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# The World Today



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THE ROYAL INSTITUTE OF  
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# THE RISE OF THE KLEFTOCRACY

## James Pettifer

*The Dayton agreement on Bosnia was expected to benefit southern Balkan states too. They avoided following the old Yugoslavia into violent disintegration and anticipated that the end of UN sanctions and the Greek economic blockade of former Yugoslav Macedonia (FYROM) would increase economic activity and political stability. As with other aspects of the post-Dayton period, reality has proved more complex and less encouraging.*

IN THE SOUTHERN BALKANS, THE ABSTRACT THREAT OF THE SPREAD of an orthodox war has been replaced by the actual spread of localised terrorist and *Mafiya* violence, with politics and economic elements inextricably intermingled. The Croatian and Bosnian wars have caused fundamental changes in the social and economic structure hundreds of miles away. The relations emerging in the post-Dayton period show all the classic features of anarchocapitalism. UN sanctions during these wars were central in providing an ideal climate for *Mafiya* growth.

The ending of United Nations sanctions removed very large quantities of hard currency generated by petrol smuggling from many localities in the southern Balkan region, particularly in Bulgaria, FYROM and northern Albania bordering Montenegro. As a direct result, their currencies have experienced serious pressure in the past year, with a drop of about 20 per cent in value in Albania, and almost total collapse in Bulgaria.<sup>1</sup> The Mafia organisations that had grown during the sanctions period turned their attention to other activities, with an upsurge in drug and arms trading.

### *A Balkan development*

Political violence has also grown, in different forms in the different countries. In Albania, Mafia groups undoubtedly played a part in the violence associated with the Albanian general election in May 1996. In Bulgaria, the assassination of the former Prime Minister, Andrei Lukanov, was only the most prominent in a growing number of political killings; and in FYROM, the political climate is still heavily influenced by the assassination attempt on President Kiro Gligorov in October 1995.

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This growth of violence could, at one level, be seen merely as a reassertion of local traditions – a ‘Balkan’ development that was only to be expected. In some sense this is, of course, true. The Lukanov assassination in Sofia last October could, in every detail, have been an Internal Macedonian Revolutionary Organisation ‘execution’ from the 1920s, as could the Gligorov car bomb. But there is evidence to suggest that the wider growth in violence is part of a change in the political climate and very fundamental structural changes in the economies.

An important factor is the end, for the immediate future anyway, of the practical possibility of real integration into Western institutions, the European Union in particular. Thus, the elites have no pressing motive to modify their behaviour to conform to European norms, which are themselves becoming increasingly subject to criticism.

As such, anarchocapitalism has wider significance than merely increasing the risk for Western companies operating locally. The ‘Mafiasation’ of the former communist states in the southern Balkans also has wider implications for Mediterranean and regional security.

### *Fortress Greece*

The shape of many, perhaps most, post-Dayton societies in the southern Balkans is becoming visible, and it is not an encouraging picture. This is particularly so for Greece, as the only EU and NATO member on the Balkan peninsula, with a long land border with all three states.

Although most of the new arsenal being purchased by Greece is concerned with defence against what is seen as an expansionist Turkey, there is also a substantial element of a new ‘Fortress Greece’ requirement to defend the long northern borders and control illegal immigration – helicopters and light military vehicles in particular. The problem of population movement in the north is being faced by the Simitis government.

The changing social and economic structure is the key to growing anarchocapitalism. Geography is important. Albania, FYROM and Bulgaria, despite many differences in ethnicity and history, have many common features. They have relatively small populations – all three countries together support fewer people than London and the Birmingham region. The proportionately large land mass includes many mountainous and remote areas, declining or derelict industry and a large number of peasants living at semi-subsistence level.

### *Free to move*

The power of central government, particularly law enforcement agencies, is weak outside the main cities, and often corrupted within them. The young and educated are taking advantage of post-communist freedom to go abroad, if possible, or to the cities, if it is not. ▶

◀ The rural areas stagnate and suffer depopulation and the end of any effective public order enforced from the centre,<sup>2</sup> while the cities grow and have a rapidly increasing underclass of ambitious but frustrated and unemployed young people with Western aspirations but no job and little money.<sup>3</sup>

All three countries have conscript armies and most young men have some knowledge of weapons. They are a ready recruiting ground for organised crime and businesses which, while not necessarily criminal in the literal sense, nevertheless use coercion and violence as part of their normal *modus operandi*.

Worthwhile former state-owned assets from the old industries have become closely concentrated in the hands of the old nomenclatura, embodied in holding companies which are often based outside the country and are not subject to government regulations. In Bulgaria, Multi-group is the classic example – a profitable combine dealing in metals, tourism and other activities generating large quantities of hard currency, integrated vertically and

## TERRORISM IS LIKELY TO BECOME THE CHARACTERISTIC POLITICAL WEAPON FOR MANY GROUPS IN THE SOUTHERN BALKANS, AS IT WAS PRE-WAR.

managed from Switzerland. In Albania, VEFA Holdings is managed by ex-army figures and a key element in its portfolio is the old state arms trading company MEICO. VEFA is also involved in high interest-rate 'pyramid' investment schemes, food production, shops, and tourism and is the most prominent organisation emerging in a 'parallel' economic world.<sup>4</sup>

### *Eternal flows of cash*

These and many similar smaller organisations act as intermediaries between the rural hinterland and the cities, and recycle substantial amounts of foreign aid into local hands. This would be a positive feature if there were a legal framework so that they could also contribute tax to central government, but in all three countries this is often not the case.

Local elites appear to assume that foreign aid flows will flow eternally. This creates some local interest in the maintenance of a degree of political instability, as foreign aid would probably be considerably reduced if settled conditions returned to the Balkans. This can also be seen in Bosnia, where Dayton has produced a society where the total Mafiasation of areas like Mostar depends on foreign aid flows for 'government reconstruction' in the hands of EU officials with no functioning local state to govern.

### *Bankruptcy beckons*

In these conditions, the decisive feature of anarchocapitalism in these countries is becoming clear: the collapse of central government finance. Most worthwhile currency is in private hands and state bankruptcy beckons. In Bulgaria, the whole economy is collapsing and default on the nation's enormous debts seems inevitable.<sup>5</sup> Albania's debt was recycled in 1995 to avoid this situation, while the FYROM



economy is so small that the value of the currency is held by what amounts to direct transfers from World Bank and IMF funds.

'Government', in so far as there is any, consists of the finance of a central bureaucracy and, importantly, growing police forces that are ineffective against organised crime but target political unrest or dissent from the policies of the ruling group.

All Balkan leaders in the post-communist period appear to have learnt a good deal from the way President Milosevic runs Serbia – President Berisha of Albania, in particular. Western policies have unintentionally assisted these tendencies by their emphasis on strong presidential governments in the Balkans as a factor for 'stability'. The relationship between these satrap-type presidents and actual state power and democracy does not seem to have been much considered, either at the level of safeguarding human rights or a democratic and efficient law enforcement system.

### *Throwing money at it*

There has as yet been no attempt by Western governments to link Balkan economic aid to decent human rights criteria or the key issue of legality, except in the 'Republica Serbska' and with the principled position the US government has taken, tying the lifting of the 'outer wall' of UN sanctions to the improvement of human rights in Kosovo



The assassination of the former Prime Minister of Bulgaria was the most prominent political killing

Photograph from AP Photo/STR

by the Milosevic regime. The practice, so far, could be characterised by the famous phrase of the Deputy British Prime Minister, Michael Heseltine, of 'throwing money at problems and hoping they would go away'. But only a small minority benefits from the money.

Under Balkan anarchocapitalism, welfare, health and education provision declines or collapses. Economic activity is based on direct cash transfers of hard currency, and most local banks are technically bankrupt or act as money-laundering organisations, without real balance sheet assets. Bulgaria is again the most prominent example. Only the military is exempt from the state financial crisis. In Albania and FYROM, the armed forces are trained and financed externally from the United States, while Bulgaria still has close links with Russia. This is very much a return to historic patterns of Great Power dependency.

The rise of the *Kleftocracy*, to use the Greek term for 'government by bandits', poses new problems for foreign governments. In FYROM, European Union emergency humanitarian aid programmes have tried to help the bottom 20 per cent of the population facing a daily struggle for existence. In Skopje, the only functioning and properly financed ministry is the key Ministry of the Interior, totally unreformed since communist days. The government does not appear capable of, or interested in, taking responsibility for most social

issues – and has little money to do so anyway.

Perhaps half the urban population in Bulgaria will face serious food and heating shortages this winter, and the newly elected President, Peter Stoyanov, has called for an emergency humanitarian aid programme.<sup>6</sup> In Albania, the buzz of economic activity around Tirana cannot disguise the continuing desperate poverty of most rural areas where there is evidence of the recurrence of malnutrition and epidemic diseases on a scale not seen since the 'Winter of Anarchy' of 1990–91.

The proponents of market economics argue that this is a temporary phenomena, that the 'trickle-down' effect will soon begin to reach the rural and poorer areas. On the contrary, it seems that the structural changes outlined above, with elites able to appropriate assets and much EU aid for their own benefit and channel it abroad, will impoverish the vast majority.

### *Terror: the weapon of choice*

Terrorism is likely to become the characteristic political weapon for many groups in the southern Balkans, as it was pre-war. Tradition, the vast imbalances between country and city, and the absence of parliamentary government offering the possibility of strong opposition within a peaceful framework, will drive it now as then. Western support for familiar, entrenched presidents assists these regressive processes. The FYROM parliament was produced by a heavily manipulated election in November 1994, and in Albania it is scarcely functioning after the corrupt election of May 1996. Opposition under anarchocapitalism is likely to be anarchic itself, with the symbolic act of violence becoming ever more common, as President Gligorov, ex-Prime Minister Lukanov, the head of the Albanian prison service and many other less prominent people have found to their cost in the past year.

To reverse these trends would require rural investment and social development, and the modification of existing aid policies. Alternatives could include aid targeted at preserving traditional labour-intensive, family-based agriculture, so discouraging the flight to the cities; an end to banking secrecy; efforts to control small arms transfers and demilitarise the Balkans; clear supervision of EU aid so that it is not stolen; and making dispersal dependent on the evolution of parliamentary government.

The PHARE programme, the main channel for EU aid, could be disentangled from its present subservience to local power elites, dedicated to the elusive dream of the resurrection of old industrial bases from the communist period. The anthropomorphic worship of strong presidencies as a sign of democratic development should be ended since the results increasingly resemble old-style Third World dictatorships. Social stability in the post-communist and post-Dayton Balkans has to be built on a firm, traditional, rural economic foundation, involving the mass of the people. It is most unlikely to result from financing a *kleftocratic* elite. 

<sup>1</sup> See article by James Pettifer in the *Wall Street Journal*, 30 September 1996, for more detail.

<sup>2</sup> This subject is extensively analysed by the International Organisation for Migration, IOM, Geneva, Switzerland 1995, in an important report, *Profiles and Motives of Potential Migrants from Albania*. This shows that the desire to migrate has not diminished at all under the Berisha government.

<sup>3</sup> Male unemployment in every Balkan capital is over 20 per cent, and in some, such as Sofia and Tirana, it is much higher.

<sup>4</sup> For much valuable material on Multigroup, VEFA and similar organisations, see *East European Newsletter*, London, between 1993 and 1996.

<sup>5</sup> See *Bulgarian Economic News*, Sofia, September 1996. Although political factors were important in the run on the banks then, it seems clear that the basic problem is the absence of real assets to support the currency value.

<sup>6</sup> See articles in *The Times*, by James Pettifer on 3 October 1996; and by Roger Boyes on 26 November 1996. A large programme has started in December 1996.