

Article by the High Representative, Carl Bildt: "New Sick Man of Europe"

The events on the streets of Belgrade reflect a crisis in Serbia which could have far-reaching consequences for the stability of the Balkans. The demonstrations, ostensibly about the results of the November 17 local elections, are a manifestation of the deep unease which is becoming stronger throughout Serbian society.

And rightly so. Hardly any country in Europe today faces such a massive and explosive combination of problems. At the end of the last century the declining Ottoman empire was often referred to as "the sick man of Europe". A hundred years later Serbia is the prime candidate for this title.

In view of the central position of Serbia in the Balkan region there is every reason for concern about events there. Serbia needs help in finding its way out of its acute crisis and on to the path of sustained and serious reform. The alternative could be conflicts in the Balkans even bloodier and more brutal than in Bosnia.

The problems are manifold. At the core lies the failure of the President Milosevic's quest for Serbian domination, first of the former Yugoslavia, then of the countries that emerged from the Yugoslav federation.

He began with the search for a greater and more powerful Serbia, using the full force of nationalist rhetoric. He is now faced with a Serbian retreat from its neighbours and a political implosion that leaves his country in a position of weakness seldom seen in its history.

Instead of expanding, Serb power has been contracting. The ethnic cleansing carried out in Croatia and Bosnia and Herzegovina by nationalist Serbs with the backing of Mr Milosevic paved the way for the equally repugnant ethnic cleansing of Serbs from those lands.

As a result, Serbia today is a society with about 600,000 refugees who have been forced to flee their former homes as evil has backfired tragically against them. And in their desperation many will not forget where ultimate responsibility lies.

In the happier days of Yugoslavia the economy of Serbia was powerful by the standards of the communist countries of Europe. Although less developed than the more northern republics of Yugoslavia such as Slovenia, it was still significantly more advanced than many of the economies of central and eastern Europe. It seemed well-positioned to profit from the end of communism.

But the opposite has happened. The combined effects of the past years of communism and sanctions have been devastating. No other former communist country in Europe has done as little in terms of liberalisation and economic reform as Serbia. And to this has been added the stultifying effect of sanctions and the war years.

The economy of Serbia today can be described as a combination of a Mafia and a nomenklatura economy. The years of sanctions produced a sanctions-busting class which reaped great profits from the misery of the country – often combining these activities with paramilitary activities elsewhere in the war-torn former Yugoslavia. But the sanctions hardly affected the nomenklatura, who combined the political power of the Socialist Party with their control of the commanding heights of the old-style economy.

Their activities were financed – without limit – by a banking system which is now hovering on the brink of bankruptcy. The middle class – often the foundation of democratic stability – was forced out of the country or thrown into poverty.

During the sanctions years Mr Milosevic could blame all the problems on the outside world, and did so with an element of success. But with sanctions gone and people seeing no improvement, this is no longer the case.

Every sign points at an imminent financial collapse. A huge wave of imports cannot be financed by secret reserves for much longer. There is an air of desperation about Serbian attempts to get back into the International Monetary Fund to get access to international capital markets.

With money being printed to buy time for the regime beyond control of the leaderless central bank, the currency is

bound to plummet – the black market exchange rate has already started to move in this direction in the past few days. This is likely to trigger another round of hyperinflation with all the social and political consequences. .

Fundamental reform is a necessity. But even under the best of circumstances the road ahead will be long and difficult. The Serbian economy is likely to take at least 15 years to return to the strength it had before wars started – in contrast with Croatia, where perhaps five years might be enough.

To the political and economic problems of Serbia should be added two other difficulties. One is the increasing tensions with restless Montenegro, its partner in what remains of the federal republic of Yugoslavia. Montenegro is keen to go its own way in the modern world, and increasingly reluctant to be dragged down by the crisis of Serbia.

The other is the timebomb of Kosovo, the Serbian province with a large and rapidly growing Albanian population. The president of the Serbian Academy of Sciences created a stir last year with his claim that on present demographic trends there will be more Albanians than Serbs in Serbia as a whole in just 20 to 30 years. Independence for Kosovo might be the only rational option, this man of well-established nationalist credentials said.

Mr Milosevic is refusing to move to solve or defuse the issue of Kosovo. But the longer he refuses to move, the more difficult the situation risks becoming.

Any solution today is unlikely to involve less than republic-type status for Kosovo inside the remaining federal republic of Yugoslavia, on a par with Serbia and Montenegro. But with mounting political divisions in Belgrade there are signs of more assertive voices gaining ground in Kosovo's political circles. The risk is that a combination of civil strife in Serbia and increased tension in and around Kosovo will ignite the powder-keg of the southern Balkans.

The countries of the European Union have few real foreign policy challenges as important as devising policies to prevent a new conflagration in the region and pave the way for long-term stability and integration. But it will require profound political and economic reforms in Serbia and elsewhere in the region if such efforts are to succeed.

Carl Bildt