

Economic and social development in Kosovo

A challenge for the political stabilisation of the region

Policy brief based on the conclusions from
the international conference held in

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Austrian-French Centre for Rapprochement in Europe
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On 10 June 1999, an interim civilian administration, the United Nations Interim Administration Mission in Kosovo (UNMIK), was set up in the former Yugoslav province to put an end to a decade of political repression in Kosovo. Its mission was to accompany Kosovo on its way to peace while awaiting diplomatic resolution of the status of Kosovo, a question left unresolved by the Rambouillet conference in January 1999. The uncertainty resulting from this open issue is the main source of both expectations and discontent for the Albanian population in Kosovo. In November 2005, conscious of the danger of getting mired in the status-quo in a region as fragile as the West Balkans, the UN decided to set Kosovo and Serbia-Montenegro on a course for negotiations. Martti Ahtisaari, Special Envoy of the UN Secretary General for Kosovo, was entrusted with heading the political process aimed at defining a final status for Kosovo. The negotiations ultimately started in Vienna in February 2006.

Even if great significance has rightly been attributed to the question of Kosovo's status in recent years, it must be said that almost seven years after the creation of UNMIK, it is rather the socio-economic problems that are the most striking in the region. Poverty, unemployment and economic decline, crime, and a lack of security are still feeding the strong inter-ethnic tensions in a region that lies at the gates of Europe but has never really moved back from the brink of calamity. In the long term, the only chance for political stability lies in offering constructive alternatives in terms of prosperity, work and development opportunities to a population tempted to listen to the siren song of nationalism. An improvement in the political situation and the quality of life of the inhabitants and minorities of Kosovo hinges on economic and social development both in Kosovo and in the region as a whole. In Kosovo perhaps more than elsewhere, politics, economics and society are complementary and interdependent factors and form the three main keys to progress and stability.

It was with this perspective in mind that the French-Austro Centre for Rapprochement in Europe, in close collaboration with the Institut Français des Relations Internationales, the Slovenian Centre for European Perspectives, the French and Austrian foreign ministries, the government of Slovenia, the European Commission, OSCE, and UNOSEK, organised an international conference under the title **“Economic and Social Development in Kosovo: a Challenge for the Political Stabilisation of the Region”** in Ljubljana on 19 and 20 June 2006. The objective of the conference was first to identify the main economic and social problems that affect Kosovo *today*, and secondly to launch a reflection process and help arrive at solutions that would help foster the development process in the region, whatever the final outcome of the current Vienna negotiations may be.

In 6 round-tables, this international conference brought together the main economic actors holding office in Kosovo as well as outstanding international experts. Ministers, presidents, directors, special envoys, representatives from international organisations, diplomats and analysts from Kosovo, Serbia, the West Balkans, France, Austria, Slovenia and the enlarged European Union shared their visions about the future of Kosovo centred on three fields of action:

- I. Relaunching the economy
- II. Rebuilding society
- III. Integrating Kosovo in the region and in the European Economic Area.

This policy paper presents an analysis of these three fields, based on the conclusions and recommendations of the conference participants.





Introduction: a realistic approach to the challenges of the region

Reflections were guided by three underlying principles:

- 1) The Kosovo question has a strong regional dimension. Any solution must therefore take this regional dimension into account while at the same time catering to national sensitivities (*D. Rupel, A. Rohan*).
- 2) In view of the regional specificities a realistic and functional approach is crucial. Any search for – or transplanting of – an utopian solution will give rise to problems in an area marked by its heterogeneity of populations, histories and aspirations. (*D. Rupel, A. Leboeuf*)
- 3) This realistic approach will necessarily require a distinction between perceptions and realities, as for instance the difference between perceived and real risk, between economic indicators and real (and/or hidden) economic data, and between public expectations and achievable objectives ... (*A. Wittkowsky, M. Auboin*)

I. Relaunching the economy

1. Kosovo's economy today

A brief stock-taking reveals the remarkable economic progress made in Kosovo since 1999 (*E. Petric, A. Wittkowsky, A. Shala, E. Mossé*): doubling of per-capita GDP; reconstruction of 30% of destroyed housing, and of more than 50% of roads, schools, infrastructures; incipient reestablishment of Kosovar civil society; creation of functional and modern institutions; relative political stability; first signs of integration in the wider region (Free Trade Agreements); monetary stabilisation; improvement of business climate and company structures; adoption of modern laws; an attractive fiscal policy, etc... But although there has undoubtedly been progress, Kosovo needs to persist in its efforts, since the initial situation was dramatic, characterised not only by huge reconstruction requirements but also by the need for a twofold transition: from a Titoist socialist economy to a market economy and from an underground war economy to an economy of peace.

2. The main problems

The reconstruction phase may be nearing completion, but the twofold transition is still rather incomplete. Various major structural and sectoral imbalances persist (*A. Wittkowsky, M. Mustafa, M. Auboin, N. Popovic, A. Dida*):

- 1) Since the 1990s, Kosovo has been hit by **de-industrialisation**. In 1988, 45% of GDP came from the industrial sector and mining. Today, industrial production amounts to just about 17% of GDP. In general, the share of companies active in manufacturing remains at a very low level (10%), and the economy is marked by incessant growth of the tertiary sector. At present, the service sector accounts for 60% of GDP, but a major part of these services is low value-added (small retail, kiosks, ...) and not capital intensive.
- 2) **Disinvestment** can be considered a consequence of de-industrialisation. In 1988, 600 million dollars (30% of which was private investment) were invested in Kosovo, as compared to only 70 million in 1998 (70% private share). Today, there is a lack of direct investments, particularly foreign direct investment, and public investment (renewal of infrastructures, maintenance...). The main reasons are a lack of investment policy on the part of companies, the meagre investment opportunities in Kosovo for certain types of financial services, the very high cost of commercial credit (13.8% for 1-3 year loans), and the low savings rate.
- 3) The **competitiveness** of the Kosovar economy has to be re-established in the context of the Euro system. Insufficient production levels combined with a lack of investment and too-high salaries and prices are a handicap for Kosovo's external trade relations. The lack of competitiveness and the poor state of the transport infrastructure go far in explaining the weak import cover rate (only 5 to 7%), the virtual non-existence of exports and the huge trade balance deficit. This deficit is exacerbated by the high consumption level which supports imports (a distortion caused by remittances from the diaspora and the presence of "internationals").
- 4) The **labour market** is incapable of absorbing demographic growth in a context of slow economic growth or even stagnation (growth forecasts for the coming five years range from -1.6 to +3%, depending on the year). Growth in Kosovo is subject to three distinct factors: the international presence, which is financially strong but on the decline; the private sector, which is still fragile but showing continuous growth; and the public sector which adopts a stop-and-go policy and



tries to juggle a budget deficit and a voluntarist policy approach. It must be noted that 30,000 new entrants are crowding onto the labour market every year, while its absorption capacity is estimated to be about 6,000 jobs. This explains the very high unemployment rate: between 44 and 60% according to varying sources.

- 5) The **economic dependency** of Kosovo on international aid, which is going to be cut by two thirds by 2009. On the internal market one identifies numerous distortions caused by the presence of the “internationals”, which by themselves would account for 2.5 % of inflation-adjusted GDP. The public finances of Kosovo are largely dependent on the generosity of donors, and the needs are probably going to grow further (cost of the eventual transfer of powers and of decentralisation, cost linked to Kosovo’s share in the debt of former Yugoslavia...), while Kosovo’s own resources are stagnating.

3. Economic transition in the public sector: how to optimise economic dynamics in Kosovo ?

- i) Ensuring continuity through the work of UNMIK, whatever the outcome of the Vienna negotiations, in order to avoid a negative impact on the business climate (*A. Wittkowsky*).
- ii) Consolidating the monetary stability introduced by the Euro, allowing no lapse in the resulting budget discipline, imposed particularly by the impossibility of devaluing the currency (*M. Svetchine*).
- iii) Reinforcing the economic efficiency of company structures and innovation capacities by creating a suitable legal framework for fighting unfair competition and monopolistic positions. Launching a reform of the key sectors of telecommunications, energy and transport (*M. Mustafa, M. Auboin*).
- iv) Reinforcing the rule of law in the economic sphere by a more active fight against corruption (*N. Popovic, A. Dida, P. Hunsinger, E. Beqiri*). This means fewer but better paid civil servants with some ethics training. Introducing a ceiling for cash payments in commercial transactions would also help curb illegal payments. At institutional level, it is hoped that the much-awaited Anti-corruption Agency will be supported by better coordination between all the players in this field (Public Procurement Agency, Independent Regulatory Agencies, Senior Appointment Committee, Financial Investigation Unit...) (*E. Mossé*). There is also a need for tightening controls on large investments.
- v) Establishing an efficient judiciary (*E. Mossé*).
- vi) Maintaining the current fiscal policy which is simple and very competitive, based on a low flat tax (*M. Auboin*), and eventually reviewing VAT application modes (*M. Mustafa*).
- vii) Establishing financial tools appropriate for the development of investment finance. This means first of all increasing the offer of financial services: extension of loans, development of savings products ... Local savings are often held in cash or abroad, which makes it difficult for banks to provide long-term finance. It would also mean lowering the cost of financial services (*M. Svetchine*).
- viii) Encouraging local investors to invest at home. It has to be noted that part of the investment undertaken by the two subsidiaries of the pension fund established by UNMIK, the KPST, is placed abroad (*Balkan Investigative Reporting Network, 18 May 2006*).
- ix) Sensitising the Kosovar diaspora to investment opportunities in Kosovo. The investment-linked risk perceived by the diaspora is smaller than the risk perceived by other potential investors. It must be said that the global overseas diaspora invests practically nothing, while the European diaspora invests the equivalent of 15% of Kosovo’s GDP, which represents 10% of total investments. Further proof of the importance of the diaspora: it accounts for 70% of company acquisitions (*M. Svetchine, M. Auboin, P. Hunsinger*).
- x) Rehabilitating and promoting the image of Kosovo abroad to attract direct foreign investment.
- xi) Increasing the share of public expenditure on transport infrastructure (roads, railways, power lines...) which is vital for the reestablishment of cross-border or interregional trade (particularly towards Macedonia, Serbia and Albania) (*M. Auboin*).
- xii) Continuing the modernisation of the public sector to provide Kosovo with functional and efficient institutions. This has to be achieved by intensifying technical assistance programmes that support know-how transfer in the administrative system (*D. Rupel*), but also by rationalising public-services expenditure, which is currently gobbling up 80% of the taxes levied in Kosovo (*M. Auboin*). A reform aimed at lowering administrative costs by 10% to the benefit of expenditure which puts a premium on human capital or physical assets is already in the pipeline.
- xiii) Advancing cautiously on the issue of privatisation (*N. Popovic*), but advancing nonetheless (*A. Wittkowsky, A. Shala*). In



this area, a coordinated regional strategy needs to be adopted (*B. Cerovic*), which respects ethnic minorities (rules for enterprise representation imposed on investors by KTA). The Kosovo Trust Agency has managed to set up simple and transparent rules for the privatisation of “socially-owned enterprises” and the restructuring of “publicly-owned enterprises”. Pursuing the privatisation process is a major issue in the economic development of Kosovo, since it will lead to the revitalisation and restructuring of large enterprises. It has to be noted that a number of (difficult) issues are still awaiting a solution: e.g. the creditor-protected mining complex at Trepca, which is starting to resemble an industrial wasteland (“*A Post Industrial Future? Economy and Society in Mitrovica and Zvecan*”, *ESI, Background Paper, Wilton Park Conference, 1 February 2004*), and certain enterprises located in the Serbian enclaves (e.g.: Brezovica Ski Centre).

- xiv) Developing educational structures, since the economy is already very much geared to the tertiary sector, in order to improve the value of services delivered in Kosovo and to boost entrepreneurial spirit and creativity in the SME sector (*A. Wittkowsky, M. Mustafa, M. Auboin*).

4. The process of economic transition in the private sector – how to maximise the economic advantages in the region?

- i) Identifying the main advantages of Kosovo for local and foreign investors: i.e. moderate competition, under-utilised physical and human resources, modern legal framework, monetary stability and integration, high level of consumption, European standards, dynamism and entrepreneurial spirit of the young generation ...
- ii) Identifying sectors with a great development potential and development strategies. Starting by satisfying local demand before looking for exports (*P. Dobruna-Kryeziu*):
 - a) Kosovo possesses relatively significant reserves of lignite, metallic and non-metallic minerals (*P. Hunsinger, E. Beqiri, P. Dobruna-Kryeziu*). Before the war, these resources represented an important factor for economic growth (48% of Kosovo’s GDP provided by the minerals industry in 1988). Since 1988, the wave of disinvestment and de-industrialisation which mainly struck the mineral and metallurgy production sector has considerably reduced the importance of this sector for economic development. Exploiting the lignite reserves (3rd largest in Europe after Poland and Germany) would allow the marketing of 11.5 billion tonnes of minerals, which represents a trade potential of EUR 80.5 billion. The lead, zinc and silver reserves would account for EUR 9.36 billion. Insufficient production capacities and an obsolescent transport infrastructure are serious obstacles to the development of the energy and mineral industry sectors. It is important to encourage major investments in physically re-connecting Kosovo to its neighbours. As regards the energy sector, Kosovo must be considered as a link in the regional industrial integration chain – which presupposes a strong dose of interdependency (*V. Gligorov*). A land-use plan which takes the regional dimension into account is needed if durable benefit is to be derived from Kosovo’s mineral and energy resources. In view of population density at certain potential exploitation sites, the environmental (pollution,...) and social (expropriations,...) dimensions must not be overlooked.
 - b) The utility works and construction sector (*P. Hunsinger, Statistical Office of Kosovo, 2003*). The current state of infrastructure (roads, railways ...) and the great need for improvements is favourable for growth in this sector. It should be noted that 93% of households use wood-burning stoves for heating, 31% have no drinking water supply installed and only 5% have a computer.
 - c) Small and medium-sized enterprises, which constitute the main and very dynamic commercial fabric in Kosovo, on condition that they upgrade the value of the services on offer (important investment needs in training...).
 - c) Agriculture. After years of underinvestment, 80% of the output of this sector is now subsistence farming (*E.-F. Winter*). The agricultural (and wine-growing) sector still generates 30% of GDP and offers some export opportunities. It is important to avoid an intensive farming policy or an agro-business type of agricultural policy, which would be very inappropriate for the specific situation in Kosovo. Priority must be given to organic farming techniques, less costly than those using artificial fertilisers, and to niche production spheres. It is therefore necessary to integrate Kosovo in the regional and/or European economic landscape, and to avoid excessive investments in this sector.
- iii) Targeting investors: large international companies that are already represented in the Balkans and have a wide network and good knowledge of business in this region; medium-sized enterprises already installed in the West Balkans with an in-depth knowledge of the specific situation in Kosovo (a role for the diaspora) (*P. Hunsinger*): local business or individuals for agriculture.



II. Rebuilding society

1. The underlying principles for rebuilding society in Kosovo

Although inhabited mostly by Albanians, Kosovo has a large Serb minority, but also Bosnian, Roma, Ashkali, Turkish, Goran and Egyptian minorities. In this respect, Kosovo is a region of great diversity (ethnic, religious, cultural, linguistic...) that has seen major historical events. But Kosovo is also a region of great divisions (inter-ethnic, inter-confessional, inter-cultural...) and multiple truths (divergent visions of the history of the region, in particular).

Society in Kosovo is characterised by either the lack of a civil society or its incapacity to absorb internal shocks, its tendency even to act as an amplifier of violence. The events of March 2004 illustrate this phenomenon and show how difficult it is to control the multi-ethnic situation of Kosovo (unlike Ohrid-Macedonia, or Dayton-Bosnia), and how impossible, or illusionary and dangerous, it is to envisage what a future state or nation-state might look like (*H. Riegler, C. Samary*). There is not a great deal of manoeuvring space. But before one begins to identify the most important societal problems in Kosovo and to define realistic objectives, one should recall certain basic principles that should guide any stabilisation (or reconstruction) policy for the society (or the state?) of Kosovo (*A. Leboeuf*):

- 1) Realism as a fundamental principle. The task is to construct a functional entity, or society, even if it might not be perfect. The social implication of this principle is not to define the objective of reconciliation between the different communities of Kosovo, but to envisage the possibility that there might be a way for them to live in peace next to each other.
- 2) The principle of minimalism suggests that there should be, on the basis of consensus among all communities, a foundation of common values, even if it is very minimalist, and there must be some definition of what Kosovo is *not* supposed to become. The debate that needs to precede this consensus, which should be enlarged in due course, is one of the factors that will support the development of civil society.
- 3) The principle of responsibility and subsidiarity provides that the exercise of power should lie with local actors and decision-makers. Hence, a stable society is a responsible and self-governed society.
- 4) Last but not least, the opportunity principle propagates the need always to take local realities into account and avoid the mechanical transplanting of solutions.

2. Identifying the major problems preventing the building of a stable and functional society in Kosovo

The first obstacle to a constructive debate in Kosovo is certainly the extreme way in which Serbian and Albanian politicians instrumentalise social questions (*A. Danjean*). These politicians are unable to launch an introspective debate, or unwilling to do so, and prefer to negate problems or find scapegoats. This approach opens the gates for two mono-cultures (one Serbian, the other Albanian) to dominate public debate. Both are mutually exclusive and lay the blame on the respective other party. This is a breeding ground for a radicalisation of ideas.

Wide-spread and multi-dimensional poverty is another important obstacle in Kosovo (*K. Shankar*): 37% of the population lives on less than EUR 1.42 per day, 15% on less than EUR 0.93. Groups affected most by poverty are children, senior citizens, the Roma and Ashkali minorities and the unemployed. Sanitary conditions are also rather poor, with numerous cases of tuberculosis, mental illness, industrial contamination, and AIDS which is strongly on the rise. The hyper-fertility of Albanians, who have 3.4 children on average, as compared to 1.48 for the Serbs, further exacerbates the poverty impact (*Y. Courbage*). The average age in Kosovo is only 26, which makes the issue of education and higher education particularly crucial (*D. Rupel, An. Wittkowsky, W. Wnendt, A. Bayerl, Y. Courbage, A. Danjean, K. Shankar, M. Cullin, G. Wöber*).

The fragmentation along ethnic lines of basic societal structures (health, education, media, police, justice, labour market, private sector) is a tough challenge for the reformers. A legacy from years of repression, numerous more or less underground parallel structures still continue their activities, while other obstacles are new (discrimination in recruitment, the return of refugees...).

It must be noted that the Albanian community, which represents the majority in Kosovo, continues to adopt a defensive attitude which is an inheritance from the 1980s and 90s, when the Albanians were a minority, first in the Yugoslav Federation, then in FYROM, and suffered under the repressive policies of Milosevic (*Y. Courbage, A. Danjean*). Only by means of a democratic – and demographic – transition, will the Albanian society be able to address the underlying problems and deal with minority rights, the protection of the Serbian cultural heritage in Kosovo, respect for human rights, etc...



3. Establishing the basis for a functioning society in Kosovo

- i) Economic and social development is the motor of social cohesion and a precondition for speeding up the return of non-Albanian populations who were displaced during the Kosovo war. Economic stagnation is a main factor in the unsuccessful return of refugees. The fight against poverty must be put at the centre of the Kosovo Development Strategy and Plan (*K. Shankar, G. Svilanovic, E. Trimcev*).
- ii) Developing democratic and representative institutions, aimed at bringing the government closer to the entire population, respecting the principles of good governance and non-discrimination and supporting the establishment of regional links (*W. Wnendt*).
- iii) Institutionalising the dialogue between the Albanian leaders of Kosovo, civil society, and their Serbian counterparts, on the way to achieving peaceful co-existence in Kosovo, by using decentralisation (aspired to by all parties, if for different reasons) as a point of departure. Decentralisation is a major element in the survival of minorities, particularly Serbian minorities, in Kosovo, but it also permits finding functional answers to problems that are hard to solve at national or regional level (*A. Rohan*). One should remember that the role of leaders is not to follow public opinion, but to influence it if it does not go in the right direction (*B. Beqaj*). This is of course a very delicate issue if public opinion massively rejects desirable options (*D. Janjic*).
- iv) Supporting a human rights culture by promoting equality of opportunities and values. This means developing the educational system, particularly as regards the education of women and minorities (*W. Wnendt*). Placing the focus on basic education – primary and secondary levels (*K. Shankar*). Reinforcing also the representation of women and minorities in other societal structures.
- v) Reintegrating the Roma minorities in society by giving them the same right to live in Kosovo as the Serbs and Albanians. The future of the Roma, a very vulnerable group, depends largely on the survival of the Serbs, as the Roma have always lived in the vicinity of the Serbs. Many displaced Roma still live in temporary camps.
- vi) Encouraging citizen-based, trans-national and trans-confessional initiatives addressed to young people. (*M. Cullin*). Unlike youth in Bosnia Herzegovina, young people in Kosovo wish to be involved in the future of their community. It is important to give them the possibility to do so (*A. Danjean, K. Shankar*).
- vii) Training young decision-makers to develop for Kosovo a common-memory policy: “We must accept in our cultural and international exchanges that irreconcilable differences exist, that irreparable damage has been done and suffered, and that one needs to have accepted these grievances before one can throw oneself into the crossfire between diverse cultures and mutual re-interpretations of our history” (*Ricoeur, quoted by M. Cullin*)
- viii) Ensuring the physical protection of sites of worship, their restoration, free access to them and free movement for clergy
- ix) Unifying the old parallel structures wherever possible. Unifying, for instance, the different social security systems and modernising the public welfare services (numerous beneficiaries have died or are fictitious)
- x) Improving sex education, particularly for women, and developing health systems:
 - a) To accelerate the demographic transition of Kosovo. Hyper-fertility, which will not be curbed in only a few years, is a threat to economic development and detrimental to the labour market, the quality of school education, the savings rate and investments (because of the high level of consumption) (*Y. Courbage*)
 - b) To combat the spreading of AIDS and contagious diseases (*K. Shankar*)
- xi) Setting up an agricultural policy which aims at developing rural areas without driving the farmers away and at carrying the progress made in urban areas to the countryside (and hence bar the reverse process of carrying rural poverty to the cities). Due to its scope, rural exodus in Kosovo has a destabilising effect: according to estimates, the Albanian population of Priština tripled between 1999 and 2004. Linked to an economic cycle which is unfavourable for migratory movements, this process makes urban centres of modernity more brittle. It must be noted that in Kosovo rural exodus is also accompanied by a radicalisation of public opinion and a higher level of violence and crime (*International Crisis Group, Europe Report n°155, 22 April 2004*).

4. Higher education in Kosovo: what are the needs of reconstruction?

- i) Adapting the level and type of education to economic needs. Before 1999, the Kosovars considered pursuing higher stud-



ies in parallel education structures as a way to show resistance to the intellectual humiliation imposed by Milosevic (*A. Bayerl*). Today, this approach to higher studies is still prevalent, favouring longer programmes such as masters or doctors degrees, while economic needs would be better served by shorter bachelor degree studies. In the future it will be important to focus on short and operational training programmes, which are the only way of countering economic depression in the short term (*G. Wöber*). Efforts to develop distance learning and training are ongoing (*M. Cullin*).

- ii) Investing in modern education infrastructure and in the establishment of study programmes modelled on international standards (Bologna, ECTS system...) Developing co-operation between the universities in Kosovo and internationally recognised universities (as for instance the co-operation between the University of Business and Technology and Vienna's Diplomatic Academy)
- iii) Encouraging the geographic mobility of professors and students in Kosovo by adapting the overly restrictive visa system, retaining professors and competent Serbian experts in Kosovo or convincing them to collaborate in joint structures and increasing the share of full-time university professors in the universities of Kosovo.
- iv) Supporting collective education initiatives (University of Mitrovica) by developing multilingualism (*G. Wöber*)

5. How to re-orient information in Kosovo ?

- i) Like the educational system, the media in Kosovo must pass from an approach of resistance and mobilisation to an approach based on education, non-partisanship, non-propaganda and a certain sense of ethics. One way of achieving this would be the adoption of a code of conduct for journalists and training for journalists working in Kosovo. The Albanian media in Kosovo – but also in Macedonia and Albania – played a catalytic role during the events of March 2004 (*J.-A. Dérens*). Redefining the role of RTK (public information service).
- ii) The Kosovar media's incapacity for self-criticism and their refusal of criticism voiced as regards all societal issues considerably impoverishes the local press. Serbian and Albanian media have a habit of self-censorship when it comes to issues concerning their own "camps", of reacting strongly, or even violently, when the adversary's camp is concerned, and ignoring criticism coming from outside (*D. Flis*). Hence, the importance of supporting the (still few and far between) cross-cutting initiatives of inter-ethnic co-operation between journalists. These initiatives must, however, not be imposed by UNMIK or the international community, but must come from the journalists themselves (multiplying mixed structures).
- iii) Working towards a certain degree of concentration of the Albanian press in Kosovo. The proliferation of print titles whose circulation almost never exceeds 4-5000 copies, leads to impoverished content and falls prey to sensationalist and purely financial considerations (*J.-A. Dérens*).
- iv) Facilitating access to the press, particularly by not imposing prohibitive taxes on newspapers from Serbia or Albania (*J.-A. Dérens*). UNMIK envisages levying a tax of 15% on newspapers from Serbia.

III. Integrating Kosovo in the regional and European economic area

1. The complexities of the integration process

Kosovo pursues a double integration approach whose two elements, the regional and the European contexts, are closely linked and interrelated. This integration approach is based on two clear accession perspectives offered to the West Balkan countries by the European Union over the medium or long term (Thessaloniki Summit in June 2003, Gymnich Summit in March 2006...). Despite the positive declarations from the European Union, the European perspective remains very vague for the Kosovars and involves a too ill-defined number and scale of stages and priorities (*B. Beqaj*). The sometimes contradictory signals to the region emanating from the EU have damaging effects, particularly on public opinion and on local enterprises that seek to adapt to the changing European standards (*V. Gligorov*). The Stabilisation and Association Process (SAP) is a central component of the European integration process, but does not have the scope of a pre-accession process and is therefore complemented by other structures: the Stability Pact in South-East Europe, the South-Eastern Europe Cooperation Process (SEEC), the South Eastern Cooperation Initiatives (SECI), the Energy Community (the treaty is under negotiation), the South East Europe Transport Observatory (SEETO Centre), within the framework of the CARDS programme, the Regional Balkans Infrastructure Study (REBIS), etc... The regional impact of these integration processes is very important and can also be found at the centre of SAP. A free trade zone in South East Europe was created at the Bucharest Summit on 5 April 2006 with the support of the European Union. In the West Balkans, the notion of cross-border and regional co-operation is actually more important as the borders between the



states are new and will stay relatively permeable, particularly for reasons of mixed ethnicities, cultures and languages (*H. Riegler*). In tandem with the relatively small size of its territory, this border permeability invests Kosovo with a high degree of interdependence and regional openness. Strong links already exist between Kosovo and the southern part of Serbia (Presevo valley), Albania, and part of Macedonia and Montenegro, but these links need to be developed well beyond the borders of the Albanian world.

2. Regional integration – what are the priorities for Kosovo ?

- i) Developing different forms of regional cross-border co-operation with neighbours (*M. Stanicic*), but also interregional or local forms of co-operation (*E. Trimcev*), in terms of economy, society and culture. A relatively advanced form of integration already exists with Albania at a local level: Kosovar children can, for instance, attend school in Albania, if their school in Kosovo is further away. Other local but multilateral initiatives have already been somewhat successful and should be encouraged. For instance the initiative launched by the Local Democracy Agency of Kosovo with the support of the Council of Europe in 2005, which involved the organisation of a cross-border exhibition of youth organisations in the regions of Gjilan/Gnjilane (Kosovo), Kumanovo (Macedonia) and Vranje (Serbia). The aim is to strengthen co-operation between civil-society organisations across borders and between communities.
- ii) Making use of regional economic complementarities to integrate Kosovo at regional level (*V. Gligorov*). Bringing the relations with Serbia back to normal is a major issue (*L. Maurer*) which has an impact on the economic viability of Kosovo (“*Kosovo Economicus: Does Viability Matter?*” *Vladimir Gligorov, paper prepared for UNA-USA/IAI Conference in Rome, 12-14 December 1999*). Serbia also offers a market not to be overlooked for the very service-sector oriented Kosovar economy, but only on condition that the banking systems of Serbia and Kosovo are harmonised. A certain degree of coordination should be achieved between Belgrade and Priština, but also with other regional actors at intergovernmental level (by setting up working groups?) (*N. Popovic*). Co-operation between Kosovo and Macedonia, on the one hand, and with Albania on the other, also needs to be strengthened (*V. Petkovski, E. Trimcev*). As Kosovo will in the future occupy an ever more important place on the geopolitical map of South-East Europe, the demographic centre of gravity of the Albanian population in the West Balkans will probably shift slowly from Albania to Kosovo (*Y. Courbage*). Involving the EU and NATO in regional forms of co-operation (*D. Janjic*)
- iii) Creating regional trade units (advanced types of economic co-operation) and working towards the creation of a Balkan customs union, which would enhance the West Balkans’ negotiating power vis-à-vis the European Union (*B. Beqaj*).

3. Kosovo and the European Union – less assistance, more investments?

- i) Clarifying the strategy and simplifying the process of integration with the European Union. Co-ordinating integration process and structures to avoid a “labyrinth effect”. (*B. Beqaj, V. Gligorov*). Completing the verbal support by tangible and direct support with a relatively immediate and measurable impact (*V. Rupel*).
- ii) Integrating Kosovo in the pan-European transport corridor (*M. Mustafa*)
- iii) Relaxing the visa regime for Kosovars (*G. Sivilanovic*). For young people in Kosovo emigration has the function of a safety valve. Tightening immigration policies in west European countries after the resolution of the status of Kosovo would lead to an increase in unemployment and poverty (emigration of a family member is a means of keeping heads above water for many families) (*Y. Courbage, J.-A. Dérens*). The main receiving countries for Kosovars are Switzerland, Germany, the Netherlands and Scandinavian countries. It must be noted that certain European states do not even recognise the Kosovo passports issued by UNMIK (*E. Busek*). A similar problem exists for vehicle license plates. It would be desirable to re-establish the European seasonal-worker programme for the mobility of workers in Kosovo, which would allow some of them to get access to certain industrial sectors in the European Union for a limited period, if and where they are needed (*V. Rupel, B. Grgic*).
- iv) Developing direct investments rather than financial aid, the projects of reconstruction assistance (predominant between 1999 and 2001), or technical assistance (substantial since 2003) (*B. Beqaj, E. Trimcev, G. Qorraj, V. Gligorov*). A considerable share of total aid to Kosovo goes to institution building, whereas today the needs are more pressing in the economic sphere (*E. Trimcev, G. Qorraj*). In addition, the efficiency of aid donated to Kosovo is questioned by various studies (*European Balkan Observer, Vol. 4, No. 1 February 2006, p. 13*).

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