to demonstrate, a significant coordination gap appears to exist between international political and economic policy-making in Bosnia. While on the one hand the international community has sought to create the conditions conducive to ethnic reintegration, on the other hand certain aspects of international policy have served to strengthen the very forces responsible for perpetuating Bosnia's ethnic divide. This gap has had, and continu all three sides,CSes to have, significant consequences for the return process, both at the level of specific policies aimed at promoting sustainable minority returns, and at the level of overall economic conditions.

Coordination problems between international economic and political decision-making in peacebuilding situations are not new, nor are they unique to Bosnia. While there have been some attempts in recent years to improve this situation within international peacebuilding missions – in Bosnia, for example, the High Representative has been specifically tasked with coordinating international civilian peace implementation efforts – coordination problems continue to challenge the very notion of a coherent and single-minded "international community."[12] In the case of Bosnia, this coordination gap – and divergent international goals on political and economic fronts – helps explain why the political push for minority return has not been accompanied by a comparable effort on the socio-economic front, and why the economic reform process has been insufficiently integrated into the broader peacebuilding process.

While it is uncontroversial to assert that the fundamental goal of internatioon in post-Dayton Bosnia is to create a stable, multi-ethnic market democracy, at the level of implementation real tensions exist between the goal of regenerating multi-ethnicity on the one hand, and creating the conditions for market-led growth on the other. From an economic perspective, in fact, there are good reasons to question the very rationality of minority return.

As noted above, by and large minority returns involve a process of re-ruralization, in which returnees move from urban sites of displacement back to their pre-war homes in rural areas. On the one hand, many returnees have little desire to return to a rural lifestyle which, even apart from the vulnerabilities of living as a minority, involves certain sacrifices. As one study of minority return to a rural municipality in northwest Bosnia suggested, "exposure to the comforts of urban life had removed desire to return to the villages. The resultant acceleration of urbanization was mirrored throughout Bosnia and shared by all ethnic groups. It, and not security, has become the strongest barrier to return" (Hovey April 2000: 10). On the other hand, this re-ruralization process runs counter to the broader economic reform agenda being promoted by the international community, which takes for granted that labor will be required to move to where employment opportunities are, not vice versa (Cox 1998).

While the aggressive promotion of minority return on all fronts makes sense from the perspective of recreating multi-ethnicity and righting the wrong of ethnic cleansing, from the perspective of economic development it might have been more logical to facilitate the free movement of people to areas where economic opportunities exist, regardless of "homes of origin." The tension between these two perspectives has resulted in a general lack of engagement by key international economic actors in responding directly to the socio-economic needs of minority returnees, at least beyond a rapidly declining commitment to housing reconstruction.[13] It is unsurprising, therefore, that the minority return process to date has focused on the political conditions – but not the economic preconditions – for people to return home. Particularly in the area of employment creation, international efforts have emphasized rapid privatization and the creation of macroeconomic conditions conducive to foreign direct investment. N

Similarly, the push for minority return represents a highly intrusive political strategy aimed in many respects at restoring the status quo ante of multi-ethnicity across Bosnia. This in many ways contrasts directly with the international economic strategy for the country, which has focused on liberalization, deregulation, and the creation of a de novo economic framework. In other words, achieving sustainable minority return requires a level of international social and economic engineering that fits rather uncomfortably with the general neoliberal economic reform strategies being promoted by the international community.

In this regard, it is interesting to note that the one area of coherent and consistent international engagement on both political and economic levels with the minority return process has been in the area of property rights. From the perspective of the neoliberal economic reform agenda, property rights are fundamental, and it has therefore not been difficult to achieve coordinated international action in this area. Economic and social rights are an entirely different matter, however, and are viewed in quite different terms by international economic actors on the one hand, and by those actors whose nal interventi

8 The Social Dimensions of Peacebuilding and Transition

Post-conflict peacebuilding is, or should be, at least as much about the reconstitution of societies as it is about the reconstruction of states. Particularly since intrastate conflicts are inevitably social as well as political crises, re-establishing the social foundations of a post-conflict political community is an essential element of moving from conflict to sustainable peace. In the absence of new social arrangements, socially insecure individuals and communities seek out sources of security wherever they can find them, and in post-conflict contexts this can replicate the very social, ethnic, and political cleavages across which the war was fought, reinforce those social structures responsible for the conflict, and ultimately undermine the state-building process. Post-Dayton Bosnia's experience with democratic elections is very much a case in point, as traumatized electorates – voting within an electoral system which is hardly designed to reward political moderation – have rather consistently returned to power those political forces responsible for the war. In other words, in the absence of alternative sources of security, electorates have sought security in the same brands of ethnic nationalism that have generated so much insecurity and misery since the early 1990s.

In this context, it is perhaps surprising that social sector reform – understood here as the range of institutional arrangements impacting upon the rights or abilities of citizens to meet their livelihood needs, such as health, education, employment and labor markets, pensions and social assistance[1] – has been an underemphasized element of the international community's engagement with post-Dayton Bosnia, at least beyond a relatively narrow commitment to social engineering through the return of refugees and displaced persons to their pre-war homes. As Paul Stubbs has argued,

External attempts to regulate welfare regimes in B-H have, by and large, been ill-conceived, belated, confusing, and contradictory, and have contributed to a diminution of the importance of social rights and of social policy as a whole, which has been given much less emphasis than it should have had, as a key pillar contributing to peace, security, good governance, and economic regeneration.

(2001: 95)

Even in recent years, which have seen a growing emphasis on social sector reform within international institutions active in Bosnia, such reforms a vehicle for liquidating citizen claims against the anDL have been placed within an overall context which sees social security and social safety nets primarily as a byproduct of, rather than a precondition for, the development of a functioning market economy. And because market-led recovery has been so slow in coming, the result has been growing social unrest, ongoing political instability, and an unrelenting brain drain, which further undermine prospects for the development of a "normal" market economy. Nor have Bosnia's own political elites made social sector reform a priority, both because their own political priorities lie elsewhere and because the current status quo of ethnic clientelism serves them well both politically and economically. A further obstacle to social sector reform has been Bosnia's complex Dayton-mandated political structures, which have both reinforced highly decentralized, ethnicized, and largely inefficient social systems, and rendered their reform exceedingly difficult.

This chapter examines the social dimensions of peacebuilding in post-Dayton Bosnia. Consistent with the overall analytical framework of this study, it suggests that the relative inattention to social sector reform stems both from prevailing neoliberal peacebuilding strategies and from Bosnia's own post-conflict political economy, which has developed its own form of ethnically based social welfare. This chapter will also suggest that the failure to address the dysfunctions within Bosnia's social sector has helped keep ethnic nationalists in power and has contributed to a general public disillusionment with the Dayton peace process.

The context for social sector reform in Bosnia

One of the cruel ironies of protracted violent conflicts such as the one which engulfed Bosnia in the early 1990s is that such conflicts not only generate a massive social crisis affecting huge swaths of the population, but simultaneously destroy much of the social infrastructure that might have been capable of responding to such a crisis. The social challenge in the post-conflict environment, therefore, is two-fold: to not only address the immediate social needs of the war-affected population, such as food, medicine, and shelter, but also to restore the capacity of the war-affected state to provide for such needs itself, in a sustainable manner, over the long term.

As part of the former Yugoslavia, Bosnia's pre-war social system was relatively well-developed, and Yugoslav citizens as a whole enjoyed a reasonable standard of living by international standards. Social welfare was centered around the workplace, which provided workers and their families with a range of social services, including annual vacations at enterprise-owned facilities, and was supplemented by more informal forms of social support. Taken together, "the 'mix' of full employment, guaranteed incomes, and a faith in a 'patchwork' of formal and informal care, including family care, charitable assistance, moonlighting by professionals, and networking through 'connections', was powerful and relatively secure" (Stubbs 2001: 98).

Yet in the same way that the strains on the Yugoslav federation during the 1980s gave rise to nationalism, organized crime, and corruption, so too did these strains contribute to the growth of clientelism in the social sector. Perhaps the best example of this phenomenon is the case of Fikret Abdic, who leveraged his control of the agro-industrial conglomerate Agrokomerc into a personalized social, political, and economic empire in the northwest Bosnian region around Velika Kladusa.[2] As centralized authority deteriorated the reversal of ethnic cleansing. nt and the war took hold, such localized clientelistic relationships between citizens and elites emerged as a more prominent feature of the Bosnian landscape, and have persisted into the post-war period.

The conflict itself exacted an enormous toll on Bosnia's social system, with employment collapsing along with most elements of the country's social infrastructure. The fact that upwards of 90 percent of the Bosnian population was dependent on external humanitarian aid at the war's end speaks volumes about how little was left of the country's social network when the fighting stopped. At the same time, the legacy of the war included some 2 million refugees and internally displaced persons, as well as untold thousands of single-headed households, orphaned children, war-wounded, and psycho-socially traumatized individuals.

In the immediate post-war period, Bosnia's most pressing social needs were addressed largely through the international humanitarian aid machine that had been built up during the conflict itself, based both on international private NGOs and UN humanitarian organizations, as well as on the ethnically based clientelism that had emerged at a local level as part of the Bosnian war economy (Bojicic and Kaldor 1997). International support, based on an emergency-response framework, tended more towards the direct provision of assistance rather than working through the remnants of the pre-war social system, and lacked any vision of combining relief assistance with efforts to rebuild domestic capacity for social welfare provision (Stubbs 2001: 99). Yet even as the need to move from a humanitarian relief regime to a more coherent and sustainable social safety system became increasingly urgent, it also became clear that the combination of international structure and strategy and the domestic political environment was far from conducive to the development of a coherent social system that could contribute to the Dayton-inspired goals of peace, prosperity, and democracy.

First, as has been argued, the international approach to the challenges of post-conflict peacebuilding in the post-Cold War era has been informed in important ways by the dominant neoliberal vision of economic globalization. Either implicitly or explicitly, therefore, peacebuilding strategies have been guided by a vision which views the integration of war-affected states into the global economy as the surest route to stability and prosperity. Particularly in environments such as Bosnia, which are not only post-conflict but also post-socialist, such a strategy almost inevitably implies the erosion of economic and social rights that citizens enjoyed during the pre-war era, which are considered not only unsustainable but an obstacle to competitiveness. As Michael Pugh has suggested, "the dominant intervention paradigm places a premium on imposing stability rather than security, law and order rather than justice, and the ability of societies to participate in global capitalism rather than provide welfare" (2000: 117).

To be sure, the international community in post-Dayton Bosnia has not practiced the type of raw neoliberalism that characterized the shock-therapy era of post-socialist Eastern Europe. Yet an ideological aversion to big government in general, and a fundamental mistrust of Bosnian governments (at all levels) in particular, has resulted in profound limits being placed on the ability of domestic institutions to regenerate social sector capacity. Instead, social sector reform has been closely tied to the development of a private sector capable of competing in the global economy, with social protection strategies geared towards "improving the individual's self-reliance through enhancing his or her opportunities in the labor market" (Bodewig 2002: 30). In the particular c the reversal of ethnic cleansing. ntase of Bosnia, this emphasis on private sector development rather than social rights has been combined with an ongoing effort to rationalize (and ultimately reduce) current social sector spending, which as a result of the conflict and the way it has been managed is rightly seen as inefficient and skewed in favor of politically sensitive constituencies.

This relatively limited notion of social sector reform, and of the relevance of social policy questions to broader peacebuilding strategies, has been reinforced by the peculiarities of the Dayton Accords. While the accords contain little explicit reference to social questions, the possibilities for effective welfare governance have been severely compromised by the structure of fiscal federalism established at Dayton. As with most other governance issues, state-level institutions possess no social policy responsibilities. Rather, social policy is an entity-level responsibility in Republika Srpska, and is shared between entity and cantonal levels in the Federation. This division of responsibilities between different levels of government in the Federation has generated a particularly intractable set of problems. These include the persistence of parallel social systems in Bosnian Croat-majority and Bosniak-majority areas,[3] a severe disconnection between social rights and the revenues available to realize these rights, and the emergence of considerable disparities in terms of welfare provision between wealthier and poorer cantons. As the following section will discuss in greater detail, the result of these constitutional and administrative arrangements has been a proliferation of fragmented, inefficient, underfunded, and ethnically based social welfare arrangements. As a consequence, the vast majority of the international community's interventions in the social d to rsectoreinforce the very structures o have been aimed not only at ensuring access for minorities to social networks aimed primarily at serving a mono-ethnic constituency, but also at achieving greater rationalization, centralization, efficiency, and coordination within the overall system. If the Dayton Accords, as Paul Stubbs has argued, "ended any hope of a 'normal' social policy in a 'normal' state, based on an assumption of reciprocity and sharing of risk in which all citizens have a responsibility for raising revenues which are then disbursed, on the basis of need" (2001: 101), then much of the international community's efforts in the post-Dayton period have been aimed at mitigating the worst impacts of this situation.

A coherent approach to social sector reform in the context of post-Dayton Bosnia has been further hampered by the very nature of the international organizations involved in Bosnia, and the relationships among them. While the Office of the High Representative was tasked under Dayton with coordinating civilian implementation of the peace agreement, social sector reform has never been high on the OHR's priority list. Similarly, no single international agency has social policy as the main focus of its work in Bosnia. Although differf power that continue to preseent organizations, such as the Organization for Security and Co-operation in Europe on education issues or the World Bank on health reform issues, have taken the lead in particular sectors, there is no overall coordination of social sector reform efforts at the international level, while domestic institutions lack both the capacity and the authority to play such a coordinating role.[4] The consequence has been an absence of any coherent dialogue between international and domestic actors aimed at developing an overall consensus on the direction or shape of social policy reforms in the post-Dayton context.[5]

Exacerbating this absence of an overall policy framework has been the tendency of international actors to adopt short-term, project-oriented, results-based, and largely reactive intervention strategies, and the broader tendency of the international community to focus on its exit strategy from Bosnia. These factors have tended to preclude greater involvement in the necessarily longer-term and complex work of reconstituting a viable and sustainable social safety net, particularly since meaningful progress towards such a goal cannot be quantitatively measured in ways preferred by international donors. Consequently, "the imbalance between attention to, and investment in, (refugee) repatriation and 'measurable' macroeconomic stability projects on the one hand, and qualitative social programmes on the other, is marked" (Pugh 2000: 128).

While the international peacebuilding mission in Bosnia may be ill-equipped to take a leading role in social sector reform, the configuration of political and social forces within Bosnia itself has done little to generate, and much to stifle, the emergence of a powerful domestic constituency for reform. Bosnian civil society remains disorganized and fragmented, and has not managed to generate any meaningful public pressure for reform.[6] While signs of social unrest are increasingly visible, with strikes and demonstrations by underpaid or unpaid workers a growing feature of the Bosnian political landscape, the sheer number of political and administrative divisions within Bosnia prevents this unrest from achieving any critical mass. As Mark Wheeler of the International Crisis Group suggests, "the real paradox is that the dysfunctionality of the political system makes Bosnia largely immune from that dysfunction."[7] At the same time, many citizens have adapted to the shredding of the Bosnian social safety net by developing informal survival and coping strategies, which include participation in the gray economy, reliance on remittances from relatives living abroad, and subsistence agriculture. Thus even as Bosnia's economic decline appears to be accelerating, there is little guarantee that even an extreme social crisis would spark fundamental social or political restructuring.

For their part, Bosnia's political elites have been conditioned by a variety of factors – including the legacy of socialism, the lingering ethnic conflict, the over-arching political authority of the High Representative, and their own political and economic interests – to be reactive rather than proactive on social issues. The political system, and the frequency of internationally mandated elections, simply does not reward politicians for making difficult political decisions, while the presence of the High Representative as the final arbiter of political decision-making has eroded the accountability and authority of domestic politicians. Similarly, those with the most to lose from better-targeted social programs tend to be the best organized and most vocal groups (such as war veterans), while those with the most to gain (such as orphans, civilian war disabled, and minority returnees) tend to be among the most marginalized. Finally, rationalizing the current system would entail a significant degree of recentralization, which is predictably opposed both by Bosnian Serb and Bosnian Croat nationalists for whom centralization of power is both anathema and anti-Dayton, and by authorities at lower levels of government who have used the current system to entrench their positions at the head of local networks of can be read as an attempt by themeCS clientelism.

As a result of this combination of international and domestic factors, social sector reform in post-Dayton Bosnia has to date amounted to little more than tinkering around the edges of a largely dysfunctional system. As Christian Bodewig of the World Bank argues, "There is virtually no social safety net in this country. What there is is driven more by political considerations than by needs."[8] In a similar vein, Paul Stubbs notes that one of the key lessons to be drawn from social sector reform efforts in Bosnia to date relates to "the inability of a technical project-based culture to deal with the most important interconnections between social, political, and economic questions, in a society in which local conditions absorb and adapt initiatives to further clientelistic ends" (2001: 106).

The political economy of social sector reform in Bosnia

The overall context sketched out above goes a long way towards explaining the absence of a coherent roadmap for social sector reform in post-Dayton Bosnia. What has emerged instead, as the humanitarian intervention model has gradually given way to a more developmental approach, is a series of somewhat belated, disconnected, and piecemeal international interventions, aimed largely at addressing the worst distortions and inefficiencies of the current system. In other words, the reform approach to date has been akin to applying multiple band-aids to a patient requiring major surgery. International interventions in the social sector have generally focused on one of two areas: first, at generating more resources for the social sector by creating the conditions in which the formal economy can expand (even if this requires the reduction of social rights); and second, at rationalizing the resources currently devoted to the system. This emphasis on rationalization has also meant focusing on issues of accessibility, and more specifically trying to iron out the deficiencies of a highly decentralized and largely ethnicized political, economic, and social system.

Expanding the formal sector

For years now, the mantra of the international community has been that Bosnia must begin to stand on its own feet economically, that external assistance could not and would not continue indefinitely, and that it is time to turn from narrow questions of ethnic nationalism to broader questions of how the country would find its niche in the global economy. However, for reasons related to both the inadequacy of the neoliberal model of economic development and the pathologies of Bosnia's post-war political economy, self-sustaining economic growth has yet to take hold in Bosnia. Indeed, with the privatization process continuing to produce more unemployment than employment, with Bosnia's international debt payments set to rise, and with international aid on a steady downward track, the country's medium-term economic prospects are far from promising. At the same time, however, given Bosnia's status as one of the most assisted countries in the world over the past decade, and the fact that by global standards it remains in the middle ranks in terms of human development, it is hard to sustain the argument that the international community should continue to prop up the country indefinitely.

Given these realities, the focus of the international community in recent years, and particularly since the arrival of Paddy Ashdown as the latest international High Representative, has shif; and humanitarian aid New York Times recently, "The whole economic recovery program that we've been pushing through is almost too late. We have three years to convert an aid-dependent economy into an export-driven one" (cited in Simpson 16 February 2003).

The implications of the jobs and justice agenda for the social sector are both obvious and multifaceted. First, there is little question that reducing Bosnia's high unemployment rates would go a long way towards addressing some of the worst manifestations of the country's simmering social crisis. Second, since many of Bosnia's social services, including health and pensions, are funded directly from payroll contributions, getting more employees and their employers to pay taxes would inject additional resources into the social sector.

At the same time, the jobs and justice strategy is also about coming to terms with Bosnia's ballooning informal economy, which is perhaps the only element of the country's economy to have displayed any vigor in recent years.[9] While no one knows the size of Bosnia's informal economy with any degree of certainty, estimates put it at somewhere between one-third and two-thirds of GDP, with one recent study suggesting that some 36 percent of working Bosnians are employed in the informal sector.[10] The size of the informal sector is highly relevant in the context of social sector reform because informal sector employees and their employers, by definition, do not pay taxes or contribute to health and pension funds (Bodewig 2002: 3).[11] Indeed, it is partly the burden of these obligations, combined with the absence of opportunity in the formal sector and a profound distrust in the ability of governments to use public funds responsibly, that drives many workers and employers into the informal sector in the first place. Conversely, of course, informal sector workers are not entitled to social assistance or health insurance (unless they are separately registered as unemployed). Ironically, this situation is regularly reversed in the formal sector, where employers regularly pay benefits but are unable to pay wages for months on end. Indeed, as the UN Human Development Report for Bosnia recently noted, the traditional concept of employment has lost much of its meaning as "more and more individuals are finding themselves in a twilight world between formal employers who pay only their social and health insurance and real employers who provide them with no labour rights or social entitlements" (UNDP 2002b: 37).

Addressing the issue of Bosnia's large informal economy is partly a matter of consolidating the rule of law and bringing organized criminal activity under control. It is also, however, a matter of encouraging businesses operating in the informal sector, or which operate only partly in the formal sector by underdeclaring wages or numbers of employees in order to limit taxes and contributions, to become completely legitimate in their operations. And since the informal sector, which is heavily populated by small businesses and petty traders, forms an important element of Bosnia's "informal" social safety net and enables many thousands to survive, simply cracking down on what is technically illegal economic activity in the informal economy may be counter-productive, at least in the short term. For there is little guarantee that businesses operatnt theing the most serious obstacles to minexistence of ,CS in the informal sector could simply move seamlessly into the formal sector with all their existing employees (indeed, in many cases the only reason such businesses are viable at all is because they operate informally), and a crackdown on informal activity may ultimately produce less employment and less social welfare (Bodewig 2002: 19). Bosnia's informal sector presents, therefore, an important and unresolved dilemma, the solution to which will require a combination of better government, improvements to the social safety net, a rationalization of regulatory and taxation policies, the objective and consistent application of laws, and greater public acceptance of the legitimacy of the rule of law and of those enforcing it.

Given Bosnia's overall employment crisis and the high percentage of workers toiling in the informal sector, the social burden placed on the relatively limited pool of formal sector employees is particularly pronounced. This burden is especially evident with regard to pensions. As in many states, Bosnia's pension system is of the "pay-as-you-go" variety, in which pension contributions paid by employers and their employees are paid out again almost immediately to current pensioners in a form of intergenerational solidarity. Because of the narrow base of official employment from which pension contributions come, and the fact that Bosnia has an aging population and a relatively high percentage of pensioners by European standards, the current system is barely sustainable. Compared to the pre-war period, when the ratio of formal sector workers to pensioners was 3:1, today the ratio in Bosnia is closer to 1.4:1, meaning that fewer workers are supporting a greater number of pensioners.[12] The burden that this reality has placed on the pension system manifested itself for a number of years in perennial pension arrears, as incoming contributions failed to keep pace with outgoing payments. In 2001, then-High Representative Wolfgang Petritsch intervened to require that the pension funds pay out in a given month only what they take in. While this has resulted in more regular pension payments, it has not resolved the question of resources, and has meant that the average monthly pension – at KM 199 in the Federation and KM 161 in the RS – remains far below the poverty line (OHR July 2004: 18). While there has been some talk of radically reforming Bosnia's pension system by adding a mix of public/private and voluntary/mandatory tiers to the current system, such reforms remain years away; in the meantime the only solution seems to lie in the hope that more workers can be brought into the formal economy.

As mentioned previously, the international strategy for employment generation in Bosnia has rested largely on the twin hopes of privatization and foreign direct investment, combined with regular pleas to domestic political authorities to create a more business-friendly regulatory framework. While the international community has adopted a more aggressive approach of late, exemplified by the establishment of the so-called "bulldozer committee" in late 2002, increased attention is also being focused on the inefficiencies of the Bosnian labor market as an obstacle to employment creation.

Despite the introduction of new labor legislation in both entities in 2000, designed mainly to make it easier to hire and fire workers, the World Bank continues to characterize Bosnia's labor market as "static" and "sclerotic" (Vodopivec 2002: ix, xiii). This persistent sclerosis stems from a number of factors. First, there is growing evidence of a high degree of immobility within the labor market, stemming from ongoing employment discrimination on the basis of ethnic can be read as an attempt by themeCSity, and the fact that most people's sources of social support, such as land and family networks, are tied to physical communities. Bosnia's current circumstances, in other words, make it hard for workers to move to where the jobs are. Second, evidence of a skills gap is also emerging, with some studies indicating that even in the context of high unemployment, many firms have difficulty finding qualified workers. This points to the need for more and better retraining programs and, over the longer term, better-targeted vocational education.[13] Third, the country's employment bureaus are ill-equipped to perform the intermediary role of bringing job-seekers and employers together, and little progress has been made towards developing this match-making capacity. Employment markets also remain highly localized, with very little information available to job-seekers about opportunities in other cantons or other entities. Finally, despite some reforms a relatively rigid wage determination system still exists in the formal sector, with minimum wages for various categories of workers set by collective agreements between governments and trade unions. Such agreements also prescribe fringe benefits, the provision of automatic pay increases for work experience, and mechanisms for adjusting wages to inflation (Vodopivec 2002: xii).

Ultimately, the World Bank prescription for Bosnia's labor market woes is:

to keep liberalizing the legislative and institutional framework so as to promote a labor market which offers a scope of regulations and rights which is acceptable but also enforceable, and minimizes disincentives for informal sector employers to move into the formal sector over time.

(Vodopivec 2002: 81)

Given the push for private sector growth, however, there is room for concern that future labor market reforms will lean too far in the pro-market direction, thereby depriving formerly well-protected workers of even basic rights or protections in the name of employment generation.

While reforms in all these areas will undoubtedly go some way towards addressing particular aspects of Bosnia's current employment crisis, even if swiftly and flawlessly implemented they will not change the core fundamentals of Bosnia's political economy. Realistically, for the foreseeable future the country will remain weak, divided, politically unstable, and plagued by organized crime and corruption. In this context, current reform efforts aimed at employment growth, and by extension social sector regeneration, will produce limited results at best. In the meantime, the remaining hope for reinforcing Bosnia's faltering social sector lies in making better use of existing resources.

Rationalizing resources

It is one of the many paradoxes of post-Dayton Bosnia that in the context of a broad and deepening social crisis, marked by high unemployment, widespread poverty, increasing unrest, and a growing gap between theoretical entitlements and real benefits, one of the central messages of the international community is that social sector spending, and public spending more generally, is far too high. As one recent World Bank report argued, "present public sector expenditures are well beyond the levels that can be sustained with BiH's future resource availability and if the transition objective of private sector-led growth is to be achieved" (World Bank in post-Dayton Bosnia" aid=" international 2002: 21). This paradox cannot be attributed solely to the prevailing neoliberal distrust of the state sector, but can be explained in large part by Bosnia's rather unique constellation of forces impacting on the social sector. This constellation consists of the remnants of the Yugoslav-era social safety net, overlaid by the complex consociational governance structures mandated by Dayton, which are further overlaid by the highly political and ethnically driven nature of much social sector spending. While few within the international community in Bosnia would suggest that simply rationalizing and re-allocating existing resources within the system would provide Bosnia's citizens with a credible social safety net and reliable social services, a strong consensus does exist that there is much to be gained through a more efficient use of current resources. As noted above, however, since both structural and political factors have to date precluded any radical overhaul of this multilayered system, even achieving minimal progress towards social sector rationalization has been fraught with difficulties.

Many of the obstacles facing those taking up the challenge of social sector reform in Bosnia stem from the complex and highly decentralized constitutional structures established at Dayton. While Republika Srpska has remained relatively centralized, many of the responsibilities for the provision of social services within the BiH Federation have devolved to the cantonal level. When one also includes the autonomous district of Brcko in the calculations, one is left with no less than a dozen health, education, and social assistance systems serving a population of approximately 4 million. This proliferation of systems, and their accompanying bureaucracies, is complicated further in the Federation by the presence of "mixed" Muslim-Croat cantons, which have maintained parallel social sector infrastructures throughout most of the post-Dayton period. Thus, in the higher education sector, for example, not only has the trend been for each canton to establish its own independent institutes of higher learning, but the divided city of Mostar has also seen the establishment of the University of West Mostar and the University of East Mostar, each offering similar courses to ethnically homogeneous student bodies.

This extreme fragmentation of virtually every aspect of Bosnia's social sector has consequences far beyond bureaucratic overlap, excess, and inefficiency. The country's complex system of fiscal federalism has created considerable confusion over which level of government is responsible for setting policies and which for implementing them. The resulting proliferation of "unfunded mandates" for many local authorities has generated a growing gap between the rights citizens possess on paper and those they enjoy in practice (World Bank 2002: 80).

Social sector fragmentation has also meant that for many Bosnians, their social rights end at the border of the canton or entity in which they currently reside. This presents an obvious problem given the enormous numbers of displaced persons within the country and the international push to return these people to their prewar homes of origin. Until relatively recently, for example, many returnees found themselves unable to access health care or pension benefits. It wasn't until 2000–01 that the Office of the High Representative brokered agreements between the two entities that enabled returnees to collect their pensions and receive health care coverage in their old/new homes.

Bosnia's complex jurisdictional divisions have also resulted in widely divergent levels of benefits and services among regions. In its public sector spending review, for example, the World Bank reports that social welfare spending in Z; and humanitarian aid 14

In addition to the particular impacts of Bosnia's institutional structures on the social sector, political factors have also prevented a more rational allocation of resources within the system(s). While officially most issues related to ethnic-based discrimination in the social sector have been resolved, largely as a result of interventions by the High Representative, in practice many members of minority and returnee communities still encounter difficulties in accessing social services and entitlements.[15] Perhaps more significant, however, is the question of veterans' benefits, which have consumed fully one-quarter of the Federation budget and some 12 percent of the RS budget in recent years (World Bank 2004: 14). While few would question the legitimate right of states to support their war veterans and the families of fallen soldiers, in Bosnia's case such payments overburden an already strained social support system, redirect resources away from the most vulnerable populations, and produce an ethnically skewed distribution of benefits within the entities. At the same time, war veterans are among the strongest supporters of the ruling nationalist parties, and are the best organized, most politically active, and potentially most disruptive category of social beneficiary. Progress on this issue has come belatedly and only after significant international pressure, with the World Bank in particular holding back a $51 million Social Sector Adjustment Credit until legislative changes were made. Finally, in May 2004, both entities passed new legislation on war veterans, aimed at making the system more transparent, restrictive, and affordable.

Elsewhere as well, tackling issues of efficiency and accessibility within Bosnia's still-polarized political landscape has been relatively slow going, particularly since such reforms are not simply about administrative streamlining but address fundamental questions of identity and multi-ethnicity that remain unresolved a decade after the fighting stopped. In the field of education for example, considerable effort has been devoted to promoting multi-ethnic, inclusive education as a means not only of overcoming ethnic division but also of addressing the inefficiencies that have boosted per capita education spending in Bosnia to twice the Western European average, without corresponding increases in quality (World Bank 2002: 93–4).

Since the war ended in 1995, the classroom has been one of the most important spaces where the unresolved nature of the Bosnian conflict has been played out, with the tendency being towards ethnic apartheid in the classroom. Education, in the words of a recent OSCE factsheet, "is frequently used as an ideological tool to reinforce ethnic bias, intolerance, segregation and discrimination" (OSCE October 2002). Separate curricula, particularly in sensitive "national subjectsWoodward, S. international " such as history, language and literature, and geography, have been the norm in the majority jurisdictions of each ethnic group, and have promoted versions of Bosnian society, culture, and history that are often deeply offensive to members of minority communities. Serb children, for example, have been taught that the 1992–95 war amounted to a Muslim campaign of genocide against the Serbs, while Bosniaks are taught that the Serbs "attacked our country," and Croats learn about how their forces fought off Serb and Muslim "aggressors." Bosnian Serb and Croat students, meanwhile, are regularly reminded that Bosnia is not, and has never been, a separate nation (Hedges 25 November 1997). Unsurprisingly, this has produced a system in which minorities have been loath to send their children to schools under the control of another ethnic group, while nationalist hardliners have been only too happy to maintain strict segregation within the education system. In practical terms, this has produced the phenomenon known as "two schools under one roof," where two mono-ethnic schools operate within the same facility, as well as widespread bussing of minority schoolchildren back into majority areas where they can be taught in their "national" curriculum. A case in point of the latter phenomenon can be found in the town of Sanski Most where, despite the return of thousands of Bosnian Serbs over the past several years, only 15 Serb children were signed up for primary school for the 2002–03 school year (ICG December 2002: 20). For the most part, therefore, ethnic politics has trumped issues of efficiency or quality of education. In late 2001, for example, the Croat principal of a shared Bosniak-Croat school in the southwestern town of Stolac refused to use donated computer equipment, maintaining that not having the equipment was a lesser evil than being forced to share it with Bosniak students (TWIB 16 December 2001). At the same time, officials in the central Bosnian municipality of Travnik estimate that monthly bussing costs of up to KM 40,000 could be halved if students attended the school closest to where they lived rather than being bussed to mono-ethnic schools (OSCE March 2003).

In March 2002, an interim agreement on the rights and needs of refugee children was brokered by the OHR in an effort to begin to address distortion and discrimination within Bosnia's education system. Driven primarily by the international community, the agreement attempts to address the issue of minority education by giving minorities access to their own "national group" of subjects, by encouraging the hiring of minority teachers, and by making the ethnic composition of school boards reflective of the school population within a particular board's jurisdiction.

Some progress towards these goals has been achieved, particularly in the aftermath of a major reshuffling of international responsibilities in mid-2002 which left the OSCE Mission to Bosnia as the lead international agency on education reform issues. Largely due to consistent international pressure, a growing number of schools within Bosnia are now genuinely multi-ethnic, and Bosniak children are now attending school alongside Bosnian Serbs even in places such as Srebrenica. Whiority le mucreturnh resi and inter-ethnic reconciliatistance to multi-ethnic schooling remains, analysts such as Mark Wheeler see the gradual progress on school reintegration as a significant sign of progress, and an indication that "the foreigners have outlasted the hardliners and the haters."[16]

Sadly, however, the problems with Bosnia's education system extend far beyond questions of multi-ethnic schooling. While reducing bussing and the administrative overlap produced by theation Force (NATO)

17 The system, he suggests, is both underfunded and overfunded. While per capita spending is high by European standards, paradoxically almost no resources are available for material upkeep, heating, school supplies, or teacher training, let alone for capital-intensive infrastructure such as computer equipment or library development.[18] At the same time, the task of modernizing Bosnia's socialist-era curriculum has barely begun, and Bosnian students study under a system universally recognized as outdated and overly reliant on rote learning. Much work also remains to be done to update Bosnia's vocational education system to more adequately prepare graduates for life in a market economy. Perhaps in part because of the poor quality of education and the lack of decent job prospects for graduates, secondary school enrolment has also been in decline, falling from 80 percent to a somewhat alarming 56 percent between 1990 and 2000 (UNDP 2002b: 39).

Recentralization has emerged as a core element of the broader international education reform strategy that has taken shape over the past two years. In one sense, this trend towards establishing a state-level role in education as a means of bringing some order to a disconnected, incoherent, and still ethnicized educational system is clearly anti-Dayton, since the peace agreement acknowledges no state-level competencies in this area. Nevertheless, the international community has successfully pushed centralization forward on a number of fronts. Even in the absence of a state-level education ministry, a common core curriculum that all Bosnian students are expected to follow, regardless of ethnicity, has been developed and was put into place for the 2003–04 school year, while a state-level framework law on primary and secondary education was adopted in mid-2003. At the same time, efforts are under way to make the inter-entity Standards and Assessment Agency, established in 2000, into an effective body that can set state-wide educational standards and assessment practices, and harmonize Bosnian educational standards with those in the rest of Europe. Finally, it is widely hoped that the creation of treasury systems at both entity and state levels will gradually inject some much-needed transparency, accountability, and rationality into education spending.[19]

Similar issues are evident in other areas of social sector reform, including the health sector. As a proportion of GDP, Bosnia's health expenditures are far above the European average,[20] yet users still face significant service rationing as health care entitlements far outstrip resources, and a growing percentage of health care consumers are forced to pay bribes or unofficial payments. Those with means increasingly turn to private health care providers to get the care they need (World Bank 2002: 103). To date, questions of rationalization, and the associated problem of the lack of health insurance portability across jurisdictions, have been addressed in part through the establishment of a Solidarity Fund within the BiH Federation. This fund, financed from contributions from both the Federation and cantonal governments, is meant over the longer term to ensure consistent health care standards across the Federation, and over the in post-Dayton Bosnia" aid=" international short term to provide immediate financial assistance to those cantons unable to afford to provide expensive tertiary care services (such as major surgery) within their jurisdictions.[21] The Solidarity Fund represents an important experiment in fiscal federalism in Bosnia, as it (re)introduces the notion of providing subsidies across ethnic lines (at least within the Federation) on the basis of need, and it remains to be seen whether this experiment will be successful.

More generally, however, despite claims from the World Bank that health care reforms are more advanced than in other social sectors (2002: 99), relatively little progress has been made towards system-wide restructuring. While individual World Bank projects have helped establish the Federation Solidarity Fund and have attempted to shift the focus of health care in Bosnia from acute care towards prevention and primary health care, major structural issues remain to be dealt with regarding health care financing, administration, portability and universality of health insurance coverage, and the role of private health care providers. And while some progress has been made towards strengthening the coordinating and implementing capacities of entity-level health ministries, beyond the planned establishment of a division for health issues within the state-level Ministry of Civil Affairs there exists no formal mechanism for coordinating health care issues across the entities.

While progress has undeniably been made on the social sector reform agenda (most of which has been achieved since 2002), the bigger task of generating a functional and sustainable social system that can provide Bosnians with some measure of social security, along with decent health care and education, has really only barely begun. The fact that the reforms achieved to date have been almost exclusively the result of international pressure and funding itself raises troubling questions regarding not only the extent to which domestic capacities in the social sector – both in terms of service provision and the design and implementation of reform strategies – remain limited, but also in terms of the inevitable and ongoing decline of international resources and engagement in Bosnia. The sad reality is that levels of social and economic insecurity in Bosnia remain high, and may yet grow higher, even as the country’s neighbors, notably Slovenia and Croatia, grow ever more prosperous and integrated with the European Union.

Human security and the neoliberal peace

Addressing the question of social sector reform in the context of post-conflict peacebuilding operations almost invariably raises additional questions concerning the linkages between human security and peace. Even taking for granted that effective peacebuilding requires something beyond elite pact-making, separating warring factions, and carrying out the largely technical tasks of getting government offices up and running, one is still left with the question of how the broader social environment, and the conditions of ordinary citizens, affect the overall peace process.

While human security is admittedly an unwieldy notion, and has been perhaps justly criticized as expanding the content of security to the point where it means everything, and therefore nothing, it does provide one way of linking post-conflict social sector reforms with the broader peacebuilding contexts in which they are embedded. Traditional notions of security emphasize the security of the state against primarily external threats, and are clearly of limited utility in contexts such as Bosnia, where the central security dynamics operate in post-Dayton Bosnia" aid=" international at the sub-state level. A human security approach, conversely, emphasizes the social and individual dimensions of security, and recognizes that genuine security entails a combination of physical, political, environmental, community, and economic components. Importantly, a human security approach also emphasizes that these various aspects of security are interlinked and mutually dependent. In other words, even if, as in Bosnia's case, important progress has been made towards guaranteeing security in its physical and military senses, these achievements can be undermined by persistent insecurities in other areas. Such an approach, clearly, has important implications for post-conflict peacebuilding, and suggests that greater attention should have been paid to questions of economic and social security from the beginning of the peace process. Indeed, some scholars have begun to define peace-building at least partly in human security terms, thereby making an explicit link between human security and peace. Michael Pugh, for one, defines peacebuilding as “a contribution to human security that combines security sector transformation, rights-based and accountable governance, physical reconstruction, and integrated economic and social development” (2001: 2).

In this context, there is a strong case to be made that social sector reforms in post-conflict environments should be pursued not only as a means of improving the welfare of citizens, and establishing a basic floor of rights, entitlements, and social protections, but also as a means of broadening the constituency for peace, reestablishing the legitimacy of state institutions, and laying the groundwork for social reconciliation. It should be relatively uncontroversial to assert, if difficult to quantify empirically, that delivering a popular “peace dividend” in the form of improved social services will not only help convince citizens of the concrete benefits of peace, but also contribute to the restoration of a basic social contract between state and citizen. While it is perhaps overly simplistic to suggest the existence of a linear relationship between human security and social reconciliation, it is probably safe to suggest that persistent economic and social crisis is not a solid foundation upon which to engage in post-conflict reconciliation. Similarly, in the absence of a determined and coherent strategy to re-establish basic social protections and social stability, there are clear risks that citizens will become disillusioned with the peace process and turn to other agon. Noents, such as ethnonationalist political parties, who promise to provide the very social protections that post-conflict communities lack.

It is increasingly clear, however, that rather than focus on the rapid reestablishment of social stability, the broader peacebuilding strategy in Bosnia has followed more closely the precepts of what Ronnie Lipschutz has termed "the neoliberal peace." According to Lipschutz, the neoliberal peace is rooted in

an agreement whose primary purpose is to foster economic liberalization and growth in the hope that private profits generated through low wages and social costs, as well as international competition, will also result in growth in the public national product and a range of earning opportunities for those with little else to offer but their labor.

(1998: 9)

In this framework, social sector reform is as much about limiting social rights and entitlements as it is about securing them. In Bosnia's case, there is an inherent tension between trying to make the country "the most business-friendly environment in Europe," through a combination of cheap labor, lowation Force (NATO)

supposed to feel insecure; if they do not, the market will not produce its efficiencies" (Buzan et al. 1998: 95). Much of the debate over social sector reform in Bosnia, therefore, can be seen as a product of this tension between the post-conflict imperatives of regenerating social and economic security, and the neoliberal imperative of limiting social and economic security, as a means of both creating the right investment climate and generating the right incentive structure for economic actors.

As outlined above, international efforts at social sector reform in Bosnia have been primarily directed at both expanding the formal sector and rationalizing the resources currently devoted to social sector spending. The first strategy clearly stems from the classic neoliberal peacebuilding assumption that economic growth is the sine qua non of a sustainable, democratic peace. The second strategy, more particular to Bosnia's uniquely convoluted post-conflict political architecture, can also be read not only as an attempt to address the most obvious flaws in the post-Dayton structure of fiscal federalism, but also as the first element of a two-pronged strategy of social sector streamlining followed by social sector belt-tightening. Indeed, the emphasis in recent IFI documents on overspending by Bosnian governments points to the conclusion that efforts to rationalize public sector spending are geared at least as much towards a reduction of social sector spending as towards the more efficient use of current resources. Indeed, there are already indications that the IMF is moving to curb social sector spending in areas such as health care (OHR October 2002: 5).

The failure to date of both economic and social sector reform efforts to stem the tide of rising social and economic insecurity has had two particularly visible impacts on the Bosnian peace process. First, it is unquestionably the case that Bosnia's social and economic crisis has contributed to the recent resurgence of the country's main nationalist parties. After being officially out of power at both entity and state levels for nearly two years, the SDS, SDA, and HDZ were swept back into power in state-wide elections in October 2002. While suggesting that ethnic nationalism is not yet dead in post-Dayton Bosnia, an equally important message emerging from the election results was the depths of voter apathy and disillusionment, both with voting and with their political leaders. Voter turnout, at around 55 percent, was the lowest for any of Bosnia's post-war elections, and widespread apathy allowed the nationalists to return to power on the strength of their hard-core support. As one Bosniak man told Associated Press on election day, expressing a common sentiment: “Before the war, my salary equaled US$750. Today, it’s US$200. I won’t vote for anybody. I feel cheated” (cited in Cerkez-Robinson 5 October 2002).

Equally concerning from the perspective of long-term peace and prosperity is the country’s persistent brain drain. While many of the most talented and best-educated of the million or so refugees who fled Bosnia during the war will never come back, having found permanent solutions in their country of refuge, the exodus of young, educat a vehicle for liquidating citizen claims against the ed millioned, and talented people has continued throughout the post-war period. The UNDP Human Development Report for Bosnia, for example, estimates that upwards of 100,000 young people left the country between the beginning of 1996 and March 2001, while surveys indicate that two out of three who remain would leave if given the chance (2002b: 42). Indeed, even in a relatively opportunity-rich city such as Sarajevo, it is difficult to find anyone under the age of 30 who is not keen on starting a new life somewhere else. As the High Representative has noted, “the haemorrhage of the young and talented poses perhaps the greatest long-term threat to this country” (cited in Ahmetasevic and Poucher Harbin 25 November 2002). Perhaps most troubling of all is the fact that even as the brain drain iwhere is the t

9
Conclusion

This study has set out to explore the tensions and contradictions between the political and economic components of the international community's post-conflict peacebuilding agenda in Bosnia. It has sought to explain why, nearly a decade after the fighting stopped, so little progress has been made towards the establishment of a functioning market economy, and to assess the implications of the stalled economic reform process for the country's broader peace process. The central argument has been that much of Bosnia's ongoing economic crisis can be explained by assessing the interactions of an inappropriate international economic reform model with the country's particular post-conflict and post-socialist political economy. Implicit in this broader argument is the suggestion that the economic and political tracks of the post-Dayton process should have been much more closely integrated from the very beginning. The failure to do so has undermined both economic and political reforms, and has enabled Bosnia's political economy of conflict to persist throughout the post-Dayton period with deleterious consequences for economic recovery and sustainable peace. Recovery and regeneration have been further complicated by Bosnia's complex post-Dayton constitutional structures and the country's unresolved stateness question, both of which have contributed to the perpetuation of a largely dysfunctional political system and reinforced the authority of the same nationalist power structures that remain the central obstacles to market reform.

The consequence of this convergence of factors has not only been stalled economic recovery, but also a deep social crisis, the continued exodus of the country's best and brightest, and popular disillusionment with both democratic politics and the peace process more generally. It is ironic, given the brutal ethnic conflict that was raging in the early 1990s, that it is now economic decline rather than political conflict that represents the greatest threat to Bosnia's future, even if it is clear that the two can never be completely separated.

Ultimately, therefore, the failure to effectivxt_indent" aid="H5A45">More specifically, this study has identified and elaborated upon a number of key elements that have profoundly impacted on Bosnia's post-war environment. First, the country's recent history demonstrates the clear link between state-building and economic transition. Bosnia remains in important ways an unconsolidated state, and the country's ongoing stateness struggle has not only diverted the attention of domestic elites from the imperatives of economic reform, it has allowed those same elites to manipulate the economic reform process for their own political ends. Above and beyond any specific policy mistakes the international community has made with; convergences/disjunctures

Bosnia's stateness struggle has immensely complicated the task of building up state and market institutions, and this reality has been exacerbated by the international community's relatively late recognition of the importance of institution-building. As Chapter 2 demonstrated in some detail, both the literature on the political economy of transition and the literature on the political economy of conflict point to the importance of institutions in, respectively, the transitions from socialism to capitalism and from war to peace. While some scholars speak in terms of "institutional vacuums," it is perhaps more accurate to speak in terms of malign or dysfunctional institutional arrangements that spring up in situations, like Bosnia, that are both post-socialist and post-conflict, and that have to be dismantled at the same time as new institutions supporting both “normal” democratic politics and transparent market relations are erected. As the case of Bosnia clearly demonstrates, of particular importance in this regard are efforts to simultaneously erode the nationalist power structures that have sustained the country’s political economy of conflict throughout the post-war period, and to build up those institutions underpinning the rule of law. The international community’s relatively weak and belated efforts on both fronts, in combination with the strong resistance of the nationalist parties themselves, have left Bosnia bereft of institutions capable of channeling both political and economic relations in ways that contribute to peace, stability, and economic recovery.

A third key issue which has run through this study relates to the international community’s inconsistent and ambiguous approach to the question of Bosnia’s post-war transition, particularly with regard to the country’s ruling nationalists and the nationalist power structures which have built up around them. Much of this inconsistency and ambiguity is rooted in the nature of the Dayton Peace Accords themselves, which sought to be all things to all parties in an effort to stop the war. Consequently, the international community has been torn between recognizing de facto partition and fighting to reconstitute multi-ethnicity, between legitimizing and marginalizing the country’s nationalists, and between imposing market democracy and insisting that Bosnia’s elected representatives take responsibility for the country’s transition process. These tensions have been particularly apparent at the interstices of politics and economics, where the international community has failed to adequately address the post-war consolidation of political and economic power in nationalist hands while at the same time taking it upon itself to remove “anti-Dayton” officials from public office, and where the privatization process, hastened to achieve the quick transfer of public assets into private hands, has been manipulated and abused to serve nationalist ends. Throughout the post-Dayton process, Bosnia’s ruling elites have exploited the inconsistencies and contradictions within the international approach to rebuilding Bosnia, with serious consequences for both economic recovery and political stability.

A final core element of this study relates to the underdeveloped nature of the international community’s toolkit for rebuilding post-conflict societies. More precisely, this study has shown that there is a pressing need to focus on the specificities of post-conflict environments in designing economic in post-Dayton Bosnia in any vtransition strategies, rather than relying on reform templates assumed to work in all places, at all times. In Bosnia’s case, this would have meant paying greater attention to the socioeconomic aspects of human security, particularly regarding employment and social welfare, and to the need to address organized crime and corruption earlier and more comprehensively, especially with regard to the operations of the country’s nationalist power structures. At the same time, the consequences of the disconnection between economic and political reform strategies that has characterized much of the post-Dayton period underline the theoretical assertion, first introduced in Chapter 2, that economic reform strategies should be, if not subordinated, then at least carefully coordinated with broader peacebuilding processes. To take just one example, social stability cannot be sacrificed to macroeconomic stability if fragile and uncertain peace processes are to be given a reasonable chance of success. Framed more generally, in the context of post-conflict environments economic reform strategies should be assessed not only for their economic impact, but also for their impact on the broader goal of consolidating a stable and sustainable peace.

Determining precisely what has gone wrong in Bosnia and what mix of international policies and strategies might have led to different, and better, economic outcomes is no easy task. To be sure, the challenge of shepherding an unconsolidated, deeply divided post-conflict state such as Bosnia from plan to market is enormous and complex, and the possibility that even the most enlightened international policies might not have produced dramatically different economic outcomes must at least be acknowledged. Even today the Bosnian situation, in both its economic and political dimensions, resists simplistic prescriptions or sweeping generalizations.

One of the key lessons to be drawn from Bosnia's economic reform experience is, indeed, that purportedly universal models of reform should be treated with considerable skepticism. As various chapters have demonstrated, attempts to implement an off-the-shelf strategy for stabilization, liberalization, and privatization – a formula whose success in other transition contexts has been, at best, profoundly mixed – were bound to be deeply distorted in Bosnia's particular post-conflict, institutionally weak environment. In other words, unique situations call for unique solutions, and such solutions often emerge only through a process of trial and error and by a constant calibration of reform prescriptions to domestic political realities. As Joseph Stiglitz has argued with regard to the emerging post-Washington consensus, the lessons of the past decade of post-communist transition suggest that "a greater degree of humility is called for, [an] acknowledgement of the fact that we do not have all the answers" (1998b: 34).

Faulty assumptions

With the benefit of at least some hindsight it seems clear that the international community approached the challenge of transition in Bosnia with a number of faulty assumptions. The first, and perhaps the most problematic, was the assumption that local political elites could either be converted into, or rapidly replaced by, market-friendly reformers. Ththe domestic parties to the Dayton peace agreement were expected to move quickly from fighting over the remains of the Bosnian republic to collaborating in the reconstruction of a viable, multi-ethnic Bosnian state. This overestimation of the willingness of domestic elites to buy into the international roadmap for Bosnia's transition meant that the: Penguin.

Of course, assuming that Bosnia's squabbling nationalists could either be brought on board the Dayton project, or overthrown by electorates tired of war and hungry for peace and some measure of prosperity, also meant misreading the nature of the nationalist power structures that emerged over the course of the Bosnian conflict. A clearer understanding of the politiis poical ecnt also applies more generallyonomy of conflict heading into the post-Dayton period may have produced a more sober assessment of the degree to which Bosnia's leaders were susceptible to either co-option or coercion. As it was, Bosnia's three ethnopolitical power structures proved to be not only relatively stable – supported by traumatized, dependent electorates and by their expanding control of whatever economic assets post-Dayton Bosnia had left to offer – but also fundamentally opposed to the reform agenda being advocated by the international community. As Hugh Griffiths has suggested, a closer reading of Bosnia's political economy of ethnic conflict makes the source and the rationale for this opposition quite clear: both peacebuilding and market-building threatened to undermine the country's post-war political economy, and thus the political and economic underpinnings of nationalist power (1999: 59).

The international failure to fully comprehend the nature of the political forces at work in post-Dayton Bosnia also facilitated the belief that the country's economic transition could be carried out in largely technical terms, isolated from the highly polarized political environment. This, in turn, enabled the country's political elites to manage the implementation of internationally prescribed policies in such a way as to further their own political interests. Bosnia's privatization process has shown with perhaps the greatest clarity the ability of the country's nationalists to manipulate an international strategy which largely ignored the political and ethnic implications of privatization.

A second flawed international assumption relates to the expectation of a seamless transition from internationally-led reconstruction to market-led growth. In part because of the ability of nationalist power structures to resist and subvert market-oriented reforms, creating the conditions for long-term private investment in the Bosnian economy has been an uphill struggle, and remains far from being achieved. As various chapters have elaborated, the remaining obstacles to private-led growth in Bosnia are considerable. Among the most significant are:

- both the perception, and the reality, that corruption is rampant and that organized criminals operate with relative impunity and in collaboration with political authorities at the highest levels;
- continued political instability caused by Bosnia's ongoing stateness struggle, which has

entrenched the country's reputation as a political powder keg;
- the failure to establish a single economic space within Bosnia, which has created considerable obstacles to doing business even within the small domestic market;
- the largely unreformed regulatory regime for economic activity, which has left entrepreneurs at the mercy of a pervasive "inspections racket" and subject to considerable political pressure; and
- the absence of a state-wide, or even entity-wide, industrial development strategy, or any government assistance to potential export industries.

All of these : Penguin.

Nearly a full decade after the Dayton peacebuilding process began, the absence of such appropriate institutional structures is evident across Bosnia's political landscape. The institutions underpinning the rule of law, especially the police and the judiciary, remain flawed, and dispense justice either selectively or not at all. The country's social institutions, covering everything from health to pensions to education to social welfare, remain in the very early stages of reform, and provide little support in a general climate of social decay. Taxation and regulatory institutions, rather than promoting private-sector development, continue to act as obstacles to economic regeneration. And while informal institutions such as clientelism or the gray economy continue to sustain large numbers of Bosnian citizens, these same institutions – in combination with the absence of other informal institutions such as a state-level social contract between the governors and the governed – also act to undermine the development of a "normal" market economy.

In a similar way, Bosnia's experience with privatization and liberalization has shown that unleashing raw market forces in the absence of proper institutions that can channel entrepreneurial zeal in ways that serve the public good can in fact further undermine the conditions necessary for functioning markets to develop. As elsewhere in the region, Bosnia's privatization process has provided ample opportunities for the well connected and the corrupt, with few evident benefits in terms of reinvestment or overall private sector development. At the same time, privatization in Bosnia has also become one more battlefield in the country's ongoing stateness struggle, and has been used, and abused, by each of the three main political power structures to further their own political – and often financial – interests. Similarly, whatever entrepreneurialism Bosnia's partial liberalization has produced has been largely directed towards expanding and consolidating the country's underground and black market economies, with the vast majority of benefits accruing to the already wealthy and powerful.

A third faulty assumption with which the international community has approached the task of building a market economy from the ashes of post-war Bosnia was that, even if imperfectly implemented, the familiar neoliberal strategies of stabilization, privatization, and liberalization would lead to recovery and, eventually, prosperity. One could indeed be forgiven for assuming that a stabilized, liberalized, and privatized Bosnian economy was the end goal of i: Penguin.

Outlines of an alternative approach

Indeed, while many of the factors impinging on Bosnia's tortured economic transition process have been out of the international community's direct control, particularly once the Dayton Peace Accords were signed, the foregoing analysis suggests a number of broad areas where, in hindsight, a more tailored international approach might have produced superior results.

First, on the institution-building front, one of the greatest impediments to the progressive implementation of the broader peacebuilding agenda in Bosnia has been the rather yawning “enforcement gap” that has persisted over the course of the post-Dayton period. As noted in Chapter 4, Bosnia’s own corrupt, ethnicized, and politicized police forces have been expected to fill the law enforcement gap between the NATO-led peacekeeping force, which has clung to a rather conservative interpretation of its mandate, and an unarmed and anemic UN International Police Task Force (replaced at the end of 2002 by an even weaker European Union Police Mission), which has been subject to repeated charges of ineptitude. Combined with a largely dysfunctional judicial system which is only now being reorganized, the result has been virtual impunity for the vast majority of Bosnia’s criminal classes, from smugglers and organized criminals to perpetrators of ethnically motivated intimidation and violence.

Clearly, earlier and more robust action in the areas of criminal justice and law enforcement could have yielded enormous benefits in terms of both political stability and economic reform. Even today, the international community has few tools at its disposal to deal with organized criminal elements, and remains dependent on local law enforcement authorities, who remain largely incapable – either because of lack of capacity or complicity – of dealing with the challenge. Various international mechanisms have been conceived to close the law enforcement gap – carabinieri-style units were deployed to Bosnia beginning in 1998 in order to provide a more robust international capacity to deal with public disorder, while more recently an organized crime and corruption department was established within Bosnia’s state court. Despite these efforts, however, serious gaps in the structure and practice of law enforcement remain.

Second, an early and intensive focus on job creation rather than on privatization might have helped head off Bosnia’s deepening social crisis, diverting workers from the informal or criminal economy, and creating the conditions for the accelerated return of refugees and displaced persons. While it is true that employment generation strategies have been part of the international peacebuilding effort in Bosnia, most of these efforts have been focused on small and micro-enterprises, and have not made a significant dent in the country’s ongoing employment crisis. Conversely, the international policy of making assistance to large enterprises conditional on privatization has had the practical effect of kill entity-level responsibility Ceffectiveing off Bosnia’s already crippled industrial sector and condemning thousands to the ranks of the unemployed. Following Stiglitz’s argument about the need to make the best use of the human, in t and physical assets at a transition society’s disposal, there is therefore a strong argument to be made that a concerted effort – employing joint public–private financing where possible – should have been made to get the most viable of Bosnia’s industrial assets up and running again without waiting for the country’s protracted and convoluted privatization process to play out (1999: 15). While such a strategy still leaves the problem of dealing with the broader nationalist stranglehold over the economy – since providing international restructuring assistance to party-controlled enterprises would have generated as many problems as it would have solved – this strategy might have made sense in the context of a broader, and earlier, international effort to tackle the roots of nationalist power within Bosnia.

This challenge, thirdly, lies at the very heart of the peacebuilding dilemma in Bosnia – the international community's profound ambivalence towards Bosnia's ruling nationalist parties, who are seen both as indispensable partners and intransigent obstacles, has contributed to inconsistent and often contradictory international policies towards them. This ambivalence can be seen in the international community's championing of "local ownership" of the peace process while simultaneously claiming ever-greater legislative and executive authority for itself. The inconsistent international application of carrots and sticks, combined with the uneasy division of power between international and domestic authorities, has provided Bosnia's nationalists with considerable room to maneuver in their ongoing efforts to maintain economic and political power. Bosnia's nationalist parties have, in fact, been remarkably resourceful in navigating between the twin imperatives of conserving their own sources of power and authority while demonstrating sufficient cooperation with the peace implementation process to avoid provoking a more aggressive international response. Ultimately, however, the European Stability Initiative's 1999 characterization of Bosnia's nationalist power structures remains substantially true today:

Nationalist leaders have a strategic interest in maintaining the conditions on which their power depends: pervasive separation; fear and insecurity among the general populace; a lack of democratic accountability; breakdown in the rule of law; personalized control over the organs of public order and the absence of institutions capable of controlling illegal economic activity.

(ESI October 1999: 2)

Beyond their close connection to the 1992–95 war and their claims to best represent the fundamental interests of each of Bosnia's major ethnic groups, however, the major factor separating the HDZ, SDA, and SDS from "ordinary" Bosnian political parties is the extent of their control over the country's remaining economic assets. Despite this, far too little has been done to separate the nationalist parties from their economic power bases. In fact, the international response to consistent nationalist obstruction of the peace process has largely been limited to the usurpation of legislative power, the removal of individual politicians from office, and regular exhortations to the Bosnian electorate to come to their senses and elect more moderate and progressive leaders. As late as the year 2000, for example, international electoral rules permitted elected politicians to sit on the management boards of state-owned&Ceffective enterprises, a situation which often made it difficult to distinguish between state-owned and party-owned companies (OSCE 21 February 2000). Of course, privatization was meant to be the core strategy through which the nationalists were to be separated from their economic supports, but to date this has proven to be a false hope. While privatization may ultimately prove to be the long-term solution to this problem, Bosnia's immediate post-conflict needs demanded a more urgent remedy. In the absence of such a remedy, the country's nationalist power structures, and their robust ability to obstruct both economic reforms and the broader peace implementation process, have remained intact.

Without question, tackling the economic roots of Bosnia's nationalist structures would have required intrusive international involvement in the country's post-war economy. It would have required much greater use by the High Representative of his powers in order to remove demonstrably corrupt management boards and managers of publicly owned enterprises, and much greater use of international audits such as those recently completed on the three state-owned electricity utilities. In certain cases, it might also have meant the imposition of multi-ethnic management boards, with or without international supervision, as a means of preventing the ruling parties from monopolizing the resources of particular enterprises. And in exceptional cases, following the model used in the international takeover of Hercegovacka Banka, it might also have been necessary to place certain enterprises under direct international stewardship – with mixed international/Bosnian management structures – as a means not only of regenerating production but also of cutting the links between enterprise and party and preparing the enterprise for eventual privatization. Less intrusively, international assistance for the restructuring of state-owned enterprises could have been offered, with full financial transparency and multi-ethnic management being a condition for such assistance.

While such prescriptions may appear unduly interventionist, it is not entirely clear why such actions would necessarily be more provocative than the dismissal of senior, and democratically elected, domestic politicians by the High Representative. Nor is it clear why, given the clear links between economic reform and both peacebuilding and state-building, the publicly owned sector of the economy should be somehow off-limits to the exercise of international power and authority. Indeed, if entire towns, such as Srebrenica or Brcko, can be placed under the watchful eye of an international supervisor, the same treatment for public enterprises should also have been possible. Certainly, such prescriptions seem to flow logically from the analysis above, in that the he sense that

Notes

1 Introduction and Overview

1 The phrase “international community” should be treated with some caution. It is used here as a convenient shorthand to describe the broad range of external actors active in Bosnia – including states, international : Penguin.

2 Ivan Vejvoda (1996: 16) also argues that self-management “was ultimately a façade, a veil for the real decision-making going on at the highest levels of communist power.”

3 Classic statements of this position include Mearsheimer and Pape (14 June 1993) and Kaufmann (1996).

4 For a more detailed discussion of realist vs constructivist arguments vis-à-vis Bosnia, see David (2001).

5 Chossudovsky (2000) suggests, for example, that IFI policy towards Yugoslavia during the 1980s was at least partially a product of the United States’ policy of undermining socialism wherever it existed.

6 This is still largely true, despite the fact that Bosnia’s human capital base has been eroded by wartime refugee outflows and post-war emigration. For a more detailed discussion, see Chapter 8.

7 Space considerations preclude a detailed discussion here of the course of the Bosnian conflict; good overviews include Woodward (1995), Silber and Little (1996), Glenny (1993), and Maass (1996); for a searing indictment of Western inaction around the Bosnian conflict, see Rieff (1996).

8 Indeed, at the time of writing Milosevic is on trial for war crimes in the Hague, while Karadzic remains in hiding somewhere in the former Yugoslavia. The issue of Tudjman’s and Izetbegovic’s involvement in war crimes has become moot, as both have now passed away. The term “Bosniak” was adopted during the 1990s by Bosnia’s Muslims, in part to de-emphasize the religious aspect of their community.

9 A more optimistic reading of return figures, of course, would focus on the fact that close to 1 million refugees and displaced persons have returned home as of May 2004, including some 442,000 who have returned to live as minorities in areas under the control of wartime enemies. On return statistics, the United Nations High Commissioner for Refugees posts updated return figures at http://www.unhcr.ba/return/index.htm. On the return process more generally, see Chapter 7, as well as ICG (December 2002).

10 Under the terms of Dayton, Bosnia was divided into two entities, the Muslim-Croat Federation of Bosnia-Herzegovina, and Republika Srpska.

11 Within Republika Srpska, the hardline SDS party remains the single largest and most influential

political bloc, while the equally hardline HDZ retains its dominance within Croat-controlled areas of the country. The situation in: Penguin.

12 Unemployment figures, in the case of Bosnia, vary widely and should be treated with considerable caution. Given the significance of the informal economy, some studies have suggested that Bosnia’s “real” unemployment rate is below 20 percent, even though much informal sector employment is marginal at best; see UNDP (2003: 15).

13 Author interview with Kristina Hemon, Analyst, International Crisis Group, Sarajevo, 21 February 2001.

14 Former international High Representative Wolfgang Petritsch was particularly vocal on the concept of “local ownership”; see, for example, OHR (9 May 2000).

15 The Peace Implementation Council, or PIC, is a group of 55 countries and international organizations that oversees Bosnia’s peace implementation process; see OHR (June 2000).

16 This definition is drawn from Stubbs (2001: 95).

2 The Washington Consensus Meets the Political Economy of Conflict

1 John Williamson, the economist who coined the term, framed the consensus in terms of ten general tenets on issues such as privatization, fiscal discipline, trade liberalization, and tax reform. For an annotated list of the original elements of the consensus, see Naim (2000: 89).

2 Foreign direct investment has been a double-edged sword in other ways as well, since not only do foreigners exert greater control over locally based industries, they also enjoy cash flow rights from these industries. For a more detailed discussion of these issues in the Eastern European context, see Poznanski (2001b).

3 For a more detailed elaboration of this argument, see Hellman (1998).

4 At the end of the 1990s, the debate was still very much alive; for a taste of the surprisingly rancorous debate raging at senior levels of the international financial institutions, see The Economist (18 September 1999).

5 Details on the project can be found on the World Bank's website at: http://www.worldbank.org/research/conflict/index.htm

6 For a more detailed overview of these issues, see Duffield (2000) and Berdal and Keen (1997).

7 On Angola, see HRW (September 1999); on: Penguin.

8 Ayoob uses the term "subaltern" to distinguish his form of "Third World" realism, which emphasizes the need for a strong state, from more conventional American realism with its emphasis on power, self-interest, and anarchy in international affairs.

9 In Bosnia, for example the Dayton Accords mandated that elections be held no later than nine months after the signing of the peace deal.

10 On the question of "spoilers" in peace processes more generally, see Stedman (1997) and Chapter 4 of this volume.

11 Peter Gowan, for example, argues that rather than producing growth, foreign direct investment follows growth (1995: 40–1).

12 Author interviews with officials from the United States Agency for International Development, Sarajevo, February 2001.

13 See, for example, Bienefeld (1995).

3 State-Making the Dayton Way

1 As noted in Chapter 1, stateness refers to the degree to which a consensus exists on both the territorial and social limits of a given state; see Linz and Stepan (1996: 16).

2 Bosnia’s currency is the konvertible mark (KM), the value of which was originally tied to the German Deutschmark (and subsequently to the Euro) under currency board arrangements. The RS budget for 2000 stood at KM 698 million, the Federation budget at KM 940 million, and the state budget at KM 265 million, of which all but KM 78 million was allocated for external debt payments; see EBRD (2001).

3 The agreement also contains a provision allowing compensation in cases where property cannot be returned.

4 As noted in Chapter 1, a much-anticipated “breakthrough” in minority returns began to take hold in 2000; see UNHCR (2004a), as well as Chapter 7.

5 A major part of the debate, of course, is whether there in fact exists “a Bosnian people,” and, if not, whether such a phenomenon can be brought into existence through the Dayton state-building project.

6 David Campbell contends that civic nationalism had its champions well into the Bosnian conflict, but that these forces were marginalized in part because of the international community’s decision to treat the conflict in “ontopological” terms, that is, as a conflict in which the only possible solution was some form of ethno-t: Penguin.

7 One prominent exception to the relative underemphasis on state-building was the establishment of the Central Bank of Bosnia and Herzegovina, under international stewardship, in mid-1997. Indeed, the official launching of a single Bosnian currency can be considered to be one of the international community’s earliest successes on the state-building front.

8 For a more detailed elaboration along these lines, see Chandler (1999) and Carpenter (2000).

9 Ironically, however, Bosnia’s application for PfP membership at NATO’s Istanbul Summit of June 2004 was turned down not because of insufficient progress on the military reform front, but because of Republika Srpska’s failure to cooperate fully with the International War Crimes Tribunal.

10 Author interview with Mark Wheeler, Bosnia Project Director, International Crisis Group, Sarajevo, 26 March 2003.

11 Author interview with Allen Jensen, Head of Office, Customs and Fiscal Assistance Office to Bosnia and Herzegovina (CAFAO), Sarajevo, 18 September 2002; more details on corruption within the customs sector can be found in Chapter 4.

12 Under the terms of the Dayton agreement, Karadzic himself was forced to step aside as SDS leader, but remains a potent symbolic figure in Republika Srpska.

13 It is also the case, however, that the entity’s growing poverty has deepened the persecution complex among many Bosnian Serbs, which has played into the hands of nationalist forces.

14 Author interview with Vadim Gorelov, Political Advisor, Office of the High Representative, Sarajevo, 19 September 2002.

15 Paddy Ashdown, the current High Representative, has for example attempted to make the most out of a bad outcome for the international community in the national elections of October 2002 by noting that two of the three main nationalist parties actually saw their share of the popular vote decline; see DA (8 October 2002).

16 It should also be noted here that in the context of Bosnian politics, the terms “moderate” and “nationalist” should be seen as relative, as the line between moderates and nationalists is not always as clear as it first appears. Among Bosniak-dominated parties, for example, Haris Silajdzic’s Party for BiH has been in and out of SDA-led coalitions, and even the SDP has become less “civic” and more nationalist in recent years as it struggles to hang on to its core constituency. Likewise, virtually all RS-based parties are nationalist to greater or lesser degrees, a Ivanic’s Progressive Democratic Party (PDP), which is considered quite moderate within the international community,: Penguin.

17 For more on the two turbulent years of the Alliance for Change governments in Bosnia, see ICG (August 2002).

4 Resistance and Entrenchment

1 Information on the RS customs scandal is drawn from Jerenic (14 June 2002), and from an author interview with Allan Jensen, Head of Office, CAFAO, Sarajevo, 18 September 2002.

2 The other side of this equation, discussed in the following chapter, is the way in which the international community has pursued questions of economic transition in the Bosnian context.

3 Arkan, whose real name was Zeljko Raznjatovic, continued his underworld activities in Serbia after the conflict in Bosnia ended, before being gunned down in the lobby of Belgrade's Intercontinental Hotel in January 2000. Seselj's far-right Serbian Radical Party continues to be a force in Serbian politics, with Seselj himself having served as Serbia's Deputy Prime Minister from 1998–2000 before "volunteering" to stand before the International Criminal Tribunal in the Hague in early 2003.

4 I am indebted to Ambassador Robert Barry for first introducing me to this notion.

5 This is the standard definition employed by the international corruption watchdog Transparency International; Karklins (2002: 23) adds "at the expense of the public good" to her own definition.

6 Author interview with Marcus Cox, Senior Analyst, European Stability Initiative, Sarajevo, 10 September 2002.

7 Author interview with Allan Jensen, Head of Office, CAFAO, Sarajevo, 18 September 2002; see also OHR (6 December 2002).

8 See, for example, Jukic (31 December 2001) on the direct links between senior HDZ leadership, the trading firm Croherc AC, and more than 120 fictitious companies.

9 Public opinion polls also bear out the conclusion that Bosnia's ruling nationalist parties are among the country's most corrupt institutions; see Cubro (23 March 2004).

10 The raid triggered a dangerous confrontation with a rapidly organized mob of ethnic Croats, during which one group of auditors and their escorts were held hostage for more than 12 hours, while in a separate incident an Irish EU monitor was beaten unconscious and suffered permanent brain damage; see Smith (24 June 2001).

11 Author interview with Radomir Marinkovic, European Commission Consultant, Sarajevo, 19 September 2002.

12 Author interview with Mark Campbell, Economic Advisor for Tax Policy, Office of the High Representative, Sarajevo, 18 September 2002, and internal documents provided to the author.

13 Some bright spots do exist, such as the Federation Financial Police, but these have very much been the exception rather than the rule; see DA (10 February 2001).

14 David Chandler, one of the most vocal critics of the international community in Bosnia, consistently avoids addressing this question in his own work; see Chandler (1999).

15 Of course, the persistence of organized crime and corruption in the world's most developed countries suggests that not even the most effective law enforcement agencies can be expected to completely eradicate these phenomena. In Bosnia's case, however, the gap between the nature of the problem and the forces aligned against it is such that the criminal and the corrupt enjoy virtual impunity.

16 On the involvement of both local and international police in activities related to trafficking in women, for example, see HRW (November 2002).

5 Business as Usual

1 All monetary figures cited here are in US dollars unless otherwise noted. Figures are from Cousens and Cater (2001: 87, 89), and Hertic et al. (2000: 316).

2 This arrangement has since been extended beyond its initial timeframe.

3 This includes, notably, defense, policing, justice, taxation and customs administration, agriculture, industry, and other economic policies; and health and social policies.

4 Dayton does, however, stipulate that the state government may eventually be able to levy its own taxes, with the approval of the state parliament.

5 The governor of Bosnia's Central Bank since its inception, and therefore the individual responsible for the management of the country's currency board arrangement, is New Zealand's Peter Nicholls.

6 Discrepancies in accounting figures are largely due to the challenges posed by attempting to track donor funding and disbursements.

7 It should be noted, however, that growth figures appear more impressive than they actually are, given the very low base of economic activity in 1995. On a per capita basis, Bosnia's GDP rose from around KM 900 in 1995 to KM 2,900 in 2003, but the latter figure still represents about half the pre-war level (PRSP 2004: 34).

8 While World Bank conditionality regarding the implementation of economic reforms has been commonplace in the context of structural adjustment programs, in the case of Bosnia the Bank objected to conditioning economic assistance on "purely in post-Dayton Bosnia macroCSpolitical" issues such as refugee return or participation in joint institutions of governance.

9 Of course, in many cases the elections simply served to legitimize the power of local warlords and ethnic power structures.

10 For a detailed discussion of how the desire of Western states (Germany in particular) to repatriate Bosnian refugees has affected international policy-making in Bosnia, see Belloni (2001a).

11 This is especially significant since about half of Bosnia's pre-war output and employment was concentrated in large-scale heavy industry.

12 Central Bank reserves as of August 2003 stood at KM 2,405 million; see OHR (January 2004: 21).

13 At the same time, however, the international willingness to cover entity budget deficits has provided somewhat of a safety valve, yet has also arguably lessened the pressures on local authorities to undertake serious reforms. On this issue, with particular reference to the situation in Republika Srpska, see ICG (October 2001: 4–7).

14 As noted in the previous section, investment in Bosnia's manufacturing sector, for example, amounted to a mere 2.3 percent of the $5 billion international reconstruction package, with the bulk of funds devoted to the reconstruction of roads, bridges, housing, and other physical infrastructure. Part of the credit gap has been filled through the establishment of various donor-funded lines of credit, through which some $250 million was disbursed into the Bosnian economy between 1996 and 1999; see OHR (February 1999).

15 For the first two years of the Dayton process, even freedom of movement between the two entities was drastically limited.

16 This has been a particular concern in the case of Bosnia, where the internationally funded reconstruction program contributed to Bosnia having, for a period, the largest current account deficit in the world.

17 The politics of Bosnia's privatization process are the focus of Chapter 6.

18 To be fair, a small minority of enterprises, usually those with the greatest potential, have been sold off to strategic international investors, often for symbolic sums in return for commitments to re-invest. See Chapter 6 for a more extended discussion.

19 See, for example, Kaufmann and Siegelbaum (1997).

20 Author interview with an EU-funded international economic advisor, Sarajevo, September 2002.

21 The: Penguin.

Chapter 8.

6 The Politics of Privatization

1 The Holiday Inn was ultimately sold, to an Austrian investor, in early 2004.

2 While Bosnia's privatization process has included the privatization of socially owned housing, banks, and enterprises, this chapter will focus primarily on enterprise privatization.

3 In the Muslim-Croat Federation, for example, it was anticipated that small-scale enterprises would be privatized within four months, and large enterprises within 11 months, of the enactment of the Law on the Privatization of Enterprises, which became law in November 1997; see CEEBIC (1996).

4 Author interview with Dan Rathbun and Emir Mehmedbasic, USAID, Sarajevo, 16 February 2001.

5 See, for example, ICG (April 1999: 12).

6 Author interview with Ermin Cengic, Sarajevo, 16 February 2001.

7 Author interviews with members of the Serb returnee organization "UNAC," Drvar, 10 February 2004.

8 Author interview with Daniel Besson, Sarajevo, 12 February 2001.

9 Author interview with USAID-funded privatization consultant, Sarajevo, 15 February 2001.

10 Besson interview, op. cit.

11 Author interview with Sead Numanovic, Sarajevo, 17 February 2001.

12 Author interview with Professor Dragoljub Stojanov, Sarajevo, 23 February 2001.

13 Author interview with Professor Vjekoslav Domljan, Sarajevo, 20 February 2001.

7 The Political Economy of Return

1 “Minority returnees” are former refugees and displaced persons who have returned to areas under the control of another ethnic group.

2 Return statistics are available on the Bosnia website of the United Nations High Commissioner for Refugees at http://www.unhcr.ba/return/index.htm.

3 To be fair, it should be noted that the “homes of origin” of at least some of these “majority” returnees are in fact in majority areas. A Bosniak refugee returning to her former home in Bosniak-controlled Bihac, for example, would be considered a “majority” returnee in the sam: Penguin.

4 The sheer absence of hard statistical data could also, in fact, be read as part of a relative international indifference to the fate of minori

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