

Forgotten Intervention?

What the United States Needs to Do
in the Western Balkans

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FOREWORD

The price of U.S. and EU inaction in the western Balkans was amply illustrated in the 1990s, as opportunities for preventive action were squandered and the former Yugoslavia descended into brutal and devastating ethnic conflict, first in Croatia and Bosnia and Herzegovina and later on in Kosovo. As is always the case, military intervention and the need for post-conflict reconstruction consumed significant U.S. resources—far more than the cost of thoughtful and decisive preventive action. A decade and a half later, the United States has another opportunity for preventive action, this time to avert a renewed crisis in Kosovo and achieve progress in Bosnia and Serbia and Montenegro that will help stabilize the region.

This report builds on the Center for Preventive Action’s 2002 Task Force report, *Balkans 2010*. It identifies the principal steps that the United States can take to secure the investment it has made in the western Balkans and facilitate the region’s progress toward its rightful destiny within the EU. In doing so, *Forgotten Intervention?* lays out a straightforward and doable strategy for the United States that will pay dividends.

Richard N. Haass
President
Council on Foreign Relations
June 2005

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MAP OF THE WESTERN BALKANS



INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

In 2002, the Center for Preventive Action published *Balkans 2010*, a Task Force report that laid out a vision for a stable, peaceful western Balkans (comprising Croatia, Serbia and Montenegro, Bosnia and Herzegovina, Macedonia, and Albania) and identified the requisite objectives and milestones to achieve that vision.¹ Many of the report's recommendations remain valid today, particularly the need to strengthen democracy and the rule of law, dismantle politico-criminal syndicates, and promote economic reform and development.

Since 2002, Croatia, Bosnia and Herzegovina, and Macedonia have all seen encouraging progress in many areas; elsewhere and in other respects, the situation has stagnated or deteriorated. The ongoing uncertainty over final status has increased tensions in Kosovo, fueling Serbia's political turmoil and threatening to destabilize the entire region. The momentum for reform in Serbia, at its zenith in early 2003, has flagged since the assassination of Prime Minister Zoran Djindjic. Despite progress on reforming and unifying its military and intelligence services, Bosnia faces a situation of mounting urgency to tackle its ineffective and inefficient governance system.

These problems, combined with the region's weak rule of law, corruption, and lax border controls, create an environment in which criminal networks, political extremism, insurgency, and terrorism can develop. Such conditions undermine tenuous political stability in the region, have adverse consequences for Europe, and pose a serious threat, both directly and through their effects on European stability, to U.S. national security concerns as articulated in the National Security Strategy.

While the region continues to affect U.S. interests and the situation there has become arguably more dangerous since 2002, it is at the same time lower on the list of U.S. foreign policy priorities. More immediate U.S. security concerns, including Iraq's stabilization, the nuclear challenges of North Korea and Iran, and the "global war on terror," rightfully eclipse those in the western Balkans. The European Union's (EU)

¹ See *Balkans 2010* (New York: Council on Foreign Relations Press, 2002). A summary of the report's recommendations can be found in the Appendix of this report.

growing confidence in handling security matters and the progress of countries such as Macedonia and Croatia toward EU integration also reinforce the sense that the region can now be safely entrusted to the EU, as shown by reduced U.S. commitments in troops and aid.

It is appropriate and positive that the primary burden for the Balkans has shifted to Europe, and an encouraging indicator of the success of transatlantic collaboration in this arena. However, there are signs that some individuals in the United States equate reducing the U.S. role with handing over responsibility entirely, an approach that will damage U.S.-European relations and, more important, hurt U.S. interests in the region. Current conditions require more active efforts to prevent a crisis in Kosovo that could undo years of international efforts to create conditions for lasting peace, and they require more effort to take advantage of windows of opportunity to push for important progress in both Bosnia and Herzegovina and Serbia and Montenegro at relatively modest cost. In this respect, the recent announcement by Undersecretary of State for Political Affairs R. Nicholas Burns that the United States will step up its efforts to promote resolution of Kosovo's final status is welcome. This report argues for deeper involvement on this and other issues in the region.

SUMMARY OF RECOMMENDATIONS

This report does not call for making the western Balkans a top U.S. priority. Rather, it calls on Washington to extricate the western Balkans from what has been called the “diplomatic underbrush” of neglected U.S. interests.² We do not advocate that the United States address all problems in the region, since available U.S. resources, both financial and political, are limited, and it is sensible to focus on issues where the United States has leverage and can play the most useful role. The report outlines a strategy for the United States in 2005–2006 to achieve certain critical and timely aims that will create space for further progress and hasten the region's movement toward EU integration—and, hence, facilitate eventual U.S. withdrawal.

² Glenn Kessler, “Bush Has Plan to Act on the Status of Kosovo,” *Washington Post* May 17, 2005, p. A15.

Though this report is primarily aimed at influencing U.S. policymakers, most of the recommendations require a concerted approach on the part of local and international actors, principally the EU and the UN. In addition to undertaking specific recommendations, the United States should actively promote the agenda this report lays out for the international community.

- *Stay Involved in the Western Balkans.* Although the broader U.S. objective is to pull out of a secure and stable region, a precipitous withdrawal of assistance will undermine stability and ultimately be counterproductive. Instead, the United States should continue to provide support for a greater EU role and promote the region's integration into the EU, which provides the best framework for securing political and economic stability in the long term. The United States should also restore economic and democratization assistance to 2002 levels, and maintain U.S. forces on the ground.
- *Identify and Promote a Viable Solution for Kosovo's Final Status.* Finding a settlement acceptable to all sides will be difficult and will require an active U.S. role to establish a consensus on the specifics of final status, prepare the environment in Serbia and provide political cover for Belgrade, create a credible process, and implement a solution.
- *Promote Governance Reform in Bosnia and Herzegovina.* Bosnia will not be a sustainable state as long as it maintains its current ineffective and inefficient government institutions. Reducing the cost of the public sector, reforming government structures within Bosnia's two entities, and making specific changes to the constitution introduced by Dayton will facilitate effective governance as the international community hands over greater sovereignty to local politicians.
- *Promote Further Reform of Serbia and Montenegro's Security Sector.* The chief obstacle to Serbia and Montenegro's progress on EU accession continues to be lack of compliance with the International Criminal Tribunal for the former Yugoslavia (ICTY). Serbia and Montenegro's ICTY compliance is in large part held back by nationalist elements in the security sector, including the military, intelligence, and

state security services. While some progress has been made on reforming these structures, the United States has an important role to play in encouraging and assisting further reform.

This report focuses on countries that were formerly part of Yugoslavia. Although not specifically covered, Albania faces many of the same challenges as the rest of the region, principally in corruption and governance, forging a consensus on EU integration, and economic reforms. It will continue to need external assistance to secure economic and political progress, particularly with parliamentary elections being held in July 2005.

A REGIONAL APPROACH

The increasing movement of the western Balkans toward integration into the EU reflects improvements over the past two and a half years. However, this encouraging progress in economic and political reforms, security, and regional cooperation is offset by a number of less favorable indicators. The ethno-nationalist politics and tensions that dominated the 1990s have lessened but not disappeared. Civil society remains weak and democracy is taking time to consolidate, making it easier for extremists to manipulate the political discourse. Though economic growth rates have generally improved, economic development and prosperity remain elusive. Unemployment is uniformly high, and economies suffer as a result of political instability, corruption, organized criminal networks, and incomplete market reforms, all contributing to a poor investment climate, weak productive capacity, and widening trade deficits. Meanwhile, international aid flows continue to diminish.

Performance also varies greatly, with certain countries lagging behind and threatening the sustainability of others in the region. Croatia and Macedonia remain the only two countries that have signed a Stabilization and Association Agreement (SAA) with the EU, representing a formal commitment to EU accession. For the others, overcoming the remaining obstacles—including difficult economic and political reforms and handing over war criminals to the ICTY—will not be easy, particularly while tangible rewards remain out of reach. And while incremental progress has been made on reforms, the region's most striking pattern is the persistence with which structural factors—particularly the ongoing uncertainty surrounding Kosovo—continue to shape political events and pose serious threats to security and stability.

Even Croatia and Macedonia, the two countries furthest along the path to EU accession, call for continued vigilance to ensure their progress is secured. In March 2005, the EU foreign ministers correctly decided to delay Croatia's accession negotiations until indicted war criminal Ante Gotovina is sent to The Hague. The government has reversed some unpopular economic reforms and has withdrawn support for nongovernmental organizations (NGOs) promoting democratic principles. Amid social and economic

difficulties caused by EU reforms, there is a risk that Gotovina's capture may generate support for new nationalist parties. Macedonia has made progress in resolving interethnic tensions since the 2001 conflict and the signing of the Ohrid Framework Agreement in August of that year, and the government is committed to European accession. However, inter-communal tensions resurfaced last summer when ethnic Macedonians rioted over local government reforms that granted greater representation to ethnic Albanians. Events in Kosovo will place further strain on ethnic relations within Macedonia. Local elections in March, a critical aspect of Ohrid-mandated decentralization, were marred by irregularities, and EU accession requirements will seriously test the capacity of Macedonia's new municipal governments. Macedonia faces severe economic problems, and the lack of resources is the greatest threat to successful decentralization.

The problems of the western Balkans have real implications for U.S. national security. The National Intelligence Council identifies the Balkans as a hub of illicit trafficking of drugs, women and children, and illegal immigrants. The organized criminal networks that profit from these activities threaten to undermine these fragile states.³ These groups flourish in an environment characterized by weak rule of law and corruption across the region. The possibility of renewed conflict in Kosovo and accompanying regional destabilization could create an even more fertile environment for such problems. Poor handling of the situation by the international community will provoke an increasing resentment of the West and a renewed, and loud, call for U.S. action, which will be much more costly than taking decisive action now.

Projected U.S. assistance for the western Balkans in 2005 is \$264.4 million, a more than 40 percent decrease from the \$441.77 million provided in 2002. The biggest decreases are for Bosnia, which has seen a 65 percent cut to \$23.4 million, and Croatia, where funding has fallen over 50 percent to \$20 million, and where the U.S. Agency for International Development (USAID) is scheduled to complete its assistance program in

³ See *Global Trends 2015*, http://www.cia.gov/nic/PDF_GIF_global/illicit_trafficking.gif; and "Criminal Organizations and Networks," at http://www.cia.gov/nic/NIC_globaltrend2015.html#link11b. See also Alice Hills, *Border security in the Balkans: Europe's gatekeepers*, Adelphi Paper 371 (New York: Oxford University Press, 2004), pp. 13–24.

2008.⁴ U.S. troop deployments now stand at 2,115, just over a tenth of their 1996 height of almost 20,000.

To a large extent, this signals the success of international intervention in the western Balkans and Europe's growing capacity to deal with the region's problems, which has vastly improved since the devastating events of the 1990s. The Stabilization and Association process (SAP), launched in 2000 to promote EU accession for countries of the Balkans through political and economic reforms, provides the best framework for securing the region's political and economic stability. With consolidation of its security structures, particularly the Common Foreign and Security Policy, and the 2004 enlargement into central and eastern Europe, the EU has gained confidence and capacity in dealing with the region. The EU has made it clear that it sees the region's future in Europe: as of August 2004, all countries in the region are handled by the EU's enlargement commissioner, rather than the commissioner for external relations. The United States and other countries are increasingly turning to the EU to provide active leadership on the political front, and donors routinely direct assistance in support of EU accession goals.

In light of these welcome developments, it is easy to understand why so many Americans believe that the United States can and should hand over full responsibility for the region to the EU. However, while EU accession is a powerful incentive for reform, the countries of the western Balkans have a long and difficult road to go before this becomes a reality, and need to make wide-ranging reforms to meet EU standards. In the meantime, they will need assistance to solidify gains made to date and to ensure that progress on unpopular social and economic reforms does not stall. These countries receive less EU assistance and benefits than they would as candidate or accession countries, but the EU is limited in the extent to which it can hasten accession. It has its own limited economic and political capacity to absorb new and poorer members so soon after the 2004 expansion.

In the face of the ongoing threats described in this report, there is a danger that the United States is withdrawing too rapidly and handing over responsibility to an EU that faces its own constraints in the assistance it is able to provide. This could lead to a

⁴ See USAID country profiles at www.usaid.gov/locations/europe_eurasia/index.

vacuum of political leadership that will undermine U.S. foreign policy goals. Washington has historically played a crucial role in bringing stability to the region, notably in bringing an end to the Bosnian war, intervening in Kosovo in 1998–99, and in peacemaking in Macedonia. The United States possesses unmatched credibility due to the success of its previous missions, and it has significant clout in the form of “carrots” such as economic assistance and eased visa regimes. Moreover, the United States has a crucial role in following through on policies that it initiated, sometimes against European preferences. These policies only have credibility as long as the United States remains politically committed to them in a visible way. Ambassador R. Nicholas Burns said this in his recent congressional testimony: “We need to finish the work of ending the divisive strife that has prevented the countries of the Balkans from advancing politically and economically in line with their European neighbors.”⁵ His announcement that the United States will devote efforts to finding and implementing a durable solution for Kosovo is a welcome start, but this renewed energy must represent a commitment to advancing solutions for the region as a whole.

RECOMMENDATION: STAY INVOLVED IN THE WESTERN BALKANS

With the threat of terrorism looming large for the foreseeable future, the existence of strong and stable states in the western Balkans, states with the ability to police their borders and control organized crime networks, is more important for U.S. national security than it was in the 1990s. Though it does not have to be involved in every aspect of political and economic transition, the United States cannot afford to neglect the western Balkans. Instead, it should take advantage of its unique influence to promote those recommendations in this report that will help secure the investments of over a decade and hasten the region’s progress toward the EU, and an end to the need for U.S. involvement.

⁵ Ambassador R. Nicholas Burns, testimony to the House Committee on International Relations hearing on “Kosovo: Current and Future Status,” May 18, 2005, at http://wwwc.house.gov/international_relations/109/bur051805.pdf.

While this may seem an onerous task for the United States to take on, the payoff will be high, particularly if a settlement for Kosovo can be found by mid-2006, since patience in the region and in the international community is not infinite. Kosovo and Serbia can then begin to normalize their relations and focus on EU integration. Without U.S. involvement, the prospects for a reasonable outcome are much lower and an unstable Kosovo or a turbulent Serbia will continue to hold back the region and demand U.S. attention.

Maintain U.S.-EU Cooperation

Intervention in the western Balkans in the past decade and a half shows that the United States and Europe achieve their goals best when working together. This affirms the importance of maintaining U.S. involvement even as the EU deepens its role. In addition, the western Balkans provides a welcome platform for U.S.-European cooperation. Conversely, a premature U.S. departure, on the assumption that the EU can manage the transition entirely on its own, would prove highly detrimental to the region and for U.S.-European relations.

The United States should continue to provide support for integrating the region into the EU. The EU provides a powerful stabilizing force and motivation for change, but progress on accession cannot be realized without U.S. support. The United States must recognize the constraints on EU integration arising from internal EU restrictions and from conditions on the ground, and commit to helping countries of the region overcome these constraints.

Restore Economic and Democratization Assistance to 2002 Levels

The dramatic decline in U.S. assistance across all sectors suggests an underestimation of the difficulties involved in EU accession and of the limitations of EU assistance, which tends to focus on achieving specific EU accession goals, and which will not fully materialize for several years. Given that many of the region's problems are associated with insufficient political development, and that local civil society organizations have been among the West's most valuable allies in consolidating democracy, the role that U.S. assistance fills in promoting democracy is particularly important. Furthermore,

USAID fills an important niche with its ability to respond flexibly to needs as they arise on the ground. To demonstrate its commitment, the United States should restore annual funding for assistance programs in the western Balkans to \$440 million, the 2002 level of assistance.

Maintain U.S. Forces on the Ground

An episode of violence could prove catastrophic at this delicate time: unrest needs to be prevented or quickly quelled. Although the EU's assumption of most of the peacekeeping burden is welcome, the United States should keep its current commitment of approximately 1,800 troops in Kosovo and about 250 troops in Bosnia. A U.S. rapid reaction capacity of up to a brigade size should be maintained in case Kosovo negotiations produce violent reactions that threaten to overwhelm NATO and EU peacekeeping forces. This is not overly demanding and provides opportunities for conducting joint operations with allies.

Assist in Maintaining Momentum on EU Integration

In addition to increasing assistance to all countries in the region, the United States can provide critical support to Macedonia's EU integration. This can be achieved by fully funding USAID's local government capacity-building programs.

KOSOVO

Kosovo is the highest priority and biggest challenge for 2005–2006. It continues to be the most troubled area in the region. The March 2004 riots involving Kosovo's Albanian community illustrated the volatile situation there. Despite widespread concerns over rising tensions, the UN Interim Administration Mission in Kosovo (UNMIK) and NATO's Kosovo Force (KFOR) were ill-prepared to deal with the violence, damaging UNMIK's already shaken credibility and undermining confidence in the international community's presence in Kosovo and the region. The riots further escalated tensions between Kosovo's Albanians, who understandably demand independence, and Kosovo's Serb community, which rightfully seeks protection of Serb human rights and the assurance that Serbs can safely live in Kosovo. The episode cemented the deadlock in negotiations between Kosovo's government and Belgrade, which is adamantly opposed to independence. It came as little surprise when Kosovo Serbs boycotted the October elections. With the notable exception of Serbian President Boris Tadic, Belgrade discouraged Kosovo Serbs from voting, a move that several Serbian politicians have since acknowledged to be a mistake.

There has been some progress. Soren Jessen-Petersen, appointed as UN special representative of the secretary-general (SRSG) in June 2004, is a popular figure and has helped improve UNMIK's image. More important, former commander of the Kosovo Liberation Army Ramush Haradinaj played a largely positive role during his short term as prime minister. His concessions to Kosovo's Serb population, including his government's February 2005 proposal for a pilot project to decentralize municipalities, set a precedent for constructive engagement between the parties in Kosovo and for other nationalist leaders in the region. Above all, his resignation as prime minister and surrender to the ICTY upon being indicted for war crimes in March set a positive example for other indicted war criminals. His appeal to his supporters to remain calm helped prevent uprisings. Kosovo's government handled the transition to another prime minister effectively, providing a welcome sign of growing political maturity.

While these are positive developments, negotiations on Kosovo's final status need to begin. The 2002 "Standards before Status" framework, initiated by then-SRSG Michael Steiner to identify benchmarks for progress across areas, including functioning democratic institutions, rule of law, freedom of movement, sustainable refugee returns and protection of minority rights, and a competitive market economy, was well-intentioned. However, "Standards before Status" has come under attack for making unrealistic demands in a short time frame. Uncertainty over Kosovo's political status has precluded meaningful progress on many of the standards and has inhibited efforts at privatization and economic development. Meanwhile, Kosovo remains a fertile environment for criminal networks, trafficking of goods and people, and extremist sentiment. While the international community cannot be held hostage to the specter of Albanian unrest, March 2004 was an indicator of Kosovo Albanian frustrations with the province's sluggish political development and deteriorating economic situation. Conditions will not improve while Kosovo's future hangs in the balance, and each side fears an outcome that will diminish its communal security. The ability of disruptive elements to exploit these anxieties and frustrations creates continued potential for violent uprisings. Meanwhile, the ongoing constitutional and territorial uncertainty surrounding Kosovo also hampers political progress in Serbia. It fuels nationalism and resentment of the West and constricts moderate political discourse.

The new U.S. plan backs the UN taking the lead. After a review of standards over the summer the UN would appoint a European envoy with an American deputy to lead status talks. This process would involve dialogue between Belgrade and Pristina, with a role for all of Kosovo's communities. Instead of taking a position on what Kosovo's final status should be, the U.S. plan lays out a series of principles that must be respected, including respect for human rights, protection of minorities, no change in Kosovo's boundaries, and stability.⁶

The recommendations below offer an alternative U.S. strategy for resolving final status in a way that promotes regional stability. The United States needs to actively promote this agenda, since progress on an issue of this complexity depends on the international community having a clear plan and sticking to it. With doubts over the UN

⁶ R. Nicholas Burns congressional testimony, May 18, 2005.

and Europe's credibility to drive the process alone, decisive U.S. leadership and diplomacy will be indispensable.

RECOMMENDATION: IDENTIFY AND PROMOTE A VIABLE SOLUTION
FOR KOSOVO'S FINAL STATUS

What Kosovo's final status might look like is the focus of intense debate, though there is international consensus on several points. A return to rule from Belgrade, even with substantial autonomy for Kosovo, is unworkable. Kosovo would be ungovernable from Belgrade, and it would continue to destabilize Serbia. EU foreign ministers are agreed on this point, and many in Belgrade accept that the situation on the ground precludes this option.⁷ Partition of Kosovo along ethnic lines is uniformly rejected by the West as a matter of principle and practicality. Almost two-thirds of Kosovo's approximately 130,000 remaining Serbs live in rural enclaves south of the Ibar River in majority Albanian areas, making partition impossible without large-scale movements of people—a prospect antithetical to U.S. goals in the 1998–99 intervention.⁸ It is also agreed that Kosovo cannot attempt to join with Albanians in Albania, southern Serbia, or Macedonia to create a greater Albanian state.

There are also widely held misgivings over the prospect of independence. The most obvious problem is Belgrade's understandable opposition, based on Kosovo's iconic importance to Serbian national identity and concern over the fate of Serbs living in Kosovo, whose association with Belgrade's repressive policies in the past makes them reviled by Kosovo Albanians. Other concerns include doubts over Kosovo's economic viability as a state; the inability of Kosovo's institutions to govern effectively; and the danger of establishing a precedent for other secessionist groups in Republika Srpska, Macedonia, and Montenegro. What the debate often lacks is an exploration of the options for final status that lie between complete independence and rule from Belgrade.

⁷ "Poll says Serbs believe Kosovo is lost," Matthew Robinson, Reuters Foundation Alertnet, January 27, 2005.

⁸ Two-thirds of Kosovo's pre-war Serb population of 194,000 remains there, just under 10% of Kosovo's population of 2 million. See *The Lausanne Principle: Multiethnicity, Territory and the Future of Kosovo's Serbs* (European Stability Initiative, Berlin/Pristina: June 7, 2004), pp. 6–7.

Independence with conditions attached and a carefully structured state arrangement provides the best chance of addressing the concerns outlined above. It is the most viable outcome for Kosovo, a fact increasingly acknowledged, if not openly, by observers and policymakers on both sides of the Atlantic.

Whatever final status is negotiated, no solution will be easy to implement. A united international community position will be required to enforce a solution in the face of opposition and attempts by spoilers to derail the process. Kosovo itself will continue to face huge challenges. Long-term economic growth is possible only with constitutional certainty, but in the short term, there is little prospect for economic progress without sustained external assistance.

Prepare the Environment in Belgrade and Kosovo

The United States, together with the EU and the six-member Contact Group of nations that have played a role in stabilizing the Balkans, must prepare the respective sides for compromise by continuing to manage expectations and communicate likely outcomes and scenarios.

Though Belgrade's constructive engagement is preferable, the chances of this are low, given the likelihood that Kosovo's final status will involve independence. Negotiations requiring Belgrade's agreement will be problematic and endlessly delayed. Political leaders within Serbia would be damaged by close association with an unpopular agreement. The UN, the EU, and the United States must therefore be prepared to take the settlement out of Belgrade's hands and make Kosovo's independence a *fait accompli*. Though Belgrade will be opposed, there are degrees of opposition from violent to nominal, and the international community can make it easier for Belgrade to acquiesce to a settlement. The international community can take into account constituencies that perceive the settlement as unfair and incorporate a mitigating strategy into its approach, carefully communicating the benefits of independence for all sides and the fact that Serbia will be rewarded for its compliance.

- *Provide political cover for Belgrade.* To make it easier for Belgrade to acquiesce to a settlement, the UN, EU, and United States need to guarantee full protection for

Kosovo's Serb community and religious and cultural sites and compensate those who have been displaced and choose not to return (a provision that would be extended to Kosovo's other minorities). The UN, the EU, and the United States can also offer compensation to Serbia for loss of its territory with economic aid. Writing off some of Serbia's international debts is a potential incentive. Also, Kosovo can be required to take on part of Serbia's debt.⁹

- *Create incentives for cooperation.* Serbia should be given inducements for good behavior, including a promise from the EU of candidacy status as soon as 2006. The United States should assist by helping Serbia meet the EU's conditions, stipulated in the recent Feasibility Report approving negotiations for an SAA. Clearing remaining hurdles to an SAA will strengthen the incentive of EU accession, indirectly supporting peaceful resolution of Kosovo's final status and helping reformist arguments before Serbia's parliamentary elections.

Create a Credible Process and Secure International Community Support

An appropriate framework and timeline is needed for negotiating and implementing final status. Progress has begun. The UN has appointed Norwegian diplomat Kai Eide as its envoy to review standards, a process that should be completed by late summer. The uneven record of the UN in Kosovo, however, suggests it should not handle negotiations; the process needs to be driven by powers with greater credibility and diplomatic pull. UN Security Council Resolution (UNSCR) 1244 requires that the responsibilities of the international civil presence (UNMIK) include "facilitating a political process designed to determine Kosovo's future status"; this does not require that the UN conduct the process or have control over the people running it. Nor must it decide on final status. Following the model of Macedonia's Ohrid agreement, which came about through U.S.- and EU-appointed special envoys with the UN's blessing, Kosovo's final settlement process could be led by two independent high-level envoys, one European and one American, on an equal footing. These envoys would be responsible for proposing a solution for final status, based on extensive consultation with the involved parties in Kosovo and Belgrade.

⁹ See *Kosovo: Toward Final Status*, International Crisis Group Europe Report No. 161, January 24, 2005, pp. 24–27.

They would be supported by a UN Security Council resolution granting them autonomy and establishing basic ground rules (to include no partition, no union with Albania or with Albanians living elsewhere outside Kosovo's borders, guarantees of territorial integrity, and protection of minority rights). If the UN Security Council refuses to grant the necessary mandate (if, for example, Russia or China should veto it), the United States and the EU should appoint envoys, with the stated intention of consulting with the parties in order to prepare a joint U.S.-EU solution on Kosovo's final status.

Establish a Consensus on the Specifics of Final Status

The United States, the EU, and the UN should establish a consultative review commission to formulate the options and recommend the best structure for Kosovo's final status. Kosovo's electoral system and legislative bodies can be structured to ensure representation of minority groups. Europe contains numerous precedents of national minorities enjoying special protection and of countries being able to guarantee rights of their co-nationals living as minorities in other countries.¹⁰

The current U.S. position not to advocate any specific outcome for Kosovo's status talks is understandable, but at some point the United States will have to back an outcome that best promotes the principles it espouses.

The solution likely to emerge is a conditional independence with close monitoring by international community-mandated institutions outlined below. While Kosovo Albanians should be assured that independence is obtainable if certain conditions are met, the degree and timeline of Kosovo's independence will depend on Kosovo Albanians protecting minority rights and improving governance. Inducements for good behavior on the part of Kosovo should be built into the independence settlement, to include timetables for expansion of local responsibilities, increased foreign assistance under more favorable terms, and progress on EU integration. Monitoring and enforcement mechanisms (e.g., international judges and prosecutors to protect minorities, and close oversight of policing) will be necessary. While the UNMIK mission will end, some kind of successor

¹⁰ The redrawing of Europe's borders after the 1920 break-up of the Austro-Hungarian Empire resulted in numerous members of national groups becoming citizens of neighboring countries, and useful precedents for protection of minority rights. German-speaking Tyrolians, constituting two-thirds of the population of Italy's South Tyrol region, enjoy substantial local autonomy and other benefits such as hiring quotas. The 1955 Austrian State Treaty provided protection for Austria's Croat and Slovene minorities.

international mission, probably under EU auspices, will be needed. Discussions between Pristina and Belgrade to resolve technical issues will need to continue with U.S. and EU oversight. NATO forces will have to remain for at least five years.

Although this is a regime of limited sovereignty, these limits will be more acceptable to Kosovo Albanians since they come from the international community and not Belgrade. When Kosovo joins the EU, it will step into a web of obligations, norms, and supranational institutions that will regulate issues traditionally protected by sovereignty, like the European Court of Human Rights. Under the conditions of independence proposed here, Kosovo will operate under constraints consistent with evolving European notions of sovereignty.

Ensure Stability and Implement the Agreement

There is a very real potential for violence, and the United States must be prepared to deal directly with this possibility. Resistance to a settlement may come from either government or constituencies among the populations. Insurgency movements could develop on either side. In any case, rejection of the solution is unacceptable. While a solution enforced by external actors is not preferred, it is better than a continuation of the status quo.

Therefore, the United States must maintain a rapid reaction capacity as part of NATO forces, since an outbreak of fighting will require a strong U.S. response. Equally important is the judicious use of diplomatic pressure and coercion, including the threat to withhold economic development assistance to either Pristina or Belgrade should they reject a settlement. Most importantly, incentives for accepting a settlement should be directed to benefit multiple recipients, including government development programs, civil society organizations, and organizations providing services to refugees and small and medium enterprises.

In addition, the UN, the EU, and the United States should continue to encourage and reward constructive dialogue between Kosovo's Serb and Albanian communities. Lastly, monitoring and enforcement mechanisms must be used to ensure that the solution is implemented effectively and all parties are held accountable by the EU, and to a lesser extent, the United States.

BOSNIA AND HERZEGOVINA

In important respects, Bosnia has made more progress in the past two years than many thought possible. Significant advances have been made in military and intelligence reform. In late 2003, the separate armies of Bosnia's two Serb and Bosniak-Croat entities were unified to form a single state army. In 2004, their intelligence services were also unified, and a single police force is planned for 2005.¹¹ Security is improved: only 7,000 peacekeeping troops remain (compared with 60,000 in 1996), and the December 2004 handover of the peacekeeping mandate from NATO to the EU was successful. Although economic recovery continues to be weaker than expected, economic growth and foreign direct investment are up. Progress is being made on important issues such as implementing the statewide sales tax. In summer 2004, refugee returns passed the million mark and nationalist discourse shows signs of moderating. In late 2004, the Republika Srpska admitted Bosnian Serb responsibility for the 1995 Srebrenica massacre and publicly apologized. Several indicted war criminals have recently surrendered to the ICTY.

Still, Bosnia's political and economic development needs remain significant. Bosnia's progress can be ascribed in part to the May 2002 appointment of Paddy Ashdown as high representative and EU special representative. Lord Ashdown has emphasized implementation of the 1995 Dayton Peace Accords and the importance of rule of law and a strong state. He is best known for making frequent use of the Bonn powers to dismiss obstructionist politicians.¹² The necessity of these dismissals raises serious questions about the ability and responsible behavior of Bosnian politicians.

Bosnia faces severe structural problems as it strives for full, sustainable self-governance. The flawed constitution born of necessity at Dayton installed numerous layers of bureaucracy, including cumbersome ethnic allocations of power and multiple governance structures at the state, entity, cantonal, and municipal levels. These layers

¹¹ On May 30, 2005, the Republika Srpska parliament voted to reject the police reform package that would pave the way for a state-wide force, bringing into question, among other issues, Bosnia's progress toward EU integration.

¹² At its December 1997 meeting in Bonn, the Peace Implementation Council gave the high representative the authority to make interim decisions when the presidency or council of ministers was unable to agree in a way consistent with Dayton, and to take measures against officials violating Dayton.

make government dysfunctional and often non-accountable and constrain Bosnia's progress on EU integration. Bosnia's two entities and the ten cantons in the Bosniak-Croat Federation operate parallel systems and institutions, giving Bosnia multiple ethnically based universities, two pension systems, and twelve healthcare systems. The bloated and expensive public sector poses an unsustainable financial burden on the state and holds back economic development, consuming 54 percent of gross domestic product (GDP).¹³ Of this figure, 67 percent pays for salaries and benefits rather than services. Bosnia simply cannot afford its current institutional arrangements.

The next six months will be important for progress in Bosnia, with opportunities to open SAA negotiations with the EU and join NATO's Partnership for Peace program (PfP)—provided progress is made on difficult governance and economic reforms.¹⁴ The current high representative will step down in November 2005, perhaps to be succeeded by a final high representative who will probably serve a shorter term with more limited powers. If Bosnians can achieve full self-governance by the November 2006 elections, the Office of the High Representative in Bosnia and Herzegovina (OHR) would revert to an EU special envoy. This would represent the most significant change in the international architecture in Bosnia since Dayton, putting complete sovereignty back in the hands of Bosnians themselves.

RECOMMENDATION: PROMOTE GOVERNANCE REFORM IN BOSNIA AND HERZEGOVINA

Progress on governance is a major issue that the United States can promote now at little relative cost. Taking action this year will prevent greater problems from emerging in the future. An achievable goal for 2005–2006, outlined below, is to promote reforms that rationalize and streamline Bosnia's governing framework in order to reduce the financial burden of the public administration and to enable Bosnia to be governed in a way compatible with EU standards. Europe has voiced its strong support for a program of reform similar to the one outlined here, and there is growing recognition within Bosnia

¹³ World Bank Country Assistance Strategy for Bosnia, August 12, 2004, p. 15.

¹⁴ See the Stabilization and Association Report 2004, at http://europa.eu.int/comm/external_relations/see/sap/rep3/cr_bih.pdf.

that the multiple layers of government are no longer necessary for the protection of ethnic interests.¹⁵ Consensus between the three parties might be achieved on the reforms advocated here.

Promote Realistic Reforms Not Requiring Changes to Dayton

Many important reforms can be made without politically difficult changes to the Dayton constitution. While some argue that the unsustainable size of government provides a useful “back door” into the constitutional debate, public sector spending must be cut as soon as possible. It cannot wait for a constitutional debate that will take time to play out.

- *Reduce the Cost of Public Administration.* Reduce government spending by cutting back on disproportionate public sector salaries and parallel institutions. There will be institutional opposition, which the international community can overcome by making some assistance conditional on Bosnia adopting these reforms and keeping public sector spending below a set cap. Reductions must be achieved by cutting back on public administration costs rather than social spending in the form of benefits, which provide an important safety net for the 50 percent of Bosnians who live below or just above the poverty line.
- *Eliminate Unnecessary Non-Dayton Government Structures.* Many non-Dayton structures contained in the entity constitutions should be eliminated, primarily the expensive and cumbersome entity- and cantonal-level government structures, which constitute a significant financial burden particularly in the Bosniak-Croat Federation.¹⁶ Realistic goals include eliminating the ten cantons or reducing their number and rationalizing their role to administrative units; eliminating some entity-level structures including the Federation House of Peoples and the Republika Srpska Council of Peoples; and eliminating the entity presidencies.

¹⁵ See the Council of Europe Venice Commission’s *Opinion on the Constitutional Situation in Bosnia and Herzegovina and the Powers of the High Representative*, March 11, 2005.

¹⁶ The Federation government, created in the 1994 Washington Agreement, includes a federation presidency, House of Representatives, House of Peoples, sixteen ministries, ten popularly elected Cantonal Assemblies, and municipal councils. Republika Srpska has a presidency, National Assembly, sixteen ministries, a Council of Peoples, and municipal councils. The state-level government consists of a rotating presidency, council of ministers, House of Representatives, and House of Peoples.

Promote Limited Changes to the Dayton Constitution

Though highly contentious, reforms have been achieved on some Dayton structures, particularly in the intelligence and military services, and it is becoming easier to conceive that further changes could be negotiated. The United States should strongly push for realistic changes to Dayton. There has been encouraging talk of abolishing certain mechanisms of ethnic allocation of power, such as replacing the rotating presidency with single nationally elected presidents of alternating ethnicity serving two-year terms; making similar progress on ministerial positions; and abolishing the House of Peoples, a measure which would not damage ethnic interests so long as ethnic groups and the entities can exercise a veto in the House of Representatives. Reforming, strengthening, and developing more competencies for the state government is also necessary if Bosnia is to proceed with EU integration and qualify for EU funds. Such a move would involve making the Council of Ministers a real government and transferring many of the roles currently performed by the entities and cantons (e.g., health, agriculture, and education) to the central state government. Other desirable reforms include changing the way parliament is elected, so that members are more directly accountable to their electoral constituencies.

Create a Process for Constitutional Reform

The November 2006 elections provide a realistic milestone for the governance reforms proposed here. While Dayton contains a process for amending the constitution, in the past reforms have had to be imposed by the high representative. Ideally, ten years after the war's end, these changes should be mandated by Bosnians themselves. The international community's role in the process should be to encourage change by confronting Bosnians with the reality that governance and constitutional reform are necessary and will bring tangible benefits. These changes are subject to certain inviolable ground rules, such as Bosnia's territorial integrity and the protection of all ethnic groups. The international community can also create momentum by making preparatory steps and channeling constitutional reform debates into an effective process.

OHR could create a working group to redraft the constitution, but the process itself should be a broad and participatory public process. Ultimately, it will be necessary for OHR, along with the EU and the United States, to strongly back changes.

Political leadership to advance the agenda has been lacking to date. The United States has an important role to play—at very little cost—by articulating its support for the agenda outlined above. While the main international players will logically be the European Commission (EC) and OHR, given that Dayton is a U.S. product, only public U.S. action in support of these changes and an explanation of why they are necessary makes them credible. In addition to political leadership, the United States should offer practical assistance, to be channeled through organizations such as the National Democratic Institute (NDI), and the United States Institute of Peace (USIP), which is currently working on a project under the direction of former principal deputy high representative, Ambassador Donald Hays.

Prepare the Environment for 2006 Elections

If plans to reduce the powers of OHR materialize, the international community will exercise considerably less influence in Bosnia's internal affairs, making it even more important that moderates do well in the 2006 elections, or that, as with the Croatian Democratic Party (HDZ), extremists are encouraged to move toward the mainstream. The United States and the EU can assist moderates before the elections by providing Bosnia with democratization and economic assistance, and by clearly communicating the benefits of EU accession.

SERBIA AND MONTENEGRO

Serbia

If Bosnia's progress has exceeded expectations, Serbia's performance in the past two years has been disappointing. When *Balkans 2010* was published, Serbia was in the midst of a series of far-reaching reforms. Many of these have stalled since the March 2003 assassination of Zoran Djindjic by elements linked to organized crime and official security structures. While public shock briefly galvanized support for bringing the responsible parties to justice, many of Djindjic's reforms have been reversed. His successor, Vojislav Kostunica, once heralded as an ally of the West, has made it clear he is not a reformer. His government has made some progress on the economic front, achieving macroeconomic stability and renegotiating external debt. It has also attempted to deal with organized crime. But Kostunica has systematically attempted to undo many of Djindjic's reforms and has been an outspoken opponent of Serbian cooperation with the ICTY. The election of the Democratic Party's Boris Tadic to the presidency in June 2004 was welcomed by the West, but he must tread a fine line between pursuing his reform agenda and maintaining his fragile political support.

The EC has indicated that Serbia and Montenegro is ready to commence negotiations for a SAA—thanks in part to recent moves to hand over a number of those indicted by the ICTY. But the EC emphasizes the need for complete cooperation with the ICTY before further progress is made.¹⁷ Serbia and Montenegro, separately and in union, also face severe economic difficulties, and Serbia in particular needs to improve interethnic relations with minority groups and stabilize south Serbia, Vojvodina, and Sandzak. However, a turbulent political environment imposes severe constraints on Serbia's all too few reformists.

The most significant hurdle to political progress, aside from the unresolved crisis in Kosovo, is Serbia's largely unreformed security sector, which exerted a powerful influence in the Serbian state during the Milosevic years. The armed services and the state security service are associated with ultranationalist politics and the war crimes

¹⁷ See EU press release, "Serbia and Montenegro: Commission confirms sufficient progress to open negotiations on a Stabilization and Association Agreement," April 12, 2005, at <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/421&format=HTML&aged=0&language=EN&guiLanguage=en>.

committed under Milosevic, and they have links with organized crime. They are institutionally opposed to cooperation with the ICTY and to reforms aimed at tackling corruption and strengthening the rule of law.¹⁸ Important reforms have been introduced to the state's security service (which was implicated in the Djindjic assassination) and to the armed forces, which have been officially brought under civilian control. The military has purged many people connected to the former regime, and work has begun to reduce the size of the armed forces. However, much more needs to be done to put reforms into practice, and the Djindjic assassination still casts a long shadow over anyone who would attempt to hasten the pace of reform and implement it more forcefully. Identified by *Balkans 2010* as a priority for the entire region, Serbia has seen the least progress on security sector reform.

Montenegro

Although Montenegro's most serious challenges are economic, the issue most in the public eye is the future of the union with Serbia. The current arrangement between the two republics, which was created in 2002 with the best of intentions, has never been fully functional. The cost of maintaining the union government, its limited and vague powers, and tensions between its agenda and those of the two republics undermine its purpose and legitimacy. Both partners have selectively implemented aspects of the union agreement. The differences between Montenegro and Serbia are increasingly apparent, and it is widely felt that union holds each back from progress on EU integration. In September 2004, the EU instituted a twin-track approach involving distinct negotiations in sectors where the two republics have separate policies. In 2006 Serbia and Montenegro may hold referenda to decide on independence. The debate over how to proceed—with a referendum on independence or a “union of independent states”—will intensify. With Montenegro's electorate evenly split on the issue, both the outcome and the appropriate role of the international community are uncertain.¹⁹

¹⁸ See recent statement by Serbia and Montenegro's Foreign Minister Vuk Draskovic, “Foreign minister says Serbian security services know where [Ratko] Mladic is hiding,” Daniel Dombey and Eric Jansson, *Financial Times*, April 5, 2005, p. 3.

¹⁹ In a February 2005 poll, 44.5% of respondents were for independence and 40.5% against. CEDEM Political Public Opinion in Montenegro, February 2005, at http://www.cedem.cg.yu/opolls/CEDEM_Janury_05_eng.pdf.

RECOMMENDATION: PROMOTE FURTHER REFORM OF
SERBIA AND MONTENEGRO'S SECURITY SECTOR

The United States should focus on encouraging reforms and policies, principally ICTY compliance, that will hasten Serbia's EU accession. Achieving this end will require greater effort to marginalize obstructionist groups in the military and intelligence services. That, in turn, requires further reform of the security sector and increased efforts to tackle corruption and strengthen the rule of law. The United States should continue full support for programs aimed at strengthening civilian oversight of the armed forces, such as NDI's program to improve parliament's oversight of the military, and encourage further downsizing of the military. While maintaining pressure to capture Ratko Mladic and Radovan Karadzic, the United States can acknowledge Serbia's recent progress on ICTY compliance by providing more low-level assistance to Serbia and Montenegro's armed forces, such as educational opportunities in the United States for junior officers and exchange visits for middle-grade officers. In addition to supporting NATO's work in security sector reform and helping Serbia to meet requirements to join NATO's PfP, the United States should push to allow limited participation in PfP activities and in EU security initiatives. A return to 2002 levels of funding (from \$87 million to \$105 million) will allow the United States to provide assistance in democratization and reform of the security sector as well as vital economic assistance.

Unlike in 2002, when it was feared that the movement for independence in Montenegro would further destabilize the western Balkans and fuel Kosovar demands for independence, the international community no longer needs to be seriously concerned if Montenegro chooses to withdraw from its union with Serbia. The negative effects of outside interference and curtailment of internal dialogue on statehood now outweigh any advantage associated with maintaining the union. The EU should focus on ensuring that whatever outcome is chosen, it does not destabilize Montenegro or its neighbors. U.S. assistance on economic reforms and strengthening the judiciary will continue to be important.

APPENDIX

SUMMARY OF THE *BALKANS 2010* TASK FORCE REPORT²⁰

Balkans 2010 identified three regional priorities for the international community:

- Use of EU and NATO integration programs as a “carrot and stick” framework for bringing about reform.
- Dismantling politico-criminal syndicates that hold back political transition and economic development.
- Reorganizing the international presence, shifting from ad hoc structures such as OHR and UNMIK to more accountable local institutions, and rationalizing the number of agencies operating in the region.

The report’s recommendations were broadly targeted at the following areas:

1. *Restructuring the international presence*: Devise a clear and consistent strategy to advance resolution of ongoing constitutional and territorial issues; address the future of OHR, including the option of dismantling it, as early as 2004; and address the future of UNMIK, pending developments in Kosovo.
2. *Improving transitional justice, security, and rule of law*: *Balkans 2010* called for regional governments to cooperate with the ICTY, and the ICTY to transfer cases to the region; and NATO to keep peacekeeping troops in the region for the foreseeable future, and offer more assistance in developing indigenous security forces. NATO provided an effective institutional framework to guide reform. Security sector reform and improving justice and law enforcement systems were identified as priorities.
3. *Economic reform and development*: Create market economies while mitigating the social impact of reforms; promote economic development by combating organized crime and corruption, improving property rights, implementing privatization programs, overhauling non-functioning and counterproductive taxation systems, and

²⁰ Full text of the Balkans Task Force Report can be found at http://www.cfr.org/pdf/Balkans_TF.pdf.

encouraging investment in the private sector; and resolve specific issues such as Kosovo's World Bank debt and Bosnia's segmented economy.

4. *Refugee return and resettlement*: Sustain funding for return and resettlement; improve protection of property rights; promote legislation to allow dual citizenship; and create a region-wide working group under the aegis of the EU to achieve these measures.
5. *Reforming civil society, education, and the media*: Discourage nationalist discourse and encourage a more healthy engagement with politics; encourage civil society; revise school curricula; and build media capacity.

Uncertainty over the future of Kosovo was identified as a major impediment to investment and progress away from the region's nationalist political discourse. On the constitutional issues surrounding Serbia and Montenegro's union and the final status of Kosovo, *Balkans 2010* did not endorse specific outcomes, instead offering advice on frameworks that might be used to find a solution. The report recommended that the recently released "Standards Before Status" initiative of SRSB Michael Steiner be followed, and the provisional institutions of self-government be given the opportunity to create accountable local institutions in Kosovo. Effective operation of these processes seemed to be the most effective way to approach a negotiated settlement that would prove acceptable to all sides. The report also advocated negotiations between Belgrade and Pristina on technical issues such as property rights and cooperation on refugee issues.

To overcome significant obstacles to reform, the report advocated a robust international presence. Although this would be channeled primarily through the vastly improved EU capabilities in the region and the EU's Stabilization and Association Process, aimed at integrating the region into the EU, the United States nevertheless had a critical role to play. The report recommended that the United States support EU processes by working through them when possible and not undermining them. The United States should also encourage the EU to stay the course, and it has a responsibility to remain involved in areas where it can provide crucial expertise. This includes maintaining a military presence and implementing security sector reform, judicial reform, political party

development, and civil society building. Bilateral assistance from the United States—the second-largest donor after the EU—would also remain critical in the years before 2010.

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