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Kosovo

A country without an economy?

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Media coverage of Kosovo's recent Unilateral Declaration of Independence has focused on the risk of conflict with Serbia, and the broader geopolitical risks for unresolved separatist struggles in Bosnia and the former Soviet Union.

Many in the international peace movement blame the western powers for the violent break-up of former Yugoslavia. But Kosovo's independence reveals another dimension of the west's criminal responsibility in the destruction and re-colonisation of Eastern Europe since 1989. The newly independent state of Kosovo has no economy to speak of, and its poor and undereducated population are dependent on remittances from family abroad, smuggling, and foreign aid.

Newly-independent Kosovo is Europe's poorest country. Its per capita GDP is \$1,300, which is about the same as Ghana or Burkina Faso, and only one tenth of the level in the poorest countries in the European Union, Bulgaria and Romania. Kosovo's subsistence economy remained virtually unchanged throughout the eight years of UN rule, and the standard of living of its two million people is still lower than before the Serbian government imposed central control of the province in 1989.

How is such crushing poverty possible in the heart of Europe?

Kosovo was always the poorest part of former Yugoslavia, with a GDP of about 10% of that of Slovenia, the richest part of the federation. But Tito's Yugoslav system ensured investments in infrastructure and industry, mass education, and the creation of autonomous institutions, all for the first time in Kosovo's modern history. In the late 1980s, Serbian nationalist leader Slobodan Milosevic allowed Kosovo's small Serbian minority to seize these resources and political power, provoking a massive movement of non-violent resistance among the Albanian-speaking majority. Albanians were expelled from industrial and civil service jobs, and most families survived on a mixture of small-scale agriculture and remittances from family members working abroad - mostly in Germany, Switzerland and the USA.

The NATO war against Serbia in 1999 destroyed most of the industry and infrastructure, either through bombing, or by looting as the Albanian population took their revenge on the Yugoslav regime which had humiliated them. A United Nations administration was rapidly put in place, and ran Kosovo as a protectorate of the western powers until the declaration of independence in mid-February this year.

This UN administration completely failed to develop economic activities that would lift the population out of poverty. So much western food "aid" was dumped into Kosovo that most of the local farmers went bankrupt, and were forced to kill their livestock or abandon their fields. A free trade regime was imposed, and the Yugoslav Dinar replaced as legal currency by the German Mark, (Kosovo therefore became a de facto part of the Eurozone on 1 January 2002). As a result, Kosovo joined the other EU protectorate, Bosnia, as a marginal but easy-to-penetrate market for west European companies, while local companies found themselves unable to compete, and separated from their former markets in the rest of former Yugoslavia.

One of the paradoxes of Kosovo's de facto separation from Serbia in 1999 is that - since free trade always benefits the strongest at the expense of the weakest - Serbian companies have been able to capture a large part of the Kosovo market, even providing the basic foodstuffs which Kosovo used to export to Serbia. Serbia is now Kosovo's largest trading partner, while Kosovo has failed to penetrate either Serbia or any of the other ex-Yugoslav markets. Kosovo has a disastrous balance of payments; in 2007, Kosovo imported 1.5 billion euros worth of goods, but

exported only about 150 million euros worth.

While it did little to help the small farmers and workshops that dominate the Kosovo economy, the UN administration expended considerable effort on the introduction of a textbook-style neoliberal legal system, ensuring that Kosovo's natural resources (coal, lead, zinc, nickel, farmland) and the handful of remaining industrial and food-processing companies can be easily acquired by western investors, that civil infrastructure can only be built by public-private partnerships, and that private investors will be able to take over the most profitable part of public services like health and education.

The electricity sector illustrates the economic dilemma facing Kosovo. The territory has persistent power cuts and 'brown-outs.' The electric company produces 800 megawatts of electricity each day, about 80 percent of what is needed. It can't afford to buy more from neighbouring countries, because, during the years of conflict and UN administration, almost everybody stopped paying, and many homes and business are connected to the power grid illegally. Western advisors have proposed privatising the electricity supplier, so that private companies will be responsible for enforcing payment - and for cutting off poor people's heat and light. Foreign companies are expected to build a modern coal-fired power station in exchange to unlimited access to the estimated 15 billion tons of brown coal lying in the earth beneath Kosovo. The EU will help create a regional energy market to swap surpluses (Kosovo could import from Balkan countries with hydroelectric power at high season, and export back to them when water levels are lower).

It would be better for Kosovo to build up a state utility, ensuring that non-renewable resources are used in the national interest, (The ground is also thought to contain 20 billion tons of lead and zinc and 15 billion tons of nickel). Only a public utility could ensure that the painful move towards enforcement of energy bill collection is socially responsible. In private hands, the energy company may provoke a massive non-payment campaign, as followed utility privatisations in South Africa and Bolivia. Investors are therefore trying to get the government to guarantee payment for minimum supply to local households, and to allow the privatised utility to double production, but sell all of the extra capacity abroad, effectively ignoring the needs of the people who the coal belongs to.

Having destroyed all forms of Yugoslav state or social ownership, the UN has created a Kosovo state administration that lives from import duties, a sales tax, and subsidies from the European Union. Independence will allow a merger between the UN and national administrations, but with former UN employees (ie most educated Kosovars who can speak English) used to much higher wages than in the national administration, their integration is likely to increase the corruption of the civil service, as they try desperately to maintain their western lifestyle.

Regional warlords, bosses of the UCK militia which confronted the Serbs during the NATO war, are responsible for the implementation of state functions in most of the territory outside the capital, Prishtina. They also control the most lucrative export industries, which are all illegal. Kosovo is part of the main transit route for drugs entering the European Union, and is a major element in the trafficking of women into the European sex industry - some studies suggest that 30% of trafficked women worldwide are controlled by Balkan gangs. Kosovo (and the neighbouring post-Yugoslav state of Montenegro) are also the main centres of smuggling of tax-free cigarettes into the EU. As many Kosovars observe cynically, all these areas of activity depend on cooperation between Kosovar and Serbian gangs, and show that, at the top, there is a willingness to forget the war and work together.

The central government will try to weaken the warlords by incorporating some militias into a Kosovo army, which has already been promised to the US and NATO for any missions abroad. This mercenary role (which harks back to the Albanian role within the Ottoman empire) offers the west, particularly the USA, a motivated and dependable force of pro-western Moslems, for potential use in Afghanistan, Iraq, or in a future move against Iran.

Meanwhile, the population continues to get by as best it can, in an economy dominated by small-scale trading,

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subsistence agriculture, smuggling and crime. The largest employer is the public sector, the private sector consists mainly of shops and most businesses employ only two or three people at minimum wage. Remittances from emigrant workers make up about 40% of GDP. One third of Kosovo's two million residents are under the age of 14, and the birth rate is the highest in Europe. This means that landholdings are getting smaller and smaller, and since the terrain is too hilly for mechanisation, productivity is too low to compete with imported - Serbian and EU food products.

The Serbian minority in Kosovo (about 10% of the total population) is the worst off, because it has lost its former privileges, and lacks contacts to Kosovo's new bosses. Many young Serbs have already emigrated to Serbia proper, and the remaining population would probably do the same, if they could find a buyer for their farmland.

In economic terms, the NATO-Serbia war and UN protectorate over Kosovo has meant a decade of stagnation. In 1989, the GDP per capita in richest part of Yugoslavia, Slovenia, was 10 times higher than in Kosovo. Today Slovenia is part of the EU, with a GDP per capita 16 times higher than Kosovo, and five times higher than Serbia.

Few voices have been raised against this outrageous failure of the west. And yet, Kosovo has a small, but well educated and westernised middle class, based in the civil administration set up by the UN mission, and the army of private contractors and "Non-Governmental Organisations" which the west used to reorganize the society and provide a social base for its continued presence. Profoundly opportunistic, these middle class layers would prefer to work for the foreign donors, who pay better and are less violent, but, as independence approached, many have attached themselves to one or the other of the warlord factions. Unlike the rest of former Yugoslavia, very few of these NGO activists have tried to organize or represent the disadvantaged majority in society, let alone resist the twin predators of neoliberalism and mafia.

This westernized middle class has had a central role in articulating and transmitting the dominant ideology in today's Kosovo, a mixture of neo-liberal obsession with private enterprise, coupled with a xenophobic and clannish ultra-nationalism that justifies aggression against Kosovo's national minorities, and legitimizes the various illegal traffics. By expelling Albanians from the civil service and socially-owned enterprises, Serbia's "communist" regime definitively severed Albanian attachment to the social benefits of the Yugoslav system, and accelerated a return to pre-WWII self-reliance and clan-based solidarity.

Kosovo nationalism also includes a massive sense of entitlement, with most people believing that the European Union should provide massive and indefinite financial support to Kosovo, to make up for its failure to protect Kosovars in the past.

While the EU can be expected to bankroll the Kosovo state in the foreseeable future, this will be conditional on the economy remaining open to western investment in land, industry and services, and on a partial reduction in smuggling and criminal activities. The EU will also subsidise infrastructure projects (there is still no decent road link between landlocked Kosovo and the Albanian port of Durres), but it will be difficult for Kosovo firms to win more than a minor share of these contracts. Outside mining and electricity production, the only other potential investments are likely to be in the footwear and textile sectors - Turkish and Greek companies are already investing in neighbouring Albania, and the Kosovo government can be expected to set its minimum wage so low as to attract some of this business. East European governments are already engaged in a 'race to the bottom,' with successive rounds of cuts to tax and business regulations to attract investors. Though it is hard to see how Kosovo can compete with neighbouring Macedonia, which offers a 10% flat tax and VAT rate, with generous tax holidays, excellent road and rail links to Europe, and lower levels of corruption and extortion.

While the EU will insist that Kosovo opens its economy to western investment, it will continue to prevent legal migration of Kosovars into the EU labour market, creating an explosive social situation for the government of the newly-independent country.

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In any case, the economic benefits of integration into the European space will be less than those provided to Kosovo during the Yugoslav period, before the International Monetary Fund (IMF) took charge of Belgrade's economic policy in the mid 80s...