

Criminality and Transformation in BiH

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In the context of the liberal peace project, processes of globalization hamper the ability of less-developed countries to manage their own economic development, especially aid-dependent countries like BiH. Stojanov's diagnostics indicate that for transformation from a war to a peace economy, from a self-managed to a market economy and from aid dependency to a sustainable economy, too much reliance was placed on liberalizing foreign trade and capital movements (so that there is a net outflow), the free market, privatization and FDI in promoting economic growth. Attempting to promote export-led growth without increasing production other than by using expensive foreign and domestic capital was equally problematic.¹ Two key determinants of economic sustainability were either simply not considered or consciously ruled out on a mixture of practical and ideological grounds: (a) building institutions with funding made available for recurrent spending; and (b) generating production and bolstering purchasing power. The role of the state and its institutions, its industrial, labor and social policies have been neglected relative to making the country safe for private investors.² If the neoliberal development paradigm had been fully implemented, it would have produced an even leaner state. BiH would have been among the developing countries that on average spend only about half the proportion of GDP on government spending than EU states.³ What lessons may be drawn?

_ Institutions need strengthening. Deciding the economic model for a devastated country, before building its institutions, has put the cart before the horse. As

Woodward argues, donors are more willing to fund reconstruction projects than public institutions and political structures, or to provide core and recurrent budgets in public services.⁴ This may only have been possible if the Dayton Accords and international intervention had placed the mechanisms for shaping fiscal and macroeconomic policy at the state level. In practice, BiH currently lacks the power to formulate and implement independent monetary, fiscal, price and foreign exchange rate policies, and policies regarding privatization, incomes, and social welfare.⁵

_ Even without subvention on the scale of a Marshall Plan, a form of recovery strategy for production and purchasing power is necessary to create social capital. Cheaper borrowing and price inflation to a 20% maximum would have provided a necessary stimulus to consumption, savings and domestic investment. Development based on a fiscal policy that stimulates borrowing to build production capacity, strict government control of imports while liberalizing those vital for processing and trade, and devaluing the currency only to the point that it allowed a competitive exchange rate, would offer an alternative route to growth, as Stojanov suggests. In this respect the decrepit state industries represent a particularly difficult problem. No-one contemplates putting them all back on a permanent, state-managed *ante-bellum* footing: such a solution would no longer be possible, even if it were an option in 1996. However, not all of them are lost causes, especially in timber, mineral and aluminium production. Blanket insistence on denying the state opportunities to make them productive and competitive, in whole or in part, and to develop an industrial strategy has almost certainly resulted in lost production, employment and purchasing power.

_ Controls over the shadow economy need to be linked to policies that address the reasons why it is functional. It is essential to acknowledge the distinctions in the

shadow economy between the elite parallel economy closely linked to mafia-scale operations and the coping/survival mechanisms of the general populace, and to recognize the extent to which the poor depend on the elite. In the absence of social safety nets, unregulated activity and shadow markets are coping mechanisms. The dog of neoliberalism continues to chase its tail of “crime” because control measures are asymmetrical, criminalizing shadow economies, while leaving economic authorities free to legalize socially stressful policies. Controls ignore the role of free markets in weakening social cohesion and political authority, in removing social safety nets but providing opportunities for corruption. The regional political economies are unlikely to emancipate the populations from clientism and mafia welfare without providing for social needs through government employment creation and social spending.

_ The configuration and economic principles of the regional dimension, neglected for too long, might be addressed through the formation of a payments and customs union. As with the original European Payment Union and the European Community after the second world war, this would concede that mutual protection to replace national protection is a reasonable starting point, rather than aiming to engineer integration on the basis of complete free trade. A regional payments and customs union would work towards abolition of import duties between the members but maintain common tariffs, though gradually lowered, against selected imports for a period of, say, 10-15 years against non-members. Proceeds from the collection of the latter would be distributed among the members on an equitable basis with a portion retained centrally to finance the union’s budget. The arrangement would be compatible with separate fiscal, exchange rate and currency systems and with the retention of non-tariff barriers to protect particularly sensitive sectors such as agriculture. It is claimed that a customs union would have to pitch external tariffs at a sufficiently high level to protect the

least efficient producers. Nevertheless, in combination with currency devaluation and a production policy to subsidise sectors that will grow as demand rises, such an arrangement could also make it easier to manage the demise of ailing industries. Losses from trade diversion on account of the external tariff would be relatively small because the members of South-East Europe union have economies, with the possible exception of Slovenia's, that are significantly different from the EU's and other core capitalist areas, whilst not being so different within the union as to discourage mutual cooperation. The overall effect would be to foster production using currently underemployed resources, expand the size of the local market, offer economies of scale and intra-regional specialization, foster competition in a relatively equitable context (the members falling within a narrow range of development stages), and increase bargaining power in dealing with other economies. Most significant, too, would be the impact on borderlands which would cease to be no-go areas for governments, but would gain from "licensed" industrial location in proximity to neighbouring markets.⁶

_ Finally, and futuristically, the economic space in South-east Europe could be completely reconceptualized to take advantage of certain opportunities that arise in globalization. A conventional, bounded political economy is supposed to forge a spatial connection between people and economy in pursuit of national goals, determining a country's status in international trade.⁷ However, maintaining this is problematic where civil war has created contradictory structures, substate mentalities have developed and economic doctrine proposes global markets and a borderless consumer world driven by the imperatives of the liberal peace.⁸ These dynamics are accompanied by radical restructuring released from territorial concerns, as evidenced by offshore economies, tax-free havens, flags of convenience in shipping, telecoms,

data-inputting, service centers and software design. Local and regional economic communities cease to be embedded in national economic space, linking and competing, instead, with economic communities in other states.⁹ De-linkage from a national political economy, clearly evident in BiH, fosters the creation of new internal boundaries. But the emergence of new political configurations from regional conflict complexes, in which the social and economic dynamics of war do not tally with past models of state making,¹⁰ may also interact with new opportunities. Export-processing and free-trade zones now account for a quarter of the world's manufacturing (mostly assembly plants for components made elsewhere).¹¹ Clearly this requires a level of sophisticated management, banking capacity and servicing skills that were probably not apparent to the external agencies in their strategic thinking. BiH as an entrepôt and free-trade zone might, however, become part of its sustainable future.

In conclusion, the dynamics of post-conflict transformation create reactions and resistances, whether dialectical or elliptical and fragmentary. Any economic model is liable to have flaws, the important thing is to acknowledge and deal with them. In general, however, external agencies seem to neglect the negative effects of imitation or disregard the inapplicability of the neoliberal model.¹² The economic peace introduced to protect the people of BiH from future conflict appears to have done little to alleviate social stress and has probably contributed to it. In the protectorates of BiH and Kosovo, the war entrepreneurs and patrimonial elites interacting with international bodies and external capitalist states have adopted a socially detrimental economic model. Although James Wolfensohn, the World Bank President, conceded in 2002 that such a one-size-fits-all model introduced from outside has not endured, his two-part solution contained a contradiction: (a) creating an investment climate that encourages the private sector, and (b) empowering and investing in poor people.¹³ As

critics such as Zygmunt Bauman note, shrinkage of the public space seems to do little to empower the poor.¹⁴

In their efforts to make these territories conducive to shareholding and private profit, the external actors are caught incoherently between state building and withdrawal from the economy. Intervention stems from seeing “the other” as dysfunctional, war-wrecked statist economies, and from attempts to wear down the resistance of local war entrepreneurs to modify their “criminal”, corporatist systems. The inhabitants are deemed unable to determine their futures without paternalistic guidance and rules of governance determined from the outside. The withdrawal impetus comes from representing integrative economies as those that “legitimise reductions in welfare spending and the privatisation of essential services” leading to differentiation between those able to participate in the “manifest destiny” and the excluded poor, unemployed, inflexible and uncompetitive.¹⁵

The dominant representation of troubled political economies in this region is that they are products of a socialist past, disruptive wars, local peace “spoilers” and “criminality.” By contrast, the role of external actors is painted as beneficent if occasionally misguided in particulars. The strategic direction in which the region is being pushed politically and economically is rarely questioned, perhaps because most of the analysis emanates from within and around an overarching framework of political economy, the liberal peace, against which progress is registered. Thus there has been a tendency to depict failures to measure up to the liberal peace as inadequacy on the part of the populations, rather than as problematic issues inherent in the paradigm itself.

¹ Stojanov, “Bosnia-Herzegovina since 1995,” 46.

² On the World Bank's priorities and social policy reform, see Paul Stubbs, "'Social Sector' or the Diminution of Social Policy? Regulating Welfare Regimes in Contemporary Bosnia-Herzegovina," in Papi_ et al., 102-104. On analysis of social capital as a contribution to the PRSP, see Xavier Bougarel, "Bosnia and Herzegovina: Local Level Institutions and Social Capital Study," vol.1, World Bank, ECSSD (June 2002).

³ Stefan Andréasson, "Neoliberalism and the Creation of 'Virtual Democracy' in the Global South," Paper presented at the International Studies Association annual convention, New Orleans, 24-27 March 2002.

⁴ Woodward, "Economic Priorities for Successful Peace Implementation," 183-214.

⁵ Stojanov, "Bosnia-Herzegovina since 1995," 46.

⁶ Branko Horvat, *Theory of International Trade: An Alternative Approach* (Basingstoke: Macmillan, 1999), 136-149; 170-171.

⁷ Angus Cameron and Ronen Palan, "The Imagined Economy: Mapping Transformations in the Contemporary State," *Millennium: Journal of International Studies* 28, no. 2 (1999), 271-4 & 279.

⁸ Gearoid O'Tuathail, Andrew Herod and Susan Roberts, "Negotiating Unruly Problematics," in Andrew Herod, Gearoid O' Tuathail, and Susan M. Roberts, *Unruly World? Globalization, Governance and Geography* (London: Routledge, 1998), 1-24.

⁹ Cameron and Palan, "The Imagined Economy," 171.

¹⁰ Klaus Schlichte, "State Formation and the Economy of Intra-state Wars," in Jung, ed., *Shadow Globalisation*, 27-44.

¹¹ Cameron and Palan, "The Imagined Economy," 171.

¹² Biljana Vankovska, "Rule of Law and Democratic Control of Armed Forces in the Post-Cold War International Setting," Paper presented at the International Studies Association Annual Convention, New Orleans, 24-27 March 2002.

¹³ The Development Committee, "Note from the President of the World Bank," DC2002-0007/Rev1, 12 April 2002.

¹⁴ Bauman, *Globalisation*.

¹⁵ Cameron and Palan, 269-71.