

# Economic Instability Wracks Southeast Europe, UN Report Shows

by Rainer Apel

The first economic survey for the year 2000, which the United Nations Economic Commission for Europe (ECE) published for its 55th session in Geneva on May 3, is worth noting, not for its general approach, which pays uncritical tribute to the line put out by the International Monetary Fund (IMF) and the banking experts of the hyperinflationary IMF system. Europe in general, the ECE report claims, is experiencing the “highest expansion since the early 1990s,” and the Asian and Russian crises of 1997 and 1998 have either been overcome, or are in the process of being overcome, in most parts of the world economy. The ECE report is worth covering, because in its introduction, it says that there are “downside risks” that should not be neglected: “The possibility of a crash in overvalued equity prices in the United States is a serious risk to the current outlook, and there are uncertainties over the course of oil prices and of monetary policy in the EMU [European Monetary Union].” The report notes, “In particular, much of the region of southeastern Europe is still beset by severe structural problems and the consequences of several armed conflicts, which have made the process of transition to a market economy much more difficult than in central Europe.”

## Closer to Reality

The report then gets closer to the reality of the situation: “The fact is that for the past decade, these countries, the poorest in Europe, have continued to fall further behind both western and central Europe rather than catch up. The slight improvements in the short-run outlook for many of them in 2000 will do little to alter this situation, which poses a constant, if unpredictable, threat to economic and political stability in the European region as a whole.”

If one is familiar with *EIR* coverage, which has kept an unfiltered, independent, and accurate view of the situation in the Balkans, the quotes from the ECE report will sound all too familiar.

Alerted to the fact that there are “downside risks” that threaten global economic stability and that Europe as a whole may be destabilized by the economic situation in the Balkans, the reader of the ECE report is well advised to concentrate on those sections that exclusively deal with the economic disaster in Europe’s southeastern region.

The ECE report notes, first of all, that many of the “transition economies remain highly vulnerable to external shocks,

such as the Asian and Russian crises of 1997-1998, or the Kosovo conflict of 1999.” The report then emphasizes that whereas the general impact of the Kosovo War on the Balkans economies has been not as catastrophic as originally feared, all of these economies have moved from modest GDP growth in 1998 into recession. Therefore, “the improvement forecast for 2000 is largely a recovery from this recession rather than the first signs of sustained economic growth. The macroeconomic situation in most of these countries is still relatively fragile. In general, the main success has been in reducing inflation, in several cases to very low rates; but current account deficits have been large and persistent, with a consequent build-up of foreign debt, unemployment rates average nearly 17%, much higher than in central Europe.”

## Another Shock Is Occurring

Whereas all of the southeast European economies still suffer from the backwardness of the pre-1990 communist regimes and from the shock effects of the initial phase of free-market reforms, they have received an additional shock from the Balkans wars from 1991 on. And, the ECE report warns, in critical remarks on the Western, particularly western European approach, yet another shock is now occurring, with the promises of post-Kosovo War reconstruction (“Stability Pact”) aid not being met.

“First, there is a large gap between promises to provide assistance and its actual disbursement—this delays action and creates disillusion in the region. Secondly, there is poor coordination between the 29 countries and international organizations belonging to the Stability Pact—resources are widely dispersed and inadequately coordinated both between donors and with national programs. Thirdly, there is also a confusion of conceptual frameworks and approaches, and it is by no means obvious that the essential differences between the trio of problems—development, transition, and postwar reconstruction—are clearly recognized. There is also a tendency for donors to promote separate projects without placing them within a broader program of development; and sometimes, projects reflect more the interests of their promoters than those of the recipient countries.”

This charge by the ECE, that Western aid promises lack seriousness, and that Western programs lack a development perspective for the Balkans overall, echoes the complaints



*Devastation from the 1999 war against Yugoslavia: the Ostruznica railway bridge and a Jugopetrol fuel depot in Belgrade, May 1999. The UN's Economic Commission for Europe reports that the continuing effects of the war are being felt not only in Serbia, but in neighboring countries also. As for Western aid, there has been "a large gap between promises to provide assistance and its actual disbursement."*

made constantly by all leading representatives of the Balkans nations themselves. It is good that an institution outside the Balkans countries, like the ECE, has confirmed that the Western economic approach to southeastern Europe is, at best, a mess. But, in reality, the Western approach is an outright disaster.

### **Balkans Nations Must Act**

The authors of the ECE report here take the revolutionary step, of calling on "individual countries in southeast Europe to draw up their own programs for transition and development, which would accurately reflect their specific problems and preferences." The authors state that this "is one of the lessons which this survey has previously drawn from the highly successful Marshall Plan of the late 1940s. These national programs would then be discussed in a regional framework to improve coordination, and to encourage cooperation wherever there are international public goods, economies of scale, and other externalities to be found."

The report thereby states that if there is anything good to emerge from the discussion about the future of the Balkans, it will, as things stand today, necessarily have to come from the initiatives of the Balkans nations themselves. Only then, once national development programs have been drafted, would a development project affecting all of the region have a chance of being successful, because only then would the regional development perspective be based on the genuine interests of the nations that take part in this project.

What the ECE report implies here, is almost diametrically opposed to the approach taken so far by the European Union and other Western institutions, and it is regrettable that its authors, who obviously do have ideas about what should be done, do not elaborate more on the matter. But, the few re-

marks made in the ECE report on general policies, indicate that were there a well-conceived and well-meaning development perspective for the Balkans, one would be able to find experts useful for the project even among otherwise largely discredited institutions like the United Nations.

### **Economic Catastrophe**

In its overview on the national economies of southeastern Europe, the ECE report gives a sobering insight for those who are either uninformed about this region, or have illusions as to what the real situation there is. There may be fewer doubts about the report respecting the situation in Serbia, Montenegro, and Kosovo, whose infrastructure was severely damaged during the 11 weeks of NATO air strikes last year. For example, in 1999, for Serbia and Montenegro alone, there was a "collapse of GDP by some 20% and of industrial output by some 23%," which "amounts to a severe worsening of an economic situation which was already in a precarious state" before the Kosovo War, the report says. "It is clear that the war has left deep scars on the Yugoslav economy: The enormous damage to the economic infrastructure and production facilities as a result of the bombing will result in a downward shift in aggregate output, which will be difficult to overcome even in the medium term."

But also, neighboring countries to Serbia and Montenegro, such as Macedonia and Albania, suffered from the Kosovo conflict, the ECE report observes. In Macedonia especially, industrial output fell sharply in the first half of 1999, as the country's main trade routes to the west, notably the Danube River, were blocked by the wreckage of bridges destroyed by NATO bombing. And the "improvement" in consumer goods consumption, which the official statistics note for Albania, is mostly related to dramatically increased ex-

penses to supply the several hundred thousand refugees who had poured in from neighboring Kosovo. Macedonia and Albania will continue to be affected most directly by the Kosovo conflict, the report warns.

### The Case of Bosnia-Herzegovina

Most revealing about Western policy in the Balkans, however, is the situation in Bosnia-Herzegovina, which has been administered by the United Nations and the SFOR troops provided by NATO and Russia, since the end of the Bosnian-Serbian war and the signing of the Dayton Accords in 1995. "Data on the economic situation in Bosnia and Herzegovina are still fragmentary and it is difficult to assess current economic performance," the ECE report states, adding that contrary to the usual reports about "post-Dayton recovery," all the "indications are that this country is only kept running thanks to the continuing injection of official aid; if this were to be discontinued, the economic implications may be disastrous."

Against the background of ongoing discussions at the European Commission to reduce Western aid to Bosnia-Herzegovina, the ECE warning of cuts in aid are more than appropriate. Moreover, the disaster in Bosnia-Herzegovina almost five years after the end of the war with Serbia, is the handwriting on the wall for the rest of the Balkans countries that are still hoping for some Western reconstruction aid, one year after the end of the Kosovo War. If what the rest of the Balkans can expect is no better than what Bosnia-Herzegovina has endured since 1995, it is of no use—that is clear.

### The Results of IMF Advice

It is also interesting to read what the ECE writes about those Balkans economies which the West usually says are "more advanced," further on the road to the "free market," than the others. Croatia, for example, has been loyal to Western IMF economic experts, and has cancelled numerous public infrastructure projects in order to balance its budget and consolidate its foreign debt. Construction sector employment fell sharply in 1999, contributing to the dramatic, almost doubling of national unemployment, toward more than 20% at the end of the year. The fiscal austerity program of the new Croatian government, which came in a few months ago, will lead to "a further increase in unemployment which was already nearly 13% in the first half of 1999," the ECE report says.

For Romania, another favorite of Western free-market advocates, the ECE notes that "the Romanian economy has been in the grip of a profound crisis for several years; deep-rooted economic problems, coupled with incoherent policies, have resulted in poor economic performance and political instability. Although the feared default on foreign debt was avoided in 1999, the deep recession continued for a third consecutive year, leading to a cumulative decline of GDP by some 14% since 1996, and of industrial output by some 30%."

Sharply increased energy costs contributed to an increase of consumer prices in Romania by some 55%, the report notes.

In Bulgaria, also a country which Western free-market advocates say is doing quite well, the ECE report observes a "weak recovery in household consumption" in the first half of 1999, and an "improvement in real wages for the second consecutive year. However, real wages in Bulgaria had collapsed more than 50% between 1993 and 1997, and in 1999, they were still only about one-fifth of their level in 1997, and more than one-third below their level in 1993." This goes together with a national unemployment rate of 16%. The ECE report notes that in the Bulgarian case, "the general discontent with living standards and job insecurity were reflected in the setback suffered by the ruling party in the October and the government reshuffle in late December."

The "general discontent" and political instability observed by the ECE in Bulgaria, is something that exists throughout the region, and governments have been reshuffled in almost all other countries there in recent weeks and months. The western European governments, however, are meanwhile entering their 12th month of discussion about a "Stability Pact"—which the ECE report rightly characterized as not deserving of the name. Without a profound change of policy, the Balkans will remain an economic, political, and security powder keg for the foreseeable future.

## The Way Out of The Crisis



A 90-minute video of highlights from *EIR's* April 21, 1999 seminar in Bonn, Germany.

Lyndon LaRouche was the keynote speaker, in a dialogue with distinguished international panelists: **Wilhelm Hankel**, professor of economics and a former banker from Germany; **Stanislav Menshikov**, a Russian economist and journalist; Schiller Institute founder **Helga Zepp-LaRouche** from Germany; **Devendra Kaushik**, professor of Central Asian Studies from India; **Qian Jing**, international affairs analyst from China; **Natalya Vitrenko**, economist and parliamentarian from Ukraine.



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