

# **WHITHER BOSNIA?: DILEMMAS OF STATEBUILDING IN THE WESTERN BALKANS**

*The deep-running divisions within the Bosnian society torn apart by the 1992-95 war, the political elites' confrontational style and the overwhelming role played by the international community perpetuate the deadlocks that define politics in post-Dayton Bosnia-Herzegovina (BiH). Recently, BiH was a testing ground for instruments related to the emerging European Security and Defense Policy such as the police mission (EUPM) launched in 2002 and EUFOR, a peacekeeping mission which replaced NATO's SFOR in 2004. The European Union needs to turn the Western Balkans into a success story if it wants to assert itself as a credible actor in global politics. BiH is critical in that endeavor.*

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## *Recurring Crises*

**W**ith Kosovo looming large the Western Balkans are back with vengeance in the international news coverage. Bosnia-Herzegovina (BiH) gets its fair share. By now, everyone is familiar with the doom-and-gloom scenarios portraying the country as a potential ‘collateral damage’ of the Kosovar Albanians’ drive to secede Serbia. On 21 February 2008, just four days after the Kosovo assembly proclaimed independence, the parliament of Republika Srpska (RS), one of the two constitutive entities in BiH, threatened to hold a referendum over leaving the common state. This sent shockwaves across Bosnia and former Yugoslavia bringing back the ghosts of the 1990s bloodshed.

The latest tensions follow in the footsteps of a political crisis that paralyzed BiH in the autumn of 2007 to the extent that some commentators called it the most significant challenge to the country’s stability since the time of the fateful Dayton Accords (1995). For months on end, the key local actors fought doggedly a trench battle over the High Representative Miroslav Lajcak’s attempt to push forward a set of crucial legislative changes. The package included procedural rules preventing the blockage of the state-level government and parliament by any one of the three major ethnic groups, the Serbs, the Bosniaks (Bosnian Muslims) and the Croats. The move was bitterly opposed by Milorad Dodik, the prime minister of RS who emerged over the past few years as one of the most powerful figures in BiH. In a heated exchange with Lajcak, Dodik accused the Western powers of trying to marginalize the Bosnian Serbs by making sure they could be outvoted in the state institutions.

Dodik’s real concern and the key bone of contention was, and still is to this very day, the plan to create a single police force in BiH. This is a very significant step as it will effectively merge the separate structures within RS and the Federation of BiH (FBiH), the other constitutive entity dominated by Bosniaks and Croats. Back in 2004 the European Union (EU) singled out this police reform as a principal requirement for signing a Stabilisation and Association Agreement (SAA) with Sarajevo. For a long time, Serbs have managed to resist the move claiming that it would undermine the autonomy RS enjoys within BiH. This diehard attitude harnessed very skillfully by Dodik has been, beyond any doubt, reinforced by the radical slogans embraced by the Party for BiH which won the biggest share of the Bosniak vote at the parliamentary elections in October 2006. Its leader Haris Silajdzic has been openly declaring his goal of abolishing RS, an entity which many Bosniaks associate with the ethnic cleansing and genocide of the early 1990s. In response, Dodik has not shied away from using threat of a secession referendum, a device that has boosted his electoral performance at the expense of other parties vying for the Serb vote.

As tensions were mounting European media broadcast images of Bosnian Serbs protesting against the pressure exerted by Lajcak, the EU, as well as by the Peace Implementation Council (PIC) overseeing the international community's involvement in BiH. Though formally organized by a group of NGOs the protests were recognizably orchestrated by Dodik and his party, the Alliance of Independent Social Democrats. Rather alarmingly, the demonstrators in Banja Luka, the RS capital, carried portraits of the Russian President Vladimir Putin and called on the Kremlin's master to protect his Orthodox Slav brethren in the Balkans. This happened at a time when Russia asserted its role as a major player in the Kosovo status talks. At the height of the tensions in early November 2007, the head of BiH's Council of Ministers Nikola Spiric, an ally of Dodik, resigned leaving the country in a limbo.

The crisis was resolved only in early December 2007 in a last-ditch effort to meet yet another EU-set deadline. In essence, Dodik agreed to the reform of procedural rules in the Parliamentary Assembly and signed up to an action plan to implement police reform endorsed by all principal parties in BiH. In return, the EU rewarded BiH by initialing the SAA. Importantly, the EU had earlier in November 2007 initiated a SAA with Serbia, the only other Western Balkan country lacking a full-blown contractual relationship with the Union.

The present crisis as well as its precursor in late 2007 expose the grave problems that Bosnia is facing. Despite Dodik's inflammatory rhetoric and bulldozer-style politics RS is unlikely to secede capitalizing on the Kosovo precedent. However, political and institutional reforms aimed at the build up of a functional state in the interest of all citizens are and will likely remain painstakingly difficult to devise, agree on and implement. Taken together, the deep-running divisions within the Bosnian society torn apart by the 1992-95 war, the political elites' confrontational style, and the overwhelming role played by the international community perpetuate the deadlocks that define politics in post-Dayton BiH.

### *Becoming a Normal Country?*

Present-day BiH differs immensely from the war-battered place of the mid-1990s and, at least on the surface, looks like what ordinary Bosnians would call a 'normal country'. By the early 2000s, the country made it past the post-conflict reconstruction stage. Furthermore, over a million refugees and internally displaced people returned, around half of the total number, have returned to where the conflict broke out in 1992. The Herzegovinian town of Mostar, another symbol of the war, which was long divided into a Bosniak and a Croat municipality, was reunified in 2004. BiH has a single army and is, since November 2006, part of the NATO's Partnership for Peace (PfP) initiative.<sup>1</sup> It is fair to say that the three

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<sup>1</sup> The Bosnian army currently has three ethnic-based components but is still placed under a unified command and under a single Ministry of Defence. This reform was implemented in 2005 in order to qualify for PfP.

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major ethnic groups have mostly accepted BiH's indivisibility. Admittedly, the repeated calls for a referendum suggest that acceptance is far from genuine as far as the Bosnian Serbs are concerned. However, another plausible explanation is that Dodik's brinkmanship tactics are more aimed at cementing RS' constitutional status under Dayton than a sincere wish to leave BiH, an initiative which has few backers in the EU capitals or in Washington.

Yet, even without the knock-out effect from Kosovo, BiH faces countless challenges. Though pacified, it has a long way to go in order to narrow the gap with the 'frontrunners' in the Western Balkans such as Croatia or even Serbia. One needs to look no further than the country's economy. Though reliable data is notoriously difficult to obtain given the deficiencies in the statistical offices at both the state and entity level, here are some stylized facts illustrating BiH's current predicament:

- 40 percent of the labor force is unemployed. Even granted that many officially unemployed are involved in the grey sector, the percentage is still overwhelming. To compare, the jobless rate is below 20 percent next door in Serbia.
- Public spending in BiH exceeds 40 percent of GDP which is at least five percentage points higher than a typical transition country. Arguably this is due to the multiple layers of governance resulting from the power-sharing arrangements of Dayton.
- Nearly one in every five Bosnian citizens lives below the poverty line. A further 30 percent are close to it.<sup>2</sup>

To be sure, this bleak picture is at variance with the positive macro-level outlook. Over the past half a decade BiH has been growing at an average rate of 5 percent. It has also benefited from low inflation and sound public finances. The impact of European integration and regional cooperation has produced palpable gains. Bosnian exports have expanded helped by liberalization of trade with the EU and neighbouring countries in South East Europe.

Yet structural impediments and the legacies of the recent Yugoslav past and the 1990s war continue to beset the economy. Foreign investment has been slow to come due to unfavorable factors such as the partial implementation of structural reforms, the rigidities in the labor market, the low level of skills, the pervasiveness of corruption and organized crime. Despite gradual recovery the country's GDP is still at about 65 percent of the pre-war level. The steep decline of heavy industries characteristic for all post-communist economies had especially grave consequences in BiH due to the war and the break-up of the Yugoslav federation. Furthermore, the Bosnian private sector is still underdeveloped, even by regional standards. The different regulatory environment in FBiH and RS is yet another bottleneck businesses have to face. BiH suffers from trade and current account

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<sup>2</sup> 'Bosnia: Economic Management Faces Extra Test in 2008,' Oxford Analytica Daily Brief, 21 January 2008.

imbalances to a greater extent than its neighbours. In short, BiH is far from becoming an economic success story.

### *Political Stalemate*

Economic hardship has a profound impact on public perceptions and is a source of frustration in the society. The expectations for a speedy recovery under international tutelage have been thwarted. Though it is true that the expectations might have been unrealistic in the first place, still the slow improvement of living standards has bred dissatisfaction with the political status quo as well as with the country's elites. When turnout at the general elections in October 2006 reached 54 percent it was considered a success, as four years earlier the figure was as low as 45 percent.

The problem is that the Dayton framework of power sharing privileges group representation to institutional efficiency. The system of governance is based on a complicated and costly decision-making process. Under the current constitution, there are two entities and a special district around the town of Breko in the north. For its part, FBiH is subdivided into ten cantons, creating a bloated and rather dysfunctional public sector which, in addition, is dependent, though arguably less so nowadays than in the past, on external financial aid.<sup>3</sup>

The complex structure has also exacerbated the problem of state capture observed in many societies in transition. Nationalist politicians rising to prominence during the war in the 1990s have managed to carve out their own niches in the grey sector from very early on. A blatant example was the 2001 scandal over Hercegovacka Banka (Herzegovinian Bank) that marred the Croatian Democratic Union (HDZ), the leading party of the BiH Croats. Rather than creating a sense of security and policy ownership by the three ethnic groups it has played into the hands of rent-seeking elites. One must note that Dodik's appeal amongst Serb voters is partly grounded in his promises to clamp down on crime and corruption associated with the Serbian Democratic Party (SDP) which was in power before February 2006.

The symbiosis between grey economy and the nationalist parties, which is hardly a phenomenon exclusive to BiH, has prompted the Office of the High Representative (OHR) to pay greater attention to the rule of law. It has also presented opportunities to promote a greater degree of centralization. For instance, Paddy Ashdown, who was in office between 2002 and 2006, took action to hit the 'soft underbelly' of the nationalists by launching criminal investigations, freezing bank accounts, and pressing charges of corruption and involvement in organized crime to leading politicians such as the Croats Ante Jelavic or Dragan Covic who

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<sup>3</sup> BiH has 13 Prime Ministers, 150 ministers, over 700 Members of Parliament (at cantonal, entity and federal level), 3 presidents.

was in 2002-2005 a member of BiH's three-member presidency. This has narrowed the power base of the forces obstructing reforms. In addition, the OHR-driven reform agenda has, on occasions, marginalized radicals. The case in point is the schism which occurred in the HDZ in 2006 or the gradual 'normalization' of the SDP, once led by no one else but the war-crimes indictee Radovan Karadzic. Yet it is far from certain to what extent such actions have helped to transform BiH politics. The shifting perceptions of Dodik, from a reformist and a critic of SDP to a hardliner, is a sobering example. After signing up to police reform on a number of occasions Bosnian Serb politicians have been reluctant to deliver. Relinquishing control is a very costly move as police is at the center of patronage networks, most of which date back to the time of the war.<sup>4</sup>

### *The Failed Constitutional Reform*

Economic and governance problems in BiH have created demands for reform. Although BiH will never become a unitary state, it has experienced a gradual move to centralization, largely thanks to external pressure. However, the record of the past three years is at best mixed. Even before the autumn crisis consensus proved difficult. In 2005/2006, the anniversary of Dayton stirred up momentum for changing the constitution which was seen as an obstacle for progress. External actors such as the U.S. and the EU pushed for transferring more power from the entities to the state level. Initially this strategy, backed by the incentive of EU membership, delivered. In the course of 2004, BiH put in place a single customs administration and, on 1 January 2006, it also introduced a common VAT backed by the so-called Indirect Taxation Authority, the biggest state-level agency operating in the country.

However, the cracks began to show very soon. In April 2006 the lower house of the BiH parliament rejected a package of reforms, elaborated with U.S. assistance, which would have substantially upgraded the central authorities by expanding the powers of the state-level Prime Minister and Parliamentary Assembly, adding two new portfolios to the government, and abolishing the three-person state presidency in favor of a single president with purely representative functions.<sup>5</sup> The bill failed to gather the needed 2/3 majority despite agreement amongst the country's seven main parties that preceded the vote.<sup>6</sup> Though everyone agreed on the strategic goal of EU membership there was no unanimity on the institutional reforms needed to achieve the goal. All observers of Bosnian affairs shared a sense that a window of opportunity had been missed.

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<sup>4</sup> For an illuminating discussion of this set of issues, see Florian Bieber, *Post-War Bosnia: Ethnicity, Inequality and Public Sector Governance*, London: Palgrave Macmillan, 2005.

<sup>5</sup> The president would have been aided by two vice-presidents belonging to the other two 'constituent groups' and there would have been a rotation so the reform was not as ambitious as it appeared.

<sup>6</sup> 26 voted in favour and 16 against – mainly breakaway MPs from the HDZ and Silajdžić's Party for BiH, supported by several minor groups.

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Though the constitutional reform process led to much frustration, there were voices claiming that it also reflected the process of ‘normalization’ in BiH politics. Political discourse and inter-party bargaining had presumably shifted away from symbolic into bread-and-butter issues such as the distribution of the VAT revenues between the entities. In addition, it was believed that coalitions cut across ethnic cleavages. The amendments were torpedoed by nationalists splitting from the HDZ fearing they went counter to the Croat community’s interest and Silajdzic who, for his part, was unhappy about the limited scope of the proposal. At the same time, the ‘usual suspects’ HDZ and the Bosnian Serb parties voted in favour. Analysts commented that the latter were more amenable to extend the power of central institutions as the latter had already considerable resources at their disposal following the implementation of the VAT bill.<sup>7</sup> These resources could easily be concentrated in the hands of the likes of Dodik who garnered a bigger share of the votes in the October 2006 elections than either of the Party for BiH (Shilajdc) or the Party of Democratic Action representing the Bosniaks.

However, the latest developments in BiH and RS suggest that this optimistic tone was premature. There is still no common vision about the shape and the nature of the political community in BiH. A recent example is the tensions surrounding the February 2007 ruling by the International Court of Justice in the genocide case BiH brought against Serbia over the Srebrenica massacres of 1995. It demonstrated how vivid and polarized the memories of the conflict were. Indeed loyalty to the central state is weak, particularly amongst the Serbs and Croats. Both groups look towards their own kin states across the border. At the most trivial level, this is reflected in the overwhelming support for the football outfits of Serbia and Croatia, rather than the one of BiH, during high-profile international matches. Many Bosnian Croats have dual citizenship as the possession of a Croatian passport offers an opportunity for visa-free travel to most European countries. Furthermore, it is very difficult to develop loyalty towards BiH given its lack of sufficient powers and resources needed to provide public goods such as economic development, social protection or law enforcement. Even if the constitutional amendments had been passed in 2006, civic cohesion would not have followed swiftly. In a similar vein, the unification of the army or the police forces is no silver bullet to patch up communal rifts.

### *BiH between Dayton and the EU*

BiH’s fragmented society, weak institutions and precarious position in the region have, time and again, created demand for robust international engagement. The OHR has played a crucial role in curbing the power of nationalist politicians, strengthening the central level of governance and promoting economic reform. However, interventionism has come at a price as it has fostered a culture of dependency. Prominent critics such as the European Stability Initiative Claim that

the rule by decree under the so-called Bonn powers allowing the High Representative to pass legislation and dismiss elected officials has killed any chance for genuine democratic habits to get foothold in BiH. Those criticisms were targeted against Paddy Ashdown, a renowned practitioner and advocate of interventionism.<sup>8</sup> They called for subjecting the OHR's powers to constitutional limitations, if not the outright abolition of the institution. It is clear that intervention is only half-way successful in the absence of the required institutional culture. This includes the habit of craft compromises by the political class but also the development of a healthy civil society which is at best a long-term project far exceeding the capabilities of the international agencies present in BiH. However, recent experience suggests that proactive international involvement is still indispensable.

To be sure, the OHR took some of the criticisms aboard. Ashdown's successor Christian Schwarz-Schilling vowed not to use the Bonn powers unless exceptional circumstances make it inevitable. This hands-off approach however turned out to be ill-conceived. In late 2006 and early 2007, Schwarz-Schilling came under heavy fire for his leniency vis-a-vis Dodik. The PIC was initially considering phasing out the OHR and passing part of its duties, but not the Bonn powers, to the EU Special Representative (EUSR) reporting to the Common Foreign and Security Policy chief Javier Solana.<sup>9</sup> However, it decided on 27 February 2008 to extend its mandate and set a list of conditions to be fulfilled before full transition to EUSR takes place. Beyond any doubt, this decision reflects the anxieties over the resurgence of Serb nationalism and the fear of instability fuelled by the Kosovo crisis.

In July 2007, the council appointed as a High Representative Miroslav Lajcak. The Slovak diplomat who had previously served as an EU envoy during the Montenegrin independence referendum (May 2006) was considered more dynamic and prepared to seize the initiative. These expectations proved well-founded. It was largely thanks to Miroslav Lajcak's diplomatic skills backed by the resolve to make full use of the Bonn powers that the crisis in October-November 2007 was defused.

To continue with vital reforms, BiH needs external anchors, much like any post-communist country in Central and South East Europe. Here the EU factor is essential.<sup>10</sup> The membership perspective extended at the Thessaloniki Summit in June 2003 has galvanized domestic support for the reinforcement of state-level

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<sup>8</sup> Gerald Knaus and Felix Martin, 'Travails of the European Raj,' *Journal of Democracy* 14 (3), July 2003. See also Ashdown's own account of his term in Sarajevo in *Swords and Ploughshares. Building Peace in the 21st Century*, London: Weidenfeld and Nicholson, 2007.

<sup>9</sup> Since Ashdown's appointment in March 2002 the High Representative, reporting to the PIC and the UN Secretary General, also holds the position of EUSR.

<sup>10</sup> 'From Peacebuilding to Statebuilding: Assessing NATO and EU Conditionality in Bosnia-Herzegovina'. Roundtable at Chatham House, 30 November 2007. Convened by Florian Bieber and Gulnur Aybet, University of Kent.

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institutions and economic transformation. Yet the EU's effort to bring BiH into its fold depends on the policy-implementation capacity of the administration which, regrettably, remains limited despite the laudable efforts of technocrats such as Osman Topcagic, the head of the European Integration Directorate which is part of the central government.<sup>11</sup> Furthermore, the Stabilisation and Association Process (SAP), unlike the pre-accession framework, has limited tools to foster institution building at both the central and regional level. One lesson learnt in the course of the 2004/2007 enlargement the EU's transformative power is seriously constrained when domestic commitment to reforms is deficient. Much depends on the ability of Brussels to create demands for reform 'from below'. For example, through linking the upgrade of the judiciary and law enforcement agencies with the relaxation of the visa regime, an issue which is of great significance for Bosnian citizens and across the Western Balkans.

The EU will remain crucial for the future of BiH in the longer run, even when the domestic transformations bear fruits in terms of stability and prosperity. The experience of Western Europe shows that consociational arrangements tend to work when embedded into a supranational tier of governance. The EU has already played a key role by placing BiH into a context much larger than the relations between Zagreb and Belgrade as it has been the case historically. BiH depends on the EU and particularly its willingness to hold up the enlargement perspective, despite the opposition from certain member states and the new discourse on integration capacity.

In a certain sense, the EU depends on BiH and the Western Balkans, too. The Union needs to turn the Western Balkans into a success story if it wants to assert itself as a credible actor in global politics. BiH is critical in that endeavor. It was there that the Union's foreign policy ambitions suffered a deadly blow during the war in 1992-1995. More recently, BiH was a testing ground for instruments related to the emerging European Security and Defense Policy such as the police mission (EUPM) launched in 2002 and EUFOR, a peacekeeping mission which replaced NATO's SFOR in 2004. Bosnia matters to the EU also in light of the significant debates on culture, diversity and the place of religion in public life in Western Europe. Though largely secular, the country will bring into the EU the historical experiences of home-grown Islam at a time when integration of Muslim migrants becomes one of the central issues in a number of member states. It is to be hoped that this interdependent relationship will bring greater stability in Bosnia and move it closer to the European mainstream.

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<sup>11</sup> Gerald For BiH's state of preparedness to meet the EU criteria, see European Commission, Bosnia and Herzegovina 2007 Progress Report. COM (2007) 663 final, 26 November 2007.

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