The Shadow Economy, War and State Building: Social Transformation and Re-stratification in an Illiberal Economy (Serbia and Kosovo)

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ABSTRACT This article analyses the development and consolidation of an illiberal (or shadow) economy and its connection to political projects in Serbia and Kosovo. Here, some comparative remarks are made over the form of economy and its political connections and implications. In spite of methodological problems with sources being scarce or of varying quality, the phenomenon of illiberal economy and its coupling with political projects is too important to be neglected by researchers. To some extent ‘soft sources’ have been accepted here, where hard evidence is lacking. The article argues that the considerable consolidation of illiberal economies in Serbia and Kosovo (as elsewhere in the post-Yugoslav space) have been intimately connected to politics, political violence and conflict in the region, and produced a transformation of wealth and resources. In this manner the conflicts in the region can be analysed from the perspective of social transformation. The latter concept emphasises that the trajectory of social and political change is not necessarily linear, towards liberal democracy and market economy, which is implied in the concepts transition (where the end stage is assumed to be liberal democracy and market economy) or social breakdown (which assumes a possible reconstruction to the norm of a harmonious state). Instead we may see fairly sustainable alternative political and economic projects, capable in their own (illiberal) way of integration into global networks and structures. Whereas the formal economy in these areas is marginalised in the global economy, these illiberal forms of economy may be both relatively long-term sustainable and provide the basis for alternative ways of social protection as well as exclusion. They are in certain regards political, and integral to political projects, but they should be viewed in terms of emergence rather than causation. Conflict cannot be reduced to an understanding of illiberal economy, but the latter provides for redistribution of resources and power, which is of direct relevance to conflict and its dynamics. The relationship is of a dialectical, rather than causative, nature. The level of political violence may vary and the illiberal economy expresses considerable capacity for adaptation. These arguments are not only of theoretical relevance, i.e. for how to conceptualise social and political change in the region, but highly policy-relevant as well, especially with regard to international aid policy and the governing in international protectorates.

KEY WORDS: Shadow economy, Illiberal economy, black economy, political economy of war, conflict, war-economy, parallel economy, war and state-building, drug-trade, Albanian mafia, organised crime, social transformation, Serbian-Albanian relations, Balkans, Yugoslavia, Serbia, Kosovo, ethnic conflict, terrorism

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1478-2804 Print/1478-2790 Online/06/030317-35 © 2006 Taylor & Francis
DOI: 10.1080/14782800601095621
Introduction

The process of post-communist change in Eastern Europe has been approached from a variety of theoretical frameworks and assumptions. The most dominant and persistent is the so-called ‘transition view’, which construes post-communist change as a struggle with the heritage of authoritarian political systems and a planned economy towards the norm of democracy and market liberalism, along the path of which various states are successful to varying degrees. The term transition implies that one knows the direction or end state, and a problem here is that since democracy and a market economy are seen as the normative goal, it also sets the direction and frame for interpreting the actual political, economic, and social process, thus mixing the normative and the empirical.

Despite critiques of the implicit evolutionism and teleological character of the transition perspective, it has remained popular among policy-makers and aid agencies in the west since it facilitates a clear blueprint for western international aid and accession criteria. The very term ‘transition’ is here favoured for post-communism (until previously the ‘second world’), while the same standards, doctrines and aid policy criteria apply for the ‘third world’ as ‘development’. In the region which was Yugoslavia the transition perspective was overshadowed by the disturbing longevity of civil war and ethnic conflict. Here, the causes of conflict became a concern in the search for policy options as to how to respond to the crisis. Drawn from incidences of civil war in Africa or Asia, the idea of ‘social breakdown’ and the resurgence of ethnic (or tribal) hatred in the wake of weakening state structures following the decline of patronage held or legitimacy gained under the geopolitical logic of the Cold War bipolar order became an attractive thesis in popular accounts and in the media. The metaphor of social breakdown may be attractive, considering the presence of conflict and state disintegration, and it fits perfectly with an aid policy approach where ‘social reconstruction’ can be designed with the same parameters and normative goal as for ‘transition’, but it tends to draw attention away from actual processes of social change and obscures the fact that some form of social transformation is taking place through conflict itself. In other words, it brings forward the same objection as is raised for ‘transition’, of a teleological and linear process towards a normative harmonious equilibrium.

In challenging the assumptions of breakdown and the teleological process of development there has in the past decade been an expanding interest in the political economy of civil wars. A growing number of studies have been motivated by a need to promote new perspectives to analyse causes of conflict, to understand their longevity, persistence and adaptability to new conditions and how to address them in international political or military responses. Furthermore, the character and role of an extensive global criminal or shadow economy and its connection to potential new security threats, such as local conflicts or terrorism, has received increased attention among academics, as well as politicians, diplomats, aid agencies and intelligence services.

The political economy perspective has proved central to understand the actual processes of change through conflict and to understand conflict as an expression of, or means to, new forms of political projects themselves, rather than just breakdown. Informed by empirical evidence from African states especially, new theoretical insights have been gained into the potential role of economic agendas in the reproduction of conflict. In the debate some have argued for a causative, or at least generative, character of economic agendas or greed (Collier, 2000; cf. Berdal & Keen, 1997; Keen, 2000), whereas others have claimed that
economic motives and greed are not the primary factor causing war, although they may provide an important element in its dynamic (Ballentine, 2003; Yannis, 2003). Thus, for example, Yannis has concluded that conflict in/over Kosovo was not primarily caused by economic agendas, but that the shadow, or criminal, economy, played a crucial role in financing and maintaining the Kosovo Liberation Army (KLA), thereby comprising a central ingredient in the dynamic of conflict (Yannis, 2003).

A central theoretical departure point in the present analysis is that the economic sphere cannot be isolated from its political and social context, but that the economy is embedded in social relations, informal and formal institutions. This is the implication in the concept 'political economy', which rejects 'pure economic' factors, as opposed to the non-normative and non-political conceptualization of the economy, as a single and separate unit of analysis, which was brought about with the development of neoclassical economics.

Moreover, the wider context of a global or international political economy is here considered a necessary context for the analysis of political economies and projects in a given local setting or country, by way of the changing opportunity structure it provides (cf. Polanyi, 1957). In this manner, the marginalization within or exclusion from the international political economy is a necessary reference point in understanding the adaptation of the political economy in those marginalized areas. However, although a necessary frame of reference, such macro structures cannot provide a sufficient condition for understanding the actual character of political projects and accompanying political economies in a given locality. The latter must be analysed as the outcomes of complex processes in which the domestic institutional conditions, political and social alliances and cultural heritage are central ingredients. Further, ingredients can be merged in many ways and, therefore, a detailed study of the actual political strategies used by agents in a political process are necessary in order to understand the particular outcome in each given case. Thereby, given that the above mentioned preconditions and shifting opportunity structures are addressed, the actual character of political and economic outcomes should be understood with reference to emergence rather than causation.

Hence, an interest in the political economy of conflict is here not motivated by reference to causes of conflict, but in the way they express adaptation and adjustment to global marginalization. In this latter sense, marginalization and adaptation of the economy is indeed considered an integral component in analysing conflict, both in terms of its advent and dynamics, although it cannot be isolated as a determining factor. A more complex, multi-level and multi-factor approach is required to analyse conflicts. However, that is not the purpose of this article. Instead, this article focuses on the emergence of a shadow economy in Serbia and Kosovo, its character and its expression of adjustment and adaptability to global marginalization. Viewed from the perspective of its adaptability, we can construe conflicts from the process of social transformation they express, which highlights actually emerging political projects, social re-stratification and social change. Here we find the real context for external intervention and foreign aid. This article explores the emergence and consolidation of shadow economies in Serbia and Kosovo and attempts to construct a plausible empirically founded picture through assessing the limited sources available. It should be noted that there are considerable problems related to methodology and the scarcity or quality of sources. This article is aimed at the black and grey sectors of economic life, which by their nature remain difficult to access. There are no reliable statistics, only estimations and educated guesswork. Anthropological fieldwork into the closed circles or criminal networks operating in various activities is almost impossible and
even dangerous. Instead, this article builds on a combined use of: open intelligence reports from various (primarily European) services; so called ‘soft sources’, especially a number of newspaper articles and clips collected from local (Balkan) newspapers; witness statements reported in the media; interviews and informal talks (some of which are anonymous); estimates by local researchers; articles and reports by researchers working on the informal economy, social stratification and sociology, politics or history in general. Some of the sources are more solid, such as scholarly works on social stratification or social change (primarily the excellent work of Mladen Lazić and his colleagues), whereas some is based more on estimations. The work has been guided by the conviction that despite problems with sources and methodology, the phenomenon at hand is too important to be neglected by researchers. Moreover, the problem with sources here is not necessarily so qualitatively different from that which is faced by intelligence agencies, archaeologists and historians. Wherever it has been possible, an attempt has been made to track original sources and double-check or cross-check information. In some cases educated guesses have been accepted to fill in missing links. The next section of this article briefly portrays the character of the social structure, or class structure, of socialist self-management in Yugoslavia. Then, the article moves on to analyse social change and social re-stratification in Serbia proper during the period 1987–2000, i.e. under the leadership of Slobodan Milošević, and the development and character of an illiberal economy. The term ‘illiberal’ here refers to an economy which does not follow liberal judicial and contractual principles and logic, which is not necessarily predominantly criminal, although it includes such activity. The term ‘shadow economy’ is used in the title since it has gained much popularity and hence familiarity, but may misleadingly indicate that the economy operates in the ‘shadow’ of a formal economy, which is not necessarily the case. Another often used term is ‘war economy’, which indicates a sharp distinction between war and peace as separate states, which may be equally misleading (cf. Duffield, 2000).1

The article moves on to briefly examine the parallel society in Kosovo. Then, the expansion and consolidation of the black economy in Kosovo and its international networks, especially in Western Europe, and its connection to political projects within Kosovo, is analysed. Finally, some comparative remarks will be made and some concluding remarks on war as social transformation. Although not discussed expressly, it is noted that such transformations provide the context for and have a direct bearing on foreign intervention and international aid in the region, which should accentuate the essentially political dimension of international aid and that it cannot be reduced to mere technical aspects.

Class Structure and Stratification in Socialist Yugoslavia

Within Yugoslavia the particular form of socialism produced a social stratification, or class structure, with some particular characteristics, since it was neither directly shaped by market conditions, i.e. private ownership, as in western liberal societies nor as hierarchically cemented and politically centralized as in the communist bloc generally.2

A simple division can be made with a top category of the political elite and functionaries, a middle class of professionals, bureaucrats, managers and higher white collar positions, a lower stratum of workers and with peasants at the bottom (cf. Tomc, 1988). Gregor Tomc noted how the old (pre-war) middle class of entrepreneurs, professionals, merchants and artisans was heavily marginalized in post-war Yugoslavia, but that some of it, those in the service sector, remained (Tomc, 1988, pp. 60–61).
Moreover, he noted the considerable expansion of the working class and of a white collar class, while the peasants were significantly de-ruralized and incorporated into (primarily) the working class. Finally, there was a high degree of social mobility, albeit with significant class formation and reproduction, and there was the paradoxical fact that because party politics determined recruitment to elite positions, the class structure was most open at the top (Tomc, 1988, pp. 63–65). Mladen Lazić and Slobodan Cvejić noted some peculiarities of Yugoslavia due to the liberal form of socialism and quasi-market intervention (Lazić & Cvejić, 2005). Thus, for instance, the relative autonomy of enterprises enabled managers to increase their own salaries as well as to pay higher wages to professionals, which was in contrast to societies in the communist bloc. Lazić & Cvejić reviewed sociological surveys from the 1970s and 1980s and remarked that they produced different results, which in some aspects were considerable, but with the common conclusion that income inequalities did exist and were connected to the hierarchical distribution of positions with a nomenklatura at the top, professionals in the middle and manual workers and (especially) peasants at the bottom (Lazić & Cvejić, 2005, p. 37). However, Gregor Tomc suggested that class identification was low and that there was, for a variety of reasons, a high level of class disintegrating factors. These included the fact that the non-owning class did not have a counterpart (i.e. no class of owners), that there were no institutions for autonomous class representation, that political (rather than direct economic) factors determined life-chances, that there was a high rate of class change due to the rapid industrialization and modernization and, not least, that the working class was very heterogeneous, with great variations related to skills, sector of production and region (Tomc, 1998, pp. 62–66ff.). Consequently, national (and ethnic) identification, rather than class identification, came to prevail, which was exacerbated by political and economic decentralization.

The Political Economy of Populism: Illiberal Economy and the Re-stratification of Serbian Society

Although there were no reforms, such as liberalization or privatization (with a few specific or dubious exceptions), and although employment guarantees, which had always been important for political inclusion through the self-management system of representation, were formally preserved, the nexus of the Serbian economy in the 1990s made it anything but socialist. The nomenklatura transformed the state into an instrument for cleptocracy, through which a small percentage of the population grew very rich. In reality most industry was bankrupt. Salaries were kept at a low level and were sometimes not paid for months. These conditions could be attributed to economic sanctions and war, thereby materially strengthening the idea that Serbia and the whole nation was under threat by external enemies. Despite poor conditions, employees would rather stay in their workplace than leave it for uncertain prospects. Self-management was criticized, along with the messages of the ‘anti-bureaucratic revolution’, and ceased to function and industrial relations collapsed.

The combination of state disintegration, war and economic sanctions put severe strains on the economy. However, rather than mere social and institutional breakdown, the process can be viewed as a form of social transformation. Economic sanctions, economic decline and war provided opportunities, as well as it creating restrictions. The general picture of re-stratification of Serbian society is one of pauperization of the huge majority
of the population and the enrichment of a small group (1–2%) at the very top. There was a widening gap between the top and bottom, with decreased inequalities at the lower levels, but rather than eliminating the old middle class it was a sinking of the hierarchies to lower levels, whereas the previously homogeneous peasant stratum at the bottom started to differentiate. Whereas the old middle stratum, professionals and others, moved downwards, there emerged a new middle stratum of private entrepreneurs. This new middle stratum of non-professionals was made up of people who managed to find themselves in a good economic position in the new economic climate under sanctions and war. While local researchers have conducted surveys and studies on social structure during the 1990s and after, empirical evidence for the economy is much poorer. Most estimates would be made on poor statistical evidence. Even the census of 1991, which gives a picture for the period before the war, was only reliable for parts of Yugoslavia. While fairly reliable for Serbia proper, it is, for example, completely irrelevant for Kosovo (Albanians boycotted it and had already started the formation of a parallel society in response to the withdrawal of Kosovo’s autonomy).

The Political Economy of War and Sanctions: An Illiberal Economy

All macro-economic indicators show that the formal economy in Serbia in the 1990s was facing disaster, with the possible exception of agriculture and electricity production. The formal economic performance of Yugoslavia declined during the 1990s. The GNP index for the initial years was: 1989–1990 = 92; 1990–1991 = 92; 1991–1992 = 74; 1992–1993 = 70, in 1990 prices, (Mrkšić, 1995, p. 37). GDP as well as GDP per capita showed a similar decline, as did industrial production, which fell continuously between 1987 and 2000. Consumption per capita declined (reaching its minimum in 1993), tourism stalled, the cattle stock went down, mortality increased and fertility decreased, the total number of employed decreased and the ratio of pensioners per employed person in the country went down, the rate of unemployment and number of unemployed increased (with official unemployment figures around 22% in 1992 and just below 28% in 1999). Road transport and residential construction decreased.

Economic decline was accompanied by a drop in real wages and the spread of poverty across the country. In the mid 1990s it was estimated that 50–70% of the population was below the poverty line (Mrkšić, 1995, p. 38). While the formal economy was in a state of collapse and the country under sanctions, there were, however, other means of providing resources. Formal economic collapse, therefore, does not necessarily mean that there was a shortage of money (although its distribution changed). In fact, the new Yugoslavia, and Serbia, to a large extent became a ‘cash economy’ in the 1990s. It has been estimated that some 9 billion Deutschmarks were traded into Euros in Serbia alone, when the Euro was formally introduced in 2002. For a country with just 8 million inhabitants this estimation would indicate that there was no scarcity of money in circulation in Serbia. Three dimensions will be considered here:

- the economy of inflation;
- survival strategies through delayed payment of debts and rural–urban symbiosis;
- the grey economy and the criminal economy.

These dimensions or elements of the economy will be treated separately in order to understand the transformation of Yugoslav society in the 1990s. As categories they are,
however, arbitrary and it is not possible to clearly single out the ‘criminal economy’. We might like to differentiate between small-scale activities or ‘survival strategies’ by ‘ordinary people’ and economic activity by officials or organized groups (i.e. ‘Mafia-type’ activities). Traditionally a separation could be made between a ‘grey economy’ and a ‘black economy’. A ‘grey economy’ would, for example, include all economic activities that evade the tax collector or the official statistics, while a ‘black economy’ typically involves the production and trading of illegal goods or services (the narcotics trade, trafficking, etc.). Traditional (statistical, legal and fiscal) criteria might also use distinctions between official and unofficial, legal and illegal economic activities (thus there can be unofficial legal economic activities and unofficial illegal activities). Strict demarcations are not necessary for our purpose here, which is to understand the various forms of illiberal economic activities that have expanded while the formal economy has declined. This purpose is directly connected to helping us understand the social transformations and changes in the material power base in a ‘war economy’ or in the politics of state breakdown. Activities such as trans-border trade in legal and illegal goods, for example the smuggling of petrol, pharmaceuticals, cigarettes, stolen vehicles, weapons, narcotics, human trafficking, etc., mostly belong to the black economy. However, under the pressure of economic sanctions some activities are simply necessary to maintain a functioning society, while others are of a more ‘alternative’ economic nature. That is, they are ‘alternative’ in the sense that they seek to specialize in purely illegal activities as a means of providing an alternative to formal economic development, where failed industry can offer no competition anyway.

Hence, the definition of what is illegal and legal is not strict here. A clear definition would be needed if ‘data’ were to be assessed, but since there is no hard ‘data’, only estimates and educated guesses, we here use a pragmatic and arbitrary distinction. There have been some estimates of the ‘grey economy’ in Yugoslavia during the 1990s, applying different criteria, but with the common feature that all of them excluded illegal goods (narcotics, stolen vehicles, weapon smuggling, human trafficking, etc.). For the present purpose we use these estimates as examples of changes in the economy. The ‘black economy’ is of course important, but subject to the methodological and source-related problems noted in the Introduction.

**The Economy of Inflation**

In the years 1993 and 1994 Yugoslavia (and Serbia) experienced hyperinflation of an unprecedented magnitude. Inflation, which in January 1994 had reached more than 313,000,000% per month, was an effective instrument for redistribution of wealth within the economy (Dinkić, 2000, pp. 42–43; Stojičić, 1999, p. 344). Technically it functioned so that a bank’s minimum reserve (as demanded by the National Bank) was uncontrolled for a period of time, during which it could trade some of the reserve to local dealers who would exchange Dinars for Deutschmarks (or other currencies), give some of the cash return as payment to the dealers and then later trade it back to Dinars after a period (a few weeks or whatever) when inflation had eroded its value and balanced out the ‘rent’. The pure technical aspect is not a problem. The question is where the money came from and where it went. In the Tito period there was a significant inflow of foreign cash into Yugoslavia. During the breakdown of the country pension funds were a key factor for cash inflow. This cash inflow was itself necessary to create a demand in the grey and black markets. The cash money came from three sources in particular:
gastarbeiter (guest workers in Germany) coming back to Serbia and remittances from the diaspora (especially pensions);
- residents in Serbia working for foreign companies (especially pension funds);
- foreign-based branch offices of Yugoslav companies registered as private companies or registered in the names of individuals;
- selling of private property.

Due to the large proportion of the population who had either been in the diaspora, for example as gastarbeiter, or who had worked in other republics in the former Yugoslavia, pension funds were a key factor in the inflow of money into Serbia. Many people in Serbia had either worked in Western Europe or in Russia or had worked for companies in other republics of the old Yugoslavia. Taking Slovenia alone, as an example, there were approximately 20,000 people in Belgrade who had worked for Slovenian enterprises in Belgrade. With an average pension in Slovenia amounting to 500 Euros, this created an influx of some 10 million Euros per month from Slovenia alone (to this one can add the other republics and countries, such as, for example, Germany). This indicates that cash arising from pensions was of particular importance. Another source of cash inflow was foreign-based branches of Yugoslav companies which were either registered as private companies in the foreign country or registered under the name of an individual, although they were in reality part of a socially owned enterprise. Cash accounts on these allegedly private companies or registered individuals were not frozen with the introduction of sanctions and, therefore, money from these companies abroad could be used within Yugoslavia. There are no statistics and no documented evidence for the existence of the latter, but it can be assumed to have played a significant role in the economy during the 1990s. Many import–export firms had branch offices, often as joint ventures with foreign companies, and the rent from these could be transferred (under cover) to Serbia. In addition to these sources, there were people in Serbia who had houses in other republics (for example holiday homes on the Croatian coast) but could not return to them. Many tried to sell their houses legally (unless they had been confiscated) and each week somebody would receive a sudden influx of cash as a result. Finally, the large diaspora of Serbians abroad, sending cash to relatives or coming on visits to Serbia, exchanging foreign currency for Dinars or buying things in Serbia (including food during their stay) made an important contribution.

These sources created a necessary level of cash flow inside Serbia that could either be sucked into the inflationary spiral and thereby redistributed or that could provide the necessary basis for a market in the grey and black sectors of the economy.

Inflation was a major instrument extracting cash from the population and transferring it, through the banks, to the state and government. From these resources payouts could be made to loyal associates, as well as activities (police, special forces, etc.) financed. This also meant that large amounts of cash could circulate without documentation or written evidence (as has been shown to be a problem with evidence of various activities in the Hague Tribunal hearings against Slobodan Milosevic). Thus inflation came to work as a gigantic machine for transferring wealth in Serbia, concentrating it in the hands of a few. The grey economy, in contrast, was a survival strategy amongst the general population. This is another point distinguishing the ‘grey’ and ‘black’ economies, with the black economy more typically illegal, and also better organized and linked to the state. A distinction should be made between purely ‘illiberal’ forms of economy, the economic
basis of the new power elite, and that of ‘survival strategies’ for the population (while the latter may include illegal activities tolerated by the state for functioning of the system).

**Survival Strategies Through Delayed Payment of Debts and Rural–Urban Symbiosis**

An important factor in pacifying the population was that the authorities never insisted on payment of bills. Thus, for example, telephone bills, electricity, etc. could be delayed for several months without sanction. In the period of hyperinflation the actual cost of a bill paid after a few months delay had been severely reduced. In this manner people could keep using resources and escape payment. While for the government this was a deliberate strategy in order to avoid serious social unrest, the ordinary man would have a feeling of ‘getting off the hook’ or of cheating the authorities.

Another important survival strategy lay in the rural character of Serbian society, with approximately a quarter of the population living in rural areas as farmers (depending on the year and definition). Still more people had weekend homes, had inherited land or had relatives on the land or worked temporarily in farming. Many families could, therefore, obtain foodstuffs from relatives or trade foodstuffs for other services. In addition, many people had relatives in the diaspora who would send cash back to Serbia. These connections provided for a considerable amount of individual survival during the harshest economic periods.

About 40% of households in Serbia are mixed or purely agricultural households. The ‘peasant-worker’ phenomenon in Serbia, with farmers taking on extra work in industry or non-farmers occasionally cultivating the land (at weekends, seasonal farming, etc.), has remained fairly widespread. About a quarter of urban households own land, and just as many are additionally engaged in agriculture, half of them working their own land and about a fifth helping relatives (Mrkšić, 1995, pp. 48–49). Most land holdings (weekend homes, inherited land, etc.) are fairly small, with three-quarters being less than 2 hectares, and most additional agricultural activity is for home needs and to reduce high food costs (Mrkšić, 1995). The peasant-worker phenomenon was not typical of this period but existed widely in Yugoslavia, as in many other east European countries. However, this element was strengthened through the 1990s and many households revived previously unused land.

The section of society that was worst off in this period was urban dwellers, especially pensioners, unskilled workers and the unemployed with few connections in the countryside or diaspora, as well as part of the rural population. The peasant stratum, which previously had been fairly homogeneous at the bottom of society, started to differentiate, with approximately half of the peasants remaining in the lowest income categories, whereas about one-quarter achieved a relatively high income and were able to enrich themselves. As a category the peasants’ material position was generally improved, since a reduction in needs to the elementary and most basic resulted in increased value being placed on the resources required for food production (Lazić, 1995, p. 263). For a small part of the urban middle class, especially, one of the few possibilities for a good income came from working in, or creating, non-governmental organizations (NGOs) that received support from Foreign Development Assistance Agencies and Donors.
Criminalization of the Economy

In the situation of economic sanctions (imposed on Yugoslavia by the United Nations in 1992) alternative means of provision had to be developed. The effects of economic sanctions have been discussed generally in several studies elsewhere and also particularly for Yugoslavia (see, for example, Wallenstein, 1974; Baldwin, 1985; Dimitrijević & Pejić, 1994). The effects of sanctions on Yugoslavia were to strengthen Milošević politically and to produce a ‘criminalization’ of the economy. In effect it created a new opportunity structure for trans-border trade and monopoly goods. While inflation can be treated as an instrument used by the regime to extract money from the population (particularly pension funds and savings), there are two aspects or elements of the economy that should be viewed separately: the so-called ‘grey economy’ and the ‘black economy’. While definitions may vary, the estimates from the sources used here typically classify untaxed and unregistered activities within the ‘grey economy’. They involve, with few exceptions, legal goods and services, but are illegal (and unofficial) as activities. Within the category ‘black economy’ we would then count all activities involving illegal goods and services (narcotics, petrol smuggling, human trafficking, cigarette smuggling, etc.). Here some of the goods are legal, but the production or distribution systems violate the law or licensing regimes, and usually are the business of more organized groups and networks, and so can be classified as organized crime.

Without making clear definitions, the grey economy—wider scale black elements in it—would include the small-scale transfer of public goods to private individuals (for example selling public goods from work places, etc.) in a less-organized manner and all forms of services and transactions which evade the tax system (i.e. trade within Serbia). Under economic sanctions a very large portion of the economy could be classified as such (with the possible exception of agriculture). The bulk of this sector was pure trade (although some involved crafts). Due to a lack of instruments and problems with the methodology there have been various estimates of the size of this sector. Some estimates indicate that its scope between 1991 and 1995 was approximately 5 billion Deutschmarks for the total period, or 1 billion per year. The estimates from the Economic Institute were that the grey economy in 1997 constituted 34% of GDP. Estimates from the G 17 + organization of economists are that the grey economy increased from 10% of GDP in the early 1990s to some 80% of GDP towards the end of the Milošević regime, and then decreased again to some 30% of GDP in the post-Milošević period. For a comparison the percentage of the grey economy in the Socialist Federal Republic of Yugoslavia was estimated at 4.4–6.6% in 1961, 12.2–18.2% in 1971 and 16.6–24.9% in 1981 (Mrkšić, 1995, p. 34). Other estimates indicate that the grey economy formed 20% of registered GNP in 1981, 24.6% in 1986 and 41.7% in 1992 (Mrkšić, 1995, p. 34). This is high compared with estimates from the late 1970s for some western countries: USA, 5.8–13.5%; UK, 0.7–15%; Sweden, 8–15%; West Germany, 8–12%; Italy, 10–30%; Japan 3.9%; Denmark 11.8%; Switzerland 4.5%; Belgium 11.5% (Mrkšić, 1995, p. 33, taken from Glas, 1991, and pp. 33–35).

The grey economy typically is in inverse ratio to formal economic development and before the war it was most widespread in the least developed areas, Kosovo, Macedonia, Montenegro and Serbia, and least in Slovenia and Croatia. The expansion of this sector in the 1990s produced further uneven regional development, a typical effect of a grey economy. The workforce of the grey economy was very heterogeneous and was recruited
from various strata and regions and was of both sexes and different levels of education. It included peasants, students, the unemployed, unskilled workers, skilled workers and refugees, both men and women (Mrkšić, 1995, pp. 52–55). The activities also varied: peasants were more represented in trade, unskilled workers in the resale of cigarettes, petrol and alcohol and smuggling foreign currency, while skilled workers were more represented in the trade in foodstuffs, for example (Mrkšić, 1995: 52–55).

A small-scale example of personal entrepreneurship within what may be called a mixture between a grey and black economy (illegally produced legal goods, but often officially ‘taxed’ inside Serbia)\(^\text{17}\) is the large market in pirated CDs on the streets of Belgrade. Some of the CDs were produced on a small scale inside Serbia, while an even larger portion were smuggled from bigger pirate copy producers in the Ukraine and Bulgaria and transported to Serbia by car or train. The sale of these goods took place openly, and the sellers paid tax and rent on their kiosks (some escaped this also, but then they would not have a fixed place of business). The financial authorities only checked that taxes and rent for the kiosks were paid, showing no interest in the goods. The exception was local musicians, whose CDs were more than twice the price of those of foreign musicians (or pornographic CDs).\(^\text{18}\) In 2002 there was a decrease in this market and stricter control, since negotiations had started between foreign record companies and local distributors to sell CDs legally, but at much lower cost than in Western Europe (there would be no market if the prices were not heavily reduced).

Apart from manipulation through the currency and inflation, large-scale trade in goods and services was the aspect of the parallel economy with closest links to the state and ‘nomenklatura’. The smuggling of petrol for example, which was necessary during the period of sanctions, had to rely on contacts with customs officers and paid tributes or ‘customs’ to the Serbian state (i.e. the structure around president Milošević). The larger enterprises, such as the smuggling of cigarettes, pharmaceuticals and narcotics and human trafficking, also relied on such links. While the typical socialist state structure never had a clear separation between the political and economic elite, there was a direct merging of the political elite and organized crime in the whole Yugoslav area during the 1990s. Again it should be noted that the most inaccessible activities from a methodological standpoint are those of organized crime within the black sector of the economy. Pieces of information can be put together from interviews with police investigators and the criminals involved, witness statements and articles in local newspapers over the last several years. Needless to say, there is no direct evidence for the following picture of the ‘black market’ and its links to various state structures, only fragments here and there. For the purpose of analysing changes in the economy and social structure this area cannot, however, be ignored and the researcher should not be daunted as long as these methodological difficulties are noted and transparent.

Customs revenues and tributes arising from trans-border trade were under the control of the Chief of State Security (before November 1998 Jovica Stanišić, who was then replaced by Rado Marković). The Head of Customs Control (Mihajl Kertes) kept the income from custom revenues within his office, being instructed on how the money should be spent.\(^\text{19}\) Thus, instead of the income going to the federal government it went directly to the Head of Customs and then to the State Security Police. These resources could then be used for pay-outs or to finance activities that did not appear in the official record. The chain of command within the state security organization was from the president (Slobodan Milošević) to the Head of the Security Police (Jovica Stanišić) via
a mediator (Franko Simatović, alias ‘Frankie’), then to the JSO or ‘Red Berets’ special units (headed by Milorad Ulemik-Luković, alias ‘Legija’). This was a direct link from the president to the most reliable and best equipped security forces. These units were formed by Franko Simatović in the early 1990s, were to a great extent composed of criminals, and were used for some of the more covert and unorthodox operations (including ethnic cleansing in Kosovo and political assassinations in Belgrade). The tribute income from trans-border trade stayed within this command structure, under the control of the president, without being officially recorded or transferred to the federal government.

According to a series of investigations by the Croatian newspaper Nacional (involving dozens of reporters) cigarette smuggling appears to have been one of the most profitable sectors, even exceeding oil/petrol smuggling. A market for smuggled cigarettes existed in the former Yugoslav republics and Eastern Europe, as well as in Western Europe (for example Italy, Germany and Scandinavia). Here the links went directly from the syndicates to the top officials of the post-Yugoslav states.

In 1996 and 1997 conflicts emerged in Belgrade between factions under Milošević, possibly on the division of the assets from smuggling and loot from areas in Croatia and Bosnia. Conflicts in Montenegro divided Bulatović (President of Montenegro until 1997) and Đukanović (President of Montenegro after 1997), who also became political opponents, with the so-called ‘greens’ favouring Montenegrin separatism and the ‘whites’ favouring a unified Serbian–Montenegrin nation.

Oil/petrol, cigarette and other smuggling through the 1990s produced very strong links between the parallel economy and top officials in several former Yugoslav republics (such as Croatia, Serbia and Montenegro), and sometimes these were under the direct control of the state.

During the years of open warfare and ethnic cleansing large-scale looting of the property of other ethnic groups, and in some cases their own ethnic group, took place. Such looting was typically undertaken by paramilitary groups to supply themselves and their patrons with resources (in some cases these groups were simply paid off in this way, and occasionally they operated autonomously). In Bosnia, for example, it has been noted by Hugh Griffiths that the ethno-nationalist elite not only exploited and robbed the local population in their own area of control, but in addition used displaced persons and refugees as an instrument to maintain the instability necessary to preserve and recreate patron–client relationships (Griffiths, 1999). Since paramilitary units and bands of criminals from Serbia, as well as regulars, sometimes operated in the wars in Croatia and Bosnia (as well as Croatian troops which operated in Bosnia) the whole former Yugoslav area has to be taken into consideration when discussing resources from looting.

The New Entrepreneurs

Serbian society in the 1990s, with hyperinflation, war and sanctions, experienced a large-scale breakdown of the legal system in which the state led the way, and the economy was severely criminalized. With the rule of law deteriorating, individuals typically had to rely on alternative forms of protection. Already existing clientelist networks became increasingly crucial when the socialist order deteriorated and as no other structure replaced it, a vacuum arose in which the mass of the working population inevitably looked for any type of protection (Stanojević, 1992).
The new economic and social environment left a considerable space for private initiatives. In the Milošević period some 270,000 new private enterprises were registered (95,000 being shops), of which 60,000 were successful (some 100,000 registered enterprises remained in 2002). The people developing business activities in this economic space were slowly forming a new economic middle stratum (here I exclude criminals, who might be included into this stratum). This new economic group, or stratum, which may encompass some 700,000 people, formed in parallel to the old middle class, has sank as a whole (although there was a small, marginal recovery in the latter group in the period 2000–2002). The ‘new entrepreneurs’ were not a homogeneous group. There were also different phases of entering into ‘private business’, some of which started in the late 1980s and early 1990s, while others entered during the period of sanctions and war. Within the sector firms ranged from the large businesses to small private shops, with activities benefiting from sanctions to those of a more typical entrepreneurial nature (that would do well without sanctions). A study from the early 1990s showed that the group largely consisted of individuals without a university education, generally coming from three different types of background (from Lazić, 1995, pp. 127–159):

- people in lower worker or clerical positions who then moved into the private sector;
- people from middle class positions who moved to elite entrepreneurial positions;
- people from varied background who, after having established command positions in public companies, established their own firms.

For the successful establishment of a private firm of some size it was important to have good connections, or links, to a patron, for example in a public company or within the state structure. Of the group of new entrepreneurs some 10% had spouses in senior positions, either political or public managerial (Lazić, 1995, p. 139). The lower educational profile of the whole stratum of entrepreneurs, as was pointed out by Mladen Lazic, probably means that the present private business elite is not the elite of the future (Lazić, 1995, p. 136).

It is important to note that the new business-oriented middle stratum is almost completely absent from the NGO scene in Serbia. The local NGOs in contrast is largely made up of individuals from the old middle class. The typical local NGO activist (there are 3000 registered NGOs in Serbia) is urban and university educated. Almost 60% of those active in NGOs are university graduates, while 5% have M.A. degrees and almost 5% Ph.D. degrees (cf. NGO Policy Group, 2001, pp. 25–27). The NGOs to a large extent survive on foreign aid support. Foreign support is, however, uneven among NGOs and there are typically a small number of NGOs receiving a large amount of financial support. The primary effect of this support has also been to preserve the living conditions among this group and to make a small number of them relatively well off.

The emergence of a new group of entrepreneurs does not necessarily constitute a transformation of the system to a market economy. Rather, entrepreneurs have arisen due to the opportunities given in the new social, legal and economic environment.

**The Re-stratification of Serbian Society**

In a period of some 15 years or so, under sanctions and war, Serbian society was transformed dramatically. The typical socialist structure gave way to class distinction and the formation of a narrow stratum of very rich, while a great portion of society was
impoverished and had to rely on traditional ties and connections to agricultural land and family. A large number of people were pushed into the grey or black sectors of the economy, or emigrated. Serbia also received an influx of between 600,000 and 1,000,000 refugees from Bosnia, Croatia and Kosovo, which due to their uncertain situation provided a further recruiting base for cheap labour in the black market sector. The deterioration in social standards and material life for the wider sections of society damaged all ethnic groups, including the (more than one-third) population which is not ethnic Serb (i.e. Kosovo excluded, the larger minorities include Albanians in south Serbia, Muslims or Bosnjaks in Sandžak, Hungarians in Vojvodina, Croats in parts of Vojvodina, Roma throughout, and others).

The old professional elite partly vanished as a middle class during the 1990s (with only marginal recovery after 2001). In their place appeared a new economic elite of entrepreneurs, probably comprising more than half a million people (700,000 estimated). The old (socialist/communist) political elite survived through the 1990s, mainly transformed into a 'national elite', and managed to consolidate its position and hold on to senior positions it had held before over different sectors of the economy (for example by the nationalization of firms). In this manner the collective ownership hierarchy continued in the 1990s. This was also the case for managers of public companies who remained in their positions. Another stratum of the elite may be categorized as those who had founded private firms and operated in the favourable conditions provided by UN sanctions and breakdown of the legal order. Within this group many acquired their wealth by illegal or semi-legal means (Lazić, 1995, p. 131). This latter group includes some of the 'new entrepreneurs', but not all, since many of the 'new entrepreneurs' are simply small-scale firms or new retailers. Finally, a small group of people created their wealth through purely illegal activities, as discussed above, through looting in the war zones, smuggling, etc. Here, as discussed above, there have been strong links between the Mafia and the state. Generally we can conclude that there was a wide redistribution of wealth during the Milošević period, 1986/1987–2000, and the period of war and sanctions. As the larger sections of society were impoverished a small segment of the population (perhaps 2%) achieved great wealth, primarily through illiberal means, while other segments were 'reshuffled', with individuals surviving more or less successfully.

Institutions and Networks: Serbia and Kosovo

We have discussed how the emerging illiberal economy in Serbia brought about a rapid social transformation of society. The advantages inherent in the self-management system having been eroded, and with the decline of the formal economy all privileges previously enjoyed by workers became even more difficult to fulfil than they had been during the economic crisis that Yugoslavia suffered in the 1980s. The social contract and the old order eroded while the new alliances between 'elite networks' (politicians, intellectuals, state officials, etc.) and the workers offered no social security. With the rule of law and the social security system breaking down, the reliance on clientelist and traditionalist forms of social relations came to completely outplay the role of institutions. Such networks existed and played a central role in the functioning of self-management socialism as well, but where they had earlier been embedded in a functioning institutional and political economic framework, the whole society was now effectively atomized. Individual survival strategies prevailed over any previously existing solidarity. This pattern was, however, mainly
characteristic of Serbia proper. Among the Albanian population in Kosovo (and among Albanians in South Serbia and Montenegro) the strategies of adaptation and resistance were expressed as a direct ethnic clash with Serbian society. The persistence of clan-based social solidarity, rather than the comparatively looser form of clientelism existing among the Slavic population (perhaps with the exception of Montenegro, where clan-based loyalties may have survived), constituted the social institution through which security was provided. Although Albanian opposition to the Serbian state did not originate under the Milošević regime (but rather the other way around, it preceded it and provided the fuel for Serbian nationalism to be instrumentalized by the regime) it was consolidated during the clash with that regime. Through the 1990s the ethnic dynamics of the conflicts in Yugoslavia took a life of their own and it was particularly severe between Serbs and Albanians, where the ethnic distance was greatest (religion, language and social structures were all different). For the Albanians the struggle against the Serbs now became a homogenizing factor and ‘Albanian-ness’ was partly defined in opposition to what was Serb. Although the processes of institutional breakdown, national chauvinism and socio-economic crisis were the same throughout the region, affecting Serbs and Albanians alike, it is useful to highlight a contrast between resistance and adaptation in Serbia proper, on the one hand, and among the Albanians in Kosovo, on the other. Such a contrast enables us to see local variations in adaptation and resistance due to specific cultural and historical heritages, social structures and ethnic regional concentrations. It reveals multiple layers of adjustment to the political project and economy of marginalization and isolation.

In Serbia proper expressions of this were the material survival strategies, new forms of entrepreneurship and illiberal forms of economy. Another reflection and adjustment is the responses to the regime that was manifested (by those who were not advantaged in the new society) as workers’ protests, trade union resistance, political parties, and NGOs. Some of these oppositional forces received financial and moral support from abroad. International aid agencies sought leverage to ‘democracy assistance’ in local NGOs, oppositional media and the independent trade union confederation ‘Nezavisnost’, as support to so called ‘civil society’. In Serbia proper the emphasis was on ‘democratic-oriented’ and ‘non-nationalist’ (anti-war) opposition to Milosevic. In Kosovo, where the whole ethnic Albanian community was in opposition not only to Milosevic but to the Serbian state, foreign aid supported the ethnic community in opposition to the state.

The experience of Serbia and Kosovo provides a particularly clear picture of a process by which what was meant to be the (re)birth of civil society turned out to be a renaissance of the ethno-national community (Puhovski, 1995, p. 123). Destruction of the basic socialist production models in the whole European east, the post-Yugoslav states included, and rapid social transformation in Serbia in the 1990s clearly indicate a dimension of discontinuity. However, this is coupled with elements of continuity of the ancien regime and its social values, etc., thus emphasizing that while there is no return to the self-management political economy or political ideology of Yugoslavia, there was also no complete break with its social, institutional and political heritage, but rather a new configuration with many of the old elements maintained. Nevertheless, this configuration of nationalist ideology and illiberal economy must be labelled a ‘new order’.

Resistance and opposition to the regime was bred in it and itself constituted a part of the new social formation, but the social disintegration and economic deprivation and transformation also provide an explanation to why the regime could remain in power for so long despite the catastrophic consequences of its performance. In Serbia opposition at the
political level was fragmented, weak and organizationally outflanked, although there were numerous social protests and considerable unrest at times. A move towards a more united opposition came in 1998, and the regime responded with increased pressure. The work of the opposition was effectively interrupted by the NATO bombings in March–June 1999, which had the initial effect of strengthening Milošević politically and bringing people together in patriotic unity against the common enemy (i.e. western aggression), but from summer 1999 the opposition were again active and in the course of a little more than a year it managed to unite a coalition of parties (the Democratic Opposition, or DOS) that challenged and eventually overthrew the rule of Slobodan Milošević in a joint election, revolution cum putsch culminating in October 2000.

In Kosovo resistance was instead ethnically based against the whole Yugoslav/Serbian (Slavic) state as such, and the Albanians developed a completely parallel society, social and political life throughout the 1990s as a response to the withdrawal of autonomy for that province. Albanian interaction with political and social life in Serbia proper was virtually non-existent. The development of a parallel society and parallel economy among the Albanians in Kosovo was, however local in appearance, a project with intimate international and transnational connections. It expressed a local path, or trajectory, of ‘globalization’, both in terms of the opportunity structure that it is embedded in, through (the neo-liberal) capitalist challenge to and breakdown of the (Yugoslav) socialist model, and in terms of the alternative form of adjustment to this opportunity structure with regard to the character of the economy and society it cultivated and in the transnational links it rested upon.

Towards Separate Lives in Kosovo: Parallel Society and Economy

As new political parties were formed throughout socialist Yugoslavia in 1990 and the years after there emerged a number of new parties and organizations in Kosovo. This apparent pluralism did, however, just as elsewhere in socialist Yugoslavia, come with a strong ethnic/national bent (Maliqi, 1998, p. 28). As ethnic polarization increased between Serbs and Albanians and the Serbian state pursued a policy of repression and ethnic discrimination in Kosovo, the whole political scene in Kosovo was forged and merged under the leadership of the Democratic League of Kosovo (LDK) led by Ibrahim Rugova. Following Skelzhen Maliqi, the LDK was formed as a pan-Albanian party, on the ethnic model, to comprise under its banner all kind of associations, such as youth and women groups (Maliqi, 1998, pp. 30–34ff.). Although the party was originally intended to have branches throughout Yugoslavia, the withdrawal of autonomy for Kosovo blocked this development and confined it to Kosovo (the Albanians in Macedonia, for example, soon organized their own party). In Kosovo the LDK became hegemonic and rejected suggestions from other groups in Kosovo to first opt for democratization and only later pursue the issue of the status of Kosovo. The LDK became the political umbrella for the Albanian movement and an emerging parallel society. Just as with most political parties in Serbia and the other post-Yugoslav republics, it cannot be considered a political party in the western liberal sense, but rather as an authoritarian pyramid of power (cf. Maliqi, 1998, pp. 34, 37 & 239).

The LDK tended to concentrate on fighting political rivals in Kosovo rather than taking on Belgrade. With this rapid ethnic polarization the emerging parallel society must be considered an ‘ethnic society’ rather than a ‘civil society’. The vast support for the LDK
was based on solidarity in opposition to the Serbs. In this way the ethnification of politics in Kosovo resembled that of the other republics of former Yugoslavia.

The idea of a common enemy (the Serbian state) and a common goal (independence) was instrumental in unifying the Albanian clans. The phenomenon of blood feud, still in existence in Kosovo, was addressed in a campaign started in 1990. Under the prominent figure Anton Qetta and with the support of around 500 students and intellectuals, this campaign included visits to villages where families were involved in blood feuds, in order to persuade families to reconcile, eventually resulting in reconciliation between some 2000 families and about 20,000 people released from house confinement (Maliqi, 1994, p. 242; Vickers, 1998, p. 248; Clark, 2000, pp. 60–64). It involved visits by ‘elders’ who had to give their besa (oath/word of honour) on the reconciliation.

With the declarations of independence of Slovenia and Croatia and the subsequent wars the strategy was to keep Kosovo out of the conflict. Nevertheless the inter-republican conflicts between mainly Serbia and Croatia had a radicalizing effect on the Albanian leadership. Being an autonomous province in Serbia would assume an entirely different meaning if the Yugoslav federation dissolved. In response to the withdrawal of autonomy a session was held in Kačanik in September 1990 where a two-thirds majority of the representatives from the Provincial Assembly passed a Constitution demanding an independent Republic of Kosovo.

It was followed by a referendum for independence in September 1991 and elections for a parliament and president in May 1992. These elections were, however, no more democratic than any other electoral ritual performed in the Yugoslav successor states in the 1990s. The Kosovo Albanian parliament formally amended the Kačanik Constitution and declared Kosovo independent on 19 October 1991. In April that year (1991) the parliament elected a Presidency with seven members, headed by Ibrahim Rugova. The Serbian police immediately issued arrest orders for the initiators of the ‘Republic’ and the Albanian leaders had to flee the country to form a Government in exile. Ibrahim Rugova was able to remain in Kosovo as the charges against him were dropped.

An alternative political structure and government, i.e. completely outside the Serbian polity, was thereby built up. In December 1991 a ‘state treasury’ of the Republic of Kosovo was established in Switzerland, which had an important Albanian diaspora, and Albanians refused to pay further taxes in Serbia (cf. Chronology of the Kosovo crisis, Europe, no. 4, January/February 1996 and The European movement in Serbia, p. 38).

*The Parallel Society*

Although many elements of the parallel society in Kosovo during the 1990s remain obscure, with little or no documentation or data, there are a few good accounts, either by local writers or based upon them in combination with field work. Most figures, however, have to be based on estimates.

The parallel system developed through the 1990s by the Albanians in Kosovo was largely built on institutions existing prior to 1990. They were, however, refined and extended as separate Albanian institutions completely parallel (or underground) to the state institutions in the face of increasing state repression, a Serbian clampdown on existing institutions and the mass dismissal of Albanian employees.

While the proclaimed independent Republic was symbolic (i.e. its territory was controlled by Serbian police), Albanian society in Kosovo in the early 1990s came to
resemble an organized and independent state. Its development was a response to increased Serbian repression and discrimination in the period 1990–1992 when the Serbian parliament passed several hundred laws that in effect ended the autonomy of Kosovo in all spheres of life (cf. Kostovićova, 1997). The framework for the highly repressive and discriminatory policy was laid out in the Programme for Attainment of Peace, Freedom, Equality and Prosperity of the SAP of Kosovo, adopted by the Serbian Assembly in March 1990.32

From the academic year 1991/1992 Albanian students were expelled from the University of Priština/Prishtina and a law was passed in Belgrade that all education would be in Serbo-Croat. In response the Albanians formed a parallel Albanian language university, established in November 1991. They also built up a network of primary and secondary education. Some Albanian pupils stayed in the regular primary schools, but the majority of pupils and students moved to the parallel education system, which became the largest independent system in the parallel society. In addition, the Albanians developed complete or partial networks of social, political, union, healthcare, sports, media and cultural associations. A rudimentary social welfare system based on solidarity funds was established to aid the most impoverished groups, such as unemployed miners in Trepca/Mitrovica. These solidarity funds were established largely with diaspora money from Western Europe and the USA, as well as Albanians in Croatia and Macedonia, but also received contributions from within Kosovo itself (Maliqi, 1998, p. 110). Albanian humanitarian organizations, such as the Mother Theresa Association and the trade unions, distributed food and firewood as well as cash.

The parallel institutions were generally financed through a parallel tax system, based on a 3% income tax of all Albanians in Kosovo and those working abroad, with additional funds collected in Western Europe. The tax applied to all kind of business activity and even though it was voluntary, there was considerable social loyalty and pressure to contribute.

The social structure of Kosovo is an important factor here, but the external threat and the common cause, as well as the fact that tax collection was undertaken through a personal visit, all ensured a high or even complete level of compliance.33

There were also contributions from Albanians in Macedonia. The revenues from these sources financed the political elite and its activities as well as the social institutions. Based on media sources (the Serbian ‘Alternative Information Media Network’ [AIM]), Howard Clark suggested that the bulk of the revenues were actually raised inside Kosovo and that only about one-third of the contributions came from the diaspora in Western Europe (Clark, 2000, p. 103). The institutions of the parallel system also required acts of solidarity, including reduced salaries or unpaid services. In the first couple of years teachers in the education system worked without payment, receiving some union support, but after 1993 they started to receive wages, which were then increased in 1997 (Clark, 2000, p. 102). The education system was a cornerstone of the parallel society and it took the greatest part of the entire budget. Shkelzen Maliqi estimated that the annual budget must have been at least US$50,000,000, but that probably less than half of that money was actually collected (Maliqi, 1998, p. 115).

An additional source financing the parallel structures in Kosovo was aid money coming from western donor governments and NGOs, although their contribution must have been marginal. Through budget lines for the so-called ‘civil society’ financial support was given to local media (for example Koha Ditore), as well as local NGOs. NGOs providing services could also obtain support from other budget lines by western aid agencies.
Because of the mass dismissal of Albanians from various socially owned enterprises, the whole supply of goods and services was transferred to the informal sector (or, alternatively, the ‘private sector’). The traditional structure of Albanian society facilitated everyday survival, which relied heavily on the extended family and village community solidarity. Diaspora remittances played a crucial role. Several hundred thousand Albanians living in Western Europe and the USA sent money to relatives. The income they could receive in the West for any type of work or even social welfare was considerable compared with the opportunities available in Kosovo and at least 30% of Kosovo Albanians depended on direct support from their relatives abroad (Maliqi, 1998, pp. 109 & 241). Many Albanians also obtained seasonal work in other Eastern European countries, including the other ex-Yugoslav republics. Some Albanians worked in Croatia, for example in ice cream or pastry stands, during the season and then moved on elsewhere. Even these remittances were a problematic source of income though, because after 1992 and the imposition of UN sanctions on Serbia it was impossible to transfer any money via the banking system. Money had to be brought back, smuggled or collected somehow. Travelling from Western Europe to Kosovo directly was not a good option, for both practical and political reasons (travellers had to avoid Serbia proper and if they were asylum seekers in Western Europe they could hardly travel back where they had fled from). Although diaspora remittances certainly provided an essential income for many families, they were by no means regular or easy to count on and the longer the individual asylum seeker or illegal immigrant stayed abroad the greater became the probability that he had to prioritize supporting a family of his own in the West.

The parallel structures provided a lifeline for Albanians in Kosovo and, paradoxically, there was even apparent economic improvement in the first year. Fairly rapidly, however, the extreme conditions under which Kosovo Albanians were living went from bad to worse. At least 20% of the population was dependant on humanitarian aid and probably another 20% left Kosovo. Most of the newborn children in Kosovo were delivered without professional medical assistance and there was a scarcity of medical and pharmaceutical supplies. With each passing year the social and economic disarray increased, and so did the frustration.

The Black Market and Albanian Mafia

Among the most lucrative business activities were various forms of smuggling and organized crime. According to estimates by the ‘Southeast European Legal Development Initiative’ (SELDI) the income from smuggling drugs was, together with remittances from the diaspora, the most important pillar financing the parallel institutions in Kosovo through the 1990s. Diaspora remittances as such provided a good opportunity to launder money from criminal activity. We must, therefore, take a look at the nature of organized crime, the black market and smuggling activity. However widespread this became in the whole of the post-Yugoslav (and South-East European) region, there were local variations in its characteristics. The sources used for the following discussion are primarily various European and international criminal intelligence services, NATO reports and the United Nations Office on Drugs and Crime, as well as a number of ‘soft sources’.

Generally, organized crime and black market activity expanded considerably through the 1990s and further after 2000. The heroin trade, which had been established in the 1980s, expanded considerably through the 1990s and further after 2000. The heroin
primarily originates in Central Asia. After the US invasion of Afghanistan opium/heroin production in that country was revived and it is estimated that it makes up three-quarters of world production (cf. Boutin, 2003). The main transit route to Europe is via Turkey and then either the northern route (Tajikistan, Kazakhstan, Russia, the Ukraine, Poland and the Baltic), the southern route (Iran, Pakistan, the Persian Gulf and Indian Ocean, to European ports) or the Balkan route. The Balkan route is divided, either through Romania, Hungary and Slovakia or through Macedonia, Kosovo and Albania, through Croatia or across the Adriatic to Italy. The Albanian Mafia controls a large part of the heroin trade in Western Europe. By the late 1990s it was estimated that they controlled some 70% of the markets in Italy, Germany, Austria, Hungary, the Czech Republic, Switzerland and Belgium and about 80% of the Scandinavian market. A large Albanian diaspora was settled in Turkey in the 1950s. The heroin trade from Turkey through Albanian networks was established in the 1980s, with process laboratories in Prishtina and with part of the Albanian intelligence service being involved in the trade for Western Europe (cf. Vickers, 1998, p. 225, using sources from Interpol). According to reports by the Italian DIA the Albanian Mafia initially operated in places were the Italian Mafia had no business, i.e. in a kind of sectoral and geographical division of labour, but then increasingly took over branches to run whole businesses by themselves or worked in partnership with the Italian Mafia. They were tolerated and even worked together with both the Cosa Nostra (Sicily), the ‘Ndrangheta’ (Campagnia), the ‘Sacra Corona Unita’ (Puglia) and the Camorra (Calabria), and they have continuously expanded their business. Since the 1990s they have provided drugs on a vast scale to the Italian Mafia. In addition to strengthening the traditional heroin trade, the Balkans also became a main transit area for South American cocaine during the 1990s. The Albanian Mafia operates in all fields of smuggling, including arms, human trafficking, cigarette smuggling and narcotics (heroin, cocaine, synthetic drugs, and cannabis). Some estimates suggest that the value of this is about US$2 billion per year.

It is estimated that 20% of the world trade in small arms takes place through criminal networks and with a value of US$1 billion per annum (Boutin, 2003). The fall of the communist dictatorship in Albania and the anarchy that followed in the years 1991–1992 and then again after the fall of the pyramid schemes in 1997 provided considerable quantities of arms for the market. The Albanian Mafia provided its Italian counterparts with relatively cheap arms and explosives. The Albanian Mafia has further been heavily involved in human trafficking, both in terms of illegal immigration and for forced begging or prostitution, and possibly also in human organs. Of an estimated 500,000 women being trafficked every year up to 200,000 travel through the Balkans. The Albanian Mafia controls the bulk (about 65%) of this trade. In London alone it is estimated that some 18 million Euros per annum were sent back to Albania from the income of prostitution. Similarly, the DIA has estimated that the bulk of the income from criminal activity in Italy is invested in the Albanian homeland and that very little is used for reinvestment in Italy, except some to purchase real estate that can be used as bases of operation. Some estimates suggest that the value of the drug trade alone could be in the range of US$1 billion annually. Taken together, this provides a considerable flow of resources into Albania proper, Kosovo and that part of Macedonia inhabited by Albanians. Albanians from Kosovo started to play an important role in the Albanian economy in the 1990s, when many of them left the difficult situation in Kosovo for the new opportunities available in Tirana after the fall of the communist dictatorship there. Miranda Vickers and James Pettifer have described how Kosovo Albanians and returning American-Albanian émigrés became ‘big
fish in a little pond’ as Albania was opened up and how they made use of their large extended family networks and international connections to develop their economic interests (Vickers & Pettifer, 1997, p. 159). This included buying up state owned companies when they were privatized and then, in many cases, using them for money laundering and as front companies for organized crime (Xhudo, 1996). Albania was underdeveloped and backward, even compared with Kosovo, and when it became more open the Kosovo Albanians sought opportunities for commerce there. The smuggling and organized crime networks which exploit the markets in Western Europe were thus established and operating throughout the Albanian lands (Albania proper, Kosovo, Macedonia, etc.) and revenues flowed back to them for ‘reinvestment’/circulation in all these areas, rather than just to any particular country or region. It is in the nature of this form of economy that it operates around transnational networks that defy the territorial limits of the state and even utilizes the existence of state borders as an additional source of earning.

Several factors contributed to the expansion of smuggling and of the black economy during the 1990s. War and sanctions constituted an important base for this economy. New state borders, international sanctions and political instability formed a new structure of opportunity for the expansion of smuggling networks and routes. Here the integration of criminal networks and the state apparatus was essential, since smuggling was necessary to, for example, provide society, as well as the military, with oil and petrol. The collapse of the Soviet Union and the whole communist east created new borders, unemployment, a withering security service and so on, which became essential building material for a new form of economy based on trans-border trade, trade in illegal goods and services and illegal trade in legal goods and services throughout central Asia and eastern Europe. While the arms trade, oil/petrol smuggling and cigarette smuggling, expanded in Yugoslavia during the war, some other sectors, such as the heroin trade were re-routed to the south, where the Albanian Mafia could take over and simply utilize earlier trading routes it had established for human trafficking (which in the early days involved refugees, rather than prostitutes). The collapse of the Albanian state, first in the early 1990s, then again after 1997, created a new ground for, especially, the trade in arms. During the 1990s the Albanian Mafia established itself as one of the most powerful crime syndicates in the world, through expansion and consolidation in the region, in Europe and the USA, and with links to certain sectors of political (or opposition) power in Albania, Kosovo and the Albanian part of Macedonia.

The Albanian Mafia differs from Serbian or other south Slav organized crime networks in social structure. Whereas other criminal networks in the Balkans are based on clientelism and throughout the 1990s have developed with strong links to the state and security apparatus, as well as the political elite (and often operated directly from them), the Albanian Mafia is even more tightly knit through extended family and clan relations. This makes it particularly difficult to infiltrate and difficult to obtain witness statements. Like the code of silence in the Sicilian Cosa Nostra, the Albanians have their code of how to solve disputes between families or clans. In this sense it is appropriate to use the term ‘Mafia’, as opposed to elsewhere in the Balkans, where the term ‘organized criminal network’ would be more accurate. Recruitment into the Albanian Mafia is, however, not restricted to family members when it comes to the lower levels and outer circles of the network, but the ethnic basis remains important. Non-family or clan member Albanians which share the same culture and respect for the besa (word of honour/oath) are recruited, but never into the inner circle. In cooperation
with other networks the ethnic dimension provides no obstacle and the Albanian Mafia has well-established business with Kurdish, Italian, Croatian, Serbian, Montenegrin and other criminal networks.

Albanian smuggling and organized crime operations have been developed with members of the Sigurimi, the former Albanian security service, but is strictly controlled by 15 families. The Mafia should here be distinguished from the numerous criminal gangs that flourished during the crime wave in Albania in 1991–1992.68 They typically have no connection with each other and the interests of the Mafia are not necessarily compatible with the criminal gangs. The latter may rather be a nuisance to the Mafia.

In contrast to most of the Yugoslav successor states, were criminal organizations were linked to the state apparatus, in Kosovo they were a part of the political opposition to the state. Nevertheless, although as in all the former Yugoslav republics it was linked to the political project of a mono-ethnic state, it expanded into areas where opportunities were available when the formal economy and industries were on the verge of ruin and excluded from any possibility of competing in the global economy. The result of this kind of economy, as in Serbia, has been a considerable concentration of resources to some groups and networks, whereas the larger part of the population faced poverty or even extreme poverty. At the same time it has been exactly this kind of economic opportunity which has been able to provide resources and security for some people, albeit on the basis of new and strict criteria for exclusion and inclusion, notably first on the principles of kin and clan and then on ethnicity. Moreover, it has provided certain Albanian clans and networks with resources and power which they have been able to utilize in an internal political power struggle against other networks in Kosovo.

The Diaspora, Pan-Albanianism and Relations with Albania Proper

The Albanian diaspora has had a considerable effect on the economy, as well as the politics, of Kosovo. Some Albanian groups, especially those living in Switzerland, were well organized and politically radical. Estimations of the size of the Albanian diaspora in Switzerland at different times through the 1990s vary between 30,000 and above 100,000, depending on whether one counts only those from Kosovo or all Albanians and whether one include estimates of illegal immigrants or not.49 Germany also had a large Albanian diaspora (more than 100,000), as did Scandinavia, but the largest in a single country was in the USA (between 250,000 and 500,000).50 Diaspora networks played a crucial role in lobbying for the Albanian ‘cause’ (especially in the US senate), as well as in the financing of political parties, organizations and parallel institutions. Albanians from Kosovo have also played an increasing role in the political and economic life of the Albanian state (Albania proper) during the 1990s (Vickers & Pettifer, 1997, ch. 8). There were probably around 100,000 or so Kosovo Albanian young men who escaped conscription into the Yugoslav army (JNA) during this period, and many of them left Kosovo either for Albania proper or for Western Europe.51 Before the elections in Albania proper in March 1992 the opposition ‘Albanian Democratic Party’ announced that if it gained power it would work for the unification of all Albanian lands into a greater Albania. From then on the Kosovo Albanians, and especially the diaspora, began to play an important role in Albanian politics by supporting and financing the ‘Democratic Party’ (Vickers & Pettifer, 1997, ch. 8). The northern Gheg Albanians had much closer ties to Kosovo than did the southern Tosks, and the increased connections between Kosovo Albanians and Albania proper
contributed to internal divisions inside Albania itself. When the Democratic Party gained power and Sali Berisha became President of Albania expectations ran high among the Kosovo Albanians that they would receive external, even direct military, support. Taken together with the Albanian lobby in the USA and with the non-violent resistance strategy, these factors all contributed to creating a sense of hope among the Kosovo Albanians that they would soon receive external and international attention and support in their struggle against Serbian repression. This psychological factor did not last long though, because the Democratic Party in Albania, once they were in power, had to prioritize security in and for Albania itself, rather than engage in any escalation in the conflict with Serbia.

Miranda Vickers and James Pettifer have described the tensions this created between the Albanian Democratic Party and Kosovo Albanian leaders, as well as between the Democratic Party and certain diaspora groups (Vickers & Pettifer, 1997, ch. 7; cf. Judah, 2000a, pp. 96–97). As shown by Vickers and Pettifer, the Democratic Party in Albania were in a difficult position, since they relied on diaspora support and funding from circles which were radical concerning the idea of unification of Albanian lands and on support for the Albanians living in Kosovo. The Democratic Party shifted its position a couple of times, but by 1994 had started to urge the Albanians in Kosovo to enter into a direct dialogue with Belgrade. However, the preconditions for a dialogue remained extremely difficult. The Kosovo Albanians had declared independence and rejected any part in Serbian institutions, as well as dialogue, and from Belgrade equally there was no interest in discussions with the Albanians, just in controlling the province. In addition there was the problem of representation and of who to have the dialogue with: the Serbian government was not interested in allowing Ibrahim Rugova to represent the Albanians, since that would have implied recognition of the Kosovo Albanian parliament and president.\(^{52}\)

The idea of unifying Kosovo with Albania lived on, but was played down by the leadership, which nevertheless remained firm on the position of an independent state. In 1996 Skelzhen Maliqi, a political moderate who favoured unification, gave an interview to the independent radio station B 92 in Belgrade in which he suggested that the road to independence could be via an international protectorate and that after some 20 years of protectorate status Kosovo could become independent (reprinted in Maliqi, 1998, p. 222–261). The position of the whole Kosovo Albanian leadership, often repeated by President Ibrahim Rugova, was that an international protectorate was the only possible solution for Kosovo.

**Intra-Albanian Disputes and a Change in Strategy: From Dayton to KLA or Attention Through Violence**

Although the LDK held a dominant position among the Albanians in Kosovo and effectively marginalized any opposition, the strategy was not undisputed. From autumn 1994 especially there were growing divisions both within the LDK and with the smaller parties, such as the Liberals and the Peasants Party. A split developed, with a more moderate group advocating that autonomy within the new Yugoslavia was acceptable. There was also increased opposition to the LDK’s dominance of local government (Vickers, 1998, p. 281). After the resignation of a number of leading moderates in the LDK in October 1994 the division between moderates and ‘independentists’ started to escalate, not only in Kosovo but throughout the diaspora, especially in Germany, Switzerland and the USA (cf. Vickers, 1998, p. 281 ff.).
A particularly radical group within the diaspora was the so-called ‘popular movement for the republic of Kosovo’ (LPRK), which had been founded in 1982. Most members of the LPRK had joined the LDK in 1990, but the most militant faction had founded the ‘Popular Movement of Kosovo’ (LPK) (Judah, 2000b). Members of this group existed in the diaspora in Sweden, Germany and Switzerland, and out of this group grew the KLA, which was formed in the period 1992–1993. It is important to distinguish between the KLA and the FARK (the armed forces of the Republic of Kosovo). The latter was the military arm of the government in exile and was controlled by Bujar Bukoshi. It was primarily funded through the 3% tax collected within the diaspora, it comprised former Albanian JNA officers and was intended as the embryo for a future army. This was quite distinct from, and had initially nothing to do with, the KLA. There were even clashes between the KLA and FARK during 1998–1999, but as the KLA received greater support, locally and internationally, parts of the FARK were eventually incorporated under the KLA umbrella. Although the first armed attack, for which the KLA claimed responsibility, took place in Glagovac in 1993, the organization had a marginal existence with few members and little support until autumn 1995. It drew its support mainly from the diaspora and a few clans, with a particular concentration in the Drenica area, which is the region from which Hashim Thaqi, one of the co-founders and leaders of the KLA, comes. Drenica is also among the poorest regions in Kosovo. It is a widely accepted assumption, allegedly in many intelligence services, that it was these same clans that controlled much of the heroin trade and thus financed the organization through, among other things, the drugs trade and smuggling. A report by the ‘US Senate Republican Policy Committee’ (RPC) from 1999 refers to newspaper articles which state that about half of the funding for the KLA came from drug trafficking and that around 900,000,000 German Marks (of which half was drug-related) had reached Kosovo since the beginning of the guerrilla campaign. While any such estimates should be treated with caution, it must be considered obvious that the Albanian criminal networks operating throughout Europe and the USA in the drugs and arms trades had both substantial financial resources available and a considerable stake in the political and security situation in Kosovo. Indeed, this territory was essential to their trading business. The RPC further drew on reports by the Paris-based ‘Geopolitical Observatory of Drugs’, which identified belligerents in the former Yugoslav republics and Turkey as key players in the region’s accelerating drugs-for-arms traffic.

On the KLA’s explicit agenda was not only an independent Kosovo, but the unification of all Albanians into a ‘Greater Albania’. On a map published by diaspora groups in Sweden in the late 1990s this included large parts of Macedonia (including Skopje), south Serbia, the Sandzak, a good part of Montenegro (including Podgorica) and parts of Greece. The KLA had a complicated ideological composition, one side derived from fascist ideology and the other from Marxism–Leninism. The Marxist–Leninist tradition was rooted in the Albanian Movement as such through its development between 1968 and 1981. Many of the Marxist–Leninist groups in Kosovo disappeared, however, after 1990 and the fall of Enver Hoxha in Albania. Until autumn 1995 the KLA and other radical groups were effectively marginalized by the Rugovian leadership.

An important change in strategy in the Albanian movement came in 1995 and was the direct effect of the ‘perception shock’ of the Dayton Agreement. The issue of Kosovo and of Serbian–Albanian relations was almost entirely ignored in Dayton. In the international community the problems in Kosovo were treated as a human rights issue, although Rugova had repeatedly stated that the Albanian aim was independence.
The Albanian interpretation of Dayton was that ethnic cleansing was legitimized, i.e. the different entities in Bosnia-Hercegovina had been created through ethnic cleansing and a precondition for Dayton was the elimination of Krajina, and the Serb minority in Croatia, thereby legitimizing ethnic cleansing as a method of state building. In Dayton the question of parallel relations (i.e. Banja Luka–Belgrade and connection of the Bosnjak/Muslim–Croat federation with Zagreb) were left open and in the Albanian perception this would legitimize similar relations between, for example, Priština/Prishtina and Tirana. Most important, though, was the message the international community sent, that there had to be a war if Kosovo was to get any attention. The Albanians had pursued a policy of non-violence and now they were completely ignored. Instead, despite Kosovo Albanian protests, the European Union unconditionally recognized the Former Republic of Yugoslavia, while Germany started to repatriate 130,000 Kosovo Albanians to Serbia (Troebst, 1998). It became obvious that the western powers intended to insist on ignoring the interconnections in the region as a whole and instead merely deal with one selected problem at a time. To most Albanians the message was quite clear, if they wanted to receive any attention from the international community they had to produce a war and a humanitarian crisis, as in Bosnia. The effect of Dayton was to generate a growing split within the Albanian elite, as well as among the various networks of allegiance.

The year after Dayton saw the slow build-up of military resistance in Kosovo. In February 1996 several bomb attacks were aimed at Serb refugees from Croatia who were housed in camps in several towns throughout Kosovo. The underground group the LKCK claimed responsibility for the attacks, which they stated were only the beginning of their campaign (cf. Vickers, 1998, pp. 290–291). This was followed by KLA attacks on individual Serbs in isolated incidents. Violence was still on a relatively small scale though and by autumn 1996 the KLA had gathered, at the most, a few hundred men, but they had to focus on building up a network of militants who would operate in various areas when the time was ripe.

The autumn of 1997 was a turning point. In the power struggle between Ibrahim Rugova and more radical Albanian networks Rugova had attempted to strengthen his position by negotiating an education agreement with Slobodan Milošević. According to this agreement Albanian students were to be allowed to resume their studies at the university of Priština in autumn 1997. When implementation of the agreement failed, formally over finances, the student groups became increasingly frustrated and developed into a support base for the radical KLA.

This coincided with the collapse of pyramid schemes in Albania in 1997 and the consequent fall of the government and political unrest. An important contribution to the crash of the pyramid schemes had been the lifting of sanctions against Yugoslavia after Dayton, which meant a decreased market for, especially, oil/petrol smuggling and shrinking revenues. Following the pyramid collapse neighbouring Albania suddenly descended into anarchy, which opened up new opportunities for the collection of weapons from Albanian military depots. The KLA and other rebels in Kosovo now began to arm themselves on a much grander scale. On 27 November 1997 they made their first public appearance at the funeral of a teacher, Halil Geqi, who had been killed by Serbian troops during clashes with the KLA (Salihu et al., 2004). From then on masked KLA fighters began to appear at funerals to display themselves and read statements before disappearing again, a trend which created fear among many Albanians.
The KLA now stepped up terror activities against the Serbian police and civilians, as well as Albanians who collaborated with the Serbs or those who were considered too moderate. The strategy included both ambush killings and kidnappings. In some areas the KLA targeted Albanians who supported the LDK, as well as members of the FARK. Many Albanians feared these radical militant groups, since they knew that while the KLA was capable of provoking the Serbian police and military it would not be capable of defending civilians against the Serbian counter-attacks that were bound to come. The radicals thereby also posed a threat to Albanians and they brought the existing intra-Albanian divisions to a more serious level. However, for the KLA the time was now ripe to provoke the necessary violence to get international attention. They had a network of fighters and they started to obtain the light weapons needed for ambushes, although they did not have any heavy weaponry nor a trained military organization. They had set up training camps in Albania, but they did not have the resources to train larger units (see also Judah, 2000b).

On 28 February Serbian forces moved in on a few extended families in the Drencia area and killed 26 people. This was followed by an attack on a compound on 4 March in order to arrest a known Albanian villain and guerrilla leader, Adem Jashari; the attack left 58 people dead. This was labelled the Drenica massacre and had two immediate consequences. First, it provoked outrage among Albanians throughout Kosovo and the diaspora and clan elders in various regions now agreed to a military uprising. Second, the Albanian-American community, which until then had supported the LDK, now shifted their political and financial support to the KLA (Nazi, 2000, p. 152). Both these factors considerably strengthened the KLA. The organization now grew to several thousand, perhaps tens of thousands of, fighters, but it was unclear who was actually in control. Everybody with a gun could call himself a member. The KLA now moved to mount attacks and managed to take territory in the Drenica area and beyond. The Serbian forces responded, but only to find that resistance vanished.

The reaction from the international community at this stage was to condemn the use of excessive violence by Serbian forces, while at the same time condemning all ‘terrorist action’ by the KLA. The same statement was repeated several times by the Contact Group and it was also the message in a series of UN Security Council Resolutions, starting with SCR 1160 and later that year followed up by SCR 1199. The message was that violence was unacceptable and that peaceful negotiations were necessary.

To the KLA these signals rang hollow against the background of Dayton, after which Yugoslavia had been recognized, the sanctions and arms embargo lifted and Albanian refugees repatriated to Serbia. The now weakened LDK gave negotiations an attempt though and started to negotiate with Belgrade, but at this stage there was little possibility for the LDK to negotiate since it had no control over the KLA. Discussions broke down in May, when further military action was taken by Serbian forces to stall and preempt the KLA. During the first half of 1998 the USA continued to label the KLA a terrorist organization. Both Madeleine Albright and the spokesman James Rubin had used the term in 1997 and the position was repeated by the USA ambassador Robert Gelbard during a visit to Belgrade in February 1998 (Magnusson, 1999, pp. 69–70). This position changed in the span of a few months. In June Richard Holbrooke held meetings with KLA representatives and James Rubin rejected in an interview that the USA had ever said that the KLA were terrorists (Magnusson, 1999, pp. 69–71).
Serbian operations continued in the summer of 1998 and in a large operation in the Drenica area in July they attacked and burned several villages, leaving tens of thousands of displaced Albanian civilians. This excited the attention of the international community and provoked immediate condemnation and the demand that the Serbs should withdraw their forces from Kosovo. In October the USA threatened air strikes unless Serbia withdrew and allowed an Organisation for Security and Cooperation in Europe (OSCE) Kosovo Verification Mission (KVM) access. Inside Serbia also there was open criticism of excessive use of violence by the regime. General Perišić, who commanded in south Serbia had been in long-standing open disagreement with Milošević since 1996. In October he signed an agreement with NATO’s supreme commander of allied forces in Europe, General Wesley Clark, that tensions in Kosovo should be alleviated. Milošević agreed to KVM access, but as the Serbian forces withdrew the KLA reclaimed territory. The whole affair leading up to the KVM was an example of bad diplomacy and poor political analysis by the Contact Group and the western powers (especially the USA) and it was doomed to fail. The idea was that the mission should monitor the withdrawal of Serbian forces while Milošević should enter negotiations with the LDK. The LDK had, however, already been sidestepped by the KLA, which it did not control. By now the KLA was no longer labelled a terrorist organization by the US government and the USA had even threatened air strikes on Serbia. For the KLA it was clear that their strategy was paying off and that the result might be even better if they escalated the violence. They were in fact not bound by the agreement, as the Yugoslav government was. Furthermore, the Americans ran a parallel track in the KVM. They placed a number of CIA agents (allegedly some 50–70 under the coordination of US Ambassador William Walker) within the KVM, with their own mission to prepare and help organize the KLA as the ground soldiers for a coming NATO intervention.

It was thus only rational that the KLA should reclaim territory and do everything possible to provoke more violence, preferably with civilian casualties. After a short period Serbian troops were sent back to reclaim control over the lost territory and in mid January 1999 they confronted a KLA group in the village of Račak. This incident later caused considerable controversy. The USA and NATO alleged, and this was disseminated in the western media, that some 45 Albanians (primarily civilians) were massacred there. According to some KVM monitors, as well as a French journalist who apparently had been present in Račak around this time, the incident had been staged by the KLA and by a US team. Regardless of what actually happened, blame could be attached to Serbian forces and the USA again threatened military action.

During the second half of 1998 the US government had gradually shifted its support to the KLA. It is evident that there were different and contradictory diplomatic tracks here. On the one side, the US Ambassador Chris Hill had pursued shuttle diplomacy between Belgrade and Pristina, with different drafts for some kind of agreement. Formally the demand to negotiate during the KVM was directed at the LDK on the Albanian side. Increasingly, though, Secretary of State Madeleine Albright embraced the KLA. Kjell Magnusson has suggested that this shift in US policy can be understood against the background of heavy lobbying groups in Washington, especially by such organizations as the International Crisis Group (ICG), the Balkan Institute (later the Balkan Action Council) and the United States Institute for Peace (USIP) (Magnusson, 1999, pp. 71–76). In these groups there was not only strong support for the Albanian position, but indeed for the most radical claims and for the KLA. An important figure in this lobby was the former US Ambassador Morton Abramowitz, who had close relations with Madeleine Albright.
Even before the meeting in Rambouillet, Madeleine Albright had signalled that the KLA was an important partner of the USA and that they would eventually receive training in the USA. Well before the set-up in Rambouillet the USA had dropped the LDK and moved to supporting the most radical faction among the Albanians.

Concluding Remarks

The empirical picture provided in this article suggests a considerable expansion and consolidation of illiberal forms of economy in Serbia and Kosovo through the 1990s, as integral to political projects. As an empirical note, rather than conclusion, it is estimated that the grey economy in Serbia has been reduced from some 80% to around 30% (in terms of GDP) after the overthrow of Slobodan Milošević, with a probable reduced black economy as well, while it has expanded and consolidated its position in Kosovo. The concept of a political economy here suggests that the economic sphere cannot be isolated from its social and political context. The illiberal forms of economy, and the political and social projects they are part of, represent forms of adaptation to a marginalization and exclusion from the global political economy, where the formal economy has no place. Although we cannot reduce causes of conflict to economic resource struggle or greed, the political economy (liberal or illiberal) is integral to political projects and social relations and must, as such, be analysed as a crucial component in conflict. We should not necessarily see illiberal economies as generators of conflict, but rather acknowledge that they have a central role in their dynamic, in funding agents with political agendas, and that they constitute the central factor and driving force in a process of social transformation. War itself is a process of social transformation, as well as of state transformation, and it is essential to acknowledge and analyse the character of the transformation and the political economy and project that emerges in the actual context of foreign intervention and aid. This is in contrast to the ideologically burdened concept of transition, where we assume to know the direction and end state of change, and the concept of ‘breakdown’, which suggests that reconstruction can be approached from purely technical aspects.

Notes

1 I owe much to Mark Duffield for numerous discussions on the subject (theoretical and methodological as well as empirical). Although not cited much here I have benefited greatly from these discussions and from his various published works in the field (see especially Duffield, 1998, 2001).

2 The concept of class may be used in different ways, and although Marx connected it to positions and relations within the capitalist market economy (to ownership and relation to the means of production) it was used by Max Weber to denote position within society as such. Classes, in the sense of levels in a social stratification, thus also exist in communist or socialist societies, although there they are shaped by the political party/state rather than by the market economy.

3 There were some reforms, but they were very specific. For example, in 1989–1990, several federal laws were initiated with the intention of making employees in former self-management organizations shareholders, and by 1992 about one-third of social enterprises had undergone ownership transfers (see Bolzić, 1995).

4 Studies and surveys by Mladen Lazić and others during the 1990s suggest this picture (see Lazić, 1995, especially ch. 2, 3 and 5; Lazić, 2000; Lazić & Cvejić, 2005, pp. 35–59).

5 On social stratification and change see Lazić (1995, 2000), Vujović (1995) and Lazić and Cvejić (2005). Concerning the economy, especially the black and grey sectors, there have been some estimates by local researchers, as referred to below.

7 Bela Knjiga.
8 Estimations by the Strategic Marketing and Media Research Institute (SMRI), given by Srdjan Bogosavljevic (Professor of Statistics and Chief Executive of SMRI), 26 July 2002.
9 I personally remember exchanging money by the hour in summer 1993 when exchange rates moved rapidly, and a Coca Cola cost 250 million dinars (inflation was then still below 2000% per month). The cultural magazine Republika had the price “equivalent of one egg” on one of its issues.

All this would be operating illegally, violating sanctions as well as occasionally constituting ‘creative registration’ and there is no evidence for it. However, it seems highly plausible that such accounts played a considerable role in the payment of salaries during the Milošević period and much cash would probably be transferred in suitcases over the borders, without any documentation. It would help explain how companies that were formally inactive could still pay salaries. I would like to thank Silvano Bolzić for bringing the scope of this phenomenon to my attention.


Estimates from a research project at the Economic Institute in Belgrade, interview in Beograd with Gorana Krstic, Economic Institute, 6 November 2001.

Estimates from a research project at the Economic Institute in Belgrade obtained in an interview with Gorana Krstic in Beograd, Economic Institute, 6 November 2001.

The G17 + started as an organization of 17 liberal market economists, then developed into a research institute, and eventually a political party. The estimates were given by the G17 + Director, Predrag Markovic, interviewed in Beograd, 2 November 2001.

Sometimes “taxation” was rather a matter of bribing the right people, since corruption is widespread in Serbia. For an analysis of corruption see Bregovic & Mijatovic (2002).

This is fairly well known in Belgrade and I base the information on informal talks with several individual sellers outside and inside the Student Cultural Centre (SKC) on various occasions in Belgrade in the years 1994–2002.

The information for the here mentioned command structure and channelling of money comes from witness statements by Rado Marković (in den Haag, July 2002) and interviews with the journalist Jovan Dulović at the Belgrade magazine Vreme (Beograd, 26 and 29 July 2002), who has done research into this topic. See also various news reports covering the den Haag tribunal that week, for example Radio Free Europe (www.rferl.org/nca/features/2002/07/26072002164641.asp, accessed 8 August 2002).

The information given here is collected from newspaper articles from Serbia and Croatia, primarily from the Croatian newspaper Nacional, which in the period 2001–2002 published dozens of articles on the subject (many of them retold in the Montenegrin newspaper DAN, who published some 60 articles on the topic). The director of Nacional has received death threats from the Montenegrin special police for the magazine’s investigation into this, and gave a lengthy topic-related interview on Croatian TV in mid November 2001. Articles used here have been published in Nacional: issue 287, 17 May 2001; issue 288, 24 may 2001; issue 289, 31 May 2001; issue 290, 7 June 2001; issue 291, 14 June 2001; issue 292, 21 June 2001; issue 294, 5 July 2001; issue 297, 26 July 2001; issue 298, 2 August 2001; issue 299, 9 August 2001; issue 300, 16 August 2001; issue 302, 30 August 2001; issue 306, 27 September 2001; issue 307, 4 October 2001; issue 318, 20 December 2001; issue 331, 21 March 2002. There have also been articles in Bosnian and Serbian newspapers (for example DANI, Nedeljni Telegraph and others).

Looting was also undertaken on an individual basis. In the Knin area in Croatia, where I lived for a year in 1996–1997, I regularly observed Croats from Bosnia looting, and often confiscating, Serbian houses. Looting was also undertaken by Croatian soldiers.

Estimations from SMRI, Belgrade. Interview with Srdjan Bogosavljevic, 26 July 2002.

There has been some change in the post-Milošević period (after 2000), but this will not concern us here. See continuous survey projects by Mladen Lazić and others, thus far, for example Lazić and Cvejić (2005) and Bolzic (2005).

Puhovski (1995) referred to this generally as a problem with the concept “civil society” in a “post-socialist” order. I here wish to contrast the ‘degrees’ of ethno-nationalist organization and its ‘institutional’ formation in what has been perceived as ‘civil society’ within Serbia and Kosovo.
That is the Democratic League of Kosovo (LDK), the Agrarian Party of Kosovo, the Social Democratic Party of Kosovo, the Youth Parliament of Kosovo, the Parliamentarian Party of Kosovo, the Party of National Unity, the Liberal Party of Kosovo, the National Democratic Party of Kosovo, the Independent Trade Union of Kosovo, the Albanian Christian-Democratic Party, the Forum of Albanian Intellectuals and the Green Movement of Kosovo.

The LDK, led by Ibrahim Rugova, was established on 23 December 1989. Its founders mainly came from a background in the communist party. The formation of other parties in Kosovo only came after the LDK had established a dominant position. The majority of the opposition to LDK sprang out of the Association of Yugoslav Democratic Initiatives (AYDI).

This is also why the stance of the international community of “returning the status of the 1974 Constitution to Kosovo” was so unrealistic. The status given in that constitution was in a completely different context to that of a Yugoslavia comprised of six republics and two autonomous provinces with an internal political dynamics where the republics could balance each other out. In a broken up Yugoslavia it would obviously have a quite different meaning.

An independent Kosovo would, according to the official Albanian interpretation, remain outside other Albanian territories. The request for unification, however, was common to all Albanian parties and groups. In 1990 the activities of the Albanians in western Macedonia and Kosovo were politically linked and in demonstrations in Tetovo that year students demanded a “Greater Albania” (Janjić, 1994).

Dr Bujar Bukoshi was named Prime Minister after having been Secretary General of the LDK, of which he was a co-founder. On 23 December 1991 Kosovo applied to the European Union (EU) for recognition as an independent state, but was rejected. Through German pressure the EU came to use the territorial borders of republics as a basis for recognizing states, thereby ignoring minorities within those borders. Macedonia was not recognized due to pressure by Greece. Germany wished to have Slovenia and Croatia recognized as independent and put pressure on other EU members, resulting in a deal made during the Maastricht discussions in December 1991 by which there would be EU unity in recognitions. Greece accepted the recognition of Slovenia and Croatia with the condition that Macedonia was rejected. The UK accepted the approach in exchange for exemptions from the Social Charter, while southern EU states received structural funds during the negotiations.

A useful source from inside the Albanian community is the collection of essays, written throughout the 1990s, by the Albanian philosopher and publicist Skëltzen Maliqi (1998). Through these essays it is possible to trace changes in perception and attitude within the Albanian community. The accounts given by external writers, even if ethnographic field work had been conducted, often utilized these works, for example Kostovićova (1997), as well as interviews, for example Clark (2000).

The statistical picture has been elaborated by statisticians in Belgrade, such as Srdjan Bogosavljević (1994), and by Albanians, such as Hizvi Islami (1994), who often disagree.

This programme pledged that all means would be used to prevent any expression of (particularly Albanian) nationalism and was intended to stimulate the return of Serbs and Montenegrans to the province. This programme came to serve as an ideological/political framework for later laws and measures taken to dismiss Albanians from all public institutions (cf. Kostovićova, 1997; Judah, 2000a, p. 62).

Howard Clark has suggested that there were probably no direct threats or pressure involved, or at least that he did not find any evidence for them, but that there was considerable ‘social pressure’ (see Clark, 2000, p. 241, footnote 36).

An Albanian friend of mine supported his family primarily from income from selling ice cream at a seaside resort in Croatia during the holiday season and there were many Albanians who did similar work in Croatia.

These figures are estimates, with no figures for Kosovo for this period being certain (cf. Maliqi, 1998, p. 241ff.)

Until 1990 over one-third of the deliveries took place without medical assistance, but after 1990 the figure increased (see also Islami, 1994, p. 38).

Southeast European Legal Development Initiative (SELDI) (2002, p. 13). SELDI brings together various government organizations and experts from the different countries of Southeast Europe. Reports can be obtained at www.csd.bg.

Especially reports from: DIA (the Italian Anti-Mafia Directorate), Bundeskriminalamt (the German Criminal Intelligence Agency), Kriminalundersettingen (the Swedish Criminal Intelligence Service), Interpol and Europol. A number of annual situation reports, activity reports and special reports on organized crime or the drug trade are made public (see also SELDI, 2003). By ‘soft sources’
I mean numerous articles in newspapers and magazines. Some UNMIK reports also mention the phenomenon (see also Vickers & Pettifer, 1997; Vickers, 1998).

39 Boutin (2003) and estimates by Interpol, compared with bi-annual activity reports by the DIA (Italian Ministry of Interior) and Ciluffo and Salmoiraghi (1999). Many different reports must be based upon the same original sources, such as Interpol estimates and studies by various national criminal intelligence agencies.

For the following see the various DIA bi-annual reports on activities and results: “Ministero Dell’Interno—Direzione Investigativa AntiMafia: Attività Svolta e Risultati Conseguenti” from 1999 onwards (available in English).

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41 See the DIA report on activities and results for the first half of 2002 (cf. Galeotti, 1995).

41 See the DIA report on activities and results for the first half of 2002 (cf. Galeotti, 1995).

42 See especially the DIA report on activities and results for the second half of 1999, p. 29.


44 For example the DIA report on activities and results for the second half of 1999, p. 29.

45 The source for the following statements on prostitution is the NATO report by Boutin (2003).

46 DIA report on activities and results for the second half of 1999, p. 30.

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47 Compare Galeotti (1995) and Hislope (2001). Hislope provides estimated figures for how much the KLA collected through the heroin trade. He further suggested the figure of US$ 400 billion annually for the total global trade of the whole business.

46 DIA report on activities and results for the second half of 1999, p. 30.

47 Compare Galeotti (1995) and Hislope (2001). Hislope provides estimated figures for how much the KLA collected through the heroin trade. He further suggested the figure of US$ 400 billion annually for the total global trade of the whole business.


49 For example Maliqi (1998, p. 109) mentioned 30,000 asylum seekers, whereas Vickers and Pettifer (1997, p. 152) suggested 100,000 Kosovars in Switzerland (the figure for Albanians might be higher if those from Albania proper are included).


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58 Compare Judah (2000b) and Thaqi (2000). Judah claimed that the KLA was formed by four founder members during a series of meetings in 1993. Hashim Thaqi, one of the KLA’s leaders, claimed that it was formed in 1992. Apparently, several meetings in Macedonia as well as in Switzerland (Zurich) preceded its formation. It should be noted that the KLA was in hiding for some time during the formative years and although claiming responsibility for some killings, the very existence of the organization was denied by the LDK. The LDK sometimes blamed the Serbian security forces for inventing the KLA in order to discredit Albanian non-violent resistance. After 1999 many Albanians came to see the KLA as the liberators of Kosovo or otherwise had reason to avoid discrediting the KLA, and there may be different individual motives for claiming a stake in the organization (or at the time of its foundation, its relevance during its early period, etc.)

59 In 1997 the County Court of Pristina held Adem Jashari responsible for this attack. Jashari organized a separate group, which was later included under the label ‘KLA’. Jashari was eventually killed, along with many members of his clan, in the Drenica massacre on 4 March 1998.


59 The goodwill Rugova received in the West could from his point of view be interpreted as support for the Albanian claims, but strangely enough it was almost as if the Western leaders and diplomats did not believe that he was serious about those claims. They either ignored the meaning of them or believed that they could make Rugova change his mind. Leaving Kosovo out of the Dayton process was necessary in order to obtain any result at all from Dayton, but it immediately transferred the conflict to Kosovo, just as the conflict had been transferred to Bosnia after the international recognition of Slovenia and Croatia (and the invitation to Bosnia to hold a referendum over the issue of independence). By ignoring the region as a whole, and dealing with issues on a case by case, country by country basis, international policy actually stimulated a chain reaction of conflicts in the post-Yugoslav Balkans.

60 The limited space here precludes a discussion of these growing divisions, but gradually the authority of Ibrahim Rugova was undermined, and especially so during 1998, when the USA started to support the most radical factions among the Albanians (i.e. the KLA).

61 Belgrade tried to place the Serbian refugees, who were ethnically cleansed from Croatia and Bosnia, inside Kosovo. Most of these refugees immediately left Kosovo for Serbia (many to Belgrade) since they either did not want to be placed as a minority in a new crisis area or for other reasons saw no future in Kosovo. This left Serbia and Montenegro with close to one million refugees. There were still at this time some 10,000 Serbian refugees in Kosovo. While this was a small number compared with the approximately 1.6 million Albanians, Kosovo was also pressed by the influx of Albanians who had left Croatia and Slovenia when these states opted for independence. These Albanians did not, however, receive the status of refugees and no humanitarian assistance from abroad.

62 Leviçja Kombetare per Clirimin e Kosoves (National Movement for the Liberation of Kosovo).

63 This was largely ignored in Western Europe and the USA. Indeed, as late as 1997–1998, even as small bands roamed Drenica and central Kosovo, there was speculation in western intelligence services and diplomatic circles whether the group really existed (cf. Hedges, 1999), indicating the lack of a capacity in western intelligence services to comprehend the problem.

64 See IWPR (Institute for War and Peace Reporting) Tribunal Update No. 397, 11 March 2005, Institute for War & Peace Reporting, London. The ICTY (International Criminal Tribunal for Former Yugoslavia) indictment of Ramush Haradinaj, who later formed the AAK (Alliance for the Future of Kosovo) party in Kosovo and became Prime Minister in autumn 2004, included charges of murder in relation to these clashes.

65 cf. Magnusson (1999, p. 69), Judah (2000b). Tim Judah mentions Adem Jashari as a known villain, but not directly as a KLA leader. However, as cited in Magnusson (1999, p. 79), the KLA leader Bardhyl Mahmuti stated himself that Jashari was a KLA leader and, furthermore, that it was the KLA that started the war in Kosovo and the Serbian troops that responded. In a booklet by Milan Petković it is claimed that Adem Jashari had received military training in Albania during 1990 and left with the rank of major. After his return to Kosovo he recruited members of his clan, and sympathisers, to a militant resistance group that attacked Serbs. They allegedly also attacked Albanians who did not share the goal of a greater Albania. The group had its base in Jashari’s home village Donji Prekaz in Drenica. In 1997 the County Court in Pristhina held him responsible for, among other things, an attack on a police patrol near Glogovac in 1993. It seems likely that he either first led a quite separate militant group, which was only later incorporated under the banner of the ‘KLA’ or perhaps formed the KLA’s first military units. For further reading see Petković (1998). However, see also the critique of the County Court’s trial proceedings (and the presentation of evidence during them) by the United Nations Special Rapporteur on Human Rights submitted to UNHCHR, Geneva, 1997 (www.hri.ca/fortherecord1998/documentation/commission/e-cn4-1998-9.htm, accessed 3 March 2005). Jashari was eventually considered a ‘war hero’ among the Albanians and after the war in 1999 his house was made into a museum.

66 The command structure and organization of the KLA is still not transparent. The KLA itself has an interest in keeping it so, both because the organization may be used in the future, for example in military operations in Macedonia or against NATO troops if it should be considered an option in the cause of independence, and because the specific command structure is an issue for the ICTY in charging war criminals. On the latter see Farquhar (2004, 2005).
The Contact Group consisted of the USA, Russia, France, the UK and Italy.

Allegedly the ICTY in den Haag has minutes from Serbian sources on a statement made by Perišić to Clark in October 1998 that Serbia could be defeated if it had to confront NATO. Perišić was fired from his post before the next meeting in November 1998 (see IWPR Tribunal Update no. 396, 4 March 2005, Institute for War and Peace Reporting, London). Perišić has himself been called to the ICTY, but any charges against him have not at the time of writing been made public.

Carl Bildt, the former Senior Representative in Bosnia, realized this and repeatedly suggested that pressure had to be exerted on the KLA as well and that international troops should be used to cut off the supply links to the KLA from Albania.

A number of western diplomats and generals later complained about the parallel secret track taken by the USA, which apparently the Europeans were unaware of (see, for example, Loquai, 2000; Pellnäs, 2004). Heinz Loquai (Germany) and Bo Pellnäs (Sweden) are both retired Generals who worked in the KVM mission at the time. Compare also Walker and Laverty (2000). The latter stated that CIA agents had admitted the allegations made by European diplomats.

A number of references to articles in (especially German and French) news media have been collected by Pumphrey and Pumphrey (n.d.) (cf. Loquai, 2000). The claim presented here is that the Serbian troops had killed around 15 KLA fighters, but that the KLA later had collected bodies from elsewhere and arranged them so that it looked like a massacre. There is also the claim that the Serbian troops had brought a television team along and that there was documented evidence of the operation. Tim Judah (2000a, p. 193) has reconstructed a scenario based on the claims of a massacre. Given the extensive propaganda used in cases like these and the heated controversies it still provokes, it is difficult to take a definite position on what actually happened. This incident forms part of the indictment of Slobodan Milošević at the ICTY and a verdict is yet to be reached. For the latest update at the time of writing see Uzelec (2005).

References


In addition to the reference list above, a considerable number of newspaper articles, open intelligence reports, sources and web sites have been used, as specified in the footnotes. Interviews and estimates have been specified in footnotes other than a few single cases where the interviewee has to remain anonymous.