Balkans nations are realizing that development is impossible with IMF

by Rainer Apel

Diplomatic contacts among the Balkans governments have reached an impressive density, with every day featuring news about new agreements for infrastructure and economic development projects. At the same time, the expectations of the Balkans governments about the chances of receiving substantial financial assistance from the "rich" Western industrial nations have scaled down, and the more so as the international "Balkans reconstruction summit" of the Group of Seven, the European Union (EU), and the International Monetary Fund (IMF), scheduled for the Bosnian capital of Sarajevo on July 30, drew near.

That summit of the monetarist "donors" and the Balkans "receivers" of future, limited aid, is a scandal in itself: Solemnly announced by the Western governments in early June in the context of the end of the NATO air war on Serbia, it soon turned out that the West would not spend a single dollar for the event, but expected the impoverished Bosnian government to secure the funding for the summit meeting. In a statement on July 22, issued in Sarajevo by the Bosnian government's summit organizing committee, Prime Minister Edhem Bicakcic voiced his embarrassment about the fact that he had just been told by the EU Commission that funds would not be available before the end of August, because the EU had yet to prepare a draft agreement on the summit financing. "By its lack of understanding of the need for timely preparations of this historic gathering, the European Union has put the summit into question," the Bosnian statement said.

In any case, the EU had never pledged more than $1.6 million for summit financing, and as far as the "historic" aspect of this gathering of some 30 heads of state and government, plus their entourage of several hundred aides, body guards, and the like, was concerned, this giant summit machinery contrasted starkly with the fact that the entire summit was to last no more than three hours, and was never designed to discuss any concrete projects. Not only the Balkans government themselves, but also even people inside the EU bureaucracy itself are enraged at this: A senior EU official, whose name was not made public, was quoted in numerous EU and Balkans media as stating that the Sarajevo summit was "not much more than a wasteful photo opportunity" for the prominent personalities attending the event.

Apparently, the pro-monetarist bureaucracies of the Western industrial nations are in no hurry to draft concrete plans for the reconstruction of the Balkans. Mirel Tariuc, president of the Romanian Agency for Small and Medium Companies, on July 21 voiced his feeling of shock, when reporting that he had presented designs for reconstruction projects to the EU Commission the week before, but had received no response. He was forced to recognize that it was "much too early" for such a response, because the EU has not "decided [upon] specific ways for the reconstruction of the Balkans yet."

When it will decide, if at all, is not clear. Having met similar disinterest from Washington during talks among visiting Albanian government officials and their U.S. counterparts during the first three weeks of July, Albanian Foreign Minister Paskal Milo warned, in an interview in the July 22 *Washington Post:* "It is not enough to say good words about the Albanian contribution during the crisis. We have heard a lot of this. . . . We will ask our partners to prove, as we say in Albanian, that they are not separating their words from their deeds."

Balkan initiatives

Against this Western bureaucratic standstill, the governments of the Balkan nations are undertaking to press for and design ambitious development projects. The week before the Sarajevo summit, there were numerous such developments on the diplomatic level: As reported in the July 22 *Washington Post,* the Albanian government is about to present a "long wish list" of projects, including a commitment to "accelerate work on highways and rail links that would run through Albania and connect the states of the Balkans from Greece and Bulgaria to Montenegro and Croatia. The government is also proposing construction of a $600 million hydroelectric plant near the Macedonian border, a gas pipeline from Italy, and a highway linking Kosovo with the Albanian port of Durres on the Adriatic Sea."

"Gramosz Pashko, chief adviser to Albanian Prime Minister Pandeli Majko, estimated that the cost of new construction in Albania could run to $3 billion, and regionally, the bill will be at least $10 billion," the *Washington Post* reported.

Also on July 22, Hungarian Foreign Minister Janos Martonyi held talks with Italian government officials in Rome. He and Italian Foreign Minister Lamberto Dini agreed that Italy and Hungary should combine their efforts to get reconstruction in the Balkans off the ground. And, in talks with

Italian Foreign Trade Minister Piero Fassino, Martonyi discussed the fact that, as countries directly bordering on Yugoslavia, Italy and Hungary have specific advantages over other countries that are unfamiliar with the region, and should therefore play a leading role in the process of reconstruction. Martonyi proposed that his government promote Italian companies that are working in Hungary, for that purpose.

In addition, it was announced that Hungarian Economics Minister Attila Chikan would sign an agreement on setting up a joint Hungarian-Italian investment fund, capitalized with $30 million, which will mainly assist cooperation among small and medium-size ventures. In a related development, the Hungarian government on July 21 announced its intent to create a national credit-line of 100 million euros ($102 million), to "help domestic Hungarian companies win contracts in Balkan reconstruction projects, including in Kosovo and Albania, once a program is finalized." The announcement also said that "Hungary was hit particularly hard by the closure of the Danube to shipping, when NATO destroyed bridges across the river in Serbia, and will give special attention to companies that can assist in clearing the river for navigation. The Hungarian authorities have estimated direct losses caused by the Yugoslav conflict at $200 million, not including losses from weaker tourist bookings and long-term blockage of the Danube."

A broader development perspective

But the special Hungarian credit line is not only designed to compensate for the losses caused by the war. In a guest commentary in the Paris-based *International Herald Tribune* on July 21, Hungarian Economics Minister Chikan wrote that reconstruction in the Balkans must go beyond mere repair of what had existed before the war, and lift the Balkans economies up to Western levels. This hints at a much broader perspective on economic development.

So does the agreement on coordination of national and cross-border infrastructure projects, which was signed in Sofia, the Bulgarian capital, on July 25, by the foreign ministers of Bulgaria, Albania, and Macedonia. The joint press statement stressed the "need to negotiate a common financial coordinating approach to projects of infrastructure development in Southeast Europe." This applies to national road, rail, and energy projects, as well as to cross-border projects, such as the planned rail link between Bulgaria and Macedonia, and the Corridor 8 trans-Balkans project (road, rail, telecommunications, and pipelines) between the Bulgarian port of Bourgas and the Albanian port of Durres.

How will projects be financed?

Not only did the three foreign ministers, and the three finance ministers who met a day later in Ohrid, southern Macedonia, discuss the list of projects as such, but they also put the vital question of funding such ambitious projects on the agenda. And there, they came up with an interesting proposal:

For the national projects, the foreign ministers agreed to create national development funds, the capital base of which would be taken from payments that otherwise would be made to the Club of Paris foreign creditors. In other words, part of the foreign debt owed to the Club of Paris would be written off, to create financial leverage for urgently required investments in development projects. This is not meant as a debt moratorium (not yet, at least), but as an arrangement in agreement with the creditors, which would be given supervisory rights over the respective funds. This proposal, modest as it may look, resembles aspects of the discussion that led to the 1952 London Debt Agreement, which relieved postwar Germany from a significant share of its nominal pre-war debt, and allowed German banks to grant loans for the second phase of what later on, in the late 1950s, became known worldwide as the "German Economic Miracle."

The July 25 Sofia proposal for transforming debt payments into credit lines is the more important, because the Balkans governments are well aware that substantial funding from the EU and other Western institutions for projects cannot be expected, at least for the time being. Bulgarian Finance Minister Muravey Radev said after the talks with his finance minister colleagues from Albania and Macedonia in Ohrid on July 26, that he is not optimistic about the Sarajevo summit. He said that at the moment, there is a "high degree of uncertainty and obscurity" on the part of the EU states and the international financial institutions, which has clouded prospects for all the envisaged projects.

What must be done

Here is what the Balkans governments must do, to end this uncertainty: The Sofia proposal for debt relief to fund real investments should be broadened into a plan for relief from all foreign debt, on condition that the funds not paid into the creditors' accounts be invested in national as well as Balkan-wide projects of infrastructure development. The Balkan governments should establish sovereign national banks for reconstruction and development, with a Balkans umbrella agency for the coordination of the respective operations of the national banks.

The Reconstruction Center, which the Greek government is just now setting up in the northeastern port of Thessaloniki, separate from the office set up there to handle "reconstruction aid" promised by the EU, could actually serve that overall coordination function—pending the consent of the other Balkans governments. The chief model for what this Balkan-wide agency is to do, is the German Reconstruction Bank (Kreditanstalt für Wiederaufbau, KfW) in Frankfurt, which was established in 1948 under the Marshall Plan. The KfW did not have giant capital reserves at hand, but it pursued a wise policy of investing seemingly small sums into real economic ventures and projects. The return from the production later on refurbished the bank, enabling it to fund other projects. (See Lothar Komp, "How Germany Financed Its Postwar Reconstruction," *EIR,* June 25, 1999.)

Naturally, this can only work if the hostile environment created by the IMF is broken. The KfW had the big advantage of operating in a banking environment that was much more sane than today's speculative capital markets. The Balkan governments must realize that it is time to break with the IMF, and to create a capital market of their own which is not operating according to global monetarist "conditionalities," but along principles of national financial sovereignty and the genuine national right to development. The Balkan nations may not find many friends for this concept in the present governments of the monetarist West, but they will have friends and supporters in the movement of U.S. Presidential candidate Lyndon LaRouche.

IMF threatens nations' survival

The debate about sound funding of reconstruction and development has only just begun in the Balkans, but it is finally under way. *Capital,* the leading Bulgarian economic weekly, in an article in issue No. 27, which was released a few days before the Sofia conference of the foreign ministers of Bulgaria, Albania, and Macedonia, shows the way that the debate must proceed. Commenting on the IMF's refusal to grant loans in the range of $600 million promised for the compensation of losses caused by the collapse of inter-Balkans trade during the NATO air war on Serbia, *Capital* wrote that the IMF's demand that Bulgaria first privatize its state-sector industry is incompatible with the national interests of the Bulgarian nation. "The IMF can hardly believe that Bulgaria will be able to raise $600 million from privatization. It is much more likely, that the fund exerts pressure on the government to sell large enterprises, whose deals are constantly delayed. . . . This is not the first time that the international financial institutions have pressured Bulgaria to privatize. In 1995, the IMF and the World Bank almost entirely stopped their financing of Bulgaria, because the Bulgarian Socialist Party, the ruling party at the time, declined to sell enterprises."

If the Bulgarian government (a conservative-led one, at present) tried to meet the IMF's conditionalities through privatization and the related downsizing of the respective state-sector labor force, it would "enhance the risk of social tension in combination with the huge unemployment in some regions," the weekly wrote.

Even if the government were successful in securing $600 million from the proposed privatization, it still "would have to cover the repayments of the foreign debt with the BNB's [Bulgarian National Bank] reserve," the weekly observed. Because Bulgaria's present monetary policy is run by a currency board under an IMF regime, the Bulgarian government would have no other choice than to balance the decrease of its currency reserve through "drastic cuts in budgetary expenses." This, *Capital* wrote, would imply that "a number of projects from the investment program will probably have to be postponed," that "wages will be frozen," and so on. Trying to meet the IMF-currency board demands, the Bulgarian government would be forced into economic policies that "will invariably lead to social tension," *Capital* reported.

The only meaningful conclusion from this analysis—which was not drawn by *Capital,* but which can be easily drawn by all those who have an idea of what national economic sovereignty means—is: If Bulgaria wants to survive, it cannot continue to be run under an IMF-controlled currency board. And that applies to the rest of the Balkans region, which is being strangled by similar monetarist arrangements, as well. Phase II of the struggle for reconstruction and development in the Balkans has begun.

Israeli urges Mideast peace through development

Israeli Ambassador to the United States Zalman Shoval emphasized the need for infrastructure development for the West Bank, and called for a Marshall Plan for the region, at a forum on Capitol Hill on July 22. Although it was clear that Shoval, an appointee of former Prime Minister Benjamin Netanyahu, and his Palestinian Authority interlocutor at the forum, Hasan Abdel Rahman, the Palestine Liberation Organization representative to Washington, did not agree on everything, Shoval's remarks that the road to peace in the Middle East will be paved through economic development, were well received.

Shoval said that Israeli Prime Minister Ehud Barak is now saying, "Let us move as quickly as possible to all sorts of joint projects, whether it is water projects, whether it's electricity projects—things which we have to share anyway. It's one country. There's no separate ecology for Israel or separate ecology for Jordan or the Palestinians. There is a very common water problem.

"Let's move these things—let's join up as quickly as possible. Let's not wait for an agreement on each and every political problem which we have and probably will have for many years, because once we have these joint projects, there will be an interdependence.

"Nobody is going to risk his water sources, or his electricity, or trade, or whatever, or standard of living and go to war again. That was the idea of the Marshall Plan with regards to Western Europe, the European Community. So, we want to propose to our Palestinian and other Arab neighbors, to embark on these projects, on these joint projects as quickly as possible.

Build up the Palestinian economy

"We also call upon everyone, including in the Arab world, to increase their economic assistance—I would say, their investments in the infrastructure of the Palestinian territories. The economic situation is bad. It has deteriorated since Oslo [the signing of the Oslo Accords in 1993], in very many respects. We don't want, and the Palestinians shouldn't want, that their economy should rely to such an extent on work in Israel. It's not good for them, it's not good for us.

"But in order to abolish that situation, their economy has to grow. And there should be more investments. The Arab world could invest a billion dollars per year, they can do it. And the rest of the world will also help, including Israel, in order to fortify the economy. And once there is a strong economy, there will be less terror, there will be less inducement to think about new wars or new armed conflicts.

"And that is another message which Prime Minister Barak and the rest of the government of Israel and the state of Israel have been sending for some time. But we are reinvigorating that message right now."