Macedonia: A Nation at a Crossroads

1st EDITION

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REPUBLIC OF MACEDONIA

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THE ECONOMY

Macedonian Snapshot 2008-2009

Written June 3, 2009

The Republic of North Macedonia and Palestine: Obama Loses Patience with Bush Allies

I. "The Republic of North Macedonia" and Greece

On **August 26, 2008**, I published an article titled Greek-American Plan to Resolve Macedonia's Name Issue?. In it, I described an American plan to resolve the name dispute between Macedonia and Greece (see note at the bottom of the first section of this article).

The Plan included five elements: (1) Macedonia will change its constitutional name to Northern Macedonia ("The Republic of North Macedonia"); (2) Macedonia will be granted a transition period to amend its constitution and to alter its registered name with various international and multilateral institutions; (3) Macedonia will be issued an invitation to join NATO; (4) Both countries will be allowed to use the adjective "Macedonian" (both commercially and non-commercially); (5) The parties will renounce any and all claims to each other's territory.

Sure enough, weeks later, Matthew Nimetz, the UN mediator in the name issue published essentially the very same plan. It was promptly rejected by both parties.

Macedonia has hitherto been literally invisible on the Obama's Administration's list of priorities. But this is fast changing. Obama and Clinton still regard the Balkans as essentially a European problem. But, as they tackle the Middle-East head-on, the last thing they need is a "second front" with restive minorities in Bosnia-Herzegovina, or

Macedonia. Additionally, countries like Macedonia and Israel are now bound to pay the price for having been staunch supporters of Republican administrations in general, and George Bush in particular.

The Obama Administration will shortly appoint a Balkans Envoy, a person well-known and little-liked in Macedonia for his coarse interference in its internal affairs. His job will be twofold: to calm passions down in Bosnia, if necessary through well-timed and much-publicized arrests and to force both Macedonia and Greece to accept the above-mentioned five-points plan. The USA will not take "no" for an answer and will set a strict timetable for the resolution of the name issue and a NATO invitation by yearend.

Macedonia doesn't stand a chance of resisting such an onslaught. It will be forced into a humiliating retreat. Prime Minister Gruevski can use the country's new President, Gjorge Ivanov, as a scapegoat and "blame" him for any painful compromises Macedonia may be forced to make. But this gimmick won't work: Macedonian s widely (and wrongly) perceive Ivanov to be Gruevski's puppet.

Gruevski will go to a referendum on any compromise struck with Greece. It would be an unwise move, though: If the citizenry rejects the suggested deal, Gruevski will be faced with two stark alternatives: (1) To be the Prime Minister of a disintegrating country (as the Albanians will surely seek to secede from Macedonia or to federalize it, one way or the other); or (2) To lose his job altogether (as the Americans will surely seek to change the regime and depose him, as they have done in 2001-2 when it actively and successfully sought to unseat Ljupco Georgievski).

Following the country's ill-advised early elections in June,

2008, the right-wing VMRO-DPMNE was coerced by the international community (read: the EU and the USA) into joining forces with DUI, the political incarnation of erstwhile Albanian insurgents in the northwest of Macedonia, hitherto an anathema as far as Gruevski was concerned.

Hopping to bed with DUI will likely restrain the government's freedom of action. Every concession to Greece will be portrayed by jingoistic nationalists in Macedonia as capitulation and the consequence of blackmail by the Albanian parties. To the great consternation of the Macedonians, Albania, Macedonia's neighbor, has been invited to join NATO and its economy is growing even in the face of the global crisis. The restive Albanians of Macedonia would like to accede to the Alliance as soon as practicable and at all costs. Understandably, they are less attached to the country's constitutional name than the non-Albanian (Macedonian) majority.

Note: The "Name Issue" between Greece and Macedonia

The "name issue" involves a protracted dispute over the last 17 years between the two Balkan polities over Macedonia's right to use its constitutional name, "The Republic of Macedonia". The Greeks claim that Macedonia is a region in Greece and that, therefore, the country Macedonia has no right to monopolize the name and its derivatives ("Macedonian").

The Greeks feel that Macedonians have designs on the part of Greece that borders the tiny, landlocked country and that the use of Macedonia's constitutional name

internationally will only serve to enhance irredentist and secessionist tendencies, thus

adversely affecting the entire region's stability.

Macedonia retorts that it has publicly renounced any claims to any territory of any of its neighbors. Greece is Macedonia's second largest foreign investor. The disparities in size, military power and geopolitical and economic prowess between the two countries make Greek "fears" appear to be ridiculous. Macedonians have a right to decide how they are to be called, say exasperated Macedonian officials.

The Greek demands are without precedent either in history or in international law. Many countries bear variants of the same name (Yemen, Korea, Germany until 1990, Russia and Byelorussia, Mongolia). Others share their name with a region in another country (Brittany in France and Great Britain across the channel, for instance).

In the alliance's Bucharest Summit, in April 2008, Macedonia was not invited to join NATO. Macedonia was rejected because it would not succumb to Greek intransigence: Greece insisted that Macedonia should change its constitutional name to cater to Greek domestic political sensitivities.

Written June 5, 2009

Macedonians in Denial about the Name Issue Dispute with Greece

Faced with an unprecedented choice between their identity and their future, Macedonians resort to a classic psychological defense mechanism: ***denial***. Greece demands that the Republic of Macedonia change its name, or else forget about its Euro-Atlantic aspirations: NATO membership and EU accession. Macedonians react with horror and revulsion to such truly unprecedented bullying. Unable to face reality, they collectively retreat to fantasy.

FANTASY NUMBER 1: Macedonia will not be asked to change its Constitutional name

Macedonian intellectuals and politicians like to pretend (and usually succeed in convincing themselves) that Greece will demand only the change of Macedonia's name in international settings, bilateral relations, and multilateral organizations.

REALITY: Macedonia will be required to change its constitutional name.

FANTASY NUMBER 2: Macedonia is actually negotiating with Greece

REALITY: Greece is negotiating this issue with the United States and, to a lesser extent, with certain members of the European Union. Macedonia is not a party to the negotiations and is completely irrelevant in this context. It will be presented with a "take it or leave it" solution. If it

doesn't take it, it will pay a heavy price, both internally (as its restive minorities rebel) and externally (as it is further excluded from the mainstream of the international community).

Thus, Macedonia was utterly shocked by the Greek veto that prevented its accession to the alliance in the NATO Bucharest Summit in April 2008. But this move was coordinated well in advance with both the USA and the EU (they were not happy about it, but they were fully informed and apprised of the Greek decision). ***They simply did not bother to keep Macedonia in the picture.***

On **March 30, 2008** (days **before** the NATO summit took place), I published this text in the **Long Beach Chronicle**:

"High-placed NATO officials informed the Chronicle a few weeks ago that, if the negotiations between Macedonia and Greece regarding what has come to be known as "the name issue" fail, ***NATO will invite Macedonia to join the alliance, effective June 30, 2009, and conditioned upon a resolution of its bilateral bone of contention with its much larger neighbor*** by said date."

FANTASY NUMBER 3: America and many European countries are friends of Macedonia and regard Greek behavior and demands as atrocious.

REALITY: While the United States and the majority of the member-countries of the European Union indeed regard Greek conduct as inexcusable and disruptive, they will all, without exception, side with Greece against Macedonia. This is because Greece is richer, a key member of NATO's ever-more-crucial southern plank, and

an important trading partner of many countries. Macedonia, by comparison, is of very limited importance. Hence, it has no leverage.

Macedonia's only hope is to influence American decision-makers through international public opinion; to act against the Greek position in a variety of multilateral and judicial institutions; and to cooperate with core constituencies in the United States in order to change the minds of legislators and bring them to its side.

FANTASY NUMBER 4: Even if there is a referendum in Macedonia on a proposed solution, the West will make sure that it succeeds

REALITY: Nikola Gruevski and his government will not publicly support any solution that they (secretly) find unacceptable. At best, Gruevski will remain neutral and leave it to the people to decide. Gruevski will not collaborate with the International Community in perpetrating what he regards as the coerced abrogation of Macedonian's natural rights.

FANTASY NUMBER 5: The name issue is very important to the ruling coalition.

REALITY: The name issue is a distraction. Gruevski's main priorities are economic growth and prosperity and nation-building, based on history, both modern and ancient. The name issue is not as important to him as it is to many of his detractors. He is willing to wait out the storm, even if it means belated NATO and EU accession. He does regard the name issue as a failure and does take it personally. But he will not let his emotions affect his policies.

FANTASY NUMBER 6: Gruevski is using the name issue to gain political points

REALITY: Gruevski feels very deeply and authentically about this issue. As a person, he reacts badly to injustice and pressure. He hates being blackmailed. He becomes very stubborn when subjected to arm-twisting. On the other hand, it is true that he is overly-sensitive to his rating and popularity and is, indeed, doing everything he can to evade the name issue and put it on the back-burner because he believes that the problem cannot be solved without utterly unacceptable Macedonian concessions. He is a pragmatist, so he concentrates on the here and now and on what can be achieved in the sphere of the economy.

Written June 13, 2009

Steering Macedonia towards Health

As healthcare systems go, Macedonia's is far from being the worst. By various criteria, Macedonia has attained more than all its neighbors and has even done better than the vastly richer countries of the EU or Israel. These accomplishments are rendered even more incredible if one considers the fact that, with an average monthly income of c. 250 euros, Macedonians are among the poorest nations in Europe. Macedonia's Health Insurance Fund has to cope with the same size of population (2 million) as does its Slovenian counterpart, but with 10 times fewer resources (300 million euros in contributions and other income vs. more than 3 billion euros).

Still, while, by objective measures, the system is

reasonably successful, by subjective ones (customer satisfaction and trust) it is abysmally deficient. Patients consistently complain about a lack of resources, decrepit equipment, inordinately long waiting times, an all-pervading lack of responsiveness, corruption and informal payments, and other ills of the country's tottering healthcare institutions.

Enter the country's youthful (28) Minister of Health, Bujar Osmani, a medical doctor by profession. Having worked in the United Kingdom for a year, he speaks wistfully of its fabled National Health Service (NHS). This exposure to a model of healthcare delivery and provision that actually works may have been the impetus to the unusual events that took place in his Ministry in the last 4 months or so.

Osmani is soft-spoken, thoughtful, and pragmatic. He is well-educated, intellectually alert, and his English is impeccable. He, thus, reifies a new breed of Albanian politician in a country where Albanians are a much-maligned minority. In the government, he is in the demanding position of belonging to DUI, a party that is the political incarnation of Albanian insurgents and malcontents. In 2001, an armed conflict between the two major ethnic communities - Macedonians and Albanians - resulted in the Ohrid Framework Agreement which regulates their uneasy co-existence. Since then, DUI has twice joined coalition governments with various all-Macedonian parties.

Though naturally mindful of his public image, Osmani is far from vain. He was the one to reach out and initiate the first meeting between us. When I offered him the idea that was to become the Steering Committee for the

Advancement of Healthcare in the Republic Macedonia, he unhesitatingly accepted it, an act of exceptional political courage. Attempts to reform the healthcare system - steeped as it is in special interests, political meddling, and resistance to change - have buried many a political career.

Osmani wants to leave a legacy of better health behind. He is a true reformer. But, after months of clashing with various constituencies while trying to implement even minor changes to the system, he understood that reform is not a command-and-control proposition. He had to bring aboard all the stakeholders in the process: doctors, patients, nurses, non-governmental organizations, consumer advocates, and the pharmaceutical industry. A varied group of experts - lawyers, economists, and healthcare advisors furnished by the World Health Organization (WHO) will help them along. The Steering Committee for the Advancement of Healthcare in the Republic Macedonia was launched on June 2, 2009.

Macedonia's long-suffering public has silently witnessed dozens of failed attempts at overhauling the creaking edifice of healthcare. A slew of committees has produced a midsize mountain of reports and recommendations that gather dust in drawers throughout the Ministry of Health. Not surprisingly, the new initiative met largely with skepticism and cynicism.

But Osmani started a truly new process. Its novelty will undoubtedly sink in as it progresses. Regardless of whether this particular committee succeeds or not, it has established precedents that will be impossible to ignore.

Being an active member of this body, I will revert to first

person:

For the first time we are attempting a sector-wide analysis with the intention of implementing changes across all institutions, not restricted to certain elements in healthcare delivery, provision, commissioning, and stewardship. Incremental, piecemeal reforms do not work. The entire system must be tackled simultaneously.

For the first time, all stakeholders in the health sector are involved directly in a Steering Committee that is not governmental. The government has a seat at the table (in the person of the Minister of Health), but no privileged status. Such wide participation guarantees "ownership" of the committee's work and of its recommendations. No one will be able to say: I have had no part in this process; these proposed changes are imposed on me against my better judgment and will.

For the first time, the public will be consulted directly, through townhall meetings and by constantly submitting ideas, opinions, and suggestions to the Committee.

For the first time, cutting edge, Web 2.0, social networking high-technologies are used to involve the entire public and all the stakeholders in the debate (Wiki, blogs, Facebook, Twitter, and an interactive Website - http://sc-healthreform.org.mk).

For the first time, the members of the Committee are allowed to invite expert witnesses and seek information, insights, and advice from them.

For the first time, the process commences with the Committee's recommendations rather than ends with

them. Such recommendations will serve as the starting point and the basis for extensive public consultations.

For the first time, the Committee will produce draft laws, amendments to laws, and regulations rather than reports that are ignored and stashed away to be soon forgotten.

Ultimately, elected politicians will decide the fate of these "draft laws, amendments to laws, and regulations". This is how it should be in a democracy. Hopefully, constant exposure of the Committee's work to the public will prevent special, moneyed interests from thwarting true reforms in collusion with corrupt decision-makers and legislators. There's no guarantee of that, of course - just a slightly better chance than before.

Written June 13, 2009

What is the REAL Size of Macedonia's Foreign Exchange Reserves?

Here are the facts as they emerge from the periodical (mostly annual) reports of Macedonia's central bank, **Narodna Banka na Republika Makedonija - NBRM**, for short.

1. Towards the **end of 2008**, Macedonia's foreign exchange reserves amounted to c. **1.6 billion euros**.

2. Macedonia's foreign exchange reserves were **managed by its central bank**.

3. NBRM invested about **75% of these foreign exchange reserves in government bonds**, issued by countries such as the United States, Germany, United Kingdom, and

other countries.

4. On **October 24, 2008, I warned the NBRM publicly** (for instance, via my column in Nova Makedonija) that **government bonds are overvalued** and their **prices may collapse**. I recommended to **sell some of the government bonds** and invest the resulting cash in **bank deposits** in banks in the West (which at the time yielded about **3% annually**).

The **Investment Committee of NBRM** reacted, in a letter published by Nova Makedonija on October 30, 2008. They called my text **"malicious"** and **"sensational"** and accused me of **"hiding the true situation ... leading to public confusion".**

More to the point they said that they didn't care what the **market prices of the bonds** were because they **do not intend to sell them**. They have every intention of **holding them to maturity** and collecting from the issuers of the bonds (the various governments) the money they (NBRM) had invested plus the coupon (the interest payments on the bonds).

5. By end November 2008, some government bonds **provided negative yield** (if you bought them in the open market, you received less money on maturity than you had invested). This was a clear **signal to sell**. Bonds have never maintained negative yields for more than a few weeks. In other words, the **market prices of bonds always collapsed after they reached negative yields**.

6. Between **December 2008 and early June 2009, the prices of government bonds fell between 7 and 17%**, depending on the type of bond in question. On average,

10-year Treasury Notes (USA), Bunds (Germany), and Gilts (UK) fell by 8% (with some US Treasuries falling by 15% and more).

7. Had the NBRM sold the bonds it owned in November, it would have avoided a **sizable loss** on these bonds. The size of this loss is unknown because the **NBRM provides very little data about its investments**.

Theoretically, the NBRM said that it had 1.2 billion euros invested in bonds. A decline of even 7% in their market prices means a loss (some it realized, some of it unrealized, on the books) that could have been avoided of c. **90 million euros**.

The NBRM does not inform the public what is the **market value of its investments** (as opposed to the theoretical value of the bonds if they are held to maturity).

8. **NBRM got it wrong** not only regarding the prices of government bonds, but also regarding whether it would need to sell a meaningful chunk of its bond portfolio on short order. As you recall, the **NBRM insisted that there would be no need to sell the bonds until they reach maturity**.

The NBRM was wrong. Between December 2008 and May 2009 the NBRM sold more than 300 million euros in a misguided attempt to keep the exchange rate of the Macedonian denar fixed against the euro. Assuming that 75% of this amount was invested in bonds, it would seem that **NBRM was forced to sell more than 200 million euros in bonds, in the open markets, at the new, much reduced prices** - exactly the scenario that I had predicted.

9. Finally, from around February 2009, the **consensus of experts and large government bond portfolio managers** around the world is that **bond prices will continue to fall**, possibly precipitously. If NBRM has changed its policy of investing in government bonds it has yet to inform the public.

NBRM should sell as much of its bond portfolio as it can before it suffers catastrophic losses. In the past 60 years, bond markets have collapsed at least three times, with the market prices of bonds falling by more than 35%.

Written June 23, 2008

No Foreign Banks - A Curse or a Blessing?

The Austrian Erste Bank has just published a report about the state of the banking system in Central and Eastern Europe. Macedonia is not even mentioned. The banking sectors of Bulgaria, Romania, Russia and Ukraine are poised to grow the fastest, as these countries catch up with the West.

With the exception of the scandal-ridden French Societe Generale, no prime foreign bank is represented in Macedonia. Even Societe Generale has merely purchased a local bank rather than open its own branch. Erste Bank itself declined to buy Stopanska Banka in 1997.

But is foreign banking such a good thing?

Research demonstrates that foreign banks tend to lend to foreign direct investors and foreign clients. They rarely extend credit to local firms, let alone individuals in the host country. True, they bring with them management

know-how, access to financial networks and markets, and fresh capital. Their entry fosters competition and improves the overall performance of the banking sector, as well as the terms and conditions offered to domestic clients by domestic banks.

But not all is rosy. Foreign banks bring with them systemic risks. Macedonia was spared the worst of the global credit crunch precisely because it was not exposed to the global financial system. It had no subprime mortgage market, no crazy credit derivatives, no mysterious hedge funds. Its backwardness turned out to be a blessing as it avoided the excesses perpetrated by foreign banks in the USA, in Europe, and in some parts of Asia.

Erste Bank's report is very clear about it: the existence of foreign banks in Bulgaria, Romania, Russia and Ukraine is precisely why the meltdown of the global credit markets has wreaked collateral damage on the banking sectors in these countries.

Written June 24, 2008

The Future of Oil and the Economic Future of Macedonia

The price of oil is no longer an important determinant of the economic health of the West. To create the same amount of economic output, manufacturers use much less oil than they used to.

Moreover, today, there are futures contracts, which allow one to fix the price of purchased oil well in advance. There are options contracts which can be used to limit one's risks as a result of trading in such futures contracts.

So, why is the price of oil going through the roof?

Because oil has become a form of investment and a hedge against rising inflation. People plough their savings into oil and speculators drive the markets. As Saudi Arabia correctly observes, the price of oil is no longer determined merely by supply and demand.

Who decides on the domestic price of oil and its derivatives?

In some countries, prices are fixed entirely by market forces, supply and demand, usually through specialized exchanges (e.g., the Rotterdam Exchange). The market is completely deregulated: exports and imports are totally allowed and free.

In other countries, prices are fixed by a committee of representatives of the government, the oil industry, the biggest consumers of oil, and representatives of households and agricultural consumers.

In most countries, prices are changed every 3 or 6 months based on the cost of oil at a certain port of delivery. In Israel, for instance, the price of oil fluctuates every three months according to the price of oil delivered in certain Italian ports (where Israel gets most of its oil delivered). This is an AUTOMATIC adjustment.

In a few countries the prices are fixed by the competent Ministry in accordance to the ACTUAL costs of the oil (importing, processing and distribution) + a fixed percentage (usually 15%). This is called a COST PLUS basis pricing method.

The international price of oil is determined by the following factors:

a. The weather. Cold weather increases consumption. The world is getting hotter. The 14 hottest years in history have been in the last 25 years. The warmer the climate - the less oil is consumed for heating, but the more oil is consumed for air conditioning.

b. Economic growth - The stronger the growth, the more oil is consumed (mostly for industrial purposes). The incredible economic development of countries like China and India and the emergence of car-owning middle classes in many developing countries enhanced demand and contributed to the current crisis.

c. Wars increase oil consumption by all parties involved.

d. Oil exploration budgets are growing and new contracts have just been signed in the Gulf area (including Iraq), Brazil, and Canada. The more exploration, the more reserves are discovered and exploited, thereby increasing the supply side of the oil equation.

e. Lifting of sanctions on Iraq, Iran and Libya will increase the supply of oil.

f. Oil reserves throughout the world are low. This tends to enhance demand for newly produced oil.

g. When there is an economic crisis in certain oil producers (Russia, Nigeria, Venezuela, Iraq) it forces them to sell oil cheaply, sometimes in defiance of the OPEC quotas. This was the case in the late 1990s.

h. OPEC agreements to restrict or increase output

and support price levels should be closely scrutinized. OPEC is not reliable and its members are notorious for reneging on their obligations. Moreover, OPEC members represent less than half the oil produced globally. Their influence is limited.

i. Ecological concerns and economic considerations lead to the development of alternative fuels and the enhanced consumption of LNG (gas) and coal, at oil's expense. Even nuclear energy is reviving as does solar energy.

j. New oil exploration technology and productivity gains allow producers to turn a profit even on cheaper oil. So, they are not likely to refrain from extracting and selling oil even if its price declines to 5 US dollars a barrel.

k. Privatization and deregulation of oil industries (mainly in Latin America and, much more hesitantly, in the Gulf) increases supply. Recent moves in countries like Venezuela, Russia, and Bolivia to re-nationalize their oil industries and unrest in countries like Nigeria raise global oil prices owing to uncertainty and increased political risk.

l. Price volatility induced by hedge funds and other derivatives has increased lately. But, as opposed to common opinion, financial players have no preference which way he price goes, so they are NEUTRAL.

If crude price reaches $200 a barrel, as per the prediction published by Goldman Sachs recently, Macedonia's economy will be adversely affected: the trade deficit and

inflation will balloon out of control, the exchange rate of the Macedonian denar will be placed under pressure, and macroeconomic stability will be jeopardized. These developments will have dire effects on investment, both domestic and foreign and will likely increase unemployment. As far as Macedonia is concerned, substantially higher oil prices will result in stagflation.

Written June 26, 2008

Macedonian Stock Exchange to Resume Upward Trend

On June and October 2007, I made two presentations to the members of the Association of Brokers in the Chamber of Commerce. In these presentations, I warned that the market values of most of the firms listed and traded on the Stock Exchange, especially the components of the MBI-10 index, were grossly inflated. The fair value of the MBI-10 should be around 4300, I calculated.

I also predicted a sharp deterioration in the global and Macedonian economic environments. I repeated these prognoses in an article dated December 4, 2007, published by the Los Angeles Chronicle.

Since then, the MBI-10 has gone down by over 50% and is now around 4600.

Last week, I conducted a series of fundamental and technical analyses on behalf of foreign brokers and investors.

The results:

1. The market has hit its technical bottom. The MBI-10 is unlikely to deteriorate much further. On the contrary, the

next big move ("trend") is up, to 5800 and then 7200. In the long term (2-3 years), the MBI-10 should reach 13,300.

2. Out of 10 components of the MBI-10, eight (8) firms are seriously undervalued. The shares of these companies make excellent investments in the
medium (1 year) to long-term (3-5 years).

3. Sentiment among professionals - both domestic and foreign - is turning positive. Buying activity is likely to increase. Non-professionals will join
the market much later, though, so volumes may remain thin for quite a while.

4. The only drag on the market right now is Macedonia's deteriorating macroeconomic outlook (inflation, trade deficit, MKD exchange rate, etc.)
and political instability. But, these have now been largely discounted and are reflected in current prices. Barring a major collapse of the international financial system, these issues will not affect the market in the next few months.

Written June 27, 2008

Who is Paying for Macedonia's Trade Deficit?

Macedonia's trade deficit in the first FOUR months of 2008 ballooned to 903 million USD, almost double the figure for the same period in 2007.

If this continues, Macedonia's trade deficit will equal 2.7 billion USD, or 35% of the GDP, an unprecedented figure and one of the highest in the WORLD.

But who is paying for all this?

There are FIVE SOURCES of foreign exchange flows that are then used to cover (pay for) the trade deficit:

1. Remittances from Macedonian workers abroad, as well as other unilateral transfers. These more or less stabilized over the last 8 months and now
stand at 1.8 billion USD annually.

Contribution to trade deficit coverage in first four months: c. 650 million USD

2. Borrowing in foreign capital markets - virtually non-existent. Macedonia has issued Eurobonds only once, a few years ago, and these amounted to a
paltry 150 million euros.

Contribution to trade deficit coverage in first four months: ZERO

3. Foreign aid and multilateral credits from international financial institutions

Contribution to trade deficit coverage in first four months: c. 50 million USD net

4. Using Macedonia's foreign exchange reserves to finance the trade deficit

But, according to Narodna Banka, foreign exchange reserves declined by a mere 22 million euros this year, owing mainly to interventions in the
foreign exchange markets.

Contribution to trade deficit coverage in first four months: ZERO

5. Foreign Direct Investments (FDI)

The government claims that FDI reached 100 million euros in the first months of the year.

Contribution to trade deficit coverage in first four months: c. 200 million USD.

Written June 28, 2008

There are four types of interaction between politics and business:

1. Politics can be in the service of business (plutocracy)

2. Business can be in the service of politics (socialism and authoritarian regimes)

3. Business is politics, they are inextricable (corporatism, fascism, failed states).

4. Incestuous relationship between politics and business (rent-seeking).

In Macedonia, the fourth model is in full force.

The State (i.e., the party in power) constitutes one third of economy (employment, investment, budget, taxes).

How can we heal Macedonia's economy?

The first step in every process of healing is: facing the truth.

And the truth is that Macedonia, in its current state, is not a viable economic entity. It suffers from low natural endowments; is economically dependent on foreign flows of capital to survive; has no critical mass for a self-sustaining internal market; has ruined infrastructure and an antiquated legacy of capital goods. Macedonian firms have low profitability. Macedonia's institutions are dysfunctional and self-serving. Macedonia has low-grade elites, owing to negative selection (brain drain) and a low level of knowledge and education; it lacks social cohesion.

If this litany of woes in not enough ...

The governments of Macedonia are a perfect manifestation of Parkinson's Law of Triviality: in a committee, it is easier to agree on a billion dollar atomic reactor than on the roofing of a bikeshed or on coffee procurement for the administration. The reason: politicians know less about mega-projects than they know about bikesheds and coffee.

When lacking in knowledge or experience, politicians concentrate on micromanagement and demonstrative gestures and neglect the big picture (real reforms and macroeconomic management).

Macedonian politicians have repeatedly failed. Macedonia's only hope lies in de-politicization and in having a small, technocratic government at the service of the private sector.

Real reforms in Macedonia include: changing the national ethos and mentality; openness to outside input and

constructive criticism; suppression of special interest groups; depoliticization of the civil administration, if necessary by employing foreign managers; second-phase deregulation and privatization (the transfer of government functions to the private sector); transition from dying industries and economic sectors to new ones; overhauling state institutions; reduction of political risk (predictability of laws, regulations, and government decisions; continuity of state commitments and undertakings; less political involvement in business); media ownership rules; special-purpose courts; attracting FDI as an engine of innovation and internal reform (transmission mechanism: competition).

The government's role is to provide the conditions for business to operate and thrive - on both the micro and the macro levels.

Macroeconomic management revolves around the optimal allocation of economic resources. Anything that goes against it should be fought: inflation, cronyism and nepotism, corruption, credit-driven consumption, populist wage and pension increases, unrealistic exchange rates, increased tax burden.

This Government has good intentions and has succeeded in improving the business climate and in implementing some microeconomic reforms. But it lacks the basic knowledge or willingness to implement a wider, more fundamental transformation and on how to manage the economy. In the long run, its achievements (such as the construction and consumption driven growth of GDP and industrial production) are ephemeral and conjectural.

The Macedonian economy is akin to the Macedonian

Stock Exchange: the bubble will burst. Macedonians are now living in a state of self-induced psychosis: the preference of fantasy over reality. This may be a pleasant feeling, but denial cannot last long. Sooner or later, Macedonians will have to wake up to a bitter and challenging reality, every bit as harsh as when they started their collective exercise of auto-suggestion.

Written June 30, 2008

Give Vouchers to the Unemployed

Despite all the promises, the increase in FDI, and the improvement in the business climate, unemployment in Macedonia remains stubbornly high, at 35% of the workforce. The government claim that real unemployment is lower because many employees in the informal (black) economy go unreported. The truth is that real unemployment is even higher than the official figure: many are underemployed (they go to work, do nothing there, and return home); about 10% of those officially employed don't get paid; and many stopped looking for a job altogether, they simply gave up.

One solution which is gaining traction in the West (mainly in the USA, the UK, and northern Europe) is to use vouchers to alleviate the nefarious side-effects of unemployment.

"Voucher Communities" are communities of unemployed workers organized in each municipality. The unemployed exchange goods and services among themselves in a barter-like or countertrade system. They use a form of "internal money": a voucher bearing a monetary value.

Thus, an unemployed electrician can offer his services to

an unemployed teacher who, in return, gives the electrician's children private lessons. They pay each other with voucher money. The unemployed are allowed to use voucher money to pay for certain public goods and services (such as health and education).

Voucher money is redeemed or converted to real money - so it has no inflationary or fiscal effects, though it does increase the purchasing power of the unemployed; vouchers enhance the purchasing power of the unemployed and the homeless; they restart the economic cycle in deprived neighborhoods and regions; they increase the psychological well-being and motivation of deprived and dysfunctional strata of the population; vouchers engender networks of service-providers and customers which can later integrate into the formal, monetized economy.

Written July 1, 2008

What is Wrong with Macedonia's Inflation Figures?

Inflation in May 2008 declined, on an annual basis, from 10.2% to 9.5%.

The government claims that the sources of inflation in Macedonia are external and that inflation is imported INTO Macedonia through the ever-increasing prices of foodstuffs, raw materials, and energy.

In other words:

Prices INSIDE Macedonia are increasing because prices of foodstuffs and energy OUTSIDE Macedonia are increasing.

But, if this is true, inflation in May in Macedonia should have gone sharply UP, not down!

Global prices of foodstuffs and energy soared to their highest levels in April-May. Oil prices, for instance, increased more in April-May than they did in January-March (and they continued their vertiginous climb in June). So did the prices of many foodstuffs, especially corn and rice.

How can we explain that inflation in Macedonia went down even as prices of imported foodstuffs, raw materials, and energy exploded?

There are two possible explanations, both of them unpalatable:

(i) That the official figures, published by the Bureau of Statistics cannot be trusted. Remember how annual inflation suddenly shot up from 3.2% in December 2007 to 10.5% in January, February, and March 2008? Such a dramatic rise is suspicious and indicative of "tampering with the evidence".

(ii) Or that most of Macedonia's inflation is home-made, not imported. The government increased wages in the public sector and pensions were indexed to inflation. Government spending has also risen. Still, if the central budget is indeed in surplus (as the government keeps telling us and the IMF), this should harness inflation, not increase it.

My money is on option (i), especially in an election year. Inflation in Macedonia is higher than we are told and the budget is in deficit, not in surplus. Time will tell if I am right.

Written July 2, 2008

Don't believe these fairy tales

The government wants you to believe these fairy tales. Don't.

1. This year cannot end with 5% inflation. Inflation in the first 6 months was 10% (on an annual basis). Inflation would have to drop to 2% and less in the next 6 months in order to end up at 5% for the entire year. More likely, inflation this year will be between 9-11%. Even this projection is based on the official, suspicious figures. Real inflation is probably higher still.

2. Macedonia's out-of-control trade deficit (the difference

between its imports and its exports) is mostly financed with remittances (transfers that Macedonian workers abroad send back to their families). Remittances tend to drop when there is a global recession and foreign workers are fired and sent back home. As remittances decline, the government will have to dip into the country's foreign exchange reserves in order to finance the trade deficit. This may jeopardize the stability of the denar's foreign exchange rate against the euro. While devaluation is not on the cards, macroeconomic instability is.

3. Even if the government succeeds to attract foreign direct investment (FDI), this will not even begin to solve Macedonia's unemployment problem. Economic research teaches us that FDI is employment-neutral: some people get hired, others get fired. Foreign investors employ foreign managers and rely on automation, rather than on manpower. At best, FDI will create 20-30,000 jobs in the next ten years. This figure is less than 10% of the total number of unemployed people.

4. Real unemployment is higher than the official figure, not lower. Many ostensibly employed people are actually underemployed (they go to work, do nothing there, and return home); about 10% of those officially employed don't get paid; and many stopped looking for a job altogether, they simply gave up. The government has no coherent national plan to cope with unemployment or to encourage domestic investment.

Written July 3, 2008

Is Foreign Direct Investment (FDI) the Solution to Macedonia's Economic Problems?

In 2007, with 239 million euros, Macedonia was yet again in the last place among the 20 countries of Central and Eastern Europe as far as foreign direct investment (FDI) goes. The situation may improve next year when, the Vienna Institute for International Economic Studies says, FDI will double to half a billion euros.

But is FDI the solution to Macedonia's main problems: unemployment and the poverty it engenders?

Recent economic research says: no, it isn't.

The role of foreign direct investment (FDI) in promoting growth and sustainable development has never been substantiated. There isn't even an agreed definition of FDI. In most developing countries, other capital flows - such as remittances - are larger and more predictable than FDI and ODA (Official Development Assistance).

Several studies indicate that domestic investment projects have more beneficial trickle-down effects on local economies. Be that as it may, close to two-thirds of FDI is among rich countries and in the form of mergers and acquisitions (M&A). All said and done, FDI constitutes a mere 2% of global GDP.

FDI does not automatically translate to net foreign exchange inflows. To start with, many multinational and transnational "investors" borrow money locally at favorable interest rates and thus finance their projects.

This constitutes unfair competition with local firms and crowds the domestic private sector out of the credit markets, displacing its investments in the process.

Many transnational corporations are net consumers of savings, draining the local pool and leaving other entrepreneurs high and dry. Foreign banks tend to collude in this reallocation of financial wherewithal by exclusively catering to the needs of the less risky segments of the business scene (read: foreign investors).

Additionally, the more profitable the project, the smaller the net inflow of foreign funds. In some developing countries, profits repatriated by multinationals exceed total FDI. This untoward outcome is exacerbated by principal and interest repayments where investments are financed with debt and by the outflow of royalties, dividends, and fees. This is not to mention the sucking sound produced by quasi-legal and outright illegal practices such as transfer pricing and other mutations of creative accounting.

Moreover, most developing countries are no longer in need of foreign exchange. "Third and fourth world" countries control three quarters of the global pool of foreign exchange reserves. The "poor" (the South) now lend to the rich (the North) and are in the enviable position of net creditors. The West drains the bulk of the savings of the South and East, mostly in order to finance the insatiable consumption of its denizens and to prop up a variety of indigenous asset bubbles.

Still, as any first year student of orthodox economics would tell you, FDI is not about foreign exchange. FDI encourages the transfer of management skills, intellectual

property, and technology. It creates jobs and improves the quality of goods and services produced in the economy. Above all, it gives a boost to the export sector.

All more or less true. Yet, the proponents of FDI get their causes and effects in a tangle. FDI does not foster growth and stability. It follows both. Foreign investors are attracted to success stories, they are drawn to countries already growing, politically stable, and with a sizable purchasing power.

Foreign investors of all stripes jump ship with the first sign of contagion, unrest, and declining fortunes. In this respect, FDI and portfolio investment are equally unreliable. Studies have demonstrated how multinationals hurry to repatriate earnings and repay inter-firm loans with the early harbingers of trouble. FDI is, therefore, partly pro-cyclical.

What about employment? Is FDI the panacea it is made out to be?

Far from it. Foreign-owned projects are capital-intensive and labor-efficient. They invest in machinery and intellectual property, not in wages. Skilled workers get paid well above the local norm, all others languish. Most multinationals employ subcontractors and these, to do their job, frequently haul entire workforces across continents. The natives rarely benefit and when they do find employment it is short-term and badly paid. M&A, which, as you may recall, constitute 60-70% of all FDI are notorious for inexorably generating job losses.

FDI buttresses the government's budgetary bottom line but developing countries invariably being governed by

kleptocracies, most of the money tends to vanish in deep pockets, greased palms, and Swiss or Cypriot bank accounts. Such "contributions" to the hitherto impoverished economy tend to inflate asset bubbles (mainly in real estate) and prolong unsustainable and pernicious consumption booms followed by painful busts.

Written July 6, 2008

Don't Trust Foreign Reports about Macedonia!

The Heritage Foundation and the Wall Street Journal are the joint publishers of the much-vaunted "Index of Economic Freedom". The annual publication purports to measure and compare the level of economic freedoms in 155 countries.

Undisputed data pertaining to 2001 now widely available, I decided to scrutinize how accurate the Macedonia chapter of the 2002 index was (it was not) and whether its authors knew what they were talking about (they didn't).

Here are some of the numerous factual mistakes I found in this oft-quoted international index:

In 2001, Macedonia's GDP was $3.4 billion and not $2.7 billion as the index states. Macedonia's GDP exceeded $3 billion in the 4 years prior to 2001. Nor has GDP grown by 2.7 percent in 2001: it has actually declined by 4.3 percent . As a result, GDP per capita was wrongly computed in the index. The trade deficit was not $300 million, as the index states - but double that. It has been above $500 ever since the mid-1990s. Net foreign direct investment has been closer to $100 million in 1999-2000 (excluding extraordinary privatizations, such

as Makedonski Telekom) - rather than the paltry $29 million the index misreports.

The index made rice one of Macedonia's "major" agricultural products. It was, actually, first on its list. Alas, little rice was grown in Macedonia in 2001. Nor did the country produce noticeable quantities of citrus, or grains, as the index would have us believe.

The authoritative-sounding introduction to the 2002 index informed us that Macedonia maintained a budget surplus "from the sale of state-owned telecommunications". Yet, in its first decade of existence, Macedonia enjoyed a budget surplus only in 2000 and it had nothing to do with the sale of its telecom to the German-Hungarian MATAV. The proceeds of this privatization were kept in a separate bank account. Only a small part was used for budgetary and balance of payment purposes.

The index stated that Ljubco Georgievski had "privatized approximately 90 percent of (the country's) state-owned firms". These were actually privatized by the SDSM when it was in power until 1998. It is true that major assets, such as Macedonia's refinery and its leading bank were privatized under Georgievski. It is also true that the bulk of state-owned loss making enterprises were either sold or shut. But these constituted less than 15 percent of the number of companies the state owned in 1992.

The fiscal burden of Macedonia was 34 percent of GDP in 2001 - not 23 percent as the index stated. It has surpassed 30 percent of GDP years before. Moreover, in the sub-chapter titled "Fiscal Burden of the Government" the authors contended that "government expenditures equaled 23.3 percent of GDP". A mere three lines later they contradicted themselves: "the government consumes 19

percent of GDP". Which is it?

The "monetary policy" segment of the index is a misleading one-liner: "Between 1993 and 2000, Macedonia's weighted annual average rate of inflation was 7.15 percent." The term "weighted annual average rate of inflation" is not explained. Whatever happened to the hyperinflation followed by near-deflation of Macedonia's first decade? The straight average in this period was 56 percent, not 7 percent.

The index says that "the country's political instability has had a debilitating effect on foreign investment". It sounds logical but does not stand up to scrutiny. Investment flows actually increased in the conflict year 2001 as bargain hunters from Greece, Slovenia, Germany, and other countries converged on Macedonia.

And so this list of errors and misrepresentations continues.

Macedonia is a tiny and unimportant country. But many of the erroneous data used by the index could have been avoided merely by using Google! Sloppy editing, internal contradictions, and outdated information regarding one country, regardless of how inconsequential it is, render the entire index suspicious.

Unfortunately, indices such as these affect both portfolio and direct investment flows, the country's rating, its image in the international media, and the government's standing domestically. The golden rule with such indexes is: "handle with care".

Written July 12, 2008

Myths and Facts about the State Budget

In a television interview Vice-Premier Stavreski said that he does not understand the critics: clearly a state budget that has a surplus is anti-inflationary. The more the government collects in taxes, the less money there is in the economy. The less money there is in the economy, the less the upward pressure on the general level of prices. Professor of Economics Trajko Slaveski confidently stated that the budget promotes growth and he prefers growth with inflation to no growth with no inflation.

Vice-Premier Stavreski is, of course, mistaken as is Professor Slaveski.

Recent economic studies teach us that what is important is not only whether the budget is in surplus or in deficit - but also what is the composition of the budget; in other words: what is the money in the budget used for.

A budget that serves to increase wages in the public sector is inflationary because it increases the ability of consumers to purchase and to compete for goods and services. It sends a wrong signal to workers in the private sector: they also demand wage increases. This is called a "wage spiral" and leads directly to an increase in inflation.

Moreover, a budget that is geared mainly to pay salaries, pensions, the construction of non-productive objects such as churches and basketball halls, and the consumption of various perishable goods has inflationary effects without having a positive influence on long-term growth. On the contrary: economic theory teaches us that the more the government taxes, the more it wastes the taxes it collects. Governments are very bad at managing investments. This is called "the misallocation of economic resources".

Rhetoric aside, this government spends precious little on infrastructure and other growth-promoting projects.

Macedonia's budget equals a whopping 45% of GDP. Of every 100 euros produced by the economy, this government promptly confiscates 45 euros (as opposed to 25-35 euros in taxes collected by previous governments). This has a negative impact on growth. Instead of letting the markets, businessmen, and entrepreneurs do their work, the government forcibly becomes their largest partner, taxes them directly and indirectly (inflation is also a kind of tax), and then goes on harmful spending sprees. Its good for gaining votes in elections - it is bad for the economy. Stavreski and Slaveski: take note.

Zoran Stavreski gets his numbers wrong

M-r Zoran Stavreski, Vice-Premier of the Republic of Macedonia, published an article titled "The Story of the Auto Industry".

The article contains only two sets of economic figures. Both of them are seriously wrong (not on purpose, I am sure).

Stavreski writes:

"The auto industry is the largest industrial sector in the world and constitutes above 10% of GDP in the developed countries."

Here are the actual figures for 2006. The figures will be even lower in 2007-8, owing to the collapse in auto sales, the rise in the prices of fuels, and the global recession:

USA:

The automotive industries amounted to 3.3% of GDP (direct manufacturing) - or up to 7.8% (taking into account all indirect suppliers and service providers).

United Kingdom 3.9%

Italy 8.5%

Spain 5%

Only Germany comes close at 10.5% (or 13%, according to the EBRD).

Stavreski also writes:

"The production of Johnson Controls and Johnson Mathey will increase Macedonia's GDP by 15-20%".

There is no way this can happen. Not even remotely so. Let us study the figures:

Macedonia's GDP is c. 5 Billion euros, excluding the grey economy.

GDP (Gross Domestic Product) =

Consumption + investment + government expenditure + net exports (exports minus imports)

In other words, according to M-r Stavreski, the investments+NET exports of the 2 plants will amount to c. 1 billion euros.

The value added (the closest approximation of net exports) of the automotive industry is c. 30%.

(I am ignoring the investments in the 2 plants which are small relative to Macedonia's GDP)

To justify Stavreski's figures in the article:

The total ANNUAL EXPORTS of the 2 plants must be 3.5 BILLION euros (!!!)

Of which 30% will be NET exports = 1 BILLION euros

Only then will these net exports will increase Macedonia's GDP by 20%.

This is NOT a realistic projection. These figures are not realistic.

Johnson Matthey's GLOBAL sales of catalysts in the fiscal year to 3/2007 amounted to 2.7 billion euros. Will the Macedonia plant DOUBLE Johnson Matthey's sales???

Let's examine the contribution of the automotive sector in other DEVELOPING countries:

The automotive industries contribute 5% to India's GDP

Russia 2%

Poland 4%

Only Slovakia comes up with 25% of its GDP due to

automotive industries.

Why This Government Likes Inflation

This government likes and encourages inflation because inflation masks the true situation and makes them look good. In reality, the economy hasn't been in worse shape since 1996. Inflation helps to deceive the public and even experienced observers. How?

1. As the general price level increases (in other words, as the prices of virtually everything go up), companies derive more income from the sales of the same goods and services. Consequently, of course, they pay more taxes. This allows the government to spend more: to raise salaries, construct sports halls, and generally make the population at large feel better. Without inflation, the state budget would have been in deficit, not in surplus.

2. Inflation means that the value of the currency goes down. The Macedonian denar is worth less at the end of the year than it did at its beginning. Thus, when the government pays suppliers, or returns its debts, it does so with a depreciated currency. It borrows when the denar is strong and pays out when it is weak. Inflation acts, therefore, like a kind of tax on the economy.

3. As inflation sets in, people are afraid that prices will continue to go up. So, they stop saving money and instead spend it and consume in order to "lock down" the current prices, before they increase again. This creates an artificial and short-term boom. GDP grows as consumption soars. It is bad for investments, though: people stop saving or withdraw their existing savings and the banks have no money to lend to businesses. But, who cares? The effects

of this irresponsible and destructive economic policy will be felt only after the next elections. And, in the meantime, carpe diem.

Written July 12, 2008

Global recession Threatens Macedonia

The world is sinking into one of the worst global recessions ever. How will this affect Macedonia?

In two major ways:

1. Less foreign direct investment (FDI)

Historically, in times of global recession, foreign direct investment (FDI) dries up. During the last global recession (2000-2002), FDI flows declined by more than 50%.

The government of Macedonia gambled everything it has on FDI - and ONLY on FDI. This government is obsessed with FDI as the only solution, the nostrum, the panacea to Macedonia's pressing economic problems. The government has no Plan B.

Even in good times, FDI has never been the solution to Macedonia's pressing problems (such as unemployment).

Now, with the world in crisis, FDI transactions already concluded will be cancelled and FDI, in general, will decline precipitously.

2. Life-threatening trade deficit

Until now, Macedonia's incredibly high trade deficit (c.

35% of GDP this year and 25% of GDP last year) was covered by remittances (transfers) from abroad. Macedonians working in other countries sent money back to their families. These money transfers fully financed the trade deficit.

With the onset of global recession, Macedonian workers abroad will be the first to be fired and sent back home.

Remittances will decline. The trade deficit will not be covered anymore. This could threaten the stability of the Macedonian denar and the Macedonian economy.

Macedonia can still shift its emphasis from FDI to domestic investment and job creation. It is not too late. It is not shameful to admit to a mistake in orientation.

Can Gross Domestic Product (GDP) Figures be Trusted?

The formula to calculate GDP (Gross Domestic Product) is this:

GDP (Gross Domestic Product) = Consumption + investment + government expenditure + net exports (exports minus imports) =

Wages + rents + interest + profits + non-income charges + net foreign factor income earned

But the GDP figure is vulnerable to "creative accounting":

1. The weight of certain items, sectors, or activities is reduced or increased in order to influence GDP components, such as industrial production. Developing

countries often alter the way critical components of GDP like industrial production are tallied.

2. Goods in inventory are included in GDP although not yet sold. Thus, rising inventories, a telltale sign of economic ill-health, actually increases the GDP!

3. If goods produced are financed with credits and loans, GDP will be artificially HIGH (inflated).

4. In some countries, PLANS and INTENTIONS to invest are counted, recorded, and booked as actual investments. This practice is frowned upon (and landed quite a few corporate managers in the gaol), but is still widespread in the shoddier and shadier corners of the globe.

5. GDP figures should be adjusted for inflation (real GDP as opposed to nominal GDP). To achieve that, the calculation of the GDP deflator is critical. But the GDP deflator is a highly subjective figure, prone, in developing countries, to reflecting the government's political needs and predilections.

6. What currency exchange rates were used? By selecting the right "points in time", GDP figures can go up and down by up to 2%!

7. Healthcare expenditures, agricultural subsidies, government aid to catastrophe-stricken areas form a part of the GDP. Thus, for instance, by increasing healthcare costs, the government can manipulate GDP figures.

8. Net exports in many developing countries are negative (in other words, they maintain a trade deficit). How can the GDP grow at all in these places? Even if consumption

and investment are strongly up - government expenditures are usually down (at the behest of multilateral financial institutions) and net exports are down. It is not possible for GDP to grow vigorously in a country with a sizable and ballooning trade deficit.

9. The projections of most international, objective analysts and international economic organizations usually tend to converge on a GDP growth figure that is often lower than the government's but in line with the long-term trend. These figures are far better indicators of the true state of the economy. Statistics Bureaus in developing countries are often under the government's thumb and run by political appointees.

Miscalculating Inflation in Macedonia

The most accurate yardstick of inflation is the GDP deflator (which includes the prices of capital goods and export and import prices). Regrettably, it is rarely used or mentioned in public.

The Consumer Price Index is not the same as the Living Expenditures Index.

The Living Expenditures Index measures the changes in the prices of the SAME products in a given period of time.

The Consumer Price Index measures the changes in the prices of products bought during a period of time, even if they are NOT the same products (in other words, even with changed consumption habits).

In other words:

The Consumer Price Index reflects the purchasing habits of the households which participate in the surveys.

This means that the measured level of inflation can be manipulated for political reasons by:

1. Changing the composition of the consumption "basket" (deciding the prices of which products and services will be included and what will be omitted)

2. Altering the weights (weight coefficients) of the various products and services within the consumption basket.

3. There is no agreed methodology on how to properly measure the service component in the economy (including government and public goods, rents, and barter or countertrade transactions). Choosing the "right" methodology can have a negative or positive effect on the level of measured inflation.

4. Including or excluding certain retail and shopping venues (such as e-commerce, catalog sales, open air markets, garage sales, and so on).

5. Constructing a non-representative sample of households for the survey by overemphasizing certain locales (e.g., urban, or West vs. east, North vs. South), certain socio-economic classes (e.g., the middle-class), or certain demographics (e.g., minimizing the roles of seniors and teenagers).

6. Exaggerating or minimizing the role of the informal (grey or black) economy.

Macedonia's consumption basket is skewed.

Examples:

Alcohol and tobacco (4%), health (3%), education (less than 1%), cost of government services and (imputed) rents (8%) are seriously UNDER-weighted.

But, even if we accept the basket as it is, the inflation figures published clearly do not tally with anyone's experience.

Example:

Food and alcohol together constitute 41% of the basket.

Everyone knows that food prices AND the prices of alcoholic drinks have gone up by at least 10% in 2007. The prices of many items doubled. The prices of most edible commodities went up by 40% in both Macedonia and in the world. With oil prices touching 100 USD per barrel in 2007, food prices skyrocketed everywhere

Yet, according to Macedonia's Bureau of Statistics, the prices of food products are up by 2.3% in 2007. Mysteriously, alcoholic drinks also rose by EXACTLY 2.3%. Skopsko i se e mozno.

This kind of blatant wrong data undermines the trust of the citizens in the official statistics published in Macedonia. Foreigners also take note.

Written July 17, 2008

Measures to Contain Inflation and the Trade Deficit

Countries around the world - from Vietnam to Kazakhstan - have adopted these measures to reduce their burgeoning inflation and trade deficit:

Hedging (fixing the future prices of foodstuffs, oil, and commodities by purchasing forward contracts in the global markets)

Removal of import duties, excise taxes, VAT, and other taxes and fees on all energy products and foodstuffs

Subsidizing the consumption of the poorest 10% of the population

Introducing price controls and freezing the prices of essential products

Banning the export of foodstuffs (or introducing customs duties and quotas on such exports)

Raising interest rates and reserve requirements in the banking system to prevent new credit formation

Forcing banks to purchase government bonds to reduce liquidity in the market

Administratively capping credit growth and tightening lending to consumers and for real-estate transactions

Freezing, reducing or waiving public sector fees and charges

Releasing commodities, oil, and minerals from strategic reserves

Capping interest rates on deposits (to prevent credit formation using money from new deposits)

Reclaiming agricultural lands and modernizing farms and agriculture (long-term measures)

Declaring a World Trade Organization (WTO) emergency and introducing import quotas and duties on non-essentials and luxury goods

Introducing an inflation target

Allowing for a gradual devaluation of the currency, within a band or range or as a crawling peg. A strong currency has anti-inflationary effects, so any devaluation must be minimal, slow, and subject to market forces.

Written July 18, 2008

One Reason Why Macedonia is not Prosperous

Macedonia has consistently ranked lowest in Europe in a variety of economic dimensions: from FDI to productivity. Its endemic poverty is the inevitable outcome of multiple factors: its corrupt and incompetent political elite; rent-seeking businessmen; primitive banking system; bankrupt education system, and so on. But, one important factor usually goes unmentioned: Macedonia is landlocked, it lacks access to the sea.

In April 1998, John Luke Gallup and Jeffrey Sachs, published a seminal study titled "Geography and Economic Growth". The two eminent development economists concluded that "location and climate have large effects on income levels and income growth through their effects on transport costs, disease burdens, and

agricultural productivity."

Even more crucially, geographical constraints seem to affect economic policymaking. Thus "populations that are located far from coasts and navigable rivers and that thus face large transport costs for international trade, as well as of populations in tropical regions of high disease burden" are automatically disadvantaged. To these we must add the effects of inferior natural endowments and the impact of lack of access to natural resources (such as water, or oil) on growth.

As Irene Botosaru points out in another paper titled "Geography, Demography, Trade, and Economic Growth", geographical determinism is again in fashion among economists. Her recommendations:

(Landlocked countries) "should export more manufacturing goods rather than agricultural raw materials ... (and) would profit from improved political relations with their transshipping partners, from improved information and physical infrastructure, as well as from increased population density in urban areas and in areas close to the border with transshipping countries."

In other words, good relations with Greece should be the cornerstone of Macedonia's economic policies. The current jingoism is not only ridiculous, coming from a tiny nation, but it is also detrimental to economic growth and future prosperity.

All told, lacking access to sea lanes or large rivers "shaves" 0.7-1 percent off GDP growth every year. As these percentages accumulate, poverty is the outcome. till, what's new? Centuries ago, Adam Smith, wrote in "the Wealth of Nations":

"“As by means of water-carriage a more extensive market is opened to every sort of industry than what land-carriage alone can afford it, so it is upon the sea-coast… that industry of every kind… begins… and it is… not till a long time that those improvements extend themselves to the inland parts of the country.”

Written July 22, 2008

How Macedonia's Banks Discovered America

Recently, the United States government was forced into literally nationalizing its financial sector owing to the irresponsible conduct of mortgage banks and brokerage houses. In 1983, the Israeli government bought the entire banking system owing to rabid speculation in the Tel-Aviv Stock Exchange. This may soon be happening in Macedonia as well - albeit for a different reason.

Macedonia's banks are not involved in the country's real estate bubble. Over all, they have acted prudently and refused to lend more than 50% of the values of properties pledged as collateral by borrowers. Similarly, by and large, they have refrained from getting directly involved in the pyramid scheme that passed for the Macedonian Stock Exchange in the last 4 years.

But, the banks here are sitting on a time bomb: consumer credits. Their total profits of 60 million euros (up 30% on 2006, on paper, at least), derived also from a growth of 39% in credits given to "non-financial entities". But this was dwarfed by the huge increase in lending to individuals (up 56%), through credit cards (up 122%) and overdrafts (up a whopping 77%). Loans and credits to individuals nearly equal those doled out to businesses.

The quality of all these types of credits worsened

throughout the last 18 months. In other words: people are defaulting on the re-payments of the loans they have taken, especially through credit cards. The National Bank estimates that the portfolio risk of the banks has increased by 33% and is the highest in the last 4 years. Moreover, the credits are not taken in order to finance productive activities and thus generate future streams of income: rather, they are mostly used to defray the costs of new cars, vacations, residential property, and consumer goods.

Driven by the need to improve bottom lines and compete in an over-crowded sector, banks such as NLB Tutunska Banka, now relaxed their requirements and lending criteria. People who, in the past, would have been refused credit, now obtain it with little difficulty. Of the total liabilities of the banks (c. 3.6 billion euros in 2007 compared to 2 billion euros in the first quarter of this year alone), the amount of bad loans may be far larger than the banks admit in their financial statements.

Should many more loans turn sour, some banks will inevitably suffer from a liquidity crisis and be rendered insolvent. Runs-on-the-banks may transpire and these will force the government's hand: some banks are too big to fail and the state will have to bail them out to avoid a systemic meltdown of the entire sector.

Written July 26, 2008

Dangerous Liaisons: Online Banking in Macedonia

All of Macedonia's major banks offer to their customers financial services and products through the Internet. However, as opposed to their counterparts throughout Europe, none of them is aggressively pushing its clientele to adopt online banking. This may be the result of

multiple reasons: (1) A computer-illiterate public, unaccustomed to working on the Web; (2) Staff lacking in training; (3) Computer systems that do not integrate seamlessly Internet-generated transactions with the banks' ledgers; (4) In Macedonia, online banking may be no less costly to process than "bricks and mortar" transactions at the branch.

But there's another problem: computer security. To withstand the coordinated onslaught of hackers and cyber-criminals, who are constantly trying to empty the bank accounts of their victims, online banking Websites must incorporate many defensive safety features. These render the entire experience cumbersome and complicated and deter the vast majority of clients.

Go through the list below to see how secure is your bank's online presence. It is short and by no means exhaustive and is based on a study conducted at the University of Michigan by Atul Prakash, a professor in the department of electrical engineering and computer science, and two doctoral students, Laura Falk and Kevin Borders:

1. All the pages of the bank's Website must use SSL (Secure Sockets Layer) and TLS encryption technologies. In the Internet Explorer Web browser, a small, yellow padlock icon appears at the bottom of the page when such encryption is available. It prevents hackers from tapping into the exchange of information between the user's computer and the bank's servers and routers.

2. Users should not use their computer keyboard to type in passwords. Many computers are infected with keyloggers: small software applications that monitor the user's typing and pass on the information to networks of criminals. Instead, the bank should provide a "virtual keyboard" (a

tiny on-screen graphic that looks like a keyboard). Users can then click their mouse and press the various "keys" of the virtual keyboard to form the password.

3. The banking Website should not re-direct the user to other domains or sites (which potentially are not as secure).

4. The bank should insist on strong passwords: minimum five characters, allowing combinations of numerals and letters, including capitalized ones.

5. The bank should never send any information pertaining to the account - especially not passwords - via e-mail.

6. The bank should insist on "two-factor authentication". The user would need a username and password to access the Website. But, to transact in the account, he would make use of one time "tokens" (codes). Each user should be equipped with printed lists of such codes or with a special device that generates them. They can also receive the codes via SMS. The codes are used to transfer money, change the password, change the limit of withdrawal, give instructions regarding securities and deposits, etc.

Written July 28, 2008

Democracy and Prosperity Don't Always Go Together

Many nations have chosen prosperity over democracy. As they see it, yes, they can't speak their mind or protest or criticize or even joke lest they be arrested or worse - but, in exchange for giving up these freedoms, they have safer streets, food on the table, they are fully employed, they receive ample health care and proper education, they save and spend to their hearts' content. In return for all these worldly goods, they forgo the right to vote once every

four years. Many insist that they have struck a good bargain - not a Faustian one.

From Venezuela to Russia and from China to Ecuador, democracy is out of favour. The West has transformed the ideal of democracy into an ideology at the service of imposing a new colonial regime on its former colonies. Spearheaded by the United States, the white and Christian nations of the West embarked with missionary zeal on a transformation, willy-nilly, of their erstwhile charges into profitable paragons of "democracy" and "good governance".

The defenders of democracy use the wrong arguments in their fight to preserve and propagate it:

I. They argue that democracies are more peaceful than dictatorships

This is patently untrue. The two most belligerent countries in the world are, by a wide margin, Israel and the United States (closely followed by the United Kingdom). As of late, non-democratic China is one of the most tranquil polities.

II. They argue that democracies are inherently stable (or to successfully incorporate the instability inherent in politics).

This, too, is a confabulation. The democratic Weimar Republic gave birth to Adolf Hitler and democratic Italy had almost 50 governments in as many years. The bloodiest civil wars in history erupted in Republican Spain and, seven decades earlier, in the United States. Czechoslovakia, the USSR, and Yugoslavia imploded upon becoming democratic, having survived intact for more than half a century as tyrannies.

III. They argue that democracies are conducive to economic growth (indeed, are a prerequisite to such)

False. The fastest economic growth rates in history go to imperial Rome, Nazi Germany, the Stalinist USSR, Putin's Russia and post-Mao China.

Granted, democracy allows for the free exchange of information and, thus, renders markets more efficient and local-level bureaucracies less corrupt. This ought to encourage economic growth. But who says that the airing of municipal grievances and the exchange of non-political (business and economic) ideas cannot be achieved in a dictatorship?

Even in North Korea, only the Dear Leader is above criticism and reproach - all others: politicians, civil servants, party hacks, and army generals can become and are often the targets of grassroots criticism and purges. The ruling parties in most tyrannies are umbrella organizations that represent the pluralistic interests of numerous social and economic segments and strata. The composition of the cadre in these parties reflects this shifting landscape as efficiently as any democracy. Totalitarian regimes do react the popular will. For many people, this approximation of democracy - the party as a "Big Tent" - is a more than satisfactory solution to their need to be heard.

Mankind has hyet to invent a better form of governance than democracy. Its proponents, though, would do well to use more realistic, mature, and informed arguments in its defense. So far, they haven't fared well and, consequently, democracy is on the retreat throughout the world.

Written July 29, 2008

Why Apartment Rental Prices in Macedonia Are So High?

In most countries, the renting of residential property (apartments) provides the owner with an annual income equal to 2-3% of the value of his or her real estate. In Skopje, owners make 6-7%. An apartment selling for 100,000 euros will often rent for 7000 euros a year. One pays the same to rent an apartment in Skopje and in Berlin, even though, in Berlin, apartments are three to five times more expensive to buy.

Why this excess yield?

Five reasons:

(1) **Limited supply**. Despite the construction craze of recent years, there is still a shortage of at least 20,000 apartments, especially properties to let.

(2) **Criminals and politicians**, whose sources of funding are unlimited, jack up the prices and rarely bargain. They use other people's money to pay for their luxuries and don't care to save or to secure a reasonable price.

(3) **Foreigners** who live in Skopje are usually employed by NGOs, international financial institutions (IFIs), and multinationals. Their employers pay their expenses and have little time and inclination to haggle over the rent in a crowded market. They pay the asking price every time.

(4) **Yuppies** - young, upwardly mobile Macedonians, employed mainly in the financial services industry - earn 3 to 6 times the average salary and can afford to pay exorbitant rents.

(5) The process of **urbanization** in Macedonia is

unrelenting. Tens of thousands of peasants and villagers relocate to the cities every year, with Skopje their main destination. They support rental prices by increasing the demand, although they cannot usually afford the more expensive apartments.

Written August 7, 2008

Patriotism in the Service of Inflation

As any behavioral economist will tell you, economics is a branch of psychology. Causes and effects don't always go together and the most well-meaning measures may have the most bothersome effects. Humans are annoyingly unpredictable.

Consider, for example, the recent amendments to the law. From now on, the use of any currency except the Macedonian denar to affect payments within Macedonia would amount to a criminal offense, punishable by up to five years (!) in prison. The Macedonian denar, in other words, is henceforth the only legal tender in the Republic of Macedonia.

Good for patriotism - and bad for the fight against inflation.

When Macedonians use euros to make payments, they "import" the inflation of the euro-zone. When they use denars, they foster inflation. The denar is an inflationary currency. The more denars are available through the money supply and the more often they are used (this is called "money velocity"), the more pronounced their inflationary effects. Because the euro's rate of inflation is far lower, the euro is a disinflationary currency: it reduces

inflation. Prices in euros are stable in the long-term, prices denominated in denars tend to rise all the time.

Indeed, many countries - from Argentina to Yugoslavia - succeeded to reduce hyper-inflation drastically merely by allowing the use of a low-inflation foreign currency as a second legal tender in their domestic markets.

As usual, the Minister of Finance means well. It is only his sense of timing that needs fine tuning.

Written August 12, 2008

Macedonian Wages Among the Highest in the World

"Invest in Macedonia", implored the government's campaign, because wages here are among the lowest in Europe. Are they?

The average salary in Macedonia is c. 200 euros per month and the cost to the employer - what with wage taxes and contributions to the pension and health funds thrown in - is c. 320 euros. That translates to c. 4000 euros a year.

What does the typical Macedonian worker give in return? In other words, what is the value of the goods and services that each and every Macedonian employee produces?

Easy: simply divide the country's GDP by the size of its workforce.

According to the IMF, Macedonia's GDP this year would be c. 8 billion USD (or 5 billion euros). The World Bank and the CIA largely agree with this estimate. That's 2500 euros per every Macedonian, man, woman, and child (=GDP per capita).

Of course, only 20% of Macedonia's population are employed, so GDP per employee is c. 15,000 euros (excluding the 10% of those who do not get paid).

It looks like a good business: invest 4000 euros a year in your employee and get back 15,000 euros worth of (pretax) product.

But, how does it compare to other countries?

Start with the region.

Albania's and Bosnia-Herzegovina's GDP per capita are equal to Macedonia's, but rising fast with impressive flows of FDI. Bulgaria's and Serbia's are 40% higher. Croatia's is three times Macedonia's. But, since the rate of employment in Croatia is double that of Macedonia, a Croat worker produces only 1.5 times as much GDP as a Macedonian one. Every Greek, Czech, and Slovene worker is four times as productive as a Macedonian worker (these countries' GDP per capita is 8 times Macedonia's) while the Romanians are almost twice as plentiful and the Russian workers beat the Macedonians 1.7:1 (Russia's GDP per capita is 3 times Macedonia's).

Of course, such a comparison is unfair. The Czech average salary is 722 euros and in Serbia it touches 400

euros. We should, therefore divide the GDP per capita by the cost of labor. This is known as GDP unit labor cost.

Even then, Macedonian workers are spectacularly unproductive. The Macedonian costs 4000 euros a year and produces 15,000 euros of GDP annually. The Serb costs pretty much the same (c. 5300 euros a year), but produces 20,000 euros of GDP every 12 months. The Czechs, Greeks, and Slovene employees do even better: they each cost between 9000 euros (Czech Republic) and 20,000 euros (Greece) a year, but give in return 60,000 euros of GDP!

Here's a riddle for you:

An unskilled Russian factory worker earns (gross) 1.60 euros per hour. A German - 13 euros per hour. Where is it better to open a factory?

Let's see: the Russian costs 310 euros a month and the German costs 2500 euros a month. Case closed?

Not yet. The Russian produces 2,000 euros a month. The German produces 8,000 euros a month. An investor is left with 4 times more production in Germany than in Russia. He pays more - but, he definitely gets more.

The Macedonian, by comparison, produces a paltry 1200 euros a month. This is why Macedonia is not an attractive destination for foreign direct investors. Salaries here are actually way too high. Judging by this meager output, to render it attractive, the average wage in Macedonia should not exceed 50 euros a month, all included.

Are Macedonian workers lazier or more stupid than their

counterparts elsewhere? Not so. Labor productivity does depend on the existence of a work ethic (longer hours and more effort and initiative). But, more importantly, it reflects the workers' level of education and skills, the age and quality of machinery and other capital goods and equipment used in the production process, the availability of knowledge and technology, and the proliferation of better management. Macedonia needs to work hard in all these spheres merely to catch up with the rest of the region, let alone the world.

From my correspondence:

VT:

FDI are supposed to fix the problem with aged and inadequate machinery and equipment by providing better ones right? Or are you talking about the privatisation of the old factories which were built and equipped 50 years ago (there are hardly any of those left in state ownership)?

FDI can gradually improve the work ethic as well. If a worker knows that he/she is going to get rewarded for being productive and the company is producing good financial results than the worker is going to try much harder (I would). I think a FDI with a bonus/incentive scheme for the workers would have great results.

Sam:

http://samvak.tripod.com/foreigndirectinvestment-fdi.html

VT:

I would also like to discuss the Russian worker vs German

worker example. I cannot understand your conclusion that "he pays more – but, he definitely gets more". Are you saying that you would rather invest 50M and get 55M back instead of investing 20M and get 30M in return? To illustrate this with your example, if your target was to produce 80K euros worth of goods per month you would need 40 Russian workers or 10 German workers. This operation would cost you 12,400 euros in Russia or 25,000 euros in Germany.

Sam:

Many non-economists make this mistake. The workforce is not INFINITE. It is finite. The more Russians you try to hire, the higher their salaries will go, until they price themselves out of the competition.

VT:

Another thing that caught my attention was the GDP unit labour cost comparisons. Wouldn't a % of return on investment be a better be measure of this? For example if a worker costs 1000 and produces 5000 of GDP then the return on investment is 400%. Applying this to the numbers you provided we get 200% for Greece, 275% for Macedonia, 277% for Serbia and a fantastic 566% for the Czech Republic.

Sam:

That's not the way we, economists, look at it. We are interested in MARGINAL RETURN or MARGINAL UTILITY. If I invest 4000 USD in a Macedonian, I will get 15,000 in annual production. If I invest another 1300 in a Serb - I get another 5000 in production. The Serb's

marginal utility is far higher than the Macedonian's. This is ONE reason why Serbia had 5 billion euros in FDI vs. 200 million in Macedonia (the FDI figures in Macedonia are also questionable, by the way).

Of course, this is NOT the Macedonian worker's fault! He has little to work with by way of capital goods (machinery), infrastructure, skills, education, and access to markets. Macedonian workers are every bit as good as the workers of any other nation, as I made very clear at the end of my article.

Written August 13, 2008

African Economy, American Dreams

Macedonia has an African economy, but, ever since Gruevski came to power, it has American-level consumption: two new cars per family, vacations abroad, unlimited bank credits, and every conceivable electrical gadget and appliance. To sustain this grandiose insanity, Macedonians borrow from everyone and live off remittances (transfers from Macedonian workers and family members abroad). Macedonians have become consummate parasites with the government's blessing and encouragement.

There is only one path to reduce Macedonia's threatening trade deficit: to discourage imports. There are many ways to reduce imports. For starters, the government should correctly price items like electricity and fuel. Subsidies need to be limited only to the neediest 10% of the population. Everyone else should pay much higher, realistic, global market prices.

As far as passenger cars are concerned, the government should make it very expensive to buy a new car and very attractive to keep a used one. The Ministry of Finance, eager to please the population and with an eye on the ratings of the governing coalition, spews out nonsense to justify its irresponsible acts. "New cars consume less fuel and need fewer spare parts", they say. True. But, a new car

costs 10,000 euros, paid for with scarce hard currency. The savings that are the results of higher fuel efficiency do not amount, over the life of the car, to 10,000 euros.

Had this government been leading rather than following the opinion polls, it would have embarked on a campaign to encourage the use of public transport; would have cut the costs of owning and maintaining a used car; would have slapped punitive taxes and charges on buyers and owners of new passenger cars; and would have used remedies available to it under the WTO to impose import quotas and other duties, tariffs, and non-tariff (e.g., environmental) limitations on luxury, gas-guzzling vehicles.

Macedonians consume imported vegetables, imported chocolate, imported meat and dairy products; they buy imported "white electronics" and "black electronics"; they vacation outside the country, some of them in order to boast about it to their friends. A craze of conspicuous consumption has gripped this impoverished country that has no economy to speak of. Macedonians are living over and above their means and over and above their economic contribution to society. This will end badly: with a banking crisis, hyper-inflation, and massive indebtedness of both this profligate state and its gullible citizens, who want so much to dream and to fantasize.

Written August 29, 2008

Foreign Direct Investments in Macedonia - The Facts

As usual, the government spins facts and doctors the evidence to "prove" that its utterly misguided economic policies are working. Well, they are not. The lot of the average Macedonian has never been worse since 1996.

Consider foreign direct investment (FDI). The government tells us that close to 240 million euros flowed into the country in the first 5 months of the year. This is the same as all of 2007. Are congratulations in order?

Not so fast. Close to 80% of this amount are in the form of acquisitions: foreign companies (mainly banks) buying Macedonian firms (mainly banks). This is meaningless FDI that has little effect on the domestic economy. Has anything changed after Societe Generale bought Ohridska Banka? No. Will anything change after Steyermark Savings Bank completes its purchase of Invest Banka? Not likely. Is unemployment still the same since 2006? Yes, it is. Did the trade deficit narrow? It tripled. Bad news piled on even worse tidings.

Moreover, economic studies demonstrate conclusively that foreign banks tend to do business with foreigners, not with local firms and that the profits they repatriate (the foreign exchange they take out of the country) exceeds their initial investment.

But, what about the remaining 20%? We are still talking about 50 million euros!

Most of this money is invested in construction of objects

such as shopping malls. What do shopping malls contribute to the economy? Zilch. Shopping centers are non-productive. They don't increase exports. They barely increase employment. They do elevate the trade deficit (by importing goods) and inflation (by encouraging consumption). This is the wrong kind of investment.

How much new foreign money was invested in greenfield industry and manufacturing? A negligible amount. During the election campaign of 2008, the entire government embarked on a flying circus of sorts, signing up foreign companies and touting their achievements to a retinue of obsequious (and happy to travel free of charge) journalists.

What happened with these deals? Nothing. They were not real. Macedonia had signed numerous memoranda-of-understanding and memoranda-of-intent, but very few firm contracts. Bunardzik is still an empty lot.

Finally, how is FDI calculated?

There are four methods. The World Bank's, the cash method (actual flows of foreign exchange as monitored by the Central Bank), the accrual method (counting the entire value of the deal when it is signed), and the realization method (considering as part of FDI only the value of the various phases of the agreed projects, as they are realized).

Which method is the government using to calculate FDI? Who knows. They may be using all four, thus counting the same transaction multiple times and inflating the FDI figures in the process. It sure feels this way. Where are these alleged flows of foreign capital? Nowhere to be seen

or felt.

Transparency and honesty are called for- and, preferably, some real foreign investors.

The Economics of Social Solidarity and National Identity

Declaring oneself a nation is the easy part. Any group of people can wake up one morning and decide that they have a common history, common language, and, especially, common enemies. Yet, do people treat each other decently, as compatriots? Social cohesion and social solidarity are the real and only litmus tests of nationhood.

The government of Macedonia was elected by an overwhelming majority of the electorate. It is, undoubtedly, the reification of the nation's will and mentality. It invests a lot of money in supernumerary churches, basketball halls, tennis courts, and public relations stunts. This money would have been far better used to improve the country's dismal hospitals, horrible prisons, and unspeakably atrocious mental health asylums.

A society that values entertainment more than it does the protection and treatment of its weakest members (prisoners, the physically sick, and the mentally ill) is doomed. Most poor countries spend much more than Macedonia on social services. Even the impoverished and besieged Hamas government in the Palestinian Territories doles out 3 times as much (per capita and adjusted to purchasing power) on schools, healthcare, public kitchens, and similar services.

This is why I welcome the Prime Minister's initiative to

distribute free textbooks to students and pupils in primary and secondary education. This modest and inexpensive gesture goes a long way towards righting social wrongs and is the best conceivable investment in the country's economic future. Well-done, Nikola Gruevski!

Written August 30, 2008

How the Government of Macedonia Revolutionized the Economic Sciences

The 29th of August this year will be remembered as a crucial date in the annals of the science of economics: Zoran Stavreski, in his column in "Dnevnik", has proved conclusively that Macedonia's unprecedented trade deficit is actually a sign of its growing economic health. In his magnum opus, he relied on economic beliefs and theories which were proven wrong and became obsolete more than a decade ago.

The consensus among economists today (those who bother to read the latest economic literature) is that trade deficits of more than 4% of GDP and which are financed with borrowing or remittances are cancerous and should be reduced post haste. The IMF think the same, but Stavreski dismisses them and other experts, both domestic and foreign, whom he derisively calls "independent". It is well known, of course, that the only two truly independent economic experts in Macedonia are Stavreski and Trajko Slaveski, the Minister of Finance. All the others are automatically suspect and should be ignored.

In his presentation, Stavreski makes seven crucial mistakes, none of them intentionally, I am sure:

1. He says that the growth in Macedonia's imports in current dollar terms is owing to the increase in the prices

of goods and commodities imported. Not true. Actually, the quantities of many imported items (such as passenger cars) rose considerably over the last 12 months.

2. He attributes the meteoric and vertiginous rise of the trade deficit to the increase in the prices of crude oil and other raw materials. But, the costs of oil, foodstuffs, and minerals have risen by an average of 30% this year - while the trade deficit has tripled during the same period.

3. He boasts that Macedonian exports have soared by 28%. Not exactly, The prices paid for Macedonian produce, mining extracts, and other goods have increased. Judging by various measures of GDP unit labor costs, Macedonia is no more competitive or productive than it has been a year ago.

4. He fallaciously reassures his trusting readers that foreign direct investments (FDI) pouring into Macedonia explain the sorry state of the country's current account and balance of payments. But, FDI has grown by a mere 130 million euros year on year, while the trade deficit is up one billion dollars and the deficit in the current account is 341 million euros. Hitherto, Macedonia was lucky to have received 1.2 billion euros annually in remittances from abroad. This money was used to defray the profligacy of its citizens, intoxicated as they are by the government's fantasies. The bonanza is at its end, however, as Macedonians working abroad are cutting back on their transfers. As remittances decline, Macedonia will be forced to borrow money externally or to dip into its foreign exchange reserves to cover its trade/current account/balance of payments deficits.

5. This government has constructed its entire macroeconomic policy around the twin pillars of FDI and

remittances. This is the Macedonian version of playing Russian roulette. As the global economy enters one of the worst recessions on record, both FDI and remittances will decline precipitously. The government has no plan B.

6. This government is obsessed with foreigners and their money because it refuses to acknowledge the fact that there is a lot of money in the informal sector (the grey economy). Contrary to what Stavreski says, Macedonia has sufficient domestic resources to foster growth. The government needs only to legalize these resources and to level the playing field by granting domestic investors the same treatment, the same benefits, and the same red carpet that they extend to foreigners.

7. Finally, FDI in Macedonia is of the wrong sort: acquisitions (mainly of banks), construction of shopping malls, and consumption. Such FDI does not lead to economic growth. At 35% of GDP no sane economist - independent or not - will call the trade deficit a positive sign of economic health and growth. It takes a politician to make such an outlandish statement. Stavreski used to be a damn good monetary economist. Judging by his column, he is now merely a politician.

Written September 4, 2008

In their unwise statements (that Macedonia can survive and grow economically even without NATO and the EU), the Prime Minister and the Minister of Foreign Affairs are confusing cause and effect. The growth in Macedonia's FDI (foreign direct investment) and GDP (Gross Domestic Product) in 2007 and 2008 was and is a direct result of Macedonia's process of Euro-integration.

Without European prospects, Macedonia's economy will

stagnate, the educated young will emigrate (brain drain) and the country will become hopelessly addicted to foreign aid and remittances from Macedonians working abroad.

In the last 5 years, foreign investors have flocked to Macedonia because they believed that it will join the EU shortly. Domestic consumers and domestic investors consumed and invested in Macedonia because they believed that it will join NATO soon.

Macedonia is an anomaly:

While all other countries seek to join NATO in order to defend themselves against an EXTERNAL threat (Russia) - Macedonia needs to join NATO to fend off an INTERNAL threat (its restive minorities). A NATO membership guarantees peaceful and harmonious inter-ethnic relations and the kind of stability that attracts investors and fosters growth.

Moreover, Macedonia already has literally unfettered access to the EU through its CEFTA membership and other free trade agreements; its WTO membership; and its liberalized customs regime. While all other countries seek to join the EU to gain access to its enormous common market, Macedonia needs to join the EU so that the EU can force Macedonia's politicians to implement painful but inevitable reforms.

Written October 4, 2008

Public Debt, Partial Truth

Having prepaid some of the country's foreign debt, the Ministry of Finance is boasting that Macedonia's public debt is down by well over 100 million euros. At the same time, the total public indebtedness is up by close to 300 million euros because the private sector has been borrowing furiously.

This is not a bad thing. Some of these new debts were surely accrued as businesses have invested in new machinery, tools, intellectual property, and marketing. This is "good" debt. Future profits from these investments will more than cover the interest payments and the repayment of the principal.

Still, private sector debt is more expensive than public sector debt because lenders charge businesses a higher interest rate than they charge the government. In other words: not only has the total debt of Macedonia gone up, but the cost of servicing this debt has grown.

The Ministry of Finance never lies: it merely presents a partial and distorted picture of reality by omitting crucial facts. This is called in America "spin doctoring". This case is no exception. The Ministry could have been completely honest and say: "Public debt is down, but you should know that private borrowing is up and the average cost of servicing the debt - the payments of interest and principal - is up". Instead, the Ministry only says: "Public debt is down, another great achievement of our infallible and farsighted policies."

Increase the Bank Deposit Insurance!

In the last few days, literally every country in the West has doubled or tripled its deposit insurance. This served to harness the panic that spread through the financial system and to prevent runs on vulnerable banks.

Deposit insurance is the guarantee that the state - or a special institution owned by the local banks - gives to depositors. It covers bank fixed-term deposits and, in some countries (for instance, in the United States) it also pertains to certain types of liquid accounts, known as money market funds.

If a bank collapses, the deposit insurance scheme kicks in and depositors get their money back up to a certain amount. If someone has several deposits in a few banks, all these deposits are covered.

Macedonian banks will not survive a systemic collapse of the European banking system. Many of them are owned by foreign banks. Their capital is invested with and deposited in European banks. They enjoy credit lines issued by Western banks.

If Greek, Bulgarian, Turkish, Swiss, German, French, and British banks begin crumbling one after the other, depositors in Macedonia will lose trust and try to withdraw their money all at once. Very few banks can outlive such an onslaught. Macedonian banks are not diversified. They depend exclusively on deposits for their business.

The government should increase the deposit insurance. It is the only way to counter a potential panic. With their deposits insured, people will sleep better at night and will be less likely to go back to stashing their money under the mattress.

Written October 6, 2008

Mexican Lessons for the Macedonian Economic Leadership

As opposed to Macedonia, Mexico is lucky to have oil. It generates the country's main flow of foreign exchange. Mexico's second largest source of US dollars is remittances: money sent back home by Mexican workers in the USA. It sounds familiar: Almost 20% of Macedonia's GDP is in the form of remittances. These transfers help pay for the country's insane trade deficit. Macedonians are living way beyond their means because they have family members abroad who keep bankrolling them, month in and month out.

In the last 12 months, remittances by Mexicans to their homeland dropped by 12% and are still declining fast. Experts predict an even sharper outcome: 20% less remittances by year's end. Remittances to Macedonia have also been ebbing since November 2007.

Macedonian decision-makers would do well to read what Luis Pena, a Mexican economist, had to tell the CNN:

"Temporary workers are always the first to lose their jobs in crises like this one. Since many Mexicans in the United States are there illegally, they are most vulnerable to unemployment."

With reduced remittances, the Macedonian government will be forced to borrow - or to dip into the country's foreign exchange reserves - in order to finance imports. Many families will be left without a source of income. Banks will do less business and the National Bank will have fewer resources at its disposal. This is not a hypothetical situation. It is happening now.

Written October 8, 2008

Too Much Politics - Or Not Enough?

Macedonians often complain that their country has "too much politics". Politicians and political parties are everywhere, as they make sure that their cronies get lucrative jobs, their supporters land sinecures, and their family members run the state. It is impossible to be employed in the public administration unless one joins a political party in power and displays a "party membership booklet" (knishka). It is outlandishly difficult to obtain needed licenses and permits without the right connections and without pledging future benefits to decision-makers.

Still, it is wrong to say that Macedonian public life and private business are too politicized. Macedonia's political parties are not political and they are definitely not parties in the Western sense of the word. Macedonia's political parties revolve around money, not around competing ideologies and platforms. They function as part business concern, part employment agency, part tour operator for their members.

Macedonia's political parties use the guise of politics and the bluster of perpetual campaigning to hide the fact that they care little about social issues and the country's future. They are concerned with one thing only: upward social mobility. The political organizations here - the parties and the NGOs they spawn and finance behind the scene - are out to maximize income for their members, personal wealth for their leadership, profits for their oligarch supporters, perks for everyone involved.

In Britain, the government pays the salary of the head of the main opposition party. There, the opposition is an

integral and crucial part of governing the state. The government consults the opposition on issues of national interest and involves it in decision-making processes. In Macedonia, the opposition is merely the competition. Macedonia's resources are scarce and both coalition and opposition are rapacious business organizations, not political parties. They are both out to maximize their take and they prey on Macedonia's impoverished population.

Macedonia doesn't have too much politics - it doesn't have enough politics. It has no political parties, no true opposition, no politicians to speak of. The day this changes, Macedonia will have joined Europe. Until that time, though, it is merely an African country with European pretensions.

Irish Trash and Macedonian Plastic Bags

The Connecticut, Massachusetts, and Maine legislatures have recently rebuffed proposed legislation to ban the use of plastic bags. Americans dispose of more than 100 billion of them every year. Supermarket checkout counters, dry cleaning outfits, and other establishments all furnish their customers with plastic carrying bags which cannot be efficiently recycled and are taking up expensive and scarce space in trash landfills. Moreover, plastic bags are made of non-renewable energy resources, such as natural gas and petroleum. Thus, they contribute to global warming and, when they end up in the ocean, they endanger marine life.

So, why not ban them altogether?

Because there is a much better idea.

In 2002, Ireland imposed a tax on plastic bags. Within one year, their number dropped by 90 percent. The proceeds

from the tax on the remaining ten percent of bags in circulation went to finance environmental causes.

Lessons? Tax, don't ban. Tax, don't recycle. It would also make Minister of Finance, Slaveski, happy, as the government's share of Macedonia's economy grows even further.

Written October 11, 2008

It is Europe's and Asia's Turn Now

The crisis in the United States has little to do with its real economy. Last quarter, GDP there grew by an impressive 3.3%. IBM's profits are up 22% year on year. American commercial banks, though in need of re-capitalization, are sound. Its investment banks - the sources of the current crisis - are gone. The Dow Jones is unlikely to drop below 7100. The end of the crisis is near. The Treasury will semi-nationalize some banks (take equity positions against an injection of capital), buy some toxic debts and that's it. Within 12 to 18 months, the USA will emerge from this crisis, strengthened and Wall Street will be back at 10,000.

Not so Europe.

Europe's real economy as well as its financial sector are a mess. France's GDP declined by 0.3% last quarter. In sliding officially into a recession, it has joined Spain, Ireland, and, now, the United Kingdom and Germany. Battered by a strong euro, expensive energy, and mighty competition from China, the US, and India, European exports have stagnated. As opposed to the USA (where exports constitute 18% of GDP), Europe is dependent on foreign carbon fuels and foreign markets for its goods and services. Exports constitute more than 40% of Eurozone

GDP.

Moreover, Europe's commercial banks are in horrible shape - far worse than America's. This year alone, European banks must pay 1.41 trillion US dollars in principal and interest, mainly to bondholders. They don't have the money and they cannot borrow it from other banks because interbank lending has all but dried up. Many of them are already technically insolvent.

Europe's recession will be profound and protracted. Asia is likely to follow suit: Singapore is already technically in recession and china's growth rate is abating. It seems that yet again, the USA will be faced with the daunting task of dragging the rest of the world back to growth and profitability.

Written October 13, 2008

Who Needs the European Dis-Union?

The current global financial crisis should have been the European Union's finest hour. The countries comprising this much coveted club could have joined to battle the waves of bank failures, industrial closures, layoffs, and bankruptcies that are threatening to overwhelm their economies from Iceland to Italy.

The European Union finance ministers should have come with a coherent plan to introduce cross-border regulation, a Europe-wide bank bailout fund, clear, continent-wide guidelines as to state subsidies and export stimulation, and other joint policies. Instead, pompous declarations aside, each government rushed to implement unilateral steps, regardless of the needs of their allies and the risks to the Union. The EU was reduced to pathetic and disheartening caricature in the space of less than a week. Iceland was so

disgusted by the spectacle that it asked Russia for a loan rather than approach the EU.

But the cracks in the Union were evident long ago. A much-trumpeted EU Constitution was soundly and multiply rejected by the French, the Dutch, and the Irish. Rows erupted over the dispatch of a contingent of soldiers to Afghanistan and 24 helicopters (!) to Darfur. An EU-brokered truce in Georgia was humiliatingly ignored by Russia. Members disagree on virtually every issue: from how to treat Kosovo to how to deal with terrorism.

Both passport-free travel (the Schengen Agreement) and the single currency, the euro, do not apply to the entire EU. The process of enlargement to the Balkans and to Turkey is contentious and may not come to pass. "What's the point of having an EU?" - wondered the Associated Press last week. The Financial Times called the current disarray "a suicidal position".

Moreover, the EU's new (formerly communist or socialist) members differ strongly from old members (Germany, France) on a host of topics, including the extent of collaboration with the United States and whether to nationalize crumbling financial institutions. "The politicians in Europe are crazy. We didn't live under communism for 40 years just to return to it on EU soil," said Czech Finance Minister Miroslav Kalousek.

Written October 28, 2008

Gambling with the Foreign Exchange Reserves

Macedonia's foreign exchange reserves, assures us the governor of the central bank of Macedonia (NBM), are safe. Why are they safe? Because they are invested in bonds issued by governments of rich nations, such as

Germany and the USA. Only if these governments default on their obligations will these bonds become worthless. But, such an event - a default by the governments of the USA or Germany or Switzerland - is unlikely.

True, but highly misleading.

To start with, most of these bonds do not provide a protection against inflation. If the NBM owns a US treasury bond that pays 6% interest annually and inflation in the USA shoots up to 8%, the NBM will lose 2% annually (the difference between the interest coupon and inflation).

Secondly, the value of the bond is determined daily in bond markets around the world. Prices of bonds have been known to decline by up to 35% (!). If the NBM buys a bond and holds it to maturity then I agree with the governor, the investment is safe and guaranteed. But, if the NBM has to buy and sell the bonds prior to their maturity there is no way it can foretell their value.

Imagine that the NBM suddenly needs 500 million euros. It would have to sell the foreign bonds it owns in the open global markets. If the prices of the bonds declined in the weeks or days preceding the sale, the NBM would get less money than it has invested when it purchased the bonds in the first place!

How likely are bond prices to collapse? Very likely. Countries from China to Saudi Arabia are reluctant to purchase newly issued American bonds because of the low interest rates they are paying (the low coupons). The prices of European bonds will crumble as Europe enters a continent-wide recession and as government issue and sell to the public 2 trillion euros worth of new bonds to allow

them to recapitalize the ailing banking system. The NBM better pay heed.

Vox Populi, Vox Gruevski: Time for Plan B

Macedonian politicians and analysts often confuse populism with a true expression of the popular will. Populism, in the derogatory sense, is when a leader manipulates his supporters by fanning their base emotions, by making unrealistic, fantastic promises, and by doling out money. Popular will, on the other hand, is what we call "democracy".

By rejecting any meaningful compromise on the name issue, Gruevski is fully in accord with the will and sentiments of the vast majority of Macedonians. Only the (often self-designated) "elite" is unhappy with the course he is taking.

Of course, such intransigence has a price. Gruevski is acting as a populist when he refuses to reveal to the people the painful cost of his nationalist and popular policies. Macedonia can forget about the EU for the next few years. Anyhow, it is not welcome by this august club. I won't be surprised if it joins it after Serbia, or not at all (though NATO is a different story).

Consequently, Macedonia can also forget about becoming an attractive business destination. Foreign direct investment will become even more of a pipe dream. Access to international credit lines will be highly restricted. Exports will languish. Even tourism will be adversely affected. The Albanians in Macedonia are likely to be extremely unhappy with this glorious isolation. Who knows what form this dissatisfaction may take?

It is time for Plan B. Macedonia has to reorient its

geopolitical and economic policies: to develop Asian export markets; to attract foreign direct investment from North America, Eastern Europe, Russia, Asia, the Middle East, and Latin America; to establish itself as a free zone, catering to banking, manufacturing, and transport; to offer back office IT services; to encourage domestic rather than foreign investment (perhaps by offering a conditional amnesty to tax evaders).

In the absence of such Plan B, Macedonia will find itself an isolated, backward, impoverished backwater an African enclave at the heart of Europe.

Written October 31, 2008

What not to Learn from the National Bank of the Republic of Macedonia

On October 30, 2008, Nova Makedonija published a harsh attack on me by the Investment Committee of the National Bank of the Republic of Macedonia. I will ignore the personal slights (without which no Macedonian can communicate, it seems) and get straight to the core: the worryingly amateurish and manifestly wrong claims made by the authors.

1. The authors refer me to the biannual reports published by NBRM and available on their Website. Alas, either by design or by omission these reports are meaningless, partial, and fail to contain the most critical information. The reader cannot learn from them how the Committee selects its investments,what specific financial instruments were chosen (except in the most vague terms), in which banks the reserves are deposited, etc.

2. The authors are correct in noting that as inflation rises, the prices of traded bonds drop. This is precisely my point: the prices of bonds already owned by NBRM will drop steeply if and when inflation in the issuing countries were to rise. In the near future, inflation will begin to climb, as the enormous injections of money (1 trillion USD in Europe alone!) will affect the money supply.

3. The authors' next claim that the investment portfolio of the NBRM can never lose more than 2.7% is utter nonsense. No one can predict the losses and profits on money invested in bonds and gold. No one can predict future prices of bonds and gold with certainty. No one can

predict the future direction of interest rates (up or down) with certainty. If the geniuses of NBRM were truly able to limit their future losses to 2.7% they would be working in Wall Street, not in Skopje and making billions of dollars in salary.

4. To say that NBRM will never have to sell bonds at a loss is again an example of lack of experience, amateurism, and ignorance. No one can predict the future. It is possible that Macedonia will suddenly need a big sum in foreign exchange (for instance, if it has to bail out a big bank about to go insolvent). In that case, NBRM will have to sell bonds in the marketplace and may incur a loss.

5. Finally, the authors come to my help in order to teach me about the global bond market. It would have been comic had it not been tragic. I am the author of a bestselling book about modern portfolio management theory and have spent the last 32 years analyzing and writing about financial markets and instruments all over the world. I have traded bonds in Wall Street long before Macedonia became an independent state.

And what do the esteemed authors say? Because prices of bonds have climbed during this financial crisis, they will continue to climb.

Wrong. As governments issue trillions of USD in new bonds, the prices of bonds are bound to come under pressure. As interest rates drop below 1%, buyers will lose interest in bonds and move to other assets. As countries that hold trillions in bonds begin to feel the pinch of the global crisis, they will be forced to liquidate their bondholdings in order to finance their needs.

In other words, bond prices are poised to crash precipitously. In the last 50 years, bond prices have collapsed by more than 35% at least on three occasions. Should this happen, the NBRM will lose a fortune.

The NBRM Investment Committee should not behave as individual investors do. They should not predict prices and then act on their predictions. They should not gamble with money that belongs to the people. They should keep it safe. And they should hire professional money managers, and not rely on recent university graduates, oligarchs, professionally unqualified politicians, and failed bank managers to manage their investment portfolio.

Written November 1, 2008

Why Minister Trajko Slaveski Deserves the Nobel Prize for Economics

Professor-turned-Minister, Trajko Slaveski, goes around, gloating and bragging: "I told you so! You see, inflation was nothing to worry about after all!". But, he is ignoring the two main criticisms leveled at him: (1) That most of the high inflation during the first months of the year was not imported from the outside, but was the inevitable outcome of the government's profligate and populist spending plans and (2) That the government took no steps whatsoever to quell the inflation that it has wrought. Macedonian paid a high price for its unnecessary inflation.

Slaveski further says: "Our main problem now is deflation, not inflation." In years of working with and for governments in Macedonia, I have come to strongly distrust the official figures released by the pliant and

heavily politicized Bureau of Statistics. I cannot understand how deflation is possible in Macedonia.

Deflation is a drop in the general price level. Such a drop occurs under these conditions: (1) That the prices of raw materials, energy, and foodstuffs are collapsing. Indeed, this is happening. Imported inflation may well have become imported deflation; (2) That bank lending and, consequently, the real economy is contracting. In Macedonia, the opposite is true: both bank lending and GDP (Gross Domestic Product) are growing strongly; (3) That the amount of money in circulation and the velocity of money (how many times money changes hands) have dropped precipitously (for instance, as a result of bursting asset bubbles or much higher interest rates). Again, this is not happening in Macedonia. On the contrary: money supply has been growing vigorously; (4) That government spending is drastically cut and the personal savings rate is meteorically up (and, thus, consumption equally down). In Macedonia, the reverse is true.

No question that inflation in Macedonia should drop from the dizzying heights of January-June 2008. But the science of economics teaches us that conditions for deflation do not exist in Macedonia. Even more suspicious is the fact that inflation in Macedonia mysteriously began to abate two months ***before*** the end of the uptrend in global commodity and energy prices. Macedonia, actually, was the only country in Europe whose inflation turned into deflation when it did. Slaveski deserves the Nobel prize for Economics as he was the only Minister of Finance and economist who correctly predicted the level of inflation in his country - down to the last decimal point.

Telling Macedonians What They Want to Hear

Macedonians love a certain type of foreigner: ambassadors, authors, columnists, and visitors who tell them how great and wonderful Macedonians are; how perfect their country is; how right Macedonians are to feel aggrieved ("the whole world is really against you, poor things!"); how impeccable and infallible their customs, traditions, and way of thinking are; and how it will all turn out well in the end. These fake friends, who tell them what they want to hear, Macedonians embrace and adore.

Macedonians hate a certain type of foreigner: ambassadors, authors, columnists, and visitors who tell them how flawed Macedonians are; how imperfect their country is; how counterproductive it is to nurture grudges that spawn xenophobic paranoia; how ill-suited to modern life are their customs, traditions, and way of thinking; and how, if they don't wake up and reform themselves and their dysfunctional institutions, the Macedonian experiment may well turn out badly and short-lived. These true friends, who confront them with the truth, Macedonians hate, despise and threaten. They suspect their motives and develop all kinds of inane conspiracy theories to account for their involvement in the country's affairs.

I am true friend of Macedonia and Macedonians. My wife is Macedonian. I have given years of my life to teach and write in this country. I never charge for my work here: my columns in Nova Makedonija, Fokus, and Kapital are free of charge; my lectures and seminars are free of charge; consultancy services that I provide are free of charge. At a grave risk to my personal safety, I have contributed to Nikola Gruevski's career in all its crucial stages. Judging by election results and opinion polls, most Macedonians seem to regard Gruevski as the only good thing to have

happened to Macedonia since its independence.

In a sense, I am more of a Macedonian patriot than most Macedonians. But, I am a true friend, not a fake one. I will never tell Macedonians what they want to hear. I owe Macedonians the truth (as I see it), the whole truth, and nothing but the truth.

As we all know, though, the truth threatens the vested interests of many groups in Macedonia. The self-appointed "elites" who enrich themselves at the people's expense, don't want Macedonians to know the truth. People like me, who expose their lies, ignorance, and shenanigans constitute a threat. So, they fight back by spreading ugly rumors and deception, by labeling truth-sayers and truth-seekers "traitors".

And so, when I criticized its policies, the National bank of Macedonia called me "malicious" on the pages of Nova Makedonija (October 30) and said that my aim is to destabilize the trust in the country's institutions.

On October 17, Nova Makedonija published another long "pismo" (letter to the editor) in which the anonymous reader wrote that I am a "dokazen neprijatel" (proven enemy) of Macedonia and am here in order to damage it. In the name of "national interests" and "national unity", the reader called upon the editors not to publish my column any more.

Recently, a government official warned a visiting foreign analyst that I am "an enemy of Macedonia" and publicly berated the journalists present for associating with me.

A senior minister is spreading false rumors (knowing full well that they are false) that my Ph.D. is fake. Luckily for

me, my Ph.D. thesis is listed in the online catalog of the Library of Congress and in the UMI repository of dissertations in Michigan.

"Don't worry, these are mere words" - my friends try to reassure me. But, if words were to fail the members of these "elites", the next stage in such a campaign may not be limited to verbiage. Look what happened in Croatia to the courageous editor-in-chief of "Nacional". Macedonians' freedom of speech is at stake and their ability to tell apart their true friends from those who only pretend to be their friends in order to further their diplomatic careers or enrich themselves.

Macedonia's Steel Industry: Too Big To Fail?

Steel prices are down 40-80% since July (depending on the product). Such a precipitous drop threatens the very existence of the steel processing sector in Macedonia. Should the government extend a helping hand? Should it provide the steel industry with handouts, or, as a minimum with -heavily subsidized loans?

The answer is: yes. Steel products make up a sizable part of Macedonia's exports at a time when its trade deficit is record-shattering and its current account deficit equals 8% of GDP. Thousands of families depend on income from that sector in a country where the official unemployment rate hasn't budged from 35% in years. In the United States, they call firms and sectors that are critical to the economy TBTF (Too Big To Fail).

Still, any assistance granted by this poor state to the rich shareholders of the steel industry must come with many strings attached:

To start with, the government should take shares in the

companies it helps as collateral. It should charge a hefty interest rate for trade credit facilities and subsidize only the loans whose proceeds are to be invested in machinery and other capital goods and infrastructure. It should impose onerous conditions on the shareholders: as long as they enjoy the government's largesse, they should receive a minimum wage and no bonuses. The companies should not distribute dividends until they have paid back the state in full. And, most importantly, the government should impose a "windfall tax" on profits made by the shareholders in the past as a result of the steep rises in commodity prices. Justice must be done and be seen to be done.

Written November 3, 2008

Macedonia's Miraculous GDP

To remind all of us (including former employees of the World Bank):

The formula to calculate GDP (Gross Domestic Product) is this:

GDP (Gross Domestic Product) = Consumption + investment + government expenditure + net exports (exports minus imports) =

Wages + rents + interest + profits + non-income charges + net foreign factor income earned.

Remittances make up close to 20% of Macedonia's GDP. In the last 12 months, they have fallen by 20% (or c. 300 million USD). This alone has subtracted 4% from the country's GDP. This shortage was balanced by a spurt of growth in FDI (Foreign Direct Investment) of c. 300

million USD (if we believe the official figures). Yet, net exports have declined by 1 billion USD over the last 12 months (in other words, the trade deficit and the current account deficit have both shot up). Moreover, Macedonia's exports are in decline, owing to the global crisis, and so this gap is bound to widen and further depress GDP growth.

Professional economist-turned-amateur politician, Deputy Prime Minister Zoran Stavreski, promises us that GDP this year will grow by 5%, as predicted. This is possible only if consumption and government expenditures will shoot up. As consumption is likely to stagnate (at best), we are left with the state budget as the sole engine of growth. The government will simply tax more, spend more and make sure that GDP grows. It will raise wages, pay higher rents, employ more people, spend more on self-promotion, and build additional churches and tennis courts. That's what it did last year, when the budget ballooned into 42% of GDP - and GDP grew by 5.2%.

Written November 11, 2008

Borrowing Its Way into a Financial Crisis

At 2.7 billion euros, Macedonia's central budget equals c. 50% of its Gross Domestic Product (GDP). A year ago, I met the representatives of the IMF, then on one of their endless missions here, and warned them that Macedonia will have a budget deficit this year and next. They laughed me off: the Minister of Finance had assured them that tax receipts were high and climbing; a budget surplus was literally guaranteed.

Fast forward 12 months: Macedonia's 2009 budget contains an in-built deficit (the difference between taxes

and expenditures) equal to 2.8% of GDP. Where will the government find the money to cover the deficit? It will borrow it. Public sector borrowing will increase.

And where will the government find the money to pay for the skyrocketing trade deficit (now at 2.2 billion US dollars and projected to total 3 billion US dollars by the end of the year)? You guessed right: It will borrow it. Public sector borrowing will increase.

Moreover, a deficit of 2.8% of GDP is by no means guaranteed. On the one hand, as economic activity contracts (consumption, employment, and exports are very likely to go down), in the wake of the global crisis, tax intake will stagnate or even decline. On the other hand, the government's profligate and irresponsible promises, wage increases, "projects", campaigns, and other ostentatious displays of populism will put pressure on the expenditure side. I wouldn't be surprised if the actual budget deficit ended up being 4-6% of GDP.

Can the government afford such a spiral of debt or will it become the spiral of death?

In the short-term, Macedonia can afford to borrow money from its citizens and abroad (for instance, in the form of Eurobonds). Macedonia's public debt is actually down this year (although the debts of the private sector are up sharply). This can go on for 2, maybe 3 years. After that, no one in his right mind will lend money to such a spendthrift state; capital will begin to flee the country ("capital flight"); interest rates will go up sharply; and the denar may have to be devalued. Macedonia appears to be borrowing itself straight into a financial crisis.

Written January 6, 2009

Gruevski's Macedonia, Greece, and Alexander the Great, History's Forgotten Madman

The government of Macedonia has recently changed the name of its puny airport to "Alexander the Great". This was only the latest symptom of a growing cult of personality. Modern-day Macedonians, desperately looking for their ancient roots in a region hostile to their nationhood, have latched onto their putative predecessor with a zeal that defies both historical research and the howls of protest from their neighbor, Greece.

In a typical Balkan tit-for-tat, Greece blocked Macedonia's long-sought entry into NATO, citing, among a litany of reasons, the "irredentist provocation" that was the renaming of the airport. Macedonia has designs on a part of Greece, Greek politicians claim with a straight face, and the denizens of this tiny polity have no right to the heritage of Greece of which Alexander the Great is an integral part.

Not to be outdone, Macedonian television is now awash with a lengthy ad depicting the precocious leader berating his pusillanimous and craven commanders ahead of a crucial battle. He speaks fluent Macedonian (the current day, Slav language) and ignores their wise counsel. This pathetic abuse of screen time is supposed to indoctrinate latter-day Macedonians to dare, be decisive, and to face challenges. Alexander the Great would have greatly disliked contemporary Macedonians: they are peace-loving, overly-cautious, consensual, and compromise-seeking. It seems that their own government finds these laudable qualities equally offensive.

It is beyond me why both Macedonia and Greece wish to make a deranged mass murderer their emblem and

progenitor. There is little that is commendable in both Alexander's personality or his exploits. Having shed the blood of countless thousands to fulfill his grandiose fantasies of global conquest, he declared himself a god, suppressed other religions bloodily, massacred the bulk of his loyal staff, and betrayed his countrymen by hiring the former enemy, the Persians, to supplant his Macedonian infantry.

Alexander the Great was clearly insane, even by the cultural standards of his time. According to Diodorus, a month before he mercifully died (or, more likely, was assassinated) his own generals invited Babylonian priests to exorcise the demons that may have possessed him. Plutarch calls him "disturbed". He describes extreme mood swings that today would require medication to quell and control. The authoritative Encyclopedia Britannica attributes to him "megalomania and emotional instability". It says:

"He was swift in anger, and under the strain of his long campaigns this side of his character grew more pronounced. Ruthless and self-willed, he had increasing recourse to terror, showing no hesitation in eliminating men whom he had ceased to trust, either with or without the pretense of a fair trial. Years after his death, Cassander, son of Antipater, a regent of the Macedonian Empire under Alexander, could not pass his statue at Delphi without shuddering."

Alexander was paranoid and brooked no criticism, or disagreement. When Cleitus, his deputy, had a petty argument with him in 328 BC, Alexander simply ran a lance through his trusted general and had the army declare him a traitor and, thus, justify the slaying. The same fate befell Cleitus's unfortunate successors as second in

command.

From his early youth, Alexander has been reckless (though fortunate) and unusually bloodthirsty. He used the fortuitous occasion of his father's murder to liquidate anyone who opposed him, even implicitly. He then went on a rampage that alienated and united all the Greeks against him. Even his famed campaign against the Persians owed its success to the latter's precipitous decline rather than merely to Alexander's military genius. Long before he came on the scene, other Greeks (the Ten Thousand, Agesilaus of Sparta) have defeated the Persians decisively. His bloodlust never abated: when his army mutinied in India and forced him to return to Babylon, once there, he executed scores of his satraps, military commanders, and other functionaries.

Alexander was known for his hubris and unmitigated narcissism. Using humiliating language, he twice rejected offers of peace from Darius the Great King of Persia, whose family he held captive. When Parmenio advised him to accept the second offer by saying: "I would accept, if I were Alexander", he retorted: "So would I, were I Parmenio". Parmenio paid for his independence of mind with his life: Alexander later ordered him assassinated and his son executed. He also murdered anyone who had anything to do with the two.

When he tried to impose on his free-spirited troupes the obligation to prostrate themselves in his presence, he was subjected to such ridicule that he reversed his decision. But, he kept on wearing the Persian royal garb and he did execute Calisthenes, an hitherto obsequious historian (and nephew of Aristotle) who wouldn't bow to him. The Spartans held Alexander in derision. They published a decree that read: "Since he (Alexander) wishes to be a

god, let him be a god".

Wherever he went, Alexander was escorted by scribes whose job it was to embellish history and manufacture legends about their employer. Consequently, most of what is commonly "known" about Alexander is false. But, even so, numerous accounts of his drunken and violent reveries remain, in which he habitually murdered people and tore down cultural treasures (such as the palace of Xerxes). That Alexander was a prodigious imbiber of wine cannot be denied. Virtually all the eyewitnesses concur: Ptolemy, Alexander's bodyguard; Nearchus, his admiral; Eumenes the scribe, his secretary; Chares, his chamberlain; Aristobulus, his military engineer. So do historians who relied on such accounts: Diodorus, Plutarch, Arrian, and the anonymous author of "Historia Alexandri Magni" (History of Alexander the Great").

One could only fervently hope that the government of Macedonia fails in its campaign to transform its citizens into mini-versions of this monster.

Interview granted to "Kapital", April 6, 2009

-Колку и зошто е потребно и неопходно во сегашната економска ситуација Македонија да побара помош од ММФ?

Sam:

Macedonia's external financing needs (as expressed in its current account deficit, currently at 15% of GDP) are big. The trade deficit, at 40% of GDP and growing, is also unsustainable. Macedonia's sources of foreign exchange are drying up, as well: FDI is down and so are remittances from Macedonian workers abroad.

This creates an external financing gap that may threaten macroeconomic stability and the denar's exchange rate.

However, Macedonia's foreign debt is moderate. Moreover, the denar is not a convertible currency and is unlikely to come under speculative attack of the type suffered by the ruble, or the forint. Macedonia can still tap foreign credits and foreign aid to finance its external account. It can also devalue its currency without any major repercussions (as not many credits here are denominated in foreign currency).

At this stage, I see no need to have an arrangement with the IMF. On the contrary, such an arrangement will likely be counterproductive: it will restrict the government's ability to reflate and re-monetize the economy with counter-cyclical deficit spending. It will also hamper the country's monetary flexibility.

-Кој е Вашиот став за владината идеја за задолжување на државата во странски комерцијални банки за финансирање на буџетските расходи?

Sam:

There is nothing inherently wrong either with budget deficits, or with external indebtedness. The only condition is that the money borrowed should be used to finance long-term, income-yielding projects (in infrastructure, healthcare, education, information technology, etc.).

However, borrowing money to pay for CURRENT expenses (increased wages in the public sector; indexed pensions; self-congratulatory advertising campaigns; populist construction projects; etc.) is detrimental to the health of the Macedonian economy. Borrowed money has to be repaid and if it was invested non-productively, future governments will have to raise taxes or default on the country's obligations.

MORE GENERALLY:

The Gruevski governments have rendered Macedonia and Macedonians addicted to flows of foreign capital (FDI and remittances) to consumption credits. The Gruevski governments failed to come up with a Plan B. They failed to encourage domestic investment, for instance. Now that all forms of foreign capital are drying up simultaneously, the government faces two options only: (1) To borrow and spend its way out of the recession or (2) To devalue the currency and implement protectionist measures. This is a stark choice. Macedonia's current economic malaise is NOT the result of the global

crisis, as the government would have us believe. Rather, it is the direct outcome of the governments' amateurish and irresponsible mismanagement of the economy.

THESES and ANTITHESES for Macedonia and the Global Crisis: Weighing the Options

Forum organized by the Association of Chambers of Commerce , May 28, 2009

THESIS NUMBER 1

Macedonia's external financing needs (as expressed in its current account deficit) are big. The trade deficit is also unsustainable. Macedonia's sources of foreign exchange are drying up, as well: FDI is down and so are remittances from Macedonian workers abroad. This creates an external financing gap that may threaten macroeconomic stability and the denar's exchange rate.

THESIS: Macedonia's foreign debt is moderate. Moreover, the denar is not a convertible currency and is unlikely to come under speculative attack of the type suffered by the ruble, or the forint. Macedonia can still tap foreign credits with few strings attached and foreign aid to finance its external account. An arrangement with the IMF will likely be counterproductive: it will restrict the government's ability to reflate and re-monetize the economy with counter-cyclical deficit spending. It will also hamper the country's monetary flexibility. It should be used only as a last measure. An arrangement with the IMF may also send the wrong signal to the markets (that Macedonia's macroeconomic stability is threatened).

ANTITHESIS: An arrangement with the IMF will restore confidence in Macedonia's macroeconomic stability and

in its ability to preserve a foreign exchange anchor. It will increase foreign exchange reserves and allow Macedonia to implement proper and much-needed fiscal and monetary policies. The cost of borrowing from the IMF is also lower than any other form of indebtedness.

THESIS NUMBER 2

THESIS: When the economy goes sour, rational individuals and households save more and spend less. The aggregate outcome of their newfound thrift is recessionary: decreasing consumption translates into declining corporate profitability and rising unemployment. These effects are especially pronounced when financial transmission mechanisms (banks and other financial institutions) are gummed up: frozen in fear and distrust, they do not lend money, even though deposits (and their own capital base) are ever growing. Businesses refrain from investing as credits dry up.

In times of economic crisis, as consumption and investment plummet and unemployment is on the rise, the only way to effectively cancel out this demonetization of the national economy (this "bleeding") is through enhanced government spending and by cutting taxes and reducing fees for government services and goods. Where fearful citizens save, their government should spend on infrastructure, health, education, and information technology. The state's negative savings should offset multiplying private savings and negate the "Thrift Paradox". In extremis, the state should nationalize the financial sector for a limited period of time (as Israel has done in 1983 and Sweden, a decade later). Other steps include: removal of import duties, excise taxes, VAT, and other taxes and fees on all energy products and foodstuffs;

freezing, reducing or waiving public sector fees and charges; and subsidizing the consumption of the poorest 10% of the population.

ANTITHESIS: Government stimulus should be symbolic or moderate. The role of the government in Macedonia is already way to big: the tax burden is high and the state is the largest single employer. It is crowding out the private sector and competing with it for scarce capital. Government extra spending should go towards capital investments and not current expenses. In times of anxiety and uncertainty, it is far more important to safeguard fiscal discipline and, by implication, macroeconomic and monetary stability which are the preconditions for true, long-term, and sustainable growth. Enhanced government spending on wages, pensions, and other discretionary current items will only translate into increased imports and an even larger trade deficit. The government should actually cut spending by rebalancing the budget and try to avoid sizable deficits. This way it will be sending a signal to the market that it is a responsible economic player, committed to the long-term health of the economy.

THESIS NUMBER 3

THESIS: The real risk to Macedonia's economy is deflation, not inflation. The National Bank should allow credit formation, reduce interest rates and reserve requirements, buy government bonds and, thus, encourage consumption, bank deposits, and investment. To increase interest rates and depress consumption and investment amidst a global crisis is unwise.

ANTITHESIS: The real risk to Macedonia is inflation, possibly brought on by a devaluation of the denar. In the

long-term, real growth will resume only if inflation remains subdued. Additionally, the stability of the banking system is at stake as the quality of the banks' loans portfolios deteriorates owing to an increase in the number of bad loans. Steps should include: Raising interest rates and reserve requirements; capping interest rates on deposits in the banking system to prevent new credit formation; forcing banks to purchase government bonds to reduce liquidity in the market; administratively capping credit growth and tightening lending to consumers and for real-estate transactions.

THESIS NUMBER 4

THESIS: The government should shield local industry and manufacturing from the effects of the global crisis by imposing import quotas, non-tariff barriers, and other trade restrictions. It could also prefer domestic businesses in tenders and institute a "Buy Local" campaign. It can offer export subsidies; levy duties and excise on nonessential and luxury imported goods as well as on strategic products; cut duties and excise on raw materials. In extremis, it can declare a World Trade Organization (WTO) emergency (which Macedonia's trade deficit fully justifies).

ANTITHESIS: Macedonia relies on flows of foreign capital in the forms of FDI, export proceeds, and remittances. It is fully integrated with the global economy and cannot afford to declare a trade war. Protectionist measures only serve to cushion inefficient industries and manufacturers and will provoke retaliatory measures by Macedonia's trade partners. External competition is a good thing as it forces domestic firms to streamline and cater to the needs and requirements of the marketplace.

THESIS NUMBER 5

THESIS: Foreign Direct Investment (FDI) is the key to Macedonia's prosperity and economic growth. FDI encourages the transfer of management skills, intellectual property, and technology. It creates jobs and improves the quality of goods and services produced in the economy. Above all, it gives a boost to the export sector. While all forms of investments - both foreign and domestic - should be encouraged, the government should play a decisive role in attracting foreign investment and in providing the conditions for its success. As the business climate improves, local businessmen and entrepreneurs will establish firms, manufacture, and export. The government should not directly subsidize the formation or the operation of domestic businesses. This is better left to the private sector.

ANTITHESIS: The government should encourage domestic investment and even subsidize the formation and operation of local businesses. This is the only way to put into use nonproductive capital; prevent capital flight; and guarantee the long-term economic welfare of the citizens of Macedonia. FDI does not foster growth and stability. It follows both. Foreign investors are attracted to success stories, they are drawn to countries already growing, politically stable, and with a sizable purchasing power.

THESIS NUMBER 6

THESIS: Macedonia's macroeconomic stability depends on maintaining an exchange rate anchor: a stable exchange rate against the currency of Macedonia's main trading partners, the euro. To that end, the National Bank should intervene in the markets to support the denar, if necessary by using its foreign exchange reserves. A stable exchange rate guarantees low endogenous inflation and economic growth. The claim that the denar is overvalued and hampers export growth is false. Macedonian firms are not exporting more not because of the exchange rate, but because of outdated technology, wrong or deficient marketing, lack of compliance with standards, antiquated design, and a general lack of competitiveness.

ANTITHESIS: Macedonia would do better to introduce a flexible exchange rate policy coupled with inflation targeting. Introducing an inflation target would create as much macroeconomic stability as any currency peg. The government has at its disposal policy instruments that allow it to control inflation: introducing price controls and freezing the prices of essential products, or even wages, healthcare costs and pensions; releasing commodities, oil, and minerals from strategic reserves; hedging (fixing the future prices of foodstuffs, oil, and commodities by purchasing forward contracts in the global markets).

The National Bank should allow for a gradual devaluation of the currency, within a band or range or as a crawling peg. This will prevent speculative attacks on the denar that currently are depleting the foreign exchange reserves of the country. It will increase the competitiveness of Macedonia's exports and reduce its trade deficit. A strong

currency has anti-inflationary effects, so any devaluation must be minimal, slow, and subject to market forces. Still, Macedonia can also devalue its currency without any major repercussions (as not many credits here are denominated in foreign currency and inflation is subdued).

THESIS NUMBER 7

THESIS: The global crisis discredited the doctrine of the free, laissez faire market. The role of governments is growing and they are assuming additional functions and responsibilities. Strict regulation should be introduced and enforced in various areas: the financial industry; healthcare; employment; international trade; the environment; and so on. The government should become more involved in every phase of the economic cycle: from entrepreneurship to taxation; from banking to manufacturing; and from education to healthcare. It should even consider re-nationalizing some utilities.

ANTITHESIS: This is a temporary crisis that has to do with excesses and imbalances of the system and not with the core beliefs and theories that underlie it. This is not a crisis of capitalism, but of certain capitalists. Governments should let the private sector sort itself out and interfere only to provide public goods and where there are systemic market failures (such as in the banking sector). Even so, governments' involvement should be time-limited and with a clear exit strategy.

Written on May 27, 2009

Israel, Obama, Iran, and Journalism

"During Netanyahu's visit, Israel shared intelligence with the CIA regarding the potential for a terrorist attack which will dwarf 9/11 if Iran is allowed to continue with its nuclear designs and share its outcomes with allies such as Hamas and the Hizbullah. Iranian proliferation is a direct threat to US National security.

Obama's staff is ignoring the intel (HUMINT) because they believe that it is intended to manipulate the Administration into accepting Israel's planned bombing of two facilities in Iran.

They are also ignoring intel regarding a Hamas cell in Cairo that is bent on mischief. The Israelis are shunned. The CIA is exasperated."

How reliable is this information? Can journalists be trusted not to be manipulated; not to substitute opinion and wishful thinking for facts; not to be corrupted with the trappings of power or outright pecuniary incentives?

Consider my case:

On January 20, 2009, I appeared as a guest in the most popular political affairs program in Macedonia ("Glasot na Narodot", or The Voice of the People). I warned that Israel is willing to wait 6 to 8 months for Obama's "diplomacy" with regards to Iran's nuclear capability to show some progress. If Iran remains recalcitrant, Israel plans to bomb two facilities in Iran as it did in Iraq in 1981, I said. Refueling won't be a problem, I assured the

program's host: both Egypt and Saudi-Arabia offered to help.

This and other interviews provoked speculations in Balkan media and on the Internet:

Vaknin probably had assumed that the NSA (which has a presence in Skopje, having recently moved some of its facilities there from Athens) will be monitoring the program and will report to Washington, suggested one of them.

Vaknin' sister is Sima Gil-Vaknin, the IDF's (Israel Defense Force's) Chief Censor (true) and Vaknin is a senior Israeli intelligence operative (which I deny emphatically).

Recently, the leading Balkan newsmagazine "Fokus" published a long article about the Eligibility Problem (Obama's missing original birth certificate and other personal documents). In that article, Fokus speculated that Israel may have written off Obama and has embarked on a worldwide campaign to discredit him and counter his dangerous diplomatic and military moves. Vaknin, contended the magazine, spearheaded these activities in Central and Eastern Europe and the Balkans in conjunction with the Hasbara's clandestine unit, which is under the direct control of the Prime Minister's office. I have since denied these rumors, too.

I am a journalist of long standing (since the mid-eighties), have lived and worked in Israel and maintain a network of top-level, unimpeachable sources. I am made privy to a lot of information and disinformation (see my articles about Macedonia's accession to NATO and the name issue).

Like every journalist, I sometimes can't tell the difference and get duped. But this is one of the risks of the First Amendment.

As I see it, my job is not to block or filter content. My task is publish with appropriate disclaimers regarding the sources of my information. I should serve as an eBay of data, ranking the past performance of "vendors" of intelligence and letting the fully-informed reader make up his or her mind whom to believe and whom to discredit.

Back to the opening scoop:

Is it true? Did it happen?

Who knows! All I can say is that someone wanted this information leaked. It could be a arrow shot across the Obama administration's bow. It could be part of a much larger picture. It could be a signal aimed at Iran. It may be a brazen fabrication. History will tell.

But one thing it is for sure: a story. Someone(s) told me, a journalist, this story. They wanted it out. The importance of a story sometimes lies not with its content, but with its very release. It is the role of the discerning reader to read between the lines, connect the dots, and come up with his or her own narrative.

Interview granted to Maja Mihailovska of "Spic, May 29, 2009

1. Yesterday you said that Macedonian economy have to stop with obsessively keeping up to fixed exchanged rate and to turn on to flexible exchange rate. How do you argument that suggestion when everyone here has awful remembering of devaluation of the denar in the past and dangerous of inflation spiral? Many of experts here agree that would be disaster for Macedonian economy?

A flexible exchange rate is not the same as a devaluation. A devaluation is a one-time act. A flexible exchange rate is a long-term regime of managing the exchange rate of the domestic currency against a basket of foreign currencies. In a flexible exchange rate, the local currency can go down (devaluation) OR up (appreciation), usually within a band (pojas) according to demand and supply in the market.

There are many types of flexible exchange rate regimes. An exchange rate band is only one of them. Another type is called "crawling peg": the local currency is devalued in infinitesimal daily increments so that the devaluation over one year is equal to the level of inflation over the same period as measured by the Consumer Price Index (CPI).

A flexible exchange rate should always be implemented with another policy called "inflation targeting". It means that the government and the national (central) bank make a commitment to use all the policy tools at their disposal to achieve a specific target of inflation.

The vast majority of countries in the world have a flexible exchange rate coupled with some form of inflation

targeting. This combination has proven to provide macroeconomic stability and prevent speculative attacks on the currency. Albania, for instance, has been implementing this policy for a few years now. The result? Albania's economy will grow this year by 3-4%. We know where Macedonia with its "stability" is by comparison to Albania.

Macedonia is among the few with an antiquated and rigid system of an exchange rate anchor (effectively: a fixed exchange rate). This is for two reasons: (1) The trauma of Macedonia's past hyperinflation (2) The very low level of economic "experts" and "professionals" in Macedonia (a flexible exchange rate regime requires sophistication and up to date expertise). Most of them don't know what they are talking about, they are simply repeating like parrots things they have heard somewhere.

2. What is the price we pay for stable denar, is it too much high? What are the implications?

A "stable" denar is the most unstable option of all. In a fixed exchange rate regime (such as exists in Macedonia), the National Bank has to spend hundreds of millions of euros to "defend" the local currency by supplying the demand for foreign exchange from its own reserves. Another problem is that a strong denar makes imports very attractive (very cheap in terms of denars). As people and firms buy more imports, the trade deficit increases. As the trade deficit balloons, macroeconomic stability is threatened because the country needs to borrow money to finance it (especially because Foreign Direct Investment and remittances from abroad - doznaki - are decreasing). Finally, in a fixed exchange rate environment, exporters, when they convert their foreign exchange earnings,

receive fewer denars. So, while their expenses in denars are growing all the time (owing to inflation), their income remains the same.

3. How long still Macedonian Central Bank could go on and to keep the stable and fixed denar in the same position toward euro 61,5 in such a economic circumstances? How you explain latest measures of Central Bank from yesterday towards commercial banks in order to keep on a stable denar?

Not for long. Current foreign exchange reserves must be used to finance imports and the repayment of foreign debts (about 90 million euros this year). FDI is dropping, remittances fell 26% in the first quarter. There simply isn't enough foreign capital flowing into Macedonia to continue to defend the exchange rate.

The National Bank's steps (to increase the reserve requirement regarding foreign exchange loans and deposits) are intended to encourage a move by banks, depositors and borrowers from foreign exchange denominated instruments to domestic currency. Such measures usually mean that the National Bank is anticipating a devaluation. Following a devaluation, many firms and households default on foreign exchange loans because they don't have a sufficient quantity of denars to pay back their obligations: after the devaluation, they need more denars to pay back the same amount in euros. The banks can then use the higher reserves deposited with the National Bank to cover their losses and avoid insolvency.

Return

Interview in "Nova Makedonija - Sabota"

Date: 1996

NM: Dr. Vaknin, you travel a lot and you are in constant touch with the international financial community. How has the TAT affair effected the image of Macedonia in the world?

SV: Much less than you imagine. TAT is regarded as a regrettable affair - but a local one. In the first days of panic, it is normal to overestimate the damage. Much of this exaggeration was politically motivated. I - and all my colleagues - believe that when the dust settles, the real damage - if any - will be found to be much more limited. It seems to me that the Stedilnica's assets should cover its liabilities.

NM: Still, what could be done to avoid such occurrences in the future?

SV: Unfortunately, a lot of international experience has been accumulated with this type of financial scandals. MMM in Russia, CARITAS in Bulgaria, Albania, the banking crisis in Israel in 1983 and - of course - the biggest crisis of savings and loans associations in history in the USA. A few universal remedies emerged from all these affairs:

First and foremost: public trust has to be restored immediately. The government has to be seen to be impartially and fearlessly investigating the matter. A long term arrangement with depositors has to be promised instantly and the Central Bank has to inject liquidity and free foreign exchange reserves as much as may be needed to quell the panic.

Admittedly, a fine balance has to be struck between inflationary concerns and public policy ones. But if I had to choose, I would momentarily put aside the battle against inflation in favour of maintaining a healthy social and economic fabric. Albania may be without inflation now - but it is also without a state, law and order. This kind of order of priorities is ridiculous, to use a mild term.

A second important element in any recovery program is to separate the supervision of financial institutions from the Central Bank. There is an inherent conflict of interests between certain of the functions of these venerable institutions (the Central Banks) and supervisory functions. On many occasions, the supervisors end up criticizing the Central Bank and its functioning. All the various agencies and authorities which deal with banking institutions should be kept separate from each other and totally independent: both budget-wise and politically. There should be a clear division of labour between these zealous guardians of the public good: one agency should deal with insuring the deposits, one should be in charge of supervising and of examining liquidity and one should review operations with an eye to unearthing illegal or dangerous practices. All these authorities should be equipped with unlimited powers. They should be allowed to close down a banking institution, depose of its management, take over its assets, in short: they should be permitted to do anything within their power to preserve decency and proper management.

NM: And all these steps will guarantee that there will be no more financial scandals?

SV: I can guarantee you that there will be additional financial scandals. This is human nature. There are ways around any regulation and techniques which can - and will

- be used to mislead any supervisor. But at least the damages will be minimized.

Long term, I think that there is no reason to maintain two kinds of banking institutions. The Stedilnicas should be eliminated as they are being in Britain and in the USA. Only banks should exist as financial mediators. Stedilnicas could consolidate, increase their equity and get bank charters. That is a much healthier course than trying to keep the Stedilnicas alive while imposing somewhat bizarre constraints on their activities.

On the other hand, your central bank must ask for a more realistic amount of minimum equity necessary to have in order to open a bank. It is not reasonable to ask an investor to put 9 million DM to open a bank in a country with 2 million people and 3 billion GDP. Israel is 30 times larger (100 billion GDP) - and it demands less of anyone who wishes to open a bank there. A more realistic capital requirement of 4 to 5 million DM would encourage foreigners and locals to open banks here, increase the competition, enhance the geographic coverage and the distribution of branches, reduce financing costs and commissions to Western levels and through this reduce the ominous default rates and the currently insupportable lack of business ethics.

NM: Let us move to another subject. Why do foreign investors refrain from investing in Macedonia?

SV: I wouldn't say that. In general, I think that you should be very optimistic about the future of Macedonia. In a matter of a few years it can - if it so chooses - become the Switzerland of the Balkans. The international financial community thinks that you may well be the next Slovenia. This is why Macedonia is getting disproportionate

amounts of foreign aid and foreign credits. Per capita, Macedonia is getting much more than Russia does, for instance.

Macedonian sovereign debts are trading almost at the same price as Slovenian sovereign debt. This means that the financial markets - which are analytical and have no sentiments for or against anyone - believe that Macedonia will pay its international obligations at least as well as Slovenia will. As opposed to commonly held beliefs, Macedonia is not indebted heavily to the West. It is a medium sized borrower and in a fairly reasonable international credit standing. The recent events in the Balkan only demonstrate its stability relative to its neighbours and its high value as a safe transit area.

I predict a flow of foreign investments in the forthcoming 12 months. This flow will increase and become a deluge in the next four or five years. Investments will flow to hi-tech sophisticated agriculture, information technologies, outsourcing of data processing functions by multinational firms. Capital will also be invested in textiles, the wood industry, food production and basic manufacturing (e.g. cars). But the latter are the industries of the past.

One by-product of all this will be the establishment of prosperous capital and money markets. The stock exchange will flourish and become a major profit centre. For instance.

For all this to happen, Macedonia has to contribute its part. It has to legislate to protect property rights and especially intellectual property rights. It has to modernize its law enforcement systems with emphasis on the courts. Courts have to act more resolutely and more speedily to enforce property rights. The reform commenced in

adopting Western accounting standards has to continue vigorously. Full, accurate and timely information is a precondition to any foreign investment. The situation in Macedonia in this sense is abysmal: there is no disclosure whatsoever of the true state of businesses. Financial statements are tax driven, false and hide more than they tell.

There are other problems: lack of certain skills within the (overall educated) workforce, arbitrary and retroactive panic legislation, lack of physical infrastructure, high business costs and a dysfunctional banking system.

But those are problems common to economies in transition and, judging by my personal experience, they are fast improving. Unless Macedonia does a major mistake - it is destined to become a prosperous, entrepreneurial country.

NM: So, why do we, the Macedonians feel so differently? Why is the general mood depressed rather that elated?

SV: That may well be the biggest problem of Macedonia as a country and of Macedonians as a nation. Centuries of repression and lack of hope tended to have shaped your mood in the pessimistic mould. Ever since Macedonia was born, it faced great difficulties, both economic and political. It has endured a double siege and an erasure of 80% of its export markets. Those are traumatic events and you are in a post traumatic shock. It is natural - and it will pass. You are staging one of the most remarkable recoveries in recent history. True, it is fraught with the childhood disorders of capitalism. So what? You have a breathtaking country, strategically situated, blessed by nature, with great human resources, not overburdened financially, well behaving macroeconomically. Stop being

so pessimistic. Whatever you say about yourselves and about your country is what the world will believe about you.

In 1993, when it was made completely legal and available to the public - 90,000 small businesses were registered by individuals in Macedonia. Most of them, are defunct by now, but this is hardly the important point. What is important is that this was an exciting demonstration of the entrepreneurial spirit of Macedonians. This holds a great promise for the future. With your back to the wall, you did not give up. You fight in the jungle of capitalism using market economy tools - and I do not have the slightest doubt that you will succeed.

NM: What do you think about the privatization process in Macedonia?

SV: I am afraid that this is one of the points that I have to sound a lot less optimistic.

As I had the chance to write in your newspaper, there is privatization - and there is privateering, or what is called in polite terms, transformation.

I have my clear and unequivocal views about this subject. It would be only fair to say that the body of evidence is not at all conclusive and that very little and short experience was accumulated both in the West and in the East. Many economic thinkers say that passing the ownership of firms to the hands of their managers and employees is socially more just than selling it to a few wealthy businessmen. This sounds true to me: privatization all over the world has degenerated into crony-capitalism. Only those with political clout won the fat parts and this is highly unfair. So, I vote against the

Western privatization methods (Britain, Israel).

But I think that state enterprises belong to all the citizens of the country and not to select groups of people, no matter how closely they are related the privatized enterprises and/or to the political elites. So, I personally would vouch for something akin to a voucher system, where each and every member of the community has the option to share in the wealth of the country.

But, frankly, it is not only - or even primarily - a question of social justice. We have to think about the long term good of everyone involved in the privatization process. A factory which changes ownership and is transferred (at ridiculously low prices) to its workers - is not necessarily better off. The workers are not necessarily better off either (see the case of the Pelagonija construction group). The paramount idea behind privatization is that the newly privatized businesses should thus gain access to capital, ideas, technology and management to which they hitherto had no access. The same old hands cannot innovate, invigorate and vitalize. The same failure patterns will reappear and the factory and its new owners will be doomed from the very start.

Another thing that long years of experience have taught us is that it is unwise to mix ownership with management. All the groups involved with the company should participate in an intricate checks and balances dance. The owners should conflict with the management and supervise their operations and the management should take all the necessary steps to ensure the profitability and longevity of the business. When everything is mixed: owners are employees who are managers - conflicts of interests arise which irreparably damage the implementation of the right decision making processes

and hinder the proper functioning of the firm. This is why I support noncash universal systems (which always lead to real privatization in the end) and not classic privatization or classic transformation.

NM: One final question: why are you here?

SV: That's an easy one. I am here because I believe in the future of this country. My business is to make businesses get the finances that they require from international financing sources. A lot of money is available to the Macedonian private sector from these sources - yet, Macedonian firms did not use almost any of it. By helping them get access to these funds - I, naturally, help myself.

But something emotional has happened to me here: Macedonia is so very much like Israel in its first few years (I am an Israeli and a Jew, so I am very good with money). I feel that helping Macedonia find itself and its role in this new, brave world - is like helping a young brother. Sometimes you are mad at him - but you always love him. I, therefore, am engaged in a series of voluntary activities of which I am very proud: writing, teaching and lecturing.

Return

Interview with DELO

Date: 1997

Delo: Vie ste dolgogodisen prijatel i poznavac na sostojbite na Republika Makedonija. Od kade proizleze Vasiot interes za Makedonija?

SV: I came to Macedonia at the end of 1996 at the invitation of a past partner of mine, Mr. Gideon Sandel. It was a difficult period in my personal life. Macedonia welcomed me and accepted me. This is a kindness I can never repay.

Macedonia reminds me a lot of the Israel I grew in, the Israel of my childhood. It still retains the naiveté and innocence long lost in the West. There is corruption and crime, of course and very bad things are happening every day. But there are still many of the old fashioned values and social institutions. It is enchanting.

Delo: Kako se sluci ete, da stanete i nejzin strucen sovetnik vo oblasta na ekonomijata i bankarstvoto?

SV: As you know, I left Macedonia in 1998, after my friend and associate, Mr. Gideon Sandel, has been arrested. I believed then – and believe now – in his complete innocence in the matter attributed to him. In conjunction with threats and warnings that he and I received, I had good reasons to "take a vacation". I lived for a while in Russia and in the Czech Republic. When the new government came to power, they invited me back and I refused. I insisted that my name be completely cleared before I return. They asked me again during the Kosovo crisis and I accepted, also for personal reasons.

I have Mr. Gruevski in my seminars. He impressed me so much that I co-authored a series of dialogues with him (later published in a book). He introduced me to Messrs. Georgievski and Trajkovski.

Delo: Obidete se da i ja objasnite na makedonskata javnost specifikata na Vasata rabota. Koi se Vasite zadaci i ingerencii vo odlucuvanjeto?

SV: I am the first economic consultant whose services have been contracted directly by any Macedonian government. In a way, we are still defining my job. As I see it, my biggest contribution can be to open a window to the world. There is a lot of provincialism and resistance to change and to learning. Macedonian academics and intellectuals don't know languages, rarely read or have access to foreign literature, are hopelessly outdated and very arrogant. The same can be said about Macedonian politicians. I try to destabilize this consensus of ignorance and greed by putting a mirror to the face of my clients. It does not make me very popular, I am afraid. But this is my responsibility to do it, my obligation.

Hitherto, I have done more than I accepted. I participated in writing laws, gave seminars, provided information and analysis, submitted reports and recommendations (for instance regarding the Grey Economy and regarding Unemployment) – regular things that advisors do.

But I am still very isolated and feared. People feel threatened because deep inside they fear that maybe they are incompetent or inexperienced. I am wrongly regarded as competition rather than as help. And Macedonia has many naked kings who are afraid to be exposed.

Delo: Bidejki kontinuirano ja sledite i analizirate

sostojbata na Makedonija, kako taa Vi izgleda sega, otkoga se slucija promenite vo vlasta?

SV: I cannot say that anything fundamental changed. The only differences – which are important, althesame – are differences in style. The current government is more open to learn and to experiment and experience than the previous one.

Delo: Vo kolkava mera Kosovskata kriza ja narusi ekonomskata programa, i dali denes, otkoga vojnata zavri i se sozdadeni uslovi zagubite da se nadminat?

SV: I am not aware of any long-term economic plan that was disrupted by Kosovo. What the current government is trying to do in the Committee headed by the Prime Minister and by Mr. Ante Markovic and in the committee headed by the minister of Development, Milijana Danevska, is to develop exactly such a plan. But until this very minutes, there is no master plan, a vision, according to which economic events are unfolding. It is all fighting fires and improvisation.

I am also uncertain about the losses suffered by Macedonia – if it does receive all the money pledged (but never delivered) to it by the West in donor conferences and in the framework of international financial organizations.

Overall, Kosovo has been a blessing in disguise to everyone involved, except Serbia. The world would have never invested 2-3 billion dollars in this region had there not been a war. Macedonia would have never become an associate member of the European Union had it not been for its contribution to the war effort of NATO. Albania was virtually resuscitated by this serendipitous turn of

events.

Delo: Koe e Vaseto mislenje, koi se okolnostite ili eventualno pogresnite potezi sto ja dovedoa drzavata vo vakva ekonomska kriza?

SV: I commend this inexperienced government for its conduct during one of Macedonia's most difficult hours. Its performance was nothing short of impressive.

The only grave mistake was to ignore the foreign media (a mistake which continues to this very day). Macedonia had a once in a lifetime chance to project a positive image and to disseminate positive information about itself all over the world. But the government was so traumatized and shell shocked that it refused to talk to the foreign media in any meaningful way and when it did – its representatives deteriorated to demagoguery and cheap xenophobia.

It was an opportunity missed, worth hundreds of millions of dollars.

Delo: Kako Vie go gledate izlezot od ekonomskata kriza. Sto e ona sto prioritetno treba da se napravi?

SV: The trust between citizens and the state has vanished. This is the most important priority. You cannot fight an economic war without an army (the people). People don't trust the government, the state institutions, each other and themselves. There is a civil revolt going on – no one pays taxes and everyone is trying to steal as much as they can and to live at someone else's expense. They introduce crime not only as a means for survival, not only in the form of drug escapism – but as a method to settle disputes and to get along in life.

Trust has to be re-established before any talk about

reforms or development. This can be done by fighting corruption – with commitment, openly, mercilessly and indiscriminately. Concurrently, the institutions of Macedonia must be revamped: the courts and the banking system above all. Without functioning, non corrupt, professional courts, customs and police – no one will invest here. Without a reasonable, preferably foreign owned and foreign run banking system, the citizenry will not save and there will be no domestic savings to finance investments.

The economic process is like a body. It stands on the ground – the people. It has two legs: trust and functioning, honest institutions. It has a body – reforms. It has two hands – the public and the private sector. And it has a head – development. Macedonia right now has no ground to stand on because the people are disappointed, depressed, angry and alienated. It has no feet – no functioning institutions and no trust.

Concurrently, we must fight cyclical unemployment. It has a horrendous and increasingly irreversible economic, psychological and human price. It can be reduced. It has been done in the past in many countries. I submitted a report to Minister Ibrahimi about two months ago and he promised to establish a committee to study it which I believe he hasn't done yet.

Another top priority is to encourage exporters and exports. Both by simplifying and rationalizing customs procedures and by providing direct assistance and encouragement.

Delo: Sto e dosega sraboteno i na sto vo momentov rabotite?

SV: I am completing the final report regarding "The

Informal Economy in Macedonia" which contains 60 recommendations and will be submitted shortly to the Prime Minister.

I have completed the first draft report regarding unemployment and have submitted it to the Prime Minister, to the Minister of Labour and Social Policy and to the Minister of Finance about 2 months ago. I haven't heard a reaction from any of them yet.

I finished writing a "Handbook for Exporters" which will distributed in my forthcoming 4 days seminar "Export Transactions and How to Realize Them".

Otherwise, I advise the Ministry of Trade on current matters and am a member in a newly formed committee for the Development of Macedonia.

Delo: Svoevremeno ne se soglasuvavte so tajvanskoto priznavanje. Kakov e sega vasiot stav, od ekonomski aspekt, po toa prasanje, osobeno koga Tajvan se smeta za adut vo programata za ekonomski razvoj?

SV: Taiwan is not an economic issue. It is a highly charged political issue which lies at the heart of the coalition. It is an example of the over-politicization of Macedonian life when people cannot discuss anything without dividing to bitterly opposed political parties. It is not the way to run an economy and it is not a good sign.

Delo: Kako na kraj so problemot TAT?

SV: I can tell you only my personal opinion. Wherever and whenever the state has done something (or refrained from doing what it should have done) and, as a direct result, adversely affected the economic condition of its citizens – it must compensate them. Israel has done so in

1983 and China is doing it currently – and in both cases these were state-mandated pyramid savings or investment schemes. This is why the law of denationalization. This is why almost all the countries in the world have deposit insurance.

But where the state (I am not talking about individual politicians – I am talking about the state as an entity) has not been involved in economic activities – it should not provide a safety net. It should not compensate people for gambling. It should not create situations of "moral hazard" (If I win, I keep my gains – if I lose, the state will compensate me).

Delo: So Vasite izjavi za sostojbite vo bankarstvoto gi nalutivte bankarite. Kako gi argumentirate Vasite stavovi?

SV: Banks, in general, are very primitive institutions. They take money from their depositors and lend it to business. I Macedonia, they don't do either. Almost no one deposits money in Macedonian banks – and they do not lend to business unless it is politically well connected or belongs to friends and family members. So, the "banks" in Macedonia are nothing but channels through which money flows from the state to all manner of recipients.

The loan portfolios of Macedonian banks are so bad that no one wants to touch them.

This, to me, are sufficient arguments. The banks in Macedonia must be immediately sold – almost at any price – to any foreign commercial bank. This is the only hope.

Foreigners – we all know – have no pity. They are likely to immediately get rid of the incompetent crop of bank managers we have today. They are likely to bankrupt

clients who refuse or cannot pay back their loans and thus re-structure the Macedonian economy leaving it with more efficient firms. They are likely to attract depositors. People don't trust local banks but they do trust foreign banks not to disappear with their money or "freeze" it. They are likely to lend money to those sectors of the economy likely to pay it back (growth industries and sound small businesses). They are likely to be a lot less corrupt, nepotist and cronyist.

Delo: Pocnaa pregovorite so MMF i Svetska banka. Kako ke izgleda vo idnina makroekonomskata politika na Makedonija?

SV: Macedonia should maintain its macroeconomic stability. It is a hard gained and important asset. But it should not do so obsessively. Macroeconomic policy is only part of a much larger picture called the national economy. There is the issue of social costs so grave that they threaten the social fabric itself. There are question like unemployment and availability of capital and technological know how, restructuring and the export sector, balance of payments (mainly trade) and budget deficits and so on.

I think that the denar should be devalued gradually to improve our terms of trade and export competitiveness. It would be a wise idea to let it float afterwards.

I think that the central bank should concentrate on inflation targeting. An inflation floor and an inflation ceiling have to be publicly declared and macroeconomic policy has to have as its main goal the attainment of these targets.

I think that interest rates should be reduced considerably

by declaring a re-scheduling of all private sector debt, including non-performing debt and by criminalizing non payment of debts as well as by simplifying and enhancing procedures for collection on collateral.

The insanely high interest rates in Macedonia reflect rigid inefficiencies in the allocation of capital because of a non-functioning banking system and an inflation-phobic central bank.

It is time to look forward in hope and not backward in fear.

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Interview in Makedonsko Sonce

Date: April 7, 2000

MS: Mr. Vaknin, You are well acquainted with the economic conditions of the Balkan Peninsula as well as of countries in Eastern Europe. Where is the RM situated, with regards to its economic development, in the Balkan, in Eastern Europe as well as in European and Global terms. In the same vein, how close or far is Macedonia to the EU?

Sam: Macedonia is very far from becoming a full member of the European Union. Its annual GDP per capita is 10% that of the EU, its infrastructure is in disrepair, 40% of its workforce are unemployed, its industry is obsolete and its agriculture primitive. It is difficult even for Hungary and Slovenia to become members of this exclusive club.

Having said that, it is important to realize that the EU has been transformed lately from a purely economic grouping of nations - to a political-economic alliance. Association is now linked to stability, stability to growth, growth to peace and peace to prosperity and markets. The European hinterland (CEE) and periphery (NIS, SEE) are the natural future markets of the EU. It is a prime interest of Europe to have peace and prosperity at its doorstep, if only to prevent massive waves of crime and immigration.

Hence the invitations extended by the EU to basket cases like Romania, Bulgaria and Cyprus. Compared to these - and compared to Albania, Bosnia Herzegovina, Yugoslavia and even Croatia - Macedonia is more advanced. It is more democratic, its institutions are more functional, less murderous and chaotic. The Macedonian economy is undergoing now painful structural changes

which should have taken place years ago.

MS: What steps should the Macedonian government adopt in its economic plan to finally sign the arrangement with the IMF and with the World Bank, with which credits for Macedonia should be approved?

Sam: Macedonia knows what it has to do and it has known what it has to do in the last ten years. What was lacking was not the knowledge - but the political will and a modicum of courage and leadership. Whatever one thinks about this government - it is confronting difficult issues head on. We have to fire people in loss making factories. We have to reform the banking system by opening it up to foreign investment. We have to collect more taxes by any means necessary - many of these means disagreeable. We have to privatize by selling directly to investors, if there is no other choice. This is a very partial list. And we have to absorb the public's ire and wrath. It is part of the price we have to pay for finally doing what needed to have been done long ago. The delay in the implementation of crucial reforms has cost us dearly. Multilateral financial institutions no longer trust us. The citizens don't trust the state or the banks. The economy is in shambles. There is no capital stock left. the unemployed paid a horrendous and irreversible psychological toll. The very social fabric has been tattered.

MS: The representatives of the government of RM claim that the state is currently on an upward trend of economic development. The opposition claims the opposite and we can hear others saying that we, as a country, are facing economic collapse. According to you, who is right and who is saying the truth - the coalition or the opposition?

Sam: Both. We have to collapse first in order to grow later. This is what the previous governments refused to accept. Decades of socialism left in their wake such devastation that the only sensible thing to have done is to erase everything and to start anew. Instead, previous governments tried to patch things up, to insert a finger in the bursting dike.

The next two years will be horrible. People will lose their jobs. Factories will be closed. The state administration will be cut. The tax burden will increase. It won't be easy. But, if everyone will lend a hand and understand that we have no choice - this too shall pass. A new dawn will rise. The remaining factories will be lean, mean and efficient. The remaining workers will be industrious and conscientious. The remaining businesses will pay taxes. The country will seem much more appealing: modern, streamlined, efficacious, functioning. One has to go on a severe diet to look good later.

MS: Did the RM adopt the most satisfactory model of privatization and what will happen, according to you, with the published revision (review) of the past privatization in Macedonia?

Sam: I haven't followed this subject in almost two years now. I don't think I am in the intellectual position to say anything meaningful about it.

MS: It is a fact that Macedonia has not been blessed by many foreign investors in its economy. Why is it like that and is there a way for our country to attract foreign capital?

Sam: There is very little a state can do to attract foreign investment if there is nothing to invest in, or if foreign

investors are not welcome, or if no real transition to a market economy took place.

Macedonia is in a rough neighbourhood. It is a crossroad. It has no industry to speak of and its agriculture is very basic. So - with the exception of close neighbours like Greece, Yugoslavia and Bulgaria - there is very little to attract foreign investors to come here. There is very little to invest in.

But, then, this was the case in Japan, Hong Kong, Taiwan and Israel - and they became Meccas of foreign investment. How come?

What is common to these "economic miracles" is that they all offered unique opportunities to invest in brains and services (including manufacturing-related services, like assembly). Not in industry and agriculture (where anyhow Macedonia cannot compete with the likes of Vietnam) - but in services and brains. Look at the miraculous transformation of India into a high tech giant.

There are great brains in Macedonia. Its inventors often gain world acclaim. Its young are incredibly computer literate. But this natural resource - Macedonia's brains - is not tapped, it is not mined properly. Instead, the money goes on mineral mines, heavy soot-intensive industries and inefficient agriculture.

So, the first problem is a wrong investment orientation.

The second problem is that Macedonians are xenophobic. You do not like foreigners and you are paranoid and envious. You are constantly engaged in inventing conspiracy theories and propagating them. This is the legacy of the Turkish centuries and Tito's "Brotherhood and Unity", I guess.

The third problem is the poor infrastructure. I am not talking only about phones and roads (and both are lacking). I am referring to proper institutions (non existent here), to functioning and honest courts (science fiction), to impartial and decent media (fantasy), to protected property rights (in Macedonia the concepts of contract and obligation are way too elastic and the only effective enforcement is "private").

The government can do something about the first and third elements. And it is trying to. Closing smokestack industry and opening free trade zones is a step in the right direction. Improving the bankruptcy and competition laws is another. The introduction of VAT is important and so is the encouragement of exporters. The population's resistance to these highly beneficial and correct steps is strong. Here, if you ask me, is one of the two great faults of this regime. We do the right things. But our public relations suck. We don't know how to "spin doctor", to put the right spin on our actions. We did not dedicate enough resources to "selling" ourselves, to "marketing" our activities and to making our image. We are too busy doing things instead of talking about things that we do...

MS: In the period preceding the parliamentary elections in 1998, Mr. Vasil Tupurkovski promised that 1 billion dollars of foreign capital will be invested in Macedonia. Yet, until now, Mr. Tupurkovski did not fulfil this promise. In your view, how well-founded was such a promise made to the Macedonian electorate?

Sam: In the last ten years, from its independence until the end of 1999, the total net foreign investment in Macedonia, according to the National Bank, was less than 26% of 1 billion US dollars.

MS: Is it right to sacrifice political aims of a country to its economic interests? In this context, do you think that the Macedonian government has erred in recognizing The ROC-Taiwan?

Sam: The economic interests of a country are as legitimate as its political ones. A country cannot be strong and safeguard its political interests while its economy is collapsing.

My views about the agreement with Taiwan were published at the time. They were not positive.

MS: The Jewish lobby played a large role in the development of Israel into a powerful and economically stable country. As someone who is well acquainted with the Macedonian situation, what steps should the government of RM adopt to provoke the Macedonians in throughout the world to invest in the country?

Sam: I recently gave a speech in the Canada-Macedonia Chamber of Commerce at the invitation of Mr. William (Bill) Dimitroff precisely regarding this issue.

On the surface, the two situations look identical:

A big, relatively affluent, diaspora situated in critical countries in the West. A small, impoverished country fighting for its survival. Close emotional links between families, communities and friends all over the world.

But there are three major differences which render a repetition of the Israeli-Jewish model impossible unless successfully tackled first:

1. The Macedonians abroad are very fractious. Internecine fighting is very common. Narrow

interests and age-old rivalries and hatreds get in the way of assisting their homeland. Some of them reject the Macedonian identity in favour of a Bulgarian or a Serb one.

2. Many of the Macedonians outside Macedonia have either given up on Macedonia - or regard it as a "milking cow" to be exploited and abused in cahoots with corrupt politicians. Even those who really want and wanted to help - recoil in contempt and disgust in the face of rampant venality, dysfunctional institutions and a bloated bureaucracy.

3. The Macedonian state has done very little to encourage a collaboration with the diaspora. To a large extent, Macedonians abroad are regarded as second-hand foreigners" with ulterior motives. Moreover, the local breed of politicians and businessmen does not like to share the spoils with newcomers. This class guards jealously its "territory" and does not recoil from co-opting organized crime to protect its interests.

The state should recognize the Macedonians abroad as equal partners. It should accord them a privileged status and privileged treatment as foreign investors. It should establish special liaison offices with Macedonian communities abroad. They should have an institutionalized say in any decision that affects them or their interests directly. They should be encouraged to participate in the cultural life of the country. Their children should be brought over here to get acquainted with Macedonia. There are many more steps. But the first step is to recognize that where a Macedonian is - doesn't matter, it is a mere accident of history. That all

Macedonians are equal in the eyes of time.

MS: What is the safest way to compensate the savers of the pyramid savings houses in RM, especially the TAT savings house of Bitola?

Sam: Education. When something is too good to be true - it is not true. When an offer or a product deviate from logic, reason and market principles - walk away.

But Macedonians are easy prey. They fall for crooks and quacks and soothsayers and superstitions and conspiracy theories. They fall for it not because they are stupid. Macedonians are sharp and entrepreneurial folk. No, they fall for it because it is often better to live in a false paradise than in a true hell. People escape into telenovellas and games of luck and gambling and "get rich quick" pyramid schemes. As long as people prefer an imagined future to a real present - such events will recur and there is nothing the state should or can do about it.

MS: Will the Macedonian economy and its standard of living be affected by inflation in the near future?

Sam: Inflation is a situation when there is a lot of money chasing few goods and services.

Macedonia is an illiquid and demonetized country. People used up all their savings. Purchasing power has been depleted to the maximum. Inter-company debt is gigantic. Wages are in outlandish arrears.

In Macedonia there is almost no money confronted with numerous small businesses and their offerings.

This is called DEflation - not INflation.

Macedonia is in risk of deflation - when prices spiral down, factories lose money and fire workers who then - devoid of income - drive prices further down.

In this year of the introduction of VAT, I cannot see inflation exceeding 5-6%.

I won't be at all surprised if, at the end of the year, we will discover that prices almost did not budge.

MS: As I believe that you know, there are questions on the internet, staining your doctorate with the claim that it was not obtained in the regular manner but through correspondence. Your comment?

Sam: On the internet - and not only on the internet but in real life Macedonia - there are many nagging questions. An I a spy? Am I a criminal? Am I "operating" alone or is some mysteriously conspiratorial organization backing me? What is the purpose of my stay here? Am I working in favour of Macedonia - or really against it at the service of its enemies? Am I a real Ph.D.?

Start with the last question:

I acquired my Ph.D. using credits from the "Technion - Israeli Institute of Technology" in Haifa, Israel (8 semesters) and "Pacific Western University". The latter was a real, accredited, university in California. I obtained my doctorate in 1982 (major: Physics). My doctoral dissertation can be obtained here:

(the UMI microfiche service):
http://wwwlib.umi.com/dxweb/gateway
or, by phone: 1-800-521-3042
It is titled "Time Asymmetry Revisited"
(by Sam Vaknin, 1983 or 1982, I am not sure in which

year they accepted it)

A few years ago, my alma mater merged with others (I don't quite know the details, I have been a bad alumnus). The source of the confusion is that there is an outfit in HAWAII called "Pacific Western University" which, I believe, is, indeed, a distance learning university. About 50% of all students in the world obtain their degrees through distance learning programs, by the way. The very question raised indicates pettiness and ignorance of modern education.

Moreover, most financial experts in the world come from a background in physics and mathematics. I am often attacked by certain ex-socialist, current-capitalist sunflower (soncogled) "professors" of "economics" as a non-professional (being a physicist and not an economist). I encourage them to study English and read professional economic literature. It is full with ex-physicists and ex-mathematicians turned financial experts.

Let me dispel a few myths:

I never heard of a spy who constantly exposes himself to the local media and who comes back to the same country after he left it.

I never heard of a criminal who doesn't charge a denar for the hundreds of articles he wrote and published or for the dozens of seminars he gave all over the country.

I never heard of a person who has anything to hide, a reason to be afraid - and writes so freely and, I might add, courageously, in all the papers of his host country.

I contributed a lot to this country and I am proud of it.

Wherever I live is my home and wherever I see injustice - it is my business. These are good principles to adopt. They might bring about the changes we are all waiting for.

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Second Interview in Delo

Date: March 31, 2000

Delo: "After the Rain - How the West Lost the East" is the title of your last book which consists of a two-parts thesis. The first part of the thesis is that "the West missed a unique historical opportunity to unite Europe". Could you please explain: why unique?

SV: In the last millennium, Europe was caught in a pendulum movement between integration and disintegration. Only 200 years ago, Europe was composed of more than 600 political entities (380 of them in the area of today's Germany alone!). People like Charlemagne, Napoleon and Hitler all had visions of a unified Europe. The European Union is a much more benign version of the same dream. The modern nation state was an equidistant compromise between the two poles. It integrated many political units within a political union called the "nation" – but the nation was also an exercise in segregation and separatism – a "we" against "they". This becomes abundantly evident now that self- determination went amok and every village aspires to be a state and a nation and YET be a member of the EU!

The collapse of communism afforded a unique opportunity in that, for the first time in European history, there was a viable and functioning truly European alternative in the form of the European Union. Non-violent, prosperous and enlightened – it was the envy of the belligerent and dilapidated remnants of the old nation-states system. The countries of CEE and the Balkan were willing to shed some of their sovereignty in order to join these exclusive clubs: NATO and the EU. For the first

time in history, a unified, integrated, peaceful Europe was within reach.

But, instead of grasping at this fantastic opportunity – the West recoiled, procrastinated, bluffed and hesitated. The opportunity was missed. The tide turned. Public opinion on both sides of the fence changed. The dream transmogrified into a nightmare of bureaucracy, hostility and warfare.

Delo: Are, in this case, the recent initiatives of the Pact of Stability, or the Stability and Association agreement between Macedonia and EU only an endless trial at "parallel friendly walking"?

SV: It is too little and too late. The nations of Europe do not support integration now. The post-communist delirium waned. The Wessies (West Germans and, by extension, West Europeans) – are repelled by the Ossies (East Germans and, by extension, East Europeans). The Ossies distrust the Wessies. The former detest the corruption, the venality, the inefficiency, the lack of ethics and the crime. They are terrified by the spectre of waves of destitute immigrants drowning their national accounts in welfare costs and competing for scarce jobs. Haider is a typical reaction – there are similar movements everywhere in Europe, from France to Scandinavia. These are xenophobic allergic reactions to immigrants from CEE and Southeastern Europe (also known as the Balkans).

The Stability, Growth and Association Pacts and Agreements are stopgap measures, aspirin to cancer patients. The "civilized" Europeans simply don't know what to do with the Barbarians at the Gate. They stall. They invent agreements they have no intention to fill with content. They peddle dreams and fantasies. They wait.

They hope that time will heal all wounds, that somehow the situation will resolve itself. But it won't and sooner or later the peoples of the Balkans will try to cash the check. When the hollowness of the promises, the emptiness of the visions, the insincerity of the ceremonies is exposed – there is bound to be a great upheaval and a backlash. The seeds of future conflict – between rich and poor, south and north, Slav and Latin or Anglo-Saxon – are being sown. They who sow wind shall surely reap a storm.

Delo: The second part of the thesis, which you considered as the cause of the first one, is that the battle is lost because "the peoples of Central, Eastern and Southern Europe are beyond salvation, deformed and pathologized by communism irreconstructibly". Why do you consider the battle as irreversible lost?

SV: It is lost for as long as the people who were exposed to the poison of socialism and communism are still alive. These generations were corrupted and pathologized. They were weaned on brainwashing, lying, venality, criminal habits and hypocrisy in debilitating quantities. In other words, they have been abused and traumatized. Future generations are likely to be healthier, no matter what bad habits they absorb through their "education" and socialization processes. This is the only hope.

Delo: Your origin is from the east side of a world divided in two polarities, a political division (ex communist versus capitalist countries) and a spiritual divide (Asian versus Western civilization). This is how come you are acquainted with the Eastern mentality. Do you think that the missing of that intention (except the communist experience) might be attributed to the essential distinction between these two completely different entities: the mentalities of West and East? Does this distinction

prevent fostering an homogenous totality based on Western principles and is economic globalization (the homogenous capitalistic model) a unique opportunity to unite the continent?

SV: Two historical influences are directly responsible for the schism between East and West: the Ottoman Empire and Communism. Both empires acquired Byzantine hues in the Balkans and Germanic / Austrian leanings in CEE. The Ottoman Empire influenced Europe both by directly ruling its Southeast and by threatening and adumbrating its heartland. Communism and its more benign variant, socialism, engulfed even more of Europe though for a fraction of the time. Still, the two shared a few characteristics: authoritarianism, bloated, stifling and senseless bureaucracy, venality, ruthlessness, hypocrisy, indoctrination, suppression of minorities and their national aspirations, etc. I do not understand the term "mentality". I think it is too vague to be conducive to a meaningful and constructive discussion. But I do believe that centuries of trauma, abuse, wrong role models, vile education and anti-social socialization – led to the emergence of a personality disorder on a massive scale among the populations subjected to such treatment.

Capitalism is not the panacea, nor is it a unifying principle. To start with, there are at least three competing models of capitalism. Additionally, capitalism is first of all a state of mind, a social and cultural biosphere, all-pervasive and all-encompassing. One cannot study (or teach) capitalism from books, it is not a recipe. Its – now triumphant – Anglo-Saxon version (as practised mainly in the USA and the UK) is not fully compatible with the "East". Major modifications are called for, especially as concerns the supremacy of money as a value and social

cohesion and solidarity as inevitable costs.

I would hate to see a continent united on the basis of a pale imitation of America. The uniting principle should be the very plurality and diversity of this magnificent part of the world. The secret is in assimilating the good qualities of each of the constituent members – East and West alike – and not in homogenization.

Delo: Can we say that the case with Macedonia is more complex, considering itself as a bridge across those two polarities. Do you think this clash between its desires its and roots is responsible for its situation (political, social, ethical...) and leads to more paranoia?

SV: I think that Macedonia is closer to certain parts of Europe than to others. It is reminiscent of Naples, south France and Spain, Greece, Bulgaria, Yugoslavia and Turkey. It has very little in common with Austrian Waltzes and Buckingham Palace. Yet, in a curious reversal of an unjustified – I emphasize: absolutely unjustified - sense of inferiority, the Macedonians narcissistically regard themselves as being a part of the "other" Europe. This is common behaviour in all "bridging" countries. Israel, Slovenia and Croatia are other examples of countries, which pretend to be what they are not and get horribly offended if reminded of what they are.

Macedonia can fulfil the role of an intermediary and go between the diverse civilizations only if it maintains its authenticity and genuineness. Only by being what it really is can it contribute to a world, which thirsts for the different and the unique. Becoming a cheap and preposterous imitation of others – is a guaranteed cul de sac.

The main tension in Macedonia is not between East and West. The West failed to penetrate Macedonia meaningfully and it remained pretty well insulated. Macedonia is still a bastion of the East.

The tension is between the principles of the nation state and the tenets of liberalism. Is Macedonia primarily the state of the Macedonians or is it a state of its citizens (including the Albanians)? What should be preferred – the individual or the state (the common good)? The individual, or the family? In a way, it is a clash between modernity and the very foundations of a still rural and tribal society.

There is also a crisis of identity – or, rather, the emergence of one. To some Macedonians, the distinction between being Bulgarian and being Macedonian is vague. To others, Macedonia is still a part of Serbia. The majority tries to grapple with the history, the language, the territory. It is all in very disorienting flux: borders, dialects, loyalties, national aspirations.

Delo: You received a combined doctorate of philosophy and physics, but you turned to economics. On the other hand, you consider psychology to be a complementary science to economics. You also elaborate on a struggle between East and West... Do your interests converge on the theme of a struggle between the material and spiritual? How you solve it in your philosophical conception: in Hegel, Adorno, Nietzsche or Kierkegard's way?

SV: I am sorry to disappoint you, but I am a materialist to the core and, philosophically, probably the last positivist. In other words, I do not deal with information that cannot be communicated (like personal experiences) and I do not waste my time on questions that cannot be answered (is

there a God and so on). I am, therefore, an agnostic.

Still, I do tend to think that all the branches of knowledge are manifestations of essentially the same "thing". Reality is monolithic. It is our shortcomings as finite humans that prevent us from grasping the totality. Therefore, yes, I believe that economics, psychology and philosophy are all facets of one and the same reality.

Delo: The other two parts of the book are analyses borrowed from the spheres of economics and history. How do these complete the totality of the book and your thesis?

SV: One can hardly advance a thesis, which pertains to both history and economics without relying on historical and economic facts. What I tried to demonstrate in the "historical" part is the inordinate power of myths in this region – mainly the power to generate more myths. In the economic chapters I dealt with some phenomena, which are particularly relevant to this area (intellectual property, the IMF, the New Rich, etc.).

Delo: Our older men used to say "After the rain..." comes the sun. The younger generations have another motto. A few years ago, one Macedonian band recorded an album called "And After Tito - Techno!" Do you think the new techno generation is already born?

SV: Yes, I do. Just look around you. It is not only a question of musical preferences. It is a more independent, less brainwashed breed. They respect nothing by decree. They question everything. They doubt everyone. They taste life early on – from sex to travel abroad. They are tuned in. They are open to the world and, in return, the world is open to them. They are the rainbow after the rain: colourful, overarching, promising.

Delo: There are a lot of reactions to your articles. In this forthcoming issue of Delo there is one of them. What do you think about these minds?

SV: In ancient Rome, they used to kill the messenger who brought bad news. It is never easy to be a mirror - people often want to break it. Macedonia's only hope is if faces its shortcomings, character failures and past with no denial and no suppression or censorship of the truth. There is a mentality in small, landlocked countries of "hush-hush", of "let us not launder the dirty linen in public", of "why stir trouble and cause turbulence". This is wrong. Wounds heal only when exposed to fresh air. To be realistic about one's capabilities and goals - one needs to face oneself without flinching. It is only through confronting unpleasant truths that we grow and change. I don't mind paying the price. I will continue to serve Macedonia and Macedonians by being their faithful mirror - though I do not guarantee they are going to like everything they will see in it.

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Interview with Pravda

Macedonia, Now and Then

Date: August 14, 2001

Interviewer: Chris Deliso

Q: What duties did you have as economic advisor? When was this post created? By whom?

A: The post was created in autumn 1999, immediately after the elections. Two outside consultants were hired: Mr. Ante Markovik, Yugoslavia's last Prime Minister, and

myself. My job consisted of gathering economic data, analyzing it, proposing policy alternatives, drafting laws and international tender documents and reviewing decisions made by various economic Ministries. The post was created by the Prime Minister of Macedonia, Mr. Ljubco Georgievski and by the then Deputy Prime Minister, Mr. Vasil Tupurkovski. I left the position last month.

Q: How significantly did the forced influx of Kosovar Albanians from Spring '99 affect Macedonia economically?

A: Politically, Kosovo was and is a threat to Macedonia's very existence as a unitary, unified, sovereign, and autonomous homeland to the Macedonians (by the way, I am an Israeli, not a Macedonian). Economically, though, it was a mixed blessing. On the one hand the burden of accepting, harbouring, feeding, and accommodating c. 300,000 refugees (equal to 15% of the population) was crushing. Macedonia's infrastructure nearly collapsed under this sudden onslaught and due to the heavy use by NATO/KFOR. Macedonia was never fully compensated for these outlays. The West has honoured less than 25% (!) of pledges it made in donor conferences. Moreover, the imminent threat to the very social fabric of Macedonia caused Western firms (mainly Germans and American - less so Greek) to cancel manufacturing orders and sub-contracting of textile production. Agriculture has suffered badly due to the effective blockade imposed by NATO's siege of Kosovo, the devastation of the Danube bridges and the throngs of refugees. The wine and tobacco industries were virtually demolished. Still, NATO has spent hundreds of millions of DM's in Macedonia since 1999. An influx of 10,000 well-earning foreigners (mainly

employed in more than 60 branches of NGO's established here) also offset some of the damage by revitalizing the services sector. And Macedonia was rewarded by being integrated into pan-European structures (e.g., its stabilization and association agreement with the EU) or southeast European ones (e.g. the Stability Pact).

Q: George Soros' organizations pumped a lot of money into Macedonia in the 90's. Some have alleged that this was a case of "Greeks bearing gifts" and that he was trying to buy the country's future policy direction. Is this a legitimate criticism?

A: No, it is not. Soros invested close to nothing here. He did encourage a series of modest cultural efforts and did provide free internet ISP services to NGOs, the media, and academic institutions but that was just about it. Perhaps Macedonia - with 3.5 billion US dollars in GDP - is simply too marginal and inconsequential...:o))

Q: Is Macedonia now in better or worse shape economically than it was in '99? Why?

A: In some ways it is better off, in others much worse off. The young and dynamic Minister of Finance of Macedonia, Mr. Nikola Gruevski, has succeeded to pass through parliaments dozens of modern economic laws, thus equipping Macedonia with an advanced economic legal infrastructure. The state sold or shut down most of the loss making industrial behemoths, thus considerably reducing budgetary strain. Foreign direct investment (mainly Greek, but also German and Slovenian) has qauntupled. Privatization made great (and highly controversial) strides. The local telecom was just sold to MATAV. Macedonia's biggest bank, Stopanska Bank, was sold to the Greek National Bank. At the beginning of the

year, the introduction of VAT caused the budget to be in surplus and allowed the state to accelerate the repayment of its obligations to its citizens. GDP has increased by 5% and things looked rosy. The country was even contemplating obtaining a sovereign credit rating and issuing international bonds. The only blight was an ever growing trade deficit which may have been the outcome of an overvalued currency. But the eruption of the insurgency by the NLA has changed all this painfully. With the exception of some deals with the Greeks already in the pipeline, all FDI ceased. Trade collapsed by 20%. Industrial production plummeted by almost 9% (from an already dilapidated base). Manufacturing orders and production contracts were called off. Airlines cancelled their routes to Skopje. Most foreigners left the scene. The IMF did not renew the arrangement with Macedonia and the EU has suspended credit and aid facilities in an effort to exert pressure over Macedonian decision makers to show more transigence in the negotiations with the Albanians. The damage to the country's image as an investment destination is irreparable and irreversible. As taxes collected diminished and the need to finance what became a civil war became more pressing, the budget swung to deficit.

Q: Northern Macedonia, along with Kosovo, is the lawless European crossroads for drug, weapons and sex trafficking. Albanians have been largely linked with this. Are there only Albanian gangs, or are there also Macedonian ones? Is organized crime permitted in Macedonia (i.e., corrupt politicians)? And is suppressing the black market in Macedonia's best interest, anyway?

A: Drug trafficking is only one of a series of criminal economic activities typical of the region. Cigarette

smuggling, white slavery, illegal immigration, cross border trading in light weapons, piracy of intellectual software and much more besides. Macedonian and Albanian gangs collaborate in these activities under the protection (and profit sharing) of corrupt politicians and officials in the kleptocracies that pass for governments in these countries. The informal economy is comprised of both criminal activities and tax evasion. I think that the informal sector is the most vibrant, entrepreneurial and employment-creating one in Macedonia and should be left to its own beneficial devices until the state sorts out its own act. In the absence of impartial and functioning institutions - courts, banks, tax administration, customs - Macedonia is blessed to have a black economy.

Q: It is well-known that the ethnic Albanian rebels in Macedonia are financed from abroad, particularly by groups in Switzerland and the U.S. Is there any evidence that advocacy groups, such as Joe DiGuardi's Albanian-American Civic League, are involved in this? And, is it known what percentage of their weapons-buying funds are garnered from criminal profits?

A: The NLA is not a monolithic entity. It is more like an umbrella organization with serious and fracturing differences of opinion regarding the ultimate goals the insurrection and the means to obtain these goals. Roughly, it is made up of one third veteran Kosovo fighters, some of them professional soldiers, who also fought in Croatia, or in the Foreign Legion. These people are bitter and disgruntled by what they see as the betrayal of the West in refusing to guarantee an independent Kosovo and the failure of the current Kosovar leadership to integrate them economically into the emerging polity there. Their motives are part emotional and part pecuniary. Another

third is made of unemployed, young Albanians, mainly from Macedonia itself. Their fighting is self-interested. They get a monthly salary and perks and, lacking education and skills, they don't have much of a choice outside the killing fields. The rest are diehard, hardcore, idealists who either fervently espouse a Great Albania, or would like to take over Western Macedonian in a "constitutional coup" which will grant them their own police force, municipalities, institutions, universities, budgets, and semi-political structures. The NLA itself is not directly involved in criminal activities, though a few of its members are. But the money that finances it (from the Czech Republic, Switzerland, Germany, and the USA) is tainted by drug dealing, white slavery, illegal immigration, and the smuggling of everything illicit, from cigarettes to stolen cars, to weapons. In this they collaborate with politicians and criminals in Macedonia - both Albanian and Macedonian. Lobby groups, such as the one you mentioned, are not known to be involved in crime, though.

Q: A couple months ago, Albanian terrorists threatened that the northern Greek province of Epiros would be their next target. Should this threat be taken seriously? And if so, do you foresee attempts by Albanian terrorists to disrupt the Athens Olympics of 2004?

A: I think that Montenegro is next in line, followed by Greece. Both have restless Albanian minorities. Albanian terrorists, in both Kosovo and Macedonia, have hitherto never acted in the manner of Palestinian terrorists (hijacking planes, disrupting international events, etc.). They clung to their "constituencies", recruited from the rural population, obtained logistical supplies (food, medicines) from the hinterland via short supply lines and

attacked, largely, only the military and the police.

Q: In 1999, could you have been able to predict that this current crisis in Macedonia would be taking place now?

A: I have. In many of my articles. Visit my web site.

Q: Looking five years in the future, what will become of Macedonia? Will there be a "Greater Albania", and will other Balkans countries' borders be redrawn?

A: Look five years into the past and you will see that Balkan borders HAVE been redrawn. Kosovo has been separated from Serbia. Bosnia is divided to three. The border between Slovenia and Croatia has changed. The only long term permanent and stable solution to the Eastern Question involves changing borders and exchanging populations. The great tragedy of the Balkan is the ignorant and self-interested involvement of the Western Big Powers and their agents, the multilateral organizations (such as the IMF) and the NGO's. But then, Big Powers involvement has always been the Balkan's misfortune.

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Interview with Balkanalysis
First and Last Days in Kosovo

Date: March 27, 2004

Interviewer: Chris Deliso

Reaping the Fruits of Intervention: Dr. Sam Vaknin on the West's Quagmire in Kosovo

NATO recently celebrated the fifth anniversary since its bombing of Serbia and "liberation" of Kosovo's Albanian population. The intervention was called a successful one by key players such as Wesley Clark, Javier Solana, Madeleine Albright, Jamie Shea and Bill Clinton. Yet now, five years later, NATO is increasingly finding itself caught in the crossfire of ethnic hostility, as the restless Albanians clamor for independence and the besieged Serbs demand NATO protect them from their persecutors. And acts of terrorism have been stepped up against both the KFOR military peacekeepers and the UNMIK colonial administration.

Given the optimistic prognosis forwarded by Western interventionists at the time, how could everything have gone so horribly wrong? Was the current quagmire to some extent foreseeable, or not? And what can the current violence tell us about the future of this embittered Balkan sub-state? For answers to these questions and more we turn to longtime Balkan resident and analyst, Dr. Sam Vaknin.

Prophesies, Partitions and the Future Map of the Balkans

Q: In a provocative piece dated 14 June 1999, entitled "NATO's Next War," you prophesied that the then-triumphant NATO occupiers would become the object of disdain not just for Serbs but for 'liberated' Albanians-and in the end wind up the ultimate losers of the war. History, it seems, has proven you right. KFOR and UNMIK officials and facilities have been increasingly targeted in Kosovo in the past few months, and especially since last week's riots in Mitrovica and elsewhere. Yet from your article one got the impression that the reckoning would arrive somewhat sooner. Are you surprised that it took a whole 5 years for tensions to reach the boiling point?

SV: Very much so. The West invested fortunes – billions of dollars (and euros) in maintaining this illusory truce. In a way, the West bribed both the local politicians and Kosovo's impoverished population (as it has been doing in other conflict regions). Additionally, it capitalized on the adulation and the Albanian Kosovars' overwhelming pro-Western sentiments (the main street in Pristina is named after Bill Clinton).

But I did expect this inevitable confrontation to start much sooner.

CD: Your article seems to overestimate the gains Serbia would make from the crisis. You wrote: "…Materially revamped, nationally revived, militarily vindicated, an invigorated power that withstood the mightiest alliance in history, Serbia is in an excellent position to emerge as an important, nay, indispensable regional player."

However, five years later, Serbia has enjoyed neither economic growth nor territorial solidification. On the contrary, aside from Kosovo's independence there are ever more likely possibilities of autonomy and/or independence for Montenegro, Vojvodina and eventually, perhaps, the Sandzak. The Hague still demands the extradition of various "war criminals." Considering that your article seemed quite optimistic regarding Milosevic's future, is it possible to say that your assertions about Serbia were inextricably tied to a belief that Milosevic would remain in office?

SV: Like most analysts I foresaw the extradition of Milosevic and the subsequent trial. I also predicted the emergence of Milosevic-clones and the inevitable takeover of state structures and institutions by the criminal class.

Moreover, I firmly believe in what I wrote:

Serbia is bound to emerge as a pivotal strategic and economic factor in the southwestern Balkans.

Where I failed is, again, in providing a realistic timetable. I simply did not envisage the West's collusion with the local mafias (as represented, for instance, by the late Zoran Djindjic and by the long-serving Montenegrin President, Milo Djukanovic).

In Serbia, the West has wasted precious time (and an inestimable amount of goodwill) on pursuing and purging minions of the ancien regime (Milosevic apart), on imposing the notorious Washington Consensus (a surefire recipe for economic decline), and on aiding and abetting an assortment of indigenous crime lords and murky power

brokers.

CD: Nevertheless, even from his jail cell in the Hague, Milosevic has had the last laugh time and time again. The frustrated prosecutors can't pin the desired charge of genocide on him amidst various challenges to witness credibility and spirited cross-examinations from the defendant. It is obvious that Milosevic incarcerated has a symbolic prestige he never had while in power. But do you think that the situation in Kosovo has gone as he had planned?

SV: I would beg to differ. Milosevic between 1989 and 1994 had a lot of clout among his people. He was an admired politician, thought to capture the spirit of a resurgent, proud Serbia.

I don't think he had any "plan" as far as Kosovo is concerned. He simply wanted to eradicate what he regarded as criminals in cahoots with terrorists – and many Kosovars considered as freedom fighters.

A typical Balkan policing operation was labeled "Ethnic Cleansing" by the West (mainly by the Americans) and treated as genocide by the emerging system of supranational courts.

Milosevic could not have foreseen these surrealistic turns of events. He reacted as any besieged self-respecting politician would have. He fought back.

CD: That said, will the province be partitioned? And, if so, will there be a knock-on effect for other ethnically estranged territories, such as Republika Srpska in Bosnia and the Albanian-populated sections of Greece

and Macedonia?

SV: Cosmetic and face-saving alterations to its borders aside, Kosovo, in one piece, will end up being an independent state. The Serbs and even the West have no say in this. It is entirely the Albanians' call.

Secession and partition are not new to the post-Yugoslavia Balkans. The West's feigned horror aside, the only viable long-term solutions to the Balkans quagmire(s) involve the (voluntary or forced) exchanges of population and the (negotiated or belligerent) alteration of borders.

Ironically, the interventionist West itself is responsible for the relocation of whole populations (such as the Serbs in Kosovo) and for the demarcation of new borders everywhere (need I mention Serbia, Bosnia, Slovenia, or Croatia)?

CD: Could an independent Kosovo survive on its own?

SV: What country in the Balkans – Slovenia aside – can truly survive on its own? Is Macedonia a viable economic entity? Is Bosnia? These are all charity cases and will continue to be so for a long time to come.

As an autonomous unit within the Federated Yugoslavia, Kosovo survived on massive handouts from the center. The West has now replaced Belgrade as Kosovo's (and Macedonia's and Serbia's and Bosnia's) sugar-daddy.

CD: Who should fear most in the case of a 'Greater Albania?'- neighboring countries, the West, or the Albanian residents themselves? Could such a construction even survive after the initial euphoria subsided without lapsing into civil war?

SV: "Greater Albania" is a boogeyman gleefully exploited by non-Albanians in the region. "Greater Serbia" and "Greater Bulgaria" (even "Greater Greece") are far more realistic (and they are not).

Moreover, Albanians are not a homogeneous lot religiously, or ethnically. Kosovars do not get along with Albanians from Albania and vice versa. Albanians in Western Macedonia have a disparate agenda. The dream of "Great Albania" is a pipe-dream.

An Economy Deferred

CD: In another article from last year, entitled "Kosovo's Iraqi Lessons," you cite many examples of bureaucratic stonewalling due to the unresolved status of Kosovo. These, you argue, have had the cumulative effect of stymieing economic growth. Starting companies, getting licenses, dealing with insurers, conducting banking, etc. have been difficult at best and impossible at worst. To the best of your knowledge, has any significant process been made towards implementing legal and other reforms that will facilitate business since you wrote this article? If not, why not?

SV: I regret to say that nothing of substance happened in the eleven months since this article was written. The Kosovar leadership, however, is now determined to take things in its own hands. Shortly, it will demand far greater

economic autonomy and decision-making powers. This may be the first institutional salvo in the battle for independence – not from Serbia, but from the stifling Western bureaucracy.

CD: Out of the total stock of Kosovar Albanian grievances with the West, what percentage of these grievances do you see as stemming from such economic failures?

SV: Zealous (or virulent) nationalism is very often a symptom of economic malaise. The state of Kosovo's economy is among the worst in the world. It is comparable to the West Bank and Gaza.

Unemployment is vertiginous. The manufacturing and agricultural bases are moribund. Only the construction sector somehow chugs alone – and crime, of course: Kosovo's main product and export.

Inevitably, this translates into frustration and aggression. This is psychology 101. Independence attains the mantle of a panacea and Serbs (and increasingly Westerners) are viewed as obstinate and infuriating obstacles on the way to happiness and prosperity.

CD: Given the current unrest and disdain for foreign advisors who are perceived as being corrupt and meddlesome, will the future Kosovo government suffer from a lack of imported insight? If so, what effect would this have on the province's economic reform process and economic strategy?

SV: The Kosovar government is actively seeking the help of real foreign advisors with hands on experience – especially in the economic field. The current crop of "foreign advisors", imposed on Kosovo by its benefactors, are either lethargic bureaucrats or fourth rate economists from third world countries. It is in places like Kosovo that the West dumps its damaged goods and surplus university graduates. But the Kosovars are eager for useful and relevant foreign input.

Political Myths and Machinations

CD: Let's go outside of Kosovo for a moment. To the best of your knowledge, are there any factions within the government of Albania proper, or its political parties, who may be sponsoring the latest round of violence in Kosovo?

SV: The recent violence in Kosovo was not the outcome of conspiracies and machinations, neither was it carefully planned and executed. Mitrovica has always been a flash point. Tempers have been running high for years now. Recurrent conflagrations are unavoidable. There is no need for outside assistance or encouragement.

CD: Same question, regarding the Albanian leadership in Macedonia.

SV: Due to personal and historical reasons, the Albanian leadership in Macedonia is far closer to the Kosovars that their counterparts in Albania proper. So, yes, they were kept updated throughout and gave words of advice here and there.

But the inner turmoil in the Albanian camp in Macedonia

is such that it consumes all their energy and resources. The forthcoming presidential elections have exposed deep rifts. Erstwhile extremists (dare I say "terrorists") have been tamed by lavish sinecures and exorbitant personal gains. Erstwhile moderates now clamor to replace them as new radicals. Violence and zealotry have proved themselves as engines of upward social mobility and self-enrichment.

CD: Can you offer any insights on the specific power dynamics at work these days within the Kosovo leadership, i.e., between people like Rugova, Rexhepi and Thaci? Can the current manifestation of violence be seen as a sort of power struggle between various Kosovar political factions?

SV: No, it isn't. One shouldn't read too much into the latest riots. Rugova is firmly in charge because he is holding the purse string (and what a purse it is!) and because he is a Western favorite. Thaci has been domesticated by the trappings of power and the dangling prospect of a Hague ignominy should he bare his armed teeth.

CD: Speaking of Hashim Thaci, at the time of the riots he was far away in America, addressing the US Institute for Peace regarding his great sorrow at the violent events occurring in Kosovo, and pledged his "vision" for a multi-ethnic and harmonious Kosovo. Yet given his background as a high KLA leader and given that some suspect his involvement with actually having sponsored the latest riots, what credence do you give these stated views?

SV: No Albanian leader – Rugova and Thaci included – wants a multi-ethic Kosovo. They can do without this

headache. They publicly say otherwise only to placate the West and keep the foreign aid flowing.

Still, almost all of them do wish to see a peaceful and prosperous Kosovo (if only for selfish reasons of political self-perpetuation and self-enrichment). The sentiments are false – the wishes fairly true, I believe.

CD: That said, do characters like Javier Solana really mean business when they declare the need to 'purge' the Kosovo leadership of militants? Do UNMIK and KFOR have the guts to really be tough on troublemakers, or is this just a symbolic threat that should not be taken seriously?

SV: It is not a threat but a classic manipulative lever. Do what we, the West, tell you to do – or you will end up in the Hague (or worse).

The Humanitarian Disease and NATO's Impending Defeat

CD: In your first article mentioned above, you predicted that NATO had "contracted the humanitarian cancer" and that its "days were numbered." Can you explain more precisely what you mean here, and at what stage the organization (which is, after all, presently expanding east) is now at with this terminal disease?

SV: NATO – as a military alliance - has died a while back. It is now engaged mostly in peacekeeping and humanitarian aid operations. Its roles are to mop after the United States and to assist the United Nations peacekeeping forces. Its expansion is meaningless. It does not possess the military wherewithal to threaten any

country – or to defend it.

Both the USA and the European Union have accepted NATO's demise as a fait accompli.

In the last few years, the USA has been going it alone militarily. It doesn't even bother to "consult" its "allies" in NATO (also known as the "Old Europe").

The Europeans are frantically trying to revive old military structures and infuse them with some might and content. Hence the non-NATO European rapid deployment force, for instance.

CD: Let me present you with a scenario: Kosovo Albanian protestors threaten KFOR peacekeepers so violently that the latter have no choice but to shoot back, wounding or even killing a number of the protesters, sparking popular outrage, renewed protests and soon, heavy fighting. NATO, caring only for its own self-protection, flees the province with its tail between its legs, allowing the Albanians to continue "cleaning up" the vestigial ethnic minorities left.

What is the likelihood of such a scenario actually happening? And, if not this, can you speculate on a more likely scenario for the next 6 months in Kosovo?

SV: KFOR has been fleeing Kosovo for years now. It is a shadow of its former self. I don't think it will openly evacuate the province. But it may seek a negotiate way out ASAP.
What Serbs are left to cleanse, by the way? Vestigial they are, indeed.

I don’t know about the next six months, but the Kosovars just discovered assertiveness. They are going to demand independence ever more vocally and violently. And, to no one’s surprise, they are going to get it.

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Macedonia's Economy 2008

A Dialog with Dan Doncev

Dan Doncev is a former CEO of Makedonski Telekom, a former member of Macedonia's parliament, and a columnist in Fokus, Macedonia's largest newsmagazine.

VAKNIN

I have often accused Trajko Slaveski, Macedonia's Minister of Finance, of mismanaging the economy. But, you got to hand it to him: he has a great sense of humor. On Saturday, August 16, 2008, he visited Bitola and made these announcements, hereby copied faithfully from MIA and Nova Makedonija:

"Инфлацијата во земјава е под контрола, изјави викендов министерот за финансии Трајко Славески во Битола, одговарајќи на новинарски прашања.
- Инфлацијата во јуни во земјава падна за еден процент, а што е поинтересно, во САД на пример таа порасна за еден процент. Последниве четири месеци имаме многу ниски месечни стапки. Од почетокот до крајот на годината стапката на инфлација ќе биде 3,2 отсто, а проекцијата беше таа да изнесува околу 5,5 проценти, што значи дека инфлацијата во Република Македонија е под контрола - истакна Славески, кој додаде дека во моментов во државниот буџет има суфицит, односно повеќе приходи од расходи.
Во врска со економскиот пораст во земјава

и различните проценти на Меѓународниот монетарен фонд (ММФ) и македонската влада, Славески рече дека до крајот на годината се очекува порастот на бруто-домашниот производ да ја надмине проектираната стапка со ММФ и таа, според проценти на Владата, да биде над шест проценти.
- Потребен е уште еден месец за да ги добиеме конечните показатели за порастот на бруто-домашниот производ во вториот квартал. Првиот квартал беше 5,1 проценти. Неофицијално, според последните анализи на податоците, во вториот квартал, до 30 јуни, бруто-домашниот производ ќе биде со нешто повисока стапка и очекуваме до крајот на годината да ја надминеме проектираната стапка со ММФ, која според нашите проекции ќе биде над 6 отсто - појасни министерот."

The Minister later responded to my request for clarification (to his credit, he always does). Apparently, he was misquoted. What he did say is that cumulative inflation being 3.2% in January-July, it looked as though the target of 5.5-6% annual inflation in 2008 is well on its way to being met.

It's uncanny how the government of Macedonia - alone in the whole world - gets all its predictions right, courtesy of the ever-pliant Bureau of Statistics here.

Moreover, the Minister, aware of the abysmal ignorance of both journalists and citizenry, manipulates public

opinion by comparing oranges to apples: inflation in the USA is not the government's doing. It is the fault of the Central Bank there (the Federal Reserve). Inflation in Macedonia, on the other hand, is, in large part, an outcome of the government's outpouring of populist generosity. Its unbridled and irresponsible spending led to a wage spiral in the private sector, for instance. It also failed to take steps to counter inflation imported from abroad through the prices of oil, electricity, raw materials, finished goods, and luxury items.

Consequently, Macedonia's trade deficit is among the highest in the world (and in history) and jeopardizes the country's macroeconomic stability.

As for the impressive growth in GDP - it is far less impressive when we realize that the economies of all the countries in the region have grown more or less by the same percentage. The British have a saying: "The incoming tide lifts all boats". When the economy grows (unexceptionally), the government takes credit. When something goes wrong with the economy, it is never their fault, the global economy is to blame.

More to the point, the growth in GDP, like much else in Macedonia is, to a certain extent, a mirage. It is fuelled by rampant construction, government outlays gone amok, and remittances from Macedonian Gastarbeiters. The real sector is no doubt expanding, but is far from making a sizable or lasting contribution in terms of gross factors of production.

Finally, the Minister brags that the government's budget is in surplus. Let me get this straight: the government takes 42% of GDP in taxes and then spends some of it on

churches and basketball halls and media campaigns and it thinks that this gross misallocation of scarce economic resources deserves praise. With its all-pervasive economic presence, the government has transformed itself into Macedonia's biggest employer and advertiser. The private sector is crowded and cowed. There is no economy to speak of. Foreign direct investment (FDI) - touted as the panacea to the country's economic problems only two years ago - is now no longer the top priority, maybe because Macedonia last year has again been ranked as the least attractive in the region. A pretty picture this is.

DONCEV

Sam you don't spend much time on small talk - straight to the point. But before I respond to the many issues you have raised, let me just say for the record what an absolute pleasure it is for me to be engaged in this dialogue with you. I seem to recall that the last guy who had an open dialogue with you ended up as Prime Minister of Macedonia. Judging from the tone of your opening remarks though, it would seem that at least as far as you're concerned Macedonia passed the crossroads of ten years ago only to hit a dead end!

The economy has certainly been mismanaged, but I don't think Trajko Slaveski is entirely to blame in this case. He is not in an enviable position. The previous two Ministers of Finance (Popovksi and Gruevski) were both in a much stronger position in the sense that they had no higher political authority who was considered as an authority in economics. Now by this I am in no way making a judgment on the actual competence of Popovski and Gruevski as Ministers of Finance or ignoring the fact that they too had political masters, but it is fair to say that they

both had a much freer hand to manage (or indeed mismanage the economy) than what Slaveski has today.

Slaveski is not in a strong position as Minister in the sense that he has Zoran Stavreski above him (who is stronger politically and considers himself as a higher authority in economics than Slaveski) and of course you have Prime Minister Gruevski of whom many in his Government will tell you is the most brilliant economist in Europe. So Slaveski I am sure is conforming to the economic wishes of Stavrevski and Gruevski even in cases where he may disagree. In analyzing the performance of Macedonia's economy over the last two years we have to take into account the political dynamics between this troika, which has significant influence on the actual economic policy decisions that have been taken.

You know the old saying that there are lies, damned lies and statistics! The Macedonian Bureau of Statistics and Trajko Slaveski can quote whatever figure on inflation they want, but the one thing they cannot manipulate are the prices people pay for their goods and services. The Macedonian consumer knows very well the prices he is paying for basic goods such as bread, milk, eggs, meat, rice and cooking oil, compared to the prices two years ago. Indeed the prices of almost all goods and services have gone up to various degrees, and in almost all cases they have been well into double digits. Add to this the expected astronomical rise in the prices of electricity and heating. Measured properly, Macedonia's inflation rate for 2008 would be at least 12%.

Three observations I want to make here. First, at various stages of this year, different Ministers have quoted different rates of inflation ranging from the above

mentioned 6% by Slaveski to 10% by Stavreski. It seems they can't even agree on the rate among themselves. Second, we have often heard the excuse throughout the year that inflation is high but it's imported. Macedonia has a fixed rate of exchange pegged to the Euro. This effectively means we import all our goods and services at a constant Euro rate. Thus by definition the inflationary effect from increased prices of imports cannot be higher in Macedonia than that in the Euro zone. The 2008 Euro zone overall inflation rate is only 4%. Third, for the first time in the last ten years, we now have negative real interest rates (interest rates minus inflation rate) of at least 3%. The savings and wealth of Macedonia's citizens is being eroded every day. As people realize this effect, they shift their savings to consumption which in Macedonia's case also leads to a direct increase in the trade deficit.

Therefore, I concur with you that inflation in Macedonia is in large part, an outcome of the government's outpouring of populist generosity, and unbridled and irresponsible spending leading to a wage/price spiral. Over twelve months ago, I had the unfortunate experience to watch an interview on a television show which claims to represent the voice of the Macedonian people. Clearly amazed by the fact that the government had just announced significant increases to the public administration wages and the pensions of the senior citizens, the interviewer asked Gruevski if he was in fact the "Wizard of Oz"? If only it were so easy. If the history of economics shows one thing, it is that every time wages in a country are increased, and the increase is not as a result of increased worker productivity, inflation always follows!

I want to really expand on your final point. I think there is

such a misconception among society at large (and in this regard I think the media in general have much to answer for) as to what the Budget actually represents. First of all, when you say that the government takes 42% of GDP in taxes, two things must be made clear. First, on average, 42% of the yearly income of every citizen goes to the government by way of all the direct and indirect taxes which exist in Macedonia. All these taxes are collected from the Private Sector in the economy. Second, it follows by definition that should the government choose to reduce its share of GDP to say 30% (by reducing the overall tax burden by 12%) the 12% reduction of the Government sector will result in a 12% increase in the Private Sector. The converse is true if the Government chooses to increase its share of GDP by raising the overall tax burden. This is in fact the "crowding out" effect you refer to. This is why it becomes almost laughable when Macedonian media report front page news that we have the lowest taxes in Europe.

From a macro economic point of view, the hundreds or thousands of individual taxes are only important insofar as they determine the overall tax burden on the Private Sector. (Of course individual taxes analyzed on a stand alone basis play an important role on the micro economic level of activity).

It thus becomes a real choice for society (through its elected leaders): Do we want a society which allocates a larger or smaller portion of the GDP of the country in the hands of the Government? And once that choice has been made, it then begs the second choice as to how we actually allocate the funds within the Budget itself? Do we spend it on churches, basketball halls and media campaigns as you say, or do we choose to build roads,

schools and hospitals with the same funds? In this context, the self serving media campaigns of this Government (amounting to tens of millions of Euros) are in my opinion one of its biggest sins.

A pretty picture indeed!

Alas, something happened on the tortured way from 1998 to 2008. Macedonians have become so downtrodden and destitute that they now knowingly choose to live in fantasy rather than face their dismal reality. It is a state of mass psychosis, a delusional hysteria, fostered by an endless stream of Big Brother advertisements and inane hype. People refuse to wake up and resent the few truth-speaking messengers left to the point of branding them "traitors".

And what is the truth?

(1) Macedonia's macroeconomy hasn't been in worse shape since 1996 and (2) This government has failed in literally all its efforts: geopolitical, political, and economic.

Admittedly, there have been some improvements in what Stavreski keeps calling "business climate": the introduction of streamlined taxation; the decrease in red tape and regulation (through the mechanism of "regulatory guillotine"); the (partial) implementation of a one-stop-shop process of company registration; and the reform of various business-related institutions (such as the Customs and the Cadastre). But the microeconomic sphere is subordinate to the macroeconomic climate. In an unstable environment of high inflation, for instance, business cannot thrive.

Zoran Stavreski is my biggest disappointment. While Nikola Gruevski is an outstanding and gifted manager, he is hardly an economist. Not so Stavreski, who used to be a conscientious and well-informed monetary expert. Yet,

probably tempted by power and fame, he has transformed himself from a first-rate economist to a third-rate politician.

The government's new strategy: never admit to failure. Declare victory and retreat with dignity intact. Thus, they pretend that Macedonia's economic malaise is actually a sign of its growing economic health and an inevitable outcome of the government's sagacious and farsighted policies. The record-shattering trade deficit? Nothing to worry about: it is a mere reflection of growing foreign interest in Macedonia's industry. Inexorably rising inflation? A normal by-product of the meteoric growth of Macedonia's economy. Unemployment? Give it a decade or two and it, too, shall be conquered. Macedonia's failure to join NATO and the EU? Will only serve to attract foreign direct investors in the next four years up to accession.

Those who disagree with them are accused of getting paid either by the shady opposition or by Macedonia's enemies.

The government's attempts to re-write and revolutionize the economic sciences is probably a sign of desperation. But, the people at its helm also tend to believe and vehemently defend the veracity of their own propaganda claims. This is where the real danger lies. Gruevski, Stavreski, and Slaveski are not confabulators and con-men. They are self-deluded ideologues, trapped by their own verbosity.

Three cases in point: FDI (Foreign Direct Investment), labor productivity, and the trade deficit.

First, FDI. The government tells us that close to 240

million euros flowed into the country in the first 5 months of the year. This is the same as all of 2007.

Yet, close to 80% of this amount are in the form of acquisitions: foreign companies (mainly banks) buying Macedonian firms (mainly banks). This is meaningless FDI that has little effect on the domestic economy (though it does enhance the net worth of certain individual shareholders).

Moreover, economic studies demonstrate conclusively that foreign banks tend to do business with foreigners, not with local firms and that the profits they repatriate (the foreign exchange they take out of the country) exceed their initial investment.

But, what about the remaining 20%? We are still talking about 50 million euros!

Most of this money is invested in construction of objects such as shopping malls. What do shopping malls contribute to the economy? Zilch. Shopping centers are non-productive. They don't increase exports. They barely increase employment (except temporarily, during the construction phase). They do elevate the trade deficit (by importing goods) and inflation (by encouraging consumption). This is the wrong kind of investment.

How much new foreign money was invested in greenfield industry and manufacturing? A negligible amount. During the election campaign of 2008, the entire government embarked on a flying circus of sorts, signing up foreign companies and touting their achievements to a retinue of obsequious (and happy to travel free of charge) journalists.

What happened with these deals? Nothing. They were not real. Macedonia had signed numerous memoranda-of-understanding and memoranda-of-intent, but very few firm contracts. Bunardzik is still an empty lot.

Now, to labor productivity. In his by-now infamous column in Dnevnik, on August 29, Stavreski claimed that labor productivity in Macedonia, by some measure, has gone sharply up. Well, wrong again: it hasn't. Neither has the competitiveness of Macedonia's products improved. The prices paid for Macedonia's exports are going up, thus creating the optical illusion that exports are rising.

The average salary in Macedonia is c. 250 euros per month and the cost to the employer - what with wage taxes and contributions to the pension and health funds thrown in - is c. 420 euros. That translates to c. 5000 euros a year.

According to the IMF, Macedonia's GDP this year would be c. 8 billion USD (or 5 billion euros). The World Bank and the CIA largely agree with this estimate. That's 2500 euros per every Macedonian, man, woman, and child (=GDP per capita).

Of course, only 20% of Macedonia's population are employed, so GDP per employee is c. 15,000 euros (excluding the 10% of those who do not get paid).

How does it compare to other countries?

Start with the region.

Albania's and Bosnia-Herzegovina's GDP per capita are equal to Macedonia's, but rising fast with impressive flows of FDI. Bulgaria's and Serbia's are 40% higher. Croatia's is three times Macedonia's. But, since the rate of employment in Croatia is double that of Macedonia, a Croat worker produces only 1.5 times as much GDP as a Macedonian one. Every Greek, Czech, and Slovene worker is four times as productive as a Macedonian worker (these countries' GDP per capita is 8 times Macedonia's) while the Romanians are almost twice as plentiful and the Russian workers beat the Macedonians 1.7:1 (Russia's GDP per capita is 3 times Macedonia's).

Of course, such a comparison is unfair. The Czech average salary is 722 euros. We should, therefore divide the GDP per capita by the cost of labor. This is known as GDP unit labor cost.

Even then, Macedonian workers are spectacularly unproductive. The Macedonian costs 5000 euros a year and produces 15,000 euros of GDP annually. The Serb costs pretty much the same (c. 5300 euros a year), but produces 20,000 euros of GDP every 12 months. The Czechs, Greeks, and Slovene employees do even better: they each cost between 9000 euros (Czech Republic) and 20,000 euros (Greece) a year, but give in return 60,000 euros of GDP!

This disparity is one of the reasons why Macedonia is not an attractive destination for foreign direct investors. Salaries here are actually way too high. Judging by this meager output, to render it attractive, the average wage in Macedonia should not exceed 50 euros a month, all included.

Are Macedonian workers lazier or more stupid than their counterparts elsewhere? Not so. Labor productivity does depend on the existence of a work ethic (longer hours and more effort and initiative). But, more importantly, it reflects the workers' level of education and skills, the age and quality of machinery and other capital goods and equipment used in the production process, the availability of knowledge and technology, and the proliferation of better management. Macedonia needs to work hard in all these spheres merely to catch up with the rest of the region, let alone the world.

The government can do a lot to render Macedonia a more attractive proposition as far as labor unit cost goes. It can reduce wage-related taxes and contributions drastically, or even waive them altogether for new employees. It took one halting step in this direction and leveraged it to the hilt for public relations purposes. This propensity to govern-by-gesture, to emphasize cosmetics over substance will be the undoing of the economy, I fear.

Finally, the trade deficit. It is a prime example of how populism (of previous governments as well as the incumbent one) trumped and trumps common economic sense.

There is only one path to reduce Macedonia's threatening trade deficit: to discourage imports. There are many ways to reduce imports. For starters, the government should correctly price items like electricity and fuel, which it is attempting to do. Subsidies need to be limited only to the neediest 10% of the population. Everyone else should pay much higher, realistic, global market prices.

Consider passenger cars - a major and recurrent components of Macedonia's burgeoning trade deficit. The government should make it very expensive to buy a new car and very attractive to keep a used one. Instead, the Ministry of Finance, eager to please the population and with an eye on the ratings of the governing coalition, spews out nonsense to justify its irresponsible acts. "New cars consume less fuel and need fewer spare parts", they say. True. But, a new car costs 10,000 euros, paid for with scarce hard currency. The savings that are the results of higher fuel efficiency do not amount, over the life of the car, to 10,000 euros.

Had this government been leading rather than following the opinion polls, it would have embarked on a campaign to encourage the use of public transport; would have cut the costs of owning and maintaining a used car; would have slapped punitive taxes and charges on buyers and owners of new passenger cars; and would have used remedies available to it under the WTO to impose import quotas and other duties, tariffs, and non-tariff (e.g., environmental) limitations on luxury, gas-guzzling vehicles.

Macedonians consume imported vegetables, imported chocolate, imported meat and dairy products; they buy imported "white electronics" and "black electronics"; they vacation outside the country, some of them in order to boast about it to their friends. A craze of conspicuous consumption has gripped this impoverished country that has no economy to speak of. Macedonians are living over and above their means and over and above their economic contribution to society. This will end badly: with a banking crisis, hyper-inflation, and massive indebtedness of both this profligate state and its gullible citizens, who

want so much to dream and to fantasize.

DONCEV

I accept your assessment that Macedonians in general have become downtrodden and destitute. The words transition, reforms, EU and NATO have become a cognizant part of everyday life over the last fifteen years. Our lack of success in each of these fields has had a significant demoralizing effect on the nation as a whole. It seems at times that we are living through a never ending story whose plot is always the same, but the actors periodically change. However, I don't think that the Macedonian people knowingly choose to live in fantasy rather than face their dismal reality. I believe it is a failure of the leadership of the country and not of the people. One of my Harvard professors defined real leadership as "getting people to confront reality and change values, habits, practices and priorities to deal with the real threat or the real opportunity the people face". The converse of this he defined as counterfeit leadership which "provides false solutions and allows the group to bypass reality". I believe that the Macedonian people, deep down, are aware of the reality, but in the absence of real leadership that leads people to confront reality, they are left with no choice but to conform and fit in as best they can and thus bypass reality. And at no time have we had greater counterfeit leadership than by the existing populist government.

The Government's failures in its political and geopolitical efforts in particular are of course a subject for debate in themselves, but they have certainly played a significant role in increasing the political risk that potential foreign investors associate with Macedonia. This

in turn greatly diminishes Macedonia as a destination for foreign investment.

Personally, I don't think the much touted improvements to the "business climate" have been anything more than window dressing. The much heralded so called "flat tax" is a gross misrepresentation of the truth. I have spoken out about this in Parliament and the media and to anyone who cares to listen, but for the record let me say it again. Macedonia does not have a flat tax! The tax rates are not the lowest in Europe! But this has not stopped the Government from paying expensive advertisements in foreign newspapers which proclaim the opposite.

Of course, any serious foreign investor who does basic level of due diligence on business in Macedonia quickly finds out that the tax rates are not what they were led to believe. In a debate in Parliament last December, I made an elaborate presentation which proves that Macedonia does not have flat tax. In fact the overall tax rate on wages varies from 38 to 40 percent on the gross wage, or, since every one in Macedonia is accustomed to the net wage concept, the overall taxes represent an add on of between 60 to 70 percent to net wages. The manner in calculating the overall taxes payable on wages is unbelievably complicated and antiquated.

So, the Government comes along and merely reduces one of the six components of calculating taxes on wages to 10% and then heralds with great fanfare that Macedonia now has a flat tax with the lowest rates in Europe. In his response to my speech, Trajko Slaveski said, and get this, that I was confusing personal income tax with contributions (to the pension fund, health fund, employment fund, etc). Now I should have said to him at

the time, but I chose to be diplomatic then, that the Government can call these taxes a "contribution to Trajko Slaveski's Christmas cake" if it likes, but nothing changes the fact that they are taxes which business has to pay for every employee it has on its payroll. But this is the type of mentality we are dealing with here.

With regards to the trade deficit I have four additional observations. First it never ceases to amaze me how successive Governments in recent years have been quick to point out the virtues of Macedonia's increase in its exports. Prime Minister Vlado Buckovski started this trend in 2005 and it culminated in, as you say, in Zoran Stavreski's "by-now infamous column" in Dnevnik, on August 29, when he proudly proclaimed that exports have increased by 38% in 2008 (ohh and by the way imports also increased by 55% at the same time). The major reason why exports have increased dramatically over the last four years is because the price value of the exports have increased and not because of material increase in the quantity exported. The world has gone through a commodities boom over the last seven years culminating in record prices for commodities such as nickel, zinc, lead, and iron ore. At the same time oil had more than tripled when it climaxed at $147 per barrel in mid 2008. But because our commodity exports are in large part import dependant, the value of our imports has also increased parallel to the value of the exports. But the actual value added to Macedonia's economy has remained roughly the same.

A couple of examples will illustrate this point. OKTA imports oil and exports refined petroleum. The import value of oil reflected in Macedonia's Balance of Trade account has tripled over the last four years. At the same

time the value of the refined petroleum exported has also more than tripled. Or take FENI INDUSTRIES or MAKSTEEL. They too produce import dependant exports. The value of their exports has increased several fold over the last few years, but so too has the value of their imports. But once again, the value added to the Macedonian economy has not been much different.

Second, the only reason why the absurdly large trade deficit has not yet resulted in a total meltdown of Macedonia's economy is because remittances from the Macedonian Diaspora and temporary Gastarbeiters have been steadily increasing over the last ten years. This is hardly something to be proud about and in no way represents a sustainable way to keep a country's economy going, but it has been the country's only saving grace to now. Bear in mind, total remittances in 2007 amounted to 1.4 billion dollars, or close to 20% of the country's GDP. This is mind boggling! In 2008 they are likely to be less than last year but will again be in excess of 1 billion dollars.

Thirdly, it is a truly amazing phenomenon how each successive government over the ten years has in a parrot like fashion repeatedly stated that it is their objective to have a fixed and stable rate of exchange. Thus we have had a fixed rate of exchange pegged to the Euro (and its Deutschemark predecessor) of approximately 61 Denars to the Euro. Any attempt to even debate the issue is usually linked to the period of 1990 to 1995 when Macedonia went through a period of hyper inflation and repeated devaluation of its currency. Of course every time the government prints money, hyperinflation and devaluation will follow. But an exchange rate policy that takes into account the economy's competitive environment

and is designed to maximize exports and reduce imports should not
in any way be confused to the phenomenon which occurred in the early part of the last decade.

Finally, the growing balance of trade deficit over the last several years (and the last two years in particular) has been exasperated by the rapid growth of credit over the same period. As people's perception of the stability of the Macedonian banking sector has improved and as the memories of the late 80's early 90's begin to fade (when citizens lost vast amounts of their saving when the Yugoslav banking sector collapsed), the citizens of Macedonia have began to place more and more of their savings (which they previously held as Euros "under the mattress") on deposit with the Banks.

Normally this would be a fantastic opportunity for the economy if it was geared for investment. Unfortunately it is geared toward consumption, and as a result there has been an explosion in the growth of credit over the last few years. A large number of families with no savings of their own have taken out loans. This trend is visible even in farming villages.

This credit formation process has led to a credit fuelled consumption as people take out loans to finance current expenditure. Since the economy is incapable of meeting the increased consumption demand internally (paradoxically of course, owing to the lack of prior investments in the economy's productive capacity) the increased consumption demand has resulted in the ballooning of the balance of trade deficit.

We have painted a grim picture. Some may think it's

malicious, some may think it's too pessimistic, some may refute it. The easiest thing to do is to ignore it. But ignorance does not change reality. How our leaders choose to lead the people to confront this reality will also determine the policy measures taken to remedy the situation with an aim to genuinely improve the economic condition of all citizens in Macedonia. You have given a fairly grim prognosis of how you think this will all end - with a banking crisis, hyper-inflation, and massive indebtedness of both the profligate state and its citizens.

I should like to hope that we will sooner, rather than later, get leadership at the helm of the country that will not be as concerned with its rating as it is with the wellbeing of the country's citizens. Confronting reality requires in some instances policies that are far from populist. Some policies will actually cause more pain in the short term. But close to twenty years of "transition and reform" have already passed and we are witnessing its fruits today first hand.

Something is rotten in the State of Denmark - but not hopeless! Our next dialog will deal with remedies, policies, and steps that can and should be taken that can prevent your dire prognosis from coming true.

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Return

Why is the Macedonian Stock Exchange Unsuccessful?

The Macedonian Stock Exchange (MSE) is not operating successfully. True, some of the parameters which we use to measure the success of a stock exchange have lately improved in the MSE. For instance, the monthly money

volume has increased together with the number of transactions. But this is a far cry from success.

Who is to blame? Is the current management of the MSE incompetent?

I do not think so. Actually, I think the MSE has an excellent management team, doing their best to incorporate new trading techniques and to list new firms. The problems lie elsewhere.

A stock exchange is a very important financial market. It is a highly efficient and visible instrument of financing. In the West, it is used to finance most of the needs of corporations, way above financing available from banks. Individuals and firms save some of their income and invest it. The stock exchange is meeting grounds for savers wishing to invest their savings - and firms looking for investments.

Another function of stock exchanges is to assist governments in financing their internal borrowing requirements. Governments sell obligations (called bonds) to investors through the stock exchanges in their countries. A stock exchange is, therefore, an indispensable tool for re-financing national debt.

But a few conditions must prevail before a stock exchange functions properly.

The most important condition is the existence of a healthy, growing economy in the stock exchange's country. Investors flock to robust economies and shy away from sickly ones.

On the face of it, the Macedonian economy belongs to the latter category. High unemployment, low savings, retarded

growth, a gaping trade and payments deficits. But this is an optical illusion. The economy is in much better conditions that most Macedonians would care to admit. The unemployment figures are skewed. They reflect efforts to evade paying social taxes - not real unemployment. The economy is growing, even by official estimates. The black economy is growing even faster. The deficits are covered by enormous capital infusions from donor countries. Macedonia is receiving more international credits per capita than Russia. It is always convenient to blame the worsening economic climate - but the cold, objective figures do not bear this out.

When an economy is growing - the profits of companies (including those listed in the MSE) will grow with it. This makes the shares of these companies an interesting buy.

Since no one is buying - we must look for the problem elsewhere.

A prospering stock exchange is linked to the existence of the right micro and macro economic management. Macedonia has more than its share of problems in this respect.

The process of transformation of businesses with social capital had four basic flaws:

first, it introduced no new management, ideas or capital to the beleaguered firms which were "transformed". The market simply does not believe that they were transformed. The same people run the same shows under a different hat.

Second, such transformation violates the concept of Hierarchy, a chain of command.

It blurs the distinction between labour (workers) and capital (owners). What is wrong with that is that a ship must have a captain - and only one. Someone must have the authority and the responsibility. Collective management is no management at all.

Moreover, innovation change and revitalization are all prevented. What change could come from the same set of worn out managers? How can thousands of owners decide to worsen the conditions of the workforce - if owners and labourers are one and the same? So, management is polluted by irrelevant, non-economic considerations: power struggles amongst groups of workers, social considerations and political ones.

We identified one villain. The other one is high (real) interest rates. When interest rates are high, three effects prevent the resuscitation of the stock exchange:

First, firms have high financing expenses (interest payments) - which reduces their profits.

Second, it is not worthwhile to borrow money and to invest in shares.

Third, it is more tempting to invest money in bank deposits, yielding high interest rates - than in shares. High interest rates are the poison of stock exchanges.

The same is true for low savings rates. If people and firms do not save - there is no capital available for investment in stocks.

This, exactly, is the current situation in Macedonia : impossibly high interest rates coupled with exceedingly low savings. There is basic mistrust between clients and their banks. They prefer other ways of keeping their

money.

But all the above is far from exhausting the list of pre-conditions for the proper functioning of a stock exchange.

Investors must have timely, accurate and full information about the firms that they invest in. This will allow them to respond in real time to developments in the company and to prevent losses. This will also make it difficult to cheat them - which is were we come to the question of accounting standards. Only lately have the accounting rules in Macedonia been revised to conform to the Western systems of accounting. Even now, the similarity is very slight. Macedonian firms maintain a double accounting system. One set of books is tax-driven. It is intended to show losses or profits at the whim of the management. An elaborate scheme of hidden reserves lies at the heart of the typical financial statements of the Macedonian firm. Another set of books - if they are kept at all - reflects reality. This is an enormous barrier to foreign investment - and foreign investors are the driving force in every modern stock exchange.

The trust of investors in the stock exchange is based on legislation to protect their property rights against the firm's management' against the authorities and against other investors who might wish to rig the market or manipulate the prices of stocks.

But legislation without an effective judicial and law enforcement systems is like a stock exchange without money. To enforce property rights in Macedonia takes ages and even then the outcome is not certain. Laws, regulations are in their embryonic stage and some of them seem to have had an abortion: they were hastily and unwisely copied verbatim from legal codices of other

countries (Germany, Britain).

Last - but definitely not least - is the existence of a fair, transparent and non-corrupt marketplace. The stock exchange, the banks, the regulatory authorities, the police and the courts have to be above suspicion. For the market to be utterly efficient - it must be utterly free of any ulterior considerations and motives. Corruption distorts the market's allocative mechanisms and powers. It is easily discernible in dealings in the stock exchange for all to see. A stock exchange is, after all, the showcase of the local economy.

But there is a problem which towers above all other problems and it is almost endemic to Macedonia. It helps to explain much of the predicament of the stock exchange in Skopje. It is the fact that the market is missing its most important player: the Government.

Investors - both foreign and domestic - look for the Government to be active in the local stock exchange. Governments throughout the world use their stock exchanges to sell shares of state-owned enterprises to their populace. The stock exchange becomes a mechanism for the distribution of the national wealth - as embodied by the state owned enterprises - to all the citizens. As we said before, governments also use the stock exchange to borrow money from their citizens.

The Government of Macedonia does neither. It totally ignores the MSE. Not one company was privatized through the MSE. Not one Denar was borrowed from a Macedonian citizen through it. A government's activity in the stock exchange is proof that the government believes in it. Therefore, if it does not operate in the stock exchange - it proves that it does not believe in it. If the

government does not believe in the stock exchange in its own country - why should the investors believe in it?

There are a few additional structural characteristics which are considered to be the hallmarks of a healthy stock exchange. But those are the by-products of all the above mentioned conditions.

A stock exchange must be liquid so that investors would be able to convert their shares into cash easily and expediently. It must include many investment options - professionally put, it must be diversified. This will allow the investors to choose from a variety of investments and also to reduce their risks by dividing their money among a few types of investments.

The management of the stock exchange can help it by introducing efficient trading techniques, computerized trading and settlement systems and so on. The faster investors meet their money when they sell their shares - the more they will be inclined to operate in the stock exchange that allows them that. The easier it is for them to liquidate their assets by meeting buyers - the more they will prefer to work in that stock exchange.

Investing in the stock exchanges in the markets of the emerging economies has been an unfortunate decision in the last three years. Stock exchanges from Russia to Hungary and from Lithuania to Poland have jeered wildly since the end of 1993.

They resembled a roller coaster in their performance, going up and down by tens of percents annually. There are exceptions to this rule. The Ljubljana Stock exchange, for instance. The trading volume there has gone up 10 times since December 1993 - and the market capitalization is up

30 times. But this is because of the performance of the general economy in Slovenia. In Croatia, the government is privatizing its holdings in state owned companies by auctioning shares to the public through the Zagreb Stock Exchange. This has helped it a lot.

Newly-established stock exchanges are highly volatile and very dangerous. Volatility goes hand in hand with risk. They are long term investments. Since 1988, they outperformed the more established stock exchanges in the world, like Wall Street.

But these stock exchanges are growing fast, they are cheap by any measure and they are the best investment that a country can make in its own future.

Overview of the Macedonian Stock Exchange - December 2007

The Macedonian Stock Exchange, as measured by its MBI-10 index, rose to a record high of close to 10,500 in mid-2007. It has since shed 40% of its gains. This correction, or, rather, rout has its roots is a series of converging factors.

The multiple failure of the financial system in the United States, brought on by the subprime mortgage crisis and its contagion, resulted in a dollar plunge and the ascendance of the euro. Investors fled the ailing American scene in search of higher and safer returns in the markets of emerging economies of commodities and oil producing countries.

This stampede coalesced with other trends to create a bubble of hyperliquidity. Financial technology made money transfers almost instantaneous, thus reducing the need for a non-productive and illiquid float. International

trade expanded at a breakneck pace, shifting unprecedented amounts of wealth from consumers to producers and manufacturers. GDP growth throughout the world outstripped inflation, generating sizable surpluses. The global monetary environment swung from inflation to deflation leading to a precipitous decline in interest rates.

Inevitably, investors migrated from cash and bonds to assets such as real-estate and stocks, fostering in the process a series of bubbles, booms, and busts as volatile "hot money" pursued returns everywhere.

Moreover: in contradistinction to the recent past, diversification offered no refuge as financial markets merged and integrated with global, around the clock networks. To their dismay, investors found that, paradoxically, as markets became more efficient, they also become more correlated. This convergence was further enhanced by geopolitical and geo-economic processes, such as the enlargement of the European Union.

Macedonia could not remain aloof. As its informal economy emerged from the shadows, capital controls were lifted, capital mobility increased, and foreign firms and investors entered the scene. The more the business climate improved, the better Macedonia's prospects appeared, the higher Macedonian stocks were valued by an euphoric public. Macedonia's professionals did nothing to restrain the hysteria or to ameliorate the casino mentality that pervaded the entire system. They benefited personally from the bubble.

The newfound optimism of Macedonia led to a repricing of risk and to heightened expectations of corporate profits, boosted by a more lenient tax regime and by decreasing interest rates. Equity risk premium plummeted until it

vanished altogether and even became negative. The P/E multiple reached a stratospheric 50 before the recent correction. It is still pegged at an unsustainable 37.

Throughout this Bacchanalia, foreigners flocked into the Macedonian Stock Exchange, constituting 30-40% of the buy side. But they have begun to withdraw owing to big privatizations back home, troubles in their domestic financial systems, a more restrictive monetary policy in some countries, and the changing fortunes of the Macedonian marketplace.

The down trend in the Macedonian Stock Exchange is not a mere correction. It is a repricing of assets. It still has a long way to go. Even at 4300 - the next massive technical support - Macedonian shares are inanely overvalued.

Interview with Alexandar Dimishkovski of BID Consulting

Conducted October 2007

The Balkans as a region is experiencing a confluence of events of both fundamental and technical nature that augur well, as far as its economies go. Accession to the huge and unified market of the European Union (and to NATO) is closer and more realistic than ever. Two decades of transition from socialism and communism, privatization, institution-building, and private sector reform are finally bearing fruits. Emerging markets - and Europe - are more attractive than ever as investment destinations, now that the United States is caught in a vicious cyclical downturn which might result in a recession. These shifts in fortunes inevitably are reflected in the stellar performance of many Balkan stock exchanges and other asset markets, such as real estate.

But will the euphoria last? Is the exuberance irrational? Are we in the throes of a bubble about to burst?

Until recently and for four years, Aleksandar Dimishkovski worked as a business and finance correspondent in Macedonia's best-selling daily newspaper, "Dnevnik". In the past year, he also served as a personal advisor to the general manager of a foreign-owned company that has established its network in Macedonia. He is known as a market analyst and a business consultant and has recently founded "BID Consulting".

1. Why did the Macedonian Stock Exchange (MSE) skyrocket when other stock exchanges plummeted in the wake of the subprime mortgage crisis and, similarly, why has it collapsed recently when Wall Street is setting new records?

AD: There are many reasons for this, starting with the size, the position, and the strength of the floated companies and down to the origin of the portfolio investors and the speed of the reaction to global trends.

The Macedonian Stock Exchange is a relatively young market and in its early phase of development. Though it has existed since 1996, it has just recently started to open its doors to foreign portfolio investments. It has been only a few years since the annual as well as the daily turnover on MSE started to be dictated mainly by foreign investors (especially investment funds), which could be cited as the sole reason for the incredible percentages of price hikes in the past few years.

Bearing in mind the fact that the speed of reaction even to

internal factors and influences is still relatively low, global trends impact the MSE with a delay of between three to six months. For example: there were some instances when oil or steel prices grew rapidly, but the value of the shares of Macedonian companies, which work with the production or distribution of oil or steel has decreased!

Nevertheless, this started to change recently. If the period of delay in reaction to global trends was more than six months in 2006, now in some cases it is less than a month.

One other fundamental reason for the difference in trends between the MSE and the major Stock Exchanges like New York, Tokyo or London is the origin of its major investors. For instance, the majority of the foreign money invested in the MSE is of Balkan origin and does not constitute a diversified list of portfolio investors coming from all parts of the world. Therefore, the fluctuations in the investing of capital in the major Stock Exchanges or in its allocation from one market to another at this time don't affect the trends in the MSE, or at least not instantly, because the investors present at the Macedonian capital market are not present in the big Stock Exchanges such as Wall Street.

2. Are the stock exchanges in the Balkans correlated? Do they move and react to external shocks in unison?

AD: Yes, they are correlated in many ways, and not just by way of reacting to external shocks. Actually, if you look at the statistics, especially of the Stock Exchanges of the countries of former Yugoslavia, you can find similarities in almost all parts of the capital markets, from price growth, crisis management, and institutional establishment, to reactions to shocks.

It seems like every Stock Exchange in the Balkans is growing in a similar pattern. They all faced similar crises, obstacles to growth, lack of efficiency and especially lack of general knowledge regarding financial tradable instruments. In some cases, it even seemed like two stock exchanges faced an identical situation within just a few months, disregarding the phase of development they were in. In 2006, there was even a case of two stock exchanges from two different countries that have had almost identical annual index growth.

However, what determines the type of reaction and development is the palette of investors. Investors from Slovenia are present in Macedonia, Croatia, Serbia, Montenegro, Bosnia, etc. And the ones from Croatia are also present in Macedonia, Serbia, Slovenia…So these markets are all intertwined within the borders of the Balkans. Even in Slovenia and Croatia or Serbia, which may be seen as the most developed, the majority of investors hail from the neighborhood.

Because of all of these similarities, your suggestion in the question is correct. They do react and move in unison. And this is also one of the postulates for the initiative for the creation of one Balkan Stock Exchange, similar to the case of the Nordic countries and NORDEX. Because of these similarities and interconnections, the creation of one single stock exchange, in my opinion, would be beneficial to all parties involved. Unfortunately this process is developing very slowly.

3. How vulnerable are the stock exchanges in the region to insider trading? Is there a need for Sarbanes-Oxley types of laws?

AD: The transition process left many open wounds as far as legislation in the Balkans goes, especially in fields where there was no experience to draw on for the creation of laws. The Stock Exchange is a perfect example of this deficiency, likewise the protection of industrial property, the protection of copyrights etc. All these were emerging fields in the newly established democratic order. Though in many cases laws were translated and adapted to the needs of the market, relics of the communist regime can still be found, thus engendering an open space for manipulations like insider trading.

Attempts to deny the existence of insider trading are unquestionably present. But in practice, little has been done and can be done to protect shareholders from it. So, there is a definite need for Sarbanes-Oxley type of laws in almost all Balkan countries. Nevertheless, these laws can't be merely translations of the legal corpus of some Western Europe country. Experiences from abroad are welcome and helpful, but only as a basis on which to build.

In fact, to protect shareholders and investors from insider trading, first a new and up to date corporate law must be implemented. When even the smallest shareholders would know their rights and obligations concomitant with the corporate-responsibility type of organization, the efforts and the laws intended to prevent insider trading will take hold.

However, it must be noted that discernible progress in this field has already been made with the present legislation and strangely, by inertia, under the influence of foreigners. This progress must continue at a faster clip.

4. Some analysts say that foreign money makes the bulk of investments in the smaller, poorer stock exchanges in the region (Macedonia, for one). Is this your impression as well? Will this money dry up now that the world is in the throes of a global credit crunch? What will happen if sentiment changes and the foreigners leave?

AD: It seems that the fact that the world is in the throes of a global credit crunch doesn't influence investor decisions in the Balkans. In fact, in Macedonia for instance, the tremendous growth in share prices in the past two years contributed to an increase in the demand for credit. People started to borrow money in order to invest in the Stock Exchange, expecting a quick return on their investments and "fat" profits. Nevertheless, the lottery type of investment didn't have sufficient influence to noticeably tilt the capital markets.

Bearing in mind the fact that the majority of foreign investors in the smaller stock exchanges, like the one in Macedonia, are regional, of Balkan origin, I can't say that foreign investments will decrease. On the contrary, the official statistical data, released by the MSE, show a constant increase in the presence of foreign money in the market, especially on the buying side.

At this point, foreign portfolio investors contribute as much as half of the buying side, and 30 percent of the overall turnover. I think that this is only the beginning of the "bulk of investments" as you say. With the MBI-10 (the MSE's index- SV) growing by more than 100 percent in 2006, the Macedonian Stock Exchange caught the eyes of even more distant investors who started to invest in this market.

Will this trend continue? If there is no major crisis – political or economic - in the region, it is not too optimistic to expect that it will. However, if the money inflow from foreign investors starts to decrease, it will be a major step back for the capital market. The influence and the financial clout of foreign investors can't be easily substituted for by an increase in domestic demand. It can even be the sole reason for a total collapse of some of the smaller stock exchanges in the region.

5. Can you tell us a bit about the recent financial innovations in the region: mutual and investment funds, short selling, options?

AD: Except for investment funds, which were accepted with open arms, it seems like these markets are very heavy and slow as far as the introduction of new financial instruments or innovations goes. This could be easily verified by having a look at the gamut of tradable securities in almost all the countries in the region.

The typical capital market comprises state bonds and corporate stocks. In Macedonia for instance, the Securities Law actually allows for the issuance of corporate bonds and even for financial instruments such as short selling and options. But, because of the low level of general knowledge as well as the phase of development of the market, these instruments are not in place. Nobody is even willing to ask, or to do something to expand the range of tradable securities, which may be the most frightening thing. This leaves serious portfolio investors with very little flexibility and it may be the principal determinant of how these markets will develop in the mid term, and especially in the long term.

On the other hand, the paucity of the sell side is one of the reasons for the increases on the bid side and, consequently, in the prices and value of the floated shares. The value of the shares of some companies skyrocketed by more than 2000 percent in the second half of 2006 and in the first half of 2007.

However, the massive growth in the inflow of money will eventually stop mainly because of the insufficient number and type of securities on offer.

6. What is the role of bonds - both government and corporate - in the capital markets in the region? Are there any municipal bonds issued and traded?

AD: State bonds are of interest to investors in Macedonia's neighborhood mainly because they represent a safe investment or even more so a type of savings. The banking system in this area faced huge risks on many occasions and interest rates are still prohibitively high for debtors and low for savers. This exerted an upward pressure on the interest rates payable on government issued bonds: they offer a stable source of interest income which in most cases is higher than the interest rates offered by the banks on savings by at least 30 percent annually.

As for corporate bonds - hmmm... Now, this is one of the issues that I have mentioned earlier. In Macedonia, these type of bonds are not yet developed, nor are municipal bonds. Although, there are some announcements that a few firms will issue bonds, there still are none extant. It seems that they tend to prefer the issuance of shares as a source of financing. Still, even shares are not issued too

often.

Bonds in general aren't that interesting when the prices of shares grow exponentially. Even investors with no professional knowledge at all are more willing to risk and to invest in shares than to expect safe and stable returns from an investment in bonds. When these capital markets will mature, price growth will level off and I guess that then investing in bonds will become more interesting.

7. How would you rate the performance of the Securities and Exchange Commissions in the region? Are the courts able to tackle securities fraud and complex financial transactions and instruments?

AD: With the lack of general knowledge ruling this part of the world, to expect the Securities and Exchange Commissions, or the courts to ably perform in cases involving very complex financial scams or illegal activities is exaggerated. While the SECs do have some influence and they do take some basic actions to prevent illegal activities such as insider trading, the courts aren't sufficiently prepared to handle these kinds of cases.

However, reforms in the judicial system yielded some results even in the first phases of their implementation. Now, these types of frauds and criminal activities are taken much more seriously and the whole attitude is changed, not just by the courts, but in general, by all other relevant institutions. Big progress has been accomplished even with the adjustment of domestic laws to European Union code.

However, if I have to rate the performance of the SECs and the courts in the region, I would have to say that they

are "trailing behind" the actual market players, both from an organizational as well as from a technical point of view. With insufficient human resources, lack of finance and deficient inter-institutional cooperation, the SECs and the courts are not as efficient as they should be, especially in these early phases of development of the capital markets, when big changes in a company's shareholders list can be done in a minute.

Return

International Trade and the Macedonian Economy

A British politician, Richard Cobden once (1857) wrote:

"Free Trade is God's diplomacy and there is no other certain way of uniting people in the bonds of peace."

International, free trade is particularly important to developing, poor, countries (among them the "economies in transition").

Without international trade, the local economy is limited. It does not manufacture and produce more than it can consume. If it produces excess products, commodities, or services - no one buys them, they accumulate as inventory, and they bring about losses to the producers and, often, a recession. So, in the best of cases - even assuming optimal management and unlimited availability of capital - a firm in a closed economy can expect to grow by no more than the rate of growth of the local population.

This is where exports mitigate population growth as a constraint.

An export market is equivalent to a sudden growth in the local population. Suddenly, the firm has more people to sell to, additional places to market its products in, an increasing demand which really is unlimited. No firm in the world is big enough not to be negligible in the global marketplace. With 6.2 billion people and 170 million new ones added every year - it is much cleverer to export than to limit oneself to a market with 2, 20, or even 200 million inhabitants. In sum: local firms - and, as a result, the economy as a whole, can increase their production above

the level of local consumption and export the surplus.

This, obviously, has the beneficial effect of increased employment. Export oriented industries in economies in transition are labour intensive. The more the country exports - the more its industries employ. This equation led some economists to say that a country exports its unemployment when it exports products. Every product contains a component of labour. When someone buys an imported product - he really buys the labour invested in this product, among other inputs. See the Technical Appendix for more.

But free trade cuts both ways. Some products are so expensive to manufacture locally, that it is more cost effective to import them cheaply. In aggregate, the local economy benefits from this more efficient use of its (ever limited) resources.

It has been proved in numerous studies that countries benefit from certain kinds of imports no less than they benefit from exports or the resulting enhancement of local manufacturing. This is called the theory of "comparative relative advantage".

Cheap imports (only as a replacement for expensive locally produced goods) have two additional effects: they reduce the costs of operating enterprises (and thus encourage the formation of businesses) - and, naturally, they reduce inflation. Where cheap products are available - inflation, by its very definition, is subdued.

So, instead of wasting money on purchasing expensive products, which are manufactured locally - instead of paying high interest payments on liabilities due to high inflation - the economy can optimally allocate its

resources where they are at their productive best.

Free trade assists the economies of all players. It allows them to optimize the allocation of their (scarce) economic resources and, thus, maximize national incomes.

Optimal allocation frees up sizeable resources which were previously engaged in inefficient production, or dedicated to defraying financing expenses, or locked into the consumption of expensive local products. A consumer allowed to buy a cheap, imported car instead of an expensive locally manufactured one, saves the difference and invests it in a savings account in a bank. The bank, in turn, lends the money to firms - and this is the relation between free trade and high savings and, hence, high investment rates. Free trade reduces the overall price level in the economy, more money can be saved, and the savings can be lent to more businesses on better terms. Plants can, thus, be modernized, technological skills can be acquired, more comprehensive education provided, infrastructure can be improved.

Above all, those who trade do not fight. Free trade pacifies countries. It leads to the peaceful and prosperous coexistence of neighbouring nations. It yields mutual collaboration on trade, investments and infrastructure.

But free trade cannot exist in a legal and infrastructural vacuum. To achieve all these good outcomes a country must rationalize its trading activities.

First and, above all, it must gradually dismantle regulatory and tariff barriers to allow the unobstructed flows of goods, services, products, commodities, and information.

I used the word "gradually" judiciously. A poor country must make the transition from a protectionist

environment, heavily isolated by regulations, customs, duties, quotas, tariffs and discriminating standards - to completely free trade in minute, well measured steps. The influence on local industries, the level of employment, the national foreign exchange reserves, interest rates, and many other parameters - economic as well as social - should be gauged regularly to prevent unnecessary shocks. But these monitoring and fine tuning should not serve as fig leaf, they should not be an excuse to prevent or delay the freeing of trade. The country must, unequivocally, announce its plans and intentions, replete with timetables and steps to be adopted. And the country must stick by its plans - and not succumb to the inevitable and forceful demands of special interest groups.

On the other hand, the country must encourage foreign investment. (Foreign Direct Investment (FDI) and even portfolio investments are a critical part of free trade. Investors build manufacturing plants, which export their products, or sell them locally, substituting for imports. Direct investors are usually connected - directly or indirectly - to trading networks. Financial (portfolio) investors usually come only much later, when the local capital markets have matured and have become much safer. A country can encourage the inflow of foreign investment by providing investors with tax incentives (tax holidays, tax breaks, even outright grants and subsidized loans). It can provide other incentives - there are too many to enumerate here. Above all, though, it must protect the property rights of investors of all kinds - domestic, as well as foreign. Investors flock to secure places and no incentive in the world can convince them to put their money, where they do not feel certain that they can always - and unconditionally - recover it. Property rights is the countries in transition's weak point in this respect: the

appropriate legislation is lacking, courts are slow, ignorant, and indecisive, law enforcement agencies are immature and uncertain of their authorities and how to exercise them. Some countries are outright xenophobic. This is not conducive to foreign investment.

But all this is not enough. A skilled, well educated workforce is a prerequisite for the development of export industries. Even low-tech industries (textiles, shoes) require the workers to be literate and to know basic arithmetic. As industries mature, the workers are required to train, retrain and re-qualify ceaselessly.

The nation must make education as a top priority. education is as much an infrastructure as roads and electricity. To think differently is to be left behind and to be left behind in today's competitive world is to die a slow economic death.

All this will be to no avail if a country does not make an intentional, conscientious effort to identify those things that it is good at, its "relative, competitive advantages".

But should a nation leave the forces of the marketplace to take their course, unhindered? Alternatively, should a government determine the priorities of the nation within a very long term plan?

Personally, I do not support fanatic views. The market has its flaws. It is never perfect. Governments should intervene (marginally) to fix market imperfections and failures. Otherwise, who will supply public goods like defence or education?

The same is true for trading. Japan and Israel are two prime examples of extremely successful government involvement in determining national priorities and in

pursuing them (the current slump in Japan notwithstanding). The all powerful Ministry of Industry and Trade (MITI) in Japan virtually dictated what should be done, where, with whom and how for decades. Israel actively encourages the formation of hi-tech, labour-poor, high value added industries. But both governments recognized the limits of their intervention, and the difference between advice, incentives and coercion.

The government of a country should identify its relative competitive advantages and re-orient itself to materialize them.

This realization phase can be successful only if the country is an active and complying member of and participant in the international community of nations. It must peacefully and willingly adhere to international agreements on trade and investments and it must agree to resolve its conflicts within the international judicial and arbitration frameworks.

Macedonia is in a difficult economic spot - but it is by no means unique. Almost all the newly-formed countries lost almost all their previous export markets simultaneously. COMECON and the USSR disintegrated almost at the same time as Yugoslavia did. Some countries have not adapted to the new situation:

Their GDP was halved, their industrial infrastructure was demolished and they ran ever-widening trade deficits. They preferred to mourn their situation and blame the whole world for it. Others have oriented themselves to become a (geographical and mental) bridge between East (Europe) and West (Europe). They adopted the Western mentality, Western institutions and Western legislation regarding investments, banking and finance. They

emphasized their roles as transit countries in the best sense of the word: having a lot to contribute within the process of transit.

What is common to all the more successful countries is that they encouraged joint ventures with foreign investors, suppressed xenophobia and ethnic discrimination, shared economic benefits with their neighbours by collaborating with them, imported mainly capital goods (instead of consumption goods), adopted sound fiscal policies and really privatized. In most of them, lively capital and money markets have developed.

This is the future that Macedonia should aspire to. It can become the Switzerland of the Balkans. It has all that it takes. Ask the financial markets: they are paying for Macedonian government securities (almost) the same price they pay for Slovenian national debt. That means that they think that Macedonia is the Slovenia of tomorrow.

And that, in my view- is not such a bad future, at all.

TECHNICAL APPENDIX

International Trade, Inflation and Stagflation

Situation I

The exporting country has:

a. An overvalued currency;

b. Low inflation or deflation as prices and wages decrease to restore competitiveness.

The exporting country thus exports its deflation (through the low and competitive prices of its goods and services) and its unemployment (through the labour component in its exports).

The importing country's inflation rate is affected by the deflation embedded in imported goods and services. Cheap imports thus exert downward pressure on prices and wages in the importing country.

This, in turn, tends to increase the purchasing power of the local currency and to cause its appreciation.

In other words:

The macro-economic parameters of the importing country tend to REFLECT the macro-economic parameters of the exporting country.

If the exporting country's currency is overvalued - the importing country's currency will tend to appreciate as a result of the export/import transaction.

If the exporting country's inflation is low - it will exert a downward pressure on wages and prices (on inflation) in the importing country.

Unemployment will tend to decrease in the exporting country and increase in the importing country.

Following the export transaction, the importing country will have:

a. An appreciating currency;

b. Deflation or low inflation;

c. Higher unemployment.

Why would anyone import from a country with an OVERvalued currency?

Because it has a monopoly or a duopoly on knowledge, intellectual property, technology, or other endowments.

Situation II

The exporting country has:

a. An undervalued currency;

b. High inflation as prices and wages increase (to restore equitable distribution of income).

The exporting country thus exports its inflation (through the higher though competitive prices of its goods and services) and its unemployment (through the labour component in its exports).

The importing country's inflation rate is affected by the inflation embedded in imported goods and services. Expensive imports thus exert upward pressure on prices and wages in the importing country.

This, in turn, tends to decrease the purchasing power of the local currency and to cause its devaluation.

In other words:

The macro-economic parameters of the importing country tend to REFLECT the macro-economic parameters of the exporting country.

If the exporting country's currency is undervalued - the importing country's currency will tend to depreciate as a result of the export/import transaction.

If the exporting country's inflation is high - it will exert an upward pressure on wages and prices (on inflation) in the importing country.

Unemployment will tend to decrease in the exporting country and increase in the importing country.

Following the export transaction, the importing country will have:

1. A depreciating currency (devaluation);
2. Higher inflation;
3. Higher unemployment.

The state of higher inflation with higher unemployment is called "stagflation". So, in this scenario, the importing country imports stagflation as part of the goods and services it imports.

Return

Should the Government Compensate the Clients of TAT?

This, of course, is a political decision. There is no "right" thing to do. Even the IMF imperatives are not sacred. Sometimes, inflationary goals should be sacrifice to avoid the total collapse of the banking system and, with it, the economy as a whole.

Unfortunately, a lot of experience has been accumulated elsewhere in the world. No country was exempt, all suffered collapsing or near-collapsing banking systems. India had to nationalize the fourteen biggest banks - and, later on, tens of private, smaller ones - in 1969.

This was done to avert a major financial catastrophe. No one can enumerate all the banking crises in England. As late as 1991 it had a 10 billion USD collapse (the BCCI bank).

In 1973-4, during the "secondary banking crisis", the government had to launch operation "Lifeboat" to save 60 banks. They failed because the Bank of England deregulated the credit markets and freed it to competition.

As we review this scorched earth of ruined banks, six patterns emerge concerning the compensation offered by the state to the adversely affected clients.

The USA established a Federal Deposit Insurance Corporation (FDIC) as early as 1933.

Every depositor in every American bank is insured and the participation of the banks in the FDIC is obligatory. The FDIC covers deposits of up to 100,000 USD per person per bank.

The savings and loans associations (SLAs) were insured in a separate agency, the FSLIC.

When a wave of bankruptcies engulfed the SLAs in 1985-7, the FSLIC went bust and was unable to meet the demands of the panicky depositors.

The USA reorganized the whole system but it also decided to compensate the depositors and savers in the SLAs. To do that, it initially injected - using budget contingency funds - 10.8 billion USD. Then, a special agency was set up (the RTC). This agency established RefCorp, a corporation whose sole purpose was to issue bonds to the public and sell them in the various stock exchanges throughout the USA. The proceeds of the of the sale were used to beef up the failing SLAs and to make their balance sheets much healthier.

It is important to note that nothing explicit was promised to the depositors. The government made vague and late statements about its willingness to support the ailing institutions. This was enough to calm the panic and to re-establish trust between the depositors and the SLAs.

RefCorp bonds were not backed by a federal guarantee. Still, the fact that RefCorp was a federal entity, associated with the administration was enough to give it a federal credit rating.

People believed in the sincerity of the commitment of the government and in the long term repayment prospects of the bonds. They bought 300 billion worth and the money was immediately injected to heal the bankrupt institutions. Using long term debt - which was not even part of its obligations - the government was able to stabilize the financial system and to fully compensate depositors for

their money.

A similar approach was adopted by Israel to cope with its 1983 banking crisis. The whole banking system collapsed as a result of a failure of a pyramid scheme involving the banks' shares. The government was faced with civil unrest and decided to compensate those who bought the shares in the stock exchange.

At first, the banks were nationalized and trading in their shares in the stock exchange was suspended to prevent panic selling. The government, having become the owner of the banks, declared a share buyback scheme. Owners of bank shares were permitted to sell them to the government in three specific dates over a period of 9 years (originally, the share buyback scheme was for a period of 6 years with two exit dates but it was prolonged). The price at which the government agreed to buy the shares back from the public was the price on the last day that the shares were traded prior to the collapse (5/10/83) and it was linked to the exchange rate of the Shekel-USD. The government used funds allocated within the national budget to buy the shares back. This means that it used taxpayers money to financially save a select group of shareholders. But there was no public outcry: so many people were involved in these pyramid schemes for so long that all the citizens stood to benefit from this generous handout. When the last shares were bought in 1992 the total damage became evident: no less than 6 billion USD (minus what the government could get when it were to sell the banks that it owned).

1994 was arguably the worst year for banks in South America since 1982. Banks collapsed all over that region.

It started with Venezuela in January 1994. One of the

major banks there, Banco Latino, failed, dragging with it 7 others. The Government decided to fully compensate all the depositors and savers in these banks. It has created a special fund to which revenues from the sale of oil were transferred. Obviously, this money was taken away from the budget and was compensated for by extra taxation. The whole economy was horribly effected: inflation shot up uncontrollably, a credit crunch ensued and business bankruptcies proliferated. Venezuela entered one of the worst economic periods in its history with rampant unemployment and a virtual state of economic depression. It cost the country 12 billion USD to extract its banking system from the throes of imminent evaporation - an amount equal to 22% of its annual GDP.

And this was nothing compared to the Brazilian predicament. Brazil is divided to geographically huge states, each with its own development bank. These banks are really commercial banks. They have hundreds of branches spread across the states, they take deposits and make loans to business firms and to individuals. But their main debtors are the administrations of the states. When Banespa, the Sao Paolo state development bank collapsed, it was owed 19 billion USD by the state government, not to mention other bad loans. This bank had 1,500 branches and millions of depositors. It would have been political suicide to just let it die away. In December 1994, the Central Bank took over the day to day management of the bank and installed its own people in it. The bank was later completely nationalized. Moreover, the other state development banks began to wobble, together with a sizeable chunk of the private banking sector - 27 banks in total. This was really ominous and the government came up with a creative solution: instead of saving the banks - it saved the big clients of the banks. Sao Paolo received 66

billion USD in federal credits which assisted it in re-financing and in re-scheduling its debts, especially its debts towards Banespa. The bank was saved, the state was saved, the federal budget was 66 billions poorer - and this was only the beginning. In certain cases, the loan (asset) portfolios were so bad and unrecoverable that the government had to inject money to the bank itself - because there were no more clients to inject money to. Banco do Brazil received 7.8 billion USD on condition that it writes off loans from its books. Another 13.6 billion USD were given to private banks. The government also cajoled banks into merging or into finding foreign partners. The depositors were completely compensated but only a few of the 27 saved banks are of any interest to foreign investors. After all, a bank without assets is hardly a bank at all.

The most vicious of all banking affairs in this part of the world occurred in Paraguay a year later. The Treasure of the Central Bank, no less, was found using the Central Bank funds to run a lucrative money lending operation. He lent 3 million of the bank's funds before he was caught. Needless to sat that he pocketed the interest payments. In April 1995, the Governor of the Central Bank there decided that things were getting too hot for him and he fled the country altogether. The public was in panic. No one knew what happened to the reserves of the commercial banks which were deposited with the Central Banks. Banks with no reserves are very shaky and dangerous institutions. So, depositors and savers queued in front of the banks to draw their money. It was a matter of a very short time before the banks became insolvent and closed down their operations, albeit "temporarily". Four banks and 16 savings houses collapsed that year and four more banks - the next. The bank supervision

discovered mountains and oceans of black money on which the banks paid high rates of interest. The legal "white" money - a much smaller amount altogether - bore a lower rate of interest.

The government adopted a politically brave decision: it would compensate only those depositors which deposited money on which they paid taxes ("legal money"). Even so, the damage was great (in Paraguayan terms): 450 million USD. Those depositors who received excess interest payments on their undeclared funds - lost both their funds and the interest accruing thereon. Moreover, the government forced the owners of the banks to increase the equity capital. The system was saved, though the basic malaise was not cured and the banking system is still obscure, secretive, nepotistic and highly dangerous.

A course very similar to that chosen by Macedonia was adopted by the government of Japan.

In 1990, the Tokyo Stock Exchange began its long 50% decline. People lost trillions of USD.

As a result, they had no money to continue to pay the outlandish prices which were demanded by sellers of real estate property. So, real estate prices went down by as much as 80% in the Tokyo area - and by a bit less elsewhere in Japan. Real estate property served as the main security on huge portfolios of loans which were provided by banks through Junsen, financing corporations set up especially to provide mortgage collateralised loans.

The logical - and inevitable - result was the collapse of seven important Junsen, followed by a chain reaction of banks ceasing to function.

The Japanese government set up a special agency, the

HLAC, which "cleaned" the books of the banks by taking over the non-performing loans. This move was very similar to what the Macedonian government did with the Ägencija za Sanacija na Bankiti" - clean off the balance sheets of the banks, make them healthier and then supervise them heavily. No one knows how much the government of Japan has doled out to save the banks (actually, the depositors money). Rumours have it that about 1.8 billion were invested in the rescue operation of 1 junsen, the Nichiei Junsen.

Different countries bring different cultures and different solutions to the same problems.

Yet, there is one thing common to all: depositors are usually almost fully compensated using state money on and off budget. Some countries spread the payments over longer periods of time - other do not even dare raise the possibility and they take over the liabilities (and the assets) of the failing banking system. Some sell bonds to raise the money - other us taxpayers money. But they all succumb to the ultimate political imperative: survival.

Return

Equity, Europe, Investments Three Wrong Orientations in the Macedonian Economy

Economic theory describes the individual player in the marketplace as rational and cold blooded, always

calculating risks versus profits. But reality is much more complex. Economy is 90% psychology: fashions, emotions, fears, hopes and expectations, past history and future visions. A phenomenon like entrepreneurship cannot be fully explained by classic economic theories.

Moreover, the market is not always right. Sometimes it is dead wrong. The fax machine had to wait more than 100 years (!) before it was widely used. Television had to wait 20 years. Most innovations were rejected by the economic gurus and businessmen of the day. The "Invisible Hand" which regulates the market economy is not always active.

The Macedonian economy is driven by three dangerously wrong orientations, three myths:

1. It is better to invest your own money than to take loans and credits;

2. The main goal of Macedonia should be to join the European Union;

3. Macro-economically, we should prefer investors to mere speculators.

It is better to invest your own money than to take loans and credits.

This is sometimes true and sometimes wrong. It depends on certain quantitative parameters.

Psychologically, everyone is deterred by credits. The debtor (=the person or firm who take the credit from the bank or any other lending institution) has to pay back more than he has taken, because he has to add interest payments to the original principal of the loan.

Moreover, the credit is a burden on the finances of the individual or the firm. It ruptures the cash flows. It introduces an intrusive and unwelcome partner: the creditor (=the person, bank or institution which lent the capital to the debtor).

But the decision whether to finance a business through credits or by investing in equity (=your own money) should be based on the following TWO simple questions:

1. Will my business be able to pay back the principal and interest payments of the credits / loans that I intend to take? If Not - don't take credits. If Yes - move on to the next question.

To answer this question, you must take into consideration not only the field of economic activity that you want to establish a business in and not only the likely future development of your own project. You must incorporate the political and economic situation of Macedonia in particular and of the Balkan area in general. Geopolitical and macroeconomic uncertainties are negative factors.

2. If I put my money (=equity investment) elsewhere - will it provide me higher yields than the ones that I will get by investing it in this business?

An example: If I invest 100,000 DM in my business - I will generate an average of 10,000 DM in annual income in the next 5 years. If I invest the same money in another business, or in a bank deposit, or in stocks in the stock exchange, or in Government bonds - I will earn 12,000 DM in annual income. In this case, it is better to put the money elsewhere and to finance the business with credits/loans.

And that is all. A decision to take or not to take credits has

to be based on the answers to these two questions. Otherwise, it will be an irrational (and, long term, an unwise) decision.

Investments are financed by savings. They can be financed by the investor's savings and that is called "equity". They can be financed by someone else's savings - and that is called debt in the form of credits. If an investor needs 100% of an investment and saves 2% each year - it would take him 50 years until he accumulates all the capital that he needs. Many times an investor cannot save the total amount of capital needed. This is where credit is helpful.

The main goal of Macedonia should be to join the European Union.

Geographically, Macedonia is a European country. Commercially it trades foremost with Europe. Its leaders incessantly repeat the mantra: "Our goal is to join the European Union".

Is this necessarily the wisest choice?

We know of many countries which aligned themselves with continents or groups of countries to which they did not belong. Israel, for instance, is definitely European (or American) - although it is in Asia. Australia was part of the Anglophile world - despite the indisputable geographical fact that it is closer to the Far East (Japan, China, Indonesia). In today's world of rapid, limitless means of communication and transport - geography's role is exponentially diminishing.

Lesson number one: Macedonia can decide where to belong to economically.

Another thing we know is that countries maintain close ties with communities of expatriates throughout the world. Israel has close historical, emotional AND ECONOMIC ties with the Jewish diaspora. Most of the foreign investment in mainland China comes from Investors of Chinese origin - living outside its borders.

There are almost 750,000 Macedonians living outside Macedonia - but not in Europe. They are concentrated in Australia, Canada and the USA. They are an invaluable source of foreign investments, foreign exchange and political clout.

Lesson number two: Macedonia's immediate future may be with the immigrant communities - and those are not in Europe.

Economies in transition - from centralized state controlled to private sector driven - do not enjoy foreign investments by the private business sectors. They must live off credits and investments provided by international financing institutions. Organizations such as the IMF, World Bank (and its private sector arm, the IFC), the EBRD and OPIC - have already channelled hundreds of millions of Dollars to the Macedonian economy. Yet, these organizations are controlled and financed mostly by the USA - not by Europe. Moreover, in many respects, Macedonia stands in direct competition with the other countries comprising the European Union. These countries will not view the Macedonian newcomer favourably and will do whatever they can to obstruct him - rather than assist it in its first fledgling steps. It will not be easy to be accepted to the club. There are 83 such clubs in the world today (according to WTO figures) - why belong exclusively to only one of them?

Lesson number three: the USA controls the money that Macedonia needs and the European club is only one of many - and not necessarily the friendliest one.

This is what the former President of the EBRD, Mr. Jacques Attali, has to say about Europe ("Time Magazine" - Golden Anniversary Issue - 50 Years Europe - Winter 1996):

"Conventional predictions lead us to fear that Europe? has entered a period of decline? that? seems unstoppable. Europe now has, compared with its main competitors, the lowest birthrate (with the exception of Japan) the highest unemployment rate, the oldest population, the highest social expenditures, the lowest industrial growth rate, the weakest industrial research in key sectors of information technology, the fewest new patents. Even its renowned financial markets are heading towards fragility. And though its share of the worldwide GNP remains high - above 20% - this too will drop rapidly in the future.

Thus everything is shaping up for 21st century Europe to become little more than a 'Venetian Continent', visited by millions of Asians and Americans, inhabited by tourist guides, museum caretakers and hotelkeepers. In the big global bazaar, the place occupied by European companies, products, ideas, literature, music and cinema will soon be taken over by objects, services, sounds, noises, words and images from elsewhere."

Lesson number four: who wants to join such a club anyhow?

Macro-economically, we should prefer investors to mere speculators.

This used to be the sentiment until the end of the 1960s.

Breakthroughs in economic theory revealed the importance of the Speculator and somewhat tarnished the hitherto impeccable image of the investor.

An old financial joke goes like this: "An investor is a speculator who failed in his speculation". This is half true. No businessman objects to a quick turn of profit.

The only difference between investor and speculator is how long they hold on to the very same goods. The shorter they hold on to it - the more "speculative" the nature of their investment.

But speculators perform a highly needed task: they bridge risky gaps in the economy. They assume risks where no other would.

This is their first important function: they facilitate the mobility of goods and services. They are like oil on the cogs of the economic machine.

They take advantage of market imperfections. If a merchandise would fetch two different prices in two geographical locations - they would buy it in one (where the price is low) and sell it in the other (where the price is high), materializing a profit in the process.

But their very purchasing activity would raise the prices in the one market - and their wish to get rid of the merchandise as fast as they can would help to reduce the prices in the other market.

This is their second important function: they equalize prices through the delicate, real time mechanism of arbitrage.

Speculators are essential for markets with high levels of

uncertainty and for economies in transition. They are essential in this phase of the economic cycle in Macedonia. Investors are nowhere to be found in these circumstances. Most economic activities in such situations are performed by the speculators.

Speculators thrive on market inefficiencies. When things will stabilize in Macedonia - the speculators will vanish. Stable prices, open, friendly markets, efficient dissemination of information - they are all a poison to speculators.

Then and only then will the stage be set for the investors: deep thinking, thorough, methodical and long term. To act long term and to think long term an investor needs certainty - and this is scarce commodity in Macedonia nowadays.

Return

Macedonia's Great Opportunity

A speech given at the 13/2/97 meeting of the Skopje Chamber of the Rotary Club

Five thousand years ago, people were still roaming the earth as nomads. They carried along their few precious possessions in their hands and on their backs. They hunted and gathered food at random.

Then came the Agricultural Revolution: people settled down and got attached - physically, emotionally and legally - to specific plots of land. They grew their food in accordance with a pre-meditated plan. They domesticated animals. This new pattern of human existence led to enormous shifts in demographic patterns.

It took yet another 4500 years before the dawn of the next Revolution: the Industrial one. Its main achievement was to separate the raw materials and the means of production from the land. It also created the need to have an educated workforce. This Revolution brought in its wake the formation of cities (which supplied workers to mega-factories), mass education systems and leisure.

For the first time in history, people began to have free time on their hands.

Numerous organizations, firms and institutions sprang up in an effort to satisfy the insatiable desire for entertainment and the necessity to cope with the ever growing complexity of social and economic institutions.

Contrary to common opinion, the service oriented society was - and still is - an inseparable part of the industrial world.

Today, we are in the eye of the biggest storm ever: the Third Wave (to borrow Alvin Toffler's excellent coinage). This is the Information and Knowledge Revolution. It is leading to an economy which will be based on the accumulation, the processing and the delivery of information (the equivalent of raw materials) and of knowledge (the equivalent of processed goods). All these will be made accessible to ever widening strata of society.

This, indeed, is what separates this Revolution from its predecessors:

(1) It is equitable - anyone and everyone can partake in it.

To participate in the previous two Revolutions - large amounts of capital were needed. Where capital was amiss - raw force was used to obtain raw materials, capital

goods, land and other means of production (including very cheap labour in the form of slavery).

This Revolution is different: all that is needed is good ideas, some (ever lessening) technical background and ever cheaper infrastructure.

So, this Revolution is open to young people in home garages (this is how computer giants such as Apple Computers and Microsoft were established).

It is non-discriminating: age, gender, race, colour, nationality, sexual preferences - they all do not matter. This Revolution is the Great Equalizer.

(2) This is the first time in human history that raw materials, production processes, finished products and marketing and distribution channels are one and the same. Let us examine the example of the sales of products (e.g., software) through the Internet:

Software is written on computers using programming languages - a manipulation of electronic bits in a virtual environment. Thus, the product (=the software), the production processes (=the programming languages), the raw materials (mental algorithms translated to electronic bits) and the channels of marketing and distribution (the electronic bit streams of the Internet) - they are all made of the same elements and components.

This is why the technology is so cheap. This is why the products of the forthcoming Revolution will be disseminated so easily. To manufacture and to distribute will become mundane - rather than arcane - operations.

(3) Only some of our forefathers have been influenced by the Agricultural Revolution. Only some of them have been

influenced by the Industrial Revolution. Gradually, the percentage of the population working the land decreased from well over 60% to less than 3% (in the USA, for instance). An equal drop can be discerned among the part of population engaged in industry.

But this is not the case with the third Revolution:

There is not a single human on earth who is not influenced by the third, biggest Revolution of all: the Information / Knowledge Revolution.

All of us are exposed to radio, television, computers, cellular phones, the Internet. These products and services are becoming cheaper and more available and accessible by the month. The new Revolution is all- pervasive and all-encompassing.

(4) All the above characteristics brought about a new form of economic development: non-centralised, high value added, fast progressing with quick business cycles. It is the first non-mercantilist, non-colonial phase in human history. All economic activity in the past was characterized by the importation of raw products at low prices from the very same markets that absorbed the final products (produced from those raw materials) at much higher prices.

This form of exploitation will gradually become impossible. Today, it is no longer important where goods are produced. The demarcation lines between finished products and raw materials are so blurred (even where old-fashioned industrial products are concerned) - that the old distinctionbetween "colonizer" and "colony" has all but vanished.

This holds a great promise for less-developed and

developing countries.

In the (near) past, they would have needed huge amounts of capital and other, non-monetary, resources to equate themselves with the more developed part of the World. Today, much less investment is needed to achieve the same results. The world is finally becoming what the sage of Western media, Marshall McLuhan called: "The Global Village". It matters less WHERE you are - it matters more WHAT you think. A global economic premium is placed on innovation, creativity, improvisation and the entrepreneurial spirit.

These - the new mental commodities - are abundantly and equally available to all the countries in the world: poor and rich, off-center and on-center, developed, developing and less developed.

The old economic conception of an evolution: from the agricultural to the industrial to the service economies is being replaced. The new breed of economic thinking encourages countries - such as Macedonia - to move directly from the Agricultural phase to the Third Wave: that of Information and Knowledge industries. Macedonia can better accommodate this type of industries: they are affordable, accessible, easy to understand and to implement, highly profitable, ever evolving and progressing.

Macedonia will not be the first country to implement such a daring policy of leaping forward and skipping the Industrial stage - straight into the age of Information. Israel has done it before and so have Switzerland, Hong-Kong, Singapore and (to a certain and hesitant extent) India. All these countries were naturally under-privileged. Some of them are mere deserts, others isolated, barren

islands or severely overpopulated. But they all managed to get heavily involved in the unfolding revolution. All of them (with the exception of India which is a new, half-hearted, entrant) possess the highest per capita GNP in the world.

The gamble has paid off.

But there is a fascinating side-benefit to such a choice.

The shift from industry to the information technology and knowledge industries - is a shift from dealing with reality to dealing with symbols. The techniques used to manipulate symbols are the very same - no matter what the symbols are. If a country is successful at developing trained operators of symbols - they will know how to manipulate, operate and transform any kind of symbol.

This is also true when it comes to the biggest symbol of all: to Money.

Money - as we all know - is a symbol. It represents an agreement reached amongst members of a group of people. It has no intrinsic value. The same techniques which are used for the manipulation of information are easily applicable to the manipulation of the symbol called money.

THE MORE ADEPT A COUNTRY IS AT PROCESSING SYMBOLS (=INFORMATION) - THE MORE ADEPT IT IS IN FINANCIAL TRANSACTIONS OF ALL KINDS. It is more likely to attract investments, to develop flourishing stock exchanges and money markets, to train young professionals, to trade and in general: to get enmeshed in the very fabric of the modern international economy.

How to Prepare a Successful Business Plan

By: Sam Vaknin, Ph.D.

In our previous article, we recommended that Macedonia, as a nation, will skip the Industrial Age. It should go directly to the age of Information and Knowledge. In other words: it should move directly to the age of manipulation of symbols.

There are many types of symbols. Money from investors, banks or financial organisations is one such kind of symbols.

A successful Business Plan (=a successful manipulation of symbols) is one which brings in its wake the receipt of credits (money, another kind of symbol). What are the rules of manipulating symbols? In our example, what are the properties of a successful Business Plan?

(1) That it is closely linked to reality. The symbol system must map out reality in an isomorphic manner. We must be able to identify reality the minute we see the symbols arranged.

If we react to a Business Plan with incredulity ("It is too good to be true" or "some of the assumptions are non realistic") - then this condition is not met and the Business Plan is a failure.

(2) That it rearranges old, familiar data into new, emergent, patterns.

The symbol manipulation must bring to the world some

contribution to the sphere of knowledge (very much as a doctoral dissertation should).

When faced with a Business Plan, for instance, we must respond with a modicum of awe and fascination ("That's right! - I never thought of it" or "(arranged) This way it makes sense").

(3) That all the symbols are internally consistent. The demand of external consistency (compatibility with the real world, a realistic representation system) was stipulated above. This is a different one: all symbols must live in peace with one another, the system must be coherent.

In the example of the Business Plan:

Reactions such as: "This assumption / number/ projection defies or contradicts the other" indicate the lack of internal consistency and the certain failure to obtain money (=to manipulate the corresponding symbols).

(4) Another demand is transparency: all the information should be available at any given time. When the symbol system is opaque - when data are missing, or, worse, hidden - the manipulation will fail.

In our example: if the applicant refuses to denude himself, to expose his most intimate parts, his vulnerabilities as well as his strong points - then he is not likely to get financing. The accounting system in Macedonia - albeit gradually revised - is a prime example of concealment in a placewhere exposition should have prevailed.

(5) The fifth requirement is universality. Symbol systems are species of languages. The language should be understood by all - in an unambiguous manner. A common

terminology, a dictionary, should be available to both manipulator and manipulated.

Clear signs of the failure of a Business Plan to manipulate would be remarks like: "Why is he using this strange method for calculation?", "Why did he fail to calculate the cost of financing?" and even: "What does this term mean and what does he mean by using it?"

(6) The symbol system must be comprehensive. It cannot exclude certain symbols arbitrarily. It cannot ignore the existence of competing meanings, double entendres, ambiguities. It must engulf all possible interpretations and absolutely ALL the symbols available to the system.

Let us return to the Business Plan:

A Business Plan must incorporate all the data available - and all the known techniques to process them. It can safely establish a hierarchy of priorities and of preferences - but it must present all the possibilities and only then make a selection while giving good reasons for doing so.

(7) The symbol system must have links to other, relevant, symbol systems. These links can be both formal and informal (implied, by way of mental association, or by way of explicit reference or incorporation).

Coming back to the Business Plan:

There is no point in devising a Business Plan which will ignore geopolitical macro-economic and marketing contexts. Is the region safe for investments?

What are the prevailing laws and regulations in the territory and how likely are they to be changed? What is the competition and how can it be neutralized or co -

opted? These are all external variables, external symbol systems. Some of them are closely and formally linked to the business at hand (Laws, customs tariffs, taxes, for instance). Some are informally linked to it: substitute products, emerging technologies, ethical and environmental considerations. The Business Plan is supposed to resonate within the mind of the reader and to elicit the reaction: "How very true!!!"

(8) The symbol system must have a discernible hierarchy. There are - and have been - efforts to invent and to use non-hierarchical symbol systems. They all failed and resulted in the establishment of a formal, or an informal, hierarchy. The professional term is "Utility Functions". This is not a theoretical demand. Utility functions dictate most of the investment decisions in today's complex financial markets.

The author(s) of the Business Plan must clearly state what he wants and what he wants most, what is an absolute sine qua non and what would be nice to have. He must fix and detail his preferences, priorities, needs and requirements. If he were to attach equal weight to all the parts of the Business Plan, his message will confuse those who are trying to decode it and they will deny his application.

(9) The symbol system must be seen to serve a (useful) purpose and it must demonstrate an effort at being successful. It must, therefore, be direct, understandable, clear and it must contain lists of demands and wishes (all of them prioritized, as we have mentioned).

When a computer faces a few tasks simultaneously - it prioritizes them and allocates its resources in strict compliance with this list of priorities.

A computer is the physical embodiment of a symbol system - and so is a bank doling out credit. The same principles apply to the human organism.

All natural (and most human) systems are goal-oriented.

(10) The last - but by no means the least - requirement is that the symbol system must be interfaced with human beings. There is not much point in a having a computer without a screen, or a bank without clients, or a Business Plan without someone to review it. We must always - when manipulating symbol systems - bear in mind the "end user" and be "user friendly" to him. There is no such thing as a bank, a firm, or even a country. At the end of the line, there are humans, like me and you.

To manipulate them into providing credits, we must motivate them into doing so. We must appeal to their emotions and senses: our symbol system (=presentation, Business Plan) must be aesthetic, powerful, convincing, appealing, resonating, fascinating, interesting. All these are irrational (or, at least, non-cognitive) reactions.

We must appeal to their cognition. Our symbol system must be rational, logical, hierarchical, not far fetched, true, consistent, internally and externally. All this must lead to motor motivation: the hand that signs the check given to us should not shake.

THE PROBLEM, THEREFORE, IS NOT WHERE TO GO, NOT EVEN WHEN TO GO IN ORDER TO OBTAIN CREDITS.

THE ISSUE IS HOW TO COMMUNICATE (=to manipulate symbols) IN ORDER TO MOTIVATE.

Using this theory of the manipulation of symbols we can

differentiate three kinds of financing organizations:

(1) Those who deal with non-quantifiable symbols. The World Bank, for one, when it evaluates business propositions, employs criteriawhich cannot be quantified (how does one quantify the contribution to regional stability or the increase in democracy and the improvement in human rights records?).

(2) Those who deal with semi-quantifiable symbols. Organizations such as the IFC or the EBRD employ sound - quantitative - business and financial criteria in their decision making processes. But were they totally business oriented, they would probably not have made many of the investments that they are making and in the geographical parts of the world that they are making them.

(3) And there are those classical financing organizations which deal exclusively with quantifiable, measurable variables. Most of us come across this type of financing institutions: commercial banks, private firms, etc.

Whatever the kind of financial institution, we must never forget:

We are dealing with humans who are influenced mostly by the manipulation of symbol systems. Abiding by the aforementioned rules would guarantee success in obtaining funding. Making the right decision on the national level - would catapult Macedonia into the 21st century without having first to re-visit the twentieth.

Return

A Casino in Macedonia - A Mistake or a Blessing?

154,000,000. This is the number of Americans who visited the gambling institutions in the USA in 1995. Another 177,000,000 participated in other forms of gambling: car races, horse races, other sports tournaments. They have spent well over 44 BILLION USD on gambling. On average, they lost 20% of the money that they invested - and this, approximately, is the profit of this industry in the US. The industry's annual growth rate is 11% which is an excellent figure for an industry which commenced its operations in 1940 in a desert in the State of Nevada. Wall Street likes casinos and shares of gambling related companies skyrocketed and yielded much more than the Dow Jones Average Index. Hotels chains - such as Hilton and ITT - are competing fiercely to purchase casinos.

Casinos do not like to call themselves "Gambling Outfits" (which is really what they are). The politically correct name today is: "Gaming and Leisure establishments".

The reason is that gambling has a lot of what we, economists, like to call "negative externalities". Put in less delicate terms: casinos exact a heavy social and economic price from the countries in which they operate.

Lately the Government of Macedonia has decided to liberalize gaming. Anyone with 500,000 DM will be allowed to establish and operate a casino. Certain gambling - hitherto monopolized by the Macedonian Lottery - will be open to other, private operators.

I am not privy to the considerations behind these decisions. Yet, it is a safe bet to assume that the same political and economic motivating force is in operation here as it was in the USA: money. Gambling is considered the easy way out. Gamblers will come from all over, leave their money with the casino and go home. The local and

national governments will tax the casinos heavily and a perpetuum mobile will be created, virtually providing money at no cost.

But there is one law in economy which is indisputable and unbreachable: THERE IS NO FREE LUNCH AND THERE IS NO SUCH THING AS MONEY WITHOUT ITS PRICE TO PAY.

In warmly embracing the casino culture, Macedonia maybe committing a grave error.

Let us try and understand why:

(1) To be a success, a casino must be geographically isolated and almost a monopoly. The most successful casinos in human history were established by the American mob (=Mafia) in a desert (in Las Vegas). There were no other casinos available. Gamblers who came all the way to the desert - had to stay a few days. This encouraged the construction of hotels, restaurants and other tourist attractions and diversions. This also increased the revenues of the casinos considerably.

Macedonia is surrounded by neighbours with a rich and well developed casino culture. Greece, Bulgaria and Turkey are casino superpowers. Casinos also exist in Slovenia, Croatia, Hungary and Romania. So, Macedonia will be competing headlong with powerful gambling realities. The situation would have been different if Macedonia were to attract affluent tourism. But tourism in Macedonia has all but collapsed. Its tourist-related infrastructure has dwindled and it cannot support an influx of tourists. In Skopje, the cultural and economic hub of Macedonia, a city of 600,000 inhabitants - there are only two class "A" hotels (which really compare to 4 star

hotels in the West). Until such an infrastructure is re-instated and tourist attractions - natural and artificial - are maintained - tourists will not flock into Macedonia.

Thus, a casino in Macedonia will be fed by the gambling of LOCAL CITIZENS and one-day (or one night) tourists. This is the wrong way to operate a casino. A casino cannot look forward to an economically viable future based on these types of clients. Moreover, a casino which will take the local citizens (anyhow scarce) money will wreak havoc on the social fabric of Macedonia. It will not be very different from the impact exerted by the collapse of the various pyramid schemes (in Albania) and Stedilnicas (in Macedonia). Gambling is equivalent to mild drugs: some people get addicted. The social cost is an important factor.

One way to avoid these unfortunate consequences is to prohibit Macedonians from gambling in the casinos in Macedonia. But this will ruin the economic justification for the establishment of such an institutions. Experience gathered in other countries also teaches us that the local citizens will find ways around this prohibition.

(2) Governments think about casinos as a way to create employment and to enlarge the tax base (=to generate additional taxes). These two assumptions are quite dubious, according to recent research.

When a casino is established, its owners and operators usually promise that they will invest money in the locality. They promise to renew decrepit city centres, to repave roads, to invest in infrastructure and to assist the establishment of restaurants and hotels. Some states in the USA have earmarked revenues from gambling to specific purposes. All the income generated by the New York State

lottery goes to education and the construction of new schools. In Israel, the money earned by the state monopoly of Gambling is transferred to the Government's annual development budget and is invested in the construction of schools, community centres and clinics.

But even the gambling industry itself admits - in its annual Harra's Survey of the Gaming and Leisure Industries - that the investments in the economy, generated by casinos are far less than even the most modest expectations.

True, in the USA alone, casinos employ 367,000 people - a 24% increase over 1994.

But most of these jobs are menial. These are temporary jobs without job security and without a career plan or future. They are dead end jobs for desperate people.

Casinos also cause jobs to be cancelled. Older firms (old hotels, restaurants, service firms) are closed down and people get fired. The number quoted above also does not take into consideration the natural (not related to gambling) growth in employment in the USA as a whole. Taking all this into account, the claims that casinos create jobs looks more and more dubious. The more casinos established - the less business each of them is able to do. Some of them are making losses and are firing people, exacerbating a bad employment scene.

Casinos did invest in municipal infrastructure. Yet, they preferred decoration to grass roots, ornamental veneer type visible investments - rather than real improvement in things less glorious (such as the sewage system, for example). Cities with casinos enjoyed a brief renaissance which was followed by the collapse and degeneration of

the city centre's scape.

(3) Casinos not only generate revenues. They also generate enormous direct (not to mention the indirect) costs. Criminal elements tend to gather around casinos and sometimes try to own them. Gambling addicts commit crimes in a desperate attempt to obtain funds. So, a lot of money has to be expended on an increase in the police force and on the additional work of other law enforcement agencies. There is also a sizeable increase in the costs of cleaning the street, sanitation and extra social services needed to cope with the break up of families and with gambling addictions.

Taking all this into consideration, it is not at all clear that casinos are a net benefit to the economy and it is almost certain that they are not a net benefactor of society as a whole.

(4) Casinos undoubtedly hurt the local economy when they take money from local citizens. A Macedonian with free income could use it to buy clothes, go to a restaurant or buy a computer. If he spends this money in a casino - other businesses suffer. Their turnover is reduced. They must fire employees. They also pay less taxes - which offsets the taxes that casinos pay. No one has ever calculated which is more: the taxes that casinos pay - or the taxes which businesses stop to pay because of reduced consumption by local citizens who spent all their money in a casino. Sometimes these businesses close down altogether. Anyone who visited Atlantic City or Gary, Indiana can testify to this. Atlantic City is a gambling capital - and, yet, it is was of the most trodden down cities of the USA.

Statistics show that casinos prefer to employ non-local

people. They employ foreigners. If this is not possible, they will try to employ people from Bitola in Skopje - and vice versa. This is intended to prevent collusions and conspiracies between the staff and the gamblers. More than 60% of casino employees in the USA do not live in the city in which the casino is located. So, we cannot even say that a casino generates employment for the inhabitants of a city whose infrastructure it uses.

(5) There are some alarming statistics. Nevada has the highest suicide rate in the USA. It also has the highest accident rate (per mile driven). It has amongst the highest rates of crime and school drop out rates. Its economy is totally dependent on gambling. It is like a laboratory in which what happens to a gambling state can be tested and measured - and the results are far from encouraging.

Moreover, 4% of the population are "pathological gamblers". Those who cannot stop and who will stop at nothing - crime included - to get the money that they need in order to gamble. 10% of the gamblers account for 80% of the money wagered in casinos. 40% of white collar crime (especially embezzlement and fraud) is rooted in gambling. Families, immediate social circles and colleagues in the workplace are gravely affected. The direct costs are enormous. One small town in Massachusetts (in the neighbourhood of a casino) had to increase its police budget by $400,000 per year. Think what the costs are for big cities with casinos in them!!!

Macedonia is advised to think well before it commits itself to a casino.

Establishing a casino is as much a gamble as playing in one.

Return

The Ifs and VATs of Taxation in Macedonia

Should Value Added Tax (VAT) be Applied in Macedonia?

To be justified, taxes should satisfy a few conditions:

Above all, they should encourage economic activity by providing incentives to save and to invest. Savings - transformed into investments- enhance productivity and growth of the economy as a whole.

A tax should be simple - to administer and to comply with. It should be "fair" (progressive, in professional lingo) - although no one seems to agree on what this means.

At best, it should replace other taxes, whose compliance with the above conditions is less rigorous. In this case it will, usually, lead to budget cuts and reduce the overall tax burden.

The most well known tax is the income tax. However, it fails to satisfy even one of the conditions above listed.

To start with, it is staggeringly complicated. The IRS code in the USA sprawls over more than 8,000 pages and 500 forms. This single feature makes it expensive to enforce.

Estimates are that 100 billion USD are spent annually (by both government and taxpayers) to comply with the tax, to administer it and to enforce it.

Income tax is all for consumption and against savings: it taxes income spent on consumption only once - but does

so twice with income earmarked for savings (by taxing the interest on it).

Income taxes discriminate against business expenses related to the acquisition of capital assets. These cannot be deducted that same fiscal year. Rather, they have to be depreciated over an "accounting life" which is supposed to reflect the useful life of the asset. This is not the case with almost all other business expenses (labour, to name the biggest) which are deductible in full the same fiscal year expended in.

Income taxes encourage debt financing over equity financing. After all, retained earnings are taxed - while interest expenses are deductible.

We can safely say that income taxes in their current form were somewhat responsible to an increase in consumer credits and in the national debt (as manifested in the budget deficits). They also had a hand in the freefall in the saving rate in the USA (from 3.6% in the 80s to 2.1% in the 90s). And money evading the tax authorities globalised itself using means as diverse as off-shore banking and computer networking. This made taxing sophisticated, big money close to impossible.

No wonder that taxes levied on consumption rather than on income came to be regarded as an interesting alternative.

Consumption taxes are levied at the Point of Sale (POS). They are a mixed lot:

We all get in touch with Excise Taxes. These are imposed on products which are considered to be bad both for the consumer and for society. These products bring about negative externalities: smoke and lung cancer, in the case

of tobacco, for instance. So, when tobacco or alcohol are thus taxed - the idea is to modify and reform our behaviour which is deemed to be damaging to society as a whole. About 7% of tax revenues in the USA come from this source - and double that in other countries.

Sales taxes have a more modest calling: to raise revenues by taxing the finished product in the retail level. Unfortunately, so many authorities have the right to impose them - that they vary greatly from one location to another. This adds to the confusion of the taxpayer (and of the retailer) and makes the tax more expensive to collect than it should have been.

Moreover, it distorts business decisions: businesses would tend to locate in places with lower sales taxes.

Sales taxes have a malignant effect on the pricing of finished goods. First, no tax credit is allowed (sales taxes paid on inputs cannot be deducted from the sales tax payable by the retailer). Secondly, the tax tends to cascade, increase the prices of goods (taxable and not, alike), affect investments in capital goods (which are not exempt). It adversely affects exports and domestic goods which compete with imports.

In short: sales taxes tend to impede growth and prevent the optimization of economic resources. Compare this with the VAT (Value Added Taxes): simple, cheap to collect, contain no implicit taxes on inputs. VAT renders the pricing structure of goods transparent. This transparency encourages economic efficiency.

VAT is used in 80 countries worldwide and in 22 out of 24 OECD countries, with the exception of the federal ones: the USA and Australia.

There are three types of VAT. They are very different from each other and the only thing common to them all is the tax base: the value added by the taxpayer.

Economic theory defines Value Added as the sum of all the wages, interest paid on capital, rents paid on property and profits. In the Addition VAT method, these four components are taxed directly. The State of Michigan in the USA uses this method since 1976. Experience shows that this method yields more predictable tax revenues and is less susceptible to business or industry cycles.

The Subtraction method, employed in Japan and a few much smaller countries, is admittedly the simplest. It taxes the difference between a taxpayer's sales and its taxed inputs. However, it becomes very complicated when the country has a few VAT rates, because the inputs have to be separated according to the various rates.

Thus, the most widely accepted system is the Credit Invoice. Businesses become unpaid tax collectors. They are responsible to get tax receipts from their suppliers (inputs). They will be credited with the VAT amounts on the receipts that they have collected, so they have a major incentive to do so. They will periodically pay the tax authorities the difference between the VAT on their sales and the VAT on their inputs, as evidenced by the receipts that they have collected. If the difference is negative - they will receive a rebate (in certain countries, directly to their bank account).

This is a breathtakingly simple concept of tax collection, which also distributes the costs of administering the tax amongst millions of businesses. In the fiscal year (FY) 1977/8 in the UK - the tax productivity (cost per 1 dollar collected) was 2%. This means that the government paid 2

cents to collect 1 dollar. But businesses paid the remaining 10 cents.

If introduced in the USA, VAT will cost only 3 billion USD (with 30,000 tax officials employed in a separate administration). To collect 1 dollar of income tax costs 0.56% in the USA. But, to collect VAT in Norway costs 0.32%, in Belgium - 1.09% and, on average, 0.68%. In short, VAT does not cost much more than income taxes to collect.

Yet, what is true for government is not necessarily so for their subjects.

The compliance cost for a business in the USA is $49. It is $53-282 in other countries.

Small businesses suffer disproportionately more than their bigger brethren. It cost them 1.94% of VAT revenue in FY 1986/7 in the UK. Rather more than big firms (0.003%!).

Compliance costs are 40 times higher for small businesses, on average. This figure masks a larger difference in retail and basic industries (80 times more), in wholesale (60 times more) and in manufacturing and utilities (45 times more).

It was inevitable to think about exempting small business from paying VAT.

If 16 out of 24 million businesses were exempted - the costs of collecting VAT will go down by 33% - while the revenues will decline by only 3%. KPMG claims that businesses with less than $50,000 annual turnover (18 out of 24 million) exempted in the USA, revenues would have declined by 1.5%. About 70% of the tax are paid by 10% of the businesses in the UK. For 69% of the businesses

there (with turnover of less than 100,000 USD annually) the costs of collection exceed 60% of the revenues. For 96% of the businesses (with less than 1 million USD a year) - the costs exceed 50%. Only in the case of 30,000 companies - are the costs less than 20%. These figures do not include compliance costs (=costs borne by businesses which comply with the tax law).

No wonder that small businesses borrow money to pay that VAT bills. Many of them - though exempt - register voluntarily, to get an endless stream of rebates. This is a major handicap for the tax system and reduces its productivity considerably. In a desperate effort to cope with this law-abiding flood, tax authorities have resorted to longer periods of reporting (instead of monthly). Some of them (in the UK, for one) allow annual VAT reports.

Part of the problem is political. There is little disagreement between economists that VAT is a tax preferable to income taxes. But this statement comes with caveats: the tax must have one rate, universally applied, without sector exemptions. This is the ideal VAT.

The world being less than ideal - and populated by politicians - VATs do not come this way. They contain many rates and exemptions for categories of goods and services.

This mutilated version is called the differentiated VAT.

An ideal VAT is economically neutral - though not equitable. This means that the tax does not affect economic decisions in ways that it shouldn't. On the other hand, its burden is not equally distributed between the haves and have nots.

VAT taxes value added in each stage of the production

process. It does so by levying a tax on goods and services - but what is really taxed are the means of production, labour and capital. Ultimately, shareholders of the taxpaying businesses pay the price - but most of them try to move it on to the consumer, which is where the inequity begins. A rich consumer will pay the same tax as his poorer counterpart - but the tax will constitute a smaller part of his income. This is the best definition yet found for regressivity.

On the face of it - and for a very long time - VAT served as a prime example of regressive, unfair taxation.

For a very long time, that is until the development and propagation of the Life Cycle Theories. The main idea in all these theories was that consumption was not based on annual, current income only. Rather, it took into consideration future flows of income (income expectations). People tended to be constant in their level of spending (in different periods in their lives) - even as their annual income vacillated. With the exception of millionaires and billionaires, people spent most of their income in their lifetime.

VAT was, therefore, a just and equal tax. If income equalled consumption in the long run, VAT was a form of income tax, levied incrementally, with every purchase. It reflected a taxpayer's ability to pay (=to consume). It was a wealth tax. As such, it necessitated the reduction in other taxes. Taxing money spent on consumption was taxing money already taxed once (as income). This was classic double taxation - a situation which had to be remedied.

But, in any case, VAT was a proportional tax when related to a lifetime's income - rather than a regressive tax when compared to annual income. Because consumption was a

parameter more stable than income - VAT made for a more stable and predictable tax.

Still, old convictions die hard. To appease social lobbies everywhere, politicians came up with solutions which were unanimously rejected by economists.

The most prevalent was exempting a basket of "poor people's goods" from VAT.

This gave rise to a series of intricate questions:

If food, for instance, was exempted (and it always is) - was this not a subsidy given to rich people as well? Don't rich people eat?

Moreover, who will decide what is or isn't food? Is caviar food? What about health food? It was obviously going to be very hard to reach social consensus.

If tax on these products were zeroed - taxes on other products would have had to go up to maintain the same revenue. And so they did. In most countries VAT is levied on less than 45% of the GDP - and is reckoned to be twice as high as it should be.

Some sought to correct this situation by subjecting services to VAT but this proved onerous and impossible to implement in certain sectors of the economy (banking and insurance, to name two).

Others suggested to dedicate VAT generated revenues to progressivity enhancing programs. But this would have entailed the imposition of additional taxes to cover the shortfall.

It is universally thought, that the best method to

"compensate" the poor for their regressive plight is to directly transfer money to them from the budget or to give them vouchers (or tax credits) which they can use to get discounts in education, medical treatment, etc. These measures will, at least, not distort economic decisions. And we, the less lucky taxpayers, will know how much we are paying for - and to whom.

This is one of the budgetary items which increase with the introduction of VAT. Research shows that there is a strong correlation between the introduction of VAT and growth in government spending. Admittedly, it is difficult to tell which led to what. Still, certain groups in the population feel that it is their natural right to be compensated for every income reducing measure - by virtue of the fact that they don't have enough of it.

But VAT is known to have some socially desirable results, as well.

To start with, VAT is a renowned fighter of the Black Economy. This illegitimate branch of economic activity consists of three elements:

1. The non official sales of legal goods (produced within the tax system);

2. The sales of illegal goods (which never were within the tax system);

3. The consumption of money not declared or disclosed to the tax authorities VAT lays its heavy paws on all three activities.

VAT is self enforced. As we said, VAT offers a powerful (money) incentive not to collaborate in tax scams. Every tax receipt means money begotten from the tax

authorities.

VAT is incremental. To completely evade paying VAT on a product would require the collaboration of dozens of businesses, suppliers and manufacturers. It is much more plausible to cheat the income tax authorities. VAT is levied on each and every phase of the production cycle - it is possible to avoid it in some of these phases, but never in all of them. VAT is an all-pervasive tax.

VAT is levied on consumption. It is indifferent to the source of the money used to pay for it. Thus, it is as easily applied to "black", undeclared, money - as it is to completely legal funds.

Surely, there are incentives to avoid and to evade it. If the amount of inputs in a product is very low, the VAT on the sale will be very burdensome. A business non-registered with the VAT authorities will have a sizeable price advantage over his registered competitor.

With a differential VAT system, it is easy to declare the false sale of zero-rated goods or services to linked entities or to falsify the inputs, or both. Even computers (which compare the ratio of sales to inputs) cannot detect anything suspicious in such a scheme.

Yet, these are rare occurrences, easily detectable by cross examining information derived from several databases. All in all, VAT is the ultimate, inevitable tax.

Moreover, it is virtuous. By making consumption more expensive, it would tend to divert capital into investments and savings. At least, this is what our intuition tells us.

Research begs to differ. It demonstrates the resilience of consumers, who maintain their consumption levels in the

face of mounting price pressures. They even reduce savings to do so. We say that their consumption is rigid, inelastic. Also, people do not save because it "pays better" to save than to consume. They don't save because the relative return on savings is higher on savings than on consumption. They save because they are goal oriented. They want to buy something: a car, a house, higher education for their children.

When the yield increases - they will need to save less money to get to the same target in the prescribed period of time. We could say that, to some extent, savings display negative elasticity.

Markets balance themselves through a series of intricate feedback loops and "true models" of economic activity. Take an increase in savings generated by the introduction of VAT: it is bound to be short lived. Why? because the equilibrium will be restored.

Increased savings will increase the amount of capital available and reduce the yields on this capital. A reduction in yield would, in turn, reduce the savings rate.

Moreover, narrow (differentiated, non-ideal) based VATs lead to higher rates of VAT (to generate the same revenue). This reduces the incentives to work and the amount of income available for savings.

In a very thorough research, Ken Militzer found no connection between the introduction of VAT and an increase in the rate of saving in 22 OECD countries since 1965 (VAT was first introduced in France in 1954). He also found no connection between VAT and changes in corporate (profit) and income taxes.

In Europe VAT replaced various turnover taxes so its

impact on anything was fairly insignificant. It had no influence on inflation, as well. VAT apparently has two conflicting influences: it raises the general price level through a one time "price shock", on one hand. On the other hand, it contracts the economy by providing a disincentive to consume. If VAT does influence inflation - its impact will be echoed and amplified through wage indexation and the linking of transfer payments to the Consumer Price Index (CPI). In this case, maybe its effects should be sterilized from the calculations of the CPI.

But research was able to demonstrate only the potentially dangerous contracting, deflationary (stagflationary, to be exact) influences of this tax. The recommendation is surprising: the Central Bank is advised to increase the money supply to accommodate the reverberations of the introduction of this tax.

Finally, VAT is a "border adjustment" tax (under the GATT and WTO charters).

This means that VAT is rebated to the exporter and imposed on the importer.

Prima facie, this should encourage exports - and equally discourage imports.

Surprisingly, this time the intuition is right - albeit for a limited period of time.

Despite a raging debate in economic literature, it seems safe to say the following:

- VAT increases the profits of exporters and producers of import substitutes.

- VAT increases the investments in the trade sector.
- VAT increases exports and decreases imports.
- These advantages are, ultimately, partially offset by the movement of exchange rates.
- If certain sectors are not taxed - investment will flow to that sector and badly affect the trade sector and the competitiveness of the country in world markets.

With its burgeoning black market, under-developed export industries, huge shortfall in tax revenues - Macedonia urgently needs VAT.

It will do well to learn from the experience of others and introduce a VAT which is as ideal as socially permissible and politically possible.

The draft law that I have seen is a copy - almost verbatim - of laws in the European Union and is riddled with exemption to various goods, services and sectors.

VAT is a good idea - but it seems to be starting on the wrong footing in Macedonia.

Return

What Could Macedonia Learn from a Tiger?

The Asian Tigers and the Phenomenon of Uninterrupted Economic Growth

The first reaction of economies in transition is a sharp decline in their production, mainly in industrial production. In the countries which attained independence with the demise of the British Empire (where the sun never set) - industrial production fell by 20% on average. Even this was because these countries continued to maintain economic ties with the "mother" (the United Kingdom). They also continued to trade among themselves, with the rest of the British Empire, through the Commonwealth mechanism.

This was not the case when the second biggest empire of modern times collapsed, the Soviet empire. When the USSR and the Eastern Bloc disintegrated - the COMECON trading bloc was dismantled, never to be replaced by another. All the constituents of the former Eastern Bloc preferred to trade with the west rather than with one another. The Empire left in its wake mountains of trade debts, total lack of liquidity and money losing barter operations carried out in unrealistic prices.

Thus, industrial production plunged in the newly established countries (CIS and the countries which were part of Former Yugoslavia) as well as in other former members of the Eastern Bloc by 40-60% over a period of 5 years. A slow recovery is discernible only in the last two years and industrial production is picking up at an annual rate of 2% (Estonia) to 8% (the Czech Republic) -

depending on the country.

This disastrous drop in the most important parameter of economic health was largely attributable to a few, cumulative factors:

a. The sudden evaporation of all the traditional export markets - simultaneously. Macedonia has lost 80% of its export markets with the bloody and siege-laden disintegration of the Former (federation of) Yugoslavia. Similar vicissitudes were experienced by other countries in transition.

b. A huge, unsustainable internal debt between the companies themselves (each acting in the dual role of supplier and of client) - and between the enterprises and the state. This burden was only very mildly ameliorated by bartering. Mostly, it led to severe cases of insolvency or lack of liquidity and to a reversion to pre-monetary economic systems.

c. This lack of liquidity also prevented the investment in capital assets (plant modernization, personnel training, data processing and decision making tools) necessary to sustain efficiency gains, increase productivity and maintain competitiveness.

d. Gross inefficiency of the industrial plants which was due to massive hidden unemployment, low maintenance standards and the aforementioned lack of capital.

e. Outmoded and outdated management techniques. The old guard of managers in industry were ill adapted to the rapid changes wrought about them

by capitalism and wise industries. They continued "to fight the last (and lost) wars", to bemoan their fate and not to provide a sense of direction, a vision of the future and the management decisions which are derivatives of the above.

f. Faulty legislation, dysfunctioning law enforcement systems, crony capitalism and privateering (the sale of state assets to political allies or to family members of influential political and economic figures) - all led to fuzzy ownership structures and to a virtual abandonment of the protection of property rights. In the absence of clear ownership and under the threat ever - imminent loss of property, the profit motivation has degenerated into speculative binges and bouts and decision making was transformed into power contests.

g. These industries produced and manufactured goods in accordance with some central planning, an theoretical model of the marketplace, or rule-of-thumb thinking. The result was mountains of shoddy merchandise, of low quality and very little demand. Antiquated design and lack of responsiveness to market needs and consumers' wishes only exacerbated the situation.

h. This absence of market research, market analysis and, more generally, market awareness led to the almost complete absence of marketing, sales promotion, or advertising (in the modern sense). Paradoxically, the communist era industries demonstrate a deeper belief in "the invisible hand of the market" than do their capitalist brethren. They entrust the function of the dissemination of information and its influence upon the decisions

made by consumers - entirely to the market. If the product is either needed or good enough, it will sell itself, was the thinking. Marketing and advertising were thought of as illegitimate cajoling, pushing consumers to make decisions that they would not have made otherwise.

i. Industry operated under all these crushing constraints in an environment of heavy to impossible regulation, trade protectionism (which denied them the benefits of competition), corrupt bureaucracy, rolls of red tape, heavy political involvement and a total distortion of economic considerations by "social" ones. This was further compounded by a decaying banking system (where the distinction between lender and borrower was rendered superfluous by the concept of "social capital" which belongs to everyone equally). It could not supply the industrial sector with capital replenishment and the total absence of capital markets did not help.

j. Last - but far from being least - was the non existence of a "Protestant" or "Asian values" work ethic. Low salaries, feigned "equality" and absent profit motivation - all led to a disincentived work environment. The norm in many of these countries is still: "come to work, open and close the door and get paid", as the saying goes. This is the benign case. Stealing from the workplace has become an acceptable way of complementing income and moonlighting was done at the expense of the official "primary" workplace.

But it seems that the worst is over and that the scene is fast changing.

However sloppy or criminal the process of privatization, still hundreds of thousands of new capitalists were brewed and introduced, willy-nilly, to the profit motive. The spectre of capital gains, made most of them (except the most hardened) discover marketing, advertising, design, export, trade financing, public offerings, strategic partnerships, concessions and business plans.

Industries are much more focused and market oriented. The new religion of capitalism, replete with entrepreneurship, free choice, personal profit and the invisible hand of the market has been successfully phased in.

Both the domestic markets and international trade are recovering nicely. Consumption is growing and with it exports. The political level is withdrawing from the scene through more or less successful privatization or transformation schemes and appropriate legislation to minimize the role of the state in the economy.

Some countries have opted to "skip" some of the industrial portion of the classic, evolutionary economic cycle - and go directly to investing in information and knowledge industries. They educate their workforce and retrain it accordingly. They invite multinationals - using a cocktail of tax incentives and direct grants and subsidies - to open back office operations (accounting, administration) and telemarketing operations in their countries. This calls for lower investment than in classic (or sunset) industries and has a high value added to the economy.

But the single largest driving force behind economic recovery is foreign capital. Foreign Direct Investment (FDI) is pouring in and with it: new markets, technology

transfers through joint ventures, new, attractive product mixes, new management, new ideas and new ownership - clear and decisive.

So, industrial production is picking up and will continue to grow briskly in all countries in transition that have the peaceful conditions necessary for long term development. If Macedonia will follow the examples of the Baltic countries, of Poland, the Czech Republic, Hungary, Slovenia, even Russia, Ireland, Egypt, Chile, Indonesia, Israel and the Philippines - it will double its industrial production within 10 years and redouble it again in 15 years.

Israel, Ireland and … France and Japan (!) are examples of poor, agricultural countries, which made the transition to thriving industrial countries successfully.

But was their secret? How come Hong Kong and Singapore are richer than Britain by some measures? Together with South Korea and Taiwan they have been growing at an average rate of 7.5% annually for the last 30 years. China, Indonesia, Malaysia, Thailand, The Philippines have joined the "Asian Tigers" club.

They all share some common features:

0.Massive injections of labour (by massive immigration from rural areas to the cities, urbanization). Massive injections of capital and technology. The above injections were financed by an exceedingly high level of savings and investments (savings amount to 35% of GDP, on average).

b. Wise government direction provided through a clear industrial policy. This, though, is a double edged sword: a less wise policy would have backfired with the same strength.

c. A capitalist, profit seeking mentality.

d. An annual increase of 2-3% in productivity which is the result of copying technology and other forms of technology transfers from the rich West.

e. Strong work, family and society ethics within a cohesive, conformist and supportive social environment (the "Asian Values" are the Eastern equivalent of the "Protestant Work Ethic").

f. Low taxation and small government budgets (less than 20% of GDP compared to twice as much in the West - and 3 times as much in France today).

g. Flexible and mobile labour and c (in certain countries) capital markets. When mobility or flexibility are restricted (Japan) it is the result of social treaty rather than of legislation, regulation, or other statist intervention.

h. A firm, long lasting commitment to education and to skill acquisition, even in hard circumstances. The number of educated people is low but growing rapidly, as a result.

i. Openness to trade, knowledge and to technology.

j. Imports are composed mostly of investment goods and capital assets. The culture of conspicuous, addictive (or even normal) consumption is less developed there.

Still, these countries started from a very low income base. It is common economic knowledge that low income countries always grow fast because they can increase their productivity simply by purchasing technology and

management in the rich country. Purchasing technology is always much cheaper than developing it - while maintaining roughly the same economic benefits.

Thus, Hong Kong grew by 9% in the 60s. This growth coefficient was reduced to 7.5% in the 80s and to 5% in the 90s. But China, Malaysia, Thailand and Indonesia are likely to grow annually by 7-9% during the next decade.

Not that these countries are exempt from problems. The process of maturation creates many of them. There is the dependence on export markets and volatile exchange rates (which determine the terms of trade). When the West reduced its consumption of microchips and the Dollar appreciated by 50% against the Japanese Yen - all the tigers suffered a decline in economic growth rates, current account deficits of 5-8% of their GDP, strikes (South Korea) and Stock Market crashes (Thailand, to name but one of many). In Singapore and in Hong Kong, the industrial production plummeted by 5% last year (1996).

Years of easy money and cheap credits directed by the state at selected industries starved small businesses, created overinvestment and overcapacity in certain, state-supported, industries and destabilized the banking and the financial systems. It helped forge infrastructure bottlenecks and led to a shortage in skilled or educated manpower. In Thailand only 38% of those 14 years old attend school and in China, the situation is not much better.

Finally, the financial markets proved to be too regulated, the government proved to be too bureaucratic, corruption proved to be too rampant (Indonesia, Japan, almost everybody else). There were too many old conglomerate-type mega - companies which prevented competition (e.,

the Chaebol in South Korea or the Zaibatsu in Japan).

So, the emerging economies are looking to Hong Kong, Singapore and Taiwan to supply the ideal: truly flexible labour markets, no state involvement, lots of nimble, small businesses, deregulated markets, transigent industrial policies. These countries - and the rest of the Asian Tigers - are expected to beat the West at its own game: money. They have many more years of economic growth ahead:

Each Korean worker has only 40% of the capital goods, available to his Western comrade, at his disposal. Putting more technology at his fingertips will increase his productivity.

An industrial worker in the west has a minimum of 10 years of education. In Indonesia and Thailand he has 4 years and even in South Korea he has merely 9 years. On average, an industrial worker in one of the Asian Tigers countries carries 7 years of education in his satchel - hardly the stuff that generals are made of. Research demonstrated that the more educated the worker - the higher his productivity.

Finally, increasing wages and looming current account deficits - will force the tigers to move to higher value added (non labour intensive) industries (the services, information and knowledge industries).

Then, it will be the turn of countries like Macedonia to take their place in some labour intensive areas and to rise to tigerdom.

Return

A Contract Between
The People of the Republic of Macedonia and (The Party)

Date: 1997-8

We hereby declare that every free citizen of the Republic of Macedonia has the right to earn a decent and secure living;

The right to provide for his family, to educate his children, to build a home for his loved ones, not to burden them as he grows old;

The right to contribute as a useful citizen to the welfare and progress of his community and of his country;

Every citizen, in other words, has the immutable and inalienable right to look forward to a better future.

We (the party) undertake to put the fulfilment of these natural rights at the top of our agenda, as our first and foremost priority.

We (the party) undertake to intervene in the economy of this country just in order to make such intervention forever redundant and unnecessary;

To re-invent a vigorous, vibrant private sector, which lives from generation to generation through the entrepreneurial spirit of our people;

To encourage the pursuit of happiness through prosperity and well-being, of welfare through employment, of education through work, of good neighbourliness which is the inevitable result of freedom of enterprise and of

initiative.

To achieve these ends, we undertake, as an inviolable contract between us and each and every citizen of this country, regardless of race, gender, or religion - to implement the following measures once we are elected to manage this nation on the way to membership in the club of modern nations:

General Orientation

Macedonia is at the heart of an important cross-roads, not only between countries, or continents - but between cultures and between times past and the future.

We will, therefore, adopt "Multi-Orientation":

Whereas we recognize Macedonia's place in the newly emerging great Continent of Europe;

Whereas we will vigorously and unrelentingly pursue Macedonia's integration into the European Union, NATO and all other European political and economic multilateral structures - still, we will pursue as diligently our connection with our close geographic neighbours and strive, together with them, to transform the adjective "Balkanian" from derogatory to the ultimate compliment.

We will collaborate in any and all economic regional frameworks and initiatives - and initiate them as well.

We will put great emphasis upon building an iron bridge of interests and common goals with South East Asia, Japan and China, on the one hemisphere - and the countries of the Americas, on the other.

Even as we do all this, we will never neglect our former

economic allies and partners. We will always strive to maintain the best economic collaboration with them and to make them our partners in all our future endeavours and activities.

Government Structure and Budget

Once elected, our party will do away with big, all-pervasive, ominous, corrupt government.

Our government will contain the minimum number of Ministers.

Each Minister will be in charge of a group of subjects, all related to each other.

We will introduce independent budgeting for each Ministry and a system of incentives to those in the service of the government who save the money of the taxpayers. All public procurement will be subject to public, competitive, bidding in domestic and international tenders and reports will be submitted to a special committee in the cabinet, headed by the Minister of Finance.

Our budget will be prepared and subjected to open public debate months before the beginning of the new fiscal year.

All the expenditures in the budget and other budgetary items will have to be covered by a corresponding item of income. This government will not sink Macedonia into the deep and shark infested waters of indebtedness intended to finance consumption.

All legislative initiatives will, first, have to clear this logical hurdle: where will the finance come from? If no sources are proven to exist - the government will do its best to postpone or prevent the legislation.

A clear division will be instituted in the budget between Development items - and current items. Borrowing will be encouraged and dedicated to the former - and abolished from the latter.

The government will introduce - in its first year in office - a balanced budget amendment to the constitution and, thus, ensure that future government will not stray from the path of responsibility and maturity.

Finally, this government will be the first to establish a National Budget Planning Office which will provide the government with five year forecasts based on demographic, economic, geopolitical and technological trends. Such planning is indispensable in the plan to rationalize the process of the preparation of our national budget.

A budget is a declaration of priorities and intents of the nation, as a whole. We intend to bear this in mind and to reverse the devaluation in the importance and seriousness of this all too crucial instrument of policy.

Election Funding and Party Financing

This government will completely revamp the laws pertaining to election spending and party financing.

It will transform the process of elections and make it open, honest, non-corrupt, publicly audited and subject to constant media scrutiny.

Parties will be allocated funds from the budget according to their size in Parliament.

Any party exceeding the funds allocated to it - will be severely monetarily penalized.

Parties will provide complete, audited details of their campaign financing to the election committee and to Parliament. These data will be made available to the press.

Parties will not be allowed to receive money from non-resident donators.

Limitations will be placed on the amount of money raised from a single donator, on funds raised from corporations and from not for profit organizations.

The spending of campaign funds in the various media will be restricted and closely monitored.

A special, permanent authority will monitor the connections and dealings between major donators and the political parties or the politician to whom they have donated.

Economic Legislation and Property Rights

The laws of our Republic which deal with economic matters are, at best, copied verbatim from the codices of other nations. They are muddled, ill-understood even by experts, are not consistent or compatible with each other and contain many "dead weed" provisions.

Thus, instead of encouraging economic activity - they discourage it.

We will harmonize all the economic legislation in Macedonia within a coherent and compact code, phrased in a manner which will be understandable to all, free of contradictions and unsuitable articles and provisions.

We will work to transform our laws from a major deterrent to business - to one of our most attractive features: transparent, comprehensible, just, pro-business.

To do this, our government will create a special council which will be composed of legal experts, business and financial consultants, representatives of the private sectors and the relevant Ministries.

This council will work day and night to rationalize the bureaucratic nightmare forged so successfully by the former administration.

We will introduce to Macedonia - in a legally binding manner - Western standards of accounting. This will constitute a great step towards becoming integrated in the family of advanced economic nations.

All our laws will be reviewed and, where necessary, re-written, to protect the sacred right to own property and to dispose of it or to make use of it in any way deemed appropriate by its owner. The state need not intervene in these matters, except to protect these rights against any

infringement, either by itself, or by anyone else.

We take this opportunity to tell all foreign investors and domestic investors in the world:

This is the end of the dark era of property rights in Macedonia.

Your rights of all kinds, and your property rights included, will be zealously guarded by this administration. Special emphasis will be placed on the protection of intellectual property rights: copyrights, brandnames, registered trademarks.

You are the most welcome guests to Macedonia's future.

Judicial and Quasi-Judicial System

No law exists where no law is enforced. Our courts are slow, hesitant and ineffective. Justice served late - is injustice.

This government will revamp, reconstruct and rehabilitate the judicial system. It will allocate the budget necessary to double the number of judges, to build new facilities, to computerize the courts, to get rid of the backlog by operating second shifts, to establish well stocked legal libraries, to better the pay of the judges in order to attract the best legal minds to the profession and to provide them with the necessary administrative backup.

On the other hand, this government will offer the citizens alternatives to the clogged court system: binding courts of arbitration which will resolve conflicts swiftly and the powers and budgets of courts for special matters (economic, family, administrative) will be considerably enhanced.

On its part, the government will provide the citizenry with free legal advice and, in certain cases, services. It will encourage people to reach out of court compromises by enlisting the services of retired judges, lawyers and eminent public figures to assist the parties. It will financially reward speedy settlements of disputes by allowing tax deductions of the expenses.

The government will embark upon a massive educational effort which will disseminate conflict resolution methods among the uninitiated.

The government will not hesitate to publicly commend or condemn inefficient or corrupt courts and judges. It will, however, not hesitate to reward those who function with efficiency and decency to the benefit of the public and for its interests.

The government will nominate to vacant posts of judges a younger generation of lawyers and legal scholars, more attuned to the needs and realities of current Macedonia.

The government will offer, free of charge, educational possibilities to the judges, both in the studies of law and in other, relevant fields (criminology, psychology, sociology, ethnology, history, physics and chemistry, etc.).

But the government will also encourage the formation of quasi judicial bodies - or their activation, where they already exist.

The State Ombudsman and Reviser, the Securities and Exchange Commission, the Bank Supervision Department in the Central Bank, the Customs Investigative Unit, an anti-trust department - are all examples of arms of the executive branch which will be endowed with police authority and with judicial and criminal prosecution

powers. The same powers will awarded to the committees of the Parliament:

The power to summon and subpoena witnesses, to question them under oath, to gain access to documents, both private and governmental, to fine, detain and arrest.

Where courts cannot tread, where there is no obvious plaintiff - it is there that these quasi judicial bodies can and must intervene:

To protect consumers against the powers of a cartel;

To expose stock manipulation and market rigging and punish those responsible;

To uncover smuggling operations, arrest the smugglers and confiscate the contraband and so on.

It is only with these special powers - which need be exercised carefully lest they be abused - that the citizens and investors (foreign and domestic) will feel protected from the brutality of the State or of big business, or from the wrongdoing of shadowy individuals.

Openness, transparency, equality before the law, speedy resolution of disputes, swift punishment of wrongdoing - will be the pillars of the new Macedonian Judicial System.

Recommendations

1. Double the number of judges, build new court facilities, computerize the courts and the entire workflow of the judges, and provide judges with the necessary administrative backup.

2. Create an Office of Budgetary Management in the judiciary that will allow the courts to reallocate their

budget among the courthouses in accordance with their caseloads.

3. Operate the courts in second shifts.

4. Establish well stocked legal libraries and online databases of verdicts, precedents, and decisions.

5. Improve the pay of the judges in order to attract the best legal minds to the profession. Offer better pay against long-term contractual commitment of the judges (i.e., a judge that signs on for a minimum of five years will receive a higher salary; wages and benefits will reflect on-going training; etc.)

6. Create binding courts of arbitration which will resolve conflicts swiftly.

7. Establish specialty courts for specific matters (FDI, intellectual property, economic, family, administrative) and train judges to operate these courts.

8. Provide the citizenry with free legal advice and, in certain cases, free legal services.

9. Encourage people to reach out of court compromises by enlisting the services of retired judges, lawyers and eminent public figures to assist the parties in "mediation tribunals". Financially reward speedy settlements of disputes by allowing tax deductions of the expenses incurred during out of court procedures, mediation, and arbitration.

10. Embark upon a massive educational effort to convince plaintiffs and disputants to resort to mediation and arbitration instead of the courts.

11. Publish statistics regarding the efficiency of specific judges and courts.

12. Create a special police force and a special tribunal (including at least one foreigner) to deal with corruption in the judiciary. Televise proceedings against corrupt judges.

13. Judges should disclose, by law, once a year, their assets, economic interests, sources of income, and affiliations. Unambiguous and transparent rules regarding conflicts of interest and recusal should be formulated and published.

14. Offer, free of charge, educational possibilities to the judges, both in the studies of law and in other, relevant fields (criminology, psychology, sociology, ethnology, history, physics and chemistry, etc.).

15. Limit the right to appeal in various civil and criminal proceedings. Increase the number of issues that can be decided by a single judge or in administrative or brief procedures.

16. Form quasi judicial bodies and endow with police authority and with judicial and criminal prosecution powers the State Ombudsman and Reviser, the Public Income Authority (UJP), the Securities and Exchange Commission, the Bank Supervision Department in the Central Bank, the Customs Investigative Unit, the military, an anti-trust department. The same powers will awarded to the various committees of Parliament.

Examples of such competencies and powers include:

The power to summon and subpoena witnesses, to question them under oath, to gain access to documents,

both private and governmental, to fine, detain and arrest.

To protect consumers against the powers of a cartel;

To expose stock manipulation and market rigging and punish those responsible;

To uncover smuggling operations, arrest the smugglers and confiscate the contraband and so on.

17. Streamline the relationship between the Public Prosecution and the courts: render all processes and communications transparent; establish court oversight on prosecutorial powers.

Data and Statistics

The government, firms in the economy, individual citizens and foreign investors - all base their decisions on statistics, data and its analyses.

Unfortunately, the data and statistics published in the Republic of Macedonia by all involved are ridiculous, in the best of cases and downright misleading.

This government will make the collection of right data, its proper analysis and widespread dissemination - a national priority.

Data will be constantly and periodically collected on the national, regional, municipal and personal level without infringing upon any human or civil rights.

Data gathered from different sources will be compared and crossed to unearth discrepancies and to try and settle them prior to the decision making process.

This government will develop a host of national databases which will serve the executive branch in its fight against crime, tax evasion and corruption. All the organs of the state will be bound by law to transfer all the data that they accumulate to these national, computerized databases.

The government undertakes to dedicate at least one special session a month to the analysis of new data which will be presented to it in the form of monthly reports. The government will engage itself in the important task of understanding demographic, economic and other trends which influence our country.

The decisions of this government will be learned decisions, based on knowledge and far from the guesswork which characterized the previous administrations.

Infrastructure and Regional Development

This government will adopt the broad, modern view of infrastructure.

In today's world of information technology, unlimited mobility of the workforce and of multinational firms - infrastructure is not limited to roads, telephone and electricity lines, media outlets, waterways, office buildings and commercial space. All these are very important and will continue to star in the agenda of this administration.

However, we will adopt the view that infrastructure is anything which facilitates the free exchange of goods, services and ideas. In other words: anything that encourages business and civilized life as we came to know it in the latter half of the 20th century.

Infrastructure includes:

The right legislation and a court system to efficiently enforce it;

Computer networking the country and deeper integration into the information global village through the backbone of the Internet;

A functioning, internationally open, computerized and efficient banking system;

The existence of domestic thriving and dynamic capital markets;

An educated and skilled workforce;

The implementation of Western standards of accounting and disclosure with regards to firms in the private sectors, firms in the public sector and the government as an economic entity;

And above all: equitable, just, open, transparent institutions of government.

This government will introduce public, competitive bidding in all public procurement;

will give the citizen full access to the details of its decision making processes;

will establish institutions of appeal on all levels and subject itself, willingly, to criticism and legal challenges. It will encourage feedback from the people and promises to study each suggestion carefully and to respond on it in a reasoned manner.

This - participatory democracy - is what this government

sees as the real infrastructure. A citizen which feels that he can really influence, takes part more willingly in the economic activities of his nation.

The new government will recognize the fact that Macedonia is composed of a few very distinct regions, each unique with its own treasures, burdens, potentials and needs.

To dictate to these regions a central policy, harks back to the darker days of our history. It is also impracticable and inefficient. Today, the trend all over the world is that of "Devolution" - the returning of authority and of responsibility to the level directly in touch with the citizenry and with its needs (the regional and municipal elected authorities).

We will, therefore, encourage each region to act autonomously on behalf of its own economic interests and to establish its own economic council and chamber of commerce.

Regions and big municipalities will be allowed to raise funds in ways which will be prescribed by law and use their assets and future income to do so;

to attract foreign and domestic investments and tourism offering any kind of lawful incentives;

to encourage economic activities within their boundaries or in collaboration with other regions or municipalities;

to enhance their infrastructure, including their educational facilities and to transform many of their functions into economically feasible activities (from waste disposal to recycling, for instance);

to manage their welfare and social services activities as they deem fit, within national guidelines of entitlement and eligibility;

to manage their own financial affairs, using most of the income generated within their boundaries (only a small portion will be transferred to the central government) and to keep and use any savings generated by their activities;

to plan their development on a multiannual level and implement it, without being interfered with or hindered (or assisted) by the central government.

In short: to manage their regional economies to the benefit of their citizens.

Unemployment, Retraining and Trade Unions

The scourge of Macedonia is its totally unacceptable level of unemployment.

Whatever the real figures are - they are much too high. People who could productively contribute to society and to their country - lose their savings, their pride and their families in this degrading social blight called unemployment.

In the eyes of this government, this is the main enemy and it will do its best to win this crucial battle against the degeneration, feeling of futility and bitter despair which engulf such a big part of our populace.

This government undertakes to cut unemployment by one third (33%) in its first 18 months in office - and by one half (50%) at the end of its first term, without using public funds to finance unnecessary, fictitious jobs in the public sector.

We know how to do it. We closely studied the examples of other countries, notably the USA, Netherlands, the United Kingdom and Israel.

We will discourage people from getting unemployment benefits - and encourage them to go to work by giving them tax breaks and by paying them outright to do so.

We will give each employer cash incentives and discounts on the social contributions that he is paying - if he takes an unemployed person to work for him. We prefer to pay the same amount of money to an employer - rather than to the unemployed as habit-forming, addictive unemployment benefits.

We will create communities of unemployed and they will barter goods and services that they produce amongst them, using a special voucher system.

We will sign a "National Employment Contract" involving the trade unions, the employers and the government. This Contract will encourage labour mobility, labour flexibility, the guaranteed formation of new work places against a freeze on employee compensation and a separate treatment of part time work. Each of the parties will have to forgo some of its benefits - to increase the well being of the whole body of the nation.

In this mammoth task, the trade unions play an important role.

Only an elastic, dynamic labour market can bring about the miracle of less unemployment. The unions will have to assist their members by agreeing to be flexible on minimum wages, on part time job, on job security, on hiring and firing procedures, on social and unemployment benefits, on the right to strike, on the level of salaries, on

compensation for inflation and a long range of other subjects.

The employers have to sacrifice too: they have to oblige themselves to increase the number of those employed over a number of years, with fixed quantitative targets embedded in the trilateral "National Employment Contract".

The government will transfer to the employers the amount which represents the unemployment benefits of newly hired formerly unemployed persons and will participate in the payments of their social contributions.

But it will also embark upon massive retraining and requalification programs in which it will teach the unskilled and semiskilled unemployed the skills that they require to get back to the labour market.

The government will organize employment fairs, employment bulletins, barter communities of the unemployed and will give priority in its procurement to firms which employ the formerly unemployed.

But - above all - the government, through its progressive and modern day policies will create employment: real, economic, private sector, feasible employment. This kind of employment is long lasting because it is based on true economic value. This government will not bask in the false sun which shone upon the previous government: fictitious employment, hidden unemployment, gross misallocation of economic resources and the economic inefficiency resulting from it.

Education and the Media

Education is our investment in human capital. It is the creation of the most important type of infrastructure. This government will give education the treatment it deserves: a matter of national survival.

Besides expanding and modernizing facilities, adding teachers and instructors and considerably increasing the salaries of teachers to attract the best minds to the profession, this government will revolutionize education. In our country.

The government will define national economic priorities. Education will no longer be divorced from the realities of the jobs markets or the economy as a whole. Career paths will be delineated to our youngster and they will choose their future course of learning from primary school to university graduation, attuned to the needs of the market.

The government will disseminate knowledge through distance learning (television and computers, satellites and phone lines). It will financially reward teachers who will be willing to teach in remote, less advanced areas. It will institute an "educational cascading": students will teach secondary school pupils and they, in turn, will teach primary school pupils.

It will link schools to the information highway and encourage the construction of educational and learning websites in the Macedonian language.

The government will enlist both state media and private media into this national effort. The media will assist in the rapid expansion of educational efforts and in providing remote access to learning.

The government will positively encourage private education of all types, commercial and non-commercial. It

will give its full blessing and assistance to extracurricular educational activities. It will strive to obtain any assistance available from other countries, not for profit organizations, non governmental organizations, international organizations and multilateral groupings - to further education, exchange information, exchange students and staff, promote advanced education, research and development.

To indicate the importance that it attaches to this particular subject, the Minister of Education will also bear the title of Vice Premier.

Small Businesses

Small businesses generated more than 60% of all the new employment in the world in the last two decades. Being aware of this, we will regard the establishment of small businesses as our secret weapon against unemployment.

Again, the Republic of Macedonia can benefit from the experience of other countries: the USA, Israel, the United Kingdom, Ireland.

We will establish "One Stop Shops" in every city in Macedonia.

Entrepreneurs will enter these "shops" with only an idea - and exit them with an on going, operating business. Inside the "shop", the entrepreneur will receive all the assistance that is needed to establish his business: the preparation of business plans and credit applications, his proposed business will be analysed for feasibility, he will receive all the government and municipal licences and permits on the spot, he will file his application for credit with the representatives of the banks which will also be present there. Then he will be offered a choice of workers from

amongst the ranks of the unemployed and some legal and accounting assistance. All this will be done with the constant escort of a Tutor, assigned to him the minute that he enters this shop.

The government will develop and offer special funds for the establishment of small businesses, either in the form of microcredits with no collateral required, or in the form of regular credit directly offered to the entrepreneur - without the involvement of any financial intermediaries.

The government will open "An Entrepreneurs University", in collaboration with the private sector. The graduates of this University will be versed in the erection and the management of a small business.

The government will strongly encourage Intrapreneurship: when big, well established, businesses spin off start-ups for their employees. Small businesses bred by big ones can benefit from the experience of the mother company and from its financial clout.

The government will initiate a host of tax and financial incentives to the small businesses: tax holidays, rebates on social contributions, discounts for government services and the use of infrastructure, priority in gaining access to infrastructure (e.g., phone lines), credits for the purchase of fixed assets and much more.

Pensions and Social Benefits

It is only a matter of time before our whole pension system collapses.

We need to pre-empt this nightmare by learning from the

experience of others (notably, the experience of Chile).

This government will maintain a socially acceptable level of pension and other forms of social security.

It will, however, encourage people to supplement it by putting their retirement money into privately managed and tightly regulated retirement funds.

Gradually, the government plans to phase out of this market and to confine itself to the role of a safety net. Social benefits - and, especially pension funds - urgently need to be privatized to avoid the current mismanagement and financial mayhem.

Contributions to private pension funds and to other privatized social security functions (for instance, unemployment insurance) - will receive the same tax treatment and possess the same legal standing as payments within the current system.

Pension funds will be subject to strict control and supervision and to clear investment guidelines. They will provide their members with all the information that they require about their operations, financial results and investments.

They will maintain adequate reserves against their liabilities and against their assets.

This will be part of a larger move to completely deregulate the financial markets.

Financial institutions will be permitted to engage in all manner of financial activities, from insurance to securities brokerage and from deposit taking to loan making.

Healthcare and Social Welfare

This government will not privatize the social services, including the health sector. But it will encourage streamlining and efficiency by introducing competition from the private sector, a wider choice for the consumers and the privatization of certain types of activities within the social services.

Group of citizens, entrepreneurs, investors, Non Government Organizations (NGOs) and Not for Profit Organizations (NPOs) will be encouraged to open competing social services, especially in the health sector - but also in battling unemployment, poverty, child abuse, drug abuse, teenage pregnancies and so on.

The government will look favourably upon such activities in the private sector, regardless if their motivation is commercial or non-commercial.

The government will encourage groups of consumers to form legal entities and to shop and tender for the best and most efficient services for their members.

This government will institute State Medical Insurance: everyone will be automatically insured and a premium will be deducted from his income.

But each citizen thus insured will be allowed to choose the providers of his health care and to form consumer clubs to exert pressure on such providers to better the services that they are offering.

The government will do its utmost to facilitate the way and to financially assist the opening of day care centres for children of working mothers, drug rehabilitation centres, day long classes, extracurricular learning centres,

language schools, employment offices, food distribution centres for the needy, night shelters for the homeless, shelters for beaten women, orphanages and psychological treatment stations. All these should be able to turn a profit, if properly planned, financed and managed.

Taxation - Direct and Indirect

This government will not tolerate tax evasion. It will introduce measures - legislative and executive - to severely and mercilessly punish those stealing from their fellow citizens by not paying taxes.

It will establish national databases to track property purchases and compare them to declared income.

It will not hesitate to confiscate property, imprison and deny civil rights to tax evaders.

This government will step up tax enforcement, tax sampling and tax collection.

It will replace the old, tax driven, accounting system with a rational, Western standard accounting system which will lead to full disclosure and to a dramatic increase in tax receipts.

On the other hand, this government will rationalize the tax system by extremely simplifying it, by eliminating numerous loopholes, exemptions and deductions, by increasing the personal allowances, by drastically reducing the tax rates and by introducing VAT (Value Added Tax) and other consumption and excise taxes.

Our VAT will be simple and uniform. It will have one rate and apply to all goods and services. Poor households will receive cash compensation from the VAT authorities on a

monthly basis, calculated on a basket of goods and services determined by the Bureau of Statistics.

We believe that taxes should be simple to comprehend and to calculate.

They should be minimal in order not to distort economic decisions.

It should be evident to the citizen, that the money that he paid to the tax authorities was used to his immediate benefit.

This is why this government will embark upon a massive campaign in the media and by direct mail, to explain to the citizens the benefits of paying taxes.

This is why this government will earmark 50% of all VAT revenues to educational, sports, academic and other public benefit or infrastructure projects.

But this government firmly believes that citizens should pay taxes - especially if they are rational and just.

Inflation, Interest Rates, Exchange Rates and the Central Bank

The Central Bank of the Republic of Macedonia is the guardian appointed by law to preserve the stability of the Denar, to manage the country's foreign exchange reserves and to oversee the financial system in the country and its liquidity.

Our Central Bank has failed on all scores but one. It has maintained the stability of the Denar because it followed the advice of the IMF and prevented rampant inflation. But, at what cost!

We state: where there is no economy - there is no inflation!

Where there is no employment - there are no price pressures and the currency is stable!

We intend to transform the Central Bank of Macedonia into the totally independent body that it deserves to be. We will let the Central Bank decide the inflation targets and allow it to use the monetary arsenal to secure the achievement of these targets.

We will establish a Monetary Council, headed by the Governor of the Bank, his Deputy, three prominent academics, three representatives of the private sector and three representatives of the government. This Council will be completely autonomous to set the targets for the money supply, interest rates, inflation and other monetary parameters.

We will liberalize the trading of foreign exchange, abolish all manner of exchange controls and allow the market to fix the exchange rates. The Central Bank will be confined to managing the daily interbank trading and settlement in foreign exchange and it will publish a non-binding "middle exchange rate" for the day. Otherwise, it will have no involvement in this market.

The Supervision of the Banks will be removed from the Central Bank and become an independent unit, nominally under the Minister of Finance.

The Central Bank will have its own budget. It will be barred by law from transferring any of its profits to the national budget. Its autonomy will rest on its financial self-sufficiency.

International Trade - Exports, Imports, Customs Balance of Trade and Balance of Payments

The Republic of Macedonia was reduced to asking for handouts to cover its excesses of consumption. Had it not been for foreign donations, our country would have been broke, unable even to import basic food staples.

The widening twin deficits - one in the balance of trade and balance of payments and the other in the budget deficit - threaten to destroy the very fabric of our economy. Our foreign exchange reserves are barely enough to cover 6 weeks of imports!

This government will strongly encourage exports and the importation of capital goods - and strongly discourage the import of consumption goods. While we unconditionally adhere to international free trade principles - we cannot afford to waste all our (very) scarce economic resources on importing passenger cars!

The institution of VAT will give a considerable boost to exports by improving the terms of trade. It will also encourage local industries which produce import substitutes and discourage imports, by levying a VAT on them.

We will initiate a host of special assistance programs for exporters, all under the umbrella of a special Government Export Institute: from educational seminars, through the modernization of trade services in the banking system (including Electronic Document Interchange - EDI), the provision of grants to finance marketing, the opening of sales representative offices abroad and the participation in trade fairs, the insurance of export transactions and of forward foreign exchange rates through a special

government agency, trade delegations to non-traditional, new export markets - and up to the instalment of export subsidies in certain cases.

We will penalize the imports of non-productive consumption goods by imposing excise taxes on them, by levying taxes on their usage and maintenance, by demanding a declaration concerning the source of the funds used to import them and - when and if necessary - by imposing import quotas.

We will not resort to administrative discriminatory trade practices and to administrative and political devaluation of the foreign exchange rate. But we will put exports as our motto during our tenure.

Economic Sectors

1. Industry and Crafts

This government will not let the economy drift in the stormy water of international competition - unguided and unassisted.

It will have a clear industrial policy and order of priorities.

It will announce these priorities and back them with tax and other incentives.

It will establish Industrial Councils in which members of the government will convene periodically with representatives of industry to discuss problems and solutions. Each council will be dedicated to a different sector and national councils will deal with issues common to all industrial sectors.

The government will put at the disposal of the industrial

sector all the infrastructure that it currently possesses but does not operate.

The government will direct its development efforts and budget resources to areas - both geographical and sectoral - mandated under the Industrial Policy.

The government will create an "Industrial Goods Exchange" which will facilitate the flow of information between its members and to the outside world concerning which goods are available and at which price.

The government will encourage the formation of household-sized small crafts factories. These will manufacture goods unique to the Macedonian cultural heritage - or subcontract for bigger firms. They will be treated as small businesses, with all the benefits accruing to them.

2. Agriculture

The Macedonian agriculture is in shambles.

The government will not attempt to artificially resuscitate those segments which are non-competitive and inefficient.

The government will conduct a nationwide survey of all the agriculture stock: infrastructure, livestock, inventories, needs.

Based on this thorough survey, the government will declare a national Agricultural Policy, similar to its Industrial Policy. The two should be synergistically linked. For instance, the government will encourage agricultural produce which could serve as raw materials for a domestic industry.

The government will encourage the transition to hi-tech, high value added, sophisticated, off season agriculture. It will initiate education and technology transfers in the agricultural sector, aided by other countries and governments.

It will provide financing and procure know-how to establish regional processing centres (cold storage, controlled air storage, packing and sorting centres, slaughterhouses, mini-dairies and so on) with the aim to move our agriculture from the level of raw materials to semi-finished and finished products which are much more lucrative.

Above all, the government will encourage efficiency in all phases of the production and distribution cycles:

Old irrigation methods will be replaced with new technology.

Ploughing, sowing, diluting, planting, greenhouses, the full utilization of existing machinery, new seeds, biotechnology - all need to be tackled using new techniques and methods available in the world.

Bottlenecks related to distribution and the operation of the markets render our produce expensively non-competitive even when compared to imported produce.

This anomaly must be solved by improving transport and distribution channels.

Market accessibility and produce availability are, arguably, Agriculture's two biggest problems in Macedonia.

Another problem, is lack of communication and

information. At times, products are imported from abroad that are available a few kilometres away!

The government will initiate an "Agricultural Commodities Exchange" which will facilitate the flow of information among its members.

3. Transportation and Telecommunications

Transportation and telecommunications are the blood vessels in the economic body of the nation. In Macedonia, these blood vessels are in advanced stage of sedimentation. To restore them and to replace them with more appropriate vessels is a prerequisite, a precondition to the resuscitation of the Macedonian economy.

The government will attract private firms to build transportation infrastructure and facilities, by offering to them long term concessions in a "Build, Operate, Transfer" (BOT) approach. This way, roads, railways, river facilities, petrol stations - all can be constructed with a minimal investment of taxpayer's money.

The government will open the telecommunications market to unrestrained competition in all fields: domestic calls, international calls, internet service provision, data transfers and verification, EDI, satellite communications, cellular phone networks, paging systems and all other areas of telecommunications.

It will auction frequencies and licences and rights in a series of international tenders, open to participants from all over the world. The proceeds will be invested in the further development of infrastructure.

It will maximize the income to the nation from the use of its resources - while guaranteeing more choice, higher quality, better services, bigger efficiency - and all this at no cost to the public purse!

The government will privatize all its holdings in transportation and telecommunications facilities and companies. It will sell its shares through international,

competitive tenders without limitation as to the nationality of the participants. The proceeds will be invested in infrastructure only.

4. The Information and Knowledge Industries

Macedonia has a high rate of educated workforce, most of it computer literate and those who are not can easily acquire computer literacy.

The government will attract multinational firms to establish back-office operations here: data processing, processing of claims, telemarketing, settlement of transactions, software duplication, microchip production and other low skill information technology activities.

Concurrently, the government will emphasize computer literacy and education both in existing educational and academic institutions - and in private sector schools.

The government will commence a national drive to open computer classes in all the schools of Macedonia and to initiate all the members of the younger generations in the use of the information highway. It will appeal to nations and to organizations around the world to assist it in this effort. It will also appeal to the Macedonian diaspora all over the world to contribute the necessary equipment.

The government will encourage the formation of software development firms, internet related international activities and other knowledge industries. It will strive to transform Macedonia into a production and development base for all of the Balkan area.

The government will establish a strong presence on the Internet by opening websites to promote exports, foreign direct investment (FDI) and tourism.

It will encourage firms to minimize their costs by using the Internet as their communications backbone - rather the existing telephony system.

The government will step up its support of scientific and technological activities and especially research and development. It will offer tax incentives, loans and grants for the development of new products. It will be entitled to royalties from future sales until it has been fully repaid.

It will establish a "Chief Scientist" Office in the Ministry of Industry to supervise these activities and to authorize applications for such funding.

The government will initiate the creation of a "Macedonian Venture Capital Fund" to invest in intellectual property (patents, designs, trademarks, copyrighted material, etc.) generated within the Republic. It will invite Macedonians in the diaspora to participate in it, as well as foreign venture capital funds and funds from the relevant European Union organs.

The government will enhance the image of Macedonia as an "emerging economy". This is an asset hitherto totally unused. There are numerous financial sources in the world (mutual funds, pension funds, investment banks, private investors) looking to invest exclusively in emerging markets and emerging economies. Macedonia should have tapped these resources - but has neglected them and did not attract the funds which were available to it.

5. Construction

The construction sector is not only a gauge of national economic health - it is also a barometer, signalling the future. A host of industries and crafts are involved in the complex process of construction.

The government will encourage residential construction by providing state guaranteed construction loans, on the one hand - and mortgage backed loans to young couples, on the other hand.

Every developer and construction group which will initiate a residential property project - will be entitled to receive upto 70% of the construction costs in the form of a construction loans, linked to the appreciation in the value of the property, as the construction proceeds. These loans will be guaranteed by a special government authority.

Young couples who wish to buy a home, will receive up to 15 year loans covering up to 50% of the price of the apartment, with subsidized interest rates and low repayments with the property as the collateral.

The government will sell housing that it possesses in a public auction.

The government will discourage - through the tax system - any property owner who chooses not to rent his apartment.

The government will encourage - through the tax system - construction of housing projects for rental purposes, the construction of one bedroom housing units and construction in the periphery of cities.

The government will auction the land that it owns and sell it below market prices to private land developers - providing that they pass these discounts to the future homeowners.

The government will grant a licence to operate "Apartment Exchanges" on a commercial basis.

6. Tourism and Catering

Macedonia contains many sites which constitute an important part of the international cultural heritage. Unfortunately, these sites are not preserved, the infrastructure to accommodate international tourism is absent or dilapidated and the huge potential of Macedonia's breathtaking landscapes, archaeology and sites remains largely that: a potential.

This government recognizes tourism to be an export item.

It will encourage the construction of all types of tourism infrastructure: all grades of hotels, catering to different populations, restaurants, roads, signs, public utilities, fully equipped camping sites, panoramic views, etc.

The government will conduct a national survey of Macedonia and take stock of all the "tourism inventory": sites, hotels, restaurants, camping facilities, utilities, roads, signs, museums and so on.

The state that each tourism asset is in will be noted: is it decrepit, badly maintained, not tourist-friendly, lacking signs or explanations in foreign languages, lacking access roads, water, public lavatories.

The government will invest its own resources in small ticket items, in the maintenance of the sites and their transformation into tourist friendly locations and in the marketing of Macedonia worldwide as an hidden, unspoiled paradise.

Concurrently, the government will collaborate with private - domestic and foreign - entrepreneurs, who wish to construct facilities to accommodate international tourism. It will assist in attracting a major hotel

management firm to invest in Macedonia and give its name and expertise to the local operation.

The government will strive to educate our citizens to welcome foreigners and be tolerant and understanding when confronted with differences in culture and behaviour.

The government will encourage both low spending and high flying types of tourism: backpack, young tourists, campers and businessmen.

The government will establish modern facilities for congresses, conventions and trade fairs in Skopje and in two other major cities.

Banking, Finance and the Capital Markets

Economic activity cannot be pursued without the continuous support of stable and risk assuming banking system and capital markets. Unfortunately, Macedonia has neither.

The government will reduce the capital requirements to open a bank, to allow for increased competition in this sector. It will, however, screen applications more carefully and refuse investors with no thorough background in banking.

The government will abolish all non-banking financial institutions and encourage banks to open branches throughout the country by reducing the capital required to do so.

The function of Bank Supervision will be separated from the Central Bank and transferred to a distinct government agency with judicial and criminal prosecution powers.

However, liquidity and reserves policies will still be determined by the Central Bank.

All the banks will be required to manage their accounts using western accounting methods and to be audited by a Western auditor. The banks will supply the Supervision authorities with quarterly exposure and asset risk assessments.

To reinstate the trust between the population and the banking system, the government will strengthen considerably the role and the financing of the Deposit Insurance agency. The government will fully guarantee its obligations.

By providing tax incentives, the government will encourage the banks to computerize and to reduce their costs (and the waste of their clients' resources) by performing more and more banking functions through unmanned teller machines.

The banks will administer the government's plans for small businesses and for export encouragement.

But banks are only part - albeit, indispensable - of the total picture of capital markets in a modern economy.

The other part are the various exchanges, headed by the Stock exchange.

The latter has performed dismally in the first year of its existence, not least because the government refrained from using it in the process of privatization and because it had no political clout.

This government will regard the Stock Exchange as a prime financing instrument in the economy. It will

encourage its activities in many ways:

It will offer tax breaks (up to total exemption from capital gains tax) to owners of stock in listed companies;

It will educate the public as to how to use the Stock Exchange as a capital market - and as to how to trade in it;

It will encourage employees and managers who received stock during the privatization process to trade their shares through the services of the Stock Exchange;

It will establish free legal and accounting services for firms who wish to be enlisted;

It will continue the process of privatization through the Stock Exchange;

It will raise and recycle some of its internal debt through the Stock Exchange;

It will not tax long term holding of shares as an investment;

It will support the creation of mutual funds and voucher funds.

Today, 145,000 of our citizens are nominal shareholders. Their wealth depends on their ability to infuse their firms with new capital, new management techniques, new ideas and technological innovation. Some will succeed - but others will not.

This government will not re-nationalise privatized firms whose new owners default on their undertakings to pay the Agency for Transformation of Enterprises with Social Capital.

It will also not re-nationalise privatized firms whose new owners mismanage or procrastinate on vital business decisions.

This government, in short, will not be the lender of last resort to economic basket cases. It will not re-instate an economic system which failed so miserably just less than a decade ago.

Instead, it will look to the domestic capital markets to do the job of mediating between private, domestic and international, capital and bargain basement priced firms.

Because we anticipate this imminent need in fresh capital and business outlook - we decry the need in efficient, liquid capital markets.

The process of privatization in Macedonia was botched, misused, mismanaged and abused to a point of no return. Companies were transferred at ridiculously low prices to the very same people that brought the companies to their sorry state in the first place. This was privateering - not privatization. Crony capitalism was loose and nepotism celebrated.

But now all this is behind us and there is nothing much which can be done to reverse the wheel of history. In the future we will have to suffer the results of this careless, negligent approach to the disposition of the assets of this nation.

But this country cannot pay anymore for the mistakes and wrongdoing of its political level and it has suffered enough.

It must now prepare the financing alternatives through the establishment of healthy banks and a healthy capital

market.

Foreign Direct Investment (FDI) and Free Trade Zones (FTZ)

This governments regards FDI to be its only measure of success or failure in office. If foreign investors vote confidence in it - the whole Macedonian economy would look different.

The government will establish 2-3 free trade zones in Macedonia - one near Skopje and two others in more peripheral areas, close to main transportation veins. These areas will be declared completely off-shore and ex-territorial.

They will be dedicated to industrial and to processing activities - but will allow, in their charter for holdings, banking, insurance and financing activities, as well.

This government will attract FDI by:

Fiercely protecting property and intellectual property rights;

Revamping and restructuring the judicial system to allow for efficient enforcement of the law;

Offering tax incentives, grants and loans;

Appealing to Macedonians abroad, offering them special treatment;

Improving the general business and economic climate in the country;

Instituting full disclosure and Western accounting methods;

Emphasizing the natural and human endowments of Macedonia;

Providing ever improving telecommunications and financial infrastructure;

Participating in a Venture Capital Fund for Macedonia;

Encouraging prime Macedonian firms to list and trade their securities abroad;

Revitalizing the local capital markets to provide for exit strategies;

Collaborating with international financial institutions;

Educating the population to approach international financial sources for their financing needs;

Establishing free trade zones;

Improving the physical infrastructure using BOT arrangements;

Promoting Macedonia abroad for what it is: a unique opportunity.

Return

An Evaluation of the Devaluation

A Minister of Finance is morally right to lie about a forthcoming devaluation and a woman has the right to lie about her age. This is the common wisdom.

Rumours about a devaluation of the Macedonian Denar versus the major currencies were in the air during the last few weeks. Still, no government official had to lie. The market just did not believe it. The unofficial exchange rate stayed put at 27 MKD to the Deutschmark even as the devaluation was taking place.

This is strange. Devaluation rumours are usually reflected in the street exchange rates. The MKD has held its turf against other currencies in the last three years. A devaluation seemed like a reasonable proposition - or was it?

Why do governments devalue their currencies? They do it mainly to improve the balance of trade. A devaluation means that more local currency is needed to purchase imports and exporters get more local currency when they convert the export proceeds (the foreign exchange that they get for their exports). In other words: imports become more expensive - and exporters earn more money. This is supposed to discourage imports - and to encourage exports and, in turn, to reduce trade deficits.

At least, this is the older, conventional thinking. A devaluation is supposed to improve the competitiveness of exporters in their foreign markets. They can even afford to reduce their prices in their export markets and to finance this reduction from the windfall profits that they get from the devaluation. In professional jargon we say that a devaluation "improves the terms of trade".

But before we examine the question whether all this is true in the case of Macedonia - let us study a numerical example.

Let us assume that we have a national economy with for types of products:

Imported, Exported, Locally Produced Import Substitutes, Locally consumed Exportable Products. In an economy in equilibrium all four will be identically priced, let us say at 2700 Denars (= 100 DEM) each.

When the exchange rate is 27 MKD/DM, the total consumption of these products will not be influenced by their price. Rather, considerations of quality, availability, customer service, market positioning, status symbols and so on will influence the consumption decision.

But this will all change when the exchange rate is 31 MKD/DM following a devaluation.

The Imported product will now be sold locally at 3100. The Importer will have to pay more MKD to get the same amount of DM that he needs to pay the foreign manufacturer of the product that he is importing.

The Exported products will now fetch the exporter the same amount of income in foreign exchange. Yet, when converted to MKD - he will receive 400 MKD more than before the devaluation. He could use this money to increase his profits - or to reduce the price of his product in the foreign markets and sell more (which will also increase his profits).

The Locally Produced Import Substitutes will benefit: they will still be priced at 2700 - while the competition (Imports) will have to increase the price to 3100 not to

lose money!

The local consumption of products which can, in principle, be exported - will go down. The exporter will prefer to export them and get more MKD for his foreign exchange earnings.

These are the subtle mechanisms by which exports go up and imports go down following a devaluation.

In Macedonia, the situation is less clear. There is a great component of imported raw materials in the exported industrial products. The price of this component will increase. The price of capital assets (machinery, technology, intellectual property, software) will also increase and make it more difficult for local businesses to invest in their future. Still, it is safe to say that the overall effect of the devaluation will favour exporters and exports and reduce imports marginally.

Unfortunately, most of the imports are indispensable at any price (inelastic demand curve): raw materials, capital assets, credits, even cars. People buy cars not only to drive them - but also in order to preserve the value of their money. Cars in Macedonia are a commodity and a store of value and these functions are difficult to substitute.

But this is all in an idealized country which really exists nowhere. In reality, devaluation tends to increase inflation (=the general price level) and thus have an adverse macro-economic effect. Six mechanisms operate immediately following a devaluation:

1. The price of imported products goes up.

1. The price of goods and services, denominated in foreign exchange goes up. An example: prices of

apartments and residential and commercial rentals is fixed in DEM. These prices increase (in terms of MKD) by the percentage of devaluation - immediately! The same goes for consumer goods, big (cars) and small (electronics).

1. Exporters get more MKD for their foreign exchange (and this has an inflationary effect).

1. People can convert money that they saved in foreign exchange - and get more MKD for it. A DEVALUATION IS A PRIZE GIVEN TO SPECULATORS AND TO BLACK MARKET OPERATORS.

1. Thus, the cost of living increases. People put pressure on their employees to increase their salaries. Unfortunately, there is yet no example in history in which governments and employers were completely successful in fending off such pressures. Usually, they give in, wholly or partially.
   Certain countries tried to contain such wage pressures and the wage driven inflation which is a result of wage increases.
   The government, employee trade unions and representatives of employers' unions - sign "economic pacts or package deals".
   The government undertakes not to raise fees for public services, the employers agree not to fire people or not to reduce wages and employee trade unions agree not to demand wage hikes and not to strike.
   Such economic pacts have been very successful in stabilizing inflation in many countries, from Israel to Argentina.

Still, some of the devaluation inevitably seeps into the wages. The government can effectively control only such employees as are in its direct employment. It cannot dictate to the private sector.

1. Inflation gradually erodes the competitive advantage awarded to the exporters by the devaluation which preceded it. So devaluations have a tendency to create a cancerous chain reaction: devaluation-inflation followed by more devaluation and yet by more inflation.

Arguably, the worst effect of a devaluation is the psychological one.

Macedonia has succeeded where many other countries failed: it created an atmosphere of macro-economic stability. It is a fact that the differential between the official and non-official exchange rates was very small (about 3.5%). This was a sign of trust in the macro-economic management. This devaluation had the effects of drugs: it could prove stimulating to the economic body in the short term - but it might be harmful to it in the longer term.

These risks are worth taking under two conditions:

1. That the devaluation is part of a comprehensive economic program intended to stimulate the economy and mainly the export sector.

1. That the devaluation is part of a long term macro-monetary plan with clear, OPENLY DECLARED, goals. In other words: the government and the Central Bank should have designed a multi-year plan, stating clearly their inflation objectives and by how much they are going to devalue the

currency (MKD) over and above the inflation target. This is much preferable to "shock therapy": keeping the devaluation secret until the last minute and then declaring it overnight, taking everyone by surprise. The instinctive reaction is: "But if the government announces its intentions in advance - people and speculators will rush to take advantage of these plans. For instance, they will buy foreign exchange and put pressure on the government to devalue by dilapidating its foreign currency reserves".

If so, why didn't it happen in Israel, Argentina, Chile and tens of other countries? In all these countries, the government announced inflation and devaluation targets well in advance. Surprisingly, it had the following effects:

1. The business sector was able to plan its operations years in advance, to price its products properly, to protect itself by buying financial hedge contracts. Suddenly, the business environment became safe and predictable. This had an extremely favourable micro-economic effect.

1. The currency stabilized and displayed qualities normally associated with "hard currencies". For instance, the New Israeli Shekel, which no one wanted to touch and which was immediately converted to US dollars (to protect the value) - became a national hit. It appreciated by 50% (!) against the dollar, people sold their dollars and bought Shekels - and all this with an inflation of 18% per year! It became a truly convertible currency - because people could predict its value over time.

1. The consistency, endurance and resilience of the governments in implementing their macro-economoic agendas - made the populace regain their trust. Citizens began to believe their governments again. The openness of the government, the transparency of its operations and the fact that it kept its word - meant a lot in restoring the right, trusting relationship which should prevail between subjects and their administration.

That strict measures are taken to prevent the metamorphosis of the devaluation into inflation. The usual measures include a freeze on all wages, a reduction of the budget deficit, even temporary anti-import protective barriers to defend the local industries and to reduce inflationary pressures.

Granted, the government of Macedonia and its Central Bank are not entirely autonomous in setting the economic priorities and in deciding which measures to adopt and to what extent. They have to attune themselves to "advice" (not to say dictates or conditions) given by the likes of the IMF. If they fail to do so, the IMF and the World Bank will cut Macedonia off the bloodlines of international credits. The situation is, at times, very close to coercion.

Still, Macedonia could use successful examples in other countries to argue its case. It could have made this devaluation a turning point for the economy. It could have reached a nationwide consensus to work towards a better economic future within a national "Economic Agenda". It is still not to late to do so. A devaluation should be an essential part of any economic program. It could still be the cornerstone in an export driven, employment oriented, economy stimulating edifice.

Return

Marketing Macedonia

Speech delivered at the AIESEC congress in Skopje, 1997

Many Macedonians ask me: why do foreign investors refrain from investing in Macedonia?

This reminds me of one Jewish joke and of three (true) stories.

The stories first:

In the November 1st, 1997 edition of the prestigious economic magazine, "The Economist", there is an ad published by the Berlin Economic Development Corporation. It contains the names of all the countries in Eastern and Central Europe including such godforsaken ones as Azerbaijan and Kyrgyzstan. Only one name is missing: Macedonia.

A second story: all the important internet sites provide their users with lists of countries. The users use these lists to identify themselves to the webmasters of the site and to other visitors. The lists are very comprehensive. Even the names of tiny quasi-republics are included (anyone ever heard about Tuvalu?).

With the exception of very few Websites, Macedonia is not to be found on any of these lists.

One last story: on my way from Prague to Skopje, I was seriously asked by a reservations clerk of one of the leading airlines whether Skopje (Macedonia's capital since time immemorial) was a suburb of Belgrade.

These are tragicomic incidents. Still, they remind me of the Jewish joke that I promised you:

In a small Jewish town there was a Jew who made it a habit to complain to God weekly: he never won the lottery while many of his neighbours turned rich by playing the game. Finally, God (apparently utterly fed up) thundered at the hapless Jew: I have been trying to help you for decades - but for Christ's sake, would you please BUY A LOTTERY TICKET!

To attract FDI (Foreign Direct investment), the recipient country must meet a few conditions.

The first condition is rather obvious: foreign investors must know that the country exists. Very few people know that the Republic of Macedonia exists, let alone where it is, what is it producing and selling and other basic economic facts about it.

In an age of advanced communications and transportation, investors are faced with a glut of information. Countries must differentiate themselves by investing in their own "brand names".

Any failure to disseminate relevant economic information translates into diminishing geopolitical leverage and decreasing foreign investments. In certain cases it puts the very existence of the country at risk. Is the West likely to send peacekeepers or soldiers, aid and know-how to a country no one ever heard of? If the West has no vested interests in Macedonia - will it really matter if it ceases to exist?

To answer these questions, I will analyze three cases: Israel between 1948-1968, Great Britain during the new "Labour" era (the "branding" period) and Slovenia after

1990. We can use the lessons derived from these three disparate case studies to draw up a blueprint of public relations for Macedonia.

I. The Case of Israel

The small (20,700 sq. km.) State of Israel was established in 1948. Its very establishment was a brilliant geopolitical and political coup, a masterly use of public relations.

Israel was openly described as an "ethnically clean" country intended to accommodate the world's Jews. Citizenship was granted on a racial-genetic basis: a person whose mother was Jewish was eligible for citizenship immediately. All others had to go through a tortuous (and often unsuccessful) process to obtain the same.

Despite these politically very incorrect and unappetizing features, the Jewish State enjoyed tremendous popularity throughout its first years of existence. This popularity was cleverly translated into one of the world's most thriving and vibrant economies. Many attribute this phenomenal success to the (partly imaginary) clout of world Jewry. This explanation is not sufficient (or true).

The political leadership of the Zionist (Jewish national) movement made good use of other PR angles:

One third of the Jewish people were cold-bloodedly slaughtered during the Second World War. Many other nations suffered huge losses in human lives (Russia lost 20,000,000 people!). Still, no other nation or ethnic group was wiped off the face of a whole continent and no other nation or ethnic group was persecuted merely due to its religion or racial origin. Jews were murdered because they were Jews and for no other reason.

Understandably, the world felt guilty. The remaining Jews were able to leverage this guilt and to extract political and financial benefits out of an otherwise reluctant international community. Many countries (both the USA and the USSR, for instance) felt that they had to support the creation of a safe haven for Jews somewhere on the planet. Others felt obliged to compensate the victims monetarily (Germany).

This (totally justified) guilt was further compounded by the hostile and violent Arab reaction to the possible emergence of a Jewish State amidst them. Israel cast itself in the role of David against an Arab Goliath, the youthful underdog versus the corrupt giant (Rocky), the one against the many (Arab countries).

In truth , Israel was always much stronger militarily than all its neighbours combined. But it succeeded in maintaining the false image of a "maiden in distress" for decades. Moreover, Israel presented itself as the staunch ally of such Western powers as Britain, France (1956) and the USA. It assumed the role of a democratic bastion in an authoritarian sea, the protector of Western interests in a deeply unstable, unpredictable and perturbed part of the world.

Truth be told, until very recently Israel really was the only democracy in the Middle East, a stable polity with European roots (the Israeli elites emigrated from Central and Eastern Europe or from Western Europe and the USA). It came to resemble the United States and Europe in many ways, spawning hi-tech industries, its populace literate and numerate, sporting a varied and pluralistic culture. Israel firmly adhered to civil society principles like the rule of law, a work ethic, fair play, and maintaining a system of genuine popular representation.

Israel did protect the West's interests and, in the process, came close to becoming an outpost of neo-imperialism and neo-colonialism. But it chose right early on by wholeheartedly embracing capitalism and the West. It was aligned in a period of non-alignment (remember Tito and Nasser).

Israel cleverly positioned itself as the only humane solution to one of the world's most pressing problems: migration from Eastern Europe. During the 1990s, it received 10 billion USD in loan guarantees from the USA intended to help it to successfully assimilate a million mainly Russian Jews ("who otherwise" - the Israeli argument went - "would have flooded the West").

Granted, it is not all spin. Israel does offer some real relative advantages. It is a perfect transit point between all the important emerging markets (Africa included). It has an inordinately highly educated, polyglot workforce and it enjoys capital inflows from the West and from Jews all over the world.

Still, Israel is a triumph of image over substance and over fact.

Consider this: Israel is by far the most dangerous place for a Jew to inhabit - yet every Jew (and gentile regards it as a safe harbor and a shelter. Israel is of no real strategic significance (see its marginal role during the Gulf war) - yet the mighty USA behaves as though it is the most important spot on Earth. It is no longer the only democracy in the region - but is still wrongly known as such. This is the power of place marketing and nation branding.

II. The Case of Slovenia

From its inauspicious inception, Slovenia marketed itself aggressively. It even hired expert lobbyists to work the corridors of power in the UN and in the USA. It cultivated journalists, media executives, and public relations personnel in big business. It shamelessly - and successfully - engaged in outright economic and political propaganda. As a result, it has an excellent public image - supported by a far less excellent reality. Still, the country's marketing is sufficiently based on realistic elements to convince others.

The elections in November 1996 put paid to any semblance of political stability. The (former) communists opened old wounds by calling not to compensate collaborators with the Nazi and Fascist occupation forces for their nationalized property. A debate erupted between proponents of the free market and supporters of the "social model" concerning the future of the welfare state.

But everyone, regardless of political hue, are united behind a Western (EU) and Northern (NATO) orientation, away from the Balkans in general and from other former Yugoslav states in particular. The Slovenes even refuse to connect the port of Rijeka (Croatia) with Corridor 5 (the Barcelona-Kiev thoroughfare) for fear of being again identified with their backward neighbors.

The Slovenes emphasize their differences (and disagreements) with Croatia on shipping prices, border demarcation and control, banking, the use and abuse nuclear power an a lot more. They are eager to distinguish themselves from the morass that is their geography. The message they broadcast to the world is: see how different we are from these semi-civilized remnants of the Yugoslav Federation.

Slovenia presents itself as a bridge between East Europe and its West, between Central Europe and Asia. It made peace with Prodi's Italy and publicized the good services that it is offering to landlocked Austria and Hungary, current EU members and prospective ones (since the speech was delivered, both Hungary and Slovenia became full members of the European Union - SV).

The Slovenes flooded the world media with data regarding every aspect of their maritime ascendance. They celebrated when Slovenia's port, Koper overtook Trieste in cargo handled, with its docks improved. Traffic will double in 10 years, they boast.

Slovenia's Foreign Minister (Kracun) is unequivocal: Slovenia is politically and mentally removed from the Balkans. With 10,000 USD GDP per capita (14,000 USD in 2004 - SV), it is richer than the poorest EU countries (Portugal, Greece) and will soon become a net contributor to the EU budget thus joining an exclusive club (with Germany).

Inflation is low as Slovenia was not influenced by the collapse of the Yugoslav internal market (70% of its trade is with the EU), its currency is stable, its budget balanced, its public debt close to invisible. This is a country to do reliable, long term business with, imply the Slovenes.

Swept under the public relations carpet is the true picture: crony privatization, foreign investors shunned, state and private companies do not restructure and are not competitive, wages are much too high and price many Slovene industries out of existence. Unemployment is rising (14%), growth is slowing and industrial production slumping. Moreover, the Slovenes are highly xenophobic and fiercely independent. They do not want to belong to

another political federation, so they detest the idea of the EMU (the euro).

Every now and then, the world media have a new star: it used to be the Czech Republic or Albania - now it is Poland and Hungary. Slovenia was never regarded as a meteor (rising and falling) - rather as the North Star: always present, a reliable navigational aide. These are the results of a very successful marketing, market positioning, lobbying, image making and public relations campaign.

Many countries have drastically altered their image through a concerted, intentional effort: Spain, Chile, Ireland, and Australia to mention a few. The last to seize on the idea that a country is like a brand name and (like any other product) has to be re-branded from time to time, is Britain.

To summarize a very livid and complex debate, Britishness has acquired either a bad or a staid name, depending on whom you ask. To be British means to be: past-oriented, xenophobic and imperialist, vaguely negative (older people) to totally indifferent (younger folks).

Foreign investors (inward investment is fairly high) identify Britishness with inflation, strikes and quaint products. British companies (British Telecom and British Airways as of late) are doing their best to disguise their Britishness. Tourists regard Britain as a huge museum with slightly eccentric traditions. The British Tourist Agency is dropping the Union Jack and Tony Blair is hosting film stars and fashion designers in Downing Street to project an image of a cool, creative, young country. This as opposed to the sitcom image of white, protestant and imperialist.

Paradoxically, to be British might mean to be less and less British. Only 48% of Britons see themselves as British. The Sports Minister called lately not to play the anthem and not to wave the British flag on international sports occasions. People think that less nationalism means more trade and less war.

A British think-tank (a novelty in Britain), Demos, defined the six new dimensions of future Britishness (courtesy of "The Economist"):

- A Global Hub (an exchange of goods, messages and ideas) - a bridge between Europe and America (examples: the City, Heathrow);
- A Creative Island - crammed with innovating minds from science to music;
- A Hybrid Nation - deriving strength from ethnic and cultural diversity;
- A Silent Revolutionary - espousing non-violent change and a trend-setter (from privatization to de-industrialization and to constitutional reform);
- A Nation of Buccaneering Entrepreneurs;
- The Nation of Fair Play and the Rule of Law.

The belief (really ungrounded in research) is that rebranding Britain will boost its economy.

And from Britain to another poorly branded country: Macedonia.

Macedonia has a lot of marketable advantages - and one of the worst marketing strategies amongst the economies

in transition:

- It has rich natural endowments (much more than Israel);
- An educated workforce (much more than South Korea, Thailand and China);
- (Relatively) cheap labour (paid less than in Croatia, Slovenia, the Czech Republic);
- A massive diaspora of Macedonians abroad (relatively more than any other nation except the Jews);
- Political and macroeconomic stability (much more than any other Balkan country, Greece included);
- Natural trading instincts (Macedonians have graduated from 500 years of the Turkish School of Survival and did their post graduation in the Communist University of Getting By);
- The sympathy reserved for a small country surrounded by mightier enemies
- A unique geopolitical and cultural role (by virtue of its history, its culture and, especially its peaceful role in the last Balkan War - the Yugoslav disintegration);
- An advantageous geographical location (the perfect transit route between Europe and Asia, much better positioned than Slovenia for certain purposes).

None of these advantages is properly brought to the attention of the world. Macedonia hits the headlines only when ethnic tensions erupt.

To thrive, this crucial handicap must be radically altered. The experiences described in this articles might show the Macedonian decision makers the way to the creation of a new brand name: Macedonia.

Also Read

Nation Branding, Place Marketing, and Investment Promotion

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Does Macedonia Need Competition Laws?

A. THE PHILOSOPHY OF COMPETITION

The aims of competition (anti-trust) laws are to ensure that consumers pay the lowest possible price (=the most efficient price) coupled with the highest quality of the goods and services which they consume. This, according to current economic theories, can be achieved only through effective competition. Competition not only reduces particular prices of specific goods and services - it also tends to have a deflationary effect by reducing the general price level. It pits consumers against producers, producers against other producers (in the battle to win the heart of consumers) and even consumers against consumers (for example in the healthcare sector in the USA). This everlasting conflict does the miracle of increasing quality with lower prices. Think about the vast improvement on both scores in electrical appliances. The VCR and PC of yesteryear cost thrice as much and provided one third the functions at one tenth the speed.

Competition has innumerable advantages:

0.It encourages manufacturers and service providers to be more efficient, to better respond to the needs of their customers, to innovate, to initiate, to venture. In professional words: it optimizes the allocation of resources at the firm level and, as a result, throughout the national economy.
More simply: producers do not waste resources (capital), consumers and businesses pay less for the same goods and services and, as a result, consumption grows to the benefit of all involved.

b. The other beneficial effect seems, at first sight, to

> be an adverse one: competition weeds out the failures, the incompetents, the inefficient, the fat and slow to respond. Competitors pressure one another to be more efficient, leaner and meaner. This is the very essence of capitalism. It is wrong to say that only the consumer benefits. If a firm improves itself, re-engineers its production processes, introduces new management techniques, modernizes - in order to fight the competition, it stands to reason that it will reap the rewards. Competition benefits the economy, as a whole, the consumers and other producers by a process of natural economic selection where only the fittest survive. Those who are not fit to survive die out and cease to waste the rare resources of humanity.

Thus, paradoxically, the poorer the country, the less resources it has - the more it is in need of competition. Only competition can secure the proper and most efficient use of its scarce resources, a maximization of its output and the maximal welfare of its citizens (consumers). Moreover, we tend to forget that the biggest consumers are businesses (firms). If the local phone company is inefficient (because no one competes with it, being a monopoly) - firms will suffer the most: higher charges, bad connections, lost time, effort, money and business. If the banks are dysfunctional (because there is no foreign competition), they will not properly service their clients and firms will collapse because of lack of liquidity. It is the business sector in poor countries which should head the crusade to open the country to competition.

Unfortunately, the first discernible results of the introduction of free marketry are unemployment and

business closures. People and firms lack the vision, the knowledge and the wherewithal needed to support competition. They fiercely oppose it and governments throughout the world bow to protectionist measures. To no avail. Closing a country to competition will only exacerbate the very conditions which necessitate its opening up. At the end of such a wrong path awaits economic disaster and the forced entry of competitors. A country which closes itself to the world - will be forced to sell itself cheaply as its economy will become more and more inefficient, less and less competitive.

The Competition Laws aim to establish fairness of commercial conduct among entrepreneurs and competitors which are the sources of said competition and innovation.

Experience - later buttressed by research - helped to establish the following four principles:

1. There should be no barriers to the entry of new market players (barring criminal and moral barriers to certain types of activities and to certain goods and services offered).

1. A larger scale of operation does introduce economies of scale (and thus lowers prices). This, however, is not infinitely true. There is a Minimum Efficient Scale - MES - beyond which prices will begin to rise due to monopolization of the markets. This MES was empirically fixed at 10% of the market in any one good or service. In other words: companies should be encouraged to capture up to 10% of their market (=to lower prices) and discouraged to cross this barrier, lest prices tend to rise again.

1. Efficient competition does not exist when a market is controlled by less than 10 firms with big size differences. An oligopoly should be declared whenever 4 firms control more than 40% of the market and the biggest of them controls more than 12% of it.

1. A competitive price will be comprised of a minimal cost plus an equilibrium profit which does not encourage either an exit of firms (because it is too low), nor their entry (because it is too high).

Left to their own devices, firms tend to liquidate competitors (predation), buy them out or collude with them to raise prices. The 1890 Sherman Antitrust Act in the USA forbade the latter (section 1) and prohibited monopolization or dumping as a method to eliminate competitors. Later acts (Clayton, 1914 and the Federal Trade Commission Act of the same year) added forbidden activities: tying arrangements, boycotts, territorial divisions, non-competitive mergers, price discrimination, exclusive dealing, unfair acts, practices and methods. Both consumers and producers who felt offended were given access to the Justice Department and to the FTC or the right to sue in a federal court and be eligible to receive treble damages.

It is only fair to mention the "intellectual competition", which opposes the above premises. Many important economists thought (and still do) that competition laws represent an unwarranted and harmful intervention of the State in the markets. Some believed that the State should own important industries (J.K. Galbraith), others - that industries should be encouraged to grow because only size guarantees survival, lower prices and innovation (Ellis Hawley). Yet others supported the cause of laissez faire

(Marc Eisner).

These three antithetical approaches are, by no means, new. One led to socialism and communism, the other to corporatism and monopolies and the third to jungle-ization of the market (what the Europeans derisively call: the Anglo-Saxon model).

*B. **HISTORICAL AND LEGAL CONSIDERATIONS***

Why does the State involve itself in the machinations of the free market? Because often markets fail or are unable or unwilling to provide goods, services, or competition. The purpose of competition laws is to secure a competitive marketplace and thus protect the consumer from unfair, anti-competitive practices. The latter tend to increase prices and reduce the availability and quality of goods and services offered to the consumer.

Such state intervention is usually done by establishing a governmental Authority with full powers to regulate the markets and ensure their fairness and accessibility to new entrants. Lately, international collaboration between such authorities yielded a measure of harmonization and coordinated action (especially in cases of trusts which are the results of mergers and acquisitions).

Yet, competition law embodies an inherent conflict: while protecting local consumers from monopolies, cartels and oligopolies - it ignores the very same practices when directed at foreign consumers. Cartels related to the country's foreign trade are allowed even under GATT/WTO rules (in cases of dumping or excessive export subsidies). Put simply: governments regard acts which are criminal as legal if they are directed at foreign consumers or are part of the process of foreign trade.

A country such as Macedonia - poor and in need of establishing its export sector - should include in its competition law at least two protective measures against these discriminatory practices:

1. ***Blocking Statutes*** - which prohibit its legal entities from collaborating with legal procedures in other countries to the extent that this collaboration adversely affects the local export industry.

1. ***Clawback Provisions*** - which will enable the local courts to order the refund of any penalty payment decreed or imposed by a foreign court on a local legal entity and which exceeds actual damage inflicted by unfair trade practices of said local legal entity. US courts, for instance, are allowed to impose treble damages on infringing foreign entities. The clawback provisions are used to battle this judicial aggression.

Competition policy is the antithesis of industrial policy. The former wishes to ensure the conditions and the rules of the game - the latter to recruit the players, train them and win the game. The origin of the former is in the 19th century USA and from there it spread to (really was imposed on) Germany and Japan, the defeated countries in the 2nd World War. The European Community (EC) incorporated a competition policy in articles 85 and 86 of the Rome Convention and in Regulation 17 of the Council of Ministers, 1962.

Still, the two most important economic blocks of our time have different goals in mind when implementing competition policies. The USA is more interested in economic (and econometric) results while the EU emphasizes social, regional development and political

consequences. The EU also protects the rights of small businesses more vigorously and, to some extent, sacrifices intellectual property rights on the altar of fairness and the free movement of goods and services.

Put differently: the USA protects the producers and the EU shields the consumer. The USA is interested in the maximization of output at whatever social cost - the EU is interested in the creation of a just society, a liveable community, even if the economic results will be less than optimal.

There is little doubt that Macedonia should follow the EU example. Geographically, it is a part of Europe and, one day, will be integrated in the EU. It is socially sensitive, export oriented, its economy is negligible and its consumers are poor, it is besieged by monopolies and oligopolies.

In my view, its competition laws should already incorporate the important elements of the EU (Community) legislation and even explicitly state so in the preamble to the law. Other, mightier, countries have done so. Italy, for instance, modelled its Law number 287 dated 10/10/90 "Competition and Fair Trading Act" after the EC legislation. The law explicitly says so.

The first serious attempt at international harmonization of national antitrust laws was the Havana Charter of 1947. It called for the creation of an umbrella operating organization (the International Trade Organization or "ITO") and incorporated an extensive body of universal antitrust rules in nine of its articles. Members were required to "prevent business practices affecting international trade which restrained competition, limited access to markets, or fostered monopolistic control

whenever such practices had harmful effects on the expansion of production or trade". the latter included:

0.Fixing prices, terms, or conditions to be observed in dealing with others in the purchase, sale, or lease of any product;

b. Excluding enterprises from, or allocating or dividing, any territorial market or field of business activity, or allocating customers, or fixing sales quotas or purchase quotas;

c. Discriminating against particular enterprises;

d. Limiting production or fixing production quotas;

e. Preventing by agreement the development or application of technology or invention, whether patented or non-patented; and

f. Extending the use of rights under intellectual property protections to matters which, according to a member's laws and regulations, are not within the scope of such grants, or to products or conditions of production, use, or sale which are not likewise the subject of such grants.

GATT 1947 was a mere bridging agreement but the Havana Charter languished and died due to the objections of a protectionist US Senate.

There are no antitrust/competition rules either in GATT 1947 or in GATT/WTO 1994, but their provisions on antidumping and countervailing duty actions and government subsidies constitute some elements of a more general antitrust/competition law.

GATT, though, has an International Antitrust Code Writing Group which produced a "Draft International Antitrust Code" (10/7/93). It is reprinted in §II, 64 Antitrust & Trade Regulation Reporter (BNA), Special Supplement at S-3 (19/8/93).

Four principles guided the (mostly German) authors:

1. National laws should be applied to solve international competition problems;

1. Parties, regardless of origin, should be treated as locals;

1. A minimum standard for national antitrust rules should be set (stricter measures would be welcome); and

1. The establishment of an international authority to settle disputes between parties over antitrust issues.

The 29 (well-off) members of the Organization for Economic Cooperation and Development (OECD) formed rules governing the harmonization and coordination of international antitrust/competition regulation among its member nations ("The Revised Recommendation of the OECD Council Concerning Cooperation between Member Countries on Restrictive Business Practices Affecting International Trade," OECD Doc. No. C(86)44 (Final) (June 5, 1986), also in 25 International Legal Materials 1629 (1986). A revised version was reissued. According to it, " …Enterprises should refrain from abuses of a dominant market position; permit purchasers, distributors, and suppliers to freely conduct their businesses; refrain from cartels or restrictive agreements; and consult and cooperate with competent authorities of interested

countries".

An agency in one of the member countries tackling an antitrust case, usually notifies another member country whenever an antitrust enforcement action may affect important interests of that country or its nationals (see: OECD Recommendations on Predatory Pricing, 1989).

The United States has bilateral antitrust agreements with Australia, Canada, and Germany, which was followed by a bilateral agreement with the EU in 1991. These provide for coordinated antitrust investigations and prosecutions. The United States thus reduced the legal and political obstacles which faced its extraterritorial prosecutions and enforcement. The agreements require one party to notify the other of imminent antitrust actions, to share relevant information, and to consult on potential policy changes. The EU-U.S. Agreement contains a "comity" principle under which each side promises to take into consideration the other's interests when considering antitrust prosecutions. A similar principle is at the basis of Chapter 15 of the North American Free Trade Agreement (NAFTA) - cooperation on antitrust matters.

The United Nations Conference on Restrictive Business Practices adopted a code of conduct in 1979/1980 that was later integrated as a U.N. General Assembly Resolution [U.N. Doc. TD/RBP/10 (1980)]: "The Set of Multilaterally Agreed Equitable Principles and Rules".

According to its provisions, "independent enterprises should refrain from certain practices when they would limit access to markets or otherwise unduly restrain competition".

The following business practices are prohibited:

1. Agreements to fix prices (including export and import prices);

1. Collusive tendering;

1. Market or customer allocation (division) arrangements;

1. Allocation of sales or production by quota;

1. Collective action to enforce arrangements, e.g., by concerted refusals to deal;

1. Concerted refusal to sell to potential importers; and

1. Collective denial of access to an arrangement, or association, where such access is crucial to competition and such denial might hamper it. In addition, businesses are forbidden to engage in the abuse of a dominant position in the market by limiting access to it or by otherwise restraining competition by:

    a. Predatory behaviour towards competitors;

    b. Discriminatory pricing or terms or conditions in the supply or purchase of goods or services;

    c. Mergers, takeovers, joint ventures, or other acquisitions of control;

    d. Fixing prices for exported goods or resold imported goods;

    e. Import restrictions on legitimately-

marked trademarked goods;

f. Unjustifiably - whether partially or completely - refusing to deal on an enterprise's customary commercial terms, making the supply of goods or services dependent on restrictions on the distribution or manufacturer of other goods, imposing restrictions on the resale or exportation of the same or other goods, and purchase "tie-ins".

*C. **ANTI - COMPETITIVE STRATEGIES***

Any Competition Law in Macedonia should, in my view, excplicitly include strict prohibitions of the following practices (further details can be found in Porter's book - "Competitive Strategy").

These practices characterize the Macedonian market. They influence the Macedonian economy by discouraging foreign investors, encouraging inefficiencies and mismanagement, sustaining artificially high prices, misallocating very scarce resources, increasing unemployment, fostering corrupt and criminal practices and, in general, preventing the growth that Macedonia could have attained.

Strategies for Monopolization

Exclude competitors from distribution channels. - This is common practice in many countries. Open threats are made by the manufacturers of popular products: "If you distribute my competitor's products - you cannot distribute mine. So, choose." Naturally, retail outlets, dealers and distributors will always prefer the popular product to the

new. This practice not only blocks competition - but also innovation, trade and choice or variety.

Buy up competitors and potential competitors. - There is nothing wrong with that. Under certain circumstances, this is even desirable. Think about the Banking System: it is always better to have fewer banks with bigger capital than many small banks with capital inadequacy (remember the TAT affair). So, consolidation is sometimes welcome, especially where scale represents viability and a higher degree of consumer protection. The line is thin and is composed of both quantitative and qualitative criteria. One way to measure the desirability of such mergers and acquisitions (M&A) is the level of market concentration following the M&A. Is a new monopoly created? Will the new entity be able to set prices unperturbed? stamp out its other competitors? If so, it is not desirable and should be prevented.

Every merger in the USA must be approved by the antitrust authorities. When multinationals merge, they must get the approval of all the competition authorities in all the territories in which they operate. The purchase of "Intuit" by "Microsoft" was prevented by the antitrust department (the "Trust-busters"). A host of airlines was conducting a drawn out battle with competition authorities in the EU, UK and the USA lately.

Use predatory [below-cost] pricing (also known as dumping) to eliminate competitors. - This tactic is mostly used by manufacturers in developing or emerging economies and in Japan. It consists of "pricing the competition out of the markets". The predator sells his products at a price which is lower even than the costs of production. The result is that he swamps the market, driving out all other competitors. Once he is left alone - he

raises his prices back to normal and, often, above normal. The dumper loses money in the dumping operation and compensates for these losses by charging inflated prices after having the competition eliminated.

Raise scale-economy barriers. - Take unfair advantage of size and the resulting scale economies to force conditions upon the competition or upon the distribution channels. In many countries Big Industry lobbies for a legislation which will fit its purposes and exclude its (smaller) competitors.

Increase "market power (share) and hence profit potential".

Study the industry's "potential" structure and ways it can be made less competitive. - Even thinking about sin or planning it should be prohibited. Many industries have "think tanks" and experts whose sole function is to show the firm the way to minimize competition and to increase its market shares. Admittedly, the line is very thin: when does a Marketing Plan become criminal?

Arrange for a "rise in entry barriers to block later entrants" and "inflict losses on the entrant". - This could be done by imposing bureaucratic obstacles (of licencing, permits and taxation), scale hindrances (no possibility to distribute small quantities), "old boy networks" which share political clout and research and development, using intellectual property right to block new entrants and other methods too numerous to recount. An effective law should block any action which prevents new entry to a market.

Buy up firms in other industries "as a base from which to change industry structures" there. - This is a way of

securing exclusive sources of supply of raw materials, services and complementing products. If a company owns its suppliers and they are single or almost single sources of supply - in effect it has monopolized the market. If a software company owns another software company with a product which can be incorporated in its own products - and the two have substantial market shares in their markets - then their dominant positions will reinforce each other's.

"Find ways to encourage particular competitors out of the industry". - If you can't intimidate your competitors you might wish to "make them an offer that they cannot refuse". One way is to buy them, to bribe the key personnel, to offer tempting opportunities in other markets, to swap markets (I will give you my market share in a market which I do not really care about and you will give me your market share in a market in which we are competitors). Other ways are to give the competitors assets, distribution channels and so on providing that they collude in a cartel.

"Send signals to encourage competition to exit" the industry. - Such signals could be threats, promises, policy measures, attacks on the integrity and quality of the competitor, announcement that the company has set a certain market share as its goal (and will, therefore, not tolerate anyone trying to prevent it from attaining this market share) and any action which directly or indirectly intimidates or convinces competitors to leave the industry. Such an action need not be positive - it can be negative, need not be done by the company - can be done by its political proxies, need not be planned - could be accidental. The results are what matters.

Macedonia's Competition Law should outlaw the

following, as well:

'Intimidate' Competitors

Raise "mobility" barriers to keep competitors in the least-profitable segments of the industry. - This is a tactic which preserves the appearance of competition while subverting it. Certain segments, usually less profitable or too small to be of interest, or with dim growth prospects, or which are likely to be opened to fierce domestic and foreign competition are left to the competition. The more lucrative parts of the markets are zealously guarded by the company. Through legislation, policy measures, withholding of technology and know-how - the firm prevents its competitors from crossing the river into its protected turf.

Let little firms "develop" an industry and then come in and take it over. - This is precisely what Netscape is saying that Microsoft is doing to it. Netscape developed the now lucrative Browser Application market. Microsoft was wrong in discarding the Internet as a fad. When it was found to be wrong - Microsoft reversed its position and came up with its own (then, technologically inferior) browser (the Internet Explorer). It offered it free (sound suspiciously like dumping) to buyers of its operating system, "Windows". Inevitably it captured more than 30% of the market, crowding out Netscape. It is the view of the antitrust authorities in the USA that Microsoft utilized its dominant position in one market (that of the Operating Systems) to annihilate a competitor in another (that of the browsers).

Engage in "promotional warfare" by "attacking shares of others". - This is when the gist of a marketing, lobbying, or advertising campaign is to capture the market

share of the competition. Direct attack is then made on the competition just in order to abolish it. To sell more in order to maximize profits, is allowed and meritorious - to sell more in order to eliminate the competition is wrong and should be disallowed.

Use price retaliation to "discipline" competitors. - Through dumping or even unreasonable and excessive discounting. This could be achieved not only through the price itself. An exceedingly long credit term offered to a distributor or to a buyer is a way of reducing the price. The same applies to sales, promotions, vouchers, gifts. They are all ways to reduce the effective price. The customer calculates the money value of these benefits and deducts them from the price.

Establish a "pattern" of severe retaliation against challengers to "communicate commitment" to resist efforts to win market share. - Again, this retaliation can take a myriad of forms: malicious advertising, a media campaign, adverse legislation, blocking distribution channels, staging a hostile bid in the stock exchange just in order to disrupt the proper and orderly management of the competitor. Anything which derails the competitor whenever he makes a headway, gains a larger market share, launches a new product - can be construed as a "pattern of retaliation".

Maintain excess capacity to be used for "fighting" purposes to discipline ambitious rivals. - Such excess capacity could belong to the offending firm or - through cartel or other arrangements - to a group of offending firms.

Publicize one's "commitment to resist entry" into the market.

Publicize the fact that one has a "monitoring system" to detect any aggressive acts of competitors.

Announce in advance "market share targets" to intimidate competitors into yielding their market share.

Proliferate Brand Names

Contract with customers to "meet or match all price cuts (offered by the competition)" thus denying rivals any hope of growth through price competition.

Secure a big enough market share to "corner" the "learning curve," thus denying rivals an opportunity to become efficient. - Efficiency is gained by an increase in market share. Such an increase leads to new demands imposed by the market, to modernization, innovation, the introduction of new management techniques (example: Just In Time inventory management), joint ventures, training of personnel, technology transfers, development of proprietary intellectual property and so on. Deprived of a growing market share - the competitor will not feel pressurized to learn and to better itself. In due time, it will dwindle and die.

Acquire a wall of "defensive" patents to deny competitors access to the latest technology.

"Harvest" market position in a no-growth industry by raising prices, lowering quality, and stopping all investment and advertising in it.

Create or encourage capital scarcity. - By colluding with sources of financing (e.g., regional, national, or investment banks), by absorbing any capital offered by the State, by the capital markets, through the banks, by spreading malicious news which serve to lower the credit-

worthiness of the competition, by legislating special tax and financing loopholes and so on.

Introduce high advertising-intensity. - This is very difficult to measure. There could be no objective criteria which will not go against the grain of the fundamental right to freedom of expression. However, truth in advertising should be strictly imposed. Practices such as dragging a competitor through the mud or derogatorily referring to its products or services in advertising campaigns should be banned and the ban should be enforced.

Proliferate "brand names" to make it too expensive for small firms to grow. - By creating and maintaining a host of absolutely unnecessary brandnames, the competition's brandnames are crowded out. Again, this cannot be legislated against. A firm has the right to create and maintain as many brandnames as it wishes. The market will exact a price and thus punish such a company because, ultimately, its own brandname will suffer from the proliferation.

Get a "corner" (control, manipulate and regulate) on raw materials, government licenses, contracts, subsidies, and patents (and, of course, prevent the competition from having access to them).

Build up "political capital" with government bodies; overseas, get "protection" from "the host government".

'Vertical' Barriers

Practice a "preemptive strategy" by capturing all capacity expansion in the industry (simply buying it, leasing it or taking over the companies that own or develop it).

This serves to "deny competitors enough residual demand". Residual demand, as we previously explained, causes firms to be efficient. Once efficient, they develop enough power to "credibly retaliate" and thereby "enforce an orderly expansion process" to prevent overcapacity

Create "switching" costs. - Through legislation, bureaucracy, control of the media, cornering advertising space in the media, controlling infrastructure, owning intellectual property, owning, controlling or intimidating distribution channels and suppliers and so on.

Impose vertical "price squeezes". - By owning, controlling, colluding with, or intimidating suppliers and distributors, marketing channels and wholesale and retail outlets into not collaborating with the competition.

Practice vertical integration (buying suppliers and distribution and marketing channels).

This has the following effects:

The firm gains a "tap (access) into technology" and marketing information in an adjacent industry. It defends itself against a supplier's too-high or even realistic prices.

It defends itself against foreclosure, bankruptcy and restructuring or reorganization. Owning suppliers means that the supplies do not cease even when payment is not affected, for instance.

It "protects proprietary information from suppliers" - otherwise the firm might have to give outsiders access to its technology, processes, formulas and other intellectual property.

It raises entry and mobility barriers against competitors.

This is why the State should legislate and act against any purchase, or other types of control of suppliers and marketing channels which service competitors and thus enhance competition.

It serves to "prove that a threat of full integration is credible" and thus intimidate competitors.

Finally, it gets "detailed cost information" in an adjacent industry (but doesn't integrate it into a "highly competitive industry").

"Capture distribution outlets" by vertical integration to "increase barriers".

'Consolidate' the Industry

Send "signals" to threaten, bluff, preempt, or collude with competitors.

Use a "fighting brand" (a low-price brand used only for price-cutting).

Use "cross parry" (retaliate in another part of a competitor's market).

Harass competitors with antitrust suits and other litigious techniques.

Use "brute force" ("massed resources" applied "with finesse") to attack competitors
or use "focal points" of pressure to collude with competitors on price.

"Load up customers" at cut-rate prices to "deny new entrants a base" and force them to "withdraw" from market.

Practice "buyer selection," focusing on those that are the most "vulnerable" (easiest to overcharge) and discriminating against and for certain types of consumers.

"Consolidate" the industry so as to "overcome industry fragmentation".

This arguments is highly successful with US federal courts in the last decade. There is an intuitive feeling that few is better and that a consolidated industry is bound to be more efficient, better able to compete and to survive and, ultimately, better positioned to lower prices, to conduct costly research and development and to increase quality. In the words of Porter: "(The) pay-off to consolidating a fragmented industry can be high because... small and weak competitors offer little threat of retaliation."

Time one's own capacity additions; never sell old capacity "to anyone who will use it in the same industry" and buy out "and retire competitors' capacity".

A Note on the Spiteful Application of Competition Laws

In many developing countries and countries in transition from Communism to capitalism, competition laws are used to reward cronies or to damage opponents. The discriminatory and partial application of such laws and regulations sustains networks of patronage and cements political-economic alliances.

This abuse of the rule of Law and the regulatory regime is further compounded by the seething pathological envy that is typical of erstwhile egalitarian societies now exposed to growing income inequalities. The mob,

business rivals, political parties, and the populace at large leverage competition laws to tear down businesses and humiliate entrepreneurs whose success grates on their nerves and provokes their unbridled jealousy.

Return

Should 1 DM (deutschmark) be equal to 40 Macedonian denars?

We are used to reading financial statements denominated in US dollars or to pay our rent in Deutsche marks. Economic indicators are normally converted to a common currency to allow for international comparisons. The exchange rates used are the official exchange rates (where foreign exchange persist) or market exchange rates (where the markets freely determine the exchange rates between the local currency and foreign currencies). The theory says that exchange rates are adjust through the mechanism of the market so that the prices in local currency of a group of identical goods and services represent equivalent value in other currencies. Put differently: 31 Denars should buy the same quantities of identical goods and services in Macedonia as 1 DM buys in Germany. Otherwise, one of the currencies is overvalued, the other one is undervalued and the exchange rate is "wrong" (sometimes, kept artificially wrong by the governments involved). This is the Law of One Price.

In reality, such adjustments do not reflect timely or accurately changing economic circumstances. The involvement of the state, for example, by imposing currency controls and by intervening in the markets (through the Central Bank and using its reserves), determining interest rates, slapping import tariffs, and introducing export subsidies distort the veracity of market- based exchange rates.

As long as goods are traded across borders, the possibility of arbitrage exists: the same goods can be bought cheaply in one place (call it territory A) - and sold for a profit in another (call it territory B), until the price equalizes.

Prices tend to equalize, because there will always be someone who is willing to make less profit. He will sell (in B) at a reduced price which will be closer to the cheaper price that he paid in A. This way, the price mechanism will equate the purchasing power of the currencies of A and B: the same money will be needed to buy the same goods in A and B. Fiscal policy is considered to be of little consequence regarding exchange rates. The costs of transportation are ignored. In short, this ideal picture is very misleading. The reason is that many goods and services cannot be traded at all (non-tradables). Real estate, for instance. The relative value of such goods in A and B has nothing to do with the exchange rates. These goods are not part of the flows of currencies which determine exchange rates. They are bought and sold only in local currency. Their relative value is independent of the exchange rate mechanism and cannot be determined by studying it. To summarize: international comparisons based on market exchange rates usually greatly over- or understate the value of a nation's economic activity.

The Purchasing Power Parity (PPP) theories are the rivals of the Exchange Rate ones. The comparison is based on an evaluations of the purchasing powers of currencies - rather than on their exchange rates.

The procedure is fairly straight forward (and a little more convincing): the prices several hundred goods and services are regularly monitored (for instance, by the International Comparison Project (ICP) which operates in a large number of participating countries). The exchange rates are adjusted to reflect differences in purchasing power and thus to create purchasing power parity (PPP). PPP currency values are the number of units of a local currency required to buy the same quantity of comparable

goods and services in the local market as one U.S. dollar would buy in an "average country" (in an average of all the countries). Sometimes, PPP comparisons are made against some base country. Could 55 Denars buy what 1 dollar buys in the USA? If so, the exchange rate is "right" because both currencies have the same purchasing power.

No article about PPP can ignore the "Economist Big Mac Index of Purchasing Power". The idea is ingenious: the Big Mac, the staple of the McDonald's restaurants, is almost completely identical the world over. In Beijing, Paris, Skopje and Tel-Aviv the same raw materials are put together in the same quantities to produce the same Big Mac. So, the Big Mac is really a "basket" of goods and services (the sales, cleaning, maintenance, accounting and so on) which is universal. In other words, it is a global index. By comparing the prices of Big Macs in various countries we can get a rough estimate whether the exchange rates properly reflect the relative purchasing power of the currencies involved. "The Economist" has been publishing the Index for a few years now and the results are amazing:

Exchange rates deviate wildly from real purchasing power. The Big Mac costs in the USA 2.58 USD (= 140 Denars). In Venezuela and Israel it costs 30% more. In Japan it costs 12% less, in Greece 20% less, in Russia 25% less, in Czech Republic 35% less, in Poland and Hungary almost 50% less. Translated to foreign exchange terms, the currencies of Hungary and Poland are 50% undervalued and the Israeli Shekel is 30% overvalued and should be devalued by the same amount.

In Macedonia a Big Mac costs 95 Denars - 40% less than in the USA! In other words: 95 Denars are the equivalent of 2.58 USD and the exchange rate should have been 37

Denars to the USD - and not 55.

This is a light hearted way of measuring PPP but all the international financial institutions agree today that the exchange rates used in their reports should be at least compared (if not actually adjusted) to reflect the purchasing power. The World Bank now uses both modes of presentation to present estimates of GDP. The IMF uses country weights based on PPP-based GDP for calculating growth rates and other economic indicators.

This has enormous implications. If this is true, the developing world's share of the economic activity in the world is larger than that adduced from the exchange rates. Granted, exchange rates provide us with a fair estimate of trade potential - but, after all, trade is only a part (and not the biggest) of the world economy.

As the new decade entered, the United Nations devised an index of Purchase Power Parity comparing the spending prowess of most of its members. The index included a basket of such items as average incomes, taxes, interest rates, insurance, utilities, gasoline, milk, newspapers and other typical expenses. As usual, the USA constituted the benchmark at 100. The first published index showed Greece at 35 (=three Greeks equal the purchasing power of one American consumer). A few more numbers:

GERMANY 89, JAPAN 86, FRANCE 82, SWEDEN 77, AUSTRALIA 77, SINGAPORE 77, UK 72, ISRAEL 62, SPAIN 56, SAUDI ARABIA 42, ARGENTINA 37, CHILE 35, MEXICO 31, RUSSIA 26, BRAZIL 22, TURKEY 22, POLAND 20, SOUTH AFRICA 16, EGYPT 15, INDONESIA 12, CHINA 8, KENYA 6, INDIA 5.

So, what should be the exchange rate of the Denar? Skopsko and everything is possible: 37 Denars to the USD in McDonald's. Reality, however, is more grim. The (formal) average salary in Macedonia is 170 USD per month. Taking into consideration a 50% black economy factor, the real monthly wage is closer to 350 USD. This is still 10% of the average salary in the USA. The PPP theories ignore this important consideration. How strong (or weak) the currency is - is one important consideration but to say that it incorporates all the available information would be to miss the point. I am sure that the prices that McDonald's can and does charge in Skopje were influenced by the very simple fact that people have 90% less money here than in St. Louis.

Judging by the money supply, the availability of money through earnings, the wealth accumulation (savings rate and interest payable on M1 type instruments) - Macedonia is both inordinately illiquid and insanely expensive. To rent an apartment here costs 50-100 DM per square meter which is 60% of the rent in the most luxurious neighbourhoods in Tel-Aviv. Israel's GDP, however is 35 times that of Macedonia and the minimum legal wage is 900 DM. To my mind, there is little question that the purchasing power of the Macedonians is miserable. The combination of law wages and expensive prices sustained by a small rich elite is a clear sign of erosion of the power to spend of the great majority.

Other measures of currency parity are also unfavourable to the Denar. An important measure is the Covered (and Uncovered) Interest Parity (C/UIP). Roughly, it says that the differences in interest rates should be equal but opposite in sign to the (forward) exchange rate premium or discount between currencies.

Consider an American investor. Investment in either America or in Macedonia should yield the same return if the exchange rate risk is to be removed. If this were not the case, currency arbitrageurs would have moved in and made a profit. If the interest rate paid on the MKD is 10% and to borrow in American USD costs 6% - if the exchange rate remains stable, the investor will borrow USD, invest in MKD and earn 4% just by converting one currency to another (assuming free convertibility).

The fact that this is not happening in Macedonia proves that people still believe that the Denar is overvalued and should be heavily devalued. In other words: they think that the exchange rate risks are higher than the potential arbitrage profit. In a country far more dangerous than Macedonia (Israel) the foreign exchange reserves shot up by 130% (to 19.3 billion USD) precisely because of this: speculators converted dollars to Shekels to earn the high real interest that it offers in terms of dollars.

But, ultimately, exchange rates are determined by the supply and demand for the local currency relative to foreign currencies. This is a fundamental issue. In a country with a big trade or payments deficit, the demand for foreign exchange will exert pressure on the exchange rate of the local currency. In Thailand, Indonesia, Malaysia, Mexico - the trade deficit was less than 10% of GDP. Still, their currencies collapsed and were devalued by tens of percents, many times violently and in the space of a few horrible days. Macedonia's trade deficit stands at 16% (double that of Thailand's and Mexico prior to the demolition of their currencies).In a country with a big trade deficit, the fact that a currency is stable for a long time only means that it will collapse more spectacularly. It is like a pressure cooker: the more the lid is on, the higher

the pressure and the resulting vapour. The trade deficit is covered by unilateral transfers from international financial institutions and donors. This is not a way to build a healthy currency (or economy, for that matter). Moreover, the bleeding of foreign exchange goes towards an increase in consumption. Investments of foreign exchange in capital assets (example: machinery and plant) generates enough foreign exchange in exports to recoup the outflow. Foreign exchange spent on cars and on caviar is foreign exchange lost.

The high interest rates in Macedonia and the infusions of capital from abroad keep the currency overvalued. Its appreciation is the result of conjectures not of fundamentals.

The writing is on the wall: a country which is running a large trade or current account deficit must balance its balance of payments with capital inflows (capital account surplus). If investors lose confidence in the country, capital inflows will cease (maybe reverse direction) leading to a depreciation (e.g., Mexico in 1994). For "investors" read in the last sentence "the international financial community". The important monthly "Euromoney" downgraded the credit rating of Macedonia (to the 151st place!!!) largely on these grounds. Current account + Capital account = change in gov't reserves. Today's reserves are sufficient to cover 2-3 months of imports. This is ample - but this is also temporary. The danger is imminent and the results could be catastrophic.

Macedonia: Quo Vadis?

Executive Summary of Research Reports Dated 7/8/99

Executive Summary of Research Reports Dated

10/1/2001

Supplement about the risks facing Macedonia in 2008

Issued by: Capital Markets Institute Ltd.

General

Macedonia is geographically positioned to become a trilateral bridge between Asia, Western Europe and Eastern Europe. It is the heart of the Balkans. With the proper promotion and dissemination of information, it could well become an important regional economic hub, as well. To achieve this, it has to adopt an export orientation, to encourage the formation of small businesses, to be friendly to FDI (foreign direct investment), to deregulate and open up to (domestic and foreign) competition in its infrastructure (telecoms, the banking system, etc.), to emphasize the protection of property rights and to start the process of privatization all over again - this time sincerely.

The World Economy in 1999

The Asian crisis is not over – it hasn't even started. It will erupt again, this time much more severely and mainly in Indonesia, China, Malaysia and Japan. This will create recession shock waves both in Europe and in the USA. The stock exchanges (headed by Wall Street) will be the first to adversely react. The IMF will be fast depleted of resources. The central banks around the world will not be able to implement tighter monetary policies and global inflation will be re-ignited. This inflation will be exacerbated by currency devaluations in South East Asia (China) and in Russia. The introduction of the Euro will further limit the flexibility of the counter-cyclical reactions of the economic authorities. This overall rigid

response will force countries to adopt protectionist measures against the free flow of goods, services and, above all, capital.

The evaluation of the Macedonian economy in this paper, however, ignores this scenario. Should it transpire as we predict – the impact on Macedonia might be disastrous.

The Denar must be Devalued Gradually and Transparently

The trade deficit (at 400 million USD) equals 13% of the (admittedly, official) GDP and the current account deficit amounts to almost 8% of GDP. This is AFTER unilateral transfers of capital from donor countries and aid agencies and from immigrants. The reserves of the Central Bank cover 2-3 months of regular imports and, luckily, are insufficient to excite the big time speculators. Still, the currency is overvalued. In PPP-adjusted terms it should be converted at 37 to the DM (versus 31 now) and at c.70 to the USD (versus 56 now). If the Central Bank will not devalue the Denar at least to these levels shortly – market selling might force it to devalue it in a disorderly manner. The exchange rate stability is artificial, discourages exports and encourages imports. It also exerts deflationary forces in a deflation prone economy. The terms of trade of Macedonia have deteriorated by 14% these last few years. A devaluation forced by the market will be to much lower levels, in a very short period of time and it will adversely influence the inflation outlook in the country.

Inflation

The Macedonian economy is totally illiquid and demonetized. High unemployment, a low money supply and the absence of money multipliers or accelerators

(such as functioning credit providing institutions coupled with low credit ceilings and high interest rates imposed by the Central Bank) – have depressed any nascent inflation and, lately, led to demand deflation. To encourage growth, Macedonia must tolerate a 10-15% annual level of inflation (versus c. 5% now) and a minimum of 3-5% budget deficit (versus 1% now, if we ignore the Kosovo "blip"). There is no need to fear hyperinflation because of low demand. A devaluation will be mostly absorbed by importers and manufacturers. The government's fiscal and monetary policies are unduly restrictive and contractionary when they should be expansive.

If, however, the Central Bank will be forced by the market to devalue the Denar – the result will be profits for speculators and an inflation out of control. This will lead to stagflation – runaway inflation coupled with economic stagnation (the worst possible scenario for Macedonia).

The Macedonian Central Bank is forced by the IFIs (especially by the IMF) to maintain a DUAL TRACK policy, namely to observe BOTH an inflation target AND a stable exchange rate. This is a classic mistake, badly regretted in many countries now (examples: Brazil, Russia and Israel). By law, the Central Bank should ascertain the stability of the denar exchange rate. It is advisable to alter the law so that the bank observes an INFLATION TARGET, with a floor and a ceiling (an inflation band).

The Banking System

Is largely closed to outside influences. Foreign owners are either hesitant (Erste Bank, which withdrew from the bid for Stopanska Banka) or too institutional (EBRD, IFC) or marginal.

The banks are ossified, unable to cope with the newly emerging market economy. They reacted either by disregarding the quality of their portfolio while over-emphasizing mere size (Stopanska Banka) – or by being too conservative. Instead of developing effective methods to monitor and evaluate risks – they preferred to raise the commercial interest rates to outlandish levels. They offer no new services or products, lend only against real estate, favour cronies and cater to political wishes. The management in many of the banks in less professional than in the West. It is very likely that corruption is rampant due to favouritism and lack of transparency.

Only foreign ownership and CONTROL will alter this sorry state of things.

The Trade Deficit

The Macedonian economy is a "scavenger economy". At first, it benefited from the siege imposed on Serbia by the international community. Greek and other goods were shipped through Macedonia to Serbia. A lot of people got rich in the process. Now, Macedonia lives off its reputation as a "stable" country. The USA and other countries finance its trade deficit and other financial excesses – just to keep it as a buffer and a protection against instability in the region. This cannot last and is no substitute to long term policies. Macedonia must move from scavenging to being a "predator economy": eager to conquer new markets and prey on the competition. In the process, it might do well to get rid of magical thinking and wishful thinking. There is no "miracle or bingo" economics. It is all hard work.

A trade deficit is not inherently evil. If the money is spent on the importation of industrial raw materials and capital

goods, the future profits will easily offset current deficits. But the Macedonian trade deficit goes to finance consumption goods and food. This is a malignant type of deficit, which will ultimately boomerang and hurt the local economy gravely.

What is needed is an orderly devaluation, the introduction of VAT and the imposition of some temporary import restrictions as well as the active encouragement of exports.

The Private Sector

The Macedonian people are very entrepreneurial. The level of taxation is tolerable. But there is no private sector to talk about. This is because there is no management culture, a lot of bureaucratic red tape, no capital markets, no business-oriented banking system, no real incentives or environment available to exporters and to small businesses and a crowding out of credit by failing, politically connected, or state owned businesses. The privatization process transferred state assets to the hands of an elite of managers at a discount on real values. The workers also received shares but could not dispose of them in any meaningful way. Even companies which could easily have been sold to foreign investors were privatized in this manner: Alkaloid, Pivara, Ohis, to mention but a few (Makpetrol, the PTT, Elektrostopanstvo can also be included in the lists of "easily sellable companies"). The companies thus privatized still rely too heavily on the state and engage in political lobbying rather than in production.

The Public Sector

Despite rumours to the contrary, the public sector is less

corrupt than in comparable countries (according to Transparency International and to my own experience), well educated and capable. However, it is far too large and inefficient. This sector is subjected to economic laws, which were either copied from the West verbatim or phrased locally by legislators and "experts" who lack the necessary experience. It is not service oriented, poorly paid and considered a "dead end" careers.

Regional Devolution

The ethnic mix of Macedonia is explosive. This may be the reason why the central government was loath to transfer powers, authority and the money to back them to the regions. The regional economy is still very much centralized, planning is done from afar, the regions have no real taxing or spending autonomies (for instance: they cannot lobby abroad freely or raise funds in the capital markets because the land is not theirs to pledge, it belongs to the state).

But Macedonia is uniquely varied. It has an outstanding potential for tourism, transport and telecommunications. All of these can be developed regionally – rather than centrally. It is only the political will that is missing. In the world today – the central government is consciously transferring budgets and powers to the regions and the EU's motto is: "A Europe of regions". Macedonia has haltingly started to implement it – but the process is not fast enough.

Brain Drain

About 4% of the population left the country in the three years immediately following independence (1991-4). Another 2-3% left the country between 1994-8 (estimate).

Many young people resent the fact the it is not merit that will determines their career path, but connections to the right people. Others face difficult personal choices: unable to buy apartments, they cannot form or raise families properly. Unemployment is a permanent feature and many young and unskilled or semi-skilled people are unemployed for years or reduced to menial jobs. This is a real threat to Macedonia's economic future and competitiveness in the global market. In a way, Macedonia is subsidizing the West with this export of gifted people. Unfortunately, there is not a lot that can be done to directly counter this phenomenon. It will disappear of itself (even be reversed, as happened in Israel) once the economy improves.

Unemployment

This is the cancer of the Macedonian economy: psychologically as much as financially, a burden on the state, a burden on the unemployed. Hitherto there was no serious treatment of this problem. In 1998, the government introduced a structure of tax incentives intended to subsidize new employment. Due to abuses, it was cancelled by the new government. But even that was absolutely insufficient and, in isolation, inefficient. The unemployment rate (already at c. 40% according to official figures) – is poised to GROW as the economy becomes more efficient, technology is introduced and real privatization takes root. This will be a social calamity. Experience in the world can guide the government: to increase labour mobility, to decrease the power of unions, to transfer unemployment benefits to the employer (in order to encourage him to employ the unemployed), to initiate public works (a Macedonian "New Deal" even at the cost of budget deficits), to encourage small businesses

(microcredits, incubators, tax credits, preference in government procurement), to organize barter communities with voucher money, to encourage part time and flexible forms of employment. Israel, Holland, Britain and the USA are good examples.

Higher Education

The Macedonian workforce is more educated than its equivalents in Southeast Asia, for instance. The quality of higher education is impressive, with a few notable exceptions. Despite some corruption (university diplomas that are bought in cash rather than earned through toil, as the rumours go) – the overall picture is encouraging. But the stock of education capital (buildings, laboratories, libraries, computers) has dwindled to the extent that Macedonian higher education is risking becoming obsolete and irrelevant. Moreover, the universities and dedicated schools are churning out graduates with degrees in professions, which are irrelevant to the Macedonian economy. There is a huge mismatch between what Macedonia needs and what Macedonia gets from its higher education institutions. In this sense, these institutions abdicated their social responsibilities. They are no longer subject to planning of any sort: central or via the market forces (because there is no market in Macedonia as of yet).

The Judicial System and Property Rights

The courts are slow, hesitant and ineffective. Contradicting interpretations of economic laws by different judges are not a rarity. The system is under-funded, understaffed and bogged in a landscape of laws and regulations, which changes arbitrarily. There are no private or public alternatives to the clogged, backlogged

nightmare. The laws are full of irrelevant "dead weed", are too complex and archaic or too open to interpretation. There are no reliable, publicly available central registrars of property and it, therefore, cannot fulfill the role of a collateral to the fullest extent. Intellectual property rights are not protected and Macedonia (with Bulgaria) is the piracy capital of Central Europe. All this – and the multi-annual tedious process of applying to the courts in the first place – erode the trust in the law enforcement system, in general and can bring about criminal alternatives to enforcement of contracts, for instance. There is no sign of a major reform in this field.

Taxation and the Black Economy

The "Black Economy" is called in Macedonia "The Grey Economy" because it is tolerated with a smile. Maybe luckily so: it comprises over 50% of the economy and is the less moribund and more vital part in it. Despite the fact that the taxes in Macedonia are very reasonable – collection is abysmal. Workers go unreported, income tax is paid only by employees in state or big firms, profit tax is eliminated by creative (false) accounting. Accountants in Macedonia are people who falsify books of firms so as to minimize the tax payable by them. VAT is being discussed for months on end but, for some reason, its implementation is always postponed. Smuggling is rampant. This situation cannot be cured by "strong arm" tactics because it amounts to a universal civil rebellion. A massive education campaign needs to be launched to demonstrate to the citizens the benefits that they stand to gain from paying their due taxes. Because the distrust between citizen and government (no matter of which party, government in general) runs so deep – it will not be an easy or short term task. Corruption in high places - an

all pervasive phenomenon - won't help either.

Additional sections in the report:

The Orientation of Macedonia (Equidistance, EU, NATO, Balkan)

The Budget

Data and Statistics

The Media

Pensions Social and Welfare Benefits

Healthcare

Information and Knowledge – Infrastructure and Industries

Construction

Agriculture

Industry

Transportation and Telecommunications

Tourism and Catering

The Capital Markets

Foreign Direct Investments

Macedonia's Report Card - 10 Things that Could Go Wrong

General

Macedonia is geographically positioned to become a

trilateral bridge between Asia, Western Europe and Eastern Europe. It is the heart of the Balkans. With the proper promotion and dissemination of information, it could well become an important regional economic hub, as well. To achieve this, it has to adopt an export orientation, to encourage the formation of small businesses, to be friendly to FDI (foreign direct investment), to deregulate and open up to (domestic and foreign) competition in its infrastructure (electricity, internet, telecoms, the banking system, etc.), to emphasize the protection of property rights and to start the process of privatization all over again - this time sincerely.

The World Economy in 2001

The Asian crisis is not over – it hasn't even started. It will erupt again, this time much more severely and mainly in Indonesia, Philippines, China, Malaysia and Japan. This will augment the recession shock waves in the USA. The stock exchanges (headed by Wall Street) will be the first to adversely react. The IMF will be fast depleted of resources. The central banks around the world will not be able to implement tighter monetary policies and global inflation will be re-ignited (with the exception of deflation in Asia). This inflation will be exacerbated by currency devaluations in South East Asia (China) and in Russia. The introduction of the Euro has further limit the flexibility of the counter-cyclical reactions of the economic authorities. This overall rigid response will force countries to adopt protectionist measures against the free flow of goods, services and, above all, capital.

The evaluation of the Macedonian economy in this paper, however, ignores this scenario. Should it transpire as we predict – the impact on Macedonia might be moderate, as its main markets are in the EU and it is not dependent on

foreign direct investment but on multilateral aid and credits.

What We Predicted in 2000

(See article in "Makedonsko Delo" dated April 7, 2000)

At the beginning of the year 2000 we predicted the following:

The Euro will devalue to 0.87 versus the US dollar and then recover to 1.18.

In reality it went down to 0.83 and is now in the process of recovering.

We now predict a cap on Euro appreciation at 1.06 - 1.08 (equivalent to DM at 1.78). The US dollar will then recover and push towards 2.30 and beyond.

We predicted oil hitting 32 US dollars per barrel (Brent crude) and then swiftly declining to 18 US dollars and then (in the long term) back to 7-10 Us dollars. In reality, it reached 35-36 US dollars per barrel and commenced a precipitous decline (to 24 US dollars currently).

We predicted a collapse of Wall Street. NASDAQ (the biggest stock exchange in the USA) has indeed crashed by 60% from its highs in March 2000 - but Wall Street, as a whole, did not experience a market meltdown as we predicted (though it is down by 15% from its highs).

The Denar Must be Devalued Gradually and Transparently

The trade deficit (at 600 million USD) equals 16% of the (admittedly, only the official) GDP and the current account deficit amounts to almost 8% of GDP. This is

AFTER unilateral transfers of capital from donor countries and aid agencies and from immigrants and after foreign investment. The reserves of the Central Bank cover 3 months of regular imports and, luckily, are insufficient to excite the big time speculators. Still, the currency is overvalued. In PPP-adjusted terms it should be converted at 37 to the DM (versus 31 now) and at c.70 to the USD (versus 66 now). The exchange rate stability is artificial, discourages exports and encourages imports. It also exerts deflationary forces in a deflation prone economy. The terms of trade of Macedonia have deteriorated by 14% these last few years. The accumulation of foreign exchange reserves is anti-growth and unnecessary. It also runs counter to current economic thinking.

Inflation

The Macedonian economy is totally illiquid and demonetized. High unemployment, a low money supply and the only slightly improved presence of money multipliers or accelerators (such as functioning credit providing institutions coupled with reasonable credit ceilings and interest rates as imposed by the Central Bank) – have depressed any nascent inflation and, lately, led to demand core deflation (without volatile energy and food prices). To encourage growth, Macedonia must tolerate a 10-15% annual level of inflation (versus c. 5% now) and a minimum of 3-5% budget deficit (versus a surplus now, if we ignore the rebalancing of the budget). There is no need to fear hyperinflation because of low demand. A devaluation will be mostly absorbed by importers and manufacturers. The government's fiscal and monetary policies are unduly restrictive and contractionary when they should be expansive. For a country in transition, with

c. 40% unemployment, an 8% current account deficit, inter-company debt arrears of c. 30% of GDP and growing, low FDI and languishing private sector - to maintain a 35% tax burden and a structural budget surplus is, to put it mildly, very wrong.

If, however, the Central Bank will be forced by the market to devalue the denar – the result will be profits for speculators and an inflation out of control. This will lead to stagflation – runaway inflation coupled with economic stagnation (the worst possible scenario for Macedonia). However this scenario is unlikely as long as the IMF is seen to be supporting current structural reforms and monetary policies.

The Macedonian Central Bank is forced by the IFIs (especially by the IMF) to maintain a DUAL TRACK policy, namely to observe BOTH an inflation target AND a stable exchange rate. This is a classic mistake, badly regretted in many countries now (examples: Brazil, Russia, Argentina, Turkey and Israel). By law, the Central Bank should ascertain the stability of the denar exchange rate. It is advisable to alter the law so that the bank observes an INFLATION TARGET, with a floor and a ceiling (an inflation band).

The Banking System

The sale of "Stopanska Banka" to "National Bank" (from Greece) - as well as the sale of a few other minor players to foreign investors cum management - has finally opened up the banking sector to outside influences. Still, most foreign owners are either hesitant (Erste Bank, which withdrew from the bid for Stopanska Banka in 1999) or too institutional (EBRD, IFC and even "National Bank" itself) or marginal. The whole sector needs to be opened

up to competition by allowing the introduction of credit unions, non-bank lenders, specialized (such as mortgage) banks, leasing companies, insurance companies, etc. into the banking scene.

The banks are ossified, unable to cope with the newly emerging market economy. They react either by disregarding the quality of their portfolio while over-emphasizing mere size (Stopanska Banka) – or by being too conservative. Instead of developing effective methods to monitor and evaluate risks – they preferred to raise the commercial interest rates to outlandish levels (now being reduced drastically). They offer no new services or products, lend only against real estate, favour cronies and cater to political wishes. The management in many of the banks in less professional than in the West. It is very likely that corruption is rampant due to favouritism and lack of transparency.

Only foreign ownership and CONTROL will alter this sorry state of things. In this respect, Macedonia is on the right path.

The Trade Deficit

The Macedonian economy is a "scavenger economy". At first, it benefited from the siege imposed on Serbia by the international community. Greek and other goods were shipped through Macedonia to Serbia. A lot of people got rich in the process. Now, Macedonia lives off its reputation as a "stable" country. The USA and other countries finance its trade deficit and other financial excesses – just to keep it as a buffer and a protection against instability in the region. More than 50% of all Macedonian firms are trading firms. This cannot last and is no substitute to long term policies. Macedonia must

move from scavenging to being a "predator economy": eager to conquer new markets and prey on the competition.

A trade deficit is not inherently evil. If the money is spent on the importation of industrial raw materials and capital goods, the future profits will easily offset current deficits. But the Macedonian trade deficit goes to finance consumption goods and food. This is a malignant type of deficit, which will ultimately boomerang and hurt the local economy gravely.

What is needed is an orderly devaluation, the imposition of VAT on ever larger sectors of the informal economy and the imposition of some temporary import restrictions on luxury goods as well as the active encouragement of exports and, to a very limited extent, import substitution.

The Private Sector

The Macedonian people are very entrepreneurial. The level of corporate taxation is tolerable (though the total tax burden is NOT). But there is no private sector to talk about. This is because there is no management culture, a lot of bureaucratic red tape, no capital markets, no business-oriented banking system, no real incentives or environment available to exporters and to small businesses and a crowding out of credit by failing, politically connected, or state owned businesses. The privatization process transferred state assets to the hands of an elite of managers at a discount on real values. The workers also received shares but could not dispose of them in any meaningful way. Even companies which could easily have been sold to foreign investors were privatized in this manner: Alkaloid, Pivara, Ohis, to mention but a few (Makpetrol, the PTT, Elektrostopanstvo

can also be included in the lists of "easily sellable companies"). The companies thus privatized still rely too heavily on the state and engage in political lobbying rather than in production.

Macedonia has this year, for the first time, embarked on a path of serious and painful structural reform (mainly by shutting down or selling the loss making state owned enterprises). This is commendable, courageous and important. But this is only half the job - and NOT the important half. The important part is to create the conditions to encourage the formation of a vigorous and viable private sector.

The Public Sector

Despite rumours to the contrary, the public sector is less corrupt than in comparable countries (according to Transparency International and to my own experience), well educated and capable. However, it is far too large (it should be cut in half) and inefficient. This sector is subjected to economic laws, which were either copied from the West verbatim or phrased locally by legislators and "experts" who lack the necessary experience. It is not service oriented, poorly paid and considered a "dead end" career.

Regional Devolution

The ethnic mix of Macedonia is explosive. This may be the reason why the central government was loath to transfer powers, authority and the money to back them to the regions. The regional economy is still very much centralized, planning is done from afar, the regions have no real taxing or spending autonomies (for instance: they cannot lobby abroad freely or raise funds in the capital

markets because the land is not theirs to pledge, it belongs to the state).

But Macedonia is uniquely varied. It has an outstanding potential for tourism, transport and telecommunications. All of these can be developed regionally – rather than centrally. It is only the political will that is missing. In the world today – the central government is consciously transferring budgets and powers to the regions and the EU's motto is: "A Europe of regions". Macedonia has haltingly started to implement it – but the process is not fast enough.

Brain Drain

About 4% of the population left the country in the three years immediately following independence (1991-4). Another 2-3% left the country between 1994-8 (estimate). Many young people resent the fact the it is not merit that will determines their career path, but connections to the right people. Others face difficult personal choices: unable to buy apartments, they cannot form or raise families properly. Unemployment is a permanent feature and many young and unskilled or semi-skilled people are unemployed for years or reduced to menial jobs. This is a real threat to Macedonia's economic future and competitiveness in the global market. In a way, Macedonia is subsidizing the West with this export of gifted people. Unfortunately, there is not a lot that can be done to directly counter this phenomenon. It will disappear of itself (even be reversed, as happened in Israel) once the economy improves.

Unemployment

This is the cancer of the Macedonian economy:

psychologically as much as financially, a burden on the state, a burden on the unemployed. Hitherto there was no serious treatment of this problem. In 1998, the government introduced a structure of tax incentives intended to subsidize new employment. Due to abuses, it was cancelled by the new government. But even that was absolutely insufficient and, in isolation, inefficient. The unemployment rate (already at c. 40% according to official figures) – is poised to GROW as the economy becomes more efficient, technology is introduced and real privatization takes root. This will be a social calamity. Experience in the world can guide the government: to increase labour mobility, to decrease the power of unions, to transfer unemployment benefits to the employer (in order to encourage him to employ the unemployed), to initiate public works (a Macedonian "New Deal" even at the cost of budget deficits), to encourage small businesses (microcredits, incubators, tax credits, preference in government procurement), to organize barter communities with voucher money, to encourage part time and flexible forms of employment. Israel, Holland, Britain and the USA are good examples.

Higher Education

The Macedonian workforce is more educated than its equivalents in Southeast Asia, for instance. The quality of higher education is impressive, with a few notable exceptions. Despite some corruption (university diplomas that are bought in cash rather than earned through toil, as the rumours go) – the overall picture is encouraging. But the stock of education capital (buildings, laboratories, libraries, computers) has dwindled to the extent that Macedonian higher education is risking becoming obsolete and irrelevant. Moreover, the universities and

dedicated schools are churning out graduates with degrees in professions, which are irrelevant to the Macedonian economy. There is a huge mismatch between what Macedonia needs and what Macedonia gets from its higher education institutions. In this sense, these institutions abdicated their social responsibilities. They are no longer subject to planning of any sort: central or via the market forces (because there is no market in Macedonia as of yet). The introduction of accredited private higher education institutions is a welcome step. It may ameliorate feelings of discrimination of minorities and elevate the quality of higher education in general by competing with staid and stultifying state establishments.

The Judicial System and Property Rights

The courts are slow, hesitant and ineffective. Contradicting interpretations of economic laws by different judges are not a rarity. The system is under-funded, understaffed and bogged in a landscape of laws and regulations, which changes arbitrarily. The introduction of autonomous budgeting is a step in the right direction. There are no private or public alternatives to the clogged, backlogged nightmare. The laws are full of irrelevant "dead weed", are too complex and archaic or too open to interpretation. There are no reliable, publicly available central registrars of property and it, therefore, cannot fulfil the role of a collateral to the fullest extent. Intellectual property rights are not protected and Macedonia (with Bulgaria) is the piracy capital of Central Europe. All this – and the multi-annual tedious process of applying to the courts in the first place – erode the trust in the law enforcement system, in general and can bring about criminal alternatives to enforcement of contracts, for instance. There is no sign of a major reform in this

field.

Taxation and the Black Economy

The "Black Economy" is called in Macedonia "The Grey Economy" because it is tolerated with a smile. Maybe luckily so: it comprises over 50% of the economy and is the less moribund and more vital part in it. Despite the fact that the taxes in Macedonia are very reasonable – collection is abysmal. Workers go unreported, income tax is paid only by employees in state or big firms, profit tax is eliminated by creative (false) accounting. Accountants in Macedonia are people who falsify books of firms so as to minimize the tax payable by them. Reform of the payment system and the customs is being discussed for months on end but, for some reason, its implementation is always postponed. Smuggling is rampant. This situation cannot be cured by "strong arm" tactics because it amounts to a universal civil rebellion. A massive education campaign needs to be launched to demonstrate to the citizens the benefits that they stand to gain from paying their due taxes. Because the distrust between citizen and government (no matter of which party, government in general) runs so deep – it will not be an easy or short term task. Corruption in high places - an all pervasive phenomenon - won't help either.

Some Recommendations

Government Structure and Budget

- The development modern budgeting tools such as on-budget analyses, employment adjusted budgets, etc.

- Independent budgeting for each Ministry and a system of incentives to those in the service of the government who save the moneyof the taxpayers. The Ministry of Finance should place budget-compliance supervisors in all the ministries (perhaps with the power to counter-sign budgetary expenditures together with the responsible Minister).

- All public procurement is already subject to public, competitive, bidding in domestic and international tenders but reports about each should be submitted to a special Procurement Committee in the Ministry, headed by the Minister of Finance.

- All NEW expenditures in the budget and ADDED budgetary items should be covered by corresponding items of income by LAW. All legislative initiatives concerning EXPENDITURES should, first, have to clear this hurdle: where will the money come from? This is theoretically so - but not in practice.

- A clear division should be instituted in the budget between Development items - and current items. Borrowing should be encouraged and dedicated to the former - and abolished from the latter.

- The government should introduce an amendment to the constitution regarding a budget deficit cap AND a budget surplus cap (limit) over the business cycle and, thus, ensure that future governments will not stray from the path of responsibility and fiscal rectitude.

- I suggest to establish a National Budget Planning

Office, which should provide the government with five year forecasts based on demographic, economic, geopolitical and technological trends.

Economic Legislation and Property Rights

I suggest to embark on a project of harmonization of all the economic legislation in Macedonia within a coherent and compact code, phrased in a manner which should be understandable to all, free of contradictions and unsuitable articles and provisions.

To do this, the government can create a special Council, which should be composed of legal experts, business and financial consultants,representatives of the private sectors and the relevant Ministries. All laws should be reviewed and, where necessary, re-written, to protect property rights including protection of intellectual property rights: copyrights, brandnames, registered trademarks.

Data and Statistics

The government should develop interlinked national databases, which should serve the executive branch in its fight against crime, tax evasion and corruption. All the organs of the state should be bound by law to transfer all the data that they accumulate to these national, computerized databases.

Public Access

The Ministry of Finance should establish the following public access and right to know (freedom of information) institutions:

- Institutions of appeal on all levels and subject itself, willingly, to criticism and legal challenges.

- It should encourage feedback from the people and promises to study each suggestion carefully and to respond on it in a reasoned manner.

- An office of Ombudsman (for citizen complaints) should be established. The ombudsman should have real powers and should answer directly to the Minister.

- Citizens and businesses should be able to obtain pre-rulings and opinions regarding tax matters from the tax authorities. The pre-rulings should be binding upon the Ministry and the tax authorities. They should introduce an element of certainty into the economic sphere.

- Citizens and businesses should have full access to their files.

Taxation - Direct and Indirect

- The Ministry of Finance should establish national databases to track property purchases and compare them to declared income.

- On the other hand, this government should rationalize the tax system by extremely simplifying it, by eliminating numerous loopholes, exemptions and deductions, by increasing the personal allowances, by drastically reducing the tax rates and by introducing other consumption and excise taxes. SIMPLIFICATION AND STREAMLINING of the TAX CODE are a major challenge.

- It should be evident to the citizen that the money that he paid to the tax authorities was used to his

immediate benefit. This is why this government should embark upon a massive campaign in the media and by direct mail, to explain to the citizens the benefits of paying taxes with DIRECT and IMMEDIATE examples. This is why this government should earmark 50% of all VAT revenues to educational, sports, academic and other public benefit or infrastructure projects.

Inflation, Interest Rates, Exchange Rates and the Central Bank

- The Central Bank of Macedonia should switch to inflation targeting rather than foreign exchange management.
- The bank should be allowed to determine the targets for the money supply, interest rates, inflation and other monetary parameters.
- We should liberalize the trading of foreign exchange, abolish all manner of exchange controls and allow the market to fix the exchange rates. The Central Bank should be confined to managing the daily inter-bank trading and settlement in foreign exchange and it should publish a non-binding "middle exchange rate" for the day. Otherwise, it should have no involvement in this market.
- The Supervision of the Banks should be removed from the Central Bank and become an independent unit, nominally under the Minister of Finance.
- The Central Bank should have its own budget. It should be barred by law from transferring any of its profits to the national budget. Its autonomy

should rest on its financial self-sufficiency.

- An amendment to the National Bank Act concerning the investment of the country's foreign exchange reserves should be introduced.

The issues to be tackled in this amendment should be:

- WHAT constitutes foreign exchange reserves (is the stabilization fund included? Other state deposits? foreign credits? etc.);
- IN WHAT can these reserves be invested (TYPES of investments: bonds, equities, CDs, repos, etc.);
- The QUALITY and MATURITY of said investments (only investment grade bonds, gold 99.9% bullion, etc.);
- The PROPORTION of investments in each type of investment vehicles (e.g. 80% in T-bills, 10% in gold, etc.);
- WHO can and is authorized to decide about the investment of the foreign exchange reserves;
- The decision making PROCEDURES, forms, quora, fora, etc.;
- USES of foreign exchange reserves;
- Obligatory STABILIZATION FUNDS;
- REPORTING procedures, periods, format, extent of disclosure.

Banking, Finance and the Capital Markets

- The government should reduce the capital requirements to open a bank, to allow for increased competition in this sector. It should, however, screen applications more carefully and refuse investors with no thorough background in banking or with a suspicious background.

- The government should encourage non-banking financial institutions and encourage banks to open branches throughout the country by reducing the capital required to do so.

- The function of Bank Supervision should be separated from the Central Bank and transferred to a distinct government agency with judicial and criminal prosecution powers. However, liquidity and reserves policies should still be determined by the Central Bank.

- All the banks should be required to manage their accounts using western accounting methods and to be audited by a Western auditor.

- The banks should supply the Supervision authorities with quarterly exposure and asset risk assessments.

- To reinstate the trust between the population and the banking system, the government should strengthen considerably the role and the financing of the Deposit Insurance Agency. The government fully guarantees its obligations by law - but should make the necessary funding allocation to back up this promise.

- By providing tax incentives, the government

should encourage the banks to computerize and to reduce their costs (and the waste of their clients' resources) by performing more and more banking functions through unmanned teller machines, ATMs, internet banking and so on.

- The banks should NOT administer the government's plans for small businesses and for export encouragement.

- This government should regard the Stock Exchange as a prime financing instrument in the economy. It should encourage its activities in many ways. It should offer tax breaks (up to total exemption from capital gains tax) to owners of stock in listed companies, it should educate the public as to how to use the Stock Exchange as a capital market - and as to how to trade in it, it should encourage employees and managers who received stock during the privatization process to trade their shares through the the Stock Exchange by introducing local and foreign investment funds and investment pools as well as investment managers, it should establish free legal and accounting services for firms who wish to be listed, it should continue the process of privatization through the Stock Exchange, it should raise and recycle some of its internal debt through the Stock Exchange and establish (with the Central Bank) Open Market Operations, it should not tax long term holding of shares, it should support the creation of mutual funds and voucher funds.

Foreign Direct Investment (FDI) and Free Trade Zones (FTZ)

Foreign investment can be attracted by:

- Appealing to Macedonians abroad, offering them special treatment. Their funds should be invested in a "Macedonia Fund", managed by a FOREIGN trustee.
- Participating in a Venture Capital Fund for Macedonia.
- Encouraging prime Macedonian firms to list and trade their securities abroad (in the form of Depository Receipts).
- Establishing a court dedicated only to Foreign Investors and obliged to render its judgements speedily (the law will define an obligatory period).

The Informal Economy

Reporting Requirements and Transparency

- All banks should be obliged to report foreign exchange transactions of more than 10,000 DM (whether in one transaction or cumulatively by the same legal entity). The daily report should be submitted to the Central Bank. In extreme cases, the transactions should be investigated.
- All the ZPP account numbers of all the firms in Macedonia should be publicly available through the Internet and in printed form.
- Firms should be obliged by law to make a list of all their bank accounts available to the ZPP, to the courts and to plaintiffs in lawsuits.

- All citizens should be obliged to file annual, personal tax returns (universal tax returns, like in the USA). This way, discrepancies between personal tax returns and other information can lead to investigations and discoveries of tax evasion and criminal activities.

- All citizens should be obliged to file bi-annual declarations of personal wealth and assets (including real estate, vehicles, movables, inventory of business owned or controlled by the individual, financial assets, income from all sources, shares in companies, etc.).

- All retail outlets and places of business should be required to install – over a period of 3 years – cash registers with "fiscal brains". These are cash registers with an embedded chip. The chips are built to save a trail (detailed list) of all the transactions in the place of business. Tax inspectors can pick the chip at random, download its contents to the tax computers and use it to issue tax assessments. The information thus gathered can also be crossed with and compared to information from other sources (see: "Databases and Information Gathering"). This can be done only after the full implementation of the recommendations in the section titled "Databases and Information Gathering". I do not regard it as an effective measure. While it increases business costs – it is not likely to prevent cash or otherwise unreported transactions.

- All taxis should be equipped with taximeters, which include a printer. This should be a licencing condition.

- Industrial norms (for instance, the amount of sugar needed to manufacture a weight unit of chocolate, or juice) should be revamped. Norms should NOT be determined according to statements provided by the factory - but by a panel of experts. Each norm should be signed by three people, of which at least one is an expert engineer or another expert in the relevant field. Thought should be dedicated to the possibility of employing independent laboratories to determine norms and supervise them.

- Payments in wholesale markets should be done through a ZPP counter or branch in the wholesale market itself. Release of the goods and exiting the physical location of the wholesale market should be allowed only against presentation of a ZPP payment slip.

Reduction of Cash Transactions

- Cash transactions are the lifeblood of the informal economy. Their reduction and minimization is absolutely essential in the effort to contain it. One way of doing it is by issuing ZPP payment (debit) cards to businesses, firm and professionals. Use of the payment cards should be mandatory in certain business-to-business transactions.

- All exchange offices should be obliged to issue receipt for every cash transaction above 100 DM and to report to the Central Bank all transactions above 1000 DM. Suspicious transactions (for instance, transactions which exceed the financial wherewithal of the client involved) should be duly investigated.

- The government can reduce payroll taxes if the salary is not paid in cash (for instance, by a transfer to the bank account of the employee). The difference between payroll taxes collected on cash salaries and lower payroll taxes collected on noncash salaries – should be recovered by imposing a levy on all cash withdrawals from banks. The banks can withhold the tax and transfer it to the state monthly.

- Currently, checks issued to account-holders by banks are virtually guaranteed by the issuing banks. This transforms checks into a kind of cash and checks are used as cash in the economy. To prevent this situation, it is recommended that all checks will be payable to the beneficiary only. The account-holder will be obliged to furnish the bank with a monthly list of checks he or she issued and their details (to whom, date, etc.). Checks should be valid for 5 working days only.

- An obligation can be imposed to oblige businesses to effect payments only through their accounts (from account to account) or using their debit cards. Cash withdrawals should be subject to a withholding tax deducted by the bank. The same withholding tax should be applied to credits given against cash balances or to savings houses (stedilnicas). Alternatively, stedilnicas should also be obliged to deduct, collect and transfer the cash withdrawal withholding tax.

- In the extreme and if all other measures fail after a reasonable period of time, all foreign trade related payments should be conducted through the Central Bank. But this is really a highly irregular,

emergency measure, which I do not recommend at this stage.

- The interest paid on cash balances and savings accounts in the banks should be increased (starting with bank reserves and deposits in the central bank).

- The issuance of chequebook should be made easy and convenient. Every branch should issue chequebooks. All the banks and the post office should respect and accept each other's checks.

- A Real Time Gross Settlement System should be established to minimize float and facilitate interbank transfers.

Government Tenders

Firms competing for government tenders should be obliged to acquire a certificate from the tax authorities that they owe no back-taxes. Otherwise, they should be barred from bidding in government tenders and RFPs (Requests for Proposals).

Databases and Information Gathering

- Estimating the informal economy should be a priority objective of the Bureau of Statistics, which should devote considerable resources to this effort. In doing so, the Bureau of Statistics should coordinate closely with a wide variety of relevant ministries and committees that oversee various sectors of the economy

- All registrars should be computerized: land, real estate, motor vehicles, share ownership,

companies registration, tax filings, import and export related documentation (customs), VAT, permits and licences, records of flights abroad, ownership of mobile phones and so on. The tax authorities and the Public Revenue Office (PRO) should have unrestricted access to ALL the registers of all the registrars. Thus, they should be able to find tax evasion easily (ask for sources of wealth- how did you build this house and buy a new car if you are earning 500 DM monthly according to your tax return?).

- The PRO should have complete access to the computers of the ZPP and to all its computerized and non-computerized records.

- The computer system should constantly compare VAT records and records and statements related to other taxes in order to find discrepancies between them.

- Gradually, submissions of financial statements, tax returns and wealth declarations should be computerized and done even on a monthly basis (for instance, VAT statements).

- A system of informants and informant rewards should be established, including anonymous phone calls. Up to 10% of the intake or seizure value related to the information provided by the informant should go to the informant.

Law Enforcement

- Tax inspectors and customs officials should receive police powers and much higher salaries

(including a percentage of tax revenues). The salaries of all tax inspectors – regardless of their original place of employment – should be equalized (of course, taking into consideration tenure, education, rank, etc.).

- Judges should be trained and educated in matters pertaining to the informal economy. Special courts for taxes, for instance, are a good idea (see recommendation below). Judges have to be trained in tax laws and the state tax authorities should provide BINDING opinions to entrepreneurs, businessmen and investors regarding the tax implications of their decisions and actions.

- It is recommended to assign tax inspectors to the public prosecutors' office to work as teams on complex or big cases.

- To establish an independent Financial and Tax Police with representatives from all relevant ministries but under the exclusive jurisdiction of the PRO. The remit of this Police should include all matters financial (including foreign exchange transactions, property and real estate transactions, payroll issues, etc.).

- Hiring and firing procedures in all the branches of the tax administration should be simplified. The number of administrative posts should be reduced and the number of tax inspectors and field agents increased.

- Tax arrears and especially the interest accruing thereof should be the first priority of the ZPP, before all other payments.

- All manufacturers and sellers of food products (including soft drinks, sweetmeats and candy, meat products, snacks) should purchase a licence from the state and be subjected to periodic and rigorous inspections.

- All contracts between firms should be registered in the courts and stamped to become valid. Contracts thus evidenced should be accompanied by the registration documents (registrar extract) of the contracting parties. Many "firms" doing business in Macedonia are not even legally registered.

Reforms and Amnesty

- A special inter-ministerial committee with MINISTER-MEMBERS and headed by the PM should be established. Its roles: to reduce bureaucracy, to suggest appropriate new legislation and to investigate corruption.

- Bureaucracy should be pared down drastically. The more permits, licences, tolls, fees and documents needed – the more corruption. Less power to state officials means less corruption. The One Stop Shop concept should be implemented everywhere.

- A general amnesty should be considered. Citizens declaring their illegal wealth should be pardoned BY LAW and taxed on the hitherto undeclared wealth.

The Tax Code

- The Tax code needs to be simplified. Emphasis should be placed on VAT, consumption taxes,

customs and excise taxes, fees and duties. To restore progressivity, the government should directly compensate the poor for the excess relative burden.

- After revising the tax code in a major way, the government should declare a moratorium on any further changes for at least four years.

- The self-employed and people whose main employment is directorship in companies should be given the choice between paying a fixed % of the market value of their assets (including financial assets) or income tax.

- All property rental contracts should be registered with the courts. Lack of registration in the courts and payment of a stamp tax should render the contract invalid. The courts should be allowed to evidence and stamp a contract only after it carries the stamp of the Public Revenue Office (PRO). The PRO should register the contract and issue an immediate tax assessment. Contracts, which are for less than 75% of the market prices, should be subject to tax assessment at market prices. Market prices should be determined as the moving average of the last 100 rental contracts from the same region registered by the PRO.

- Filing of tax returns – including for the self-employed – should be only with the PRO and not with any other body (such as the ZPP).

Legal Issues

- The burden of proof in tax court cases should shift

from the tax authorities to the person or firm assessed.

- Special tax courts should be established within the existing courts. They should be staffed by specifically trained judges. Their decisions should be appealed to the Supreme Court. They should render their decisions within 180 days. All other juridical and appeal instances should be cancelled – except for an appeal instance within the PRO. Thus, the process of tax collection should be greatly simplified. A tax assessment should be issued by the tax authorities, appealed internally (within the PRO), taken to a tax court session (by a plaintiff) and, finally, appealed to the Supreme Court (in very rare cases).

- The law should allow for greater fines, prison terms and for the speedier and longer closure of delinquent businesses.

- Seizure and sale procedures should be specified in all the tax laws and not merely by way of reference to the Income Tax Law. Enforcement provisions should be incorporated in all the tax laws.

- To amend the Law on Tax Administration, the Law on Personal Income Tax and the Law on Profits Tax as per the recommendations of the IRS experts (1997-9).

Customs and Duties

- Ideally, the customs service should be put under foreign contract managers. If this is politically too

sensitive, the customs personnel should be entitled to receive a percentage of customs and duties revenues, on a departmental incentive basis. In any case, the customs should be subjected to outside inspection by expert inspectors who should be rewarded with a percentage of the corruption and lost revenues that they expose.

- In the case of imports or payments abroad, invoices, which include a price of more than 5% above the list price of a product, should be rejected and assessment for the purposes of paying customs duties and other taxes should be issued at the list price.

- In the case of exports or payments from abroad, invoices which include a discount of more than 25% on the list price of a product should be rejected and assessment for the purposes of paying customs duties and other taxes should be issued at the list price.

- The numbers of tax inspectors should be substantially increased and their pay considerably enhanced. A departmental incentive system should be instituted involving a percentage of the intake (monetary fines levied, goods confiscated, etc.).

- The computerized database system (see "Databases and Information Gathering") should be used to compare imports of raw materials for the purposes of re-export and actual exports (using invoices and customs declarations). Where there are disparities and discrepancies, severe and immediate penal actions should be taken. Anti-dumping levies and measures, fines and criminal

charges should be adopted against exporters colluding with importers in hiding imported goods or reducing their value.

- Often final products are imported and declared to the customs as raw materials (to minimize customs duties paid). Later these raw materials are either sold outright in the domestic or international markets or bartered for finished products (for example: paints and lacquers against furniture or sugar against chocolate). This should be a major focus of the fight against the informal economy. I follow with an analysis of two products, which are often abused in this manner.

- I study two examples (white sugar and cooking oil) though virtually all raw materials and foods are subject to the aforementioned abuse.

- White Sugar is often imported as brown sugar. One way to prevent this is to place sugar on the list of LB (import licence required) list, to limit the effective period of each licence issued, to connect each transaction of imported brown sugar to a transaction of export, to apply the world price of sugar to customs duties, to demand payment of customs duties in the first customs terminal, to demand a forwarder's as well as an importer's guarantee and to require a certificate of origin. The same goes for Cooking Oil (which – when it is imported packaged – is often declared as some other goods).

- All payments to the customs should be made only through the ZPP. Customs and tax inspectors should inspect these receipts periodically.

- All goods should be kept in the customs terminal until full payment of the customs duties, as evidenced by a ZPP receipt, is effected.

Public Campaign

The government should embark on a massive Public Relations and Information campaign. The citizens should be made to understand what is a budget, how the taxes are collected, how they are used. They should begin to view tax evaders as criminals. "He who does not pay his taxes – is stealing from you and from your children", "Why should YOU pay for HIM?" "If we all did not pay taxes- there would be no roads, bridges, schools, or hospitals" (using video to show disappearing roads, bridges, suffering patients and students without classes), "Our country is a partnership – and the tax-evader is stealing from the till (kasa)" and so on.

The phrase "Grey Economy" should be replaced by the more accurate phrases "Black Economy" or "Criminal Economy".

Additional sections in the report:

The Orientation of Macedonia (Equidistance, EU, NATO, Balkan)

The Budget

Data and Statistics

The Media

Pensions Social and Welfare Benefits

Healthcare

Information and Knowledge – Infrastructure and Industries

Construction

Agriculture

Industry

Transportation and Telecommunications

Tourism and Catering

The Capital Markets

Foreign Direct Investments

January 2008

Like Blanche Dubois in "Streetcar Named Desire", Macedonians now prefer fantasy over harsh reality. They lash out at anyone who wishes to offset their euphoria with a long, hard look at hazards, real achievements, and true future prospects.

Under the tutelage of the Gruevski government, Macedonia made great strides in a surprisingly short period of time. The government should be lauded and complimented for its energy and initiative and its inordinate ability to transform Macedonia into a modern participant in globalization. The pace and extent of its accomplishments is incredible.

Yet, Macedonia faces 10 risks and the government is doing precious little to confront them:

1. Asset Bubbles

At a multiple of 37, the Macedonian Stock Exchange is a bubble, by any definition of the word.

The Macedonian Stock Exchange, as measured by its MBI-10 index, rose to a record high of close to 10,500 in mid-2007. It has since shed 30% of its gains. This correction, or, rather, rout has its roots is a series of converging factors.

Macedonia benefited from globalization. As its informal economy emerged from the shadows, capital controls were lifted, capital mobility increased, and foreign firms and investors entered the scene. The more the business climate improved, the better Macedonia's prospects appeared, the higher Macedonian stocks were valued by an euphoric public. Macedonia's professionals did nothing to restrain the hysteria or to ameliorate the casino mentality that pervaded the entire system. They benefited personally from the bubble.

The newfound optimism of Macedonia led to a repricing of risk and to heightened expectations of corporate profits, boosted by a more lenient tax regime and by decreasing interest rates. Equity risk premium plummeted until it vanished altogether and even became negative. The P/E multiple reached a stratospheric 50 before the recent correction. It is still pegged at an unsustainable 37.

Throughout this Bacchanalia, foreigners flocked into the Macedonian Stock Exchange, constituting 30-40% of the buy side. But they have begun to withdraw owing to big privatizations back home, troubles in their domestic financial systems, a more restrictive monetary policy in some countries, and the changing fortunes of the Macedonian marketplace.

The down trend in the Macedonian Stock Exchange is not a mere correction. It is a repricing of assets. It still has a long way to go. Even at 4300 - the next massive technical support - Macedonian shares are inanely overvalued.

Similarly, real estate prices are stratospheric, but this can be justified by the lack of reliable, scandal-free supply and the underdeveloped market for mortgages and real estate leasing.

Should one or both bubble burst, the adverse effects on consumption are likely to be noticeable.

2. Credit Bubble

In December 2007, holiday spending in Macedonia surged 100 million euros to 350 million euros. Most of the increase was financed with credits, as were the purchases of shares on the stock exchange, cars, and housing. High interest rates virtually guarantee that many of these loans will go bad. When they do, the government will be called upon to bail out the banking system. In all probability, it will.

3. Trade Deficit

Macedonia's trade deficit now equals 20% of its formal GDP (excluding the informal economy). It is unsustainable. Yet, the more vigorous the economy, the more the country's consumers and businessmen are likely to import. The culprits in engendering this imbalance are an overvalued currency, a hyper-liberalized trade regime, an antiquated and badly-managed industrial sector, and the profligacy of the population.

As long as unilateral transfers (such as remittances) cover the yawning gap in the current account deficit, Macedonia

can survive with such irresponsible conduct. But, if the global economy turns sour, Macedonian Gastarbeiter will be forced to return home. This will likely precipitate a currency crisis.

4. Living Standards and Inflation

Inflation in Macedonia is severely under-reported by the government's Bureau of Statistics. Even so, living standards have dived with the rise in energy and food prices. The government doles out wage and pension increases but cannot compete with the global surge in the prices of commodities. Coupled with the aforementioned credit bubble, this is an ominous sign. Macedonia could end up having its own mini-version of the crisis in the USA: bankruptcies, credit crunch, and recession.

5. Foreign Direct Investment (FDI)

While Macedonia's image and perception as a business destination and the business climate have improved considerably under Gruevski's government, in reality, not much else has changed.

Consider the following numbers, pertaining to Macedonia:

Control of Corruption Indicator, published by the World Bank: 113 (2006) vs. 111 (2007)

Country Credit Rating, published by Institutional investor: 85 (2006) vs. 84 (2007)

Index of Economic Freedom, published by The Heritage Foundation and the Wall Street Journal: 75 (2006) vs. 71 (2007)

Quality of National Business Environment Ranking,

issued by the World Economic Forum in its Global Competitiveness Report: 87 out of 121 countries.

Only the World Bank's Doing Business Ranking jumped from 96 (2006) to 75 (2007). Yet, even this indicator hides some unpalatable truths: Macedonia has deteriorated in certain respects. It is more difficult and cumbersome to hire workers, to register property, to obtain credit, to protect investor rights, and to enforce contracts. In any case, this indicator has more to do with public relations, expectations, and psychology, rather than with the hard facts on the ground.

And the hard facts are:

Macedonia is not ready to absorb and accommodate foreign investors and their capital. It still has a long way to go. This government has put the cart before the horses;

The youthful, populist, and inexperienced administration is overwhelmed and ill-equipped to deal with its obligations towards and promises to foreign investors. Decision-making bottlenecks (especially in the office of Vice-Premier Zoran Stavreski) conspire with red tape and blatant favoritism to render nightmarish both greenfield and brownfield ventures.

In a long-running arbitration, the country was slapped with multimillion dollar damages payable to the Greek investors in Okta. This did not deter the government from conflicting vocally and publicly with Macedonia's other large investor, the Austrian EVN, owner of the electricity utility;

To its credit, the government has reformed the tax system, introduced a flat tax, and reduced the tax rates, all laudable. But it is still illegal for foreigners to own land

and real estate (as individuals) and all but impossible to trade in the local stock exchange. The government has only now resorted to tackling these archaic limitations;

The country is dysfunctional. No institution works properly: the cadastre, the courts, law enforcement agencies, the civil service are all in chaotic disarray. Even the banking system, despite a decade of FDI, is rudimentary. Infrastructure of all sorts is dismal, though improving. The government's anti-corruption drive is much lauded but highly politicized and one-sided, aimed as it is exclusively at the hapless politicians of the opposition. Macedonia's laws are not geared to welcome and assimilate foreign investment, foreigner businessmen, and foreign workers;

Macedonia lacks skilled manpower. The education deficit is pervasive. More than half the adult population has eight years of schooling or less. A multi-generational brain drain saps the country's vitality and prospects in the global information economy of the 21st century. Contrary to the government's claims in its "Invest in Macedonia" campaign, costs and taxes associated with wages are among the highest in the world.

The country suffers from other problems: a huge informal economy, skyrocketing consumer and enterprise indebtedness, ominous asset bubbles in both the stock exchange and the real estate market, a crippled middle class and crippling poverty and unemployment rates, an unmanageable and increasing trade deficit (c. 20% of GDP), and a whopping current account deficit offset only by remittances from Macedonian workers abroad. The global credit crunch constitutes a major threat to polities with such precarious finances.

Despite a slew of expensive PR and advertising campaigns; the appointments of two ministers and the formation of a special agency to deal with FDI; incessant trips abroad by every functionary, from the prime minister down; and innovative marketing initiatives - FDI figures for 2007, at c. 180 million USD (c. 3% of GDP), are a major disappointment. Moreover, a sizable part of Macedonia's FDI is in construction, retail, financial services, and trade, economic sectors with minimal contribution to future growth.

In comparison, FDI doubled in decrepit, post-bellum Serbia, to 4.5 billion USD in 2006. Croatia garnered 3.6 billion USD (2.7 billion euro) - twice the 2005 figure. Even strife-torn Bosnia-Herzegovina, under a EU peacekeeping mission, attracted 2.9 billion USD (2 billion euros). Bulgaria absorbed 6.5 billion USD. FDI amounted to 10% of Balkan GDP in 2006.

The conclusion is inescapable: Macedonia has failed in its bid to attract FDI. This is not the first time that Macedonian politicians and their downtrodden and destitute people prefer the fantasy of foreign saviors to the hard slog of painful and much-needed reforms at home. The current prime minister, Gruevski, served in the government of Ljubco Georgievski, whose nostrum and panacea to Macedonia's economic woes was dollops of money, supposed to be funneled via illusive Taiwanese investors. The person most identified with this policy, Vasil Tupurkovski, now faces criminal charges.

Gruevski can learn many lessons from the debacles wrought by his predecessors. It is not too late to get his priorities straight: reforms, education, domestic investment, and employment first, and only then an open invitation to foreigners to come and invest in Macedonia.

6. Geopolitical Risks

Geopolitical instability (in Kosovo) is exacerbated by the current Macedonian regime's jingoism, its overt and manipulative religiosity, and greenhorn fickleness. Within the last year, Macedonia has considerably retarded its chances to enter NATO and the European Union (EU), having clashed unnecessarily and spectacularly with Greece, Serbia, Bulgaria, and the Albanian minority at home.

7. Unemployment

The government's obsession with FDI as the solution for Macedonia's unemployment precluded a reasoned and coordinated effort to tackle unemployment head-on, especially by encouraging domestic investment. To this very day, the government has failed to come with a plan on how to fight unemployment in the short to medium term.

Consequently, unemployment has remained largely the same, at 35%. In certain sectors - such as mining and manufacturing - it even went up (by a whopping 8%, compared to 2005).

The government's concurrent attempts to fight the informal economy have the unfortunate effect of removing the only effective social safety net and source of income available to the unemployed.

8. Education

As is its habit in all other fields, the government is more concerned with grandiose schemes (computer for every child) than with the mundane and dreary reality of education in Macedonia: lack of infrastructure, no

teaching cadre, no supportive social services (day care, for instance), or cultural ambience (the education of girls is still controversial in certain segments of Macedonian society).

The government is attempting to respond to the perceived needs of foreign investors by teaching skills to young and older alike. This is a step in the right direction. But, carried out in a vacuum of other policy measures, it is bound to backfire and end in a brain drain or in deep and lasting frustration.

9. Agriculture

Instead of acknowledging that Macedonia's agriculture is non-competitive for a variety of reasons, the government keeps pouring tens of millions of scarce euros into dying crops (tobacco, for instance). The solution is, of course, to scrap the entire Macedonian agriculture, retrain the farmers and embark on a bold plan to reorient the sector to off-season vegetables and flowers, high-value crops, organic produce, and bioengineering.

10. Over-taxation

When a government in a country as destitute as Macedonia wastes its money on the early repayment of debts to International Financial Institutions and ends up with a surplus in its central budget, its policies are wrong and constrictive. Rather than promote growth, the government is over-taxing. This leads to an inefficient allocation of resources. Rather than invest, the government increases wages in the public sector, augments pensions, and showers subsidies on dying sectors.

Paradoxically, such colossal waste is bound to end up in a demonetization and contraction of the economy as the private sector gives up its futile attempt to compete with the largesse of the government and as businesses are rendered rent-seekers.

Conclusion

The Gruevski government is business-friendly and growth-oriented. It is truly reformist. However, its policies of benign neglect and over-reliance on foreigners and their money as a nostrum and panacea threaten Macedonia with stagflation: inflation coupled with recession, increasing unemployment and negative growth.

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Higher Education in Macedonia

Interview with Ljubica Grozdanovska of BID Consulting, Macedonia

Conducted: September 2007

Until recently and for five years, Ljubica Grozdanovska worked as a journalist in Macedonia's best-selling daily newspaper, "Dnevnik", covering issues on every level of education in the country. Three months ago, she became correspondent for the prestigious Czech e-zine Transition Online (TOL), again covering topics in education. Ljubica also works at the Faculty of Journalism in Skopje as a junior assistant. Recently, she co-founded "BID Consulting", where she serves as a market analyst, business and PR consultant.

Q: Some observers say that education in Macedonia is being revolutionized - others that it is undergoing a chaotic upheaval. Can you identify for us the major changes (private education, financing, major legislation, etc.)?

LG: The extension of primary education to nine years, the provision of a PC to every student, the Law for Higher Education, and the construction of schools through public-private partnerships are some of the big projects in education announced by the current Government. However, their implementation in practice yielded varying outcomes, sometimes deviating from the expected ones.

The implementation of the concept of nine-year long primary education started on the first of September 2007. Consequently, two generations of pupils enrolled in the first grade: those five and a half years old and those seven years old. Parents were more than confused.

According to the revised Law of Primary Education, children who are going to be five years and eight months old by the end of the year have the right to enroll in first grade. Therefore, some children were forced to wait till the next school year just because they were going to reach the proper age only in January.

The Macedonian constitution doesn't allow private elementary schools to be opened. Thus, parents can't choose teachers. The school does it for them. Another irony of the model of the nine year long primary education is that the pupils who are seven years old this school year and are in the first grade, will, next year, skip the second grade and automatically go into the third.

In a situation in which many schools in the country have ruined roofs, no toilets, no secure electricity wiring, the Government last year announced a project "PC for every child". Despite the grandiose announcement that computers will at first be installed in all high schools, at the beginning of this school year only three high schools were so lucky. By comparison, six or seven years ago, almost all the elementary and high schools in the country received a few PCs each: a donation from the Taiwanese Government. The equipment has soon become the target of robberies.

One of the major obstacles is that teachers - especially the elderly ones - are computer-illiterate. Another major problem is that in Macedonia, for a few years now, there is no model to measure the knowledge of students after they had finished elementary, or secondary school. Because of that, around 95 percent of the students that graduate from elementary education as well as from high

schools, are straight A students. If this tendency continues, the predictions are that till 2010 all students in Macedonia will be straight A students.

3. Macedonia is a multi-ethnic country. How does its education system cope with this diversity (quotas, segregation, teaching in minority languages, etc.)?

LG: The constitutional right to study in one's mother tongue (in Macedonia, students study in the Macedonian, Albanian, Turkish and Serbian languages) and the influence of the conflict in 2001 caused and still are causing segregation among students. If this right initiated the segregation, the conflict and the prejudices it gave rise to increased the division among students - between Macedonians and Albanians, and in the past two years, among Macedonian, Albanian and Roma students.

Parents are also guilty because they fear that their children are not safe in an environment which includes "others" and they pass on their fears to the children. This is especially obvious in the capital of Macedonia, Skopje and in the cities in the western part of the country, where the majority of the citizens are Albanian.

For example: if Macedonian and Albanian students attend lectures in the same school, they usually go in two shifts. There is segregation among teachers too, although they deny it in public.

Two years ago, the Ministry of education made changes in the history books. This caused the lecture model to be altered: Macedonian students learn about Macedonian national history, Albanian students – about Albanian national history. When time comes for the Albanian

students to learn something about the Macedonian national history, then usually a Macedonian teacher does the teaching and vice-versa.

Since the last school year, there is also segregation among Macedonian and Roma pupils. For instance, a few weeks ago, nine mothers of Macedonian pupils refused to sign in their children into an elementary school in the city of Kumanovo because there were seven Roma pupils in that class. But, the pshychologist in the school and an NGO called "National Roma Center" managed to calm down the situation. This is not the only example. Roma students are being taught in the Macedonian language. There are no books nor teachers in the Roma language because their language is not recognized by the Macedonian Constitution.

In my opinion, the implementation of the teaching of religion in primary schools may cause the segregation among students to deepen. In this case, not only on an ethnic, but also on a religious basis. The Ministry of Education and Science plans to introduce the study of religion as a subject in the fifth grade and it gives two choices: pure religious teachings and the history of religions.

All studies and polls show that Muslims will probably choose pure religious teachings while Orthodox Christian pupils and others will opt for the history of world religions. The authorities don't have a solution for the problem of ethnic and religion segregation among students. They may have some corrective projects in mind, for instance for Macedonian and Albanian students to study English together, but projects are time-limited by nature and definition.

4. Is the education system politicized? If so, in which ways, can you give some concrete examples?

LG: Way too politicized. A few days before the official start of the new school year, the mayor of one municipality in Skopje, who by the way is a member of the political party in power VMRO-DPMNE, expelled all the teachers whom he suspected of being members of the opposition party SDSM, thus allowing him to employ his own people.

The same thing is happening with school principals. As soon as there is a change of the political parties in power, the principals who are not with the "right" political orientation, who are not aligned with the newly formed Government, usually are afraid that they will lose their jobs.

Even more ironic is the fact that if they are not fired or changed, school principals are willing to praise the political party in power and to deny that they are members of the opposition party. In this case, they publicly extol the reforms that the Government is conducting.

Unfortunately, it usually is necessary to obtain a political party's membership card just to be employed in the public sector, schools included. In September, the Ministry of Education is granting approval for new employment in the schools. Until the middle of September, only approvals for Albanian teachers are granted, while approvals for Macedonians are granted much later. This especially was the case in many towns in the western part of the country.

Political orientation usually determines even which

schools are going to be renovated, and where new ones will be built. Unofficially, on the list of school buildings to be repaired there are more schools from the western part of Macedonia, where the majority of the population are ethnic Albanians. The State University in Tetovo for example was granted the status of a budget financed university because of political reasons: it's an Albanian University. In Tetovo, by the way, there is one more university: the Southeastern Europe University. The fourth University, the one in Shtip, is also a political solution.

Even school names are confronted with politics. For instance, there are several initiatives to change some school names, currently eponymous with Macedonian historical figures to names of Albanian extract. In a part of Skopje, called Shuto Orizari, one school was supposed to carry the name of a member of the UCK (the Albanian insurgent group who initiated the 2001 conflict in Macedonia - SV).

5. Can you describe the problems with the accreditation process in Macedonia?

Corruption and the nepotism are the two main terms associated with the accreditation process in Macedonia. An increase in competition as well as in the quality of the courses taught were supposed to be the main reasons why numerous new private higher education institutions were allowed to be opened. Alas, it turned out that the effects were quite the opposite.

A physical location and a bank guarantee are needed for a new higher education institution to be established. However, this is often overlooked, because of money that changes hands, and friends and family members of

decision-makers who are employed in various sinecures. Of a total of nine members of the Accreditation Committee, five have four years mandates. They cannot be discharged, regardless of circumstances. This impunity leaves enough manipulative space for illegal actions. The results are a declining quality of higher education institutions and universities and the ability to purchase bachelors, masters and even PhD diplomas, for reasonable amounts.

Nevertheless, foreign universities are faced with the biggest problem, because the Law for Higher Education does not allow them to establish faculties. There were some exceptions, though (for instance the New York University established in Skopje). This may be resolved by the Government's decision to liberalize higher education by allowing the top 100 universities in the world to be able to come and open faculties in Macedonia.

Finally, few people are aware that even the state universities are obliged to pass the accreditation process every year, although they were established decades ago. No permanent accreditation is given to them. And, they must revise the space, the rooms for lectures etc. Unfortunately, they are the "endangered" species.

6. Is the Macedonian higher education system integrated with Europe's (Bologna Declaration, etc.)?

LG: Partly. The European Credit Transfer System (ECTS) and the mobility of students and professors is at the core of the Bologna process. In Macedonia, the new evaluation system is causing big problems for higher education institutions. In most cases, those credits are not recognized in the European Union (EU) member countries and, consequently, there is no mobility.

It was easy for the faculties to change the models of teaching and of evaluation. The students get credits for their presence in lectures, for passing exams and for writing and submitting essays. However, because of some technical problems, most students are unable to pass the courses, for instance, because some credits are not noted in the system.

The Bologna process presumes that the lectures will be held with groups of up to 25 students. Yet, this is not the case in any of the universities in Macedonia. It seems that collecting money from the students is more important than providing them with a quality learning experience. Every year hundreds of additional new students are accepted and enrolled. Thus swamped, the faculties have no technical possibility to provide normal lectures.

The reforms are supposed to bring new courses to the faculties and combine them with more practical learning. The faculties don't have enough teaching stuff to introduce these new courses. As a sad result, there are some cases where one professor is giving lectures in four or five different courses.

Furthermore: there is no mobility, mainly because the faculties are not able to sign the necessary direct cooperation agreements with similar faculties in the EU countries. For this to be done, the Macedonian faculties must attain a higher percentage of compliance with the implementation of the Bologna process in order for their credits and courses to be acknowledged in the EU countries.

The second reason for the lack of mobility is the low living standard in Macedonia in which the majority of the students simply don't have enough money to enroll in such a program. The third and final major obstacle for the Macedonian student is the visa regime. It is very difficult for a Macedonian national to move freely across borders in Europe (or elsewhere, for that matter).

Unfortunately owing to institutional inefficiency, student mobility is not a possibility even inside the country's territory. Macedonia signed the Bologna Declaration in 2003 and is obliged to implement it till 2009. Reports of its progress compared to other countries in the region show that Macedonia is usually in the third place, graded with four. But, if you see that preceding Macedonia in the first and second places on the list are Slovenia and Croatia, and Albania and Serbia follow, than the results are not so uplifting.

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An Open Letter

Addressed to: The New Prime Minister Of The Republic of Macedonia "Macedonia, 19/10/98"

September 21st, 1998

Sir,

Macedonia faces a few threats related to the sorry state of global affairs:

a. All international aid will dry up. Macedonia is heavily dependent on foreign aid for the shoring up of its insupportable deficit in the balance of payments.

b. Macedonian goods will become even less competitive than they are. Macedonia refused to participate in the latest round of currency devaluations worldwide.

c. The global banking system will be eradicated. There will be no private capital available to replace international credits and grants.

d. A wave of trade protectionism will sweep the economies of the East and the West alike. Countries – from the USA to China and from Australia to Russia – will block imports and try to protect domestic industries.

e. The collapse of stock exchanges and banks throughout the world will create a reverse "wealth effect". People will feel poorer, they will consume less, world growth and the growth in international trade will be reversed.

f. Less attention will be paid to international crises. Economic depression breeds political isolationism. Macedonia will be left to its fate and may even face existential dangers.

Any new Prime Minister must immediately embark on a "Program to Save Macedonia". Such a program must have a geopolitical component (of which I am no expert) and an economic component.

The economic component must, as a minimum, include the following elements:

a. An immediate devaluation of the denar ("competitive devaluation") – with or without the consent of the IMF. The IMF and the World Bank are under severe criticism in the West now for gross mismanagement of the global economy. They are bad advisors because they are one track minded. They think only about fighting inflation through deflating the economy. This is a disastrous recipe, which already ruined the economies of dozens of countries.

b. A transparent, predictable exchange-rate regime (trading within a band, for instance, or creeping, daily, devaluation).

c. A declaration concerning the target of annual inflation (10-15% is reasonable), accompanied by the implementation of steps to make sure that it is not exceeded.

d. The immediate introduction of VAT in order to encourage exports.

e. The encouragement of exports by structural means

of reforming key sectors in the economy (like customs, telecoms, courts, and banking). This could be done swiftly by throwing the door open to foreigners. The corrupt and inefficient customs service, for instance, could be transferred to foreign management immediately. Private arbitration courts can be established. All state companies (including the Telecom) must be privatized immediately and almost at any price. Failing banks must be allowed to fail.

f. Import controls on luxury goods (example: cars, caviar) and the encouragement of import substitution (Macedonian tomatoes, not Turkish ones).

Of course, these steps will hurt the economic interests of many politicians and their crony businessmen. But this is an emergency and time is unbelievably short. Action must be taken immediately – or there will be no economy to benefit from in the future. All the citizens of Macedonia: politicians, businessmen, journalists, workers, intellectuals, farmers, the well-to-do and the no-goods have to unite now. It is truly a question of "To act or to Die". The world is entering the worst economic crisis in human history. Small countries are better adapted than big ones to survive. Macedonia could be an example to others – a model to follow or a warning. It depends only on the Macedonians.

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Curing the Economy

The Macedonian Experience

Introduction to the book "Macedonia's Economy at a Crossroads", co-authored by Nikola Gruevski and Sam Vaknin

This is a series of dialogues published in 1998 in Macedonia's leading newspapers, "Makedonija Denes" and "Dnevnik".

Ostensibly, the dialogues deal with the Macedonian economy - and, they do.

Yet, the Macedonian economic experience is so generic and so widespread, so varied and so concentrated - that it really serves as an all-rounded exemplar of economies in transition everywhere.

Macedonia was established in 1991. It had to withstand an embargo (a siege, actually), a collapse of its banking system, non functioning capital markets, lopsided privatization, a collapse of a series of pyramid savings schemes, an acute contraction of its GDP and its industrial production, a yawning balance of payments deficit, dangerously high unemployment, inter-ethnic tensions - and this is a partial list.

It was painful in human terms. It has transformed Macedonia into a fascinating study in the workings of the economic mind, of economic principles and theories, sometimes implemented successfully (macro-economically) – sometimes less so (micro-economically). While this experimenting went on – Macedonians languished in poverty and unemployment, rising crime

and public immorality.

This series of dialogues (to be enlarged in the future) explores all the aspects of the Macedonian Economy (read: all the aspects of modern Applied Economics) in depth.

We tried to remember the humans behind the figures and the tragedies behind the numbers. We tried to offer practical solutions which were successfully implemented elsewhere in the world by small economies in distress. We employed our emotions no less than our knowledge. Nowhere more than in Macedonia is the adage "Economics is a branch of psychology" more amply demonstrated. Blessed by an abundance of natural endowments, a superb geographical location, an educated and still relatively inexpensive workforce, and by reasonable infrastructure, stable currency, low inflation and stable political institutions – Macedonia did not take off, partly due to psychological reasons.

Transition starts in the mind. It is there that the transformation should begin. It is there that any future government of Macedonia should concentrate its efforts. Economic reforms will start and end there. Our book is a foray into the minds of all Macedonians concerned with the future of their country. We make this modest offering with the hope to be able contribute to more rational and far-sighted economic decision making in Macedonia. May this be the start of a debate rather the end of it.

The Authors

"Makedonskata ekonomija na krstopat - na patot kon zazdravuvanjeto" e delo na dvajca dobri poznavaci na problemite na makedonskata makro i mikro ekonomija, no

istovremeno i na modernite svetski ekonomski trendovi: D-r Sem Vaknin i Nikola Gruevski. Iako "dijalogot" vo svetot e cesto pati eksploatiran nacin na izrazuvanje i avtorstvo vo Makedonija prv pat se javuva kako forma na sozdavanje na edno seriozno, kreativno i kvalitetno delo od oblasta na ekonomijata.

Sozdadeno od dva podolgi dijalozi na dve razlicni temi, toa ne prestavuva analiza na samo dva ekonomski problema vo Makedonija: toa pomalku ili poveke gi zafaka site bolni tocki na makedonskata ekonomija, ne propustajki pri toa da ponudi resenija za nivno nadminuvanje, cesto dobro provereni i primeneti vo poveke zemji vo svetot i so originalna premisa na lokalnata specificnost.

Dijalozite se napraveni vo moment koga makedonskata ekonomija navistina se naoga na krstopat, na pat kon zazdravuvanje ili kon celosna ekonomska marginalizacija, kako pesimisticka alternativa na krajniot ishod. Propustajki go prviot bran na stranski komercijalni investicii vo Centralna i Istocna Evropa, Makedonija se najde na dnoto na listata na atraktivni drzavi za stranskite investitori. Patem, objektivnite i subjektivnite faktori ne ovozmozija proces na prestruktuiranje na stopanstvoto kon izvozno, sto rezultirase so silen pad na proizvostvoto i izvozot, gubenje na pazarite, najvisoka stapka na nevrabotenost vo Evropa, pad na zivotniot standard na naselenieto, zadolzuvanja, nestabilen bankarski sistem, pravna nesigurnost i red drugi opstestveni i ekonomski problemi. "Trkaloto ne treba da se izmisluva" - podvlekuva vo eden del D-r Vaknin, preporacuvajki istovremeno uspesni modeli na reanimacija na makedonskoto stopanstvo. Moze da se kaze deka Gruevski i Vaknin na momenti se ostri kriticari, no isto

taka i seriozni i temelni, potkrepuvajki go recisi sekoj svoj predlog za promeni so fakti od poveke vidovi. Toa e formulata so koja eden strucen dijalog ne dobiva politicka konotacija.

Dijalogot e mosne otvoren i iskren, bez predrasudi i "bez pardon" koga treba da se determiniraat osnovnite priciniteli na krizata vo Makedonija.

"Tranzicijata zapocnuva vo umot" e naslovot koj bi bil isto tolku soodveten na ovaa kniga kako i ovoj sto go odbraa avtorite. Se cini deka Vaknin i Gruevski smelo otvoraat i diskutiraat mnogu "tabu" prasanja za dosegasnite cekori vo vodenjeto na makedonskata ekonomija, na momenti osvrnuvajki se na mikro nivo (menadzmentot na pretprijatijata, standardite za organizacija i kvalitet, marketingot, investiciite vo kompaniite i slicno), a cesto i analizirajki gi makro ekonomskite varijanti (monetarnata politika, prestruktuiranje na stopanstvoto, bankarstvoto, danocniot sistem, pravno zakonodavniot sistem, pazarite na kapital i slicno).

Dijalozite otkrivaat interesna kombinacija na teorijata i praksata. Tie se pogledi na eden stranski ekonomski ekspert, so bogato minato i iskustvo zad sebe, koj prestojuval dovolno vreme vo Makedonija za da navleze vo srzta na problemite i na eden domasen pomlad postdiplomec po ekonomija, bankar i broker, koj periodot pominat vo stranstvo maksimalno go iskoristil za komparativni osoznavanja i novi moznosti, nudejki pri toa, kako klasicni, taka i originalni resenija za izlez od segasnata sostojba vo koja se naoga Makedonija.

Dijalozite se dobra kombinacija na iskustvo i teorija. Tuka naogame domasni originalni problemi i resenija kako i

stranski iskustva, greski, propusti i teorii. Vo ovoj dijalog sretnav konkretni resenija za nacinot kako da se privlecat stranskite investicii vo Makedonija, dobro analizirani i dobro prezentirani. Trgovskiot deficit, koj se cini e od malignen karakter i mozebi najdlabokata i najbolna rana na makedonskata ekonomija e kreativno obraboten i ponudeni se mnogu originalni resenija za lecenje so mozni konkretni cekori po dosega dobro provereni ekonomski recepti.

Se na se, knigata sozdadena od dvata dijalozi na Vaknin i Gruevski e odlicna analiza na makedonskata ekonomija, problemite na makedonskite kompanii, duhot na tranzicijata i realnata dalecina na Makedonija od razvienite zemji. Deloto izobiluva so mnostvo statisticki, komparativni i filozofski analizi i ke bide aktuelno podolg period. Impresioniran sum od ideite i od razlikite vo razmisluvanjata koi provejuvaat niz dijalozite. Gruevski i Vaknin, iako mnogu cesto se so slicni ili so isti pogledi, postojano se nadopolnuvaat, no nikogas ne odbegnuvaat kritika eden na drug koga cuvstvuvaat potreba za toa. Se borat za odbrana na svoite stavovi i nudat isklucitelno prifatlivi i realni makro i mikro ekonomski resenija, isto taka suptilni konkretni merki.

Ubeden sum deka ovaa kniga ke bide citana, analizirana i diskutirana kako sto bea objavenite prodolzenija vo dnevnite vesnici "Dnevnik" i "Makedonija denes". Prakticnite ekonomski resenija mozat da bidat mnogukratno korisni. Kako dolgogodisen menadzer na uspesna makedonska proizvodna kompanija toplo im ja preporacuvam ovaa kniga na citatelite koi sakaat da go zbogatat kvantumot na ekonomski prakticni i teoretski znaenja, niz prizmata na iskustvata na Gruevski i Vaknin.

Svetozar Janevski

Skopje, Oktomvri 1998 godina

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What can Macedonia's National (Central) Bank Learn from Israel

As early as April 1998 I predicted in the various media that the denar - if not first devalued by the Central Bank - will be devalued by the people. I predicted a rate of 38 to the DM by the yearend.

Since then the Central Bank attacked me and labeled me "a charlatan", non-professional and irresponsible. I wonder what they say now, faced with the collapse of their flawed policies.

The Macedonian Central Bank has just announced a series of measures which might have a grave and lasting adverse impact on the Macedonian economy.

Step one: it has limited the amount of foreign exchange that people can buy. Thus the policy of liberal exchange rates regime has been dumped. What are people supposed to believe? Should they believe the Central Bank's statements that the denar will remain stable (which it has not, as I predicted) - or should they believe that the Central Bank is worried, as indicated by its latest measures? If there was no panic until now - this single misguided step can surely bring it about.

Step two: it intends to limit the amount of money supply. This decision is no less than bizarre. The Macedonian economy is one of the less liquid economies in the world. People do not get paid on time, enterprises owe each other mountains of souring debts, the default rates are fantastic and banks are crumbling under the weight of their own bad loans. Reducing the supply of money now is like bleeding to death a victim of severe haemorrhage. It is

absolutely wrong.

Step three: subsidizing an unrealistically low exchange rate. Other countries - much stronger and much richer than Macedonia - tried and failed. Macedeonia will also fail. The denar needs to be devalued and it will be devalued. Either the Central Bank will do it in an orderly manner - or the Man in the Street will force the Central Bank to retreat and to devalue hastily (and to a much higher exchange rate).

The Macedonian Central Bank is one of the most autonomous in Central and Eastern Europe. It is also heavily influenced by current economic fashions. These fashions were propagated and disseminated throughout the world by the IMF in the last two decades with disastrous consequences. The IMF (and most central banks) are obsessed with the attainment of low inflation and macroeconomic stability. These goals are commendable - but when pursued too zealously they are deflationary, recessionary and contractionary. Naturally, inflation tends to be lower when the economy contracts. Perfect macroeconomic stability is achieved only in a graveyard. Coupled with free capital flows this recipe is downright dangerous. But the Macedonian Central Bank finds it convenient to hide behind the skirt of the IMF. IMF-ism replaced Communism and the instructions come now from Washington instead of Belgrade.

The sequence is simple and inevitable - but, luckily, fully reversible. Governments are inclined (justly) to increase deficit spending to reflate the economy in times of recession. This is a counter-cyclical Kenseyan reflex. Money is injected to a languishing economy through the budget. The central bank tries to counterbalance the "deficit poison" by applying an antidote of high interest

rates. Money supply is reduced sharply. High interest rates attract speculative "hot" money. Where free capital flows are permitted - foreign speculative funds will drive down the exchange rates of the domestic currency versus foreign currencies. Where capital flows are more restricted, domestic corporations will borrow in foreign exchange and invest in high yielding domestic currency deposits and bonds. These effects are mercifully minimal in Macedonia due to its relative insulation from international capital flows.

A currency bubble followed the wrong policies of the Central Bank in Macedonia. When it bursts - the whole economy will suffer. Witness the Asian Tigers - now reduced to paper tigers.

The overvalued currency damages the economy twice: once while it is overvalued and once when it is sharply devalued by market forces. While overvalued, it encourages imports and discourages exports. It distorts the allocation of economic resources - investors prefer to speculate rather than to invest in industry or services. The high interest rates required to maintain the unrealistic exchange rate stifle all economic activity. True, inflation is held at bay by an influx of cheap imports and by a reduction in the money supply. Simply: less money available to buy goods and services translates to lower prices.

But this is artificial. the "missing" inflation is merely pent up. Ultimately, the economy is discernibly damaged by this policy and people begin to get rid of the domestic currency. As inflation is subdued, interest rates have to come down - making the currency much less attractive. A rapid devaluation followed by inflation are the results. The whole economy is destabilized.

For years, the central bank of Israel, headed by the venerable economist, Prof. Jacob Frenkel, has prescribed these medicines to the ailing Israeli economy. Interest rates were kept abnormally high. The New Israeli Shekel appreciated by 50% in real terms in four years.

Inflation went down from an average annual level of 18% to 4% currently. But the price was dear: a stubborn unemployment rate of c.10%, a financial bubble which burst with tremendous economic impact, the influx of c.10 billion USD in speculative "hot" money (including money from questionable sources), a current account deficit of 6-7% of GDP (discounting unilateral transfer from the USA and the World Jewry) and, in the last two years, a stagnant economy. Finally, the currency gave in: it depreciated from 3.72 to 4.32 to the USD in a matter of two weeks. Inflation will soon follow. So what was it all for?

This is the question that resounds now throughout the world. Fiscal austerity and monetary restraint are not an ideology to be applied dogmatically and intransigently. They are weapons in an arsenal. They should not be relied on exclusively. Otherwise, the battle is lost.

Return

Taiwan, The IMF and Macedonia

IMF:

I think that a country as economically depressed as Macedonia should not depress itself further by reducing

its monetary flexibility. A country can get out of recession ***ONLY*** by using monetary and fiscal instruments ***AND*** by introducing structural changes.

Let us start with the easy part. The structural changes must be slow, calculated and try to minimize the social costs incurred. See what happened in Albania, Bulgaria and Russia (the previous "models" of the IMF!!!). Close factories, yes. Open to exports, yes. Allow free capital movement, yes. Do it at once, without planning, graduality and assessing the consequences - social and economic - at each phase - NO.

But to subscribe to monetary rigidity at such a stage is insanity, nothing less. The denar must be devalued. Russia listened to the IMF. Now Brazil is listening to the IMF. All Southeast Asia has implemented IMF-type policies (though without the direct involvement of the IMF). Look what happened to their currencies and to their economies. Wait and see what will happen to Brazil.

The denar devaluation - if properly, reliably and respectfully done - will achieve the following:

1. Improve Macedonia's terms of trade and increase exports;

2. Reduce unemployment;

3. STABILIZE the denar (because the balance of payments deficit will be reduced) and, as a by-product;

4. Stabilize other macroeconomic parameters and economic expectations.

Inevitably, some of this devaluation will be translated to

inflation. Inflation is not a bad thing PER SE. It is bad in certain circumstances and above a certain level. It is normal for a country in rapid growth to have inflation. The more growth, the more employment, the more export proceeds - the more inflation. I agree with Crocker that the target should be to CONTROL inflation. But this is NOT equal to AVOID inflation. If a government (and a Central Bank) declare inflation targets and stick by them - macroeconomic stability will be preserved NEVER MIND WHAT THE INFLATION IS (as long as it is not hyperinflation). What matters is the trust between the citizens and the government - not the ABSOLUTE figure. For instance, imagine that God became a citizen of Macedonia and guaranteed the citizens 25% monthly inflation for 50 the next fifty years. Of course, everyone will believe him (though in Macedonia I am not sure). Now, 25% a month is VERY HIGH inflation. But will it hurt macroeconomic stability? NO!!! Because the citizens know EXACTLY WHAT TO EXPECT. The dual problem of inflation is that people do not know what to expect (a crisis of trust and expectations) and that it distorts the proper allocation of resources in the economy because it distorts RELATIVE PRICES. It also allows for many accounting tricks and hides the true status of firms. So, in the long term it SHOULD be minimized (though too much of this medicine and you will have deflation). In a country in economic depression - INFLATION IS SECOND PRIORITY. Look what the Fed is doing, what the Bank of Japan and the Bundesbank are doing. They don't give a fuck about inflation. They are afraid that the economy will slow down, so they reduce interest rates AND increase the money supply (THE inflationary measures). And in the USA, the economy is BOILING. There, the results of the latest moves by the Fed will definitely be inflation. But first things first: in a

graveyard, there is no inflation and no devaluation. Do you want Macedonia to become a graveyard? It is on its way.

TAIWAN: A Grave Mistake

Day by day the folly of the act of establishing diplomatic relations with Taiwan becomes painfully clearer. This unfortunate and unwise decision led directly to China irresponsible act of revenge with UNPREDEP. Without UNPREDEP Macedonia will lose its independence.

There are many ways of losing independence. I am NOT talking about the implausible, improbable and radical scenario of an invasion by Serbia or by Serbia AND Bulgaria. In 1994 it was suggested to "solve four problems and create one" by dividing Macedonia between Serbia, Albania, Bulgaria and Greece. Today, this is out of the question.

I am talking about losing independence through becoming a NATO territory, occupied by its forces and serving as a launching ground against neighbours such as Serbia and Albania. Macedonia is on its way to becoming the colonialist-imperialist outcast of the whole region, a pariah, hated by countries as far afield as Russia and China and criticized by the USA and Europe for its hasty decisions.

It was wrong to establish relations with Taiwan NOW and in the way it was done (abruptly, without a reciprocal and gradual schedule). It is doubly wrong and pig-headed not to admit the mistake and withdraw. Macedonia will not see a penny from Taiwan - no other country has ever seen anything but promises from Taiwan and Macedonia will be no different. The road to economic prosperity is not

ALCHEMY and black magic. It is hard work, long term planning and industriousness. Some people have transformed Macedonia the State into a "Lotaria na Makedonija" instead of a serious, respectable member of the international community. In some quarters outlandish promises and dangerous actions cannot be understood. Macedonia must "reconsider" its decision regarding Taiwan and embark on immediate and urgent consultations with China in an effort to minimize the self-inflicted damage.

I will repeat what I wrote a few weeks ago, immediately after the news about the Taiwanese connection. Unfortunately, I see no reason to change even one word, especially not article 4 below:

1. Either Taiwan will rejoin China (as Macao and Hong Kong did) - and Macedonia will be considered a "country non grata" by the unified entity, OR

2. Nationalistic-democratic tendencies in Taiwan will increase and lead to conflict with China - which will force Macedonia to take sides. Very inadvisable, as Macedonia might find itself pitted against the West.

3. This move is contrary to the now OFFICIAL policy of the USA (see President Clinton's speech last year in Beijing).

4. China is a powerful member of numerous international organizations (such as the Security Council which approves the UNPREDEP mandate). It can - and will - wreak havoc on Macedonia's international relations. Macedonia is

portrayed as prostituting its foreign relations, reneging on its obligations and an unreliable partner.

5. China is the second largest economy in the world (in purchasing power parity terms). It is poised to become the largest in 25 years, outweighing and surpassing the USA. To be excluded from such a market at will is nothing short of short-sightedness.

6. Taiwan is a territory which seceded from mainland China. Macedonia should not support any SECESSION, no matter how justified. Macedonia itself is under threat of secession by its Albanian minority. In next door Serbia, Kosovo is trying to secede. If Macedonia accepts the legitimacy of one secession (Taiwan's) - how will it be able to convincingly argue against the secession of its own minorities? And how will it be able to object to the demands to recognize the Kosovar Republic posed by them?

7. The process of contracting with Taiwan was fraught with constitutional irregularities. The President and the Government Cabinet were circumvented.
   It was all done conspiratorially. This leaves a bad taste and a bad impression. People are even talking about personal corruption and bribes paid by Taiwan to the people involved in the process, namely Messrs. Tupurkovski and Dimitrov. While I think there is no proof of this - it is still regrettable that public confidence was thus shaken.

8. Taiwan has made similar offers to many countries.

Only a handful of them accepted, mainly the poorest and most despotic countries in Africa and Latin America. This is not good company to be in and it reflects on Macedonia's image internationally.

9. Moreover, it is very doubtful whether Taiwan will stick to its financial obligations. Macedonia is not important enough. Instead of setting a gradual and RECIPROCAL timetable of ACTUAL investments versus gradual strengthening of diplomatic relations - Macedonia sold out everything it had to offer and received nothing but controversy in return. It is in the position of a girl who gave up her virginity based on marriage promises.

10. The principle of the continuity of the state was breached and violated. The current government is bound by all the undertakings of the previous one, including by international treaties signed prior to its formation. The Taiwan affair is a stark abrogation of this principle.

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Free Economic Zones in Macedonia

Interview in "Nova Makedonija".

Question: Dr. Vaknin – is it true that you are the father of the Law of Free Economic Zones?

Answer: I participated in the dedicated and professional team, from many ministries and state organs, which prepared the law. The initiative – in collaboration with the delegation of the government of the Republic of China

(Taiwan) – belongs to Dr. Milijana Danevska, the Minister of Development. Most of the work was done by her advisor, Ms. Zorica Doncevska long before I arrived on the scene. I did suggest a few amendments, some of which were accepted.

Question: What is a free zone?

Answer: There is an important distinction which the media is not aware of between FREE ZONES and FREE ZONE SITES.

To quote from the law:

"A free zone site represents a detached, enclosed and marked area of the territory of the Republic of Macedonia on which commercial activities are conducted under conditions prescribed by this and other laws and on which custom and other tax incentives determined by this law shall be applicable."

"A Free Zone shall be established as trade associations conducting economic, technical, administrative, expert and other activities supporting the operations in the free zone sites."

Question: Do other countries have free zones?

Answer: Dozens of other countries have free trade zones, free industrial zones, free industrial or technology parks, customs free zones, free transhipment zones and many other types of free economic zones. Our law allows for all these types of activities to exist. It is very broad and flexible and one of the best and most complete laws I have seen. As opposed to popular opinion, free zones exist even in rich countries such as the United Kingdom or the USA (although they are not called "free zones" there). It is true,

though, that to poor and middle income countries, such as Macedonia, a free zone can be an important tool for economic development.

Question: Why do you use such cautious language, "can be"?

Answer: Because it is never enough to have a law. What matters is how it is implemented. There are free zones in countries as diverse as the Philippines, Tunisia, Costa Rica and Taiwan. In some places they are the engine of the economic locomotive, in other they are a drag on the local economy.

Question: So, the critics are right, free zones can be a bad thing?

Answer: The critics are wrong. Anything that has the potential of generating investments, encouraging entrepreneurship, creating new working places, enhancing exports and improving the balance of payments – should be implemented without delay. Free zones are potentially powerful economic engines of exports and growth and employment. Would it have been wise of us to ignore their potential?

Question: Can't free zones be used as tax havens, for smuggling or other criminal activities?

Answer: If the free zones are run by criminals AND (this is a cumulative condition) the authorities are inefficient or corrupt – of course it can. But our law is very strict on WHO will own and run the free zones. It is also very explicit about the precise functions and procedures to be performed by the authorities intended to ensure that the free zones are not abused. Free zones will be established only where and when they can increase employment,

bring new technology and know how to the country and increase exports. An average of 65% of the goods and services produced in the zones MUST be exported or the developer might lose its licence. Additionally the law says that the businesses operating in the zone must use local manpower and prefer domestic suppliers where economically feasible.

Question: What is the Free Zones Directorate?

Answer: This is my favourite part of the law, the one I am most proud of. We introduced, for the first time in Macedonia, not only in theory, but in practice, the concept of "One Stop Shop". All the business entities in the free zone will have one address to go to. They will no longer have to run for weeks between ministries, authorities, agencies and state organs. They will get everything they need from one central authority, from one address. All the relevant ministries and state organs will be represented there, with full authority to render all the services required by the free zones users. This is unprecedented. The ministers are worthy of the highest praise for being willing to participate in such an innovative approach. The law says:

"The Free Zone Directorate shall be responsible for… granting approvals of requests of developers for the establishment of free zones; provision of supervision and management of free zone sites through its branches; coordination of the activities of state organs and authorities and public enterprises within the free zone sites; planning and developing free zone sites and making sites available to developers; public relations, advertising and promotion of free zone sites; attracting developers and users to the free zone sites; registration of businesses and structures within the free zone sites; coordination of

issuance of licenses, permits and approvals where and as needed, of product quality control and the issuance of certificates of origin by the members of the Directorate; Inspection of installations and working conditions within the free zone sites; convening a labour relations committee in which all labour disputes between employees and employers in the free zone sites are to be settled; the coordination of the issuance of export and import licenses; coordination of the prevention of smuggling; coordination of the safety and security of people and property in the free zones sites; Provision and maintenance of all public goods and utilities … conducting other activities associated with the functioning of free zone sites and especially the implementation of the 'one stop shop' concept of management of the free zone sites; raising the required start-up capital."

Question: So, from now on, any trade association can open a free zone?

Answer: Absolutely not. The developer must satisfy very strict and rigorous criteria to qualify. The law demands that it "…provide written proof of their financial ability matching their financial obligations under this Law either in the form of a performance bond or a bank document substantiating the availability of unencumbered funds in their account or audited financial statements" and "demonstrate previous experience and track record in trading or in the operating of free zone sites".

The developers, in their application, must provide an environmental impact assessment, a marketing plan and a business plan or a feasibility study.

And the developer loses his approval if it enters bankruptcy procedures, if it is proven that he provided

false material information in his request, If he failed to build and operate the free zone site in accordance with the stipulations of this Law or failed to submit one annual report.

Additionally, the developer pays 0.3% of the total turnover of the business entities in his zones.

I think these are relatively reasonable terms.

It will also not be that easy for the developer to do in the zone something other than what he undertook to do. Almost every substantial change requires a new approval. The law states: "Each change of a free zone shall be subject to the procedure for the establishment of a free zone…" "Change" in this law shall mean: enlargement of the approved free zone site area; change in location of the free zone site; new activities are to be conducted in the approved free zone; each change in the composition of the developers (addition of new developer, change of corporate structure, take over, merger, acquisition, etc.) of the free zone; change of the period for existence of the free zone.

Question: Still, inside the zone – the developer is king. Actually, it is a kind of ex-territorial area, like an embassy?

Answer: I want to say it once and for all (because I heard this argument before):

A free zone is NOT an ex-territorial area. It is an integral and inseparable part of Macedonia. All the domestic laws of Macedonia apply there. It simply has different rates of customs and taxes. The over-riding status of the Macedonian domestic law is stated numerous times throughout the law. One example:

Article 20 says: "Free zone developers shall enact rules or pose conditions (hereunder referred to as 'developer rules') under which their free zone site will be operated and activities conducted, regulate internal order and prescribe separate measures for protection of the working and living conditions and the environment. BUT…

The developer rules shall not contradict all the applicable laws of the Republic of Macedonia, including their by-laws and regulations and all the international obligations of the Republic of Macedonia... AND The developer rules shall be announced in the Official Gazette of the Republic of Macedonia after the approval given by the Free zone Directorate."

Question: Aren't we offering too much by way of tax incentives? Aren't the revenues lost by the state worth more than the free zone will ever generate?

Answer: It is a very narrow point of view. Tax revenues are not the only thing we should consider. What about unemployment, technology transfers, export enhancement? These are invaluable in that they can revive the economy.

Compared to other free zones in other countries, we are offering mid-way concessions. We are by no means too generous. Additionally, to qualify to receive the tax incentives, the user must satisfy certain annual export quotas. It must prove that it generated NEW activities, not merely transferred activities from "mainland" Macedonia to the free zone "island". It must show that it is not involved in criminal activities or bankruptcy procedures and so on. Only then is it eligible to enjoy the tax incentives.

Question: Which are?

Answer: The law says it best:

"Free zone users meeting the terms as in article 21 of this law shall be exempted from:

1. Sales tax on products within the free zone site except for those products sold for final consumption within the free zone;

2. Sales tax and VAT on goods imported into the free zone site for production purposes and for performing other approved activities in the free zone;

3. Sales tax on services provided in the free zone immediately linked with export of goods and services;

4. Profit tax for a period of ten (10) years from the day of commencement of activities in the free zone;

5. Property tax for a period of ten (10) years from the day of commencement of activities in the free zone;

6. All taxes otherwise applicable to any transfer of property or rights thereof between developers and users within the free zone.

Free zone users reinvesting in the capital assets of the free zone site shall be entitled to a reduced profit tax base for the amounts invested after the expiration of the 10-year period.

Free zone users shall be exempted from paying

participations (contributions), taxes and other duties pertaining to use of land for construction, connection to the water supply, sewerage, heating, gas and power supply networks.

Free zone land may be leased to foreign investors for a period of fifty (50) years, with a possibility to extend the term to another twenty-five (25) years, pursuant to the law.

The developers of the free zone shall have the full right to sublet or rent parts of the free zones or structures thereon or rights thereof to the users."

Question: Are the economic activities within the free zone restricted?

Answer: Every type of economic activity is allowed EXCEPT the activities explicitly forbidden by the law. These include: the trading of decayed, rotten, expired or infected goods or waste material detrimental to the environment or not fit for human or animal consumption; radioactive materials except those which are needed for industrial, medical and scientific research purposes under a valid license from the competent authorities; drugs, chemicals and biological materials and chemical and biochemical derivatives with the exception of those used in industrial, manufacturing, medicinal and pharmaceutical preparations, according to certificates issued by the Ministry of Health; arms, munitions, weapons and military explosives; goods or services which originate from countries or firms subject to boycotts, embargoes or blockades imposed by the competent national and international organs and authorities; goods or services that violate public morals, public defence, public safety and the security of the state; goods or services that

violate the domestic laws and international treaties pertaining to intellectual and commercial property; practices, services and activities in contravention or violation of treaties, laws, regulations and directives regarding the protection of the environment in Macedonia.

Free zone users may apply standards, technical and quality norms of the destination country when manufacturing goods in the free zone intended for export.

Free zone users may set prices for their goods and services and will not be subject to laws and regulations pertaining to prices in the Republic of Macedonia.

Question: Will workers' rights be protected in such an environment?

Answer: Workers' rights are protected only by a good economy. In Macedonia, we have a lot of theoretical workers' rights. But the right to work is violated by mass unemployment and by gigantic wage and pension arrears. All the employers in the free zone shall sign a collective agreement with their employees. The collective agreement will oblige the employers and the employees to settle labour dispute through arbitration or mediation. The Directorate shall set up a labour relations committee to provide the employers and the employees with an arbitration and mediation mechanism.

Question: Thank you very much. Let's hope that free zones will fulfil all the expectations…

Answer: I will settle for half the expectations…

Thank you.

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Unemployment: The Case of Macedonia

Click HERE to download

Plan to Reduce Unemployment in Macedonia 2007 (Submitted to Zoran Stavreski, Vice-Premier, April 2007)

I. **Recommendations**

Get the Real Picture

No one in Macedonia knows the real picture. How many are employed and not reported or registered? How many are registered as unemployed but really have a job? How many are part time workers – as opposed to full time workers? How many are officially employed (de jure) – but de facto unemployed or severely underemployed? How many are on "indefinite" vacations, on leave without pay, etc.?

The Statistics Bureau must be instructed to make the gathering and analysis of data regarding the unemployed (through household surveys and census, if necessary) – a TOP PRIORITY.

A limited amnesty should be declared by the state on violations of worker registration by employers. All employers should be given 30 days to register all their unregistered and unreported workers – without any penalty, retroactive or prospective (amnesty). Afterwards, labour inspectors should embark on sampling raids. Employers caught violating the labour laws should be heavily penalized. In severe cases, closures should be enforced against the workplace.

All the unemployed must register with the Employment Bureau once a month, whether they are receiving benefits, or not. Non-compliance will automatically trigger the loss of the status of "unemployed". If a person did not register without good cause, he would have the right to re-register, but his "unemployment tenure" will re-commence from month 1 with the new registration.

I recommend instituting a households' survey in addition to a claimant count. Labour force surveys should be conducted at regular intervals – regarding the structure of the workforce, its geographical distribution, the pay structure, employment time probabilities.

The statistics Bureau should propose and the government should adopt a Standard National Job Classification.

The Unemployment Benefits

Unemployment benefits – if excessive and wrongly applied – are self -perpetuating because they provide a strong disincentive to work.

Unemployment benefits should be means tested. There is no reason to pay unemployment benefits to the children of a multi-millionaire. Unemployed with assets (especially liquid assets) should not receive benefits, even if they are otherwise eligible. The benefits should scale down in accordance with wealth and income.

Unemployment benefits should always be limited in time, should decrease gradually and should be withheld from certain segments of the population, such as school dropouts, those who never held a job, (in some countries) women after childrearing.

Eligibility to unemployment benefits should be confined

to those released from work immediately prior to the receipt of the benefits, who are available to work by registering in an employment bureau, who are actively seeking employment and who pass a means test. Benefits should be withheld from people who resigned voluntarily or discharged due to misconduct or criminal behaviour. In the USA, unemployment compensation is not available to farm workers, domestic servants, the briefly employed, government workers and the self- employed.

Unemployment benefits should not exceed short-term sickness benefits (as is the case in Canada, Denmark and the Netherlands). Optimally, they should be lower (as is the case in Greece, Germany and Hungary). Alternatively, even if sickness benefits are earnings-related, unemployment benefits can be flat (as is the case in Bulgaria and Italy). In Australia and New Zealand, both sickness benefits and unemployment benefits are means tested. It is recommended to reduce the replacement rate of unemployment benefits to 40% of net average monthly wages in the first 6 months of benefits and to 30% of net average monthly wages thereafter in the next 6 months.

Unemployment benefits should be limited in time. In Bulgaria, they are limited to 13 weeks, in Israel, Hungary, Italy and the Netherlands to 6 months and in France, Germany, Luxemburg and the United Kingdom – 12 months. Only in Belgium are unemployment benefits not limited in their duration. In most of these, countries, though, social welfare payments replace unemployment benefits following the prescribed period of time – but they are usually lower than the unemployment benefits and serve as a disincentive to remain unemployed rather than employed. It is recommended to limit the duration of unemployment benefits to 12 months.

No health insurance should be paid for those unemployed for more than 6 months.

No unemployment benefits should be paid to a person who refuses work offered to him or her on any grounds, except on medical grounds.

I recommend a few pilot projects with the aim of implementing them nation-wide, should they prove successful:

A pilot project should be attempted to provide lump sum block grants to municipalities and to allow them to determine eligibility, to run their own employment-enhancement programs and to establish job training and child care assistance. An assessment of the success or failure of this approach in a limited number of municipalities can be done after one year of operation.

The unemployed worker, who participates in the second pilot project, should be provided with a choice. He could either receive a lump sum or be eligible for a longer period of unemployment benefits. Alternatively, he can be provided with a choice to either receive a larger lump sum or to receive regular unemployment benefits. In other words: he will be allowed to convert all or part of his unemployment benefits to a lump sum. The lump sum should represent no more than 9 months of unemployment benefits reduced to their net present value (NPV).

The third pilot project involves the formation of private unemployment insurance plans to supplement or even replace the insurance (compensation, benefits) offered by the Employment Fund. In many countries, private unemployment insurance is lumped together with disability and life insurance – all offered by the private

sector within one insurance policy.

"Voucher Communities" are communities of unemployed workers organized in each municipality. The unemployed exchange goods and services among themselves in a barter-like or countertrade system. They use a form of "internal money": a voucher bearing a monetary value.

Thus, an unemployed electrician can offer his services to an unemployed teacher who, in return, gives the electrician's children private lessons. They pay each other with voucher money. The unemployed are allowed to use voucher money to pay for certain public goods and services (such as health and education). Voucher money is redeemed or converted to real money – so it has no inflationary or fiscal effects, though it does increase the purchasing power of the unemployed.

Learn more about Voucher Communities - click HERE.

Encouraging Employers to Hire the Unemployed

The principle governing any incentive scheme intended to encourage employers to hire hitherto unemployed workers must be that the employer will get increasing participation in the wage costs of the newly hired formerly unemployed workers – more with every year the person remains employed. Thus, a graduated incentive scale has to be part of any law and incentive plan. Example: employers will get increasing participation in wage costs – more with every 6 months the person has been unemployed by them.

Additionally, employers must undertake to employ the worker a number of months equal to the number of months they received benefits for the worker and with the same salary. It would be even better if the incentives to the employer were to be paid for every SECOND month

of employment. Thus, the employer would have an incentive to continue to employ the new worker.

Employers will receive benefits for a new worker only if he was registered with an unemployment office for 6 consecutive months preceding his new employment.

I recommend linking the size of investment incentives (including tax holidays) to the potential increase in employment deriving from the investment project.

Encouraging Labour Mobility

Workers must be encouraged to respond promptly and positively to employment signals, even if it means relocating. We recommend obliging a worker to accept any job offered to him in a geographical radius of 100 km from his place of residence. Rejection of such work offered ("it is too far") should result in a loss of the "unemployed" status and any benefits attaching thereof. On the other hand, the Employment Bureau should offer financial and logistical assistance in relocation and incentives to relocate to areas of high labour demand. The needs of the unemployed worker's family should also be considered and catered to (kindergarten or school for his children, work for his wife and so on).

Fixed term labour contracts with a lower cost of dismissal and a simplified procedure for firing workers must be allowed (see details below).

I recommend altering the Labour Relations Law to allow more flexible hiring and firing procedures. Currently, to dismiss a worker, the employee has to show that it has restricted hiring, applied workforce attrition and reduced overall overtime prior to dismissing the worker. The latter has recourse to the courts against the former. This

recourse should be eliminated and replaced with conciliation, mediation, or arbitration (see below for details).

Reforms in the Minimum Wage

The minimum wage is an obstacle to the formation of new workplaces (see analysis in the next chapter). It needs to be reformed.

I propose a scaled minimum wage, age-related and means tested and also connected to skills.

In other words, the minimum wage should vary according to age, other (non-wage) income and skills.

Administrative Measures: Early Retirement

Macedonia must allow the employer to encourage the early retirement of workers which otherwise might be rendered technologically redundant. Early retirement is an efficient mechanism to deal with under-employment and hidden unemployment.

Romania ameliorated its unemployment problem largely through early retirement.

Offering a severance package, which includes a handsome up-front payment combined with benefits from the Employment Fund, can encourage early retirement. A special Early Retirement Fund can be created by setting aside receipts from the privatization of state assets and from dividends received by the state from its various shareholdings, to provide excess severance fees in case of early retirement.

Administrative Measures: Reduction of Working Hours

Another classic administrative measure (lately implemented in France) is a reduction in the standard working week (in the number of working hours). For reasons analyzed in the next chapter, we recommend NOT to implement such a move, despite its obvious (though false) allure.

Administrative Measures: Public Works

All the medically capable unemployed should be compulsorily engaged in public works for a salary equal to their unemployment benefits (Workfare). A refusal by the unemployed person to be engaged in public works should result in the revocation of his "unemployed" status and of all the benefits attaching thereto.

Generally, we would not have recommended public works.

From the Encyclopedia Britannica:

"The weakness in the proposal to use disguised unemployment for the construction of social overhead capital projects arises from inadequate consideration of the problem of providing necessary subsistence funds to maintain the workers during the long waiting period before the projects yield consumable output. This can be managed somehow for small-scale local community projects when workers are maintained in situ by their relatives – but not when workers move away. The only way to raise subsistence funds is to encourage voluntary savings and expansion of marketable surplus of food purchased with these savings."

But public works financed by grants or soft loans can serve as an interim "unemployment sink" – a buffer against wild upswings in unemployment.

The situation in Macedonia is so extreme, that it is comparable only to the Great Depression in the USA.

In the USA, in 1932, the Civilian Conservation Corps (CCC) was established to tackle nature conservation work for the young and unmarried men. They planted trees, erected flood barriers, put out forest fires and constructed forest roads and trails. They lived in work camps under a semi-military regime. They were provided with food rations and a modest monthly cash allowance, medical care and other necessities. The CCC employed 500,000 people at its peak – and 3 million people throughout its existence.

In any case, there is always the danger that public works will simply displace existing employment. Labour union and local municipality endorsements should, therefore, be strictly observed.

Administrative Measures:
Public Education and Dissemination of Information – The Functioning of the Employment Bureau

The dissemination of information regarding employment practices, opportunities, market requirements, etc. should be a prime component of the activity of the Employment Bureau. It must transform itself from a mere registry of humans to an active exchange of labour. This can be done through computerized employment exchanges and intermediation.

To change the image of the Employment Bureaus from places where the unemployed merely registers and receive benefits to a labour exchange can be done by publishing examples of successful job placements.

I recommend to prominently display and disseminate

information regarding the rights of the unemployed, their obligations and services available to them and to publish weekly or daily employment bulletins.

To organize seminars to the unemployed and to employers in which the rights of the unemployed, their obligations and the services offered to them and to their potential employers will be described. This can be combined with employment fairs. Separately, the unemployed should be taught in these seminars how to find a job, prepare a curriculum vita (biography), entrepreneurial skills, preparation of business plans, marketing plans, feasibility studies, credit applications and interview skills.

The Employment Bureaus in collaboration with the local authorities should organize job clubs, labour exchanges and employment fairs – places where employers can meet potential employees, currently unemployed.

I recommend to oblige the mass media by law to dedicate at least an hour weekly (could be broken to as many as 4 segments of 15 minutes each) to unemployment: disseminate information, organize a televised labour exchange, a televised entertainment show (where employers will offer a job to a winner) and so on.

I recommend to link by a Wide Area Network (WAN) or Intranet with firewalls the National Employment Bureau, the Health Fund, the Pension and Disability Insurance Fund and the Social Security Office. To cross and compare information from all these bureaus on a real time basis (to specifically cater to the needs of an unemployed person) and on a periodical basis for supervision and control purposes.

The National Employment Bureau should maintain a

regular presence in employment fairs abroad. Many fairs are global and work can be obtained in them for Macedonian workers (especially the more skilled).

A National Employment Contract

A "National Employment Contract" should be signed between the government, the trade unions, the employers (Chamber of Commerce) and the Central Bank. All parties will have to concede some things.

The Employers will guarantee the formation of new work places against a freeze on employee compensation, a separate treatment of part time labour (exclusion from collective bargaining), flexibility on minimum wages and with regards to job security, hiring and firing procedures, social and unemployment benefits, indexation of wages and benefits, the right to strike and the level of salaries.

The employers will obligate themselves to fixed quantitative targets over a number of years against the receipt of the unemployment benefits of the newly hired (or another form of subsidy or tax incentive) and/or a discount in social contributions.

The National Employment Contract should aim to constrain inflation by limiting wage gains to productivity gains (for instance, through dividends on the shareholdings of the workers or through stock options schemes to the workers).

In return, the trade unions will be granted effective control of the shop floor. This is the neo-corporatist approach.

It means that the tripartite social contract will increase employment by moderating wage demands but the unions will control policies regarding unemployment insurance,

employment protection, early retirement, working hours, old age pensioners, health insurance, housing, taxation, public sector employment, vocational training, regional aid and subsidies to declining and infant industries.

In Sweden and Germany there is co-determination. Workers have a quasi-constitutional shop floor representation even in non-wage related matters (such as the work organization).

Many countries instituted an "Incomes Policy" intended to ensure that employers, pressurized by unions, do not raise wages and prices. In Sweden, for instance, both labour and management organizations are responsible to maintain price stability. The government can intervene in the negotiations and it can always wield the whip of a wage freeze, or wage AND price controls. In Holland the courts can set wages. Wages and unemployment benefits are perceived as complementary economic stabilizers (contra the business cycle).

Another possibility is a Guaranteed Wage Plan – Employers assure minimum annual employment or minimum annual wages or both to those employees who have been with the firm for a minimum of time.

Firms and trade unions must forego the seniority treatment (firing only the newly hired – LIFO, last in first out). The firm should be given a free hand in hiring and firing its employees regardless of tenure.

Labour Disputes Settlement

The future collective agreements should all be subordinated to the National Employment Contract. All these agreements should include a compulsory dispute settlement through mediation and arbitration. All labour

contracts must include clear, compulsory and final grievance procedures. Possibilities include conciliation (a third party bring management and labour together to try and solve the problems on their own), mediation (a third party makes nonbonding suggestions to the parties) and arbitration (a third party makes final, binding decisions), or Peer Review Panels – where the management and the employees together rule on grievances.

I recommend allowing out of court settlement of disputes arising from the dismissal of employees through arbitration, an employees' council, trustees or an employer-employee board.

Unconventional Modes of Work

Work used to be a simple affair of 7 to 3. It is no longer the case.

In Denmark, the worker can take a special leave. He receives 80% of the maximum unemployment benefits plus no interruption in social security providing he uses the time for job training, a sabbatical or further education, or a parental leave. This can be extended to taking care of old people (old parents or other relatives) or the terminally ill – as is the case in Belgium (though only for up to 2 months). It makes economic sense, because their activities replace social outlays.

In Britain, part time workers receive the same benefits in case of layoffs and wrongful dismissals and in Holland, the pension funds grant pensions to part time workers.

Special treatment should be granted by law and in the collective agreements to night, shift and weekend work (for instance, no payment of social benefits).

All modes of part-time, flextime, from home, seasonal, casual and job sharing work should be encouraged. For example: two people sharing the same job should be allowed to choose to be treated, for tax purposes and for the purposes of unemployment benefits, either as one person or as two persons and so should shift workers. In Bulgaria, a national part time employment program encouraged employers to hire the unemployed on a short term, part time basis (like our Mladinska Zadruga).

Macroeconomic Policies

The macroeconomic policies of Macedonia are severely constrained by its international obligations to the IMF and the World Bank. Generally, a country can ease interest rates, or provide a fiscal boost to the economy by slashing taxes or by deficit spending.

Counter-cyclical fiscal policies are lagging and as a result they tend to exacerbate the trend. Fiscal boosts tend to coincide with booms and fiscal contraction with recessions.

In view of the budget constraints (more than 97% of the budget is "locked in"), it is not practical to expect any employment boost either from the monetary policy or from the fiscal policies of the state in Macedonia.

What I do recommend is to introduce a "Full Employment Budget" (see details in Appendix number I). A full employment budget adjusts the budget deficit or surplus in relation to effects of deviations from full or normal unemployment. Thus, a simple balanced budget could be actually contractionary. A simple deficit may, actually, be a surplus on a full employment basis and a government can be contractionary despite positive borrowing.

Apprenticeship, Training, Retraining and Re-Qualification

The law should be amended to allow for apprenticeship and training with training sub-minimum wages. Mandatory training or apprenticeship is a beneficial rigidity because it encourages skill gaining. Germany is an excellent example of the benefits of a well-developed apprenticeship program.

Most of the unemployed can be retrained, regardless of age and level of education. This surprising result has emerged from many studies.

The massive retraining and re-qualification programs needed to combat unemployment in Macedonia can be undertaken in collaboration with the private sector. The government will train, re-train, or re-qualify the unemployed worker – and the private sector firms will undertake to employ the retrained worker for a minimum period of time following the completion of his or her training or retraining. Actually, the government should be the educational sub-contractor of the business sector, a catalyst of skill acquisition for the under-capitalized private sector. Small business employers should have the priority in this scheme.

There should be separate retraining and re-qualification programs according to the educational levels of the populations of the trainees and to the aims of the programs. Thus, vocational training should be separated from teaching basic literacy and numeracy skills. Additionally, entrepreneurship skills should be developed in small business skill training programs and in programs designed to enhance the management skills of existing entrepreneurs.

All retraining and re-qualification programs should double as advisory services. The instructors / guides / lecturers should be obliged to provide legal, marketing, financial, sales-related or other consulting. Student who will volunteer to teach basic skills will be eligible to receive university credits and scholarships.

Entrepreneurship and Small Businesses

Small businesses are the engine of growth and job creation in all modern economies. In the long run, the formation of small businesses is Macedonia's only hope. The government should encourage the provision of micro-credits and facilities to set up small and home-based businesses by the banking system. In the absence of reaction from or collaboration with the banking system, the state itself should step in to provide these funds and facilities (physical facilities and services – such as business incubators).

Thus, the state should encourage small businesses through microcredits, incubators, tax credits, and preference to small businesses in government procurement.

II. **The Facts**

Labour Mobility, Unemployment Benefits and Minimum Wages

We are all under the spell of magic words such as "mobility", "globalization" and "flextime". It seems as though we move around more frequently, that we change jobs more often and that our jobs are less secure. The facts, though, are different.

The world is less globalized today than it was at the

beginning of the century. Job tenure has not declined (in the first 8 years of every job) and labour mobility did not increase despite foreign competition, technological change and labour market deregulation. The latter led to an enhanced flexibility of firms and of hiring and firing practices (temporary or part time workers) but this is because many workers actually prefer casual work with temporary contracts to a permanent position.

Granted, people have been and are moving from failing firms and declining industries to successful ones and booming sectors. But they are still reluctant to change residence, let alone emigrate. Thus, jobs remain equally stable in deregulated as in regulated labour markets.

Yet, this phobia of losing one's job (arising from the aforementioned erroneous beliefs) serves to increase both the efficiency and productivity of workers and to moderate their wage claims.

It is safe to assume that collective bargaining led to increased wages and, thus, to less hiring and less flexible labour markets. It is therefore surprising to note that despite the declining share of unionized labour in two thirds of the OECD countries – unemployment remained stubbornly high. But a closer look reveals why. Both France and the Netherlands (where unionized labour declined from 35% of the actually employed to 26%), for instance, extended the coverage of collective agreements to non-unionized labour. It is only where both union membership and coverage by collective agreements were both reduced (USA, UK, New Zealand, Australia) that employment reacted favourably. Thus, at the one extreme we find the USA and Canada where agreements are signed at the firm or even individual plant level. At the other pole we have Scandinavia where a single national agreement

prevails. All the rest are hybrid cases. Britain, New Zealand and Sweden decentralized their collective bargaining processes while Norway and Portugal centralized it. The evidence produced by hybrid cases is not conclusive. Decentralized bargaining clearly reduced wage pressures but centralized bargaining also moderated wage demands (union leaders tended to consider the welfare of the whole workforce. Still, it seems that it is much preferable to choose one extreme or the other rather than opt for hybrid bargaining. The worst results, for instance, were obtained with national bargaining for specific industries. Hybrid Europe saw its unemployment soar from 3 to 11% in the last 25 years. Pure system USA maintained its low rate of 4-5% during the same quarter century. These opposing moves cannot be attributed to monetary or fiscal policies. This is because all economic policies are geared towards increasing employment. Budget cuts, for instance, depress demand and job formation in the short term but, by lowering real interest rates, they encourage investment and job formation in the longer term.

The cycle is:

Employment protection laws make it hard to fire workers and hard for fired workers to find new jobs. The longer one is unemployed, the lesser the chances of employment. Skills rust and the long term unemployed become the unemployable. Gradually, desperation sets in and the unemployed stop looking for a job. Their absence is conspicuous in that they do not restrain the wages paid to the employed. They have become part of the structural unemployment.

Blanchard and Wolfers studied 20 countries between the years 1960-96. They applied 8 market rigidities to their

subjects. The average unemployment increased by 7.2% in this period. But in countries with strict employment protection unemployment rose by double the amount in countries with lax labour legislation.

The country with the most generous unemployment benefits saw its unemployment rate grow by five times the rate of the stingiest country. And in countries with highly coordinated wage bargaining, unemployment has grown by four times its growth in countries with decentralized bargaining.

It is difficult to isolate these parameters from the general decline in productivity, the increase in real interest rates and technological change and restructuring. Still, the results are fairly unequivocal. Other research (the 1994 OECD one year study, the DiTella-MacCullouch study) seems to support these discoveries:

That flexibility is a good thing. It encourages employment, it leads to higher output and to a higher GDP per capita. The reason a transition from a rigid to a flexible labour market does not yield immediate results is that it increases the participation in the labour force. The rate of unemployment is, thus, affected only later, it lags the changes. But flexibility leads to lower rates of unfilled vacancies and to a lower persistence of unemployment over time.

Unemployment in Europe is structural (in Germany it has been estimated to be as high as 8.9%). It is the cumulative result of decades of centralized wage bargaining, strict job protection laws, and over-generous employment benefits. The IMF puts structural unemployment in Europe at 9%. This is while the USA's structural rate is 5-6% and the UK reduced its own from 9% to 6%. The remedies, though

well known, are politically not palatable: flexible wages, highly mobile labour, flexible fiscal policy.

Deregulation makes labour markets more flexible because it forces the worker to accept almost any job. Cutting or limiting jobless benefits has largely the same effect. Employers feel more prone to hire people if they can negotiate their wages with them directly and on a case-by-case basis and if they can fire them at will. Hence the debilitating effect of minimum wages and other wage controls as well as of job protection laws.

But all these steps must be implemented together because of their synergy. Research has demonstrated the impotence and inefficacy of half hearted half measures.

Some hesitant steps have been adopted by the governments of Germany and France (which trimmed jobless benefits), by Italy (which stopped linking benefits to inflation), by Belgium, Spain and France, which reduced the minimum wage payable to young people. Spain established two classes of workers with an increased bargaining power granted to those with permanent employment. Yet, some measures yielded quite unexpected and unwanted results. France legislated a reduced working week. Other countries imposed a freeze on hiring with the aim of attrition of the workforce through retirement. Yet, these last two remedies led to an increase in the bargaining power of the remaining workers and to real wage increases.

The only clear causal relationship is between unemployment benefits and the level of employment. The lower the unemployment benefits, the more people seek work and wages decrease. As a result, firms hire more workers. But, firms hire even more when dismissing

workers is made easier and cheaper. Paradoxically, the easier it is to fire workers, the more workers firms are willing to take on and the more secure workers feel knowing that their chances of being hired are better. They look harder for work and find it, reducing the level of unemployment and the costs to the state of jobless benefits. Having to spend less on unemployment benefits, the government can either cut taxes of improve the allocation of its resources. In both cases the economy improves and provides an added incentive to work. This is because, in a vigorous growth economy, the value of an extra worker is higher than the combined costs of his hiring and firing. This is especially true since the reservoir of the unemployed is comprised of the unskilled, the young and women, whose remuneration is closer to the minimum wage. In the USA the minimum wage is 35% of the average wage (in France, it is 60%, in Britain it is 45% and in the Netherlands it is declining relative to the median salary). It is a fact that when wages are downward flexible – more lowly skilled jobs are created. A 1% rise in the minimum wage reduces the probability of finding a job by 2-2.5%.

There is a debate raging between the proponents of minimum wages (they reduce poverty and increase the equality of wealth distribution) and their opponents (they destroy jobs). The OECD stated clearly that wage regulation couldn't deal with poverty. The reason is that, as opposed to common opinion, few low paid workers live in low-income households and few low-income households have low paid workers. Thus, the benefits of the minimum wage, such as they are, largely bypass the poor.

Again, it is important to realize that unemployment is not

a universal phenomenon. It is concentrated among the young and the unskilled. 11% of all people under the age of 25 in the USA are unemployed, almost three times the national average. A shocking 28% of those under the age of 25 are unemployed in France. The OECD says that a 10% rise in the minimum wage reduces teenage employment by 2-4% in both the high and low minimum wage countries.

In view of these facts, many countries (USA, UK, France) introduce "training wages" – actually, minimum wage exemptions for the young. But the minimum wage is still a high percentage of mean youth earnings (53% in the USA and 72% in France) and thus has a prohibitive effect on youth employment.

There is no disputing the facts that minimum wages compress the earnings distribution and reduce wage disparities between ages and sexes but they have no effect on inequality and the reduction of poverty among households. In US households with less than half the median household income only 33% of the adults have a low paid job (The equivalent figure in the Netherlands is 13% and in the UK – 5%). In most poor households no one is employed at all. On the other hand, many low earners have high paid partners. In the USA only 33% of earners of less than two thirds of the median wage live in households whose income is less than 50% of the national median household income. In the UK the figure is 10% and in Ireland – 3%. In each 5-year period only 25% of low paid Americans are in a poor family at some point (the figure is 10% in the UK).

These statistics show that minimum wages hurt poor families with teenagers (by making teenage employment prohibitive) while benefiting mainly the middle class.

Unemployment and Inflation

Another common misperception is that there is some trade off between unemployment and inflation. Both Friedman and Phelps attacked this notion. Unemployment seems to have a "natural" (equilibrium or homeostatic) rate, which is determined by the structure of the labour market. The natural rate of unemployment is consistent with stable inflation (NAIRU – Non Accelerating Inflation Rate of Unemployment).

Making more people employable at the prevailing level of wages can lower NAIRU. This should lead to a big drop in unemployment together with a tiny increase in permanent inflation. Phelps actually sought to lower NAIRU and raise the incomes of the working poor. Stiglitz calculated that the changing demographics of the labour force and the3 competition in markets for goods and jobs reduced NAIRU by 1.5% in the USA. R. Gordon, D. Staiger and M. Watson support these findings.

It emerges, therefore, that the gap between the estimated NAIRU and the actual rate of unemployment is a good predictor of inflation.

The Rhineland Model the Poldermodel and Other European Ideas

The Anglo-Saxon variety of capitalism is intended to maximize value for shareholders (often at the expense of all others, including the workers).

The Rhineland model is capitalism with a human face. It calls for an economy of consultation among stakeholders (shareholders, management, workers, government, banks, other creditors, suppliers, etc.)
In the Netherlands there is a Social and Economic

Council. Its role is advisory and it is semi-corporatist. Another institution, the Labour Foundation is a social partnership between employees and employers.

But the Netherlands succeeded in reducing its unemployment rate from 17% to less than 5% by ignoring both models and inventing the "Poldermodel", a Third Way. Wim Duisenberg, the Dutch Banker (currently Governor of the European Central Bank), attributed this success to four elements:

1. Improving state finances;
2. Pruning social security and other benefits and transfers;
3. Flexible labour markets;
4. Stable exchange rate.

The Dutch miracle started in 1982 with the Wassenaar Agreement in which employers' organizations and trade unions agreed on wage moderation and job creation, mainly through decentralization of wage bargaining. The government contributed tax cuts (which served to replace forgone wage increases). This fiscal stimulus prevented a drop in demand as a result of wage moderation. Additionally, restrictions were placed on social security payments and the minimum wage. For instance, increases in wages were no longer matched by corresponding increases in minimum social benefits. Working hours, hiring, firing and collective bargaining were all opened up to labour market forces. The strict regulation of small and medium size businesses (which drove up labour costs) was relaxed. Generous social security and unemployment benefits (a disincentive to find work) were scaled back. The Netherlands did not shy from initiating public works

projects, though on a much smaller scale than France, for instance. The latter financed these projects by raising taxes and by increasing its budget deficit. The result could well be a reduction in employment in the long run (the effect of taxation). In the absence of monetary instruments such as devaluation (due to the EMU), the only remedy seems to be labour market flexibility.

Such flexibility must include a substantial adjustment in sickness benefits, vacation periods, maternal leave and unemployment benefits.

The long term (more than 12 months) unemployment in Europe constitutes 40% of the total unemployment. About HALF of the entire workforce under the age of 24 is unemployed in Spain. It is about 28% in France and in Italy. Germany, Austria and Denmark escaped this fate only by instituting compulsory apprenticeship. But the young become the kernel of long-term unemployment. This is because a tug of war, a basic conflict of interests exists between the "haves" and "have-nots". The employed wish to defend their monopoly and they form labour cartels. This is especially true in dirigiste Europe.

While in the USA, 85% of all service jobs created between 1990-5 paid more than the average salary – this was not the case in Europe. Add to this the immobility of labour in Europe and a stable geographical distribution of unemployment emerges, not ameliorated by labour mobility.

The Dutch model sought to battle all these rigidities:

- The Dutch reduced social security contributions from 20% (1989) to 7.9% and they halved the income tax rate to 7% (1994).

- They allowed part time workers to be paid less than full timers, doing the same job.
- They abandoned sectoral central bargaining in favour of national bargaining – but more decentralized.
- They cut sickness benefits, unemployment insurance (benefits) and disability insurance payments (by 10% in 1991 alone – from 80% to 70%).
- They made it harder to qualify for unemployment (in 1995 no benefits were paid to those who chose to remain unemployed).
- The burden of supporting the sick was shifted to the employer / firm. In 1996, the employer was responsible to pay the first year of sickness benefits.

Even the Dutch model is not a success. More than 13% of the population is receiving disability benefits. Only 62% of the economically active population is in the workforce (the rest dropped out of it).

But compare its experience to France, for instance.

The LOI ROBIEN prescribes that companies should be spared social security obligations for 7 years if they agree to put workers on part time work instead of laying them off. Firms abused the law and restructured themselves at the government's expense.

The next initiative was to reduce the working week to 35 hours. This was based on the "Lump of Labour Fallacy" – the idea that there is a fixed quantity of work and that

reducing the working week from 39 to 35 hours will create more jobs. In reality, though, labour demand changes only in response to changes in productivity and in the workings of the labour market itself (rigidities). A cut in the working week reduces productivity and destroys jobs rather than foster job formation.

In Spain, a permanent employee fired is entitled to receive up to 45 days' pay multiplied by his or her tenure in years. The result is that firms are afraid to hire or fire workers. The government – faced with more than 22% unemployment – permitted part time contracts with less job protection. Today, 30% of all employed Spaniards work this way. Yet, this led to the creation of a two-tiered workplace where it is easier to fire the part-timer (even if he is valuable) rather than the permanent (and better earning) worker. Additionally, wages are thus disconnected from productivity.

MACEDONIA

Summary

As privatization progressed (however flawed in concept and in implementation), unemployment rose. It was the result of redundancies, bankruptcies and restructuring of the new private enterprises. By 1998, more than 92,000 workers were involved in direct privatization. There were more than 210,000 workers involved in all enterprises privatized.

The unemployment rate shot up from 23.5% in 1990 to more than 41% (foreign estimates) today (or 34% officially).

While officially the labour-force stands at c. 800,000

people, in reality it comprises only 600,000 (down from 680,000 in 1990). The number of central government employees has remained fairly stable at c. 17,000. About 2,400 are employed in cooperatives, another 22,600 in the pure private sector and c. 92,000 in firms with mixed ownership.

About 4000 are in government subsidized retraining programs at any given moment. Others are retrained within the Labour Redeployment program run by the Agency of Privatization.

Unemployment compensation recipients rose from 5,400 in 1990 to more than 50,000 in 1997.

Mandatory employer payroll tax contribution is 20% (pension) and the employee pays 8% to the Health Fund.

Numerous laws and legal instruments govern employment and unemployment in Macedonia. Among them:

The Law on Labour Relations, the Law on Employment, the Collective Bargaining Agreement, the Law on Pension and Disability Insurance, the Law on Health Protection at Work, the Law on Labour Inspection, the Law on Industrial Action and the July 1997 Law on Employment and Insurance in the case of Unemployment (now largely defunct).

The most important law by far is the Law on Labour Relations. It regulates the terms and manner of entering employment, the rights of employees, job positions, salaries and other compensation. Unfortunately, it is an extremely general and vague law. The collective agreements, the second most important legal instruments, are as general and, in any case, they pertain mainly if not solely to their signatories.

The collective agreements usually provide for an "employment trial period". But the law itself equates the rights of the temporarily employed to those of the permanently employed.

The 1997 law allowed the hiring of workers without the assistance or approval of the Employment Bureau. It demanded that the unemployed should actively seek gainful employment to qualify to receive unemployment benefits. It reduced both the amount and the duration of unemployment benefits payable to certain groups of unemployed workers.

It introduced payments of pension contributions and health care fund contributions of registered unemployed workers who are not covered elsewhere (for example, by their parents, or their spouse).

The law eliminated special one-time payments to the unemployed who could claim a right to a pension equal to 40% of the average monthly net wages.

It mandated the monthly registration of recipients of benefits and the bi-annual registration of all other unemployed.

Under this law, workers with 15 years of participation in the workforce and contributions to the fund will receive unemployment benefits for 6 months. Those with more than 25 years will receive unemployment benefits indefinitely.

Additionally, employers were allowed to use up to 18 months of unpaid payroll taxes to subsidize the wages of previously unemployed workers hired by them. This provision has been eliminated.

Analysis

There are a few statistical methods used to gauge employment-related data. The easiest, most immediate but least reliable way is to count the number of people registered with the Employment Bureau ("claimants"). A claimant count tends to underestimate unemployment by up to 50% (!) because many people are so desperate that they do not bother to register with the unemployment bureau.

The second method which is more demanding, resource consuming and has a time lag – is also more rigorous and a much better gauge of reality. It is the household survey. Britain, for instance, estimates unemployment using BOTH methods.

The Statistical Bureau in Macedonia defines and Employee as someone who is employed at least one hour in the week prior to being sampled, whether in a part time job or in a permanent, full time one. People attending an apprenticeship program or sentenced to correctional labour are excluded (unlike in Germany, Austria or Denmark).

It follows that the unemployed are people seeking employment. Anyone without a job, but previously employed and recorded in an employment office is defined as an "earlier employed person". Applicants who held no job before are "first time applicants".

Self-employed workers are all people included in TRUD-15, a quarterly report filed with the Pension and Disability Fund. This report includes only those currently insured and it, too, does not cover vocational students and apprentices. It is, therefore, safe to assume that the

number of the self employed in Macedonia is larger than reported.

If the index representing total employment in Macedonia in 1989 was 100.3 – it was 62 in 1997. The figure for women was marginally higher.

Total employment in the economic sector went down by more than 40% between 1989-97. The strongest declines were in trade and in tourism and catering. But severe drops were registered in mining and industry, agriculture and fisheries, forestry (which was already depressed in 1989). Only water treatment and management and crafts and trades – actually increased. But construction, transport and communications, and, to a lesser extent, housing, utilities, landscaping, financial, technical and business services also declined.

Total employment in the non-economic sector was almost unaffected !!!

Even in sectors such as education, science, culture and information and healthcare and social services, the effects were minimal.

And in administration and politics there was actually an INCREASE.

The total employed declined from c. 517,000 (1989) to less than 320,000 in 1997.

The total in the economic sectors declined from 430,000 to 270,000.

The total in the non-economic sectors declined from c. 90,000 to 84,000.

The female population reacted more strongly to the trend. Female employment declined from 133,000 in 1995 to less than 122,000 in 1997.

Less than 73,000 women were employed in the economic sector in 1997, compared to more than 84,000 in 1995. In the non-economic sector, the figures are 49,000 and 49,000 respectively (in other words, employment in the non economic sector remained stable while even as it declined strongly in the economic sector).

To summarize:

In 1997, all employed people numbered c. 319,453 (of whom 121,666 were women).

In the economic sector: 235,206 (72359)

In companies with social ownership: 185522 (70,094), of which 121,663 were in the economic sector (30,835 women).

In privately owned firms the figure is – 22, 593 (of whom 21,910 in the economic sector). Women accounted for 10,492 (10,252 in the economic sector) of this number.

2414 workers (629 women) worked in cooperatives (all part of the economic sector).

Firms with mixed ownership employed 91,988 (31,854 women).

Of these employees, 88,799 (30,548) were in the economic sector.

State owned firms, institutions and organs employed 16,936 workers (8,597 women). Of these only 420 were engaged in economic activities (95 women).

The (monthly) demand for workers declined from 6,619 in 1989 to 1,907 in 1996. Concurrently, monthly layoffs doubled from 1,408 to 2,805. First time applicants for unemployment benefits peaked monthly at 3,847 in 1992 and declined to 2,073 in 1996. This is a bad sign – it indicates growing desperation among the long term (more than 12 months) unemployed.

New hiring virtually collapsed from 1,506 monthly in 1989 to 972 in 1997. Yet, this grim picture has to be balanced by mentioning that many people are unofficially employed and not registered anywhere.

The total number of employment seekers (in parentheses – the number of women) has gone up from 150,400 (78,075) in 1989 to c. 253,000 (115,000) in 1997. But this is misleading because fully 200,000 people have dropped from the workforce and have given up seeking employment.

First time applicants went up from 116,000 to 186,000 in the same period.

In 1989 only 75,000 unskilled workers were jobless. In 1997 the number almost doubled to 133,000.

And while only 5,800 received unemployment compensation in 1989 – their numbers multiplied by 10 (!) and reached over 50,000 in 1997.

Due to improvements in education on the one hand and to growing desperation on the other hand – almost no people younger than 18 years were looking for jobs in 1997 (only 1,700) compared to 1989 (11,900).

To a large extent, the same is true for the 18-25 age groups. 70,400 sought work in 1989 versus 60,100 in

1997.

But the pernicious and lasting effects of unemployment were more than evident in the next age groups. In the age groups 25-40 the number of e4mployment seekers increased from 55,200 to 135,000 in the same period. The number of people between the ages 40-50 seeking work quadrupled (!) from 10,500 to 39,500. The same goes for people over the age of 50 (from 5,500 to 21,500).

By far the largest group of employment seekers was people with no previous work experience (128,400 in 1989 and 180,700 in 1997).

The situation was much better in all other groups of work experience:

Less than 1 year experience – from 6,300 (1989) to 7,900 (1997)
1-2 years – 3,500 to 5,000
2-3 years – 2,500 to 3,600
3-5 years – 3,400 to 5,700
5-10 years – 5,300 to 13,200
10-20 years – 3,200 to 18,200
20-30 years – 800 to 11,700
The number of unemployed people with more than 30 years experience went up – from 100 in 1989 to 3,100 in 1997.

The time structure of unemployment has also worsened. In 1989 22,900 found employment within 6 month. In 1997 – there were only 6,100.
Within 6-9 months – from 8,300 to 4,100
Within 9-12 months – from 8,000 to 5,000
Between 1-3 years – from 51,300 to 71,600
Between 3-5 years – from 28,500 to 49,500 (!!!)

Between 5-8 years – from 20,700 to 49,900 (!!!)
More than 8 years – from 13,800 to 71,400 (!!!!!!!)

In other words, most of the employment seekers have to wait for years before they gain employment. About 30% of them wait for more than 8 years. This is nothing short of disastrous.

Unemployment is concentrated, therefore, among the relatively young and without work experience. Additionally, the skilled and highly skilled workers have lesser difficulties in finding a job. Only 46,000 of them were employment seekers in 1997 (compared to 26,000 in 1989). The semi-skilled and those with elementary school are the most vulnerable, with 132,800 employment seekers (versus 75,200 in 1989). Even those with secondary school training fared badly, with 74,200 employment seekers (versus 49,300 in 1989).

The Workforce Survey

Macedonia has executed a workforce survey for the first time in 1996.

In this survey the following definitions were used:

Economically Active
The combined numbers of the employed and the unemployed
Employed
People aged 15 or more who worked for a wage (in cash or in kind) or had income during at least one hour during the reference week
Or
Were temporarily absent from work with a formal job assignment
Or

Were helping on the family property or enterprise without wages
Self Employed
An employer who operates his or her own enterprise or engages independently in a profession or trade or owns a farm and employs other people
Or
An employer who works for a private or public employer
Or
Own account worker – a person who operates his or her own enterprise or engages independently in a profession or trade but does not employ other persons
Or
An unpaid family worker – a person who works without pay in an enterprise, a trade, or on a farm owned by another member of his or her household.
Unemployed
Was without work during the reference week and …
Was seeking work, i.e. has taken specific steps to find a job and …
Was prepared to accept a job in the reference week or in the following week
Changes in the Labour Force
The activity rate as the ratio of the labour force in the total population above the age of 15 years
The employment rate as the ratio of the number of workers employed to the total population above the age of 15 years
The unemployment rate as the ratio between the numbers of the unemployed to the total labour force.

As of 4/97:

The total activity rate was 53.7% (66.5% for men and 41.2% for women).

But this number hides major disparities in age groups. For instance: the activity rate of the age groups 35-39 was as high as 80.5% while for adolescents between the ages of 15-19 it was only 22.7% and for people between the ages 55-59 it was 36.5%.

The total employment rate was 34.4% (44.6% men and 24.4% women).

Again, there were great disparities between age groups. The employment rate for ages 40-44 was 62.6% - while for ages 15-19 it was only 4.4% and for ages 20-24 it was a meager 18.2%.

The total unemployment rate was 36% (33% for men and 40.8% - women).

More than 80.4% of the population aged 15-19 was unemployed, but only 20.2% of 40-44 and only 12% of 55-59.

The total population above the age of 15 at the time of the survey was 1,489,625 (men – 736,977 and women – 752,648).

The total labour force was 800,513 (men – 490,122, women – 310,392).

The total number of unemployed was 288,213 (men – 161,717, women – 126,496).

The total number of employed people was 512,301 (men – 328,404, women – 183, 896).

Outside the labour force there were 689,112 people (men – 246,856, women – 442,256).

To summarize in terms of percentages:

Ages 15-19 – 11% of the population – 4.6% of the labour force – 1.4% of the employed – 10.3% of the unemployed – 18.3% of those outside the work force.
Ages 20-24 – 10.3% - 12.4% - 5.5% - 24.8% - 7.9%
Ages 25-29 – 9.7% - 13.8% - 10% - 20.7% - 5%
Ages 30-34 – 9.5% - 13.8% - 13.4% - 14.3% - 4.5%
Ages 35-39 – 9.8% - 14.7% - 16.8% - 11% - 4.1%
Ages 40-44 – 9.7% - 14.1% - 17.6% - 7.9% - 4.5%
Ages 45-49 – 9% - 12% - 15.4% - 6% - 5.5%
Ages 50-54 – 6.9% - 7.3% - 9.8% - 2.8% - 6.4%
Ages 55-59 – 6.2% - 4.2% - 5.8% - 1.4% - 8.5%
Ages 60-64 – 6.7% - 1.8% - 2.6% - 0.4% - 12.4%
Ages 65-69 – 5.1% - 0.5% - 0.8% - 0% - 10.4%
Ages 70-80 – 0.4% - 0.3% - 0.3% - 0.2% - 0.6%

In the population above the age of 15 years as a whole, there were c. 104,000 without education, 199,000 with incomplete education, 474,000 with primary education, 151,000 with 3 years or less of secondary education, about 369,000 with 4 years of secondary education and c. 55,000 with a higher education. There were 81,100 with university degrees, 2,400 masters, 1,200 doctorates and 53,400 "other".

Yet, the numbers in the labour force were very different and reflected the absolute disadvantage of the uneducated, unskilled, semi skilled and even those with only secondary education.

Those without education were 20,000 in the labour force, 12,000 among the employed, 8,000 among the unemployed (the employed and unemployed make up the labour force) - and a staggering 84,000 outside the workforce altogether.

The respective figures for those with incomplete

education:
62,300, 44,200, 18,100, 136,300

For those with primary education (notice the marked improvement in employability!!!):
220,800, 118,000, 103,100, 253,100

And for those with 3 years of secondary education:
106,100, 64,800, 41,200, 45,100

Those with only one additional year of secondary education already look much better:
263,000, 176,000, 87,000, 106,300

And those with a higher education maintain European rates of unemployment:
41,000, 32,700, 8,300, 13,400

Those with university degrees:
67,200, 54,100, 13,100, 13,900

Masters:
1,630, 1,560, 70

Doctorates:
1,156, 1,086, 70, 71

76.3% of all men were employed (82.6% of women), 4.3% were employers (1.7%), 4.9% were self- employed (2.5%), 3.4% worked in family owned businesses (7.5%), 10.8% of all men worked in agriculture (and 5.6% of women).

Men made up 62.3% of the employed (women – 37.7%), 82.2% of all employers (17.8%), 78% of the self employed (22%), 45% of those employed in family businesses (55%), 77.5% of those employed in agriculture

(22.5%).

The Situation in 8/99

Economic underdevelopment, agrarian over-employment, external shocks and an unrestructured economy led to an increase in both structural and cyclical employment.

The supply side is still composed mainly of new entrants, women and unskilled or semi-skilled labour as well as educated workers.

The demand structure is incompatible with the supply. It is made of replacement jobs, new jobs (mainly in labour intensive industries), jobs generated by foreign entities.

The number of the unemployed broke yet another record in 1999 and reached 344,472 people. Of these, almost half – 154,000 – were unskilled. But the unemployed included 5 doctors, 34 holders of master's degrees and 11,400 with higher education. About 33,000 of these numbers were made "technologically redundant" – the euphemism for being laid off due to restructuring of enterprises or their closure.

By comparison, the number of employed people was only 316,000.

In the first 8 months of 1999 alone there were 6,000 new unemployed per month versus a monthly average of 3,700 in 1998. This increase is attributed to the inclusion of people who did not bother to register with the Employment Bureau in the past.

The fiscal burden increased dramatically as contributions deteriorated to 25% of the Employment Bureau's financing while the state budget contributed the remaining

75%, or 3 billion MKD (equal to 100 million DM or c. 1.7% of GDP). The Employment Bureau also pays health insurance for about 200,000 unemployed workers.

The Labour Unions

The Association of Trade Unions in Macedonia (ATUM or CCM in the Macedonian acronym) is a voluntary organization, which encompasses 75% of all the employed workers in Macedonia as its members.

It is organized in the level of firms and institutions and has in excess of 2600 chapters. Additionally, it has about 150 chapters in the municipalities and in the various industrial sectors (all 15 of them).

The typical Macedonian trade union is not supported by the government and is entirely financed by its membership fees (self sufficient).

The first collective agreement was signed in 1990 at which time the idea of Economic Social Council was floated as well as the idea of a tripartite (government+employees+employers) dispute settlement mechanism.

The Labour Relations act was passed in 1994 and instituted national collective agreement for the economic sector between CCM and the Board of Employers of the Economic Chamber of Commerce of Macedonia. Another general collective agreement covered all public services, public companies, state organs, local authorities and legal persons performing non-economic activities. This latter general collective agreement was signed between CCM and the Government of the Republic of Macedonia.

Yet a third set of more than 20 collective agreements

between CCM and various organs of the Chamber of Commerce and ministries covered other sectors.

The Future of Unemployment in Macedonia

Public enterprise restructuring, privatization and reform are likely to increase unemployment benefits by 200-300 million MKD annually (assuming only 2,000-3,000 workers are fired, a very conservative assumption as there are 18,000 workers in the 12 major loss making state firms, whose closure was demanded by the IMF).

Unemployment is very dependent on productivity and GDP growth. The World Bank predicts that with a GDP growth of 0%, the total expenditures on unemployment benefits could equal 2.3% of GDP. Even if GDP were to grow by 4% annually, their projections show unemployment benefits equaling 1.6% of GDP.

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Ten Questions about Macedonia

Ten Questions You Wanted Answered
About Macedonia - But Never Dared to Ask

1. How Big is the Macedonian Market?

a. 2 million consumers
b. 10 million consumers
c. 20 million consumers
d. 60 million consumers

Most People answer…

2 million consumers

WRONG!!!

Through its well developed and growing system of symmetrical and asymmetrical array of free trade agreements – Macedonia gives you direct access to well over 600 million consumers in the region – from Turkey to Slovenia.

2. What is Macedonia's Biggest Market?

a. Former republics of Yugoslavia and especially the Federal Republic of Yugoslavia
b. The European Union and especially Germany and Greece
c. Turkey and the Arab World
d. Central Europe

Most People answer…

The former republics of Yugoslavia and especially the Federal Republic of Yugoslavia.

WRONG!!!

Macedonia's biggest market by far – almost 60% of its trading volume, both exports and imports – is the European Union. Its position is comparable to the Czech Republic in that more than 75% of its international trade is conducted with either the European Union or with the USA.

3. Macedonia's GDP Per Capita is…

a. 700 US dollars
b. 1,100 US dollars
c. 300 DM
d. Almost 2,000 US dollars

Most people answer…

About 700 US dollars.

WRONG!!!

Even in 1998, Macedonia's GDP per capita was 1,865 US dollars per capita. Adjusted to purchasing power (PPP) and taking into consideration the informal sector of the economy – Macedonia's GDP per capita is probably c. 5,000 US dollars per annum.

By comparison – the Czech Republic non-PPP adjusted GDP per capita in 1998 was also 5,000 US dollars.

4. Macedonia's Level of Corruption is…

a. Exceedingly high
b. Very high
c. Like South Europe
d. Like Africa

Most people answer…

Very high.

WRONG!!!

According to Transparency International, Macedonia's level of corruption is MEDIUM (66th place out of 99 countries in its 1999 report), below many countries and even below some members of the European Union. It has one of the lowest rates of violent crime and property crimes in the world – though, unfortunately, property crimes and drug-related crimes are on the rise as modernization proceeds apace.

5. The Level of Wages in Macedonia is…

a. Very high, comparable to the European Union
b. Very low, comparable to Africa
c. Comparable to other countries in transition
d. Comparable to other developing countries

Most people answer…

Comparable to other developing countries.

WRONG!!!

Macedonia's workforce – one of the most well educated in the countries in transition – is much cheaper in RELATIVE terms than the workforce in other countries in transition. The average salary in Macedonia is comparable to most other countries in transition and is around 400 euros a month. BUT, the productivity of the Macedonian worker, as measured by GDP per worker is much higher. Macedonia produces (without the informal sector of the economy) c. 3.5 billion euros a year with c. 350,000 active workers. This is c. 10,000 euros per worker. The salary paid to a Macedonian worker constitutes, therefore, 20% of his product.

6. Macedonia is…

a. Investor friendly
b. Investor averse
c. So-so, not different to other countries in transition
d. Investor indifferent

Most people answer…

Investor averse.

WRONG!!!

Investors ignored Macedonia mainly if not only because of geopolitical external shocks. Despite this, Macedonia succeeded to attract almost 200 million US dollars in 1997-8 only. Another 200 million were invested in 1999, the year of Kosovo and the refugee crisis. Macedonia is the first to have legislated a law for free economic zones and it has an impressive array of tax and investment incentives in place. By implementing a one-stop shop concept, it is doing its utmost to isolate the prospective investor from red tape and potential official corruption. It is gradually but steadily injecting added transparency into the investment and procurement processes. And it is transforming itself into a free trade hub and the axis of a regional free trade zone in conjunction with its neighbours with which it is now on historically unprecedented friendly terms.

7. Property Rights in Macedonia are…

a. Non existent
b. Poorly developed and protected
c. Like in all other countries in transition
d. Adequately developed and protected

Most people answer…

Poorly developed and protected.

RIGHT!!!

Despite the fact that Macedonia has a fine legislative infrastructure, its courts and its bureaucrats, its banking system, its collateral system and its property registrars are all poorly developed and dysfunctional to varying degrees.

This is a top priority of the last few administrations. Legislation is adapted, law enforcement agents – especially judges – are educated, mortgage registration, collateral registration, company registrars – all is being revamped. The aim is to provide investors with maximal protection of their rights and property.

Today the main problem is not securing property rights or due process. The main problem is the DELAY, the TIME LAG and the BACKLOG in doing so. This is an improvement over the past – but it is still a sorry state.

Still, Macedonia being the small and informal country that it is, the office of every minister and every civil servant is open to investors, who are provided with unparalleled access to the highest level of government.

Moreover: Macedonia never had problems of currency convertibility, repatriation of profits or investments or default. Its debt is medium by international standards (60% of GDP, most of it long term and to multilateral and international financial institutions). It has 9 months of imports in foreign currency reserves. Its debts are trading at 75% of their face value – better than most developing countries, a sign of international confidence in its obligations. It has recently become only the second country in the world to prepay its Paris Club debts.

8. Macedonia's Infrastructure is…

a. Decrepit and inadequate
b. Like in other poor countries
c. Sufficient but not well maintained
d. Excellent

Most people answer…

Like in poor countries.

WRONG!!!

Don't forget that Macedonia was a part of one of the most sophisticated markets in the world – the Former Yugoslav Federation. Its infrastructure is insufficient and often badly maintained – but not uniformly so. Some types of infrastructure are highly developed, even by European standards. For instance, there are more than 100,000 mobile phone subscribers in a workforce of less than 750,000 people. Macedonia has one of the most developed wireless networks in Europe – it far surpasses the systems of Central Europe. It is rich in electronic media. The Internet is gaining ground though penetration is still low. It has a few German-quality autobahns – connecting Macedonia to its neighbours and, in a few years, to every country in Europe, West and East.

9. Macedonia is Isolated and in a War Zone

No American multiple choice here.

Yes, Macedonia is situated in a turbulent area.

But it is also an area bigger and more naturally endowed than Central Europe.

And - with the exception of the skirmishes with a segment of its Albanian minority in 2001 - Macedonia has never been involved in any war activities.

It has always been an island of stability and smooth democratic transition.

It hasn't been isolated for years now. Its neighbour Greece is one of its greatest trading partners and investors. Its other neighbour Bulgaria has signed with it a series of economic collaboration agreements, including a free trade agreement.

With the advent of the reconstruction of the Balkans, Macedonia is a uniquely positioned multi-ethnic society, with Albanians and Macedonians in its government. Trusted by all its neighbours, it is bound to become a pivotal player in the stability and growth of this part of the world.

10. Macedonia's Orientation is Not Clear

It has always been the same:

- Prosperity
- Growth
- Opportunities
- Achievements
- Happiness

All these come today bundled with democracy and one model or another of free market economy.

Macedonia has adopted both enthusiastically.

It is a pro-Western, pro-European country aspiring to become a member of the Euro-Atlantic structures. Hopefully, it will.

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The Friendly Club

The European Union (EU), Cyprus, and the Balkans

Cyprus, that beacon of political stability and financial rectitude, was invited to negotiate its membership. Bulgaria, the epitome of good governance and civil society as well as Malta the undisputed friend of the West (remember Qaddafi?) - were among the list of new candidates handed down in the Helsinki meet of the most desired economic club on earth: the EU. To these were added Romania and its collapsing economy. Macedonia was relegated to the "West Balkan" group - a revolutionary re-definition of historical affiliations. In this assemblage, it found itself rubbing shoulders with the disintegrating Albania and the pariah Yugoslavia. Croatia was ejected from this leper colony by virtue of the death of its megalomaniac autocrat and his replacement by ex-communists.

Things have been very different only a few months ago, when the EU and NATO needed the good and naive services of Macedonia. It was a honeyed courtship. Macedonia was then virtually besieged by a flood of world class politicians, all eager to make the acquaintance of the charming political class of the Balkans. Promises were doled out with abandon. Blair promised tens of millions. Clinton topped this by pledging hundreds of millions. And the grateful West offered billions. In the meantime, Macedonia's infrastructure was pulverized by heavy armour and light-footed refugees - a quarter of a million of them.

The people of the Balkans are the off spring of broken promises. Their village shrewdness (which is not to be confused with worldly sophistication) predisposed them not to trust the kindness of strangers. Their in-bred paranoia led them to attribute prophetic foresight, sharp planning and intricate conspiracy to what were mere stumbling and bumbling on the part of the West and its mighty NATO. The disillusionment came fast and painlessly. To live in fantasy is often more rewarding than to have it fulfilled and many Macedonians were grateful for the intermission in their hundred years of solitude. The hangover, the bitter aftertaste, the sore muscles of the morning after - the Macedonians accepted all these with unusual grace.

But as insults were added to injuries, a sense of betrayal evolved. They felt exploited and discarded, objectified and dehumanized by super-powers of mythical proportions. They felt abused and deceived. Used to getting the short end of every stick - this time there was no stick at all. Having been thus manipulated and largely unable to direct their anger at the veritable sources of their frustration - they turned upon themselves in internecine squabbling, disgraced and flouted. This was further exacerbated by incessant preaching and hectoring of the representatives of those powers which thus forsake them. By the very people who reneged on promises. By countries and politicians whose own domestic politics and personal conduct were an object and abject lesson not to be emulated. Countries imbued with corruption preached to the Macedonians about good governance. Countries which suppressed their minorities in bloody campaigns reprimanded Macedonia for its treatment of its own minorities. Countries which sold weapons to every despicable dictator in every corner of the earth - prevented

Macedonia from trading with its neighbours.

Of the money promised - very little materialized. The blazing trail of West European and American movie stars and presidents became a trickle of East European politicians and Brussels bureaucrats. Membership became association, association became new association and new association went nowhere as dates were postponed and dates kept were used as photo-oppurtunities by synthetic Western leaders.

If anyone should have been invited to join the EU it is poor Macedonia. Poor - but not as poor as Romania, for instance. Any comparison of the two bespeaks volumes about the West's betrayal. Romania's official inflation is 40% - Macedonia's is around 1% and has been, on average, less than 3% in the last 3 years. Romania's depleted GDP is collapsing. Macedonia has survived the Kosovo crisis with its GDP intact and is poised to grow by 4-6% in the year 2000 according to the IMF. Romania's average wage is less than 90 dollars a month - Macedonia's is 160 US dollars. The lei is as unstable as Yugoslavia's denar was prior to the Kosovo crisis - Macedonia's currency held stable throughout the external shock-ridden last three years and is trusted by its citizens. Romania's governments change frequently and with little reason, often succumbing to the wishes of an ominously violent street. Macedonia's government has changed once in the last 5 years and that following a fair and democratic election. Admittedly, Romania's market is much bigger than Macedonia's and its location closer to the EU. But Macedonia is an important bridgehead to the Balkans and beyond (Turkey) and its web of trading agreements and arrangements makes it a virtual market of more than 110 million people.

But Macedonia is friendless in the EU. It has no patron saint, no Germany (Croatia, Czech Republic), no France (Romania), no Greece (Cyprus). It is too small to fear and small enough to ignore comfortably. It is a peaceful and docile nation. It is co-operative. It is trustworthy and has proven its devotion to the idea of the West in times good and bad, mainly the latter. Perhaps these qualities disqualified it. Perhaps being taken for granted does not grant being taken. Whatever the explanation, the people of this tiny country grieve this short romance, so fleeting, so sweet, so dreamy and, as they are finding now, so surreal.

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Patriarch of Industry
Interview with Svetozar Janevski

Svetozar Janevski is the patriarch of Macedonian industry. The CEO of Macedonia's largest brewery ("Pivara Skopje"), partner with the likes of Coca Cola and Heinekken and the licencee of McDonald's in Macedonia - he reifies both continuity and the changing times. He is also a member of the Business Advisory Council of SECI (Southeast Co-operative Initiative) "This interview is my personal opinions - not in my capacity as CEO and not on behalf of my business partners" - he makes clear.

Q: Why should multinationals come here?

A: The countries of Central Europe offer land, infrastructure, skilled human capital (or manpower that can be easily re-trained), and tax incentives. They are close to their markets (for instance, Germany) but this may have some effect only on the food industry. In today's hi-tech, wired world this does not constitute an advantage anymore. The fact that these were capitalist market economies before World War II is more than outweighed by the stifling brand of socialism, which was exercised there. Yugoslavia, from the 1960's onwards, was much more market orientated, especially in consumer goods. Slovenia, Croatia, Macedonia were much more acquainted with market economics than any country in Central Europe. The Yugoslav physical infrastructure - water, electricity, roads - was better than any of its neighbours (like Bulgaria's or Romania's). It higher education system was also outstanding. These advantages were not wiped out by ten years of conflict.

We need multinationals. Transition requires "off the shelf"

management skills, technological knowledge and marketing. But to attract them, we need transparent regulation, less red tape, and tax and other benefits.

Q: And, now that Milosevic is gone, Serbia will lead the way?

A: Not if they continue the tradition of political revanchism. It was Milosevic who opened this Pandora's box when he placed political appointees in various industries. Now, there is a backlash. Slovenia avoided a politicized economy, the division of managers to black and white camps and the attendant animosity. Countries like Macedonia and Croatia are losing energy in this inertial process. It must come to a halt. And, then, after 5-10 years of enduring the same problems as other countries in transition have - Serbia may emerge as an economic leader.

Q: It is difficult to develop economically without a private sector and a middle class. Selling state enterprises to their erstwhile managers and employees ("management and employee buyouts" - MEBO) - was that a wise idea?

A: What other model succeeded? (Privatizing through) vouchers failed in Bulgaria, Czech Republic, and Poland. It depends more on the prevailing mentality than on this or that model. The main obstacle was the management class in these countries. They were terrified. They felt cosy, were not supervised by anyone, and secured personal benefits. All this was threatened by potential strategic investors. People regarded the marketplace as a danger- not a blessing. Management was thinking local while strategic investors always think global. Local managers erroneously believed that they will be replaced by foreign ones. Actually, multinationals always prefer

good local talent to expats. It seems that they don't have enough personnel to run around.

Q: Management is only one element. What about the education system?

A: It totally failed to adopt the market mentality. In the world, education systems get their cues from the price mechanism. Here they are entirely student-driven and not market driven. But I am not sure what model would work and whether intervention is the right modus operandi.

Q: And the bureaucracy, the state administration?

A: This is a leftover from socialism. The very people who are supposed to apply the reforms often oppose them. Political appointments are short-lived and no politician has sufficient time to implement his concept or vision. Reform in this part of the world is ego-driven, each (politician) to his own, an elitist endeavour, not a joint communal undertaking. And the young - they mean well but have no life experience.

Q: You mentioned mentality...

A: We have negative mentality, a legacy of socialism, when workers sought to blame the managing class for all their country's ills. Workers were more concerned with the "upper echelons" than with their own work. Now, these people need to believe in something, to have a dream, to strive to change the situation to improve everyone's lot, not only their own. Some people say that the low salaries are a disincentive. But why the low salaries in state administration and some firms? Because of managerial anarchy and waste. People plunder their own workplaces, no one benefits in the long run and everyone is left impoverished. Management must have a vision to change

things - and then the ability to implement its vision.

The legacy of "equality" is pernicious. When we cut the bloated state administration - we don't bother to check who is needed and who is dead weed. We cut a fixed percentage across the board, the productive and the non-productive alike. Another example: in Yugoslavia a school was built no farther than 1000 metres from every human settlement. As the population in some settlements aged, the schools continued to operate, empty! Army barracks are still maintained at a huge cost, with the number of soldiers drastically reduced!

Q: This is waste. What about corruption?

A: These countries are poor. We are in a state of traumatic shock: we had everything and now we have nothing. The middle class was economically murdered. Frustration and shortsighted maximization of benefits ensued. Moreover, people occupy elected positions for a short time with ridiculously low pay. There are no Japanese kamikazes in the Balkan. People want to secure their economic future once out of office. Only development and prospering business will solve this issue - but definitely not in the short term. The biggest force against corruption is a thriving business community and a viable, secure, middle class. Today, people shuttle between professions because no occupation in itself is self-supporting. This also will be solved by development and growth, which inevitably lead to specialization. Laws are not enough - a tradition needs to develop. Give it time.

Q: So, poverty is to blame?

A: Not only. Poverty makes it difficult to resolve social tensions and to establish a resilient civil society. But we

also lack leadership - business (management) and political. So, people resort to ethnic platforms and action creates reaction.

Q: Like in Macedonia now?

A: Yes. In my view, these are non-issues. Why not change the preamble to the constitution to "Macedonia is the country of all its citizens"? We must devote money to education and weed out nationalist and national-romanticist teachers. We must bring in the EU as a mediator. The use of both languages (Macedonian and Albanian - SV) must be wider. In other words, we must replace the ethnic platforms with a joint platform, for the benefit of us all. We must enhance the rights and enforce the obligations of the local level of government (municipalities). Let them get more of the regionally generated income but be held accountable and be loyal to the state. We must wage war on illiteracy, which is c. 8% nationally, but much higher among the Albanian population. Often, Albanian parents refuse to send their children to school and Albanian women are denied education by their kin. The problem is not that of proper legislation. Long term development is needed to guarantee peaceful co-existence. Unfortunately, Communism was a punitive system, not dialogue-orientated. This radicalized the Kosovar Albanians (who lived under the Yugoslav regime - SV). They became ultra Marxist-Leninist-Maoist with dreams of a "Great Albania". In other words, they preferred Enver Hoxha's way to Tito's (Hoxha was the tyrannical and paranoid Maoist leader of Albania and Tito, the relatively more liberal anbd cosmopolitan leader of Yugoslavia - SV). The current Albanian leadership is leading its constituency down the wrong path. But improving the lot of the Albanians - is also our national

interest (as Macedonians - SV), not only theirs.

Q: Maybe it is a deeper problem grounded in the history of this region and the repression under the Ottoman and, later, Communist, yokes? Maybe the citizen regards the state as its enemy?

A: There is some truth to it. People here still don't feel that this is their state. It is a way of life. They renege on obligations such as paying taxes. But humans are social animals who always aspire to alter their environment. The next goal is civil society. But this cannot be achieved without joint communal action and non-political venues and modes of communication. Both are sorely lacking.

Q: What do you think about the IMF's involvement in this region?

A: Their main error is to apply the same recipe to all their clients. But not everything should be criticized. They helped us get rid of hyperinflation with the implementation of strict monetary and fiscal policies, for instance. True, growth was badly affected - but this is not only the IMF's doing. The international commmunity is to blame as well. Investment in southeastern Europe (SEE) is totally inadequate. They are waiting for us to complete all the reforms before they plunge in with FDI. Moreover, there is no clear EU (or NATO) accession timetable. The Stability Pact is a glass of water applied to a forest fire. Nothing will change if the economy will not change. The West invested 10 times more in Central Europe, which has less of a population. Sure, we had some objective problems here, like Milosevic. But now it is over - what next? This region can be very rewarding to investors. The West needs a carrot and stick policy (as is the Stability Pact) but geared at the removal of entry barriers,

encouragement of cross borders trade and investment, and integration of the whole region in a huge free trade area. Currently, this region is an anomaly: its countries trade more with partners all over the world - than among themselves! So, we need a guiding vision. Money - often stolen by corrupt politicians - is not enough. And money is invested, it should be prioritized and supervised.

Q: Finally, Kosovo. Any prognosis?

A: Kosovo is going to be a long-term global problem. During the war (1999), certain groups were armed and supported with the aim of deposing Milosevic. These groups were given a licence to engage in smuggling and traficking. To control this mentality now is difficult. Kosovo needs urgently financial and management skills - but because it lacks rules of normal life - no one wants to establish a business there. The whole image of the local economy is bad and economic decisions are distorted by quick profiteering in crime. The Kosovars have to let go of their regional-nationalism and dream of "Great Albania". They must be convinced to become a part of the European family of nations - as should we in Macedonia.

Return

Monitoring Macedonia

Close to 500,000 people - one in four - live under the poverty line in a country where the average monthly salary is less than 150 US dollars. More than one in three members of the workforce are chronically unemployed. With inflation up 5.5% in the last 12 months and taxes - borne disproportionately by the poor and the working class - at 37% of GDP, life is tough in this small,

landlocked country. When faced with the choice between raising VAT from 5% to 19% on bare necessities (such as bread and milk), or extending the "temporary" "war" tax (0.5% on all financial transactions) - the finance minister of Macedonia, after an emotional all-night consultation involving the Prime Minister, chose the latter. The "war" tax brought in the equivalent of 2% of GDP (on an annualized basis) since it was introduced in July this year and helped to contain a dangerously soaring budget deficit, now at 9% (and rising) of a shrinking GDP. Yet, the controversial decision to extend it brought on sharp rebukes by local tax experts. The finance ministry also plans to cut expenditures by a further 50 million US dollars.

This gaping hole in public finances is not the result of profligacy. Most of the government's budget is "locked" into paying pensions, state obligations, wages, and other mandatory items. Only 2% are discretionary. The vertiginous 15% of GDP tilt from surplus to deficit is the direct result of the six months of civil war that gripped Macedonia between February and August this year. The damages were direct - in new military spending, increased security expenditures, and about 500,000 US dollars a day used to accommodate and feed c. 80,000 internally displaced citizens, most of them non-Albanian Macedonians. But the war also had indirect consequences. The tax base shrank as GDP collapsed by at least 4-5% and industrial production contracted by 9-10%. The direct damages to the agricultural sector alone are estimated to be c. 100 million US dollars. The textiles sector has suffered even more. At least 17% of the country became physically inaccessible and the panic that gripped the population well into July interrupted tax collection. Tax, customs, and excise revenues, VAT excepted, decreased

by 20-40% (!). The government was forced to use some of the proceeds of the sale of the telecom company, Makedonski Telekom, to MATAV.

In an effort to stem the monetary flood and to fend off potential currency speculation (which consumed more than 100 million US dollars of the National Bank's reserves by mid-June) - the central bank was forced to raise interest rates and to absorb excess liquidity. On October 15, one week and two weeks treasury bills (zero coupons) yielded 11% to maturity - and the same bills for 28 days yield 17%, a yield curve which signals distrust in the macroeconomic stability of the country. Eerily, after a brief, speculation driven, spurt, the currency settled to its 4 years old average exchange rate of 31 to the DM and 67 to the US dollar.

In its ten years of independence - mostly due to external shocks such as trade sanctions and wars - Macedonia has developed a chronic case of acute trade deficit, equal to c. 15% of GDP (c. half a billion US dollars annually). Luckily for it, unilateral transfers - remittances by expatriates, international aid and grants, international credits, and growing, though small, foreign direct investment - served to ameliorate the problem. The World Bank alone has invested more than 550 million US dollars in Macedonia since 1991. But a sharp collapse in exports (by c. 20%), coupled with increased foreign exchange expenditures on weaponry, and the drying up of Albanian remittances (at least through official channels) - have exacerbated the financing gap that Macedonia faces from a projected zero to more than 100 million US dollars in 2001.

The Macedonian side has a vested interest in exaggerating both the damages of the civil war and its financing needs.

Macedonia, to its great detriment, has long been addicted to foreign aid. Nor does it seem to have any coherent plan to cope with the crisis - ad hoc, stopgap, measures notwithstanding. The IMF was forced to place Macedonia under "Staff Monitoring" - the equivalent of freezing of all credit arrangements with the fund for a period of 6 months. This, though, does not prevent Macedonia from reverting to a standby arrangement down the road, or from participating in a donor conference.

Actually, Macedonia has received more financing and pledges for financing during the first 9 months of 2001 than during the comparable period last year. Spain has promised to finance the "Lera" hydroelectric power station. Italy has granted Macedonia 4 million US dollars in "urgent financial aid". The EU has earmarked 198 million euro to remedy war damages. The EU CARDS program (project financing) was signed (43 million euro). The World Bank added 37 million US dollars to 3 new projects since March 2001and has disbursed 15 million to projects already approved. And this is a partial list.

Yet, the majority of these funds - whether approved or pledged - are conditioned upon the fulfillment of the August 13th Ohrid Framework Agreement between the Macedonian and the Albanian political parties. The EU has made it abundantly clear that its financial assistance will be withheld if what it calls "Macedonian intransigence" continues. A donor conference, already postponed three times, had to be put off yet again indefinitely (though the World Bank expresses unfounded optimism regarding a date sometime in December). Such a conference is supposed to tackle Macedonia's balance of payments needs and the costs of reconstruction and implementation of the Framework Agreement. With each

postponement, Macedonian disappointment and xenophobia grow. The West is seen widely as interested mainly to assist the Albanians at the expense of all other segments of the population. The euphoria that gripped Macedonia after the September 11 attacks on the USA ("now they will understand what it means to confront terrorism") - has evaporated. It was replaced by grim realism. The USA and the EU are bent on securing a pacified Macedonia. The IMF and the World Bank are subject to political considerations, constraints, and arm twisting. The economy is fast deteriorating. Macedonia has very few choices.

POSTSCRIPT

On May 29, 2002, the IMF and the government of Macedonia, failed to reach a new Standby Agreement.

Franek Rozwadowki, the new Chief of Mission for Macedonia implored the government to "implement prudent fiscal and monetary policies, particularly on wages (which impact) the budget, employment, and growth." The government - facing elections in September - and the IMF failed to conclude a standby agreement for 2002-2003.

Subsequently, I granted this interview to "Media Press":

Q: What is the outcome of the "negotiations" after months of armed conflict, as far as the implementation of the Ohrid Framework Agreement is concerned?

A: The Ohrid Framework Agreement contains both legislative and operational aspects. The legislative agenda - with one or two minor exceptions - has been completed.

Not so the operational undertakings. The census is forever

postponed, the devolution to the local administration is moving ahead at a glacial pace, the integration of police and army forces is incomplete, the resolution of the issue of kidnapped Macedonians is far, many Albanian forces haven't disarmed and are militarily still active.

Q: Does that outcome of the negotiations with IMF ensure the economic stability and progress of Macedonia? Furthermore, do the IMF proposals contradict the spirit of the Ohrid Agreement?

A: The current round of negotiations with the IMF ended in failure. The IMF could not accept the government's bailout of savers in three failed savings institutions, amongst them TAT. There was also disagreement about applying the government's wage policies prior to the impending September 15 elections. Tax revenues exceeded expectations, so the IMF demanded that the excess be used to reduce the budget deficit that was projected last December.

This would have led to a contractionary fiscal swing of well over 5% of GDP. No government could accept such policies in the midst of a decade long depression compounded by last year's civil strife. The IMF probably guessed as much. Naturally, it prefers not to reach an agreement with a lame duck administration. It would rather wait til after the elections and conclude an agreement in October-November with the new government.

The IMF's policies not only contribute to Macedonia's economic stability - but ensure it. Alas, a country like Macedonia needs growth more than it needs stability. It is here that a decade of IMF and World Bank administered policies - the notorious "Washington Consensus" - failed

dismally. While the IMF's policies definitely do not contradict the letter of the Ohrid Agreement - they contravene its spirit by inhibiting growth. The key to the success of the Framework Agreement is the economy. Economic failure will result in renewed civil strife.

Q: Do you believe that this economic agreement will assist the "smoothing" of the relations between the two communities in Macedonia (Slav and Albanian)?

A: As I said, there is no agreement with the IMF at this stage. Generally speaking, the more resources are available to rebuild this damaged country and restart its moribund economy - the more pacific it is likely be. Poverty leads to monopolizing behaviour - various groups in the population try to secure the scarce economic resources to themselves. A lack of agreement with the IMF means that a sizable chunk of the money pledged in the donor conference in March will not be coming. It is a dangerous and slippery game. One cannot have economic stability - let alone growth - without political stability. A modicum of intellectual flexibility is called for. Dogmatic economic thinking may be appropriate for Scandinavia - but it is entirely wrong headed here.

Q: Do you believe that the economic prosperity of the Albanian community will prevent a new wave of conflict in the country or minimize provocations from the Albanian Liberation Army?

A: Prosperity hasn't prevented bloody wars from erupting in Croatia and Slovenia. Albanians in Macedonia are far more prosperous than their Kosovar and Albanian cousins. Yet, war has erupted here. The key is not prosperity or absolute wealth - but relative wealth. Redistribution of wealth, participatory democracy, rule of law, and equal

opportunities are important. These can be achieved only when economic scarcity is vanquished - i.e., as a result of economic growth.

Return

Macedonia: Economy and Nation

Interviewer: Christopher Deliso for Antiwar.com

Q: Is this conflict about economics or about politics?

A: It's about money and influence and territory. At the risk of sounding narcissistic, allow me to quote myself ("The Macedonian Lottery" in http://www.balkanlands.com):

"Albanians and Macedonian crime gangs (in cahoots with kleptocratic and venal local politicians) regard Macedonia as a vital route for drugs, stolen cars, smuggled cigarettes and soft drinks, illegal immigrants, white slavery, and weapons dealing. These criminal activities far outweigh the GDP of all the adversary states combined. This conflict is about controlling territory and the economic benefits attendant to such control.

Crime and war provide employment, status, regular income, perks, and livelihood to many denizens of Macedonia, Albania, and Bulgaria. They constitute an outlet for entrepreneurship, however perverted. Fighting for the cause and smuggling often means travel abroad (for instance, on fund raising missions), five star accommodation, and a lavish lifestyle. It also translates into powers of patronage and excesses of self-enrichment.

Moreover, in ossified, socially stratified, ethnically polarized, and economically impoverished societies, war and crime engender social mobility. The likes of Hashim Thaci and Ali Ahmeti often start as rebels and end as part of the cosseted establishment. Many a criminal dabble in politics and business.

Hence the tenacity of both phenomena. Hence the bleak and pessimistic outlook for this region. The 'formal' economies simply cannot compete. Jobs are not created, the educated are often bitterly idle, salaries are minuscule if paid at all, the future is past. Crime and politics (one and the same in the Balkan) are alluring alternatives."

Q: What about the ever postponed donor conference?

A: The West has no choice but to reward Macedonia for its "flexibility" in a generous $200 million donor conference. It has been the explicit carrot at the end of the EU (and, to a lesser degree, USA) stick. It has been postponed onetime too many last month. It will take place. It will be "successful". And it will prolong the Macedonian addiction to aid. Development aid and international credits have come to be regarded by Macedonians as tools used for extortion and manipulation by the West. To some extent, they are. What should have been a purely economic matters - has been entangled with political and geopolitical agendas. Whether Macedonia should or should not receive aid and loans should be determined SOLELY by how far its structural and institutional reforms have progressed, how it preserves its macro-economic stability, how receptive it is to the private sector, how untainted is its privatization and so on. Regrettably, Macedonia is a drug addict. Its drug is "aid", "credits", "donations", "charity". It is more adept at lobbying foreign politicians for handouts than at developing its economy. It has become an expert at self-pity and exaggerated grievances. It uses the enormous infusions of money it gets to line the pockets of its politicians or to indulge in the consumption of imported goods made attractive by an unrealistic exchange rate. The West has created another dependency in the Balkan - the

Third Protectorate after Kosovo and Bosnia.

Q: Can you elaborate about the relations with IMF - and the IMF's relations with EU, WB?

A: The EU has been undermining the IMF consistently - and so, to a lesser extent, has the World Bank. They dole out cash and credits to Macedonia, knowingly exacerbating its addiction and the insatiable venality of its politicians. This way, they "reward" Macedonia for painful political concessions and "motivate" its politicians to "co-operate". These funds, dispensed with after each phase in the implementation of the Framework Agreement, come with no strings attached, unsupervised, without proper governance clauses. It is intended to bribe- rather than to better. And it destroys everything the international financial community has achieved here in the last decade.

Q: Your article, "Greeks Bearing Gifts" presents strong evidence for the wholesale buyout of the Macedonian economy by Greek firms. Is this a concerted action, backed by the Greek state, or should we understand it as merely the outcome of the more robust competition of certain Greek companies, as compared to their rivals?

A: It is neither. The closest model I can think of is Japan's MITI. The Greek government sets global goals of regional economic collaboration and identifies key sectors to be targeted (banking, infrastructure, telecommunications). It assists Greek businesses interested in investing in the Balkan. It gives them favourable tax treatment, diplomatic succor, intelligence, introductions to key decision makers, political risk insurance of export transactions, and so on. There is nothing unusual in all this. The USA does the same (even more aggressively so). What is unique in

Macedonia's case is that Greece refuses to recognize the country which happens to be a major target of its investments. This lends the whole process a sinister air of a hostile takeover. Greece doesn't even have an embassy here (only a liaison office)!

Q: There is a very interesting report on the Macedonian economy (attachment). It discusses the imposition of a tax on purchases- the so-called "war tax." The tax, it is stated, will only continue through 2001. Has the tax been successful?

A: I am the "father" of this tax (I proposed it in a negotiating session with the IMF and worked out its details later) - so I could hardly be expected to be unbiased. But, yes, I think it did achieve its goals. The IMF was very keen on its extension because it plugged the ominous hole in the budget (equal to 9% of GDP, later reduced). Its distortionary effects are minimal because it is levied on all types of transactions - though it does tend to drive large financial deals into the informal economy.

Q: Further, did the tax achieve its desired goal? And has the tax's performance followed any clear patterns? Can the Macedonian "war tax" be compared to similar ones in other wartime economies?

A: It reversed the budget position. Without it, the finances of Macedonia would have been unsustainable. It was based on an in depth study of laws implemented in other countries, including Israel.

Q: The same report gives the details on Macedonia's payment plan. Who were the sponsors of this plan, and how was it engineered and agreed to?

A: Like almost every other major economic reform in

Macedonia until 1999, the reform in the payment system is the result of combined pressure by the EU, the IMF, and the World Bank. It was the subject of fierce opposition by entrenched interest groups whose venality overcame their alleged zeal for market reforms. The ZPP was a cash cow, milked by its employees, as well as by all previous administrations. Finally, after years of interminable feasibility studies and bloated committees, the reform was successfully implemented. But it took a lot of infighting. The banks themselves - the ostensible major beneficiaries of the reform - placed major obstacles on the way to the abolition of the payment functions of the antiquated and corrupt ZPP. They claimed repeatedly not to be ready, to lack infrastructure and expertise and so on.

Q: The payment plan is designed to 'harmonize' the Macedonian economy with Europe's and to help attract foreign investors. In light of the experience with the Greeks that you analyzed, is more foreign investment necessarily a wise thing for Macedonia?

A: FDI is always good. It is not only the capital. It is the breath of fresh managerial air from the outside. It is the infusion of marketing expertise. It is the contacts and market position provided by the investor. Try as I may, I cannot find a single bad thing to say about FDI. There are three caveats, though:

1. A level playing field. Too often, foreign investors collude with corrupt local politicians to rob the state of its assets, to thwart competition, to secure privileges, or to reverse economic reforms.

2. That the investor commits itself to the transfer of technology and knowledge to the host economy. Investment without education of domestic

manpower - is colonialism and mercantilism.

3. Not everything should be up for grabs. Certain defense industries, some infrastructure, certain natural monopolies, a few infant industries in need of temporary (and very limited) protection - should be made unavailable to foreign capital.

Q: No Macedonian I spoke with uses banks. They cite low confidence in both the currency and in accountability of the banks. Does Macedonia have any safety structure, like America's FDIC?

A: Yes, it does have deposit insurance proffered through a corporation owned by all the banks and backed by implicit and explicit state guarantees. But people trust the state even less than they do the banks, so there you are...

The solution is, of course, to allow competition into the sector (especially by foreign banks), to remove the inapt Macedonian managements and replace them with outsiders, to strengthen the bank supervision and separate it from the National Bank of Macedonian (NBRM). Some steps have been taken in this direction lately, but not nearly enough.

Q: War in Macedonia was bad for most sectors of business. The increased lawlessness of some sections of the Kosovo-Macedonia border, however, seems to have enhanced conditions for criminal activity. The war was a boon for arms smuggling, what with soldiers to equip, and traffic in women, what with the arrival of large amounts of NATO and other international personnel. Is there any way of quantifying the effect of war on illegal business? And is it a loss for only Macedonia, or Europe in general?

A: Macedonia is too negligible (economically) to have

any kind of impact on Europe. It is lucky to have an informal ("black") economy. It is the only vibrant, viable, and job creating sector in an otherwise moribund scene. Ina way, Macedonia was "serendipitous" to have been involved in the Kosovo crisis of 1999. I think that the net effect on its economy was beneficial (in terms of NATO/UNMIK spending in the local economy, foreign aid, grants, foreign credits, the stabilisation and association agreement with the EU, and so on).

Not so this last conflict. It took place on its territory. It obliged Macedonia to increase its spending on defense and internal security. It hindered its access to important local markets (e.g., Kosovo). It consumed very scarce resources, ruined its foreign trade, scared away investments in the pipeline. It cost Macedonia well in excess of $500 million (or c. 15% of its GDP). It has been devastating.

Moreover, this conflict will have a lasting adverse impact on ethnic relations, trust in democratic institutions and in the political class, and on future interaction with foreigners and the outside world. Macedonia has become an unpleasant place: radicalized, tense, xenophobic, violent, fractured. Social networks and social safety nets as well as social solidarity have crumbled. Economics is a branch of mass psychology. A traumatized and pathologized nation is unlikely to produce a healthy economy.

Return

Macedonia's Growing Dependence

Macedonia has always been an economic dependency. Even in the clunky Yugoslav Federation, Macedonia (one of Yugoslavia's republics) subsisted on transfers from Belgrade, sometimes amounting to 40% of its GDP. Similarly, international aid and credits often made up 10% of GDP in Macedonia's first decade of independence (1991-2001).

Macedonia is on its way to yet another (and much postponed) donor conference. Donor conferences are charades. They consist of photo opportunities for donor and recipient politicians signing agreements sealed long beforehand. But even as charades go, the existence of an IMF arrangement with the needy country was hitherto considered a sine qua non.

Yet, Macedonia has no such arrangement. It is under IMF "staff monitoring". This means that it may apply and even qualify for stand-by loans - but also that its finances are in disorder. The victim of seriatim external shocks (transition, reluctant independence, embargoes, wars, and, lately, a civil war) - Macedonia's economy is in disarray. Social tensions are rising both due to a long overdue restructuring of Macedonia's obsolete industry and to the shameless corruption that permeates every government organ and state-owned enterprise.

In the last two years, Macedonia has re-written most of its economic laws. It has started to implement anti-money laundering measures. It has dismantled the venal payment system and privatized it to the banks. It has rationalized its tax system and introduced VAT. It has shut down or sold most of the industrial loss-makers. It has sold Macedonia's

largest commercial bank to the Greeks and its telecom to MATAV. It has applied to join the WTO and plans to join CEFTA. It is in the throes of modernizing its capital markets. It deserves the $228 million it would like to get (and the $173 million promised).

The money is supposed to plug Macedonia's financing gap - and, thus, be out of the reach of avaricious politicians. Yet, money is a fungible commodity and Macedonia has squandered a lot of the international aid and credit it has received - not least by installing in power one kleptocracy after another.

Only $36 million out of $120 million disbursed for the construction of a railway line were traced in September 2001. No one was able to tell what happened to the rest. In another celebrated case, the former Minister of Defense, Paunovski, absconded with 13 million DM of the Ministry's funds. Having been accused of as much on state television by the Prime Minister - he retorted by threatening to expose the latter's alleged corruption in the privatization of the nation's only oil refinery, Okta. Paunovski resigned but was never persecuted. An audit team dispatched by the Ministry of Finance meekly went nowhere.

Macedonia deserves any help it can get. But flooding it with poorly supervised and poorly monitored funds only serves to enrich its politicians. Many Macedonians believe that this, precisely, is the intention of the West and that the donor conference is a massive backhander. The receipt of the funds was explicitly tied to political and constitutional concessions - and never conditioned on structural reforms. The IMF's departing (and often bravely and unusually outspoken) Chief of Mission, Biswajit Banerjee, has distanced himself from the conference.

Yet, even the most avid disciplinarians understand that Macedonia might collapse without these funds. It has an enormous trade deficit (close to $600 million - or 15% of its GDP), the result of an overvalued currency. It cannot rectify this by devaluing the denar because inflation is rearing its ugly head again. The monetary pillar of Macedonia's policy of economic stabilization far outweighs its fiscal pillar.

Moreover, in a year of early elections (the latest date bandied about is June 30) - budget discipline is likely to suffer. For a few scary months last year, Macedonia's budget deficit reached 9% of GDP (it later settled around 5-6%, saved by a reluctantly introduced "war tax" levied on all financial transactions). Tax collection is tottering as more than 26,000 firms (the majority of all active companies) have become insolvent. Macedonia has almost double the average private sector credit default rate among countries in transition.

Macedonia is asking for $65 million to plug the gap in its balance of payments, another $63 to reverse the effects of the civil war (which many observers fear is about to start again), $40 million for reconstruction, and $23 to cover expenses associated with the implementation of the Ohrid Framework Agreement. Some of this money has been already (and irresponsibly) advanced by the EU (mainly by the Netherlands). The World Bank will help with funds to ameliorate the social effects of the industrial devastation wrought by the transition (the latest loss-maker to be shuttered this week is "Jugohrom"). The EBRD and the IFC plan to establish a microcredit bank.

Macedonia can use all the help it can get. But effective help is predicated on circumventing Macedonia's hopelessly crooked politicians and bankers and on the

strict and micromanaged enforcement of good governance clauses. Alas, the donors are so eager to prevent another conflagration that they are ignoring these important caveats. In doing so, they foster further instability. The lesson learned by Macedonia's unscrupulous decision makers may well be that conflict, war, and terrorism pay handsomely.

Return

Zoran against the World - Entrepreneurship in Transition

Technologically, it is probably the most advanced printing facility in the Balkan. It cost almost $2.5 million. It was constructed in less than a year. And it is in dirt-poor and war-torn Macedonia.

Behind this incredible tale of entrepreneurship, uncommon in these nether-regions, stands Zoran Rosomanov. A stereotypical visionary - mane, blazing eyes, imposing physique - this man, against nightmarish odds undreamt of by his Western counterparts, constructed, single-handedly, an impressive, star-trek like, factory.

Literally single handedly: digging the muddy soil, hoisting bricks onto cranes, driving earth-removal heavy machinery. He begged, cajoled, and persevered. And he made it. His story serves a lesson to all the forlorn dreamers in the sad countries of the East.

Thirty-six year old Zoran represents a new breed of "can-do" businessmen in Eastern Europe and the Balkan. His philosophy is the outcome of first-hand exposure to Western management techniques and ideology. He does not rely on the state to provide for him or for his enterprise. He actively seeks foreign inputs - in capital, contacts, and know-how. He is well-traveled, polyglot, affluent, a consumerist. He is enamored with technology and gadgets.

Still, he likes to think of himself as a creator, or an artist - rather than a money machine. He emphasizes the design-related portions of his company. He brags of his hobbies:

photography, interior design, music. His home and office serve to advertise not his wealth - but his aesthetically-informed talents. He is smartly dressed and well-mannered, indistinguishable from his colleagues in the West. Though he loves Macedonia, his homeland, he is, in essence, a citizen of the world.

Zoran started off as a TV music editor in the Macedonian state-owned channel. The highlight of this brief phase in his career was a human rights concert in Budapest. But he soon discovered his true calling: business. He joined a Belgrade-based musical instruments trading firm as a traveling salesman. At the age of 21, he was put in charge of 185 people as head of the Sales Department.

But Yugoslavia was disintegrating. Yugoslavs lost their common identity overnight and woke up as Macedonians, Croats, Serbs, or Bosnians. Zoran went back to Skopje, where he opened, with his savings, a chain of 11 stores of electronic consumer goods.

But he noticed that how you sell is at least as important as what you sell. He discovered marketing. After a stint of studies in Milan, Italy, he came back to Macedonia and, in 1992 he established "Divajn". "I noticed that everyone in Italy asked me about Macedonia. They were interested. So, I decided to connect people." The company was the first to offer a vertical, marketing campaign-orientated service: from poster ads to sales force, a turnkey solution.

He also noticed that, the paperless office notwithstanding, there was a great demand for paper products. In a typical move, Zoran bought an expensive computer and began to design such products for his contacts. "But I noticed that, following a first satisfactory order, they circumvented me and went directly to the printer".

So, he decided to become a printer as well - by merging with a print shop. He placed an ad and settled on one of the applicants. They have been inseparable ever since. Their joint company, "Bato and Divajn", owns the new facility and Zoran's partner supervises the daily work there. "Wealth is in people - not in money", says Zoran.

His secretary has been with him for 11 years. Miki, the talented head of the pre-press division and quality control, has been working with him for a decade. Zoran values loyalty. He trains his staff personally. Every single one of his 40 workers (soon to increase to 55) has gone through a 6-month period of apprenticeship. Then they are on their own. "I believe in delegating," says Zoran, "though I never lose sight of the details. And I am very demanding".

When the combined business expanded, Zoran needed new machines. He tried to find investors, both domestic and foreign, but failed. So, he approached a friend of a friend in Holland. This guy owned an envelope factory and was interested to sell one of the used machines for a mere 400 thousand DM (i.e., c. $180,000).

In typical irresistible gall, Zoran offered him $13,000 as an advance payment. "I will pay you the rest over 3 years" - he pledged earnestly. "What is your guarantee?" - asked the shocked seller. "Your trust" - responded Zoran. The stunned Dutchman accepted. Zoran paid him back in two years.

This pattern of unmitigated self-confidence, infectious optimism, and non-conformism pervades Zoran's way of doing business. He won an order for a million labels simply by waltzing in and producing samples he scanned off empty beer bottles. He is now the exclusive printer for this brewery.

Last April, as he was visiting another client - his firm supplies all the Macedonian blue-chips - he overheard a discussion about problems with a Slovenian supplier. "If I were to establish my own factory here, will you buy from me?" - he enquired. They said yes - and so did many others. "It was my market research" - he grins. Why import from Slovenia if there is a qualitative alternative in one's backyard? Zoran is a great believer in import substitution and buying local. It is not only patriotic - but it makes economic sense.

He proceeded forthwith to find land. His firm designed the construction project. All he lacked was the printing presses. He had less than $100,000 in cash. He needed another $2.4 million. Others would have regarded this deficiency as insurmountable. Not Zoran.

He decided to get the best equipment money could buy - and that meant "Heidelberg". So, he picked up the phone and called Alexander Hufnagel, Heidelberg's director of East Europe. When he asked to buy on credit, they naturally demanded a bank guarantee. Zoran prepared a business plan and went to Komercijalna Banka, Macedonia's second largest retail bank. He asked for $1 million, partly from IFC funds dedicated to small and medium enterprises.

Macedonia's economy has been in dire straits long before its independence in 1992. Nearly one third of the workforce are unemployed. The heavily-politicized and under-capitalized banking system is largely dysfunctional. Lending to business is almost at a standstill. Zoran's was an unprecedented application.

When Zoran dug the first foundations in an industrial park at the outskirts of Skopje, a civil war between

Macedonians and Albanians has erupted. Fighter planes and helicopters buzzed above head and police and army streamed to the Aracinovo, a besieged village, not far from the site. There was palpable panic in the air.

Komercijalna Banka asked for a collateral and Zoran offered the new equipment. "Title will revert to me only when I finish paying you", he explained. Unbeknownst to him he has invented leasing. He then turned around and offered Komercijalna's money to Heidelberg as his equity. After a grueling few days of due diligence, Heidelberg agreed to give him supplier's credit amounting to the rest. They asked to him to guarantee the credit personally. He willingly accepted.

Zoran then proceeded to convince them to establish a maintenance center, replete with spare parts, in his new factory. "I don't charge them rent" - he discloses impishly - "My machines must work 24 hours a day, 7 days a week. It is useful to have a maintenance crew and spare parts handy." The next logical step is to become their representative in Macedonia. "I am working on it. But I want them to provide me with revolving credit to be able to offer financing together with the equipment".

But this financial wizardry has depleted Zoran's resources. He resorted to an old communist stratagem: the barter ("compensation" in East European argot). He traded print jobs for building materials. It was one of the worst arctic winters in memory with temperatures often dropping to way below the freezing point. But construction continued, the shivering workers spurred on by Zoran's personal example.

When the equipment finally arrived, Zoran was presented with a $450,000 bill - for the newly imposed Value Added

Tax. In a complex financial somersault, Zoran borrowed against future VAT refunds and overcame this obstacle as well. The NASA-like control panel, the printers, cutters, templates for different cigarette brands - all were finally installed in the half completed structure.

"This is my country" - Zoran toggles an unlit smoke - "It is beautiful. We just need help. I could never have done it without the help extended to me by Heidelberg, Komercijalna, the IFC, my clients. My wife stood behind me. This network of support is indispensable. There can be no entrepreneurship and initiative without it!"

"Aren't you afraid to fail?"

"I have no fear. With all our problems - we still must exist. We must survive. Many say I am crazy - but time will tell who will succeed. You must persevere. If the bank would have said no - I would have gone elsewhere. There is always a solution. My advice: get your suppliers involved. Heidelberg now has a stake and they will refer clients to me. I said to them: you want me as a client? Then give me credit!"

"Operating in Macedonia is not easy..."

"A country should be run like a business and politicians should act like CEO's. Macedonia has the potential to be this region's Switzerland, though it must concentrate on exploiting its natural endowments: climate and soil. Agri-business is its future. All we have to do is encourage foreign investments by safeguarding property rights and overhauling the court system and law enforcement. We have to learn from foreign investors and emulate them."

"But foreign investors are potentially your competitors..."

He tilts his head back and laughs uproariously:

"The Slovenians tried to arm-twist my clients, slander me, and spy on my operations. I can now easily compete with them in the Serb market. My transport costs are much lower. My machinery is so advanced that I can work for the strictest multinational anywhere from Switzerland to Turkey. We are getting the ISO quality certificate shortly. So, they are scared. What has been my response? I bought more land for future expansion..."

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Macedonia's Augean Stables

Or: Don't Hurry to Invest in Macedonia

Written October 28, 2002

Updated January 2007

In the near past, Macedonia seemed to have been bent on breaking its own record of surrealism. While politicians in other countries in transition from communism and socialism strive to be noticed for not stealing, their Macedonian counterparts, without a single exception, aim to steal without being noticed.

The previous VMRO-DPMNE government (1999-2002), in which Nikola Gruevski, the current Prime Minister, served as Minister of Finance, plundered the country shamelessly. The local papers accused then outgoing prime minister, Ljubco Georgievski - a virtual pauper when he attained power - of owning land and a residential building in the capital's most expensive neighborhood. The erstwhile Minister of Defense, Ljuben Paunovski, was recently sentenced to 42 months in prison for his pecuniary shenanigans during his tenure. Another leading figure, the former Minister of interior, Ljube Boskovski, is in the dock in the Hague on war crime charges.

Inevitably, VMRO-DPMNE lost power to the SDSM in the heated elections of 2002 and then fractured as its new leader, Gruevski, purged the old guard and installed his own cohorts everywhere.

Then prime minister designate, Branko Crvnkovski (the country's current President whose legitimacy is contested by the Gruevski government), vowed to learn from his

party's (SDSM) past mistakes when they venally ruled the land until 1998. In a sudden and politically-motivated resurrection, the high court began scrutinizing the "Okta" deal: the opaque sale of the country's loss-making refinery to the Greeks in 1999. Heads will roll, promised both the election victors (the SDSM) and their Western sponsors. Nothing happened.

The country's current Governor of the Central bank and then minister of finance, Petar Goshev, a former socialist high-level functionary known for his integrity, announced that his top priority would be to eradicate corruption by instituting structural and legal reforms. His newfound socialist partners - he headed a center-right outfit - found this bizarre ardor unpalatable and promptly kicked him out of office.

Four years later, with Georgievski relegated to the political wasteland, Crvnkovski ensconced in the presidential suite, and his successor, Buckovski a resounding failure and subject to a highly politicized criminal investigation, Gruevski's ascent in 2006 was all but secure. It was the SDSM's turn to crumble acrimoniously amid a virulent contest for its leadership. It has never recovered and Macedonia has had no viable opposition ever since.

Macedonia's post-electoral euphoria faded, in July 2006, into arduous coalition-building negotiations replete with arm-twisting by the worried representatives of the "international community".

The country's new VMRO-DPMNE Prime Minister, Nikola Gruevski (b. 1970), excluded from his government the party that won the majority of Albanian votes because of its roots in the much-hated Albanian NLA, National

Liberation Army, the instigator of the 2001 near-civil-war. Albanian factions clashed in a chilling reminder of the country's inter-ethnic fragility.

To add to Macedonia's precarious standing, its greenhorn Minister of Foreign Affairs, Antonio Milososki, engaged in intermittent - and utterly avoidable - spats with its neighbor and biggest foreign investor, Greece, virtually guarantee delayed accession to both NATO and the European Union, the much ballyhooed strategic goals of the current administration. Milososki adopted a similarly belligerent and ill-informed stance against Bulgaria, another flanking polity and the newest member of the coveted European club.

Where the government claims great strides is in its uncompromising stance against all forms of malfeasance and delinquency in both the public and the private sectors. From the army to various municipalities, scandals erupt daily in an atmosphere often bordering on a frenzied, media saturated, witch-hunt.

Gruevski is alleged to have rejected a bribe of 3 million euros (c. 4 million USD) offered to him by a Serb firm. Mysteriously, the alleged perpetrators were never persecuted. Gruevski's government embarked on highly publicized campaigns against illegal construction (the "urban mafia"), the bribing of medical doctors, and other festering nests of corruption.

Alas, Gruevski himself appointed members of his family and innumerable political hacks to senior government positions in a series of blatant acts of nepotism and cronyism decried by the European Union and other watchdogs. Consequently, with one exception (Zoran Stavreski, the talented vice-premier), the government in

all echelons is largely made up of utterly inexperienced operators. Plus ca change.

Politics, venality, and terrorism are the sole venues of social mobility in this tiny, landlocked, country of 2 million impoverished people. Immediately following their insurgency, the former terrorists of the Albanian National Liberation - courtesy of Western pressure and the Albanian voters - occupied crucial ministries with lucrative opportunities of patronage of which they are rumored to have availed themselves abundantly.

Comic relief is often provided by bumbling NGOs, such as the International Crisis Group. In 2001, its representative in Macedonia, Edward Joseph, went to Prilep to conduct an impromptu investigation of the thriving cigarette smuggling trade. Posing to the cameras he declared that only the local leaf-rolling plant was not involved in this pernicious line of work.

Macedonia is a hub of expats and consultants in the Balkans. Ante Markovic, an Austria-based former Yugoslav prime minister, who served as an oft-criticized economic advisor to the government until he was dumped, sued Macedonia for $1 million. In 2001-3, the youthful former minister of finance, Nikola Gruevski, was asked by USAID, on behalf of the Serbian-Montenegrin government, to serve as its consultant on matters of reform of the financial system. The author of this article acted as Economic Advisor to Georgievski's government and, later, to Gruevski himself.

But to no avail. The country is a shambles. In the wake of a civil war, the official unemployment rate is 31-35 percent. Close to 70,000 people work in the bloated central and local administrations. The trade deficit is an

unparalleled 17 percent of GDP. In 2001, the budget deficit climbed to 5 percent, though it was since halved.
"The Heritage Foundation" has consistently ranked Macedonia 95-97 out of 155 countries in terms of economic freedom. The country is "mostly unfree" it correctly concludes in its reports, though it cites sometimes erroneous data. A moderate level of trade protectionism, low tax rates, moderate inflation, a moderate burden of the government, moderate barriers to capital flows and foreign investment, and moderate interference in the economy are offset by a dysfunctional banking system, intervention in wages and prices, low level of protection of property, a high level of regulation, and a very high level of activity of the black market.

Owing to the IMF's misguided emphasis on exchange rate stability, the currency is inanely overvalued. The manufacturing sector has all but evaporated. Industrial production declined by a vertiginous 20 percent in August 2002 compared to the average the year before - or by 11 percent year on year. The trend has not been reversed since.

Macedonian steel is exempt from the latest bout of American protectionism, but not so its textile industry. Europe is fending off the country's agricultural products. People make their meager and desultory living catering to the needs of an ever-expanding international presence or dabbling in illicit activities. Piracy of intellectual property, for instance, is thought to yield c. 1 percent of GDP.

Close to half the population is under the poverty line. The number of welfare cases increased by 70 percent between 1994 and 2002. Generous and incessant multilateral and bilateral credits sustain the faltering economy (and line

politicians' ever-deepening pockets). The country is alternately buffeted by floods and droughts. There has been only one day of rain in all of January 2007.

In a much-touted donor conference after the 2001 skirmishes, the pledges amounted to a whopping 15 percent of GDP. Then governor of the central bank, Ljube Trpski (currently detained for his role in a murky affair involving the country's foreign exchange reserves), cheerfully predicted that these handouts will cover the gaping hole in the balance of payments.

Macedonia also received 7.5 percent of the gold reserves of the former federated Yugoslavia of which it was a component. At between $700 million and one billion USD net, foreign exchange reserves are at an all-time high. Macedonia has recently decided to prepay its $104 million debt to the Paris Club creditors.

Both the IMF and the World Bank, who did their best to obstruct the previous VMRO-DPMNE government in its last few months in power, promised a speedy return to business as usual. An hitherto elusive standby arrangement is likely to be concluded by the end of the year. World Bank funds, frozen in material breach of its written contracts with the state, will flow again. The EU promised development funds if the new government acts in a "European spirit" - i.e., obeys the diktats of Brussels.
The incoming administration is likely to enjoy a period of grace with both the trade unions and international creditors. Strikes and demonstrations by dispossessed miners and underpaid railways workers have waned. But Macedonia joined the WTO in 2002 and will thus be forced to open even more to devastating competition. Labor unrest is likely to re-erupt soon.

Foreign investment in the country mysteriously wanes and waxes - some of it laundered money reinvested in legitimate businesses. The government is doing a great job of building up the image of Macedonia as an FDI (Foreign Direct Investment) destination. But public relations and perceptions management must be followed by palpable actions and the new government is woefully short on concrete steps. It talks the talk but hitherto does not walk the walk.

The government's attempts to attract foreign investors by introducing lower taxes may backfire: studies clearly evince that multinationals worry less about taxation and more about functioning institutions, a commodity that Macedonia is irreparably short of. Moreover, vanishingly lower taxes signal desperation and Macedonia indeed sounds more desperate than confident. No one wants to buy the country's leading bank, long on offer. Only one contender (Mobilkom Austria) entered a bid for Macedonia's third operator cellular network licence.

On a few occasions, domestic firms, using international fronts, have bid for local factories, such as the textile plant "Astibo". The national payment card project has been guzzled by two banks incestuously close to the outgoing ruling party, VMRO-DPMNE.
But there are real investments, too. The capital's central heating utility was purchased by a unidentified French energy outfit, announced the general manager. The utility's shares were listed in the Athens stock exchange. The Macedonian construction firm "Granit" will build a $59 million highway in Ukraine, with which Macedonia enjoyed an unusually cordial relationship, to American chagrin. Johnson Controls and others are eying a string of

free trade zones and infrastructure projects (dams, roads, railways, oil pipeline). A much hyped Vardar Silicone Valley is in the works.

The contentious census in the first two weeks of November 2002, a part of the "Ohrid Framework Agreement" which ended the internecine fighting the year before, was conducted fairly. The count showed that Albanians make c. one quarter of the population rather than one third, as most Albanians spuriously insisted.

But, with Kosovo's independence looming across the border, the restive Albanians are likely to coerce the enfeebled Macedonia into translating this numerical reality into political and economic clout. The Macedonians are likely to resist. The West will intervene. Macedonia is facing a hot spring and a sizzling summer.

Happy Birthday, Macedonia!

(Written on the occasion of Macedonia's 16th Independence Day, September 8, 2007)

The Republic of Macedonia is 16 years old: an adolescent with the problems and promises that characterize puberty. The country now has a young and dynamic leadership which has succeeded, in one short year, to transform Macedonia's image both domestically and abroad. According to repeated polls, for the first time in two decades, people are optimistic and investors sanguine.

But there are troubling currents afoot. Macedonia is undergoing a worrisome change of character. If not reversed, these malignant processes will backfire and Macedonia's hopes will be cruelly dashed. Under Nikola

Gruevski, Macedonia, for the first time, stands a chance of becoming a prosperous member of Europe and the international community. Its history of self-destructive self-defeating behavior can be avoided.

Macedonians would do well to learn from the experience of the countries of Central Asia and the Caucasus described in the following article.

The following article was originally written about the countries of Central Asia and the Caucasus.

All the countries in the mutilated post-Communist parts of Europe inevitably ended up poor. Yet, as opposed to their neighbors, some polities failed to alleviate their misery or ameliorate their dire predicament. The denizens of these states are not only impoverished - they also feel like losers and failures.

To avoid confronting such unpalatable truths and to fend off a tormenting self-image, the citizenry of these places developed a host of psychological defense mechanisms.

1. Magical Thinking

The belief in a fantastic world in which miracles occur, saviors materialize, one is immune to the consequences of one's inaction, and all ends well, regardless of current realities.

The leaders of such countries provide their voters with fairy tales and grandiose fantasies about multi-billion dollar investments, which typically never materialize. Worse still, this obsessive preoccupation with deus-ex-machina salvation-by-outsiders detracts from and distracts the scarce human resources at the disposal of the government.

As a result, the authorities neglect to tackle the most pressing problems facing their nation: unemployment, dysfunctional institutions, and venality. In the meantime, asset bubbles - both in real estate and in the bloated and much-manipulated stock exchange - imperil the country's financial system.

2. Messianic-Religious Leadership

From the Caucasus to the republics of former Yugoslavia, leaders of economically decrepit countries in the region present themselves as either Messiah-like saviors or martyrs to the cause, hounded by a "hate-filled and jealous" opposition, or victimized by outside forces. Such leaders ostentatiously "dedicate themselves" to the nation, forsaking a private life or worldly pleasures.

Their subjects crave for honest and hard-working leadership and so hungrily succumb to the allure of ceaseless media campaigns, which border on a personality

cult. They suspend their disbelief and dispense with rationality. The Dear Leader becomes the focal point of their hopes and dreams while other institutions - parliament, the judiciary, and the media - shrink and wither.

Often, this populist worship results in an authoritarian regime that gradually, almost imperceptibly replaces consensus politics. The Beloved Leader keeps paying lip service to democracy and functioning institutions, but effectively, he contemptuously ignores them. He purges the civil service, staffing it with cronies and relatives, and he treats the opposition as traitors and enemies of the state.

3. Denial of Reality

From the Caucasus, through Central Asia, to the Balkans and Africa, unable to face the dismal condition of their countries, people choose to simply deny it. Hype and spin and public relations replace real action and substantive reforms. The language itself is subverted: corruption is redefined by the powers that be to exclude blatant nepotism; a mere change of ownership hailed as a revolutionizing foreign investment; promises and plans presented as facts (faits accompli); statistical methodology altered to produce favorable results. Thus, reality is done away with and replaced with fantasy.

4. Aggressive Assertiveness

Rather than accept the fact that the nation's low self-esteem and lack of self-confidence are outcomes of its failures, the leadership reverses cause and effects: the country's repeated failures are now, officially, a RESULT

of people's wavering self-esteem and self-confidence. People who doubt the leadership's claims and doctored data "don't believe in the future of the nation, don't believe that (insert the name of the country) can (succeed)." Dissidents are, therefore, branded as pusillanimous traitors.

Thus, everyone is encouraged to adopt a loathsome variant of newfound assertiveness that borders on narcissism and is unpleasantly aggressive. It does not reflect an inner conviction in the real capabilities and skills of the populace. It is merely demonstrative and hyperbolic.

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The Freedom of Indices

The Index of Economic Freedom: Pros and Cons

November 1, 2002

The quality of Wall Street research has suffered grievous blows these last two years. Yet, publishers of political and economic indices largely escaped unscathed. Though their indicators often influence the pecuniary fate of developing countries, they are open to little scrutiny and criticism.

The Heritage Foundation and the Wall Street Journal are the joint publishers of the 2002 edition of the much-vaunted "Index of Economic Freedom". The annual publication purports to measure and compare the level of economic freedoms in 155 countries.

According to its Web site, the Index takes into account these factors:

- Corruption in the judiciary, customs service, and government bureaucracy;
- Non-tariff barriers to trade, such as import bans and quotas as well as strict labeling and licensing requirements;
- The fiscal burden of government, which encompasses income tax rates, corporate tax rates, and government expenditures as a percent of output;
- The rule of law, efficiency within the judiciary, and the ability to enforce contracts;
- Regulatory burdens on business, including health,

safety, and environmental regulation;

- Restrictions on banks regarding financial services, such as selling securities and insurance;
- Labor market regulations, such as established work weeks and mandatory separation pay; and
- Black market activities, including smuggling, piracy of intellectual property rights, and the underground provision of labor and other services.

The Heritage Foundation's boasts of using the "most recent data" available on September 2001. I downloaded the chapter about Macedonia and studied it at length, starting with the most basic, numerical, "facts". I then compared them to figures released by the Macedonian Bureau of Statistics, the IMF, the World Bank, the European Bank for Reconstruction and Development, the United Nations Development agency, and the European Investment Bank.

Macedonia's GDP is $3.4 billion and not $2.7 billion as the report states. Macedonia's GDP exceeded $3 billion in the last 4 years. Nor has GDP grown by 2.7 percent last year or the year before. In 2001, it has actually declined by 4.3 percent and is likely to decline again or rise a little this year. As a result, GDP per capita is wrongly computed. The trade deficit is not $300 million - but double that. It has been above $500 for the last few years. Net foreign direct investment has been closer to $100 million for two years now - rather than the paltry $29 million the report misreports.

The report makes "rice" one of Macedonia's "major" agricultural products. It is, actually, first on its list. Alas,

little rice is grown in Macedonia nowadays, though it did use to be a weighty European rice grower decades ago. Nor does the country produce noticeable quantities of citrus, or grains, as the report would have us believe.

The authoritative-sounding introduction to the chapter informs us that Macedonia maintains a budget surplus "from the sale of state-owned telecommunications". In its decade of existence, Macedonia enjoyed a budget surplus only in 2000 and it had nothing to do with the sale of its telecom to the German-Hungarian MATAV. The proceeds of this privatization were kept in a separate bank account. Only a small part was used for budgetary and balance of payment purposes.

The outgoing prime minister would be pleasantly astounded to learn that he "privatized approximately 90 percent of (the country's) state-owned firms". These were actually privatized by the opposition when it was in power until 1998. It is true that major assets, such as Macedonia's refinery and its leading bank, were privatized in the last 4 years. It is also true that the bulk of state-owned loss making enterprises were either sold or shut. But these constitute less than 15 percent of the number of companies the state owned in 1992.

The fiscal burden of Macedonia is 34 percent of GDP - not 23 percent as is the impression that section provides. It has surpassed 30 percent of GDP long ago. Moreover, in the sub-chapter titled "Fiscal Burden of the Government" the authors contend that "government expenditures equaled 23.3 percent of GDP". A mere three lines later fiscal rectitude sets in and "the government consumes 19 percent of GDP". Which is it?

The "monetary policy" segment is a misleading one-liner:

"Between 1993 and 2000, Macedonia's weighted annual average rate of inflation was 7.15 percent." The term "weighted annual average rate of inflation" is not explained anywhere in the tome. Whatever it is, this average masks the hyperinflation of Macedonia's first half decade and the near deflation of the last few years. The straight average in this period was 56 percent, not 7 percent.

The report says that "the country's political instability has had a debilitating effect on foreign investment". It sounds logical but does not stand up to scrutiny. Investment flows actually increased in the conflict year as bargain hunters from Greece, Slovenia, Germany, and other countries converged on Macedonia.

And so it continues.

Macedonia is a tiny and unimportant country. Clearly, scarce research resources are better allocated to Russia or Indonesia. But many of the erroneous data quoted in the report would have required a single surfing session to amend. Sloppy editing, internal contradictions, and outdated information regarding one country, regardless of how inconsequential it is, render the entire opus suspicious.

Unfortunately, indices such as these affect both portfolio and direct investment flows, the country's rating, its image in the international media, and the government's standing domestically. The golden rule with such a responsibility is "handle with care". Regrettably, few do.

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POLITICS, CULTURE, SOCIETY

The Albanian Intifada of 2001

1. No Albanian Intifada! A Guide for the Perplexed

Written: March, 2001

A few of my colleagues in the international media compared the latest clashes between Albanians and Macedonians in Macedonia to the two Palestinian intifadas ("uprisings" in 1987-93 and from September 2000) in Israel. In doing so, they demonstrated their ignorance of the two regions and the four peoples involved.

The Macedonians are a small nation. Their very nationhood is doubted by their Bulgarian neighbours (who regard them as rustic Bulgarians speaking a funny Bulgarian dialect). The Greeks - another neighbour and the biggest investors in the Macedonian economy - consider them to be Slav invaders. The Serbs are convinced that they are Serbs who occupy "South Serbia". Who needs enemies in the Balkan if one has neighbours?

The inevitable result is that Macedonians are very touchy when it comes to the territorial integrity of their tiny (25,000 sq. km.) country, to the official version of their history and to their language. The current Albanian troubles is perceived by them to threaten all three.

According to the last official census, Albanians constituted around 25% of the population. Add to this Albanian expatriates, a decade of fecundity, and census-dodgers and 33% of the population would seem a safe bet. There are Albanians everywhere in Macedonia - but mostly in its Western part which borders on Kosovo. The Albanians in Macedonia are economically better off than

their brethren in Albania and in Kosovo. But they are a minority and, inevitably, suffer some discrimination (especially in the job market and in education). Albanian women prefer not to work (due to traditional values, the size of the average Albanian family and other, objective, constraints). But even accounting for this fact, unemployment among the Albanian populace is higher than it is among the Macedonians. At 25-30% country-wide, the unemployment rate is anyhow explosive.

Unemployment and discrimination (mostly real, some of it imagined) - especially among the well-educated - breeds resentment. Resentment in the Balkan breeds virulent nationalism and guns, not necessarily in this order. That ostensibly Macedonian Albanians insist on waving the flag of a neighbouring country (Albania) rather than their own's on official occasions does not add to the already shaky mutual trust among the communities. That some of them (admittedly a negligible minority) entertain the dream of a Great Albania (including Western Macedonia) does nothing to assuage Macedonian fears.

Despite (or maybe because) centuries of peaceful co-existence and good neighbourly relations - Macedonians have a stereotype of Albanians as backward, steeped in crime and reflexively secessionist. Albanians, on the other hand, are very dramatic about what some of them insist on calling "state terror". Sporadic police brutality does not help the Macedonian case.

Hence the multi-annual heated debate about whether Albanians should be allowed to use their language in their own higher education institutions. Macedonians regard these rather usual demands as the beginning of their end. They recall the tactics of the Albanians in Kosovo. First, prosaic and rather reasonable demands regarding human

rights, health, jobs and education. Then, an armed uprising of para-military units, followed by Western pressure to "compromise" and grant the minority their "legitimate human and civil rights".

Then NATO.

The Macedonians fully believe - official protestations aside - that the Albanians are simply trying to repeat their Kosovar success in other parts of Serbia (Presevo) and in Western Macedonia. Macedonians seem to believe in the reality of a Great Albania vision more than most Albanians do.

But the uprising in Macedonia has little to do with a Great Albania and a lot to do with greed and gripes. It is a confluence of frustrated idealism and hard cash. Those who do the fighting are an eclectic bunch of disgruntled former KLA toughs (under the itinerant name "National Liberation Army") and wide eyes students. They are mostly Kosovars but with significant logistical support from the local population (underground hospitals, arms caches and such). Some of the fighters and many in the logistics are Albanian Macedonian citizens. The insurgency is as much about business as it is about rights. The Albanians in Macedonia who do not belong to the Albanian party in power (the DPA) seem not to have shared the spoils and patronage it doled out so wholeheartedly to its coterie and cronies. a third Albanian party has just been established, apparently to cater to their needs. Many members of the theoretically disbanded KLA found themselves shovelling snow for a pittance or altogether unemployed. Even crime does not pay - it was taken over by ruthless gangs from Albania proper. But it would be wrong to say that it's all about money. The Macedonian Albanian population is genuinely

disenchanted with the rule of the Slav majority. And this uprising is about airing their grievances as well.

There is no popular and widespread support for a full-scale armed rebellion among the Albanians anywhere. That would be too economically disruptive for both legal and illegal businesses. The leaders of Albania, Kosovo (with the notable exception of Rugova, who may be at great personal risk following the recent local elections he won) and of the Macedonian Albanians all denounced the violence. But a limited "message" to the Macedonian authorities ("give us our rights peacefully or else...") seems to enjoy a tacit - though unexpressed - consensus.

The irony is that the current government of Macedonia has gone out of its way to accommodate the demands of the Albanian population. An Albanian party (the aforementioned DPA) is one of the most important and stable members of a fragile coalition. There are Albanian ministers, civil servants and functionaries in all levels and arms of government, both central and local. The issues of higher education in the Albanian language are on their way to an attractive resolution, as far as the Albanians are concerned. Perhaps this is why the Macedonian government was taken by complete surprise despite warnings and information aplenty.

There remains the demand for the status of a "Constituent Nation" for the Albanians in Macedonia (within a federation or a confederation). This demand is not as innocuous as it sounds. The terminology is borrowed from the 1946 and 1974 constitutions of the former Yugoslavia. In these constitutions, the right of every "constituent nation" to self-determination was recognized - including: "... the right to secession".

2. Surviving the Albanian Uprising in Macedonia

Macedonia is a small (25,000 sq. km.) landlocked country in the Balkan. It serves as a natural bridge between Serbia, Bulgaria, Greece and Albania. As an inevitable result, its economy consists mainly of trading, services, low-tech, low value added industries, such as textile and plastics, and agriculture. Countries such as Slovenia and Germany import wine from Macedonia, bottle it, label it and re-sell it at a much higher price. This pattern is repeated with tobacco and a host of other agricultural produce. Italian designers contract with family textile firms to seasonally manufacture for them. The banking sector is basic, though privately owned.

In recent years and especially following the Kosovo crisis, the country benefited from increasing foreign direct investment, unilateral transfers of multilateral aid and credits and local spending by the likes of NATO and KFOR. Its biggest bank - Stopanska Banka - was sold to a Greek bank (National Bank). Many of the loss makers (communist era industrial dinosaurs) were either shut down or sold to foreigners. The Macedonian Telecom firm was sold to a consortium led by MATAV. A host of critical economic laws passed parliament and long postponed structural reforms were implemented. Value Added Tax was introduced, The re-payment of Macedonia's internal debt has accelerated and bank lending as well as money supply aggregates increased dramatically. With GDP growth in excess of 5% (2000), Macedonia was poised for an economic take-off.

The current Albanian uprising (there has been a minor precedent in 1997 in Tetovo) is low intensity warfare. It is unlikely to adversely affect the main monetary parameters (stability of the Macedonian denar, low to medium

inflation rate, declining interest rates). With its budget in a surplus of close to 4% of GDP, the government is in no need to raise taxes. Tax receipts from the western part of Macedonia - now virtually non-existent - were never sizable. Capital flight is bound to increase but this is predicted to be more than fully offset by increased transfers of Macedonian and Albanian expatriates. Foreign exchange reserves are sound and cover c. 4 months of imports. Moreover, past experience - of which, unfortunately Macedonia has plenty - shows that both a possible (though improbable) devaluation of the currency and capital flight are reversed once the crisis is over (or becomes a way of life). Following an initial panic during Operation Allied Force in Kosovo (1999), the Central Bank actually had to absorb excess foreign exchange in the markets as people sought to purchase denars. The same happened after the imposition of the Greek embargo and the sanctions on Yugoslavia (which used to be Macedonia's main trading partner).

The danger lies in the fickleness of international investors. Cancellations of commitments to invest in the local economy have started. If FDI dries up, Macedonia will be hard pressed to cope with its current account deficit (c. 6.5% of GDP). This can be exacerbated if the international banking system were to wean Macedonian firms off trading and documentary credits. Foreign firms - especially American ones - tend in these circumstances to cancel orders for textile and light industrial products. Macedonia has diversified its trade considerably and now does most of its business with the European Union but its products - steel, textile, wine, tobacco, grain, lamb meat - are still subject to European protectionist measures. These were not relaxed even during the more parlous war in Kosovo. No special concessions are likely to be offered

now.

One cannot expect international donors to cover the difference. Patience with the region and its endless squabbles has worn thin and a potentially isolationist USA administration is not likely to provide the leadership needed to revive it. Macedonia can be left high on insurgency and dry on cash. But this is not a necessary scenario. It can be averted with goodwill and good planning. Foresight has often eluded the West's involvement in the Balkan. Here is an opportunity to make amends.

3. Macedonia at a Crossroads

Western pressures, mainly the EU's and NATO's, are likely to yield an agreement between Macedonian and Albanian political parties regarding the future of Macedonia. But such an agreement is bound to be rejected by both Macedonians and Albanians who already deeply distrust both their own politicians and the West. In the medium term this may lead to vigilantism and sporadic fighting and atrocities by paramilitary groups.

The strong anti-Western sentiment is unlikely to deter foreign direct investment by Greek firms. But it is likely to give U.S. and Western European investors pause. Manufacturing contracts awarded by foreigners to the Macedonian textile industry have been cancelled. A major investment in a shopping mall has been frozen. Capital flight - at this stage mainly in the form of Macedonian export firms avoiding the repatriation of their export proceeds - is taking hold.

Macedonia's central bank, the NBRM, has used more than $100 million of its pre-crisis $700 million in reserves to

defend the currency, which has depreciated by 10 percent against all major currencies since February.

There is no panic buying, but hard currency is hard to come by. The Macedonian banks have rationed foreign exchange sales and the numerous exchange offices are only buyers. The spreads between the sale and purchase prices of foreign exchange have widened considerably. Still, the demand is not driven by households, but by the economy's corporate behemoths, such as its oil refinery, Okta, and its largest bank, Stopanska Banka.

As both exports and imports have fallen as much as 20 percent, Macedonia's financing gap in its balance of payments has grown from nil to $65 million (about 2 percent of gross domestic product). Even this figure is based on optimistic scenarios regarding GDP growth (+2.5 percent) and inflation (4 percent). Should the country deteriorate in to civil war, negative growth will be the likely outcome.

Four weeks of negotiations with the IMF regarding Macedonia's future arrangement were broken when the visiting mission was recalled to Washington due to safety considerations. Talks are to resume in mid July. The parties are very close to an agreement, but it still can be jeopardized by an escalation in the war.

The country's reformist Minister of Finance, Nikola Gruevski, is hoping to obtain the funds to close the financing gap in a donor conference at the end of July. But with Macedonia now being gradually cast by the West as the intransigent and belligerent party, this hope may prove to be unfounded.

In the conference of EU ministers of foreign affairs in

Luxembourg on June 24, Macedonia was explicitly threatened with the withholding of EU aid unless it ceases all military operations against Albanian insurgents. The United States is also lukewarm.

Still, Macedonia's economy is holding together surprisingly well. Its currency is pretty stable. Its foreign exchange reserves equal 3 months of imports. Foreign investment is flowing in. The budget deficit is likely to be about 6.5 percent of GDP following a 0.5 percent financial transactions tax levied as of July 1 and projected to yield about 2 percent of GDP in added revenues. The overall tax burden is a reasonable 37 percent, and all manner of taxes - from the personal income tax to the corporate profits tax - have actually been reduced lately, concurrent with the introduction of a 19 percent Value Added Tax. The revenue side of the budget is hurting, but the government has a cushion of about 9 billion Macedonian Denars ($180 million) deposited with the central bank and about 700 million deutschemarks ($320 million) - the proceeds from the sale of the local telecoms company to Hungary's MATAV. Moreover, tax collection in western Macedonia - the fighting zone - has anyhow always been insubstantial.

The absurdity is that the economy may actually revive owing to the heavy, expansionary, military outlays by both the Macedonian security forces and NATO. But this is far outweighed by the economic disruption caused by 60,000 refugees and 30,000 internally displaced persons, which costs the government about $6 per capita per day. It is a burden the government cannot carry for long without sharing it with the international community.

4. The Disingenuous Dialogue between Macedonians and Albanians in Macedonia

NATO and the EU - and to a lesser extent the USA - are committed to preserving Macedonia's stability. The main transport corridors connecting the reformed Yugoslavia to Greece cross Macedonia. KFOR's supply routes and logistical bases are in Macedonia. NATO's southern flank - comprising the ever adversarial Turkey and Greece - may itself be destabilized by an inter-religious conflict in the cradle of Orthodox Christianity. Add to this the destabilizing and radicalizing impact upon the delicate fabric of Kosovo of the throngs of Albanian refugees from Macedonia and NATO's involvement becomes more understandable as is the relentless pressure it exerts on local politicians to deliver a peace and nation building agreement.

But an agreement between the leaders of the Macedonian and Albanian political parties is unlikely to succeed if it is perceived by the Macedonians as imposed by the West. The Albanians are likely to reject any agreement as too late and too little. The NLA does not answer to the traditional Albanian leadership. It has a mind and an agenda of its own. Moreover, senior political figures in Macedonia - such as the Prime Minister, Mr. Ljubco Georgievski - feel betrayed by their Albanian erstwhile partners. They - however reluctantly - opened the gates of their impoverished country to a flood of 400,000 Kosovar refugees (equal to 20% of the population) in 1999. The Albanians were handed important ministries and their participation in the public administration increased by 25%. Higher education in Albanian and an Albanian TV channel were among the achievements the current government was especially proud of. Hence the traumatic reaction of Macedonian politicians to the current insurgency.

Yet, they should not have been surprised. The country's intelligence services were unequivocal in their warnings of gathering trouble. Inter-ethnic tensions reached fever pitch during the Presidential elections at the end of 1999 when current president Trajkovski's win was attributed by the opposition to mass electoral fraud among Albanian voters. There were hints of a collusion at the highest levels involving a web of business interests and meddling Western diplomats.

Macedonia never really succeeded to integrate its Albanian citizens. They boycotted the 1991 referendum on independence and the attendant census. In January 1992 they held a plebiscite of their own in which they opted for autonomy. They publicly and recurrently rejected the results of the 1994 internationally monitored census (according to which Albanians made up 23% of the population).

Many Albanians in western Macedonia feel closer to their kin and kith in Kosovo than to the Macedonian state. In both 1968 and 1981 they demonstrated in solidarity with the bloody outbursts in Kosovo against the former Yugoslavia. The demand to be annexed to the autonomous Kosovo were often heard between 1969 and 1989. Albanians from Macedonia attended Pristina University where they interacted with radical Maoist students from both Kosovo and Albania. In 1992 the Albanians briefly declared an "Autonomous Republic of Illirida" in a series of demonstrations in Struga.

Macedonians intermittently accused the Albanians of illegal construction, purchases of real estate at inflated prices, mass immigration from Kosovo, re-population of Macedonian villages abandoned by their inhabitants, ethnic cleansing by intimidation of urban neighbourhoods,

nationalist indoctrination under the guise of religious instruction, pressuring other Moslems to declare themselves as Albanians, and irredentism.

Albanians intermittently accused the Macedonians of discrimination in the labour market, in secondary, and higher education, in outlays on infrastructure (many Albanian villages still lack proper roads and are not connected to the national grids of water and electricity), and in the public administration. Albanians claim that police brutality, discriminatory legislation, and the exclusive use of the Macedonian language violate their human and civil rights. They lost faith in the Macedonian's will to accommodate their demands, however legitimate.

Following the recent spate of violence, Macedonians have come around to accepting many long standing Albanian demands. Others they reject as secession in disguise.

The constitution of Macedonia was altered in 1989 from "(Macedonia is) the state of the Macedonian people and the Albanian and the Turkish minorities" to read "(Macedonia is) the national state of the Macedonian nation". The Macedonians are now ready to drop this preamble and replace it with "Macedonia is the state of all its citizens". The Albanians demand to be mentioned in the constitution explicitly, as a "Constituent Nation". In the 1946 and 1974 constitutions of former Yugoslavia, constituent nations had the right to secede. No wonder the Macedonians reject this formulation. Another unacceptable Albanian demand is to possess the right to veto legislation and acts of the state. This would federalize Macedonia and transform it into a two nations state.

Yet, it is not clear whether these demands are made by the Albanians in preparation for an inevitable breakup of Macedonia, or because they so deeply distrust the goodwill of the Macedonians. If the latter, international monitoring of the implementation of an eventual agreement would go a long way towards assuaging Albanian fears. If the former, no extent of NATO involvement will be able to prevent a ferocious and Balkan wide war.

5. Thucydides' Honour: Can the Albanians in Macedonia be Bought off?

"People make war because of: honour, fear, and interest."
Thucydides

"(Commerce is) rapidly rendering war obsolete by strengthening and multiplying the personal interests which act in natural opposition to it."
J.S. Mill - "Principles of Political Economy" - London, 1848

"If commerce were permitted to act to the universal extent it is capable, it would extirpate the system of war."
Thomas Paine - "The Rights of Man" - London, 1894

Western thinkers - even in the era of virulent nationalism - ignored Thucydides' dictum. They believed that throwing money at discontent - in the form of better and freer commerce - is the perfect and irretrievable antidote to war. They accentuated interest at the expense of fear and honour. The all-pervasiveness of this fallacy amounts to an almost reflexive defence mechanism of denial of the reality and inevitability of war and of its role as arbiter and pacifier.

In the Balkan, both the United States and the European Union continue this tradition. The association and stabilization agreements they often dangle and rarely sign, are sometimes followed by civil wars. The stability pact brought no stability. And the profusion of aid money and credits served only to augment flagrant corruption and arm the combatants.

The same tried and disproven methods are now applied by cynical and weary diplomats in Macedonia. Aid is withheld and promised as a bargaining chip. Elusive EU membership is supposed to concentrate the minds of the antagonists. But Macedonia's probl 1000 em is one of honour, and of fear, and only then - of self interest.

The Albanians in Macedonia are economically better off than their kith and kin anywhere else in the Balkan. This, they claim, is no thanks to the state. Official unemployment amongst the young is intolerably high. Access to secondary and higher education limited (especially since the use of the Albanian language in these institutions is restricted). They are under-represented in public administration. The physical infrastructure of their villages and cities is crumbling or altogether non-existent.

To this the Macedonians retort that Albanians make up a hefty chunk of the informal economy, thus distorting official unemployment figures. Albanians in western Macedonia largely do not pay taxes - an act of civil disobedience long preceding the current insurgency. Their admitted undr-representation in state administration is due to the lack of properly qualified and educated cadre. That they prevent their women from attending school does not help. And infrastructure all over the country is decrepit, Macedonia being the third poorest country in Europe.

What preceded what - discrimination poverty or the reverse - is immaterial except to traditional Balkan hair splitters. Economic problems should and can be solved by economic and regulatory means, goes the West. A tweaked constitution, the right laws passed, credits to small and medium enterprises and, presto, problem solved.

But the Macedonian problem - now in its second century - is a lot deeper than any Western pocket.

The Macedonians regards the current state of Macedonia as the final realization of a dream. It occupies less than a third of the historical territory known as Macedonia - but it is theirs, a sovereign state, where they are fully Macedonian in language and in custom. Macedonia to the Macedonians is, in other words, a fatherland, not merely a convenience. They cling to their tiny plot even more tenaciously in the face of Serb, Greek and Bulgarian disparagement. The Greek doubt the authenticity of the current inhabitants of Macedonia as do the Serbs (to whom Macedonia is "south Serbia"). The Bulgarians regard Macedonian as a villager's dialect of Bulgarian. This inane opposition by their neighbours hardens Macedonian resolve to prevail and perpetuate both their national identity and their language. This is a throwback to the 19th century concept of nation-state - a space populated by a more or less homogeneous people with their own history, national myths, language, and political agenda.

Where the Macedonian's attitude is historical - the Albanians' is territorial ("Albania is where Albanians are"). To them Macedonia is a mere territory inhabited by two major nations (the Macedonians and the Albanians). It is a political and economic partnership. As such, it can theoretically be dismantled, or substantially altered at will.

Since no single nation in such a citizen's compact can have a privileged position - they each can veto each other's decisions and vision.

This Albanian rendering of Macedonia is much closer to the American instrumental ethos of the state. To Americans, the USA, is the outcome of a social contract constantly re-negotiated and rephrased. It is founded upon piles of documents - the Constitution, the Bill of Rights. It is an abstract entity in flux, re-defined by its constituents and managed by semipternal arbitration.

The Albanian position is also close to the European Union's new found totem of the "multi-cultural society". States belong to their citizens, regardless of colour, race, or origin. Germany, the United Kingdom, and France are slowly being transformed into immigrant societies - dysfunctional melting pots of hitherto foreign cultures a5d and societies. This tendency is further enhanced by the gradual emergence of the European supranational federation. Sovereignty is in the descendant - national cohabitation in the ascendant.

Here lies the danger to Macedonia's future. Both the USA and the EU are likely to coerce Macedonia to adopt a contract-based, multi-cultural solution to the crisis. The Americans are likely to impose on it an American style constitution - and the European are likely to implement a bevy of "minority rights" measures. In a region still steeped in nationalistic lore and enthralled by the spectre of the nation-state, these would spell the end of Macedonia as a political entity. At the very least it would spell the end of Macedonia as the homeland of the Macedonians.

6. Macedonia - The Brink and the Cusp

"For years Hannibal's army roamed freely, ravaging much of Italy while no Roman army dared confront him ... The Romans were forced to fight for sixteen years ... suffering fearful casualties and terrible economic damage before they were able to prevail."
Donald Kagan, "On the Origins of War and the Preservation of Peace", Doubleday, New York, 1995

The first phase of the civil war in Macedonia has ended in what misleadingly looks like a resounding Albanian victory. The Albanians maintain effective control of Western Macedonia and have proceeded to ethnically cleanse it of its Macedonian denizens. Both Serbs and Albanians practised these tactics in Kosovo. The hinterland of the NLA (UCK in Albanian and not accidentally) is secure - a friendly Kosovo, brimming with lethal weapons and impotent Western peacekeepers. KFOR and NATO are powerless because they cannot hope to ward off an Albanian uprising in Kosovo with 40,000 badly trained and vacation-orientated soldiers. Such an uprising is guaranteed should KFOR/NATO elect to act against the rebel groups decisively. The West - led by many of the 1999 incumbents - equally cannot afford to admit its grave shortsightedness in Kosovo.

But, the NLA is deadlocked in Western Macedonia and unable to further its military achievements. It enjoys very little support outside Western Macedonia and would fail calamitously if it were to try and break out, through Skopje, to the south. In effect, the NLA is besieged in an enclave of its own making. Granted, the Macedonian army and police are not up to the task of dislodging the NLA. They lack the training, hardware and fighters needed to achieve this feat. But the worst scenario as far

as Macedonia is concerned is a prolonged stand-off, coupled with sporadic urban guerilla actions, a situation similar to Israel's. The NLA, therefore, is pressed for time. It is facing a deadline imposed by its own paralysis. The recent bout of fighting in Tetovo erupted immediately after Purdew, the American procurator, said that "there is no deadline" to reach an agreement. The NLA reminded him vividly that there definitely is one.

The crowning achievement of the Albanians and a repeat of the Kosovo scenario - was their success in internationalizing the conflict. In this they were aided by a panic stricken Macedonian establishment. The wise men of West - the same people who brought you Dayton and Operation Allied Force - were called in to mediate. As I wrote elsewhere ("Thucydides' Honour- Can the Albanians be Bought off?"), the final agreement is likely to reflect the Albanian position:

"Here lies the danger to Macedonia's future. Both the USA and the EU are likely to coerce Macedonia to adopt a contract-based, multi-cultural solution to the crisis. The Americans are likely to impose on it an American style constitution - and the European are likely to implement a bevy of 'minority rights' measures. In a region still steeped in nationalistic lore and enthralled by the spectre of the nation-state, these would spell the end of Macedonia as a political entity. At the very least it would spell the end of Macedonia as the homeland of the Macedonians."

The Macedonians will reject such an agreement. They already feel betrayed by the West and anti-Western (especially anti-American) sentiments are running high. Such an agreement will be perceived as a "knife in the back" (as was the Versailles Treaty by the Germans). Politicians in Macedonia - both Macedonians and

Albanians - have no moral authority and are thought by the populace to be part of a kleptocracy. They will fail to convince the people that the agreement was signed in good faith. Extremist Macedonians are likely to react with counter-terror, para-military activities and vigilantism. Virulent nationalism and its attendant xenophobia are the favourite staples of unpopular politicians, especially prior to elections. Many political figures will prefer to ride the tiger, rather than be devoured by it.

The West is likely to react with economic sanctions. These will prove to be much more effective against landlocked and aid-dependent Macedonia then they were against self-sufficient Serbia.

The agreement will also be rejected by the more militant factions in the NLA. These are already out of control and act pretty much as they see fit. If the agreement fails to cater to their needs - lucrative economic concessions, guaranteed employment, freedom of movement and political participation in dividing the loot - they will not lay down their weapons. They will carve out Western Macedonia as a noman's lands in which they can roam freely and pursue their legal and less legal commercial interests.

Macedonia is on the brink of being "Israelized" - or on the cusp of being "Bosnianized". What a choice.

7. The Sudeten in Macedonia

Bernard Kouchner, the former administrator of Kosovo, has warned against producing a a second Cyprus in Macedonia. He probably meant a territory divided along ethnic lines by a foreign army. But here the comparison ends. The ethnically cleansing invading Turkish army was

not invited by both parties to the conflict in Cyprus to make peace. The Turks were reacting to a military coup by members of the majority Greek-Cypriot community in cahoots with a vicious junta in Athens and to a series of deadly inter-communal clashes. If MFOR ever makes it, it will be by the will and invitation of both Macedonians and Albanians.

Other have called the smuggling routes used by Albanian fighters to haul weapons and supplies the Ho Chi Minh trail and the reconciliation agreement, imposed by the West, Macedonia's Treaty of Versailles.

But what could fast become the dominant metaphor is Czechoslovakia and the Sudeten Germans. Ostensibly, the resemblance is striking. A small country with a belligerent and violent minority concentrated in its north western parts - sacrificed by an appeasing and war weary West to mollify a brutal neighbouring regime run by the minority's ethnic group.

No metaphor is perfect. Czechoslovakia was an artificial multi-ethnic creation (as its disintegration after 1992 has proven). Macedonia is much more homogeneous ethnically. Czechoslovakia was an industrial and military powerhouse (the 7th largest industrial producer in the world). Even the Germans were deterred by its well equipped and well trained army. Macedonia is low on military hardware and militarily inexperienced. The Sudeten Germans were pawns in Hitler's nefarious plan to conquer Eastern Europe as a much needed lebensraum for the Nordic race. The NLA is financed and controlled by Albanians in the West - but Albania, Macedonia's neighbour, is a relatively democratic and EU-orientated country. While it allows the guerrillas to train in its territory, to offload weapons in its ports, and to cross its

borders with impunity - it is by far NOT a Balkanian version of Nazi Germany.

Allowing for these caveats, the similarities are startling.

Czechoslovakia was the reification of Wilson's naively detrimental principle of self-determination. It incorporated the provinces of Bohemia and Moravia, including more than 3 million Germans in what used to be Austrian Silesia. These Germans were transformed overnight from members of the ruling majority in the Austrian Empire to a feared minority subjected to subtle forms of discrimination in their new country. The German region - the Sudeten - in western Czechoslovakia, bordered on Germany and Austria, where Germans ruled and German was spoken. Czechoslovakia refused to grant this restless and hostile minority an autonomy, lest it secedes, joins Hitler's "Great Reich", and deprives Czechoslovakia of important industrial and mineral assets and its rail links to northern Europe. Losing the Sudeten also meant losing Czechoslovakia's ability to defend itself against an ever more imminent German invasion.

The worsening economic situation in the Depression prone 1930's - unemployment, closure of loss makers, inflation - radicalized the Sudeten Germans. Support for Hitler and his pan-Germanic policies increased with every bloodless and bold victory: the militarization of the Rhineland and the Anschluss (unification with Austria). The extremist Sudeten German party, led by the puppet Konrad Henlein, blossomed after 1938.

Henlein collaborated with Germany to cause the dissolution of Czechoslovakia, "this French air carrier in Europe's midst", in Hitler's words. They demanded civil and human rights and, above all, the ability to exercise the

right to self-determination enshrined in numerous international treaties. The status of the German language was a major issue as was the local participation of Germans in the police forces and army. Henlein's instructions were - and I am quoting Hitler: "You must always demand so much that you cannot be satisfied". Hitler's worst fear was that Czechoslovakia will accept ALL the demands of its bellicose minority (as, indeed, it did a few times during this artificially provoked crisis).

"Spontaneous" demonstrations, protests, and riots erupted all over the Sudetenland. The Czechoslovaks were described by Hitler - and many in the West - as intransigent racists, bigots, and bullies. The French and Brits - their armies and economies unprepared for war, their leadership traumatized by the Great (first world) War, their politicians unabashed appeasers - pressured Czechoslovakia to make one unpalatable concession after another. Finally, they weighed on Czechoslovakia to make concessions which endangered its very existence, territorial integrity, unitary character, and sovereignty. In this campaign of brutish intimidation of the Czechoslovaks, the West - Germany, Britain, France, and Italy - collaborated fully and willingly, regardless of other differences. Britain and France effectively annulled their mutual defence pacts with helpless and hapless Czechoslovakia. Bonnet, France's Minister of Foreign Affairs at the time warned the Czechoslovaks not to be "unreasonable". Otherwise, he warned, France will "consider herself released from her bonds". Halifax, the British Foreign Minister, instructed his Ambassador in Paris about the "importance of putting the greatest possible pressure on Dr. Benes (Czechoslovakia's president - SV) without delay".

The Sudeten Germans, without waiting for the results of the world-class diplomatic efforts on their behalf, have established militias and commenced military urban guerrilla actions. Lethal clashes followed between Czechs and Germans in mixed towns. An "independent" British mediator - Lord Runciman - was dispatched to arm twist the Czechoslovaks. His instructions were to prevent war at any cost - especially to Czechoslovakia. "We will use the big stick on Benes" - warned Cadogan, permanent under-secretary in the British Foreign Office.

Henlein had his instructions from Berlin to sabotage the negotiations with the Czechoslovak government, which he did faithfully by constantly raising new demands or old, discredited ones. On September 4, 1938, an exasperated President Benes accepted all the German conditions without exception. This was rejected by both Henlein and Hitler as "too late". An idea of referendum in the Sudetenland (guaranteed to yield unification with Germany) was rebuffed by Hitler.

Finally, the French and the British presented this ultimatum to democratic, multiethnic Czechoslovakia, on September 22, 1938:

"One - That which has been proposed by England and France is the only hope of averting war and the invasion of Czechoslovakia.
Two - Should the Czechoslovak Republic reply in the negative, she will bear the responsibility for war.
Three - This would destroy Franco-English solidarity, since England would not march.
Four - If under these circumstances the war starts, France will not take part; i.e., she will not fulfil her treaty obligations."
Quoted from: Donald Kagan - On the Origins of War

and the Preservation of Peace - Doubleday,New York, 1995 - p. 399

Benes accepted this ultimatum as well but Hitler again demurred. Now he demanded that German troops occupy parts of Czechoslovakia to protect rioting Sudeten Germans from Czechoslovak retribution. In the Munich Conference of the leaders of the West these demands were essentially accepted and Czechoslovakia was no more. Hitler conquered it, in stages, and assimilated it in the German Reich.

Why did the West behave so duplicitously and treacherously?

The infamous British Prime Minister, Neville Chamberlain made this radio address to the British people in the heat of the crisis:

"How horrible, fantastic, incredible it is that we should be digging trenches and trying on gas masks here because of a quarrel in a far-away country between people of whom we know nothing ... However much we sympathize with a small nation confronted by a big and powerful neighbours, we cannot in all circumstances undertake to involve the whole British Empire in war simply on her account. If we have to fight it must be on larger issues that that."
September 27, 1938 - ibid., p. 402

APPENDIX - Interview Granted to Balkan Devlen

Q1: Was there any threat of economic sanctions against Republic of Macedonia by the international mediators and/or representatives of EU/US during the crisis of 2001?Were there threat or sanctions by the international community before 2001 due to ethnic tensions within the country?

A1: The answers to both parts of your question are in the negative. But one should distinguish overt threats - both official and informal - from "ambient" ones. While no one threatened the Macedonian government explicitly - many hints were dropped that a failure to resolve the ethnic crisis would lead to severe economic consequences. The main bullies were the American Ambassador at the time, Mike Einik, as well as various mediators, both American (notably James Purdew) and European.

Q2: How clear was the threat? Were they verbal or written? What kind of sanctions were brought into the table, such as withholding economic aid, trade sanctions, other financial sanctions etc?

A2: The implied threats pertained to Macedonia's ability to conclude a standby agreement with the IMF and the subsequent receipt of funds from donors. On various occasions, it was made clear that lack of "cooperation" would result in deliberate delays in the delivery of aid and the release of credit tranches agreed with both the IMF and the World Bank. The European Union went as far as actually discussing aid and trade sanctions in one of its inter-ministerial meetings.

The Americans also regarded the conflict as a commercial opportunity. They fumed at Macedonia's weapons purchases from Ukraine and openly warned that all aid and lending will be suspended if we did not switch our business to American suppliers.

Q3: What was the perception about them in the Macedonian Government? Did Macedonian Government took them seriously or only perceive them as "empty" threats?

A3: They were taken very seriously. The Ministry of Finance and the National Bank prepared a contingency plan for the event of sanctions. Its details are now available here: ***Economic Management in a State of War***.

Q4: Were they important in Macedonian Government's decision to sign a peace deal? If yes to what degree they are effective?

A4: Not at the beginning. But, as the economy deteriorated sharply, the country's dependence on prospective injections of funds grew. Moneys forthcoming from a donor conference were deemed crucial to the state's ability to defend itself, or even survive - and the donors conditioned their support on an IMF agreement. We knew that the IMF is under the Americans' thumb, nothing but a long and obsequious arm of the United States. We knew that the Europeans wanted peace at any price. A Macedonian settlement was crucial to the EU's role in a unipolar world. NATO, an alliance is search of a purpose, was also very keen. We had no doubt that Macedonia would pay a dear price if it failed to comply with Western dictates.

Q5: In your opinion was the international pressure is "the" determining factor in reaching a peace deal? What role did threats of economic sanctions played within the context of international pressure?

A5: International pressure combined with a lackluster military performance in the battlefield to yield the Ohrid Framework Agreement. It was not "the" determining factor, though. True, the deal was concluded under strenuous pressure by the euphemistically named "international community" - but mainly because Macedonia ran out of economic resources and its army

and police were stretched to the limit and unable to tip the scales.

Q6: Were there any positive economic sanctions (such as increase in economic aid, preferential trade agreements if a peace deal is signed etc) on the table too? Can you compare those positive economic incentives with threats of economic sanctions in terms of their effect over the Government's decision to sign a peace deal?

A6: Economic "carrots" or incentives were by far more decisive than the entire gamut of whispered threats. Macedonia desperately needed the $500-600 million it was promised in a donor conference which would follow the successful conclusion of an inter-ethnic agreement. This tantalizing prospect was alluring and important in Macedonia's final, though reluctant, acceptance of the Framework Agreement. There is a lesson here to be learned: governments - and I have served as economic advisor to a few - react far more to carrots than to sticks.

8. The Dead Line: The Albanian NLA in Macedonia

Winter is afoot and, with it, desperation. The NLA relies heavily on logistic support from Kosovo and Albania. The latter has ostentatiously sealed its border with Macedonia against weapons smuggling, thus ingratiating itself with the West. The narrow mountain paths from Kosovo will be rendered impassable, by the first rains, to horses, mules, and fighters saddled with the tons of munitions and supplies needed daily to sustain even low intensity warfare. Moreover, the NLA has unwisely driven both Albanian and Macedonian villagers out of their homes. The first fled to Kosovo for fear of the NLA's unsubtle recruiting tactics and an aversion to war that is the attribute of farmers since the dawn of humanity. The latter were ethnically cleansed by intimidation. Now the NLA has no local food supplies to subsist on. KFOR and

NATO, unsettled by rising anti-Western sentiments in hitherto obedient Macedonia, are flexing their muscles and obstructing the NLA's cross border escapades.

Thus, contrary to all appearances, the NLA is in dire straits.

The only thing more ominous than a terrorist organization is a desperate terrorist organization. This is coupled with the rise of rabid, exclusionary, paranoid, and uncompromising nationalism on both sides. Moreover, the nearing elections, are potentially disastrous to all the negotiators around President Boris Trajkovski's table, except the two international mediators. The ruling party, VMRO-DPMNE, stands to be wiped out unless it harnesses the tiger of nationalism and patriotism. The Albanian parties may fare no better. It is an explosive formula. The remaining three years of the President's term translate into the Balkan version of long term vision and rising above the fray.

Hence the need by everyone to pretend that they are negotiating fiercely on behalf of their constituencies. In reality, there is nothing to negotiate. The West cannot afford not to have an agreement concluded and its will shall be done. The final agreement is bound to bear a striking and unmistakable resemblance to the first draft presented weeks ago by the urbane but bumbling Leotard and the abrasive go-getter Purdew. But both Georgievski and Xhaferi have to be seen by their electorates to be tirelessly driving a tough bargain.

In the long term, Macedonia must adopt one of three models.

The first type of settlement involves partition, either

through federalization, or through the positioning of a military ("peacekeeping") contingent between the parties. The country can be federalized, or confederalized in numerous ways, but the end result is bound to be Cypriot - a disintegration of Macedonia into two reciprocally hostile, mutually exclusive, economically non-viable, political entities. This is the Bosnia game plan.

The second model involves constant guerrilla warfare, urban and eco-terrorism, low intensity conflict, with occasional flare-ups and battles. This has been the reality of the State of Israel and of Palestine before it since, at least, the end of the 19th century. The NLA cannot defeat the Macedonians, simply because it lacks support anywhere outside the lines it has established in western Macedonia. It cannot cross the formidable barrier of Skopje to the south. And it is losing international empathy fast, especially with the spread of the uprising to Montenegro and, in the future, Greece. The Macedonians cannot defeat the NLA because their army and police are not up to it and were not trained and prepared to suppress a Chechniya within their borders. The West is already tightening the noose of an arms embargo on Macedonia and has imposed economic sanctions in retaliation for what it unjustly regards as the brutal intransigence of its leadership and armed forces.

The third model, hitherto quite successful in Lebanon and Ireland, involves gradual disarmament ("decommissioning") coupled with tangible advances in political re-integration of yesterday's terrorists in today's government - all under the eye and guidance of benevolent outsiders. Alas, this model is inapplicable to Macedonia. It works best when the warring parties have a lot in common. In Ireland both sides are, after all, Irish. In

Lebanon, both are Arab and united in their virulent hate of Israel and contemptuous scorn of Syria. The Albanians and Macedonians, by comparison, have nothing in common and a everything in opposition.

Moreover, the NLA (which was not party to the negotiations) is not a monolithic entity. It is more like an umbrella organization with serious and fracturing differences of opinion regarding the ultimate goals the insurrection and the means to obtain these goals. Roughly, it is made up of one third veteran Kosovo fighters, some of them professional soldiers, who also fought in Croatia, or in the Foreign Legion. These people are bitter and disgruntled by what they see as the betrayal of the West in refusing to guarantee an independent Kosovo and the failure of the current Kosovar leadership to integrate them economically into the emerging polity there. Their motives are part emotional and part pecuniary. Another third is made of unemployed, young Albanians, mainly from Macedonia itself. Their fighting is self-interested. They get a monthly salary and perks and, lacking education and skills, they don't have much of a choice outside the killing fields. The rest are diehard, hardcore, idealists who either fervently espouse a Great Albania, or would like to take over Western Macedonian in a "constitutional coup" which will grant them their own police force, municipalities, institutions, universities, budgets, and semi-political structures. The NLA itself is not directly involved in criminal activities, though a few of its members are. But the money that finances it (from the Czech Republic, Switzerland, Germany, and the USA) is tainted by drug dealing, white slavery, illegal immigration, and the smuggling of everything illicit, from cigarettes to stolen cars, to weapons. In this they collaborate with politicians and criminals in Macedonia -

both Albanian and Macedonian. Lobby groups in the USA are not known to be involved in crime, though.

The NLA must now ethically cleanse its hinterland (especially Tetovo), capture the Tetovo-Skopje route and re-enter mixed population villages around Skopje (including Aracinovo).

It stands to reason that Montenegro is next in line, followed by Greece. Both have restless Albanian minorities.

Albanian terrorists, in both Kosovo and Macedonia, have hitherto never acted in the manner of Palestinian terrorists (hijacking planes, disrupting international events, etc.). They clung to their "constituencies", recruited from the rural population, obtained logistical supplies (food, medicines) from the hinterland via short supply lines and attacked, largely, only the military and the police.

Thus, this Balkan tragedy unravels. An agreement will be signed. It will be vehemently disowned by the NLA. Demagoguery will flourish. Flags unfurled. Lines drawn in bloodied sands. Fighting will continue. Macedonia faces a hot summer followed by a chilling winter.

9. Why the Ohrid Framework Agreement in Macedonia will Fail

"…Many Macedonians contend they were forced to make concessions on an accelerated timetable only because of the ethnic Albanian insurgency. Javier Solana, foreign policy chief of the EU, rejected that charge saying, 'violence has not dictated the pace of progress'. Asked if the force of arms was the father of today's agreement, Ferat Fazliu, a rebel in Tetovo, said 'of course'."

"A more senior rebel figure, Xhevat Ademi, who is on a Bush Administration black list that prohibits him from traveling to the United States, said in Tetovo that the agreement was merely an interim solution. 'In Albanian, we have a saying: 'a mountain shivered and a mouse was born', he said, equating ethnic Albanian grievances with the mountain and the agreement with the mouse. But Ademi would not say exactly what the accord lacks, raising suspicions that some rebels still view partition as the ultimate solution to the country's problems."

(The Washington Post, August 14, 2001)

Historical Note

In the wake of an armed uprising by the Albanian minority in Macedonia, in the spring and summer of 2001, the parties were cajoled and coerced by the international community into signing in Ohrid a power-sharing agreement ("The Framework Agreement"). The constitution was amended to reflect the role of the Albanians as a constituent ethnicity, affirmative action quotas were introduced in higher education and state employment (especially in the security forces), and, following an act of devolution ("decentralization"), municipal elections were successfully held in March 2005.

The Framework Agreement between the Macedonian and Albanian parties in Macedonia continues the infamous tradition of compacts imposed by a war-weary West on helpless and hapless small nations. The Munich Agreement led to the demise of Czechoslovakia in 1938. The Camp David round of negotiations forced on both Israel and the Palestinians in 2000 led to the al-Aqsa Intifada. The aborted Rambouillet Accord led to the

indiscriminate bombing of Kosovo and Yugoslavia. This agreement will lead to a civil war which is bound to equal in ferocity only Bosnia.

Why is this agreement doomed to fail?

Because it was only the first step in a long and convoluted series of constitutional and legislative measures - each and every one of them a potential tripwire. Arrant nationalists, extremists, and opportunistic profiteers on both sides did and will do their damnedest to ensure the vitiation of the pledges made by both parties. This conflict is not between Macedonians and Albanians as it is between those who believe in peaceful tackling of grievances and those who do not. It, therefore, cuts across ethnic lines. The rancor started on the very presidential lawn which hosted the signing ritual, when the Albanian politicians resorted to their mother tongue in their speeches.

Then there is disarmament. It never works. Decommissioning failed in Northern Ireland. It was made a mockery in Kosovo. It was even less likely to succeed in Macedonia. Here is what NATO had to say hours after the celebrity-studded signing ceremony in the posh suburb of Vodno, in Skopje:

"...The basis for the peace deal and the NATO deployment is an agreement by the rebels to voluntarily hand over their weapons. But that raises more questions: How many weapons are there to be handed in? Where are the weapons caches located? And how can NATO verify that all the weapons are being turned in? 'Voluntary disarmament is a tricky issue', the military spokesman said. 'To what extent do we trust them? Why should we send troops in to a risky operation if we can't trust the parties?'" (Washington Post, August

14, 2001)

Thus, no one was committed to this agreement from its very inception, not even NATO. By publicly constraining itself to the administration of arms collection depots, it has self-castrated and enhanced its reputation as a non-fighting, impotent, caricature of an army. The agreement is an orphan, a failure waiting to materialize. A hot potato tossed by its very originators, the buck that never stops. The only exception was, perhaps, Boris Trajkovski, the late President of Macedonia. But, in the eyes of many Macedonians, he was tainted: compromised by his shoddy election, won with Albanian votes, and by the overt and excessive coziness of his relationships with the inapt or bullying procurators of the West. Only his premature death in February 2004 saved him from ignominy and elevated him to martyrdom.

Still, the agreement harbors the seeds of its tragic demise mainly because it is between parties who are irrelevant and derided by their own alleged constituencies. The NLA (and its political successor, DUI) was not party to the negotiations. It acted by remote control, through the proxy of Albanian politicians who purported not to represent its views and negotiating stances. It, therefore, can completely disown an agreement it has not been an official party to - as it is likely to do the moment it feels sufficiently robust militarily. The political class in Macedonia - of both ethnicities - is irreversibly discredited by its own venality, corruption, electoral fraud, and involvement in criminal activities. It does not possess the moral authority to sell the people on the agreement or to preach peace and rectitude.

The agreement was also signed in the wrong circumstances, with a gun to the Macedonian head.

Western Macedonia was (and still is) almost fully controlled by the NLA and its hydra-like offspring, ANA and other splinters. Macedonians fled this area, fearing for their lives and property, compelled by the explicit and implicit threats of their Albanian neighbours turned minacious rebels. Albanian and Muslim-owned shops in Macedonian cities were regularly ransacked. More than 5% of the country's population were refugees or internally displaced.

Signing a peace agreement in an atmosphere of fear, intimidation, and victorious violence is inauspicious. It is also untenable and ethically insupportable. This agreement was the outcome of blackmail - both by the West (which imposed economic sanctions and an unofficial arms embargo on Macedonia) and by the assortment of thugs that descended on Macedonia. It was not voluntary - but an act of capitulation. Regardless of the merit of the Albanian demands - their ends do not justify the means they have employed.

The agreement evades the real, hidden and latent, issues. It tweaks and adjusts, fine-tunes and polishes - rather than courageously demolish and re-construct. The botched compromises and evasions that it contains - regarding the use of the Albanian language, the participation of Albanians in public administration, Albanian access to the job market and to higher education, Albanian involvement in organized crime, police brutality against Albanians, etc. - are outweighed only by the issues it completely ignores. Foremost amongst the latter, is the Albanian demand for autonomy or self-government and the nature of the relationship of Macedonia's Albanians to their kin and kith in Albania and, more importantly, in Kosovo.

The real problem is the disparate views the parties hold

regarding the nature and future of Macedonia. The agreement fails to bring these into sharp relief, as it should have done. Thus, a golden opportunity was missed to achieve a modicum of consensus and accommodation regarding the image and the conduct of this small piece of land both parties reluctantly share.

The Macedonians regards the current state of Macedonia as the final realization of a dream. It occupies less than a third of the historical territory known as Macedonia - but it is theirs, a sovereign state, where they are fully Macedonian in language and in custom. Macedonia to the Macedonians is, in other words, a fatherland, not merely a convenience. They cling to their tiny plot even more tenaciously in the face of Serb, Greek and Bulgarian disparagement. The Greek doubt the ethnic authenticity of the current inhabitants of Macedonia as do the Serbs (to whom Macedonia is "south Serbia"). The Bulgarians regard Macedonian as a villager's dialect of Bulgarian.

This inane opposition by their neighbours hardens Macedonian resolve to prevail and perpetuate both their national identity and their language. Macedonia is a heartrending throwback to the 19th century concept of nation-state - a space populated by a more or less homogeneous people with their own history, national myths, language, and political agenda.

Where the Macedonian's attitude is historical - the Albanians' is territorial ("Albania is where Albanians are"). To them Macedonia is a mere territory inhabited by two major nations (the Macedonians and the Albanians). It is a political and economic partnership. As such, it can theoretically be dismantled, or substantially altered at will. Since no single nation in such a citizen's compact can have a privileged position - they each can veto each

other's decisions and vision.

This Albanian rendering of Macedonia is much closer to the American instrumental ethos of the state. To Americans, the USA, is the outcome of a social contract constantly re-negotiated and rephrased. It is founded upon piles of documents - the Constitution, the Bill of Rights. It is an abstract entity in flux, re-defined by its constituents and managed by semipternal arbitration.

The Albanian position is also close to the European Union's new found totem of the "multi-cultural society". States belong to their citizens, regardless of colour, race, or origin. Germany, the United Kingdom, and France are slowly being transformed into immigrant societies - dysfunctional melting pots of hitherto foreign cultures and societies. This tendency is further enhanced by the gradual emergence of the European supranational federation. Sovereignty is in the descendant - national cohabitation in the ascendant.

Here lies the danger to Macedonia's future. Both the USA and the EU have coerced Macedonia to adopt a contract-based, multi-cultural solution to the crisis. The Americans proceeded to impose on it an American style constitution - and the European implemented a bevy of "minority rights" measures. In a region still steeped in nationalistic lore and enthralled by the spectre of the nation-state, these would spell the end of Macedonia as a political entity. At the very least the Framework Agreement spells the end of Macedonia as the homeland of the Macedonians.

10. The Macedonian Lottery

Every conflict has its economic moments and dimensions. The current conflict in Macedonia perhaps even more so.

The USA and its Western allies regard Macedonia as a bridge between Greece, Bulgaria, Serbia and Albania. Hence the EU's plans for the revival of transport corridors 8 and 10 connecting these countries. If all goes well (and nothing has hitherto), railways will connect Bulgaria to Macedonia and river traffic will flow to Serbia from its southern neighbours. All this is envisioned in the Stability Pact. There are talks of an oil pipeline across Macedonia's territory. A pacified Macedonia is fairly crucial to Serbia's recovery and to the prospects of the whole region to attract FDI.

NATO is afraid of Turkish-Greek clashes in the aftermath of Kosovo and Macedonia. Turkey has increasingly cast itself in its ancient role of "protector of the Balkan Muslims". Greece is the only Orthodox-Christian member of the EU and an old foe of the erstwhile Sick Man of Europe from which it won bloody independence at the beginning of the 19th century. Such clashes are likely to destabilize the southern flank of NATO and block the West's access to Iraq, the Middle East, oil-rich Central Asia, and northern China. This will seriously dent the new "Pacific and Middle East Orientations" of the Bush Administration.

And what about the actual combatants?

Albanians and Macedonian crime gangs (in cahoots with kleptocratic and venal local politicians) regard Macedonia as a vital route for drugs, stolen cars, smuggled cigarettes and soft drinks, illegal immigrants, white slavery, and weapons dealing. These criminal activities far outweigh the GDP of all the adversary states combined. This conflict is about controlling territory and the economic benefits attendant to such control.

Crime and war provide employment, status, regular income, perks, and livelihood to many denizens of Macedonia, Albania, and Bulgaria. They constitute an outlet for entrepreneurship, however perverted. Fighting for the cause and smuggling often means travel abroad (for instance, on fund raising missions), five star accommodation, and a lavish lifestyle. It also translates into powers of patronage and excesses of self-enrichment.

Moreover, in ossified, socially stratified, ethnically polarized, and economically impoverished societies, war and crime engender social mobility. The likes of Hashim Thaci, Ramush Harajdini, and Ali Ahmeti often start as rebels and end as part of the cosseted establishment. Many a criminal dabble in politics and business.

Hence the tenacity of both phenomena. Hence the bleak and pessimistic outlook for this region. The "formal" economies simply cannot compete. Jobs are not created, the educated are often bitterly idle, salaries are minuscule if paid at all, the future is past. Crime and politics (one and the same in the Balkan) are alluring alternatives.

Moreover, the NLA and its political successor DUI is not a monolithic entity. It is more like an umbrella organization with serious and fracturing differences of opinion regarding the ultimate goals of the insurrection four years ago (2001) and the means to obtain these goals.

Roughly, NLA was made up of one third veteran Kosovo fighters, some of them professional soldiers, who also fought in Croatia, or in the Foreign Legion. These people are bitter and disgruntled by what they see as the betrayal of the West in refusing to guarantee an independent Kosovo and the failure of the current Kosovar leadership to integrate them economically into the emerging polity

there. Their motives for joining the fighting in Macedonia were part emotional and part pecuniary.

Another third was made of unemployed, young Albanians, mainly from Macedonia itself. Their fighting is self-interested. They get a monthly salary and perks and, lacking education and skills, they don't have much of a choice outside the killing fields.

The rest are diehard, hardcore, idealists who either fervently espouse a Great Albania, or would like to take over Western Macedonian in a "constitutional coup" which will grant them their own police force, municipalities, institutions, universities, budgets, and semi-political structures.

The NLA itself was not directly involved in criminal activities, though a few of its members are. But the money that financed it (from the Czech Republic, Switzerland, Germany, and the USA) is tainted by drug dealing, white slavery, illegal immigration, and the smuggling of everything illicit, from cigarettes to stolen cars, to weapons. In this they collaborate with politicians and criminals in Macedonia - both Albanian and Macedonian.

Being a politician in the Balkan is an extremely lucrative proposition. Both Albanian and Macedonian politicians will abandon the peace process if they believe it leads to electoral ruin. Given the current atmosphere, it pays to be a pacifist. Virulent nationalism is a guaranteed vote loser. But every re-election ticket still requires a modicum of xenophobia, ethnic exclusivity, and radicalism. Here lies the future.

Return

The Books of the Damned

Journalism and the Media in Macedonia

Early in 2006, Macedonia was poised to pass a long-overdue Freedom of Information law even as the government attempted to shut down the highly efficient and (from repeated personal experience) indispensably helpful Agency of Information. Thus, journalists, both foreign and domestic, cannot now obtain accreditation ("press card"). The distinct red card served hitherto as a form of much needed protection in these nether regions and a prerequisite to securing a mandatory work permit and custom clearances for bringing in TV equipment. Some say that the ruling party wished to minimize its exposure to the foreign media during the forthcoming, closely-contested, heated and sensitive parliamentary elections.

The Agency of Information survived as a department, but not so the freedom of the press. The media in Macedonia has been rendered completely subservient and dysfunctional in the last three years, under the governments of Nikola Gruevski.

This is the outcome of the confluence of a few developments:

1. Increasing involvement of corporate interests. The private sector in Macedonia is rent-seeking and the owners of the media can't afford to be seen to be "anti"-government. They implement self-censorship on a ubiquitous and all-pervasive scale (including "black lists" of who not to interview).

2. The government's soaring share of the nation's advertising dollar. The media are reluctant to alienate the country's largest advertiser: the government.

3. The fragmentation of the nation's media market (with 12 daily papers and 10 national TV stations!!). This apparent "pluralism" actually allows the government to "pick winners" and favorites and to extend its "benevolent network of patronage" to hitherto independent media. Many papers and electronic media are too small to survive on their own.

4. The government micromanages the media. Government officials bombard editors and journalists with complaints, accusations, and what can easily be interpreted as veiled threats every time the media publish an unflattering bit of analysis (or even information that runs counter to the official line). Turnover of independent-minded journalists has never been higher
(translation: they are being sacked at record rates).

"I have gone into the outer darkness of scientific and philosophical transactions and proceedings, ultra-respectable, but covered with the dust of disregard. I have descended into journalism. I have come back with the quasi-souls of lost data."
Charles Hoy Fort in "The Book of the Damned"

"Let me have the three major American networks and three leading newspapers for a year and I'll bring back public lynchings and racial war in the US."
Charles Simic quoting a Belgrade journalist

"We do not have censorship. What we have is a limitation on what newspapers can report."
Louis Nel, Deputy Minister of Information, South

Africa

In the country of ex-Nazi officer Kurt Waldheim and current Nazi-sympathizer Jorg Haider, the xenophobic and anti-Semitic offering of local media come as little surprise. Austria, after all, contributed disproportionately to the Nazi death machine. But what seems to be a unique Austrian phenomenon is not. The media outlets in Central, Eastern and Southern Europe are easily interchangeable. In the same week of Austrian derision and paranoia, "Start", a trash weekly in Macedonia attacked the British Ambassador and the Americans for conspiring to dismantle Macedonia with the collaboration of its local, disloyal and haughty Albanian minority.

The media in the countries in transition is taxonomically not dissimilar to its brethren in the West. It, too, can be divided to five categories of ownership and agenda. What sets it apart, though, is its lack of (even feigned) professionalism, its venality and its tainted ulterior motives. I wrote about it elsewhere, in "The Rip van Winkle Institutions":

"And then there is the media - the waste basket of post communist societies, the cesspool of influence peddling and calumny. Journalists are easily bought and sold and their price is ever decreasing. They work in mouthpieces of business interests masquerading as newspapers or electronic media. They receive their instructions - to lie, to falsify, to ignore, to emphasize, to suppress, to extort, to inform, to collaborate with the authorities - from their Editor in Chief. They trade news for advertising. Some of them are involved in all manner of criminal activities, others are simply unethical in the extreme. They all have pacts with Mammon. People do not believe a word these

contortionists of language and torturers of meaning write or say. It is by comparing these tampered and biased sources that people reach their own conclusions within their private medium."

The commercial media - the likes on "Nova" TV in the Czech Republic - are poor people's imitations of the more visible aspects of American mass culture. Overflowing with lowbrow talk shows, freaks on display, malicious gossip which passes for "news" and glitzy promos and quizzes - these TV stations and print magazines derive the bulk of their income from advertising. While ostensibly politically innocuous, they exert a subtle and cumulative influence on the numbed and dwindling minds of their spectators and readers. By conditioning their consumers to ever lower fare of pulp common denominators, they set a standard of no holds barred and no standards observed. They are the opium for the masses that religion once was, diverting potentially dangerous attention from real events and personalities to the staged alarms of public enemies and the artificial crises of bingo lotteries. No less persecutory than any totalitarian regime, these mass media are ominous symptoms of the social malaise of disillusionment with the realities of life and with more institutionalized modes of expression. They are escapism embodied, a dreamland, a scape of fantasy, the vale of telenovellas. Whole nations are in thrall. In Macedonia, the protagonist of a servant's saga, "Kassandra", was given a hero's welcome upon her visit to this impoverished and bitter land. Whole families consume hours of this visual Ritalin, hypnotized by cheap scenery built to resemble unattainable riches.

Then there is the mercenary media. These are groups of hired pens and keyboards - so called journalists who offer

their services to the highest bidder. Their price is often pathetic: a lunch a month, one hundred deutschmarks, a trip abroad and a dingy hotel room. They collaborate with their editors and share the spoils with them. They are the whores of the profession, ever the hungry look, ever the hat in hand, ever the submissive and furtive glances of the serfs of capital. They often publish other people's self-serving communiqués without altering a word. I, myself, provided them with "interviews" which I, solely, have authored, questions and all. Too lazy to or embittered to invest in their profession, consumed by self-loathing and by general disdain - they let themselves be passively abused in the dirty intercourse of money and of influence.

The mercenaries often work in brothels known as "business-backed media". These are TV stations, daily papers and periodicals owned by the oligarchs of malignant capitalism and used by them to rubbish their opponents and flagrantly and unabashedly further their business interests. This phenomenon is most pronounced in this land of depredation and depravity, in Russia, where virtually all the media is now identified with and digested by business, mafia-like interests. Despite their infamous one-sidedness, they still claim neutrality and objectivity but these spurious claims are met with revolt by a hostile population, long trained to distrust the printed word and even the broadcast image. Thus the art of "reading between the lines" is flourishing again and the very language is distorted by its media rapists (see: "The Magla Vocables"). This - the abyss opening between the people and their language, the demise of true communication and the ensuing rupture in the social fabric - are the veritable damages of enlisted journalism.

Political vehicles are less pernicious in that their masters

are well known and their itinerary clear. Always one sided, always half truthed, forever the righteous - these rags produce no riches and they preach to the converted, serving as bulletins and message boards rather than as media in any known sense. A rallying point, a flag, an emblem, a collective memory, the group's unconscious and conscience - these papers and TV channels are often widely read, even by rivals and adversaries. They are so self-absorbed, so narcissistic, so sickeningly partial that they make for fine amusement in dreary times. There are the coalition papers and the opposition papers, the left wing and the right wing and the centre ones. It is a colourful admixture of indignation and triumphalism, veiled threats and promises, trial balloons and drama, the daily equivalent of the romance.

Thus, Central, Eastern and Southern Europe do have daily papers and magazines and periodicals and television. What they do not have is media even remotely resembling the Western ideal. In some countries, this ideal is disparaged as a Western manipulative ploy or, worse, naive idealism. In others, it is a kind of holy grail to be pursued only in myths and narratives. Yet others view it with envy and aspire to it, but without much hope. To them, it is an ever-receding mirage. Perhaps that other phantasmagoria, the Internet, is the solution. In it, budding, fresh beginnings of irreverence and courage seem to coalesce into recognizable - though virtual - media. The small number of web surfers currently limits both their outreach and their survivability. But if Western trends are anything to go by, this is a temporary state of affairs. The Internet, this immaterial and ethereal medium might yet spawn the first real media and a return to reality. It might yet liberate the prisoners of all the telenovellas, foreign and domestic. It might yet win.

Return

"Macedonia to the Macedonians"

Written: May, 2000

"Two hundred and forty five bands were in the mountains. Serbian and Bulgarian comitadjis, Greek andartes, Albanians and Vlachs ... all waging a terrorist war."
Leon Sciaky in "Farewell to Salonica: Portrait of an Era"

"(Goce Delcev died) cloak flung over his left shoulder, his white fez, wrapped in a bluish scarf, pulled down and his gun slung across his left elbow..."
Mihail Chakov, who was nearby Delcev at the moment of his death, quoted in "Balkan Ghosts" by Robert D. Kaplan

"I will try and tell this story coldly, calmly, dispassionately ... one must tone the horrors down, for in their nakedness, they are unprintable..."
A.G. Hales reporting about the Illinden Uprising in the London "Daily News" of October 21, 1903

"The Internal Macedonian Revolutionary Organization directs its eyes neither to the West, nor to the East,nor to anywhere else; it relies primarily on its own powers, does not turn into anybody's weapon, and will not allow anybody to use its name and prestige for personal and other purposes. It has demonstrated till now and will prove in the future that it establishes its activities on the interests and works for the ideals of struggling Macedonia and the Bulgarian race."
Todor Alexandrov, The Leader of the IMRO from 1911 to 1924

The Treaty of Berlin killed Peter Lazov. A Turkish soldier first gouged his eyes out, some say with a spoon, others insist it was a knife. As the scream-imbued blood trickled down his face, the Turk cut both his ears and the entirety of his nose with his sword. Thus maimed and in debilitating agony, he was left to die for a few days. When he failed to do so, the Turks disembowelled him to death and decapitated the writhing rump.

The Ottomans granted independence to Bulgaria in the 1878 Treaty of San Stefano unwillingly, following a terminal defeat at the hands of a wrathful Russian army. The newly re-invented nation incorporated a huge swathe of Macedonia, not including Thessaloniki and the Chalcidice Peninsula. Another treaty followed, in Berlin, restoring the "balance" by returning Macedonia to Turkish rule. Turkey obligingly accepted a "one country, two systems" approach by agreeing to a Christian administration of the region and by permitting education in foreign languages, by foreign powers in foreign-run and owned schools. Then they set about a typical infandous Ottoman orgy of shredded entrails, gang raped corpses of young girls and maiming and decapitation. The horrors this time transcended anything before. In Ohrid, they buried people in pigsty mud for "not paying taxes". Joined by Turks who escaped the advancing Russian armies in North Bulgaria and by Bosnian Moslems, who fled the pincer movement of the forces of Austro-Hungary, they embarked on the faithful recreation of a Bosch-like hell. Feeble attempts at resistance (really, self defence) - such as the one organized by Natanail, the Bishop of Ohrid - ended in the ever escalating ferocity of the occupiers. A collaboration emerged between the Church and the less than holy members of society. Natanail himself provided "Chetis" (guerilla bands) with weapons and supplies. In

October 1878, an uprising took place in Kresna. It was duly suppressed by the Turks, though with some difficulty. It was not the first one, having been preceded by the Razlovci uprising in 1876. But it was more well organized and explicit in its goals.

But no one - with the exception of the Turks - was content with the situation and even they were paranoid and anxious. The flip-flop policies of the Great Powers turned Macedonia into the focus of shattered national aspirations grounded in some historical precedent of at least three nations: the Greeks, the Bulgarians, and the Serbs. Each invoked ethnicity and history and all conjured up the apparition of the defunct Treaty of San Stefano. Serbia colluded with the Habsburgs: Bosnia to the latter in return for a free hand in Macedonia to the former. The wily Austro-Hungarians regarded the Serbs as cannon fodder in the attrition war against the Russians and the Turks. In 1885, Bulgaria was at last united - north and formerly Turk-occupied south - under the Kremlin's pressure. The Turks switched sides and allied with the Serbs against the spectre of a Great Bulgaria. Again, the battleground was Macedonia and its Bulgarian-leaning (and to many, pure Bulgarian) inhabitants. Further confusion awaited. In 1897, following the Crete uprising against the Ottoman rule and in favour of Greek enosis (unification), Turkey (to prevent Bulgaria from joining its Greek enemy) encouraged King Ferdinand to help the Serbs fight the Greeks. Thus, the Balkanian kaleidoscope of loyalties, alliances and everlasting friendship was tilted more savagely than ever before by the paranoia and the whims of nationalism gone berserk.

In this world of self reflecting looking glasses, in this bedlam of geopolitics, in this seamless and fluid universe,

devoid of any certainty but the certainty of void, an anomie inside an abnormality - a Macedonian self identity, tentative and merely cultural at first, began to emerge. Voivode Gorgija Pulevski published a poem "Macedonian Fairy" in 1878. The Young Macedonian Literary Society was established in 1891 and started publishing "Loza", its journal a year thereafter. Krste Misirkov, Dimitrija Cupovski, the Vardar Society and the Macedonian Club in Belgrade founded the Macedonian Scholarly-Literary Society in 1902 (in Russia). Their "Macedonian National Program" demanded a recognition of a Macedonian nation with its own language and culture. They stopped short of insisting on an independent state, settling instead for an autonomy and an independent church. Misirkov went on to publish his seminal work, "On Macedonian Matters" in 1903 in Sofia. It was a scathing critique of the numbing and off-handed mind games Macedonia was subjected to by the Big Powers. Misirkov believed in culture as an identity preserving force. And the purveyors and conveyors of culture were the teachers.

"So the teacher in Yugoslavia is often a hero and fanatic as well as a servant of the mind; but as they walked along the Belgrade streets it could easily be seen that none of them had quite enough to eat or warm enough clothing or handsome lodgings or all the books they needed" - wrote Dame Rebecca West in her eternal "Black Lamb and Grey Falcon" in 1940.

Goce Delcev (Gotse Deltchev) was a teacher. He was born in 1872 in Kukush (the Bulgarian name of the town), north of Thessaloniki (Salonica, Solun, Saloniki). There is no doubt about his cultural background (as opposed to his convictions later in life) - it was Bulgarian to the core. He

studied at a Bulgarian gymnasium in Saloniki. He furthered his education at a military academy in Sofia. He was a schoolteacher and a guerilla fighter and in both capacities he operated in the areas that are today North-Central Greece, Southwestern Bulgaria and the Republic of Macedonia. He felt equally comfortable in all three regions. He was shot to death by the Turks in Banitsa, then a Bulgarian village, today, a Greek one. It was in a spring day in May 1903.

The death of this sad but steely eyed, heavily moustached youth was sufficient to ignite the Illinden uprising three months later. It erupted on the feast of Saint Illiya (Sveti Ilija). Peasants sold their sacrificial bulls - the fruits of months of labour - and bought guns with the proceeds. It started rather innocuously in the hotbed of ethnic unrest, Western Macedonia - telegraph wires were cut, some tax registers incinerated. The IMRO collaborated in this with the pro-Bulgarian organization Vzhovits. In Krusevo (Krushevo) a republic was proclaimed, replete with "Rules of the Macedonian Uprising Committee" (aka the "Constitution of the Uprising"). This document dealt with the liberation of Macedonia and the establishment of a Macedonian State. A special chapter was dedicated to foreign affairs and neighbourly relationships. It was all heart-achingly naive and it lasted 10 bloody days. Crushed by 2000 trained soldiers and horse bound artillery, the outnumbered 1200 rebels surrendered. Forty of them kissed each other goodbye and blew their brains out. The usual raping and blood thick massacres ensued. According to Turkish records, these ill-planned and irresponsible moments of glory and freedom cost the lives of 4,694 civilians, 994 "terrorists". The rape of 3,000 women was not documented. In Northwestern Macedonia, an adolescent girl was raped by 50 soldiers and murdered

afterwards. In another village, they cut a girl's arm to secure her bracelets. The more one is exposed to these atrocities, the more one is prone to subscribe to the view that the Ottoman Empire - its halting and half hearted efforts at reform notwithstanding - was the single most important agent of retardation and putrid stagnation in its colonies, a stifling influence of traumatic proportions, the cause of mass mental sickness amongst its subjects.

As is usually the case in the bloodied geopolitical sandbox known as the Balkans, an international peacekeeping force intervened. Yet it was - again, habitually - too late, too little.

What made Delcev, rather his death, the trigger of such an outpouring of emotions was the IMRO (VMRO in Macedonian and in Bulgarian). The Illinden uprising was the funeral of a man who was a hope. It was the ululating grieving of a collective deprived of vengeance or recourse. It was a spasmodic breath taken in the most suffocating of environments. This is not to say that IMRO was monolithic or that Delcev was an Apostle (as some of his hagiographers would have him). It was not and he was far from it. But he and his two comrades, Jane (Yane) Sandanski and Damyan (Dame) Gruev had a vision. They had a dream. The IMRO is the story of a dream turned nightmare, of the absolute corruption of absolute power and of the dangers of inviting the fox to fight the wolf.

The original "Macedonian Revolutionary Organization" (MRO) was established in Sofia. The distinction between being a Macedonian and being a Macedonian-Bulgarian was not sharp, to use a polite understatement. The Bulgarians "proper" regarded the Macedonians as second class, primitive and uncultured Bulgarian relatives who inhabit a part of Bulgaria to the east. The Macedonians

themselves were divided. Some wished to be incorporated in Bulgaria, the civilized and advanced society and culture. Others wanted an independent state - though they, too, believed that the salvation of such an entity - both demographic and financial - lies abroad, with the diaspora and benevolent foreign powers. A third group (and Delcev was, for a time, among them) wanted a federation of all states Balkan with an equal standing for a Macedonian polity (autonomy). The original MRO opted for the Bulgarian option and restricted its aims to the liberation and immediate annexation of what they solemnly considered to be a Turkish-occupied Bulgarian territory. To distinguish themselves from this MRO, the 6 founders of the Macedonian version - all members of the intelligentsia - added the word "Internal" to their name. Thus, they became, in November 1893, IMRO.

A measure of the disputatiousness of all matters Balkanian can be found in the widely and wildly differing versions about the circumstances of the establishment of IMRO. Some say it was established in Thessaloniki (this is the official version, thus supporting its "Macedonian"-ness). Others - like Robert Kaplan - say it was in Stip (Shtip) and the Encyclopaedia Britannica claims it was in ... Resen (Resana).

Let it be clear: this author harbours no sympathy towards the Ottoman Empire. The IMRO was fighting for lofty ideals (Balkanian federation) and worthy goals (liberation from asphyxiating Turkish rule). But to many outside observers (with the exception of journalists like John Sonixen or John smith), the IMRO was indistinguishable in its methods of operation from the general landscape of mayhem, crime, disintegration of the social fabric, collapse of authority, social anomie, terror and banditry.

From Steven Sowards' "Twenty Five Lectures on Modern Balkan History, The Balkans in an Age of Nationalism", 1996 available HERE: http://www.lib.msu.edu/sowards/balkan/lect11.htm.

"Meanwhile, the Tanzimat reforms remained unfulfilled under Abdul Hamid's reactionary regime. How effective had all these reforms been by the turn of the century? How bad was life for Christian peasants in the Balkans? In a 1904 book called 'Macedonia: Its Races and Their Future', H. N. Brailsford, an English relief worker, describes lawless conditions in Macedonia, the central Balkan district between Greece, Serbia, Albania and Bulgaria. In the areas Brailsford knew, the authorities had little power. He writes:

'An Albanian went by night into a Bulgarian village and fired into the house of a man whom he regarded as an enemy ... The prefect ... endeavored to arrest the murderer, but [his Albanian] village took up his cause, and the gendarmes returned empty-handed. The prefect ... marched upon the offending village at the head of three hundred regular troops ... The village did not resist, but it still refused to give evidence against the guilty man. The prefect returned to Ochrida with forty or fifty prisoners, kept them in gaol for three or four days, and then released them all ... To punish a simple outbreak of private passion in which no political element was involved [the prefect] had to mobilize the whole armed force of his district, and even then he failed.'

Robbers and brigands operated with impunity: 'Riding one day upon the high-road ... I came upon a brigand seated on a boulder ... in the middle of the road, smoking his cigarette, with his rifle across his knees, and calmly levying tribute from all the passers-by.'

Extortionists, not police, were in control: 'A wise village ... [has] its own resident brigands. ... They are known as rural guards. They are necessary because the Christian population is absolutely unarmed and defenceless. To a certain extent they guarantee the village against robbers from outside, and in return they carry on a licensed and modified robbery of their own.'

Self-defense by Orthodox peasants was dangerous: 'The Government makes its presence felt ... when a 'flying column' saunters out to hunt an elusive rebel band, or ... to punish some flagrant act of defiance ... The village may have ... resented the violence of the tax-collector ... [or] harboured an armed band of insurgents ... or ... killed a neighbouring civilian Turk who had assaulted some girl of the place ... At the very least all the men who can be caught will be mercilessly beaten, at the worst the village will be burned and some of its inhabitants massacred.'

It was not surprising that peasants hated their rulers. 'One enters some hovel ... something ... stirs or groans in the gloomiest corner on the floor beneath a filthy blanket. Is it fever, one asks, or smallpox? ... the answer comes ... 'He is ill with fear.' ... Looking back ... a procession of ruined minds comes before the memory - an old priest lying beside a burning house speechless with terror ... a woman who had barked like a dog since the day her village was burned; a maiden who became an imbecile because her mother buried her in a hole under the floor to save her from the soldiers ... children who flee in terror at the sight of a stranger, crying 'Turks! Turks!' These are the human wreckage of the hurricane which usurps the functions of a Government.'

Four things are worth noting in Brailsford's account as we consider the prospects for a reform solution to Balkan

problems. First, revolutionary politics was not the foremost issue for the Christian population: nationalism addressed the immediate problems in their daily lives only indirectly, by promising a potential better state.

Second, loyalties were still local and based on the family and the village, not on abstract national allegiances. If criminal abuses ended, the Ottoman state might yet have invented an Ottoman "nationalism" to compete with Serbian, Greek, Romanian, or Bulgarian nationalism.

Third, villagers did not cry out for new government departments or services, but only for relief from corruption and crime. The creation of new national institutions was not necessary, only the reform of existing institutions.

Fourth, and on the other hand, mistrust and violence between the two sides was habitual. So many decades of reform had failed by this time. The situation was so hopeless and extreme that few people on either side can have thought of reform as a realistic option."

During the 1890s, IMRO's main sources of income were voluntary (and later, less voluntary) taxation of the rural population, bank robberies, train robberies (which won handsome world media coverage) and kidnapping for ransom (like the kidnapping of the American Protestant Missionary Ellen Stone - quite a mysterious affair). The IMRO developed along predictable lines into an authoritarian and secretive organization - a necessity if it were to fight the Turks effectively. It had its own tribunals which exercised - often fatal - authority over civilians who were deemed collaborators with the Turkish enemy. It must be emphasized that this was NOT unusual or unique at that time. This was the modus operandi of all military-

organized ideological and political groups. And, taking everything into account, the IMRO was fighting a just war against an abhorrent enemy.

Moreover, to some extent, its war was effective and resulted in reforms imposed on the Sublime Port (the Turkish authorities) by the Great Powers of the day. We mentioned the peacekeeping force which replaced the local gendarmerie. But reforms were also enacted in education, religious rights and tolerance, construction, farm policy and other areas. The intractable and resource-consuming Macedonian question led directly to the reform of Turkey itself by the Macedonia-born officer Ataturk. And it facilitated the disintegration of the Ottoman empire - thus, ironically, leading to the independence of almost everyone except its originators.

The radicalization of IMRO and its transformation into the infamous organization it has come to be known as, started after the Second Balkan war (1913) and, more so, after the First World War (1918). It was then that disillusionment with Big Power politics replaced the naive trust in the inevitable triumph of a just claim. The Macedonians were never worse off politically, having contributed no less - if not more - than any other nation to the re-distribution of the Ottoman Empire. The cynicism, the hypocrisy, the off-handedness, the ignorance, the vile interests, the ulterior motives - all conspired to transform the IMRO from a goal-orientated association to a power hungry mostrosity.

In 1912 Bulgaria, Serbia, and Greece - former bitter foes - formed the Balkan League to confront an even more bitter foe, the Ottoman Empire on the thin pretext of an Albanian uprising. The brotherhood strained in the Treaty of London (May 1913) promptly deteriorated into

internecine warfare over the spoils of a successful campaign - namely, over Macedonia. Serbs, Greeks, Montenegrins and Romanians subdued Bulgaria sufficiently to force it to sign a treaty in August 1913 in Bucharest. "Aegean Macedonia" went to Greece and "Vardar Macedonia" (today's Republic of Macedonia) went to Serbia. The smaller "Pirin Macedonia" remained Bulgarian. The Bulgarian gamble in World War I went well for a while, as it occupied all three parts of Macedonia. But the ensuing defeat and dismemberment of its allies, led to a re-definition of even "Pirin Macedonia" so as to minimize Bulgaria's share. Vardar Macedonia became part of a new Kingdom of the Serbs, Croats, and Slovenes (later renamed Yugoslavia).

These political Lego games led to enormous population shifts - the politically correct term for refugees brutally deprived of their land and livelihood. All of them were enshrined in solemn treaties. The Treaty of Lausanne (1923) led to the expulsion of 375,000 Turks from Aegean Macedonia. 640,000 Greek refugees from Turkey replaced them. Each of the actual occupiers and each of the potential ones opened its own schools to indoctrinate the future generations of the populace. Conflicts erupted over ecclesiastical matters, the construction of railways and railway stations. Guerilla fighters soon realized that being pawns on this mad hatter's chessboard could be a profitable vocation. The transformation from freedom fighters to mercenaries with no agenda was swift. And pecuniary considerations bred even more terror and terrorists where there were none before.

In the meantime, Greece enacted a land reform legislation in "Aegean Macedonia" - in effect, the confiscation of arable land by thousands of Greek settlers, refugees from

Turkey. Much of the land thus "re-distributed" was owned by Turkish absentees, now refugees themselves. But a lot of land was simply impounded from its rightful, very much present and very Macedonian owners. The Serb authorities coerced the population to speak the Serb language, changed Macedonian names to Serb ones in brutally carried campaigns and imposed a corrupt and incompetent bureaucracy upon the suffering multitudes.

IMRO never gave up its proclaimed goal to liberate both occupied parts of Macedonia - the Aegean and the Vardar ones. But, as time passed and as the nature of its organization and operation evolved, the perfunctoriness of its proclamations became more and more evident. The old idealists - the intellectuals and ideologues, the Goce Delcev types - were removed, died in battle, or left this mutation of their dream. The IMRO insignia - skull and crossbones - linked it firmly to the Italian Balckshirts and the Nazi brown ones. The IMRO has developed into a fascist organization. It traded opium. It hired out the services of its skilled assassins (for 20 dollars a contract). It recruited members among the Macedonian population in the slums of Sofia. Finally, they openly collaborated with the Fascists of Mussolini (who also supported them financially), with the Ustashe (similarly supported by Italy) and with the Nazis (under Ivan Mihailov, who became the nominal quisling ruler of Vardar Macedonia). It was an IMRO man ("Vlado the Chauffeur") who murdered King Alexander of Yugoslavia in 1934.

All this period, the IMRO continued to pursue its original agenda. IMRO terrorists murdered staff and pupils in Yugoslav schools in Vardar Macedonia. In between 1924-34, it killed 1,000 people. Tourists of the period describe the Yugoslav-Bulgarian frontier as the most fortified in

Europe with "entanglements, block houses, redoubts and searchlight posts". Throughout the twenties and the thirties, the IMRO maintained a presence in Europe, publishing propaganda incessantly and explaining its position eloquently (though not very convincingly). It was not very well liked by both Bulgarians and Macedonians who got increasingly agitated and exhausted by the extortion of ever increasing taxes and by the seemingly endless violence. But the IMRO was now a force to reckon with: organized, disciplined, lethal. Its influence grew by the day and more than one contemporary describes it as a "state within a state". In Bulgaria it collaborated with Todor Alexandrov in the overthrow and murder of the Prime Minister, Alexandur Stamboliyski (June 1923) and in the appointment of a right wing government headed by Alexandur Tsankov.

Stamboliyski tried to appease Yugoslavia and, in the process, sacrifice inconvenient elements, such as the IMRO, as expediently as he could. He made too many powerful enemies too fast: the army (by cutting their inflated budget), the nationalists (by officially abandoning the goal of military expansion), the professional officers (by making them redundant), the Great Powers (by making THEM redundant as well) and the opposition (by winning the elections handsomely despite all the above). By signing the Treaty of Nis (allowing Serb forces the right of hot pursuit within Bulgarian territory), he in effect sealed his own death warrant. The IMRO teamed up with the Military League (an organization of disgruntled officers, both active duty and reserve) and with the tacit blessing of Tsar Boris and the forming National Alliance (later renamed the Democratic Alliance), they did away with the hated man.

Following the murder, the IMRO was given full control of the region of Petric (Petrich). It used it as a launching pad of its hit and run attacks against Yugoslavia with the full - though clandestine - support of the Bulgarian Ministry of War and Fascist Italy. From Pirin, they attacked Greece as well. These were exactly the kind of international tensions the murdered Prime Minister was keen to terminate and the IMRO no less keen to foster. In the meanwhile, Alexandrov came to an end typical of many a Bulgarian politician and was assassinated only a year after the coup d'etat.

The decade that followed did not smile upon the IMRO. It fragmented and its shreds fought each other in the streets of Sofia, Chicago-style. By 1934, the IMRO was a full-fledged extortionist mafia organization. They ran protection rackets ("protecting" small shop-owners against other gangs and "insuring" them against their own violence). Hotels in Sofia always had free rooms for the IMRO. The tobacco industry paid the IMRO more than a million British pounds of that time in six years of "taxation". Robberies and assassinations were daily occurrences. So were street shoot-outs and outright confiscation of goods. The IMRO had no support left anywhere.

In 1934, it was disbanded (together with other parties) by Colonel Kimron Georgiev, the new Prime Minister of Bulgaria and a senior figure in the Zveno association of disgruntled citizenry. His rule was brief (ended the next year) but the IMRO never recovered. It brought its own demise upon itself. Colonel Velcev (Velchev), the perpetrator of the coup, was swept to power on the promise to end all terrorist activities - a promise which he kept.

The modern Republic of Macedonia is today ruled by a party called VMRO-DPMNE. It is one of a few political parties to carry this name and the biggest and weightiest amongst them by far. It is founded on the vision and ideals of Goce Delcev and has distanced itself from the "Terrorist-IMRO". The picture of Delcev adorns every office in both Macedonia and Bulgaria and he is the closest to a saint a secular regime can have. In 1923, the Greeks transferred his bones to Bulgaria. Stalin, in a last effort to placate Tito, ordered Bulgaria to transfer them to Macedonia. Even in his death he knew no peace. Now he is buried in his final resting place, in the tranquil inner yard of the Church of Sveti Spas (Saint Saviour). A marble slab bearing a simple inscription with his name under a tree, in a Macedonia which now belongs to the Macedonians.

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Skopje - Where Time Stood Still

Written: June, 2000

Frozen at an early morning hour, the stony hands of the giant, cracked clock commemorate the horror. The earthquake that struck Skopje in 1963 has shattered not only its Byzantine decor, has demolished not merely the narrow passageways of its Ottoman past, has transformed not only its Habsburgian waterfront with its baroque National Theatre. The disastrous reconstruction,

supervised by a Japanese architect, has robbed it of its soul. It has become a drab and sprawling socialist metropolis replete with monumentally vainglorious buildings, now falling into decrepitude and disrepair. The influx of destitute and simpleton villagers (which more than quintupled Skopje's population) was crammed by central planners with good intentions and avaricious nature into low-quality, hi-rise slums in newly constructed "settlements".

Skopje is a city of extremes. Its winter is harsh in shades of white and grey. Its summer is naked and steamy and effulgent. It pulses throughout the year in smoke-filled, foudroyant bars and dingy coffee-houses. Polydipsic youths in migratory skeins, eager to be noted by their peers, young women on the hunt, ageing man keen to be preyed upon, suburbanites in search of recognition, gold chained mobsters surrounded by flaxen voluptuousness - the cast of the watering holes of this potholed eruption of a city.

The trash seems never to be collected here, the streets are perilously punctured, policemen often substitute for dysfunctional traffic lights. The Macedonians drive like the Italians, gesture like the Jews, dream like the Russians, are obstinate like the Serbs, desirous like the French and hospitable like the Bedouins. It is a magical concoction, coated in the subversive patience and the aggressive passivity of the long oppressed. There is the wisdom of fear itself in the eyes of the 600,000 inhabitants of this landlocked, mountain-surrounded habitat. Never certain of their future, still grappling with their identity, an air of "carpe diem" with the most solemn religiosity of the devout.

The past lives on and flows into the present seamlessly.

People recount the history of every stone, recite the antecedents of every man. They grieve together, rejoice in common and envy en masse. A single organism with many heads, it offers the comforts of assimilation and solidarity and the horrors of violated privacy and bigotry. The people of this conurbation may have left the village - but it never let them go. They are the opsimaths of urbanism. Their rural roots are everywhere: in the the division of the city into tight-knit, local-patriotic "settlements". In the traditional marriages and funerals. In the scarcity of divorces despite the desperate shortage in accommodation. In the asphyxiating but oddly reassuring familiarity of faces, places, behaviour and beliefs, superstitions, dreams and nightmares. Life in a distended tempo of birth and death and in between.

Skopje has it all - wide avenues with roaring traffic, the incommodious alleys of the Old Town, the proper castle ruins (the Kale). It has a Turkish Bridge, recently renovated out of its quaintness. It has a square with Art Nouveau building in sepia hues. An incongruent digital clock atop a regal edifice displayed the minutes to the millennium - and beyond. It has been violated by American commerce in the form of three McDonald restaurants which the locals proceeded cheerfully to transform into snug affairs. Stolid Greek supermarkets do not seem to disrupt the inveterate tranquility of neighbourhood small grocers and their coruscant congeries of variegated fruits and vegetables, spilling to the pavement.

In winter, the light in Skopje is diaphanous and lambent. In summer, tis strong and all-pervasive. Like some coquettish woman, the city changes mantles of orange autumn leaves and the green foliage of summer. Its pure

white heart of snow often is hardened into grey and traitorous sleet. It is a fickle mistress, now pouring rain, now drizzle, now simmering sun. The snowy mountain caps watch patiently her vicissitudes. Her inhabitants drive out to ski on slopes, to bathe in lakes, to climb to sacred sites. It gives them nothing but congestion and foul atmosphere and yet they love her dearly. The Macedonian is the peripatetic patriot - forever shuttling between his residence abroad and his true and only home. Between him and his land is an incestuous relationship, a love affair unbroken, a covenant handed down the generations. Landscapes of infancy imprinted that provoke an almost Pavolvian reaction of return.

Skopje has known many molesters. It has been traversed by every major army in European history and then by some. Occupying a vital crossroad, it is a layer cake of cultures and ethnicities. To the Macedonians, the future is always portentous, ringing with the ominousness of the past. The tension is great and palpable, a pressure cooker close to bursting. The river Vardar divides increasingly Albanian neighbourhoods (Butel, Cair, Shuto Orizari) from Macedonian (non-Muslim) ones. Albanians have also moved from the villages in the periphery encircling Skopje into hitherto "Macedonian" neighbourhoods (like Karpos and the Centre). The Romas have their own ghetto called "Shutka" (in Shuto Orizari), rumoured to be the biggest such community in Europe. The city has been also "invaded" (as its Macedonian citizens experience it) by Bosnian Muslims.

Gradually, as friction mounts, segregation increases. Macedonians move out of apartment blocks and neighbourhoods populated by Albanians. This inner migration bodes ill for future integration. There is no

inter-marriage to speak of, educational facilities are ethnically-pure and the conflict in Kosovo with its attendant "Great Albania" rumblings has only exacerbated a stressed and anxious history.

It is here, above ground, that the next earthquake awaits, along the inter-ethnic fault lines. Strained to the point of snapping by a KFOR-induced culture shock, by the vituperative animosity between the coalition and opposition parties, by European-record unemployment and poverty (Albania is the poorest, by official measures) - the scene is set for an eruption. Peaceful by long and harsh conditioning, the Macedonians withdraw and nurture a siege mentality. The city is boisterous, its natives felicitously facetious, its commerce flourishing. It is transmogrified by Greek and Bulgarian investors into a Balkan business hub. But under this shimmering facade, a great furnace of resentment and frustration spews out the venom of intolerance. One impolitic move, one unkind remark, one wrong motion - and it will boil over to the detriment of one and all.

Dame Rebecca West was here, in Skopje (Skoplje, as she spelt it) about 60 years ago. She wrote:

"This (Macedonian) woman (in the Orthodox church) had suffered more than most other human beings, she and her forebears. A competent observer of this countryside has said that every single person born in it before the Great War (and quite a number who were born after it) has faced the prospect of violent death at least once in his or her life. She had been born during the calamitous end of Turkish maladministration, with its cycles of insurrection and massacre and its social chaos. If her own village had not been murdered, she had, certainly, heard of many that had and had never

had any guarantee that hers would not some day share the same fate... and there was always extreme poverty. She had had far less of anything, of personal possessions, of security, of care in childbirth than any Western woman can imagine. But she had two possessions that any Western woman might envy. She had strength, the terrible stony strength of Macedonia; she was begotten and born of stocks who could mock all bullets save those which went through the heart, who could outlive the winters when they were driven into the mountains, who could survive malaria and plague, who could reach old age on a diet of bread and paprika. And cupped in her destitution as in the hollow of a boulder there are the last drops of the Byzantine tradition."

The Macedonian Language

The Macedonian language is rich and very interesting. It is multi-layered and nuanced. It captures perfectly the somewhat evil shrewdness of the villager together with the pretentious aspirations of the urban newcomer, the forced obsequiousness of the vanquished and the narcissistic compensatory delusions of omnipotence and omniscience. All in all, though, the language is not repulsive (like German) or self-important (like French) or (like Hebrew and Arabic) stodgy. Macedonian is ***HUMAN*** and vibrant and ***VERY FUNNY!***

Why Macedonians spit in the Streets and Trash Their Environment

It is a well-noted phenomenon: Macedonians behave one way at home and in another, more civilized manner, when they are traveling abroad. Most egregiously, they spit in public and trash their environment. Why the stark differences in conduct?

Clearly, Macedonians feel that they are guests in their destinations and as such hold themselves to a higher standard. But this is merely scratching the surface.

Like the denizens of many other developing countries, Macedonians have no concepts of private vs. public spaces. It is all a blur, meshing and intertwined: the neighborhood and the city are merely an extension of one's living room. Public displays of spitting and trashing are statements. They reinforce the perpetrator's sense of contumacious personal autonomy, affirm his belonging to a collective with shared cultural values and traditions, and demonstrate his virility. The same applies to women who engage in these behaviors.

Macedonia's Titanic Waltz

Written: March, 2000

Every year, the Austrian Embassy holds a "Viennese Ball" in Skopje.

It is as surrealistic as it gets: a Viennese Ball in a decaying Balkan city in a land of former communist thieves turned capitalist robbers. It is held in a newly opened hotel, a gleaming temple of kitsch and tackiness, an abode of golden brass and polished mirrors amidst urban waste and uncollected mounds of festering trash.

Hundreds of middle aged, burly diplomats and locals, all in ill fitting smokings, the women wearing sweaty, smeared make-up. A grotesque medley of decadence, a glimpse of zombie Habsburg schmaltz, the foreigners' deluded way of pretending they are in Europe, an outlet for smug Balkan swaggering braggarts.

Outside, fly-infested children beggars extend ulcerated soiled hands in silent plea. Others peddle rusted razor blades and leaking batteries to passers-by. Young men smile rotting teeth in the smoking humidity of dingy coffee-houses. The middle aged are bent, eyes sparkless, consumed by unemployment and disease, a confluence of wrinkled toothlessness and dwindling hair. The women are grey and flabby, wise, weary eyes in penumbral sockets. They glide, huddled, fending off the windy chill that ricochets from cracking, mouldy walls. Dark clouds weigh on denuded trees in littered boulevards.

Inside, the orchestra cast notes at heated chandeliers. Elastic TV cameramen engage in public pantomime of angles and photo-opportunities. Scarlet cheeked singers

hurl their arias at the wooden eurythmics of the hop. Flushed waiters in perspiring attires hold trays of bubbling champagne aloft. Men in skewed bow ties smile genteelly at each other, leading the women in gauche steps across the wide arena. The lights are bright, the atmosphere excited.

Not far from there children are dying for want of medicine or excess drugs. Needled hookers solicit the haunted streets. Rat packs erupt from fermented rubbish, ignored by men and women poking through the piles. A red, polluted moon irradiates the drunkards in tattered, puky heaps near black Mercedeses in ostentatious parking.

The light - the darkness. The sybaritic fest - the dying populace. The glitter and decrepitude. The haves and those who don't. The growing abyss between the leaders and the led, the elite and the masses - the masses soon to turn into a mob. A writing on the crumbling walls, the distant thunder of reality denied, of social justice spurned.

As Ministers and mobsters (here, one and the same) cruise potholed streets in flashy cars, as mink clad mistresses expose indecently bejeweled necks in fancy restaurants, as former politicians throw hedonistic parties in sumptuous villas and marry off their off-spring in Roman style - so do they seal their fate, so they pronounce their verdict.

It had its faults but Communism did guarantee a modicum of common misery. Society was never polarized, theft was a national pursuit. The spoils were shared and so was the inane bureaucracy, the paranoia and the fear, the xenophobia, the immobility, the stilted speech.

Everyone had the same disintegrating residence, suffered the same maltreatment, enjoyed the same dilapidated

services. The schools, the clinics, the gulag were all accessible in equal measure. These were societies maintained by zealous envy and lack of privacy and private property. There was no middle class, there were no social classes, only a nomenklatura to which one could voluntarily choose to belong.

And no middle class emerged in the capitalist upheaval that followed the spastic death of socialism. Malignant profiteering followed malignant abstinence. The social fabric torn, trust - meagre to begin with - is utterly eradicated. A jungle rules in which all forms of human animal prevail: the venal politician, the mafiosi, the drug dealer and the weapons smuggler, the petty thief and pimp, the whore. The haves have more, the luckless are shipwrecked on an isle of destitution. The former live with abandon, the latter lead an abandoned life. A yawning, lava spewing gap between them, a pit without bottom, a biblical damnation.

They who have no thing to lose shall make others lose all that they possess.

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Interview with the Minister of Finance Of the Republic of Macedonia
Mr. Nikola Gruevski

The Minister of Finance of the Republic of Macedonia is an unenviable position nowadays. It is a small country (9,600 sq. miles, 2 million inhabitants) and one of the poorest in Europe (1,900 US dollars GDP per capita). Saddled by its socialist past and an Albanian insurgency – largely imported from Kosovo, across its northern border – it still managed to grow by more than 5% last year and to reform its economy substantially.

The credit for most of this belongs to its 30-years old Minister of Finance, Nikola Gruevski.

To interview Mr. Gruevski is refreshing. He is emblematic of a generation of humble and efficient technocrats, which sprang across Central and Eastern Europe following the demise of Communism. He readily accepts that the older generation – "whose personality was formed during socialism, talk the (Western-capitalist) talk but don't walk the walk".

"Why a Minister? What's in it for you?"

"The challenge, the opportunity to make a difference. I was a critic of past economic policies. I cannot afford to miss the chance to implement my ideas."

These ideas span all the spheres of Macedonia's economy.

"Value Added Tax was introduced and immediately generated a budget surplus that was used to pay off internal debt and to reduce other taxes. Macedonia has

among the lowest personal income tax and corporate profit tax rates in the world (15% each). The windfall also enabled Macedonia to offer one of the most investment and capital markets friendly regimes in the world, with first year tax exemptions for new and newly-listed businesses. VAT had an adverse effect on inflation. Still, even as energy prices surged, Inflation increased, but tolerably so (by 5%)."

The Minister is aware of the informal economy in his country but insists that VAT has brought a large chink of it into the open. As an example he gives the reduction in outlandish tariffs on raw materials, machinery and other goods which led to a commensurate reduction in cross-border smuggling. "More taxes and tariffs will be reduced" – he reassures me.

Perhaps the sector that was most revolutionized is banking with a completely new legal infrastructure: a banking law, deposit insurance law, bankruptcy and collateral laws. Coupled with new arrangements with the IMF and the World Bank, these led to a restoration of public trust in the banking sector. For the first time, savings in banks actually increased by a third. Another first was the purchase of three leading Macedonian banks by foreign banks from Greece, Slovenia and Germany. "Other foreign banks are interested to open branches here" – he says proudly – "This will greatly enhance the competition and revitalize the banking sector". "Even with the current crisis?"

"In the 1999 Kosovo crisis, Western investors and trading partners escaped. Greek investors, who know this region better, came in and picked up enterprises at bargain basement prices. I hope investors from other countries learned the lesson. Since the current crisis started, we

have sold our biggest bakery – Zhito Lux – and our biggest fairgrounds – Skopski Saem – to Greek and Slovenian investors. The new owners of Macedonia's largest bank, Stopanska Banka, ('National Bank' of Greece") are planning to increase the capital."

"My work in this Ministry is all about trust and transparency. We pay off the internal debt to citizens and banks ahead of schedule. We passed a law to compensate savers whose foreign exchange savings were frozen during the break-up of Yugoslavia – and already paid back some of it. We have restored property expropriated during socialism to its rightful owners faster than any other country in transition (under a denationalization law enacted last year). We have revamped our property rights laws. The result? Last year we had more than US$ 150 million in foreign direct investment (FDI), the best year ever. And this is excluding more than 300 million US dollars paid by MATAV for 51% of the Macedonian Telecom."

"Most of these investments are from Greece. Doesn't it look like a hostile takeover?"

"No way" – he laughs – "What is more natural for one neighbour to invest in another? The USA is the biggest investor in Canada. Greece is to us what Germany is to the Czech Republic. It would have been very worrying had they showed no interest to invest here."

"On the whole, the 1999 Kosovo crisis was bad for us. What we need is peace and stability. Actually, following the war, Macedonia lost half of its market share in Kosovo to new entrants. Our industrial production has decreased by one eighth. Inter-company debt shot up from 600 million to 1 billion DM (and stayed there ever since). We

received less than one fifth of the aid we were promised. The Stability Pact – which encompasses the entire Balkan – is hardly an answer to our specific needs. We were left to pay the bill."

"The current crisis is likely to shave a few percentage points off our GDP growth target (6%). It depends on its length and intensity. We are afraid to again lose markets we have laboriously cultivated after the Kosovo war. Unemployment will again edge up. We have the support of the IMF and the World Bank but we may have to divert resources to the war effort."

"Has Macedonia been offered financial assistance by anyone?"

"I asked several foreign governments to help us with support for our budget, payment balance and the procurement of strategic goods, such as oil. I have received no response until now." – he shrugs – "But the crisis did not breach the budget framework. It contains reserves, which we intended to use for structural reforms. We may have to re-allocate the money to the Defence and Interior Ministries."

"Any other effects? On the foreign exchange rate? Capital flight?"

"Not so surprisingly, little. In 1999, people bought foreign exchange in a frenzy and when the crisis abated sold double the amount back to us at a loss. The National Bank of Macedonia (NBM) intervened then and is intervening now. But, we have hitherto spent only US$ 7 million on this (another 25 million were given to our refinery to purchase oil, to prevent pressure on our currency market). We likely would have spent this amount anyhow, to

absorb excess liquidity. Moreover, our reserves have doubled to c. US$ 700 million (or 3.5 months of imports) since 1999 (not counting the 300 million or so from the privatization of the Telecom). It is an entirely different situation."

"You are talking about excess liquidity on the one hand – and about a mountain of inter-company debt, on the other. Isn't this a contradiction?"

"Only on the face of it. In the last 12 months, the average interest rate charged to borrowers in Macedonia declined from 21% to 14%. Good borrowers pay less than 10% per year. The implementation of a new, commercial bank managed payment system, will increase liquidity. The liquidity in the banking system is so high that the inter-bank lending rate is at 7%, or half the market rate. Money supply aggregates are high and growing. Still , many of the firms are not eligible to receive new credits. A lot of the outstanding inter-company debt is dead, belongs to long defunct firms, or to massive loss makers. As firms are privatized, it will either be privatized as well, or deleted. A small part will be borne by the government. Illiquidity remained virtually unchanged since 1999."

"In other words, most company debt is non-performing or bad? How does this reflect on the banking system?"

"No, these debts are not in the banking system at all. They were created by the previous management of state owned firms in the previous regime. The IMF has officially confirmed that more than two thirds of the loan portfolios of our banks in the year 2000 are in the A and B least risky categories. Stopanska Banka, which constitutes close to 50% of our entire banking system, has just finished cleaning up its portfolio, a major achievement of

far reaching structural importance."

"This is the second time you mention the IMF. Some people accuse them of being socially insensitive. Unemployment, for instance, is blamed on the structural reforms that they imposed on Macedonia."

"We sometimes disagree with the recipes of the IMF and they do tend to administer the same advice to all their clients. But their contribution is positive and important. The provide credit and thus signal to investors that the right economic policies are implemented. Politicians, dependent on voter satisfaction often need prodding to implement painful reforms. Some of the measures included in our arrangement have increased unemployment. We had to sell or shut down 12 large loss makers. Another 30 are to be sold or closed. We have pared more than 3000 workers off the state administration payroll. But this is a drop in the unemployment bucket."

"Why is this persistent unemployment?"

"Many reasons" – he sighs. It is clear that I touched a raw nerve – "Unemployment is over-stated. Many workers in the informal economy go unreported (this, hopefully, will change with the lower taxes). Albanian women often refuse to work but register as unemployed, to get the attendant benefits. Still, unemployment is way too high. GDP needs to grow consistently over at least 5 years to make a dent. The private sector and its small and medium enterprises should be the engine of growth. But the private sector in Macedonia has stagnated. Previous governments sold firms to cronies. This was called 'management buyout'. The old-new managers-owners had no vision, no new technology, and no new products. Their firms created negative value added. Moreover, they crowded out

newcomers by, for instance, absorbing the credits made available through the banking system. 81% of the credit aggregate in 1999 went to 16 loss makers. Less than 20% reached the private sector. It was an old boys network built on the residues of socialism. Additionally, there is a lack of good projects, deficient property rights legislation and enforcement, a dysfunctional and politicized banking system. The unstable region added to our problems."

"Red Tape?"

"That, too, although this was not a major obstacle and the new company law makes it much easier to establish a firm and run it. But the governments pre-1998 seemed to be bent on repelling foreign investors rather than attracting them. They placed legal entry barriers. This is changed now. We crave foreign investors and welcome them."

"Perhaps too much? Recent privatizations – notably of Okta and Skopski Saem – were criticized as lacking in transparency."

"Skopski Saem was privatized through the stock exchange after a proper notice was published in the press. It was open to anyone. In the past (1996-7), the World Bank recommended that we privatize also through direct negotiations. Okta – the refinery – was about to be shut down when a white knight appeared. We did not miss the opportunity to salvage this important asset. All three companies privatized through direct negotiations are now profitable. The new law allows us to privatize only through the stock exchange or a public tender. I hope this will put an end to the criticism."

"Anything to conclude?"

"In the last year and a half we have gone through a

compressed version of the structural reforms other, much richer, countries took a decade to implement. We passed numerous crucial laws. We liberalized the foreign exchange regime. Rebuilt the tax administration. Are implementing a treasury system. Restructured the customs and the payment system. Reduced tariffs and excise on certain products. Passed amendments to countless economic and financial laws (such as the insurance law). We are preparing the ground for an Internet revolution in our country. We recently passed a digital signature law and are preparing other cyber-laws. We did all this – and endured unprecedented geopolitical turmoil – while keeping inflation low, forex reserves high and record FDI. I have every reason in the world to be optimistic."

Return

Interview with the Prime Minister Of the Republic of Macedonia Mr. Ljubco Georgievski

The Prime Minister of Macedonia is a sad and disappointed man. A youthful 35 years old poet and man of letters (he published three books of experimental literature), he genuinely aches the recent events and his shattered dream of peaceful co-existence. Mr. Georgievski was the first Deputy-Premier of his country in 1991 and was elected Prime Minister in November 1998.

Q: You are the Prime Minister that did the most for inter-ethnic tolerance in Macedonia. Are you disappointed?

A: We are very shocked by events last month. Macedonia until a month ago was an example of a multi-ethnic state, the recipient of compliments from the international community as proof of the possibility of peaceful multi-ethnic co-existence in the Balkan. The appearance terrorists shattered this image and Macedonia has become a problem of multi-ethnic life rather than an example. We have never evaded these issues but we will not allow anyone to annul everything we have achieved in the last ten years. We also believe in evolution – and not in revolutionary changes overnight.

I was greatly disappointed because I felt that I gave a lot as Prime Minister. You know that Macedonian nationalists in some way proclaimed that I betrayed their interests. And now both parties are not satisfied. There is a personal dimension, but I must go on fighting to overcome it.

Q: You disagree with violence and terror. But do you agree with some of the demands of the Albanians?

A: Everything is open to discussion, as long as it is done democratically. We proved this in the last decade. But we cannot accept demands backed by weapons. This breaks every principle, international and national. The terrorists must leave Macedonia and abandon their weapons, to allow us to proceed with our discussions. We will sit at the table and each party will present its reasoned demands and we will consider them together: do the Albanians live in Macedonia subject to international standards, what more do they want, and how can it be resolved. None of their demands in the last decade was presented either to the Macedonian parliament or to the government. They may have constituted the position of the Albanian political parties but until now they have not been formally presented to the proper institutions.

Q: The Albanians demand changes in the Constitution (for instance, to make them a "Constituent Nation"). Do you think this question can be resolved, even in principle?

A: As I said, all issues can be discussed. What will be decided depends on the mood of all the political parties and, finally, on parliament. I am prepared to interpret the constitution creatively, as we have done in the case of Albanian high education. Though the constitution does not state decidedly that high education can be conducted in another language, we do have high education in Albanian. Similarly, we can creatively interpret many other issues. My approach is to see how to achieve multi-ethnic life through substance, and not through a change in the constitution. I, personally, think that the Constitution has proved its value in the last decade and spawned wide democracy. Finally: the happiness of the citizen is not derived from the constitution but from its proper functioning. For example: the Albanians in Albania have a

constitution, which they themselves adopted. So, why is there civil war in Albania and why, to this very day, its own government does not control half its territory? The Constitution is only a framework, which determines the rules of the democratic game.

Q: Macedonia is a young state. Many Macedonia feel that their existence is insecure. Can it be that, as a result, you are over-sensitive to Albanian demands?

A: The Macedonian people are afraid for their country and for peace. It is understandable. They lived here under the same conditions for centuries and in the last decade we witnessed four wars in this region, the last one being the Kosovo Crisis. This fear is normal. Should the Balkan normalize and survive in peace for 10-15 years, people's minds may change and they would not regard such issues so sensitively.

Q: Mr. Arben Xhaferi (leader of the biggest Albanian party, DPA, and a member of the coalition) presented a demand to resolve all the outstanding issues in one month. Do you regard this as an ultimatum? Do you think it is a productive approach?

A: I believe that he intended to speed things up but I am pessimistic that any issue can be resolved in one month. In any case, it is very bad to present any ultimatum at the beginning of the discussions. We showed that we are ready for discussions, for their intensification – but without any additional conditions.

Q: Do you feel constrained by the West?

A: It is obvious that the West needed time to understand what is happening here. Following the first phase, in which they faced many unknowns, communication has

improved and is functioning maximally. We are especially content that they augmented the KFOR contingent in Kosovo. They present no special demands except to intensify the discussions with the Albanian political parties within our institutions. This is acceptable to us and we feel no special pressure. We are particularly happy that the international community – having studied the situation - has accepted the thesis that we are faced with terrorism, that we cannot negotiate with terrorists, and that we should unite to eliminate terror.

Q: But in your speech you criticized both the West and Western media…

A: Our criticism of some Western countries was because the border between Macedonia and Kosovo was not sufficiently controlled by KFOR. This, probably, encouraged the terrorists to enter Macedonia. Now, having realized their mistake, things improved. The very fact that they enhanced their forces proved that they understand the situation. Regarding the Western media, we reject only their formulation – which goes against the terminology used in other countries with similar problems - that we are dealing with rebels. This legitimizes a group of terrorists, encourages and strengthens them and lets them think that they have international support. We also dislike the exaggeration of the situation by the international media. Skopje, for instance, contrary to media reports, is very peaceful as is the rest of the country. Macedonia has been attacked only in three places, all very close to the Kosovo border. This serves to prove that the aggression against Macedonia was initiated from the Kosovo Protectorate. We should call a spade a spade.

Q: Serbia is negotiating with the UCPMB and has negotiated with the KLA. Why won't Macedonia negotiate

with the NLA?

A: Serbia is in a different situation, having a track record of ten years of repression. The attack of the KLA on the Presevo Valley in south Serbia is without a historical background or logic. This is a most direct provocation of the KLA on Serb territory. To my mind it is illogical for Serbia to negotiate with the KLA regarding its own territory. In Macedonia we do not think, even for one moment, to negotiate with the KLA regarding Macedonian territory because we really consider them to be a classic terrorist organization and because Macedonia was always complimented for its multi-ethnic co-operation. In Macedonia there are legal Albanian political parties represented in the government with many ministers. They can present every question in both parliament and government. We don't intend to promote terrorists to the position of political co-discussants.

Q: You keep mentioning the KLA. But you were the first Balkan leader to meet Hashim Thaci, the leader of the KLA.

A: The meeting with Thaci was when all the international community actively communicated with him. Its purpose was to establish normal economic relations with Kosovo and to make sure that the refugees from Kosovo will leave Macedonia within two months rather than the one year that everyone predicted – as, indeed, they have done after the meeting. Our future relations depend on the behaviour of Thaci's party.

Q: Do you believe that the Tetovo uprising can happen again?

A: We have successfully completed the first round of

defence of Macedonia against terrorism, even though, there are still individual acts of terror, which worry us. Independent of these terrorist acts, we are awaiting now, according to all information, for a second wave of a massive terrorist attack toward the middle or the end of this month. I believe that this second wave can be prevented only with very active pressure by the international community on the political structures in Kosovo and with a clear statement that it does not stand behind such elements.

Q: The new administration in the USA displays isolationist tendencies. The USA has withdrawn 800 soldiers from Bosnia. Do you think that this is a wrong orientation?

A: It is too early for the Americans to leave Kosovo and Macedonia. We expect the region to remain unstable for some time to come and we would like this instability to be ameliorated by both NATO and the American Army. We don't see any risk in their presence but there is a risk in their withdrawal.

Q: A few weeks ago the Serbs were allowed back to the security zone around Kosovo to counter Albanian terrorism in that area. Was the whole Kosovo War of 1999 a mistake?

A: The security zone is in Serb territory bordering on Kosovo and the Serbs should receive it back. We think it is the right policy. Serbia should control its border up to Kosovo. The faster this is done, the faster will the Presevo Valley problem be overcome. Regarding the return of the Serbs to Kosovo as a whole, it is a more complex issue. It is a fact that in Kosovo today, there is the opposite oppression. Albanians created there the most ethnically

cleansed space by "cleansing" not only Serbs, but Turks, Romas and others. The international community now has a reverse problem: how to pacify Albanian extremism there.

Regarding whether the war was necessary or not – again, this is a very complex issue. First, Milosevic was a big Balkan problem and for ten years has held the Balkan hostage. His aspiration for a "Great Serbia" involved not only other republics but also Macedonia. This would not have been solved without NATO intervention, which opened possibilities and perspectives for a new future of the Balkan. But on the way to realizing this main goal, a secondary error was committed (as it was in other places) and this is the creation and support of the so-called KLA by the Western powers. In the KLA I see a new European Taliban. Many Albanian criminals and bandits were armed and militarily trained and now no one can control them. They cause trouble mostly in Kosovo. There are hundreds of examples of Albanians murdered by the very structures that initiates aggression against south Serbia and western Macedonia. This power mostly consists of dismantled gangs of the former KLA. The West may face this problem, perhaps not in the form of terrorism, but by way of crime. Today, Albania and Kosovo are the biggest centers of drugs that are directly distributed further in Europe. These facts are recognized by many European states.

Q: You keep blaming KLA and Kosovo but Western media reports that many of the Albanian extremists are Macedonian citizens…

A: Macedonian Albanians are members of these structures. But all the military, logistics and financial support come from Kosovo. And Western countries

possess proof of this. The main leaders are Macedonian Albanians that two years ago joined KLA structures. Now they are returning to Macedonia through Kosovo. Finally, Macedonia, in the last 10 years, granted citizenship to 160,000 Albanians from Kosovo and south Serbia who fled the tortures Milosevic. 90% of Macedonian Albanians who participate in these terrorist groups – are these refugees from Yugoslavia.

Q: Are you happy with Greek investments in Macedonia?

A: Absolutely. We did something positive in the last two years in that we drastically changed the relations with Greece and it is now a good friend rather than a cold neighbour. Today, Greek investments are the biggest in Macedonia and this encourages other investors. Last year, for the first time in fifteen years, we finally had a good economic year. Our GDP increased by 5.1%. We were the first of 24 countries in transition in the EBRD report as far as the intensity of reform and macro-economic results are involved. This means that we are on the right way but, unfortunately, trouble beyond our control again blocked our economic development. But even in the crisis, Greeks continued to invest here. This is important because it shows that they still regard Macedonia as secure and it contributes to stability in the region and in Macedonia.

Q: Macedonians – like the Jews and the Albanians – have a big Diaspora (mainly in Australia and Canada). Why aren't they much more involved and supportive?

A: The problem is that until 10 years ago were part of Yugoslavia, which controlled the Diaspora and splintered it. Our problem is how to unite them and only after that to ask them to support Macedonia. We expect from them to mass organize and to lobby for Macedonia in their own

countries. We, as a state, do not wish to involve ourselves in Diaspora matters, this is the communist way. We would like them to self-organize and acts spontaneously which would make them a real Diaspora. But they have not overcome the Yugoslav complex yet, it will take time.

Q: Do you feel that in Macedonia there is a conflict between generations?

A: Absolutely, such conflict exists. It is easy to see it at the workplace. This mentality does not consist of supporting either communism or the new times. You can see this problem even if you give some work to someone who claims to be anti communist. But their work shows that they cannot erase the way they were brought up. From the experience until now it is not only a matter of ideological conviction but a question of mentality, a part of your character which is trained to work in a certain way. The conflict with the opposition also has this inter-generational dimension.

Q: The opposition and people on the street accuse this government of corruption.

A: There is no government in the world not accused of corruption. But I think this can be measured. For instance, in many countries corruption extends to traffic police who stop you on your way, so that by the time you reach your destination, you pay 4 or 5 bribes. In Macedonia, the situation is not ideal and there is room for fighting corruption but it has been eradicated and is felt only in places directly dependent on certain institutions, politicians, or civil servants. In day to day life, as opposed to other countries in transition, corruption was drastically reduced, or is unnoticeable. The main battle is to change the laws to reduce dependence on licences given by the

government, to reduce taxes and customs duties. For instance, we reduced the excise on coffee that encouraged smuggling. We prefer to change the laws rather than to apply repressive measures against those directly involved in corruption. In other words, to automate processes. Another example: there was massive corruption connected to building licences. Now, if you apply and do not receive a response in one month – you have a green light to build. The result: today, corruption connected to construction is rare.

Q: This was a dry year and there is a huge shortage of water. Could this develop into a regional crisis?

A: This was the driest year in more than a century. It is the same in all the countries of the Balkan. Southeast Europe who is anyhow poor will go through another catastrophe, which will affect both the economic and the defence situations. We may raise this issue in the framework of pact of stability.

Q: Anything you wish to say that we haven't covered?

A: With all the unpleasantness of the last month, Macedonia will prove its perseverance and vitality. I am convinced that we will halt this wave of terrorism and that democracy and multi-ethnic co-existence will once again prevail. The trend of economic success, so evident last year, will continue and allow us to realize our goal of economic development.

Return

Interview with Edward Joseph
Macedonia is not Bosnia

Ed Joseph's biography is a fair proxy to the history of the Balkan since 1992, the year he landed in Sarajevo, then the beseiged capital of crumbling Bonia-Herzegovina. He was in all the flashpoints ever since: Knin, Mostar, Bihac, Tuzla, Zepa (where he oversaw the evacuation together with the infamous General Ratko Mladic). He held senior positions in the UN, NATO, and OSCE. In 1999, during the Kosovo war working with Catholic Relief Services, he was the camp commander of the most media hyped refugee camp in the world, Stenkovec-1 in Macedonia. He then became the Deputy Administrator of the hotly disputed Mitrovica area in Kosovo. In between these two assignments, he was an advisor to the arbitration panel for the hotly disputed town of Brcko, Bosnia-Herzegovina. He is also a visiting scholar with Johns Hopkins School of Advanced International Studies.

Q: Albanians and Bosniaks are lumped together as troublemaking Moslems by the media in many countries in the Balkan. Is there a "Moslem instability factor"?

A: The Moslems in Bosnia are different from the Albanians in Kosovo. The former largely refrained from exacting revenge following the end of the hostilities either toward Serbs or Croats.

Q: Macedonia was also often heralded as proof that inter-ethnic, peaceful, and tolerant co-existence is possible...

A: As far as Macedonia is concerned, Bosnia is a frightening precedent. In Bosnia, there were ethnic inter-marriages, close interaction, a common sense of being

from "Bosnia" or "Herzegovina", economic ties - and then, suddenly, a bitter, prolonged war. When the war broke out, neighbours identified each other in the warring parties and shouted, for example: "Dejan, why are you shooting at us?"

In Macedonia, people should consider carefully if they even begin with the same degree of multiethnic understanding as in Bosnia. Further, they should understand that war has its own polarizing dynamic. As soon as there are any casualities or refugees, people become self-righteous and self-justifying. They tend to use stereotypes of "the other" and only consider their own victimization. And war quickly creates manifold opportunities for criminals, acting under the cover of "national patriotism", to exploit.

Q: So, you are hearing distant echoes of Bosnia and Kosovo in Macedonia today?

A: Yes, I do. The tendency toward collective blame of "the other" is disturbingly reminiscent. There are stories of discrimination, self-righteousness, stereotypes, ludicrous characterizations. This is dangerous. I saw a window that was smashed by a rock in an Albanian bar here in Skopje after three Macedonian policemen were killed. And there is self-justifying rhetoric on both sides. The essential question, though, is the same as in Croatia, Bosnia, and Kosovo, "where do inequities end and national aspirations begin?" "Is it a struggle for national rights or national secession?" Of course there are important differences with the other wars - the fact that the Serbs inherited the JNA's stock of heavy weapons and the spectre of NATO intervention were major factors influencing the conduct of the fighting these past 10 years. This doesn't make the situation any more stable, however.

Q: Isn't this a vindication of the "ancient ethnic hatreds" theory?

A: I reject this. Yes, in Bosnian villages especially there were some examples of long-standing "blood and vengance", and Tito's Yugoslavia left every nation with some imagined or real grievance. But overall the tradition of interaction and co-existence were predominant. And we forget that some of the "warring factions", as we used to call them in Bosnia, had little history of outright fueding. Why did the Croats attack the Moslems in Bosnia? They were not traditional enemies. And in Bihac more Moslems were killed by Moslems than by any other ethnic group.

Q: Lately, the Croats in Bosnia have declared their own, autonomous mini-state and Croat soldiers and policemen deserted in droves to join a new Croat army (the First Guard Corps). Are the Dayton Accords unravelling?

A: No, they are not, although we should rethink the Dayton assymetry of dividing Bosnia into a largely autonomous Republika Srpska and a more inter-dependent Federation. Aside from that fundamental issue, we all know what it takes to achieve multiethnic coexistence: It requires political change, democracy, the rule of law, return of refugees, economic growth, and most of all, international fortitude. The problem is that no one of these is a panacea. We tend to focus on a "flavor of the month", trade, for example, believing that it will solve all the problems ... forgetting that the "warring factions" traded with each other throughout the war. As for the Croats, this is truly a defining moment for Bosnia. Observers have been speaking for years about going after the "power structures" of the nationalist regimes (HDZ, SDA, and SDS). And now, in Herzegovina, we finally have crossed the last barrier and presented the HDZ leadership with a

mortal threat. Having done this, we blink at our peril.

Q: Who is going to do all this? The Bush administration has just withdrawn 800 soldiers from Bosnia and is looking more and more isolationist.

A: People of the Balkans, ever obsessed with conspiracy theories, tend to overlook the most enduring truth of US policy toward the region: its perceived lack of strategic importance. At the same time, they ignore that America's commitment - however reluctant in its formation - remains. No one is willing to accept the consequences - on NATO, on US-European relations, or even in plain human terms - of another catastrophe. In the case of Macedonia, with the potential for wider instability, the stakes are even higher. The consequences of failure in Macedonia are even more momentous than in Bosnia because of the potential for intra-NATO conflict between Greece and Turkey (both NATO members - SV).

Q: This was also a major reason for containing the Kosovo conflict, even militarily, as NATO did. Can Macedonia ever be cast by the West in the role of Milosevic, who suppressed "his" Albanians in Kosovo?

A: The Yugoslav secession wars evolved into a "war against Milosevic". Indeed, one of the many tragedies spawned by Milosevic was that he, deliberately I believe, killed the chances that legitimate Serb grievances would ever get a fair hearing in the West. While Macedonian police tactics leave a lot to be desired, there is no way to compare the Macedonian government to the Milosevic regime.

Q: But now the Serbs are back (albeit only into the narrow security zone bordering on Kosovo). Was

"Operation Allied Force" for naught, a futile exercise?

A: This is an over-simplification. Serbs were allowed into a limited region on sufferance of NATO, subject to strict conditions and under strict limitations. Their posture is different, they are not brutalizing the population now. Their return actually proves that the Milosevic tactics were unnecessary. Despite the restraint of the Serb forces, much of the area they are in is pacified. It is another example of how brutality is not necessary, how it only breeds resistance. When repression results in expulsions and ethnic flight, the situation takes on a self-propelling dynamic. The newly displaced become cause for expulsion and discrimination. And even after the war is over and people return to their homes, as in Kosovo, there is an enormous disturbance to the pre-existing social make-up. Villagers flock to the cities making minorities even more afraid and vulnerable. War ruins the social fabric. People feel disorientated and alienated. In the post-Milosevic era throughout the region, it is extremism - not any politician or people - that is our common enemy. We must fight it - not each other.

Return

Man of Vision:
Interview with the President
Of the Republic of Macedonia
Mr. Boris Trajkovski

Macedonia – a landlocked country at the southeastern tip of the Balkan, bordering Yugoslavia, Albanian, Bulgaria, and Greece – has been coping with an Albanian armed insurgency since February this year. The insurgents – collectively known as the NLA (National Liberation Army, or UCK in Albanian) – are comprised of commanders with experience in Kosovo and recruits from Macedonia's Albanian population. The NLA demanded improved civil rights, human rights, enhanced participation in the police and public administration (to reflect the Albanians' share of the population, officially c. 24%), and the right to use the Albanian language in parliament and in mixed municipalities (with more than 20% Albanian population). Their demands were met in the Ohrid Framework Agreement signed by the leaders of the four major political parties (2 Macedonia and 2 Albanian). One of the signatories was the Prime Minister, Mr. Ljubco Georgievski, head of the VMRO-DPMNE, the moderate right wing ruling party. Georgievski has tactical differences with his erstwhile friend and co-partisan, the current President of Macedonia, Boris Trajkovski, who came to power in much disputed elections, decided by the votes of the Albanian population in 1999. Trajkovski believes in the constructive role of NATO and the West in restoring peace and stability to Macedonia. The Framework Agreement – if rejected by Albanian extremists – will establish their culpability and responsibility for the current situation, on the one hand, and Macedonia's flexibility, on the other hand.

Georgievski resents the West's apparent lenience towards the NLA and firmly believes that agreements should never be signed at gunpoint. About 17% of the 9,800 sq.m. country (its western and north-western parts) is still controlled by the gradually disarming NLA.

The President of Macedonia is a soft spoken but single-minded visionary. We met in his office amid frequent interruptions from a noisy anti-NATO demonstration right outside his window in the Parliament building. Mr. Trajkovski was the deputy Minister of Foreign Affairs during the taxing days of the Kosovo crisis 1999. But this was not his first exposure to foreign affairs. For many years this American educated methodist ran the Commission for Foreign Affairs of the VMRO-DPMNE (then in the opposition).

Q: Whether one agrees with your policies or not – you are definitely a brave man. What did you experience emotionally during this existential crisis? Were you ever afraid? Do you regret decisions you made or refrained from making?

A: I am considering two things on a daily basis: what is right to do and what is wrong to do in my role as President of my people. According to my conscience, I am trying to abide by the right. My vision is peace. My vision is prosperity. Even when making difficult decisions on behalf of my people, I am striving to attain peace, it is very important to me. When you are a man of vision, you are bound to succeed. Consider Anwar Sadat when he flew to Israel to meet his Israeli counterparts. His Egyptian compatriots were furious. He answered: "I am going to these talks for peace. I am going to bring peace and prosperity for my people". I am doing the very same. I want to bring peace and prosperity to all the citizens of

Macedonia. This is my vision.

Q: It is a frightening example...

A: (Raises his voice, for the first and only time during the interview)

Leadership and vision! I have to lead my people towards my vision and my goal – peace and prosperity! Never mind how misunderstood I am and how irrationally I am treated. But I have a goal. Time will say. If I succeed, it will prove to the people that I was a man of vision. Therefore, you need courage and leadership. I am ready to accept all accusations, allegations, anger – but I have to succeed.

Q: Parliament has embarked on the path of constitutional amendments in accordance with the Ohrid Framework Agreement. What does the future hold? Armed conflict, unarmed conflict, or peace?

A: I welcome the final vote made by the Macedonian parliamentarians. It is a significant moment which leads towards the implementation of the framework agreement. It allows for discussing, in a democratic manner, the various appendices attached to that agreement.

We are witnessing a situation where NATO is trying to disarm and disengage the terrorists. We are witnessing a durable cease fire. The terrorists gave their word not to continue to fight. We have to trust them because they gave their word to NATO and NATO gave their word to us. Once we put all this behind us, I hope that Macedonia will continue with its endeavors to be part of the European family and towards a Euro-Atlantic integration. The future prospects of my country in collaboration with the international community is to concentrate on economic

prosperity and the achievement of our strategic goals.

Q: There is a growing anti-Western and anti-NATO sentiment among the Macedonian population. It is sometimes expressed even by the Prime Minister, Mr. Ljubco Georgievski. You seem to be the focus of this popular sentiment because you are identified with the goals, policies, and activities of the West here. How do you feel about it?

A: I have no doubt about my orientation. It is Euro-Atlantic. My target is, from the very beginning, to incorporate Macedonia in the European family. Should this fail, I believe that all Macedonian efforts will be in vain. NATO and EU are our friends and they are doing everything to help us overcome this crisis. I am aware that, at this moment, NATO's image is suffering. But, NATO and KFOR still have a lot of problems with armed and unarmed terrorists. Perhaps this engagement created the wrong atmosphere and the wrong image among the Macedonian population that they are allied with the terrorists. There may have been a lot of misunderstandings regarding our mutual co-operation but I think that their final goal is to reach peace in Macedonia as soon as possible.

As far as Mr. Georgievski is concerned, he devoted himself, from the very beginning of his career, to ensuring that Macedonia becomes a part of NATO and the EU family – and I am deeply convinced of that. But he is a man of dignity, honesty, and open rhetoric. It is not a matter of anti-NATO toughness. These are his proper reactions and the way he feels. In our past, together, working as partners – NATO and the Macedonian government – we made mistakes and there were misunderstandings. But there is no person in the

government or in the Macedonian population that is against NATO.

But having said that, once NATO's mission is completed successfully within the prescribed timeframe, and with the Framework Agreement signed, we have all the elements in place to re-establish internal stability in Macedonia. But a prolonged NATO presence as either a guarantor of peace or to maintain peace and stability – means that NATO has failed in its mission. It will only foster a false or artificial sense of security. It will produce long term instability. Only the Macedonian security forces are the guarantors of peace. This is not in the interest of either NATO or Macedonia to have a Bosnia or Kosovo scenario. Should those who are against the political document provoke violence – we will have to go to war. There is no capacity to replace the security forces which are the only ones authorized to enforce the constitutional order and rule of law in the country. NATO cannot do it, they are not authorized to do this. Macedonian Albanians have to strongly bear in mind that the Macedonian police is their police as well. Should they reject this, there will be no long lasting solution for our country.

The police were not the ones to cause these problems, violence, and ethnic cleansing. We must not give room to the terrorists to misuse NATO's presence here. Even the security of EU and OSCE monitors will be guaranteed by the Macedonian security forces. NATO's mandate is clear, precise, and limited to the collection of weapons here. They will then depart and the Macedonian police will resume their positions in the villages and cities and take up their normal duties. The Macedonian army will return to the borders to watch over them. My request regarding UNPREDEP was for a collaboration with the Macedonian

Army in observing the borders with Kosovo and Albania, something they had a lot of experience with in the past. The current violence was transmitted to Macedonia from Kosovo and from Albania. We think that Kosovo will continue to serve as a centre of violence and regional instability in future.

Q: There is fear among the local population and foreign observers alike regarding the continued existence of Macedonia. Could you relate to the possibility of a division of Macedonia (a proposal floated, in a way, by the Macedonian Academy of Arts and Sciences) – or its transformation into an international protectorate?

A: There is no doubt, even in the Framework Agreement, that the sovereignty, political and territorial integrity, and unitary character of our country are unquestioned and preserved. The Agreement transforms Macedonia into a more inclusive state and a multi-ethnic society. We are now more focused on the development of individual human rights and are creating a society based on the individual and not on ethnic groups. This is a civic model – the individual is given more rights but also more responsibilities.

Regarding an international protectorate – the international community is not interested in such a scenario. Macedonia has legitimate, officially elected political representatives from different communities, unlike in Bosnia, or in Kosovo.

Q: The disagreement between Macedonia and Greece regarding Macedonia's constitutional name has been dragging on for 8 years now. Any ray of hope for an agreement?

A: Thank you for asking me this. One of our sternest demands, apart from a donor conference, is the recognition of our constitutional name. Now is the time – if we and the international community regard the Framework Agreement as a European document – to prove to us that they are supportive of our democracy and sovereignty. The citizens of Macedonia find the current changes hard to accept. They would be even harder to accept should we not be recognized under our constitutional name. Our citizens will lose their confidence or trust in the values and principles of the international community, especially if our personal identity is denied.

APPENDIX – The Macedonian Position in the Current Conflict

Macedonian Homeland

Macedonians have been discriminated against and persecuted throughout history. Even when they finally acquired their independent state – their neighbours (Greece, Bulgaria, Serbia) doubted their language, existence as a nation, borders, history, and rights. One of them even imposed an economic embargo on the newly born impoverished country in the throes of transition from Socialism to Capitalism.

Macedonia is the homeland of the Macedonian people. It represents their aspirations, hopes, and struggles for more than a century.

The Albanians regard it as just another territory, potentially a part of a Greater Albanian or a Greater Kosovo. They regard Macedonia as a NEGOTIABLE political entity whose nature, ethnic composition, borders,

constitution, and emblems can be altered at will – or at gunpoint. Above all, they resent the fact that Macedonia is the Macedonians' abode. They use Albanian flags, insignia, and emblems in all their official events and gatherings. This is incompatible with the principle of the integrity of the Macedonian state and the loyalty of all its citizens, regardless of ethnic origin.

Albanian Ends and Albanian Means

Whatever their ends, and even if some of the ends are justified – there is no justification, or excuse for taking up arms. The use of violence, terror, and ethnic cleansing to secure political aims is reprehensible.

Yet, the Albanians have consistently resorted to violence and ignored the well established and well functioning political, media, and juridical channels for expressing their grievances and tackling them.

The Rewards of Violence

The West has always insisted on the just principle that violence, terror, and ethnic cleansing should not pay. This principle was enforced – sometimes militarily – in Bosnia and Croatia. Yet, for tactical and political reasons, the West has made two exceptions: Kosovo, and Macedonia. In Kosovo, it rewarded a crime organization turned liberation movement (the KLA or UCK). It armed it, trained it, and transformed it into a respectable political player and partner in shaping the future and nature of Kosovo. In Macedonia, it has leaned on the democratically elected government of a sovereign country to accommodate the demands of armed terrorists, even as these terrorists continued to intimidate, murder, occupy land, and ethnically cleanse its Macedonian inhabitants.

Thus, Macedonia is made to pay for the mistakes of the West in creating a monster (the KLA) that is now well out of their control (in the form of the NLA and ANA) and threatens to transform KFOR into 50,000 hostages in Kosovo.

Kosovo and Macedonia

There is no comparing the Albanians in Macedonia to the Kosovars. The Albanians in Macedonia are an integral and important part of the political structures. They hold important ministries, high level positions in the army, civil service, and public administration. Their language is used on all levels of the education system. They have their own higher education institutions, their own state TV channel, newspapers, and cultural organizations. They are entirely free to do as they like within the law. Some of them have abused this freedom and brought about this conflict. There is no reason or excuse for this outburst of homicidal violence.

Leaders of the NLA

Both Hashim Thaci and Ali Ahmeti gained the flattering attention of the West and the international press by leveraging a virulently nationalistic cause and inciting violence, terror, ethnic cleansing and, in the case of Ahmeti, the illegal occupation of swathes of a democratic and sovereign country. In reality, they abused their power and the gullibility of their followers to advance their aims of self-enrichment and self-promotion. Ahmeti now wants to be a Minister in the government of the very country he so savaged. Crime interests, criminal funds, and individual, self-aggrandizing, agendas are behind the demands for "greater rights" and "self government".

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After the Rain

Interview with Minister of Finance Nikola Gruevski

Milcho Mancevski, the Macedonian director, chillingly anatomized the dynamics of inter-ethnic conflict in his fatherland in the much acclaimed film, "Before the Rain". It is now "After the Rain" in this small and landlocked country. Following a year of civil war and heavy-handed interference by the "Big Powers", Macedonians face, on September 15, a stark electoral choice among discredited political parties and oft-disgraced politicians.

Nikola Gruevski served as Minister of Trade in the first government formed by the VMRO-DPMNE party following its landslide victory in the September 1998 elections. The youthful minister, then only 29 years old, proceeded to become the Minister of Finance. He was at his country's economic helm ever since.

Q: The International Crisis Group has just published a report accusing this government - and its predecessors - of gross corruption. Do you concur?

A: There is corruption in this country, but, despite existential threats, we have been fighting it more resolutely than any previous government. Look at our record: an anti-money laundering law replete with a directorate, an anti-corruption law, a hotline to report abuses and venality. Most of these steps were introduced in parliament but obstructed by successive governments run by the current opposition.

We fight corruption structurally as well. We have reduced taxes and customs duties, deregulated, increased the salaries of civil servants, introduced unprecedented

transparency in our work. We are fighting the informal sector of the economy. We have filed 500 tax evasion lawsuits against managers. We have criminalized fiscal offenses and made them punishable by up to 5 years in prison. We have introduced fiscal cash registers in all retail outlets, big and small. To reduce the number of cash transactions, all salaries in the public sector will now be paid through a national payment card.

Q: You failed - yet again, the opposition says - to secure a standby arrangement with IMF in the latest round of negotiations in May-June this year. Then he World Bank froze its disbursements, followed by the donors who pledged money in a much publicized conference in March. What's going on?

A: I do not subscribe to conspiracy theories. But I must admit that I was taken aback by the clearly politicized decisions of both these institutions. They treated us unfairly. Though we complied with every demand of the IMF and implemented more reforms than they even asked - because we thought it was good for us - they never came through. We were able to conclude only a meager $13.8 million arrangement with them, 2 years ago, of which we drew only $3 million.

We have introduced a value-added tax, restituted to its rightful owners property confiscated by the socialist state, repaid in full foreign currency accounts frozen by previous governments, privatized the largest bank and many loss making enterprises, introduced fundamental legislation on dozens of critical economic issues, deposit insurance, collateral registries, a new payment system - and this is a partial list. Suffice it to say that in its year 2000 report, the European Bank for Reconstruction and Development (EBRD) ranked us number 1 among 26

countries in transition for intensity and scope of reforms.

And yet, the World Bank just declined to disburse the second tranche of one of the two agreements we signed with them because - as it irrelevantly claims - we failed to conclude an arrangement with the IMF. They are reluctant to be the only multilateral to give us money. The donors, inevitably followed suit. Only the money pledged to support the Ohrid Framework Agreement, concluded between all major political parties - Macedonian and Albanian - last year, has arrived. The rest - the bulk of it - is frozen.

This may have to do with the West's desire to get rid of this prime minister, an outspoken critic of some Western policies in this part of the world. I must warn that such iniquitous behavior may adversely affect the attitude of my fellow ministers towards obligations we assumed vis-a-vis the World Bank. Macedonia needs the Bretton-Woods institutions in the future and intends to continue its close collaboration with them. But they have let us down in a time of dire need.

Q: The IMF says that it did not sign an arrangement with Macedonia because it refused to be seen to support a populist, pre-electoral, scheme to compensate the savers of the defunct TAT savings house...

A: The collapse of the TAT pyramid scheme exposed severe shortcomings of Macedonia's bank supervision at that time as well as massive involvement by state officials at the highest ranks. Even the then prime minister - currently the head of the opposition, Branko Crvnkovski - admitted in parliament to the existence of an "octopus" of organized crime which he vowed to eradicate. Our decision to partly compensate the savers - by issuing them

tradable certificates convertible to residual state-owned shares - simply acknowledges the responsibility and involvement of state structures in their misfortune.

Q: Indisputably, the country's major problem is its unsustainable unemployment. Will your second term be better than your first in this regard?

A: Unemployment, as consistently measured by the Bureau of Statistics, based on a workforce survey, has declined from 34.5 percent, when we assumed office - to 30.5 percent now. This despite the fact that we had to fire tens of thousands of workers as part of a structural reform of state-owned and loss-making enterprises much-delayed by previous governments.

Moreover, immediately after we formed the first government, we discovered that 90,000 unemployed in Skopje, the capital city, went unreported due to "computer errors". Many of the "employed" were the result of a law introduced by the SDSM (the socialist opposition) to boost employment artificially before than 1998 elections by heavily subsidizing it.

Q: Let's tackle other alleged failures of the government. The burgeoning trade deficit, for instance...

A: It's pretty much constant throughout the years, with the exception of 2001, which was a war year. This year it will be lower. Moreover, a current account deficit in a developing country is not necessarily a bad thing. Depends what foreign borrowing and investment are used for. If these funds are used to finance the purchase of capital assets and raw materials - then such a deficit is actually a sign of health and vitality rather than a warning sign.

Q: The budget deficits...

A: What budget deficits? In 2000, the only year without an external shock, we ended up with a surplus of almost 3 percent of GDP. In 1999, the year 350,000 refugees from Kosovo swamped our country, we had a 1 percent budget deficit. The only serious deficit in my tenure was last year - c. 4 percent. But we had to purchase weapons and materiel, pay salaries to tens of thousands of army and police reservists, host almost 100,000 internally displaced people... Under the circumstances, I think that we ended up with a very reasonable shortfall. Israel has a 4.1 percent budget deficit after one year of Intifada, Croatia had 8 percent after the war with Serbia.

I just received the latest figures. This year, our budget deficit - at 1.8 percent of GDP - will be lower than even our most optimistic scenarios and it flies in the face of the IMF's pessimism.

Q: But a lot of the revenue was generated by a tax on financial transactions, affectionately known as a war tax...

A: This tax was levied in agreement with the IMF. It skimmed 0.5 percent off every financial transaction - hardly an insupportable burden. We wrongly predicted that the crisis will end after 6 months. Yet, the emergency - and its consequences - are still on-going. We are still paying the wages of 8000-10000 reservists. In any case, this distortionary and bad tax will be eliminated by yearend.

Q: Your government have been accused of lack of transparency in privatizing state assets and of misusing privatization proceeds to finance current budgetary expenditures.

A: This is rich, coming from the opposition party which - when in power - privatized more than 90 percent of all state assets, at a fraction of their true value, mostly to cronies and relatives. Macedonia may have lost $2-3 billion - equal to its entire GDP - as a result of this "privatization".

This debate is really about whether foreign investors should be welcome here. We think they should, the more and the sooner, the better. We were under constraints agreed with various multilateral lenders, such as the World Bank, to sell or shut down loss makers by a given date. The opposition, when it was in power, amended the privatization law to allow for direct sales of assets to strategic investors, without a tender. We sold three enterprises this way: Okta, the oil refinery, Feni, the ferronickel mining outfit, and Ski Centar, a mountain resort.

The sale of Okta provoked a public outcry. I was not involved in this particular deal at the time, but I can tell you that only the current owner, the Greek Hellenic Petroleum, submitted a bid. We saved the company, it is profitable, it employs people, and it has invested in a $110 million pipeline which is now being extended to Pristina in Kosovo and Nis in Yugoslavia. We have heeded public opinion and reverted to sale of state assets by international tender and through the stock exchange, albeit at great discounts.

Most of the proceeds of privatization do not actually reach the central budget at all and, therefore, can hardly be misused. The money ends up being invested in the privatized firms, or offsetting past debts, or buying shares from workers and management.

Consider, for instance, the proceeds of the privatization of Makedonski Telekom. All the money has been voluntarily placed at the central bank, under the supervision of the IMF. One third is being invested in a myriad small infrastructure projects, such as water treatment facilities, sewerage, hospital supplies, and so on. Another third is earmarked to support pension reform when we introduce a private pension system. It remains intact. The third part was used to repurchase Macedonian sovereign obligations. I am delighted to note that even last year, as Macedonia was fighting for its territorial integrity, if not its very existence, these obligations were traded at 65 cents to the dollar and there was a dearth of sellers.

Q: The ICG report published last week claims that foreign direct investment in Macedonia crashed by 60-70 last year...

A: Untrue. During the opposition's economically ruinous reign, Macedonia attracted less than $10 million in foreign direct investment annually. This has shot up to $150 million two years ago - and $120 million last year, at the height of the security crisis. These figures exclude the $300 million sale of our telecom to MATAV, the German-Hungarian multinational.

Q: If you lose the elections, what would become of your legacy? Aren't you afraid that it will all be unraveled by your successor?

A: Depends who this successor is. Regrettably, the opposition is still led by the same change-resistant and xenophobic stalwarts. I am afraid that you are right. It may all be rolled back when I am gone.

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Macedonia's Public Intellectual

Interview with Ljubomir Danailov Frckoski

Skopje, June 2008

Ljubomir Danailov Frcksoki ("Frcko" to his friends) is by far Macedonia's most prominent public intellectual. The author of this struggling nation's first constitution in 1991, he also contributed to the Ohrid Framework Agreement, which, in the wake of an armed insurgency, has defined, ten years later, the relationship between the country's majority and its restive Albanian minority. He served as Macedonia's Minister of Interior and Minister of Foreign Affairs until 1997.

He is a Professor of International Law and Human Rights at the University of Saints Cyril and Methodius in Skopje and teaches in Trieste and Rome. A prolific author of books and columns on actual topics, he often provokes the ire of the recipients of his wit and erudition. Inevitably in the Balkans, he is the butt of numerous conspiracy theories, some more sinister and improbable than others.

Face to face, Frckoski has an unruly mane of wavy thick hair, two piercing aquamarine eyes, and a disarming, impish smile. But these cannot hide his impatience with ignorance and dim-wittedness.

When we sat down for this interview, he had just returned from lecturing in Athens, the capital city of Greece, a country perceived by many Macedonians to be a bitter enemy. It was the first time ever that a Macedonian professor was invited to provide a regular lecture to an audience that also included rabid right-wingers. "They merely stood at the back of the amphitheater" - he grins -

"and listened. I am not sure why...". His host told him: "We are making history here!".

Perhaps it had something to do with his considerable rhetorical skills. Though invariably animated, his arguments are coherent and well-structured. "What does it mean to be a Macedonian?" - I ask him - "What is the essence of your nationhood?"

"We are going through a process that other nations have traversed in the past: trawling history to construct our identity. Whatever being Macedonian means, we cannot be anything but. Sure, for asserting our uniqueness, we are likely to be clubbed on the head by the Serbs, Bulgarians, and the Greeks. It is dangerous to have big nations as one's neighbors. It is even more perilous than having to cope with cultural-ethnic minorities.

We are a nation of 1.7 million, with our own language and historical heritage. We need to digest all this using two constructions: horizontal (the debate among Macedonians to what extent we are Slavs or ancient Macedonians) and vertical (the ethnically non-homogeneous nature of our modern state). We need time to devise our polity, it is an on-going project and we deserve not to be pushed around and urged along, even if it unnerves our neighbors.

The red line is that it is impossible for us not to be Macedonians. History here is thick on the ground: the relics of ancient, Byzantine, Slav and even Ottoman-Muslim cultures. We earned our state with our blood. We liberated our territory by ourselves. This gives us self-confidence. Our evolution as a state was based on legal acts, on the fight against Fascism, and it was gradual: from the People's Republic of Macedonia to the Federal, and then the Socialist Republics and, currently, simply

The Republic of Macedonia.

Moreover, we seceded from the federated Yugoslavia without bloodshed. At the time, we had a competent political elite, but we were also lucky in that Serbia was looking to salvage substantial Serb minorities to its west, rather than the lesser number of Serbs to its south.

Thus, we embarked on a classic route of nation-building: we had a referendum, drafted a Declaration of Independence, enacted a Constitution. But, it was all done top-down, there was no grassroots movement. The people were traumatized by the dissolution of Yugoslavia and the transition from socialism to capitalism and democracy.

Will these achievements survive? Will the popular energy, so evident now, take a positive or a negative turn? How to channel this zest into the political process, not through the street? Above all, how to recognize that national homogeneity is not an option in this country. When we wrote the Constitution (in 1991), we made it a civic document and relegated the inevitable nationalist sentiment into the preamble. We couldn't ignore the upswell of emotions but we kept it out of the articles of the document, the parts that guide the working of the courts."

"So, the Macedonian identity is merely a defensive posture?"

"We were placed in this position by everyone around us with their numerical and economic superiority. Had we not had to confront this external opposition, we would have likely produced a cultural brand, not a military or an economic one. We, the Macedonians, have survived through our culture and in our cultural space, often

unaware of it."

"You mentioned the fight against the occupiers in World War II. But did you fight the Nazis as Macedonians or as Communists?"

"The Liberation Movement had national and communist strands. After the territory was freed, the nationalists were persecuted or, like Kiro Gligorov, our first president, transferred to Belgrade, to be closely monitored. The Macedonian national movement was always in coalition with the ethnic minorities here. We inherited our multi-cultural tolerant pluralism from the Ottomans. This was the basis for our inclusive constitution that prevented the strife that characterized all the other republics that succeeded Yugoslavia.

True, nowadays, Macedonians distance themselves from the Albanians, but there is no active prejudice, no political mobilization to discriminate against the minorities and, thus, bring about conflict. What I call the Macedonian 'momentum of silence' survives in the gap between active and passive prejudice: no acceptance, but tolerance and toleration. That's why all these early warning reports fail. The Greek Ministry of Foreign Affairs is now making the same mistake by boasting that it has saved Europe from embracing an unstable country."

I ask: "Not entirely stable. The Albanians took up arms in 2001 and forced Macedonia's leaders to sign the Ohrid Framework Agreement ..."

"I welcome the changes that we introduced to the constitution in 2001, they had real-life legal consequences. It was a new inclusive beginning, mediated by the foreign powers. Had we not faced an insurrection,

we would still have been forced to implement the very same changes by the European Union, on the way to accession.

The Agreement is decried by some Macedonians because they are enamored with language and its power. This is the result of fear, not reason. Language reform (granting minorities the right to use their languages in some circumstances and settings - SV) is not the first step towards federalization. The foreigners are right in this respect. Albanian hasn't become a second official language. It can be used only in very particular cases.

Of course, some constructive ambiguity here saved the day. The Albanians were told that the right to use their language was a major accomplishment, the Macedonians were soothed with the promise that Albanian can and will be employed solely in a restricted fashion. The language of the articles in the Ohrid Agreement is clear-cut, the interpretation helpfully ambiguous and allows everyone to save face and declare 'victory'".

"The Ohrid Agreement, I am told by foreigners, is the only state-reaffirming, functional compact ever signed in the Balkans. All other agreements dealt with post-traumatic outcomes of state dissolution and the ensuing confusion. It is short, but has disproportional symbolic significance. And don't forget that we did not negotiate directly with the insurgents. The USA and the EU guaranteed the equal-handed implementation of any understanding we reached and this was good enough for everyone concerned."

I interject: "Then why has the same formula failed to work in the case of the name negotiations with Greece that have been going nowhere for 17 years with US mediation? In

NATO's March 2008 Bucharest Summit, Macedonia was not invited to join the alliance because it would not succumb to Greek intransigence: Greece insisted that Macedonia should change its constitutional name to cater to Greek domestic political sensitivities..."

Frckoski: "Macedonia is actually not negotiating with Greece. They don't treat us as partners. It was the same with the Ohrid Agreement: we had dealings with the Americans and that provided the insurgents with the legitimacy to reach a compromise ("If the Americans say it's OK, then we can safely go for it!"). We needed the mediators to allow the Albanians to strike a deal without being lynched by their own extremists.

And, you know what? This Agreement will survive because of the guarantees embedded in it. We have no alternative. The current debate between Macedonians and Albanians is about interpretation, within the framework of the text, with a view to legal instruments of the EU regarding minorities, cultural identities, and human rights. The Badinter principle has not been abused even once! (A principle in the agreement that requires dual majorities - of the entire parliaments and of the Albanian MPs to pass laws pertaining to inter-ethnic issues - SV).

Previous SDSM (socialist) governments made two breaches in this protective wall, though. They allowed the issuance of bilingual passports, thus expanding the role of the Albanian language beyond the original scope; and they accredited Tetovo university, a chaotic institution that openly defied the law.

As for the Greeks, should they succeed in their quest to ostracize us and deny our identity, all the others will climb on the bandwagon: the Bulgarians, the Serbs. I see no

problem for us to adopt a composite name such as the New Republic of Macedonia, Upper Macedonia, and so on. But, we cannot give up the non-exclusive use of the adjective and title 'Macedonian'. We may discuss what it denotes: its cultural, linguistic, and historical connotations. What we cannot and will not discuss is giving it up all together. This is the red line. Regrettably, the Greeks themselves have been changing their positions and demands dizzyingly." - he sighs.

On to the greater world. I suggest that Macedonia may have a Russian option or card to play.

Frckoski dismisses this scenario off-hand: "It is good that the Americans have shifted their intelligence base from Athens to Skopje. This move may antagonize Greece and Serbia, where the Russian presence is increasing. Even Bulgaria may be reverting to its Russophile roots. But, Macedonia must serve as the 'soft border' between east and west. Macedonians should overcome their instinctive and misguided feelings about Russian 'brotherhood' and adhere to the national interests of Macedonia.

Russia was always against an independent Macedonian state: an unstable entity, in their view, that may jeopardize Russian interests, policies, and presence throughout the region. Moreover, Russia represents an attempt to link ethnic homogeneity to Christian Orthodoxy which, if imported to Macedonia, will surely lead to the dreaded federalization. The new government can't say, as they currently do: 'who cares about the Albanians?' We must co-exist with the Albanians. It took us years to sever the umbilical cord to Serbia's 'Commonwealth' of states. The Serbs never forgave Gligorov for his role in this historic separation. Enough said."

In 1995, an assassination attempt was made on President Kiro Gligorov's life. His face was disfigured, but his stature among Macedonians grew as a result.

"If you alone, of all your neighbors, serve as a forward base of the USA, you may find yourself as isolated as Israel is in the Middle East." - I venture.

"Isolation is our history." - Frckoski reacts gloomily - "Macedonia has always been its neighbors' nightmare. If our multiculturalism succeeds, the decline of their ethnically homogeneous model of statehood will hasten. We threaten their very foundations. This is a semiotic clash between meanings, symbols, identities, language, approaches. Once we understand this, we will develop a cohesive national consensus."

Another subject: the ruling coalition, led by Nikola Gruevski and the right-wing VMRO-DPMNE party, has just won the elections with a landslide.

"This is a counter-reformation, a reaction against the former political elites. It comes replete with its own ersatz intelligentsia and quasi-populist new upper crust. These are the consequences of democracy, the people feel that they are being liberated from the shackles of the old ruling club. There is a real love affair between the leader and the led, a romantic mood that excludes political parties.

But, this is a delusion. The ruling party and Gruevski do not have the leeway to act as they see fit. Macedonia is set on the path for Euro-Atlantic integration. Macedonia's options are limited and well-delineated. In their attempt to pretend otherwise, the coalition conduct is rendered erratic and political continuity is undermined. They are watching the wrong silent film in the wrong cinema hall.

Unfortunately, the opposition lacks the kind of high-caliber cadre needed to tackle issues of economic reform and development. When they were in power, this lacuna undid them. They are syndicalists, a status quo, pro-oligarchs party. They are conservative traditionalists in the worst sense of the word. They, too, are anti-intellectuals.

Still, I do not accept that there is a real risk of authoritarianism here. Macedonia is a small and open society with a massive involvement of the international community. This is positive. Macedonia is not monolithic. Mob-rule (ochlocracy) is impossible: there are simply too many mobs to choose from! A dictatorship will require ethnically unacceptable steps. In a way, the very existence of Macedonia's minorities guarantees its openness as a society and some 'ventilation', fresh air."

"In which sense is Macedonia European, therefore?" - I enquire

"European civilization developed in the Mediterranean. Yet, civilization is not only about cultural heritage. It is also about organization: prioritizing and implementing plans. Here we are sorely lacking. Consider, for instance, Euro-Atlantic integration. This is the utmost formal priority of Macedonia. Yet, in the real-life political scene, everything seems to defeat this purpose: Macedonia's new-found populism, for example, is anti-European. Even our multiculturalism is not a strictly European attribute."

"There are sizable populations of immigrants throughout Europe ..." - I point out.

"Europe has a schizophrenic, multiple personality attitude towards multiculturalism. It is practiced among countries, but rarely inside nation-states. The oft-touted examples,

Switzerland and Belgium, are actually federations. Europe's development will resemble ours: functional integration, no discrimination against minorities in the labor market, in housing, and in the use of languages. But, there will be no real acceptance, assimilation, and the production of a joint culture. The current failed policy of integration will be replaced with a policy of differences with multiple parallel legal systems: one for the majority, others for the minorities. The emergent cultural racism sits well with the rise of right-wing parties. It is a period of experimentation, using actual policy measures, rather than concepts and theories.

Macedonia can lead the way. If we, poor and under-developed as we are, succeed, so can they. We are accustomed to freedom of speech and religious issues. Cultural sensitivity is in-built, we are educated this way from early childhood. Hate speech is rare.

This is why Americans understand Macedonia far better than Europeans do. We lack the resources to realize a 'Macedonian Dream' akin to the 'American Dream'. But, we are still very similar.

The problem is that the current government regards Macedonia's multi-ethnic composition as a curse, not an opportunity. They don't understand their own country. They shake the bridges between the communities that we have so laboriously built and they reject 'soft arbitration' by foreigners."

"Soft arbitration?"

"Look, the Albanians don't trust us. We can't agree anything with them directly. In 1994, we proposed a national ID card with the names of Albanian citizens

printed using the Albanian, Latin, alphabet. The Albanians demanded that all the script in the ID Card be Latin, rather than Cyrillic. We referred the matter to the Americans and one week later, the Albanians accepted our offer, unchanged. Gruevski doesn't understand the role of foreigners here.

We should use this type of 'soft arbitration' to resolve the issue of merit-based, non-politicized recruitment to the civil service. My suggestion: involve foreigners in the selection and vetting of candidates for jobs in the administration."

"Is this not compromising your sovereignty?" - I ask.

For the first time, Frckoski loses his composure:

"To me, sovereignty is meritocracy! Sovereignty is when bureaucrats are loyal to the state, not to their political masters! What do I care how I achieve this goal? The means are not important - the end is! I am interested in results!"

He leans back and eyes me intensely, almost pleadingly:

"Correct and efficient procedures are the only consensus in a multicultural society. And the only guarantee that the state will function as it should is a Webberian bureaucracy. This is the exclusive glue uniting the ethnicities of a country like Macedonia. This is why corruption and dysfunction are more dangerous here than in Slovenia, which is largely ethnically homogeneous. Making this happen should be our first priority!"

"The civil service? Not NATO accession?"

"Accession to NATO is crucial for countries like

Macedonia, the successors to much larger polities, now saddled with new minorities, created overnight by the disintegration of the previous structures. Security is an issue far more important than human rights or democracy. Joining NATO allows for peaceful demarcation of the international borders. There is a pervasive fear of the future here. People have been traumatized by a bad history. Granted, their fear is irrational and based on the manipulation of abstract symbols, but, it is still there and fosters the emergence of mass manipulators and authoritarian regimes.

NATO has changed. Now it regards internal unrest as a challenge. Minority rights are part of the accession process, one of the three pillars. In this sense, NATO is more efficient than the EU. This is precisely the main issue in Macedonia today. NATO membership means a predictable, controllable Albanian sector. This is why Greece's veto on Macedonia's accession to NATO is highly irresponsible.

Also, the American role in NATO is pronounced. The deeper NATO is entrenched here, the larger the role of the USA. EU accession, on the other hand, means only greater Greek involvement and penetration.

The negotiations for NATO accession were mishandled by the government, probably owing to an internal resistance and lack of motivation to compromise. They should have surveyed all the options and exposed the Greeks to the world as the intransigent party. We should have involved the Europeans and Americans in the process far more heavily."

Question: "Kosovo has declared independence in February 2008. Good or bad for Macedonia?"

Frckoski, unhesitatingly: "Kosovo is an opportunity for Macedonia. About 200 million euros of trade will be displaced from Serbia to western Macedonia. Skopje-Pristina is now the only reliable land link to Kosovo. Foreign companies are already sending scouts and establishing their headquarters here, to cover not only Kosovo and Macedonia, but also Albania, south Serbia, and, to some extent, Bulgaria, Montenegro, and Greece. The Albanians of Macedonia stand to profit, but this has to be a state-organized affair, not like the smuggling operations of the 1990s, during the embargo. We have to recognize Kosovo, normalize our relations, and support the presence of the USA."

"Finally, a personal question: do you miss being in politics?"

"I am way over my head in various academic pursuits. I am a participant in all the major political debates. If anything, I would like to be less mired in politics, to be able to spend more time with my family, and to avoid the kind of personal attacks that cause my nearest and dearest anxiety.

But, you can't avoid your character and destiny. I am ideologically committed to what I do. There is no personal gain in this. I simply believe in freedom and can't resist the call to further and defend it. I try to shape my environment and find the kind of company that I would feel comfortable with. Don't we all?"

Return

The Balkans

1. The Balkans in 2003 and 2008

The Balkans in 2003

December 24, 2002

Macedonia is a useful microcosm of the post-communist countries of the Balkan (self-importantly renamed by its denizens "Southeast Europe"). Prodded by its pro-Western president, Boris Trajkovski, it vocally - though implausibly - aspires to NATO and European Union membership. Its socialist prime minister - newly-elected in a remarkably smooth transfer of power - has just inked a landmark "social contract" with the trade unions.

Macedonia boasts of being an island of modernity and stability in an otherwise volatile (and backward) region. Indeed, in a sign of the times, Macedonian cellphones were rendered Internet-enabled this month by Mobimak, one of the two providers of wireless communications services.

Yet, Macedonia's nationalist opposition boycotts both parliament and the peace process launched by the Ohrid Framework Agreement in August 2001. Macedonia's biggest minority, the Albanians - at least 30 percent of its population, as a recently concluded census should reveal, unless blatantly tampered with - are again restless. Though an erstwhile group of terrorists (or "freedom fighters") made it to the legislature and the government, splinter factions threaten to reignite 2001's civil war. Inter-ethnic hostilities are in the cards.

The country's new government, egged on by a worried international community, has embarked on an unprecedented spree of arrests intended to visibly combat

a paralyzing wave of corruption and crime. Several privatization deals were annulled as well. Regrettably, though quite predictably, this newfound righteous zeal is aimed only at the functionaries and politicians of the opposition which constituted the former government.

In the meantime, Macedonia's economy is in tatters. At least one quarter of its population is below the poverty line. Unemployment is an unsustainable 31 percent. The trade deficit - c. $800 million - is a shocking 28 percent of its puny gross domestic product. Macedonia survives largely on remittances, charity, aid and loans doled out by weary donors, multilateral financing institutions and friendly countries. It is slated to sign yet another IMF standby agreement this coming February.

And this is the situation throughout most of the region. Macedonia is no forlorn exception - it is the poignant rule. Flurries of grandiose meetings, self-congratulatory conferences and interminable conventions between the desperate leaders of this benighted corner of Europe fail to disguise this hopeless prognosis.

Decrepit infrastructure, a debilitating brain drain, venal and obstructive bureaucracies, all-pervasive kleptocracies, dysfunctional institutions, reviving enmities, shoddy treatment of minorities and a reigning sense of fatalistic resignation - are cross-border phenomena.

International commitment to the entire region is dwindling. The British, German and American contingents within NATO intend to withdraw forces from Bosnia and Kosovo next year. Aid to refugees in Kosovo and Croatia may cease altogether as cash allotted to the United Nation's for this purpose has dried up.

Both Serbia and Montenegro have endured botched presidential elections. Disenchantment with much-derided politics and much-decried politicians is evident in the abysmally low turnout in all the recent rounds of voting. Tensions are growing as Yugoslavia is again slipping into a constitutional crisis. The new union of Serbia and Montenegro is a recipe for instability and constant friction. A lackluster economy doesn't help - industrial production has nudged up by an imperceptible 2.5 percent from a vanishingly low basis.

Political and economic transformations are likely to stall in Yugoslavia as nationalism reasserts itself and the reform camp disintegrates. Solemn mutual declarations of peace and prosperity notwithstanding, tension with neighboring countries - notably Croatia and Bosnia-Herzegovina - will flare up.

Despite some private sector dynamism and the appearance of law and order, Kosovo's unemployment rate is an impossible 57 percent and more than half of its destitute inhabitants survive beneath the poverty line. Its status unresolved and with diminishing international profile, it fails to attract the massive flows of foreign investment needed merely to maintain its utilities and mines. It is a veritable powder keg adjacent to a precariously balanced Macedonia.

Bosnians of all designations are rearming as well. The country has become a center of human trafficking, illicit weapons trading, smuggling and worse. The IMF, the World Bank and the European Bank for Reconstruction and Development (EBRD) are doing their best to resuscitate the moribund economy, but hitherto to little avail. The World Bank alone is expected to plough $102 million into the ailing economy. A dearth of foreign

investment and decreasing foreign aid leave the ramshackle country exposed to a soaring balance of payments deficit.

Albanians are busy putting their crumbling house in order. The customs service is revamped in collaboration with concerned neighbors such as Italy. Transport infrastructure will connect Albania to Greece, Bulgaria, Macedonia and even Yugoslavia. Albania's air control system will be modernized next year. Still, a sapping budget deficit of almost 7 percent of GDP ties the government's hands.

Indeed, infrastructural projects represent the Balkan's Great White Hope. Transport corridors will crisscross the region and connect Bulgaria to Macedonia, Greece, Albania, Yugoslavia and Hungary. A Balkan-wide electricity grid is in the works and might even solve the chronic shortages in countries such as Albania.

Yet, not all is grim.

The Balkans is clearly segmented. On the one hand, countries like Macedonia, Albania, Yugoslavia and Bosnia seem to be cruelly doomed to a Sisyphean repetition of their conflicts and the destitution they entail. Slovenia, Croatia, Bulgaria and Romania, on the other hand, are either EU candidates or would be members. Slovenia - though it vehemently denies its regional affiliation - would be the first Balkan country to join the European Union in May 2004. Romania and Bulgaria are slated to follow it in 2007.

So much of Croatia's economy - especially its banking system - is in European hands that it is a de facto EU member, if far from being a de jure one. It, too, relies on IMF financing, though: the latest $140 million standby

arrangement was just initialed.

Croatia's external debt is out of control and it needs all the foreign exchange it can lay its hands on. Labor unrest is growing and likely to mushroom in the dark winter months ahead - despite impressive strides in industrial production, up 10 percent year on year in November. Additionally, Croatia is intimately linked to the German market. It is an important export market for its goods and services (such as construction). Should the German economy stagnate, the Croats may suffer a recession.

Relationships with Slovenia are not too improved either. Several rounds of incendiary verbiage were exchanged between these uneasy neighbors over the fate of money owed to Croats by Slovenian banks and a co-owned nuclear facility. These - and trade issues - will be satisfactorily resolved next year.

Bulgaria has descended from euphoria, upon the success of the Simeon II National Movement in the June 2001 elections, to unmitigated gloom. It is besieged by scandals, skyrocketing energy prices, a totteringly balanced - albeit IMF sanctioned - budget, a growing current account deficit, surging unemployment and a privatization process in suspended animation.

Next year will be better, though: the telecoms, the electricity utility and its regional branches, the State Savings Bank and tobacco firms are likely to be disposed of, sold to consortia of foreign - mainly Greek - and domestic investors. GDP is already growing at a respectable annual clip of 4.5 percent.

Public debt declined by 15 percent in the last 4 years. Households' real income and consumption will both

continue their double digit takeoff. Moody's recently upgraded the country's credit rating to "positive" and Standard and Poor followed suit and elevated the rank of four local banks.

Next year's big positive surprises - and erstwhile miscarriages - share a common language: Romanian.

Romania's NATO membership in 2003 will seal the astounding turnaround of this bleak country. Almost two thirds of its burgeoning trade is already with the EU. Unemployment dropped by a significant 2.4 percent this year. Some commentators foresee a snap election in the first half of the year to capitalize on these achievements, but this is unlikely.

Recently, the IMF has unblocked funds, though reluctantly. This time, though, Romania will keep its promises to the Fund and implement a rigorous austerity and enterprise reform package despite the vigorous opposition of unionized labor and assorted virulent nationalists assembled in the Greater Romania Party.

The tax system is already rationalized - corporate tax is down to 25 percent and a value added tax was introduced. The government currently consumes merely 6 percent of GDP. Privatization proceeds have shot up - admittedly from a dismal starting point. The Ministry of Tourism alone enjoyed an influx of $40 million of foreign direct investment. Some major properties - such as Romtelecom - will go on the block next year.

Both Moody's and the Japan Credit Rating Agency have upgraded the credit ratings of the country and its banks. GDP is predicted by the Economist Intelligence Unit to grow by 4.6 percent next year and by a hefty 5 percent in

2004. In purchasing power parity terms, it is already up 20 percent on 1998. Foreign exchange reserves have doubled since 1998 to c. $6 billion.

Even Moldova is affected by the positive spill-over and has considerably improved its ties with the IMF. It is pursuing restructuring and market-orientated reforms. It may succeed to reschedule its Paris Club debts next year. The United States - the country's largest donor - will likely increase its contribution from the current $44 million. The Moldovan president met United States President George Bush last week and came out assured of American support.

The Balkan in 2003 will be an immeasurably better place than its was in 1993, both politically and economically. Still, progress has been patchy and unevenly divided. Some countries have actually regressed. Others seem to be stuck in a time warp. A few have authentically broken with their past. While only five years ago it would have been safe to lump together as basket cases all the post-communist Balkan countries, with the exception of Slovenia - this is no longer true. It is cause for guarded optimism.

The Balkans in 2008

Interview granted to Barry Scott Zellen, Deputy Editor, "Strategic Insights", and Research Editor of the Arctic Security Project at the Center for Contemporary Conflict.

Q. During the 1990s, American and NATO forces directly engaged, through diplomatic and military means, the challenge of state collapse and the resulting explosion of ethnic and tribal violence that accompanied

state failure. What do you think were the main lessons learned, through these experiences, for decision-makers in the western world?

A. No nation-state collapsed in the 1990s. Only implausible and unsustainable multi-cultural, multi-ethnic experiments (such as Czechoslovakia, the USSR, and Yugoslavia) did. The lessons the West has learned were simple enough: in some parts of the world ethnically homogeneous nation states are stable players and to be preferred to other, more varied types of polities (hence Western support of Kosovo's independence); the combination of bayonets and butter works and yields peace and prosperity (e.g., in the Balkans); sovereignty should be subjected to the continuous scrutiny of the international community and to armed intervention to forestall humanitarian catastrophes***;*** international consensus and coalitions work (as in Bosnia or in the first Gulf War), while, in an increasingly multipolar world***,*** unilateral action doesn't (see America's ill-fated Iraq war).

2. Now that America has embarked upon its Global War on Terror, often taking unilateral military action and asserting its intent to pre-empt emergent threats, do you believe its planners and decision-makers have forgotten the lessons of the 1990s, and of the Balkans in particular?

A. Most definitely. Consider Iraq: had these lessons been implemented, Iraq should have been broken down to three, ethnically-homogenous mini-states (or autonomies), perhaps within a confederation or a common market; a massive, Marshall Plan type of economic reconstruction and development program would have been on offer; and the USA should and would have refrained from unilateral action.

Consider Israel: had these lessons been recalled, Israel would have been coerced into acquiescing in the creation of a viable Palestinian state and forced to retreat from most of its territorial acquisitions during the Six Days War; the West would have dangled EU membership or association in front of the belligerent parties; a massive economic development program would have been proposed and financed; and the USA would have never forfeited its role as an honest broker by allying itself so visibly with one of the parties to the conflict (Israel).

3. When Yugoslavia broke up, the emergence of smaller sovereign and independent nation-states from its former multinational fabric was facilitated by the diplomatic support of many major powers in the West, suggesting to some degree a shared responsibility for the resulting crisis. Do you think in the years since, the risks of state collapse along underlying subnational, ethnic or sectarian fault lines have been forgotten by some of those very same western powers?

A. I don't regard the disintegration of multi-ethnic and multi-cultural entities to be a risk. On the very contrary, I consider the existence of artificial entities, comprised of multiple ethnicities, to be a destabilizing geopolitical factor. In some parts of the world (Europe, the Middle East, Africa), ethnically-homogeneous nation-states are the only long-term viable and peaceful solution. Inevitably, the breakdown of polities sometimes entails gory conflict and ethnic cleansing. But this is not a law of nature: witness the peaceful dissolution of Czechoslovakia and the USSR, for instance. Yugoslavia's bloody demise was the exception and was brought on by its leadership's refusal to let go of a multi-ethnic past.

4. When the United States intervened to prevent further ethnic violence in the Balkans, and deployed military forces to bolster peacekeeping operations with American muscle to ensure that the peace forged at Dayton held firm, it was motivated to some degree by a humanitarian impulse, and the subsequent years saw the concept of humanitarian interventions come into favor again after the earlier failure in Somalia had left many Americans less than enthusiastic about the concept. In the post-9/11 years, do you see a very different America, motivated by different values, more intent on breaking states to pre-

empt the emergence of future strategic threats than in fixing them? Does the Iraqi situation also suggest a rapid deterioration of America's strategic memory, having only recently emerged from its Balkan experiences as a proponent of humanitarian intervention to prevent genocide, ethnic cleansing, and other human rights abuses -- and then, after 9/11, quickly becoming a more neoimperial power intent of remaking foreign states in its own democratic image, and seemingly oblivious to the complex ethnic topology underlying the many sovereign states of the Middle East and South Asia whose borders do not correspond to or reflect an underlying demographic uniformity?

A. I never bought into the "humanitarian intervention" or "let's forge new democracies" smokescreens. The instigators of armed conflicts always resorted to narratives: moral-ethical, millennial, religious, national, political, or mystical-metaphysical. Communism was about extracting the proletariat from the abusive clutches of capitalism; Napoleon's murderous spree was couched in the values of the French Revolution and he, too, claimed to be spreading democracy throughout Europe; at first, Hitler presented himself as the natural protector of oppressed German minorities in Central and Eastern Europe.

The truth is that nations act out of self-interest. America's involvement in the Balkans was not motivated by idealism, spurious or real. The passing of the USSR left a power vacuum in Europe and elsewhere, in erstwhile theatres of the Cold War. The USA stepped in to make clear who is the new sheriff in town and to establish its credentials as the sole superpower. Bosnia-Herzegovina and, later, Kosovo served merely to illustrate that saying

"no" to the USA was not an option and that defiant dissidents in the New World Order will be severely penalized. The "humanitarian intervention" cover story was good for forging international coalitions and was thus used only twice and exclusively in Europe (America stood by and watched the Rwandan genocide unfold, for instance). Now, no longer in need of partners (or so it believes), the USA doesn't even bother to pretend any more.

5. The aftermath of the Iraq invasion, which quickly devolved from a swift and decisive strategic victory to a festering and protracted insurgency waged by new, sub-state opponents driven by a sectarian or ideological vision, has provided fertile ground for the rise of a new terror threat in the formerly stable Iraqi polity: what does this suggest in terms of the strategic wisdom of America's post-9/11 policies, particularly its concept of strategic pre-emption?

A. Iraq was never a stable polity. Its history is strewn with coups, massacres, insurrections, and strife. Like many other Middle Eastern "states", Iraq was invented by the British and, being ethnically-heterogeneous, never amounted to much. America's invasion of Iraq was about securing oil supplies and sea lanes and about establishing front bases in the fight against virulently anti-American militant Islam and its benefactors (e.g., Iran). Seen from this neocon point of view, America's invasion of Iraq is a strategic success. The USA is now in direct control of the entire Gulf. Even Iran does not dare confront the Americans openly. And the United States is aiming at the soft belly of a combative and resources-rich Russia. There was nothing the USA could have done to quell an insurgency in a region prone to such misconduct. It comes

with the territory.

Q. What can the Balkan experiences of the 1990s teach us about the current world situation, the roots of terror, the causes of state failure, and the path toward peace and stability?

A. The 1990s in the Balkans have taught us, above all, that sustainable peace is a last resort. Peace among nations is the result of attrition and exhaustion, of mutual terror and actual bloodletting - not of amicable agreement and visionary stratagems. It took two world wars to make peace between France and Germany. By forcing an unwanted cessation of hostilities upon an unwilling populace in the early stages of every skirmish, the West ascertains the perpetuation of conflicts.

Wherever possible and applicable, the West should dangle economic carrots (such as EU membership) in front of the bloodied pugilists (although not ram them down their reluctant throats in shows of air superiority, as it did and still is doing in Serbia). Humanitarian aid should be provided and grants and credits for development to the deserving. But the military succor afforded by the likes of Germany to the likes of Croatia and by the benighted Americans to the most extreme elements in Kosovo served only to amplify and prolong the suffering and the warfare.

The West obstinately refused - and still does - to contemplate the only feasible solution to the spectrum of Balkan questions. Instead of convening a new Berlin Congress and redrawing the borders of the host of entities, quasi-entities and fraction entities that emerged with the disintegration of the Yugoslav Federation, the West foolishly and blindly adhered to unsustainable borders

which reflect colonial decision making and ceasefire lines. In the absence of a colonizing power, only ethnically-homogeneous states can survive peacefully in the Balkans and elsewhere. The West should have strived to effect ethnic homogenization throughout the region by altering borders, encouraging population swaps and transfers and discouraging ethnic cleansing and forced assimilation ("ethnic denial").

But the West's missteps in the Balkans were not confined to the political and geopolitical realms.

The West (actually, America) has many long arms, the IMF and World Bank being the most prominent. These ostensible multilaterals have committed yet another strategic blunder. Instead of weaning their clientele - the post-Communist countries in transition - off central planning and command economics, they engaged in Washington-based micromanagement of their economies. The Bretton-Woods institutions have become all-pervasive, multi-tentacled approximations of the Communist party. They dictate policy, involve themselves in the minutest details of daily management, veto decisions (economic and non-economic), cajole and threaten governments, block private sector lending and compete in the international credit and investment markets.

The post-Communist countries in transition - and Iraq today - are like infants taking their first steps in the demanding world of free markets and capitalism. The multilateral financial institutions are the mother figures. Good mothers let go, encourage in the child a sense of independence, self-reliance, learning by mistakes and the predictability of just rewards and punishments. Bad mothers refuse to acknowledge the emerging boundaries

of their off-spring. They reward clinging behaviour and punish every act of separation and individuation. They are overweening, doting, crushing figures. In short: they micromanage.

Q. Looking at historical what-ifs, do you believe that if the U.S. election of 2000 was decided in favor of Vice President Al Gore, who was a "humanitarian hawk" that had long sought to persuade President Clinton to engage the Balkans directly (and militarily), might America have pursued a different strategy after 9/11, and avoided military actions that with hindsight are now known to have induced state failure and ethnic violence in Iraq?

A. No. I don't believe that history is driven by "personalities". This is a dangerous outlook that gave humanity strongmen and tyrants. History and its processes and trends are the ineluctable outcomes of a dialectic. Whoever is the occupant of the White House, he would have probably acted the same. Granted, Gore would have more rigorously sought an international coalition to invade Iraq and he would have resorted more often and more forcefully to the "humanitarian intervention" narrative. But, he would have invaded Iraq (or Iran) all the same. The needs to secure energy supplies and safeguard shipping lanes are timeless and independent of the personal predilections of office-holders. The transition from a symmetrical Cold War to the asymmetrical threats posed by militants, terrorists, freedom fighters, and fundamentalists throws up geostrategic constraints that are as likely to have shackled and compelled Gore as they did Bush.

Q. And looking ahead, do the Balkan experiences, especially with regard to peacemaking and national

reconciliation, offer a model that might help bring an end to the GWOT through the reconciliation of the state level and sub-state forces currently engaged in conflict?

A. In one word: no. The experience of the Yugoslav secession wars is applicable, perhaps, to the dissolution and disintegration of other multi-ethnic states, but it has little to teach us on how to cope with sub-state actors, such as militias, terrorists, freedom fighters, insurgents, fundamentalist religious militants, and so on.

The GWOT is not global. It is actually a localized or, at most, regional conflict between the West (and, really, the USA) and a few low-intensity warriors, who reside and operate in Muslim countries throughout Asia (and, to a far lesser extent, Africa).

Communism, Fascism, Nazism, and Religious Fundamentalism are as utopian as the classical Idea of Progress, which is most strongly reified by Western science and liberal democracy. All four illiberal ideologies firmly espouse a linear view of history: Man progresses by accumulating knowledge and wealth and by constructing ever-improving polities. Similarly, the classical, all-encompassing, idea of progress is perceived to be a "Law of Nature" with human jurisprudence and institutions as both its manifestations and descriptions. Thus, all ideas of progress are pseudo-scientific.

Still, there are some important distinctions between Communism, Fascism, Nazism, and Religious Fundamentalism, on the one hand, and Western liberalism, on the other hand:

All four totalitarian ideologies regard individual tragedies and sacrifices as the inevitable lubricant of the inexorable

March Forward of the species. Yet, they redefine "humanity" (who is human) to exclude large groups of people. Communism embraces the Working Class (Proletariat) but not the Bourgeoisie, Nazism promotes one Volk but denigrates and annihilates others, Fascism bows to the Collective but viciously persecutes dissidents, Religious Fundamentalism posits a chasm between believers and infidels.

In these four intolerant ideologies, the exclusion of certain reviled groups of people is both a prerequisite for the operation of the "Natural Law of Progress" and an integral part of its motion forward. The moral and spiritual obligation of "real" Man to future generations is to "unburden" the Law, to make it possible for it to operate smoothly and in optimal conditions, with all hindrances (read: undesirables) removed (read: murdered).

All four ideologies subvert modernity (in other words, Progress itself) by using its products (technology) to exclude and kill "outsiders", all in the name of servicing "real" humanity and bettering its lot.

But liberal democracy has been intermittently guilty of the same sin. The same deranged logic extends to the construction and maintenance of nuclear weapons by countries like the USA, the UK, France, and Israel: they are intended to protect "good" humanity against "bad" people (e.g., Communists during the Cold war, Arabs, or failed states such as Iran). Even global warming is a symptom of such exclusionary thinking: the rich feel that they have the right to tax the "lesser" poor by polluting our common planet and by disproportionately exhausting its resources.

The fact is that, at least since the 1920s, the very existence

of Mankind is being recurrently threatened by exclusionary ideas of progress. Even Colonialism, which predated modern ideologies, was inclusive and sought to "improve" the Natives" and "bring them to the White Man's level" by assimilating or incorporating them in the culture and society of the colonial power. This was the celebrated (and then decried) "White Man's Burden". That we no longer accept our common fate and the need to collaborate to improve our lot is nothing short of suicidal.

Islam is not merely a religion. It is also - and perhaps, foremost - a state ideology. It is all-pervasive and missionary. It permeates every aspect of social cooperation and culture. It is an organizing principle, a narrative, a philosophy, a value system, and a vade mecum. In this it resembles Confucianism and, to some extent, Hinduism.

Judaism and its offspring, Christianity - though heavily involved in political affairs throughout the ages - have kept their dignified distance from such carnal matters. These are religions of "heaven" as opposed to Islam, a practical, pragmatic, hands-on, ubiquitous, "earthly" creed.

Secular religions - Democratic Liberalism, Communism, Fascism, Nazism, Socialism and other isms - are more akin to Islam than to, let's say, Buddhism. They are universal, prescriptive, and total. They provide recipes, rules, and norms regarding every aspect of existence - individual, social, cultural, moral, economic, political, military, and philosophical.

At the end of the Cold War, Democratic Liberalism stood triumphant over the fresh graves of its ideological opponents. They have all been eradicated. This

precipitated Fukuyama's premature diagnosis (the End of History). But one state ideology, one bitter rival, one implacable opponent, one contestant for world domination, one antithesis remained - Islam.

Militant Islam is, therefore, not a cancerous mutation of "true" Islam. On the contrary, it is the purest expression of its nature as an imperialistic religion which demands unmitigated obedience from its followers and regards all infidels as both inferior and avowed enemies.

The same can be said about Democratic Liberalism. Like Islam, it does not hesitate to exercise force, is missionary, colonizing, and regards itself as a monopolist of the "truth" and of "universal values". Its antagonists are invariably portrayed as depraved, primitive, and below par.

Such mutually exclusive claims were bound to lead to an all-out conflict sooner or later. The "War on Terrorism" is only the latest round in a millennium-old war between Islam and other "world systems".

Such interpretation of recent events enrages many. They demand to know (often in harsh tones):

Don't I see any difference between terrorists who murder civilians and regular armies in battle?

Both regulars and irregulars slaughter civilians as a matter of course. "Collateral damage" is the main outcome of modern, total warfare - and of low intensity conflicts alike.

There is a major difference between terrorists and soldiers, though:

Terrorists make carnage of noncombatants their main tactic - while regular armies rarely do. Such conduct is criminal and deplorable, whoever the perpetrator.

But what about the killing of combatants in battle? How should we judge the slaying of soldiers by terrorists in combat?

Modern nation-states enshrined the self-appropriated monopoly on violence in their constitutions and ordinances (and in international law). Only state organs - the army, the police - are permitted to kill, torture, and incarcerate.

Terrorists are trust-busters: they, too, want to kill, torture, and incarcerate. They seek to break the death cartel of governments by joining its ranks.

Thus, when a soldier kills terrorists and ("inadvertently") civilians (as "collateral damage") - it is considered above board. But when the terrorist decimates the very same soldier - he is decried as an outlaw.

Moreover, the misbehavior of some countries - not least the United States - led to the legitimization of terrorism. Often nation-states use terrorist organizations to further their geopolitical goals. When this happens, erstwhile outcasts become "freedom fighters", pariahs become allies, murderers are recast as sensitive souls struggling for equal rights. This contributes to the blurring of ethical percepts and the blunting of moral judgment.

So, would I rather live under sharia law? Don't you find Liberal Democracy vastly superior to Islam?

Superior, no. Different - of course. Having been born and raised in the West, I naturally prefer its standards to

Islam's. Had I been born in a Muslim country, I would have probably found the West and its principles perverted and obnoxious.

The question is meaningless because it presupposes the existence of an objective, universal, culture and period independent set of preferences. Luckily, there is no such thing.

In this clash of civilization whose side am I on?

This is not a clash of civilizations. Western culture is inextricably intertwined with Islamic knowledge, teachings, and philosophy. Christian fundamentalists have more in common with Muslim militants than with East Coast or French intellectuals.

Muslims have always been the West's most defining Other. Islamic existence and "gaze" helped to mold the West's emerging identity as a historical construct. From Spain to India, the incessant friction and fertilizing interactions with Islam shaped Western values, beliefs, doctrines, moral tenets, political and military institutions, arts, and sciences.

This war is about world domination. Two incompatible thought and value systems compete for the hearts and minds (and purchasing power) of the denizens of the global village. Like in the Westerns, by high noon, either one of them is left standing - or both will have perished.

Where does my loyalty reside?

I am a Westerner, so I hope the West wins this confrontation. But, in the process, it would be good if it were humbled, deconstructed, and reconstructed. One beneficial outcome of this conflict is the demise of the

superpower system - a relic of days bygone and best forgotten. I fully believe and trust that in militant Islam, the United States has found its match.

In other words, I regard militant Islam as a catalyst that will hasten the transformation of the global power structure from unipolar to multipolar. It may also commute the United States itself. It will definitely rejuvenate religious thought and cultural discourse. All wars do.

The West is not fighting al-Qaida. It is facing down the circumstances and ideas that gave rise to al-Qaida. Conditions - such as poverty, ignorance, disease, oppression, and xenophobic superstitions - are difficult to change or to reverse. Ideas are impossible to suppress. Already, militant Islam is far more widespread and established that any Western government would care to admit.

History shows that all terrorist groupings ultimately join the mainstream. Many countries - from Israel to Ireland and from East Timor to Nicaragua - are governed by former terrorists. Terrorism enhances social upward mobility and fosters the redistribution of wealth and resources from the haves to haves not.

Al-Qaida, despite its ominous portrayal in the Western press - is no exception. It, too, will succumb, in due time, to the twin lures of power and money. Nihilistic and decentralized as it is - its express goals are the rule of Islam and equitable economic development. It is bound to get its way in some countries.

The world of the future will be truly pluralistic. The proselytizing zeal of Liberal Democracy and Capitalism

has rendered them illiberal and intolerant. The West must accept the fact that a sizable chunk of humanity does not regard materialism, individualism, liberalism, progress, and democracy - at least in their Western guises - as universal or desirable.

Live and let live (and live and let die) must replace the West's malignant optimism and intellectual and spiritual arrogance.

Edward K. Thompson, the managing editor of "Life" from 1949 to 1961, once wrote:

"'Life' must be curious, alert, erudite and moral, but it must achieve this without being holier-than-thou, a cynic, a know-it-all or a Peeping Tom."

The West has grossly and thoroughly violated Thompson's edict. In its oft-interrupted intercourse with these forsaken regions of the globe, it has acted, alternately, as a Peeping Tom, a cynic and a know it all. It has invariably behaved as if it were holier-than-thou. In an unmitigated and fantastic succession of blunders, miscalculations, vain promises, unkept threats and unkempt diplomats - it has driven the world to the verge of war and the regions it "adopted" to the threshold of economic and social upheaval.

Enamored with the new ideology of free marketry cum democracy, the West first assumed the role of the omniscient. It designed ingenious models, devised foolproof laws, imposed fail-safe institutions and strongly "recommended" measures. Its representatives, the tribunes of the West, ruled the plebeian East with determination rarely equaled by skill or knowledge.

Velvet hands couched in iron gloves, ignorance disguised

by economic newspeak, geostrategic interests masquerading as forms of government, characterized their dealings with the natives. Preaching and beseeching from ever higher pulpits, they poured opprobrium and sweet delusions on the eagerly duped, naive, bewildered masses.

The deceit was evident to the indigenous cynics - but it was the failure that dissuaded them and others besides. The West lost its former colonies not when it lied egregiously, not when it pretended to know for sure when it surely did not know, not when it manipulated and coaxed and coerced - but when it failed.

To the peoples of these regions, the king was fully dressed. It was not a little child but an enormous debacle that exposed his nudity. In its presumptuousness and pretentiousness, feigned surety and vain clichés, imported economic models and exported cheap raw materials - the West succeeded to demolish beyond reconstruction whole economies, to ravage communities, to wreak ruination upon the centuries-old social fabric, woven diligently by generations.

It brought crime and drugs and mayhem but gave very little in return, only a horizon beclouded and thundering with vacuous eloquence. As a result, while tottering regional governments still pay lip service to the values of Capitalism, the masses are enraged and restless and rebellious and baleful and anti-Western to the core.

The disenchanted were not likely to acquiesce for long - not only with the West's neo-colonialism but also with its incompetence and inaptitude, with the nonchalant experimentation that it imposed upon them and with the abyss between its proclamations and its performance.

Throughout this time, the envoys of the West - its mediocre politicians, its insatiably ruthless media, its obese tourists, its illiterate soldiers, and its armchair economists - continue to play the role of God, wreaking greater havoc than even the original.

While confessing to omniscience (in breach of every tradition scientific and religious), they also developed a kind of world weary, unshaven cynicism interlaced with fascination at the depths plumbed by the locals' immorality and amorality.

The jet-set Peeping Toms reside in five star hotels (or luxurious apartments) overlooking the communist, or Middle-Eastern, or African shantytowns. They drive utility vehicles to the shabby offices of the native bureaucrats and dine in $100 per meal restaurants ("it's so cheap here").

In between kebab and hummus they bemoan and grieve the corruption and nepotism and cronyism ("I simply love their ethnic food, but they are so..."). They mourn the autochthonous inability to act decisively, to cut red tape, to manufacture quality, to open to the world, to be less xenophobic (said while casting a disdainful glance at the native waiter).

To them it looks like an ancient force of nature and, therefore, an inevitability - hence their cynicism. Mostly provincial people with horizons limited by consumption and by wealth, these heralds of the West adopt cynicism as shorthand for cosmopolitanism. They erroneously believe that feigned sarcasm lends them an air of ruggedness and rich experience and the virile aroma of decadent erudition. Yet all it does is make them obnoxious and even more repellent to the residents than they already

were.

Ever the preachers, the West - both Europeans and Americans - uphold themselves as role models of virtue to be emulated, as points of reference, almost inhuman or superhuman in their taming of the vices, avarice up front.

Yet the chaos and corruption in their own homes is broadcast live, day in and day out, into the cubicles inhabited by the very people they seek to so transform. And they conspire and collaborate in all manner of venality and crime and scam and rigged elections in all the countries they put the gospel to.

In trying to put an end to history, they seem to have provoked another round of it - more vicious, more enduring, more traumatic than before. That the West is paying the price for its mistakes I have no doubt. For isn't it a part and parcel of its teachings that everything has a price and that there is always a time of reckoning?

Q. Does Globalization have anything to do with the rise of terrorism?

From Venezuela to Thailand, democratic regimes are being toppled by authoritarian substitutes: the military, charismatic left-wingers, or mere populists. Even in the USA, the bastion of constitutional rule, civil and human rights are being alarmingly eroded (though not without precedent in wartime).

The prominent ideologues of liberal democracy have committed a grave error by linking themselves inextricably with the doctrine of freemarketry and the emerging new order of globalization. As Thomas Friedman correctly observes in "The Lexus and the Olive Tree", both strains of thought are strongly identified with

the United States of America (USA).

Thus, liberal democracy came to be perceived by the multitudes as a ruse intended to safeguard the interests of an emerging, malignantly narcissistic empire (the USA) and of rapacious multinationals. Liberal democracy came to be identified with numbing, low-brow cultural homogeneity, encroachment on privacy and the individual, and suppression of national and other idiosyncratic sentiments.

Liberal democracy came to be confused and confuted with neo-colonial exploitation, social Darwinism, and the crumbling of social compacts and long-standing treaties, both explicit and implicit. It even came to be associated with materialism and a bewildering variety of social ills: rising crime rates, unemployment, poverty, drug addiction, prostitution, organ trafficking, monopolistic behavior, corporate malfeasance, and other antisocial forms of conduct.

The backlash was, thus, inevitable.

Also Read:

Europe's Four Speeds

How the West Lost the East

Left and Right in a Divided Europe

The Concert of Europe, Interrupted

The Eastern Question Revisited

The Clash of Islam and Liberalism

2. The View from Brussels

January 4, 2003

The denizens of the Balkan have always accused the Western media of ignorance, bias and worse. Reports from east Europe are often authored by fly-by-night freelancers with little or no acquaintance with the region. Even The Economist - usually a fount of objective erudition - blundered last week. It made a distinction between "wily" Albanian "rebels" and "moderate" Albanian "nationalists" in the ruling coalition. Alas, these two groups are one and the same: the "wily rebels" simply established a party and joined the government.

The European Commission - which maintains bloated and exorbitant missions in all the capitals of the Balkan - should be held to higher standards of reporting, though. Last month it published the second issue of "The West Balkan in Transition". Alas, it is informed not by facts but by the official party line of Brussels: all is well in the Balkan and it is largely thanks to us, the international community.

The report's numerical analyses are heavily warped by the curious inclusion of Croatia whose GDP per capita is three times the other countries'. Even with this distorting statistical influence, the regional picture is mixed. Inflation has undoubtedly been tamed - down from 36 percent in 2000 to 6 percent last year. But the trade deficit, up 25 percent on last year, is an ominous $10 billion, or an unsustainable one fifth of the region's combined gross domestic product.

About 70 percent of the shortfall is with the European Union and it has grown by a whopping 40 percent in the

last 12 months. This gap is the outcome of the EU's protectionist policies. The Balkan's economic mainstays are agriculture, mining and textiles. The EU has erected an elaborate edifice of non-tariff barriers and production and export subsidies that make it inordinately difficult to penetrate its markets and render the prices of its own produce irresistible.

This debilitating and destabilizing trade discrimination is, of course, not mentioned anywhere in the report, though it sings the praises of utterly inadequate trade measures unilaterally adopted by the EU in 2000. The sad - and terrifying truth - is that the region survives on private remittances and handouts. The EU has done very little to alleviate this dependence by tackling its structural roots.

As assets depreciated in the dilapidated region, foreign direct investment (FDI) - mainly by Greeks, Germans, Slovenes and Austrians - has inevitably picked up, though surprisingly little. At $100 per capita, it is one of the lowest in the world.

The region's GDP is still well below 1991. The "growth" recorded since 1999 merely reflects a very gradual recovery from the devastation wrought on the region by the Unites States and its European allies in the Kosovo crisis. This, needless to add, also goes unmentioned.

The report's data are sometimes questionable. Consider Macedonia, for instance: its trade deficit last year was $800 million, or 24 percent of GDP - not 11.4 percent, as the report curiously stipulates. Foreign direct investment in 2001 was heavily skewed by the proceeds from the sale of the national telecom, most of which may not qualify as FDI at all. The figures for the inflation and budget deficits in 2002 are, in all probability, wrong. One could do better

by simply surfing the Internet.

The report relies clubbily on information provided by the IMF - and openly espouses the controversial "Washington Consensus". Thus, it attributes "economic stability" (what is this?) and "price stability" to the use of "external anchors", namely exchange rate pegs.

Yet, there is a good reason to believe that rigid, multi-annual pegs have contributed to burgeoning trade deficits, the crumbling of the manufacturing sector, double digit unemployment (one third of the workforce in hapless Macedonia and twice that in Kosovo) and the region's dependence on foreign aid and credits. Macedonia's last devaluation was in 1997. Cumulative inflation since then has amounted to almost 20 percent, rendering the currency overvalued and the terms of trade hopelessly unfavorable.

At times, the report reads like outright propaganda. Trade ministers in the region would be astounded to learn that the numerous bilateral free trade agreements they have signed were sponsored by the much derided Stability Pact. The Stabilization and Association process, crow the authors, "considerably improved the political outlook in the region". Tell that to the Macedonians whose country was torn by a vicious civil war in 2001, after it has signed just such a agreement with the EU.

To say that donor funding "finances investments and supports reform" is to be unusually economical with the truth. Most of it is sucked by the recipient countries' insatiable balance of payments deficits and gaping budgetary chasms. Donor money encourages inefficiency and corruption, conspicuous consumption and imports. Luckily, international financial institutions, such as the IMF, are increasingly replacing such charity with credits

conditioned on structural reforms.

The section of the report which deals with "fiscal consolidation" astonishingly ignores the informal sector of the region's economies. With the exception of Croatia, the "gray economy" is thought to equal at least one half the formal part. More than one tenth of the workforce are employed by underground enterprises.

International trade, tax revenues, internal investments and even FDI are all affected by the penumbral entrepreneurship of the black economy, comprised of both illicit businesses and tax evading but legitimate ones. It renders fiscal policy less potent than in other European countries.

Predictably, the report also fails to note the contradictory nature of Western economic prescriptions.

Thus, wage compression in the public sector - touted by the IMF and the World Bank - leads to a decrease in the remuneration of civil servants and, thus, encourages corruption. Yet, the very same multilateral institutions also exhort the countries of the Balkan to battle venality and cronyism. These goals are manifestly incompatible.

Contractionary austerity measures and enhanced tax collection reduce the purchasing power of the population and its ability to save and to invest. This is not conducive to the emergence of a private sector. It also hampers counter-cyclical intervention - whether planned or through automatic stabilizers - by the government. This demonetization is further aggravated by restrictive monetary policies, absence of foreign financing and investment and the pervasive dysfunction of all financial intermediaries and monetary transmission mechanisms.

The report ignores completely - at least on the regional level - crucial issues such as banking reform, inter-enterprise debt, competition policy, liberalization, deregulation, protection of minority shareholders and foreign investments, openness to foreign trade, research and development outlays, higher education, brain drain, intellectual property rights, or the quality of infrastructure. These matters determine the economic fate of emerging economies far more than their budget deficits. Yet, shockingly, they are nowhere to be found in the 62 pages of "The West Balkan in Transition".

It is disappointing that an organization of the caliber of the European Commission is unable to offer anything better than regurgitated formulas and half-baked observations lifted off IMF draft reports. The narrow focus on a few structural reforms and the analysis of a limited set of economic aspects is intellectually lazy and detrimental to a full-bodied comprehension of the region. Little wonder that more than a decade of such "insightful expertise" led to only mass poverty, rampant unemployment and inter-ethnic strife.

3. The MinMaj Rule: Minorities and Majorities in Adjacent Polities

Written: July 4,1999

I have a Roma (gypsy) cleaning lady. She cleans my house every fortnight. She is nice and well spoken. She values education and good manners. She is spotless, obsessively purgatory, compulsively tidy. And she hates "shiptars" (the derogatory name assigned to Macedonian Albanians). They are dirty, she says, and criminal and they have too many children. They don't respect their women. She is afraid of them. Her eyes glow with the gratification

of the underdog turned top dog, if only verbally, if only for a while, if only while cleansing my house. This is the way it is, a chain of abuse, a torrent of prejudice, an iron curtain of malice and stereotyping. Czechs portray "their" gypsies with the same lingual brushstrokes, the same venomous palette, a canvass of derision and atavistic, reflexive hatred.

In the Balkans reigns supreme the Law of the MinMaj. It is simple and it was invariably manifested throughout history. It is this: "Wars erupt whenever and wherever a country has a minority of the same ethnicity as the majority in its neighbouring country."

Consider Israel - surrounded by Arab countries, it has an Arab minority of its own, having expelled (ethnically cleansed) hundreds of thousands more. It has fought 6 wars with its neighbours and (good intentions notwithstanding) looks set to fight more. It is subjugated to the Law of the MinMaj, enslaved by its steady and nefarious domination.

Or take Nazi Germany. World War Two was the ultimate manifestation of the MinMaj Law. German minorities throughout Europe were either used by Germany - or actively collaborated with it - to justify one Anschluss after another. Austria, Czechoslovakia, Poland, France, Russia - a parade of Big Brotherly intervention by Germany on behalf of allegedly suppressed kinfolk. Lebensraum and Volksdeutsch were twin pillars of Nazi ideology.

And, of course, there is Yugoslavia, its charred remnants agonizingly writhing in a post Kosovo world. Serbia fought Croatia and Bosnia and Kosovo to protect besieged and hysterical local Serbs. Croats fought Serbs and

Bosnians to defend dilapidated Croat settlements. Albanians fought the Serbs through the good services of Kosovars in order to protect Kosovars. And the fighting is still on. This dismembered organism, once a flourishing country, dazed and scorched, still attempts to blindly strike its former members, inebriated by its own blood. Such is the power of the MinMaj.

There are three ways out from the blind alley to which the MinMaj Rule inevitably and invariably leads its adherents. One exit is through ethnic cleansing, the other via self determination, the third is in establishing a community, a majority of minorities.

Ethnic cleansing is the safest route. It is final, irreversible, just, fast, easy to carry out and preventive as much as curative. It need not be strewn with mass graves and smouldering villages. It can be done peacefully, by consent or with the use of minimal force. It can be part of a unilateral transfer or of a bilateral exchange of population. There are many precedents - Germans in the Ukraine and in Czechoslovakia, Turks in Bulgaria, Jews in the Arab countries. None of them left willingly or voluntarily. All were the victims of pathological nostalgia, deep, disconsolate grieving and the post traumatic shock of being uprooted and objectified. But they emigrated, throngs of millions of people, planeloads, trainloads, cartloads and carloads of them and they reached their destinations alive and able to start all over again - which is more than can be said about thousands of Kosovar Albanians. Ethnic cleansing has many faces, brutality is not its integrated feature.

The Wilsonian ideal of self determination is rarely feasible or possible - though, when it is, it is far superior to any other resolution of intractable ethnic conflicts. It

does tend to produce political and economic stillborns, though. Ultimately, these offspring of noble principle merge again with their erstwhile foes within customs unions, free trade agreements, currency unions. They are subsumed in other economic, political, or military alliances and gladly surrender part of that elusive golden braid, their sovereignty. Thus, becoming an independent political entity is, to most, a rite of passage, an adolescence, heralding the onset of political adulthood and geopolitical and economic maturity.

The USA and, to a lesser degree, the UK, France and Germany are fine examples of the third way. A majority of minorities united by common rules, beliefs and aspirations. Those are tension filled structures sustained by greed or vision or fear or hope and sometimes by the very tensions that they generate. No longer utopian, it is a realistic model to emulate.

It is only when ethnic cleansing is combined with self determination that a fracturing of the solutions occurs. Atrocities are the vile daughters of ideals. Armed with stereotypes - those narcissistic defence mechanisms which endow their propagators with a fleeting sense of superiority - an ethnic group defines itself negatively, in opposition to another. Self determination is employed to facilitate ethnic cleansing rather than to prevent it. Actually, it is the very act of ethnic cleansing which validates the common identity, which forms the myth and the ethos that is national history, which perpetrates itself by conferring resilience upon the newly determined and by offering a common cause and the means to feel efficient, functional and victorious in carrying it out.

There are many variants of this malignant, brutal, condemnable, criminal and inefficient form of ethnic

cleansing. Bred by manic and hysterical nationalists, fed by demagogues, nourished by the hitherto deprived and humiliated - this cancerous mix of definition by negation wears many guises. It is often clad in legal attire. Israel has a Law of Return which makes an instant citizen out of every spouse of every Russian Jew while denying this privilege to Arabs born on its soil. South Africa had apartheid. Nazi Germany had the Nuremberg Laws. The Czech Republic had the infamous Benes Decrees. But ethnic cleansing can be economic (ask the Chinese in Asia and the Indians in Africa). It can be physical (Croatia, Kosovo). It has a myriad facets.

The West is to blame for this confusion. By offering all three solutions as mutually inclusive rather than mutually exclusive - it has been responsible for a lot of strife and misery. But, to its credit, it has learned its lesson. In Kosovo it defended the right of the indigent and (not so indigent but) resident Albanians to live in peace and plough their land in peace and bring forth children in peace and die in peace. But it has not protected their right to self determination. It has not mixed the signals. As a result the message came through loud and clear. And, for the first time in many years, people tuned in and listened. And this, by far, is the most important achievement of Operation Allied Force.

Multiculturalism and Prosperity

The propensity to extrapolate from past events to future trends is especially unfortunate in the discipline of History. Thus, the existence hitherto of a thriving multicultural polity does not presage the preponderance of a functioning multiculturalism in its future.

On the very contrary: in an open, tolerant multicultural society, the traits, skills, and capacities of members of different collectives converge. This gives rise to a Narcissism of Small Differences.

In heterogeneous societies, its components (religious communities; socio-economic classes; ethnic groups) strike implicit deals with each other. These deals adhere to an organizing or regulatory principle, the most common of which, at least since the late 19 century, is the State (most often, the Nation-State).

These implicit deals revolve around the allocation of resources, mainly of economic nature. They assume that the growth of the economy ought to be translated into individual prosperity, irrespective of the allegiance or affiliation of the individual.

There are two mechanisms that ensure such transmission of national wealth to the component-collectives and thence to the individuals they are comprised of:

(i) Allocative prosperity achieved through distributive justice (usually obtained via progressive taxation and transfers). This depends on maintaining overall economic growth. Only when the economy's cake grows bigger can the poor and disenfranchised enjoy social mobility and join the middle-class.

(ii) Imported prosperity (export proceeds, foreign direct investment (FDI), remittances, mercantilism, colonialism). In contemporary settings, these flows of foreign capital depend upon the country's membership in various geopolitical and economic "clubs".

When the political elite of the country fails to guarantee and engender individual prosperity either via economic growth (and, thus, allocative prosperity) or via imported prosperity, the organizing principle invariably comes under attack and very often mutates: empires disintegrate; uniform states go federated or confederated, etc. The process can be peaceful or fraught with conflict or bloodshed. It is commonly called: "history".

Read More

The Narcissism of Differences Big and Small

A Dialog about Anti-Semitism

The Merits of Stereotypes

Herzl's Butlers

4. The Poets and the Eclipse: Intellectuals and War in the Balkans

Written: August 14, 1999

Poets in Somalia hold an inordinate sway over the indigenous population. They sing the praises of war with the same alacrity and vehemence that they invest in glorifying peace. And the population listens and follows these dark skinned pied pipers. Lately, they have been extolling peace and peace prevails in Somaliland and the other state-like enclaves in this tortured shadow of a country.

In the evening we celebrate a birthday party under deciduous trees, in floodlit darkness, somewhere in the Balkans. The voices of industrious crickets, of late chirping birds, of the cesma - the fabled Balkan water fountain - all intermingle to produce an auditory magic. A famous satirist and poet catapults slurred, vitriolic diatribes at a guest from the West that I brought with me. His words ring inebriatedly authentic. He need not learn the language, he exclaims, of people without a spirit and without a mind. He is referring to English. His country - he triumphantly shrills - is the best, an island of civilization among the barbarians at the gates. He enumerates his neighbours and proceeds to describe in vivid, gut wrenching detail what he would do to them all, given the opportunity. "The rotten core of our national apple" - a melancholy contribution from a professor of psychiatry.

Another day. As the moon bit into the otherwise scorching sun - the streets emptied. Shops closed, the traffic halted, workers remained cooped up in steamy offices. Why all this - I asked my friend. He is a leading journalist, an

author, an editor and a media personality. He looked at me warily and proceeded to expound upon the health risks entailed in being exposed to the eclipse. He was serious as was evidenced by his subsequent descent into his basement and by the resounding bolting of the anti-nuclear double plated armoured door. He offered me to join him and was appalled to hear that I had every intention of watching the eclipse - and from the street.

The intellectuals of the Balkans - a curse, not in disguise. a nefarious presence, ominous, erratic and corrupt. Sometimes, at the nucleus of all conflict and mayhem - at other times (of ethnic cleansing or suppression of the media) conspicuously absent. Zeligs of umpteen disguises and ever-changing, shimmering loyalties.

They exert no moderating, countervailing influence - on the contrary, they radicalize, dramatize, poison and incite. Intellectuals are prominent among all the nationalist parties in the Balkans - and rare among the scant centre parties that have recently sprung out of the ashes of communism.

They do not disseminate the little, outdated knowledge that they do possess. Rather they keep it as a guild would, unto themselves, jealously. In the vanity typical of the insecure, they abnegate all foreign knowledge. They rarely know a second language sufficiently to read it. They promote their brand of degreed ignorance with religious zeal and punish all transgressors with fierceness and ruthlessness. They are the main barriers to technology transfers and knowledge enhancement in this wretched region. Their instincts of self preservation go against the best interests of their people. Unable to educate and teach - they prostitute their services, selling degrees or corrupting themselves in politics. They make up a big part

of the post communist nomenclature as they have a big part of the communist one. The result is economics students who never heard of Milton Friedman or Kenneth Arrow and students of medicine who offer sex or money or both to their professors in order to graduate.

Thus, instead of advocating and promoting freedom and liberalization - they concentrate on the mechanisms of control, on manipulating the worn levers of power. They are the dishonest brokers of corrupted politicians and their businessmen cronies. They are heavily involved - oft times the initiators - of suppression and repression, especially of the mind and of the spirit. The black crows of nationalism perched upon their beleaguered ivory towers.

They could have chosen differently. In 1989, the Balkans had a chance the likes of which it never had before. In Yugoslavia, the government of the reformist (though half hearted) Ante Markovic. Elsewhere, Communism was gasping for a last breath and the slaughter of the beast was at hand. The intellectuals of Central Europe, of the Baltic States - even of Russia - chose to interpret these events to their people, to encourage freedom and growth, to posit goals and to motivate. The intellectuals of the Balkans failed miserably. Terrified by the sights and sounds of their threatened territory - they succumbed to obscurantism, resorted to the nostalgic, the abstract and the fantastic, rather than to the pragmatic. This choice is evident even in their speech. Marred by centuries of cruel outside domination - it is all but meaningless. No one can understand what a Balkanian has to say. Both syntax and grammar are tortured into incomprehensibility. Evasion dominates, a profusion of obscuring verbal veils, twists and turns hiding a vacuous deposition.

The Balkan intellectuals chose narcissistic self absorption and navel gazing over "other-orientation". Instead of seeking integration (as distinct from assimilation) - they preach and practice isolation. They aim to differentiate themselves not in a pluralistic, benign manner - but in vicious, raging defiance of "mondialism" (a Serbian propaganda term). To define themselves AGAINST all others - rather than to compare and learn from the comparison. Their love affair with a (mostly concocted) past, their future-phobia, the ensuing culture shock - all follow naturally from the premises of their disconsolate uniqueness. Balkan intellectuals are all paranoids. Scratch the surface, the thin, bow tied, veneer of "kultur" - and you will find an atavistic poet, fighting against the very evil wrought by him and by his actions. This is the Greek tragedy of this breathtaking region. Nature here is cleverer than humans. It is exactly their conspiracies that bring about the very things they have to conspire against in the first place.

All over the world, intellectuals are the vanguard, the fifth column of new ideas, the resistance movement against the occupation of the old and the banal. Here intellectuals preach conformity, doing things the old, proven way, protectionism against the trade of liberal minds. All intellectuals here - fed by the long arm of the state - are collaborators. True, all hideous regimes had their figleaf intellectuals and with a few exceptions, the regimes in the Balkans are not hideous. But the principle is the same, only the price varies. Prostituting their unique position in semi-literate, village-tribal societies - intellectuals in the Balkans sold out en masse. They are the inertial power - rather than the counterfist of reform. They are involved in politics of the wrong and doomed kind. The Balkan would have been better off had they decided to remain aloof,

detached in their archipelago of universities.

There is no real fire in Balkan intellectuals. Oh, they get excited and they shout and blush and wave their hands ever so vigorously. But they are empty. It is full gas in neutral. They get nowhere because they are going nowhere. They are rational and conservative and some are emotional and "leftist". But it is all listless and lifeless, like the paces of a very old mechanism, set in motion 80 years ago and never unwound.

All that day of the eclipse of the last millennium, even the intellectuals stayed in their cellars and in their offices and did not dare venture out. They emerged when night fell, accustomed to the darkness, unable to confront their own eclipse, hiding from the evil influence of a re-emerging sun.

5. Homo Balkanus

Written: August 18, 1999

How does one respond to a torrent of belligerent correspondence from Balkanians arguing against the belligerence of Balkanians described by one in one's articles? Were it not sad, it surely would have been farcical. Only yesterday (August 17th, 1999 - five months after the Kosovo conflict) Macedonian papers argued fiercely, vehemently and threateningly against an apparently innocuous remark by Albania's Prime Minister. He said that all Albanians, wherever they are, should share the same curriculum of studies. A preparatory step on the way to a Greater Albania perhaps? In this region of opaque mirrors and "magla" (fog) it is possible. And what is possible surely IS.

I do not believe in the future of this part of the world only

because I know its history too well. Every psychologist will tell you that past violent behaviour is the best predictor of future recidivism. Homo Balkanus is lifted straight off the rustling pages of the Diagnostic and Statistical Manual (DSM) IV-TR (2000) - the bible of the psychiatric profession - when it defines the Narcissistic Personality Disorder.

Narcissism is a result of stunted growth and of childhood abuse. It is a reactive pattern, the indelible traces of an effort to survive against all odds, against bestial repression and all-pervasive decay. Brutally suppressed by the Turks for hundreds of years and then by communism in some countries and by cruel, capricious banana republic regimes in others - Homo Balkanus has grown to be a full fledged narcissist.

The nation state structure and ideology enthusiastically adopted by Homo Balkanus in the wake of the collapse of the rotten Ottoman edifice has proven to be a costly mistake. Tribal village societies are not fit for the consumption of abstract models of political organization. This is as true in Africa as it is in the Balkans. The first allegiance of Homo Balkanus is to his family, his clan, his village. Local patriotism was never really supplanted by patriotism. Homo Balkanus shares an Ottoman unconscious with his co-regionists. The "authorities" were and are always perceived to be a brutal, menacing and unpredictable presence, a natural power, to be resisted by the equal employment of cunning and corruption. Turkish habits die hard. The natives find it difficult not to bribe their way through their own officialdom, to pay taxes, not to litter, to volunteer, in short: to be citizens, rather than occupants or inhabitants. Their passive-aggressive instincts are intact and on auto pilot.

The Balkanian experiment with nation states has visited only misery and carnage upon the heads of its perpetrators. Borders tracked convulsively the movements of half-nomad populations. This instability of boundaries led to ethnic cleansing, to numerous international congresses, to fitful wars. In an effort to justify a distinct existence and identity, thousands of "scholars" embarked on Herculean efforts of inventing histories for their newly emergent nations. Inevitably, these histories conflicted and led to yet more bloodshed. A land fertilized by blood produces harvests of bloated corpses.

In the Balkans people fight for their very own identity. They aspire to purity, albeit racial, and to boundaries, albeit of the abstract kind. It is, perhaps, the kernel of this Greek tragedy: that real people are sacrificing real people on the altar of the abstract. It is a battle of tastes, a clash of preferences, an Armageddon of opinions, judgements, lessons. Armies are still moved by ancient events, by symbols, by fiery speeches, by abstract, diffuse notions. It is a land devoid of its present, where the past and future reign supreme. No syllogism, no logic, no theory can referee that which cannot be decided but by the compelling thrust of the sword. "We versus They" - they, the aliens. Threatened by the otherness of others, Homo Balkanus succumbs to the protection of the collective. A dual track: an individualist against the authorities - a mindless robot against all others, the foreigners, the strangers, the occupiers. The violent acting out of this schizophrenia is often referred to as "the history of the Balkans".

This spastic nature was further exacerbated by the egregious behaviour of the superpowers. Unfortunately possessed of strategic import, the Balkan was ravaged by

geopolitics. Turks and Bulgarians and Hungarians and Austrians and Russians and Britons and Germans and Communists and the warplanes of NATO - the apocalyptic horsemen in the mountains and rivers and valleys and sunsets of this otherworldly, tortured piece of land. Raped by its protectors, impregnated by the demon seeds of global interests and their ruthless pursuit - the Balkan was transformed into a horror chamber of amputated, zombie nations, a veritable hellish scene. Many a Pomeranian grenadier bequeathed their bones to the Balkans but Pomeranian grenadiers came and went while the people of the Balkan languished.

Thus, it was not difficult to foster a "We" against every "They" (or imagined "They"). A crossroads of faultlines, a confluence of tectonic clashes - the Balkan always obliged.

Religion came handy in this trade of hate. Orthodox Serbs fought Muslim Serbs in Bosnia (the latter were forced to convert by the Turks hundreds of years ago). Catholic Croats fought Orthodox Serbs. And Bulgarians (a Turkic tribe) expelled the Turks in 1989, having compelled them to change their Muslim names to Bulgarian sounding ones in 1984.

Race was useful in the agitated effort to prevail. Albanians are of Illyrian origin. The Greeks regard the Macedonians as upstart Slavs. The Bulgarians regard the Macedonians as rebel Bulgarians. The Macedonian regard the Bulgarians as Tartars (that is, Barbarian and Turkish). The Slovenes and the Croats and, yes, the Hungarians claim not to belong in this cauldron of seething, venomous emotions.

And culture was used abundantly in the Balkan conflicts.

Where was the Cyrillic alphabet invented (Macedonia, Greece, Bulgaria) and by whom (Greeks, Macedonians, Bulgarians). Are some nations mere inventions? (the Bulgarians say this about the Macedonians). Are some languages one and the same? Minorities are either cleansed or denied out of existence. The Greek still claim that there are no minorities in Greece, only Greeks with different religions. The Bulgars in Greece used to be "Bulgarophone Greeks". The Balkan is the eternal hunting grounds of oxymorons, tautologies and logical fallacies.

It is here that intellectuals usually step in (see my article: "The Poets and the Eclipse"). But the Balkan has no intelligentsia in the Russian or even American sense. It has no one to buck the trend, to play the non conforming, to rattle, to provoke, to call upon one's conscience. It does not have this channel to (other) ideas and view called "intellectuals". It is this last point which makes me the most pessimistic. The Balkan is a body without a brain.

Note - The Poor Nation's Defense Mechanisms

All the countries in the mutilated post-Communist parts of Europe inevitably ended up poor. Yet, as opposed to their neighbors, some polities failed to alleviate their misery or ameliorate their dire predicament. The denizens of these states are not only impoverished - they also feel like losers and failures.

To avoid confronting such unpalatable truths and to fend off a tormenting self-image, the citizenry of these places developed a host of psychological defense mechanisms.

1. Magical Thinking

The belief in a fantastic world in which miracles occur, saviors materialize, one is immune to the consequences of

one's inaction, and all ends well, regardless of current realities.

The leaders of such countries provide their voters with fairy tales and grandiose fantasies about multi-billion dollar investments, which typically never materialize. Worse still, this obsessive preoccupation with deus-ex-machina salvation-by-outsiders detracts from and distracts the scarce human resources at the disposal of the government.

As a result, the authorities neglect to tackle the most pressing problems facing their nation: unemployment, dysfunctional institutions, and venality. In the meantime, asset bubbles - both in real estate and in the bloated and much-manipulated stock exchange - imperil the country's financial system.

2. Messianic-Religious Leadership

From the Caucasus to the republics of former Yugoslavia, leaders of economically decrepit countries in the region present themselves as either Messiah-like saviors or martyrs to the cause, hounded by a "hate-filled and jealous" opposition, or victimized by outside forces. Such leaders ostentatiously "dedicate themselves" to the nation, forsaking a private life or worldly pleasures.

Their subjects crave for honest and hard-working leadership and so hungrily succumb to the allure of ceaseless media campaigns, which border on a personality cult. They suspend their disbelief and dispense with rationality. The Dear Leader becomes the focal point of their hopes and dreams while other institutions - parliament, the judiciary, and the media - shrink and wither.

Often, this populist worship results in an authoritarian regime that gradually, almost imperceptibly replaces consensus politics. The Beloved Leader keeps paying lip service to democracy and functioning institutions, but effectively, he contemptuously ignores them. He purges the civil service, staffing it with cronies and relatives, and he treats the opposition as traitors and enemies of the state.

3. Denial of Reality

From the Caucasus, through Central Asia, to the Balkans and Africa, unable to face the dismal condition of their countries, people choose to simply deny it. Hype and spin and public relations replace real action and substantive reforms. The language itself is subverted: corruption is redefined by the powers that be to exclude blatant nepotism; a mere change of ownership hailed as a revolutionizing foreign investment; promises and plans presented as facts (faits accompli); statistical methodology altered to produce favorable results. Thus, reality is done away with and replaced with fantasy.

4. Aggressive Assertiveness

Rather than accept the fact that the nation's low self-esteem and lack of self-confidence are outcomes of its failures, the leadership reverses cause and effects: the country's repeated failures are now, officially, a ***RESULT*** of people's wavering self-esteem and self-confidence. People who doubt the leadership's claims and doctored data "don't believe in the future of the nation, don't believe that (insert the name of the country) can (succeed)." Dissidents are, therefore, branded as pusillanimous traitors.

Thus, everyone is encouraged to adopt a loathsome variant of newfound assertiveness that borders on narcissism and is unpleasantly aggressive. It does not reflect an inner conviction in the real capabilities and skills of the populace. It is merely demonstrative and hyperbolic.

6. Quis Custodiet Ipsos Custodes?
Who is Guarding the Guards in Countries in Transition from Communism?

Written: August 23, 1999

Izetbegovic, the nominal president of the nominal Bosnian state, the darling of the gullible western media, denies that he and his cronies and his cronies' cronies stole 40% of all civilian aid targeted at Bosnia - a minor matter of 1 billion US dollars and change, in less than 4 years. The tribes of the Balkans stop bleeding each other to death only when they gang up to bleed another. In this, there are no races and no traces - everyone is equal under the sign of the dollar. Serbs, Bosnians and Croats divided the loot with the loftiest of egalitarian instincts. Honour among thieves

transformed into honour among victims and their murderers. Mammon is the only real authority in this god forsaken, writhing rump of a country.

And not only there.

In Russia, billions (3 to 5) were transferred to secret off shore bank accounts to be "portfolio managed" by mysterious fly-by-night entities. Many paid with their jobs when the trail led to the incestuous Yeltsin clan and their byzantine court.

Convoys snake across the mountainous Kosovo, bringing smuggled goods at exorbitant prices to the inhabitants of this parched territory - all under the avuncular gaze of multinational peacekeepers.

In Romania, Hungary and Greece, UN forces have been known to take bribes to allow goods into besieged Serbia. Oil, weapons and strategic materials, all slid across this greasy channel of the international brotherhood of cash.

A lot of the aid, ostensibly intended to ameliorate the state of refugedom imposed upon the unsuspecting, harried population of Kosovo - resurfaced in markets, white and black, across the region. Food, blankets, tents, electrical equipment, even toys - were on offer in bazaars from Skopje to Podgorica and from Sofia to Thessaloniki, replete with the stamps of the unwitting donors. Aid workers scurried back and forth in expensive utility vehicles, buzzing mobile phones in hand and latest model, officially purchased, infrared laptops humming in the air conditioned coolness of their five star hotel rooms (or fancy apartments). In their back pockets they safeguarded their first class tickets (the food is better and the stewardesses ...). The scavengers of every carnage, they

descended upon this tortured land in redundant hordes, feeding off the misery, the autoimmune deficiency of the syndrome of humanism.

Ask yourselves: how could one of every 3 dollars - 50% of GNP - be stolen in a country the size of a tiny American state - without the knowledge and collaboration of the international organizations which ostensibly manage this bedlam? Why did the IMF renew the credit lines to a Russia which cheated bold-facely regarding its foreign exchange reserves? How was Serbia awash and flush with oil and other goods prohibited under the terms of the never-ending series of embargoes imposed upon it?

The answer is that potent cocktail of fear and graft. First came fear - that Russia will collapse, that the Balkans will spill over, that Bosnia will disintegrate. Nuclear nightmares intermingled with Armenian and Jewish flashbacks of genocide. The west shut its eyes tight and threw money at the bad spirits of irredentism and re-emergent communism. The long arm of the USA, the "international" financial institutions, collaborated in constructing the habit forming dole house that Eastern and Southern Europe has become. This conflict-reticence, these approach-avoidance cycles led to an inevitable collusion between the ruling mob families that pass for regimes in these parts of the planet - and the unilateral institutions that pass for multilateral ones in the rest of it. An elaborate system of winks and nods, the sign language of institutional rot and decaying governance, took over. Greasy palms clapped one another with the eerie silence of conspiracy. The world looked away as both - international financial institutions and corrupt regimes - robbed their constituencies blind. This was perceived to be the inevitable moral cost of stability. Survival of the

majority entailed the filthy enrichment of the minority. And the west acquiesced.

But this grand design backfired. Like insidious bacteria, corruption breeds violence and hops from host to host. It does not discriminate, this plague of black conscience, between east and west. As it infected the indigenous, it also effected their guardians. They were all engulfed by raging greed, by a degradation of the inhibitions and by the intoxicating promiscuity of lawlessness. Inebriated by their newly found powers, little ceasars - natives and financial colonialists - claimed their little plots of crime and avarice, a not so secret order of disintegration of the social fabric. A ghoulish landscape, shrouded in the opaque mist of the nomenclature, the camaraderie of the omnipotent.

And corruption bred violence. The Chicago model imported lock, stock and the barrel of the gun. Former cronies disappeared mysteriously, bloated corpses in stale hotel rooms - being the only "contracts" honoured. Territories were carved up in constant, unrelenting warfare. One billion dollars are worth a lot of blood and it was spilled with glee, with the enthusiasm of the inevitable, with the elation of gambling all on a single spin of the Russian roulette.

It is this very violence that the west tried to drown with its credits. But unbeknownst to it, this very violence thrived on these pecuniary fertilizers. A plant of horrors, it devoured its soil and its cultivators alike. And 120,000 people paid with their lives for this wrong gamble. Counting its losses, the west is poised to spin the wheel again. More money is amassed, the dies are cast and more people cast to die.

7. Herzl's Butlers

Written: September 5, 1999

James Cook misled the British government back home by neglecting to report about the aborigines he spotted on the beaches of New Holland. This convenient omission allowed him to claim the territory for the crown. In the subsequent waves of colonization, the aborigines perished. Modern Australia stands awash in their blood, constructed on their graves, thriving on their confiscated lands. The belated efforts to redress these wrongs meet with hostility and the atavistic fears of the dispossessor.

In "Altneuland" (translated to Hebrew as "Tel Aviv"), the feverish tome composed by Theodore Herzl, Judaism's improbable visionary, the author refers to the Arabs ("negroes", who have nothing to lose and everything to gain from the Jewish process of colonization) as pliant and compliant butlers, replete with gloves and tarbushes ("livery").

In the book, German Jews prophetically land at Haifa, the only port in erstwhile Palestine. They are welcomed and escorted by "Briticized" Arab ("negro") gentlemen's gentlemen who are only too happy to assist their future masters and colonizers to disembark.

Frequently, when religious or ethnic minorities attempted to assimilate themselves within the majority, the latter reacted by spawning racist theories and perpetrating genocide.

Consider the Jews:

They have tried assimilation twice in the two torturous millennia since they have been exiled by the Romans from

their ancestral homeland. In Spain, during the 14th and 15th centuries, they converted en masse to Christianity, becoming "conversos" or, as they were disparagingly maligned by the Old Christians, Marranos (pigs).

As B. Netanyahu observes in his magnum opus, "The Origins of the Inquisition in Fifteenth Century Spain":

"The struggle against the conversos, who by virtue of their Christianity sought entry into Spanish society, led to the development of a racial doctrine and a genocidal solution to the converso problem." (p. 584)

Exactly the same happened centuries later in Germany. During the 19th century, Jews leveraged newfound civil liberties and human rights to integrate closely with their society. Their ascendance and success were rejected by Germans of all walks of life. The result was, again, the emergence of Hitler's racist policies based on long expounded "theories" and the genocide known as the Holocaust.

In between these extremes - of annihilation and assimilation - modern Europe has come up with a plethora of models and solutions to the question of minorities which plagued it and still does. Two schools of thought emerged: the nationalistic-ethnic versus the cultural.

Europe has always been torn between centrifugal and centripetal forces. Multi-ethnic empires alternated with swarms of mini-states with dizzying speed. European Unionism clashed with brown-turning-black nationalism and irredentism. Universalistic philosophies such as socialism fought racism tooth and nail. European history became a blood dripping pendulum, swung by the twin yet conflicting energies of separation and integration.

The present is no different. The dream of the European Union confronted the nightmare of a dismembered Yugoslavia throughout the last decade. And ethnic tensions are seething all across the continent. Hungarians in Romania, Slovakia, Ukraine and Serbia, Bulgarians in Moldova, Albanians in Macedonia, Russians in the Baltic countries, even Padans in Italy and the list is long.

The cultural school of co-existence envisaged multi-ethnic states with shared philosophies and value systems which do not infringe upon the maintenance and preservation of the ethnic identities of their components. The first socialists adopted this model enthusiastically. They foresaw a multi-ethnic, multi-cultural socialist mega-state. The socialist values, they believed, will serve as the glue binding together the most disparate of ethnic elements.

In the event, it took a lot more than common convictions. It took suppression on an unprecedented scale and it took concentration camps and the morbid application of the arts and sciences of death. And even then both the Nazi Reich and the Stalinist USSR fell to ethnic pieces.

The national(istic) school supports the formation of ethnically homogenous states, if necessary, by humane and gradual (or inhuman and abrupt) ethnic cleansing . Homogeneity is empirically linked to stability and, therefore, to peace, economic prosperity and oftentimes to democracy. Heterogeneity breeds friction, hatred, violence, instability, poverty and authoritarianism.

The conclusion is simple: ethnicities cannot co-exist. Ethnic groups (a.k.a. nations) must be left to their own devices, put differently: they must be allocated a piece of land and allowed to lead their lives as they see fit. The land thus allocated should correspond, as closely as

possible, with the birthplace of the nation, the scenery of its past and the cradle of its culture.

The principle of self-determination allows any group, however small, to declare itself a "nation" and to establish its own "nation-state". This has been carried to laughable extremes in Europe after the Cold War has ended when numerous splinters of former states and federations now claimed nationhood and consequently statehood. The shakier both claims appeared, the more virulent the ensuing nationalism.

Thus, the nationalist school increasingly depended on denial and repression of the existence of heterogeneity and of national minorities. This was done by:

(a) Ethnic Cleansing

Greece and Turkey exchanged population after the first world war. Czechoslovakia expelled the Sudeten Germans after the Second World War and the Nazis rendered big parts of Europe Judenrein. Bulgarians forced Turks to flee. The Yugoslav succession wars were not wars in the Clausewitz sense - rather they were protracted guerilla operations intended to ethnically purge swathes of the "motherland".

(b) Ethnic Denial

In 1984, the Bulgarian communist regime forced the indigenous Turkish population to "Bulgarize" their names. The Slav minorities in the Hungarian part of the Austro-Hungarian empire were forced to "Magyarize" following the 1867 Compromise. Franco's Spain repressed demands for regional autonomy.

Other, more democratic states, fostered a sense of national

unity by mass media and school indoctrination. Every facet of life was subjected to and incorporated in this relentless and unforgiving pursuit of national identity: sports, chess, national holidays, heroes, humour. The particularisms of each group gained meaning and legitimacy only through and by their incorporation in the bigger picture of the nation. Thus, Greece denies to this very day that there are Turks or Macedonians on its soil. There are only Muslim Greeks, it insists (often brutally and in violation of human and civil rights). The separate identities of Brittany and Provence were submerged within the French collective one and so was the identity of the Confederate South in the current USA. Some call it "cultural genocide".

The nationalist experiment failed miserably. It was pulverized by a million bombs, slaughtered in battlefields and concentration camps, set ablaze by fanatics and sadists. The pendulum swung. In 1996, Hungarians were included in the Romanian government and in 1998 they made it to the Slovakian one. In Macedonia, Albanian parties took part in all the governments since independence. The cultural school, on the ascendance, was able to offer three variants:

(1) The Local Autonomy

Ethnic minorities are allowed to use their respective languages in certain municipalities where they constitute more than a given percentage (usually twenty) of the total population. Official documents, street signs, traffic tickets and education all are translated to the minority language as well as to the majority's. This rather meaningless placebo has a surprisingly tranquillizing effect on restless youth and nationalistic zealots. In 1997, police fought local residents in a few Albanian municipalities precisely

on this issue.

(2) The Territorial Autonomy

Ethnic minorities often constitute a majority in a given region. Some "host" countries allow them to manage funds, collect taxes and engage in limited self-governance. This is the regional or territorial autonomy that Israel offered to the Palestinians (too late) and that Kosovo and Vojvodina enjoyed under the 1974 Yugoslav constitution (which Milosevic shredded to very small pieces). This solution was sometimes adopted by the nationalist competition itself. The Nazis dreamt up at least two such territorial "final solutions" for the Jews (one in Madagascar and one in Poland). Stalin gave the Jews a decrepit wasteland, Birobidjan, to be their "homeland". And, of course, there were the South African "homelands".

(3) The Personal Autonomy

Karl Renner and Otto Bauer advanced the idea of the individual as the source of political authority - regardless of his or her domicile. Between the two world wars, Estonia gave personal autonomy to its Jews and Russians. Wherever they were, they were entitled to vote and elect representatives to bodies of self government. These had symbolic taxation powers but exerted more tangible authority over matters educational and cultural. This idea, however benign sounding, encountered grave opposition from right and left alike. The right wing "exclusive" nationalists rejected it because they regarded minorities the way a sick person regards his germs. And the left wing, "inclusive", nationalists saw in it the seeds of discrimination, an anathema.

How and why did we find ourselves embroiled in such a mess?

It is all the result of the wrong terminology, an example of the power of words. The Jews (and Germans) came up with the "objective", "genetic", "racial" and "organic" nation. Membership was determined by external factors over which the member-individual had no control. The French "civil" model - an 18th century innovation - regarded the nation and the state as voluntary collectives, bound by codes and values which are subject to social contracts. Benedict Anderson called the latter "imagined communities".

Naturally, it was a Frenchman (Ernest Renan) who wrote:

"Nations are not eternal. They had a beginning and they will have an end. And they will probably be replaced by a European confederation."

He was referring to the fact that nation STATES were nothing but (at the time) a century old invention of dubious philosophical pedigree. The modern state was indeed invented by intellectuals (historians and philologists) and then solidified by ethnic cleansing and the horrors of warfare. Jacob Grimm virtually created the chimeral Serbo-Croat "language". Claude Fauriel dreamt up the reincarnation of ancient Greece in its eponymous successor. The French sociologist and anthropologist Marcel Mauss remarked angrily that "it is almost comical to see little-known, poorly investigated items of folklore invoked at the Peace Conference as proof that the territory of this or that nation should extend over a particular area because a certain shape of dwelling or bizarre custom is still in evidence".

Archaeology, anthropology, philology, history and a host of other sciences and arts were invoked in an effort to substantiate a land claim. And no land claim was subjected to a statute of limitations, no subsequent conquest or invasion or settlement legitimized. Witness the "Dacian wars" between Hungary and Romania over Transylvania (are the Romanians latter day Dacians or did they invade Transylvania long after it was populated by the Hungarians?). Witness the Israelis and the Palestinians. And, needless to add, witness the Serbs and the Albanians, the Greeks and the Macedonians and the Macedonians and the Bulgarians.

Thus, the modern nation-state was a reflection of something more primordial, of human nature itself as it resonated in the national founding myths (most of them fictitious or contrived). The supra-national dream is to many a nightmare. Europe is fragmenting into micro-nations while unifying its economies. These two trends are not mutually exclusive as is widely and erroneously believed. Actually, they are mutually reinforcing. As the modern state loses its major economic roles and functions to a larger, supranational framework - it loses its legitimacy and its raison d'etre.

The one enduring achievement of the state was the replacement of allegiance to a monarch, to a social class, to a region, or to a religion by an allegiance to a "nation". This subversive idea comes back to haunt itself. It is this allegiance to the nation that is the undoing of the tolerant, multi-ethnic, multi-religious, abstract modern state. To be a nationalist is to belong to ever smaller and more homogenous groups and to dismantle the bigger, all inclusive polity which is the modern state.

Indeed, the state is losing in the battlefield of ideas to the

other two options: micro-nationalism (homogeneous and geographically confined) and reactionary affiliation. Micro-nationalism gave birth to Palestine and to Kosovo, to the Basque land and to Quebec, to Montenegro and to Moldova, to regionalism and to local patriotism. It is a fragmenting force. Modern technology makes many political units economically viable despite their minuscule size - and so they declare their autonomy and often aspire to independence.

Reactionary Affiliation is cosmopolitan. Think about the businessman, the scholar, the scientist, the pop star, the movie star, the entrepreneur, the arbitrageur and the internet. People feel affiliated to a profession, a social class, a region, or a religion more than they do to their state. Hence the phenomena of ex-pats, mass immigration, international managers. This is a throwback to an earlier age when the modern state was not yet invented. Indeed, the predicament of the nation-state is such that going back may be the only benign way of going forward.

Appendix: Secession, National Sovereignty, and Territorial Integrity

I. Introduction

On February 17, 2008, Kosovo became a new state by seceding from Serbia. It was the second time in less than a decade that Kosovo declared its independence.

Pundits warned against this precedent-setting event and foresaw a disintegration of sovereign states from Belgium to Macedonia, whose restive western part is populated by Albanians. In 2001, Macedonia faced the prospect of a civil war. It capitulated and signed the Ohrid Framework Agreement.

Yet, the truth is that there is nothing new about Kosovo's independence. Macedonians need not worry, it would seem. While, under international law, Albanians in its western parts can claim to be insurgents (as they have done in 2001 and, possibly, twice before), they cannot aspire to be a National Liberation Movement and, if they secede, they are very unlikely to be recognized.

To start with, there are considerable and substantive differences between Kosovo's KLA and its counterpart, Macedonia's NLA. Yugoslavia regarded the Kosovo Liberation Army (KLA or UCK, in its Albanian acronym) as a terrorist organization. Not so the rest of the world. It was widely held to be a national liberation movement, or, at the very least, a group of insurgents.

Between 1996-9, the KLA maintained a hierarchical operational structure that wielded control and authority over the Albanians in large swathes of Kosovo. Consequently, it acquired some standing as an international subject under international law.

Thus, what started off as a series of internal skirmishes and clashes in 1993-5 was upgraded in 1999 into an international conflict, with both parties entitled to all the rights and obligations of ius in bello (the law of war).

II. Insurgents in International Law

Traditionally, the international community has been reluctant to treat civil strife the same way it does international armed conflict. No one thinks that encouraging an endless succession of tribal or ethnic secessions is a good idea. In their home territories, insurgents are initially invariably labeled as and treated by the "lawful" government as criminals or terrorists.

Paradoxically, though, the longer and more all-pervasive the conflict and the tighter the control of the rebels on people residing in the territories in which the insurgents habitually operate, the better their chances to acquire some international recognition and standing. Thus, international law actually eggs on rebels to prolong and escalate conflicts rather than resolve them peacefully.

By definition, insurgents are temporary, transient, or provisional international subjects. As Antonio Cassese puts it (in his tome, "International Law", published by Oxford University Press in 2001):

"...(I)nsurgents are quelled by the government, and disappear; or they seize power, and install themselves in the place of the government; or they secede and join another State, or become a new international subject."

In other words, being an intermediate phenomenon, rebels can never claim sovereign rights over territory. Sovereign states can contract with insurrectionary parties and demand that they afford protection and succor to foreigners within the territories affected by their activities. However, this is not a symmetrical relationship. The rebellious party cannot make any reciprocal demands on states. Still, once entered into, agreements can be enforced, using all lawful sanctions

Third party states are allowed to provide assistance - even of a military nature - to governments, but not to insurgents (with the exception of humanitarian aid). Not so when it comes to national liberation movements.

III. National Liberation Movements in International Law

According to the First Geneva Protocol of 1977 and

subsequent conventions, what is the difference between a group of "freedom fighters" and a national liberation movement?

A National Liberation Movement represents a collective - nation, or people - in its fight to liberate itself from foreign or colonial domination or from an inequitable (for example: racist) regime. National Liberation Movements maintain an organizational structure although they may or may not be in control of a territory (many operate in exile) but they must aspire to gain domination of the land and the oppressed population thereon. They uphold the principle of self-determination and are, thus, instantaneously deemed to be internationally legitimate.

Though less important from the point of view of international law, the instant recognition by other States that follows the establishment of a National Liberation Movement has enormous practical consequences: States are allowed to extend help, including economic and military assistance (short of armed troops) and are "duty-bound to refrain from assisting a State denying self-determination to a people or a group entitled to it" (Cassesse).

As opposed to mere insurgents, National Liberation Movements can claim and assume the right to self-determination; the rights and obligations of ius in bello (the legal principles pertaining to the conduct of hostilities); the rights and obligations pertaining to treaty making; diplomatic immunity.

Yet, even National Liberation Movements are not allowed to act as sovereigns. For instance, they cannot dispose of land or natural resources within the disputed territory. In this case, though, the "lawful" government or colonial

power are similarly barred from such dispositions.

IV. Internal Armed Conflict in International Law

Rebels and insurgents are not lawful combatants (or belligerents). Rather, they are held to be simple criminals by their own State and by the majority of other States. They do not enjoy the status of prisoner of war when captured. Ironically, only the lawful government can upgrade the status of the insurrectionists from bandits to lawful combatants ("recognition of belligerency").

How the government chooses to fight rebels and insurgents is, therefore, not regulated. As long as it refrains from intentionally harming civilians, it can do very much as it pleases.

But international law is in flux and, increasingly, civil strife is being "internationalized" and treated as a run-of-the-mill bilateral or even multilateral armed conflict. The doctrine of "human rights intervention" on behalf of an oppressed people has gained traction. Hence Operation Allied Force in Kosovo in 1999.

Moreover, if a civil war expands and engulfs third party States and if the insurgents are well-organized, both as an armed force and as a civilian administration of the territory being fought over, it is today commonly accepted that the conflict should be regarded and treated as international.

As the Second Geneva Protocol of 1977 makes crystal clear, mere uprisings or riots (such as in Macedonia, 2001) are still not covered by the international rules of war, except for the general principles related to non-combatants and their protection (for instance, through Article 3 of the four 1949 Geneva Conventions) and

customary law proscribing the use of chemical weapons, land and anti-personnel mines, booby traps, and such.

Both parties - the State and the insurrectionary group - are bound by these few rules. If they violate them, they may be committing war crimes and crimes against humanity.

V. Secession in International Law

The new state of Kosovo has been immediately recognized by the USA, Germany, and other major European powers. The Canadian Supreme Court made clear in its ruling in the Quebec case in 1998 that the status of statehood is not conditioned upon such recognition, but that (p. 289):

"...(T)he viability of a would-be state in the international community depends, as a practical matter, upon recognition by other states."

The constitutional law of some federal states provides for a mechanism of orderly secession. The constitutions of both the late USSR and SFRY (Yugoslavia, 1974) incorporated such provisions. In other cases - the USA, Canada, and the United Kingdom come to mind - the supreme echelons of the judicial system had to step in and rule regarding the right to secession, its procedures, and mechanisms.

Again, facts on the ground determine international legitimacy. As early as 1877, in the wake of the bloodiest secessionist war of all time, the American Civil War (1861-5), the Supreme Court of the USA wrote (in William vs. Bruffy):

"The validity of (the secessionists') acts, both against the parent State and its citizens and subjects, depends

entirely upon its ultimate success. If it fail (sic) to establish itself permanently, all such acts perish with it. If it succeed (sic), and become recognized, its acts from the commencement of its existence are upheld as those of an independent nation."

In "The Creation of States in International Law" (Clarendon Press, 2nd ed., 2006), James Crawford suggests that there is no internationally recognized right to secede and that secession is a "legally neutral act". Not so. As Aleksandar Pavkovic observes in his book (with contributions by Peter Radan), "Creating New States - Theory and Practice of Secession" (Ashgate, 2007), the universal legal right to self-determination encompasses the universal legal right to secede.

The Albanians in Kosovo are a "people" according to the Decisions of the Badinter Commission. But, though, they occupy a well-defined and demarcated territory, their land is within the borders of an existing State. In this strict sense, their unilateral secession does set a precedent: it goes against the territorial definition of a people as embedded in the United Nations Charter and subsequent Conventions.

Still, the general drift of international law (for instance, as interpreted by Canada's Supreme Court) is to allow that a State can be composed of several "peoples" and that its cultural-ethnic constituents have a right to self-determination. This seems to uphold the 19th century concept of a homogenous nation-state over the French model (of a civil State of all its citizens, regardless of ethnicity or religious creed).

Pavkovic contends that, according to principle 5 of the United Nations' General Assembly's Declaration on

Principles of International Law Concerning Friendly Relations and Co-operation Among States in Accordance With the Charter of the United Nations, the right to territorial integrity overrides the right to self-determination.

Thus, if a State is made up of several "peoples", its right to maintain itself intact and to avoid being dismembered or impaired is paramount and prevails over the right of its constituent peoples to secede. But, the right to territorial integrity is limited to States:

"(C)onducting themselves in compliance with the principle of equal rights and self-determination of peoples ... and thus possessed of a government representing the whole people belonging to the territory without distinction as to race, creed, or colour."

The words "as to race, creed, or colour" in the text supra have been replaced with the words "of any kind" (in the 1995 Declaration on the Occasion of the Fiftieth Anniversary of the United Nations).

Yugoslavia under Milosevic failed this test in its treatment of the Albanian minority within its borders. They were relegated to second-class citizenship, derided, blatantly and discriminated against in every turn. Thus, according to principle 5, the Kosovars had a clear right to unilaterally secede.

As early as 1972, an International Commission of Jurists wrote in a report titled "The Events in East Pakistan, 1971":

"(T)his principle (of territorial integrity) is subject to the requirement that the government does comply with the principle of equal rights and does represent the whole

people without distinction. If one of the constituent peoples of a state is denied equal rights and is discriminated against ... their full right of self-determination will revive." (p. 46)

A quarter of a century later, Canada's Supreme Court concurred (Quebec, 1998):

"(T)he international law right to self-determination only generates, at best, a right to external self-determination in situations ... where a definable group is denied meaningful access to government to pursue their political, economic, social, and cultural development."

In his seminal tome, "Self-Determination of Peoples: A Legal Appraisal" (Cambridge University Press, 19950, Antonio Cassese neatly sums up this exception to the right to territorial integrity enjoyed by States:

"(W)hen the central authorities of a sovereign State persistently refuse to grant participatory rights to a religious or racial group, grossly and systematically trample upon their fundamental rights, and deny the possibility of reaching a peaceful settlement within the framework of the State structure ... A racial or religious group may secede ... once it is clear that all attempts to achieve internal self-determination have failed or are destined to fail." (p. 119-120)

VI. The Cases of Kosovo and Western Macedonia

In former Yugoslavia (SFRY), Kosovo was an autonomous province within the Socialist Republic of Serbia. The Albanians in Yugoslavia were not recognized as a "people" (narod), merely as a "nationality" (narodnost).

In January 1990, the Constitutional Court of SFRY ruled illegal a unilateral secession from the Yugoslav Federation. The right to secede belonged to "the peoples of Yugoslavia and their socialist republics (and autonomous provinces)". Kosovo was an autonomous province, but the Albanians were not a "people". Indeed, in a later decision, dealing specifically with Kosovo's first declaration of independence, the Constitutional Court spoke:

"(O)nly peoples of Yugoslavia had the right of self-determination."

Western Macedonia has always been an integral part of the Republic of Macedonia within the SFRY. It had never acquired the status of an autonomous province, let alone a Republic. Albanians in Macedonia are a minority. They are well-represented in government and law enforcement and have equal access to education and the institutions of the State. Their rights are guaranteed by multiple constitutional, legal, and international instruments. They have no leg to stand on if they choose to unilaterally secede from Macedonia (for instance, in order to join Kosovo).

The Albanians of western Macedonia may, however, successfully secede from Macedonia within the framework of a realignment of borders between Serbia, Kosovo, Albania, Macedonia, and, perhaps, Greece, and Bulgaria. While Macedonia is extremely unlikely to welcome such a move, it may be coerced into acquiescence by the international community. Macedonia was strong-armed into the Ohrid Framework Agreement in 2001. There is no guarantee that this scenario will not repeat itself.

Macedonia should urgently adopt steps to change the demographic composition of its western territories. This is not without precedent. Israel has done the same in its northern territory (the Galilee), Poland with its Ukrainian borderlands, Germany in its east, the USA in its "wild" West.

Macedonia should offer economic incentives to anyone willing to relocate from the rest of its territory to its west: jobs, free land and agricultural inputs, subsidized credits, housing, infrastructure, and educational opportunities. The government should move many of its ministries, agencies, and facilities from Skopje to western Macedonia.

8. The Honorary Academic

Higher Education for Sale in Countries in Transition from Communism

Written: September 8, 1999

Mira Markovic is an "Honorary Academic" of the Russian Academy of Science. It cost a lot of money to obtain this title and the Serb multi-billionaire Karic was only too glad to cough it up. Whatever else you say about Balkan cronies, they rarely bite the hand that feeds them (unless and until it is expedient to do so). And whatever else you say about Russia, it adapted remarkably to capitalism. Everything has a price and a market. Israel had to learn this fact the hard way when Russian practical-nurse-level medical doctors and construction-worker-level civil engineers flooded its shores. Everything is for sale in this region of opportunities, instant education inclusive.

It seems that academe suffered the most during the numerous shock therapies and transition periods showered upon the impoverished inhabitants of Eastern and Central

Europe. The resident of decrepit communist-era buildings, it had to cope with a flood of eager students and a deluge of anachronistic "scholars". But in Russia, the CIS and the Balkans the scenery is nothing short of Dantesque. Unschooled in any major European language, lazily content with their tenured positions, stagnant and formal - the academics and academicians of the Balkans are both failures and a resounding indictment of the rigor mortis that was socialism. Economics textbooks stop short of mentioning Friedman or Phelps. History textbooks should better be relegated to the science fiction shelves. A brave facade of self sufficiency covers up a vast hinterland of inferiority complex fully supported by real inferiority. In antiquated libraries, shattered labs, crooked buildings and inadequate facilities, student pursue redundant careers with the wrong teachers.

Corruption seethes under this repellent surface. Teachers sell exams, take bribes, trade incestuous sex with their students. They refuse to contribute to their communities. In all my years in the Balkans, I have yet to come across a voluntary act - a single voluntary act - by an academic. And I have come across numerous refusals to help and to contribute. Materialism incarnate.

This sorry state of affairs has a twofold outcome. On the one hand, herds of victims of rigidly dictated lectures and the suppression of free thought. These academic products suffer from the twin afflictions of irrelevance of skills and the inability to acquire relevant ones, the latter being the result of decades of brainwashing and industrial educational methods. Unable to match their anyhow outdated knowledge with anything a modern marketplace can offer - they default on to menial jobs, rebel or pull levers to advance in life. Which leads us to the death of

meritocracy and why this region's future is behind it.

In the wake of the downfall of all the major ideologies of the 20th century - Fascism, Communism, etc. the New Order, heralded by President Bush, emerged as a battle of Open Club versus Closed Club societies, at least from the economic point of view.

All modern states and societies must choose whether to be governed by merit (meritocracy) or by the privileged few (oligarchy). It is inevitable that the social and economic structures be controlled by elites. It is a complex world and only a few can master the knowledge it takes to govern effectively. What sets meritocracy apart is not the number of members of its ruling (or leading) class, usually no larger than an oligarchy. No, it is distinguished by its membership criteria and by the mode of their application.

The meritocratic elite is an open club because it satisfies three conditions:

1. The process and rules of joining up (i.e., the criteria) are transparent and widely known.

2. The application and membership procedures are uniform, equal to all and open to continuous public scrutiny and criticism.

3. The system alters its membership requirements in direct response to public feedback and to the changing social and economic environment.

To belong to a meritocracy one needs to satisfy a series of demands, whose attainment is entirely up to he individual. And that is all that one needs to do. The rules of joining and of membership are cast in iron. The wishes and

opinions of those who happen to comprise the club at any given moment are of no importance and of no consequence. Meritocracy is a "fair play" by rules of equal chance to derive benefits. Put differently, is the rule of law.

To join a meritocratic club, one needs to demonstrate that one is in possession of, or has access to, "inherent" parameters, such as intelligence, a certain level of education, a potential to contribute to society. An inherent parameter must correspond to a criterion and the latter must be applied independent of the views and predilections of those who sometimes are forced to apply it. The members of a committee or a board can disdain an applicant, or they might wish not to approve a candidate. Or they may prefer someone else for the job because they owe her something, or because they play golf with him. Yet, they are permitted to consider only the applicant's or the candidate's "inherent" parameters: does he have the necessary tenure, qualifications, education, experience? Does he contribute to his workplace, community, society at large? In other words: is he "worthy" or "deserving"? Not WHO he is - but WHAT he is.

Granted, these processes of selection, admission, incorporation and assimilation are administered by mere humans and are, therefore, subject to human failings. Can qualifications be always judged "objectively, unambiguously and unequivocally"? Can "the right personality traits" or "the ability to engage in teamwork" be evaluated "objectively"? These are vague and ambiguous enough to accommodate bias and bad will. Still, at least appearances are kept in most cases - and decisions can be challenged in courts.

What characterizes oligarchy is the extensive, relentless

and ruthless use of "transcendent" (in lieu of "inherent") parameters to decide who will belong where, who will get which job and, ultimately, who will enjoy which benefits. The trouble with transcendent parameters is that there is nothing much an applicant or a candidate can do about them. Usually, they are accidents, occurrences absolutely beyond the reach or control of those most affected by them. Race is such a transcendent parameter and so are gender, familial affiliation or contacts and influence.

In many corners of the globe, to join a closed, oligarchic club, to get the right job, to enjoy excessive benefits - one must be white (racism), male (sexual discrimination), born to the right family (nepotism), or to have the right political (or other) contacts (cronyism). And often, belonging to one such club is the prerequisite for joining another.

In France, for instance, the whole country is politically and economically run by graduates of the Ecole Normale d'Administration (ENA). They are known as the ENArques (=the royal dynasty of ENA graduates).

The privatization of state enterprises in most East and Central European countries provided a glaring example of oligarchic machinations. In most of these countries (the Czech Republic, Macedonia, Serbia and Russia are notorious examples) - state companies, the nation's only assets, were "sold" to political cronies, creating in the process a pernicious amalgam of capitalism and oligarchy, known as "crony capitalism" or privateering. The national wealth was passed on to the hands of relatively few, well connected, individuals, at a ridiculously low price. The nations involved were robbed, their riches either squandered or smuggled abroad.

In the affairs of humans, not everything falls neatly into

place. Take money, for instance. Is it an inherent parameter or an expressly transcendent one? Making money indicates the existence of some merit, some inherent advantageous traits of the money-making individual. To make money consistently, a person needs to be diligent, resilient, hard working, to prevail and overcome hardships, to be far sighted and to possess a host of other - universally acclaimed - traits. On the other hand, is it fair when someone who made his fortune through corruption, inheritance, or luck - be preferred to a poor genius?

That is a contentious issue. In the USA money talks. Being possessed of money means being virtuous and meritorious. To preserve a fortune inherited is as difficult a task as to make it in the first place, the thinking goes. Thus, the source of the money is secondary.

An oligarchy tends to have long term devastating economic effects.

The reason is that the best and the brightest - when shut out by the members of the ruling elites - emigrate. In a country where one's job is determined by his family connections or by influence peddling - those best fit to do the job are likely to be disappointed, then disgusted and then to leave the place altogether.

This is the phenomenon known as "Brain Drain". It is one of the biggest migratory tidal waves in human history. Capable, well-trained, educated, young people leave their oligarchic, arbitrary, influence peddling societies and migrate to less arbitrary meritocracies (mostly to be found in what is collectively known as "The West").

This is colonialism of the worst kind. The mercantilist

definition of a colony is a territory which exports raw materials only to re-import them in the form of finished products. The Brain drain is exactly that: the poorer countries are exporting raw brains and buying back the finished products masterminded, invented and manufactured by theses brains.

Yet, while in classical colonialism, the colony at least received some recompense for its goods - here the poor country is actually the poorer for its exports. The bright young people who depart (most of them never to return) carry with them an investment of the scarce resources of their homeland - and award it to their new, much richer, host countries. This is an absurd situation, a subsidy granted reluctantly by the poor to the rich. This is also one of the largest capital transfers (really capital flight) in history.

Some poor countries understood these basic, unpleasant, facts of life. They extracted an "education fee" from those emigrating. This fee was supposed to, at least partially, recapture the costs of educating and training the immigrants. Romania and the USSR imposed such levies on Jews emigrating to Israel in the 1970s. Others despairingly regard the brain drain as a natural catastrophe. Very few countries are trying to tackle the fundamental, structural and philosophical flaws of the system, the roots of the disenchantment of those who leave.

The Brain Drain is so serious that some countries lost up to a third of their total young and educated population to it (Macedonia in South-eastern Europe, some less developed countries in South East Asia and in Africa). Others were drained of almost one half of the growth in their educated workforce (for instance, Israel during the 1980s).

Brains are an ideal natural resource: they can be cultivated, directed, controlled, manipulated, regulated. They are renewable and replicable. Brains tend to grow exponentially through interaction and they have an unparalleled economic value added. The profit margin in knowledge and information related industries far exceeds anything common to more traditional, second wave, industries (not to mention first wave agriculture and agribusiness).

What is even more important:

Poor countries are uniquely positioned to take advantage of this third revolution. With cheap, educated workforce - they can monopolize basic data processing and telecommunications functions worldwide. True, this calls for massive initial investments in physical infrastructure. But the important input is the wetware, the brains. To constrain them, to disappoint them, to make them run away, to more merit-orientated places - is to sentence oneself to a permanent disadvantage and deprivation.

This is what the countries in the Balkans are doing. Driving away the best part of their population by encouraging the worst part. Abandoning their future by dwelling on their past. Caught in a fatal spider web of family connections and political cronyism of their own design. Their factories and universities and offices and government filled to the brim with third rate relatives of third rate professors and bureaucrats. Turning themselves into third rate countries in a self perpetuating, self feeding process of decline. And all the while eyeing the new and the foreign with the paranoia that is the result of true guilt.

9. The Dance of Jael

Pathological Envy in Countries in Transition from Communism

Written: September 26, 1999

"Envy is forever looking upwards. It does not look sideways. In 'Facial Justice' Hartley (1960) describes a life after a catastrophic war. A Dictator has decreed that envy is so destructive that it has to be eliminated. The citizens are coerced to be as alike each other as possible. The worst crime is not envy itself but to excite envy. 'Equality and Envy - the two E's were...the positive and negative poles on which the New State rotated '(p.12). In order to exterminate envy everything that was enviable has been destroyed. Of course that in itself is the very essence of envy. Neither envy nor equality are spoken of as words but referred to as Good and Bad E. All tall buildings had been destroyed in the war except the tower of Ely Cathedral and none are allowed to be built - a horizontal view of life is required. No comparisons are to be made, women are encouraged to undertake an operation so they all looked alike, to be pretty would excite envy. The result is that the populace loses its humanity and becomes a non-thinking mass. The independently minded heroine, Jael, visits the Ely and looks up at the tower and leads a dance round it. She pays the price of having her more than averagely pretty face (an Alpha face) changed to a Beta face by cosmetic surgery and so made indistinguishable from the others."

(From "Cronos and His Children - Envy and Reparation" by Mary Ashwin - Chapter II "Everyday Envy")

The distinction between fiction and non-fiction became

ever subtler in the "Underground" world of post-socialism, "After the Rain" of communism. In a lethal embrace, in an act of unprecedented intercourse, literature penetrated reality as only the most fervent lovers or the most avid haters do. A topsy turvy continent adrift among the gales of newspeak, under the gaze of a million grey bureaucrats passing for big brothers. A motion picture gone awry: the plot long forgotten, the actors wondering forlornly on a dilapidated scene and the credits flashing over and again, in an endless loop.

This crazed landscape, this party of mad hatters, where time stood still was the result of the two great equalizers: oppression and ideology. The substrate of numerous experiments of groups without control, the inhabitants of these feverish lands internalized their own predicament. The broken toys of spoiled imperial children, the guinea pigs of scientific materialism and then of materialism only - they strutted around, eyes wide shut, ears clogged, mouths stapled, lips sown with the wire of terror. Everyone was equal under their occupiers, their tormentors, their slave masters. And everyone was equal by decree, on pain of death or exile, by the horror-stricken conviction called ideology. To succumb to the former was to survive - to subscribe to the latter was to flourish. Many flourished.

The New Oxford Dictionary of English defines envy as:

"A feeling of discontented or resentful longing aroused by someone else's possessions, qualities, or luck."

And an earlier version (The Shorter Oxford English Dictionary) adds:

"Mortification and ill-will occasioned by the

contemplation of another's superior advantages."

Pathological envy - the second deadly sin - is a compounded emotion. It is brought on by the realization of some lack, deficiency, or inadequacy in oneself. It is the result of unfavourably comparing oneself to others: to their success, their reputation, their possessions, their luck, their qualities. It is misery and humiliation and impotent rage and a tortuous, slippery path to nowhere. The effort to break the padded walls of this self visited purgatory often leads to attacks on the perceived source of frustration.

Pathological envy is THE driving force of post communist Central and Eastern Europe. Unable to cope with the sudden shift in values from enforced and artificial equality to primitive, pirate capitalism - the populace retreated to acrimony and bitterness. Faced with the chasmic inequalities engendered by the serial collective robberies known as "privatization" - it reacted with suppressed rage, with despair, with the multiple sadness which is nostalgia. The land has split between a colourful, dynamic, rapacious and omnivorous class - and the sepia-like and quaint backdrop of their compatriots. As the castles of the former rose - so were the abodes of the latter humbled.

The resentment led to fears of abandoning one's self-control, of confronting one's rulers and their cronies, of losing even the little one was allowed to possess. It was a muted mutiny, a rebel-less rebellion, a static trip from guilt to hate. To maintain these seething undercurrents from erupting, to avoid the volcanic tremors that precede every revolution - behaviour was formalized and ritualized. Speech became ever vaguer and ambiguous. Effective communication was halted. The community splintered and the very fabric of society was consumed by

this massive act of dissociation.

Pathological envy mutated into solutions the envious could live with.

Some sought to imitate or even emulate the newfound heroes of the capitalist revolution. They immersed themselves in conspicuous consumption, the badly matched purchases of the nouveaux riches replete with the vulgar manners of unrefined power. They adhered to coarse materialism with its confusion of ends and means. They suffered the ever present agitation of envy, the constant comparison to one's superiors, the plagued rat race. To get rich quick through schemes of crime and corruption is thought by these people to be the epitome of cleverness (providing one does not get caught), the sport of living, a winked-at vice, a spice.

Yet others embarked on paths of rivalry and enmity and destruction. This hydra has many heads. From scratching the paint of new cars and flattening their tyres, to spreading vicious gossip, to media-hyped arrests of successful and rich businessmen, to wars against advantaged neighbours. The stifling, condensed vapours of envy cannot be dispersed. They invade their victims and snatch their rageful eyes, their calculating souls, they guide their hands in evil doings and dip their tongues in vitriol. This is the day to day existence in places as far apart as Moscow and the Balkans. A constant hiss, a tangible malice, the piercing of a thousand eyes. The imminence and immanence of violence. The poisoned joy of depriving the other of that which you don't or cannot have.

There are those who idealize the successful and the rich and the lucky. They attribute to them super-human, almost

divine, qualities. They think of serendipity as earned, of work as bestowed, of success as deserved and reserved to the deserving. In an effort to justify the agonizing disparities between themselves and others, they humble themselves as they elevate the others. They reduce and diminish their own gifts, they disparage their own achievements, they degrade their own possessions and look with disdain and contempt upon their nearest and dearest, who are unable to discern their fundamental shortcomings. They feel worthy only of abasement and punishment. Besieged by guilt and remorse, voided of self-esteem, self-hating and self-deprecating - this is by far the more dangerous species. For he who derives contentment from his own humiliation cannot but derive happiness from the downfall of others. Indeed, most of them end up driving the objects of their own devotion and adulation to destruction and decrepitude.

But the most common reaction is the good old cognitive dissonance. In Central and Eastern Europe, entire societies are in its grip. It is to prefer the belief that the grapes are sour to the admission of their desirability. These people devalue the source of their frustration and envy. They find faults, unattractive features, high costs to pay, immorality in everything they really most desire and aspire to and in everyone who has attained that which they so often can't. They walk around critical and self-righteous, inflated with a justice of their making and secure in the wisdom of being what they are rather than what they could have been and really wish to be. They make a virtue of abstention, of wishful constipation, of judgmental neutrality, this oxymoron, the favourite of the disabled.

Topped by a thin layer of coagulated fat, a bubble of enraged and maddened envy is boiling underneath - from

Murmansk to Athens and from Prague to Dresden. Will it burst and spill over or will it only noisily release its steam is anybody's guess. It is a force to reckon with. The tide of capitalism has lifted few yachts and no one else's boats. People feel cheated. They feel used and abused. They feel conned out of their dignity and their possessions and their future. They look around and see island castles surrounded by oceans of physical and moral filth. This is no decadence because it has no aesthetic values to ameliorate it. It is as ugly as the survival of the thiefest. As Central and Eastern Europe engages, for the first time, in serious restructuring - the social costs will mount dramatically and so will inequality. The process can be reversed only by the redistribution of wealth. But that it will be achieved through progressive taxation rather than through a bloodbath is not a foregone conclusion.

10. The Caveman and the Alien

The Sanctimonious West and the Baffled Former Communist Bloc

Written: November 23, 1999

"'Life' must be curious, alert, erudite and moral, but it must achieve this without being holier-than-thou, a cynic, a know-it-all or a Peeping Tom."
(Edward K. Thompson, managing editor of "Life," 1949-1961)

When Chancellor Kohl's party and Edith Cresson are suspected of gross corruption - these are labelled "aberrations" in an otherwise honest West. When NASA in collaboration with its UK counterpart blow a 130 million US dollars spacecraft to smithereens having confused the metric system for its pound/feet archaic predecessor - people nod their head in disapproval: "accidents happen". When President Clinton appoints his wife to suggest an overhaul of the multi-hundred billion dollars US health system - no one thinks it odd. And when the (talented) son of the police investigated, rumoured to be hyper-corrupt Minister of Interior Affairs of Israel becomes a Minister himself, no one bats an eyelash. Yet, when identical events happen in the decrepit countries of Eastern, Central, or Southern Europe - they are subjected to heaps of excoriating scorn, to vitriolic diatribes, to condescending preaching, or to sanctions. It is, indeed, a double standard, a hypocrisy and a travesty the magnitude of which is rarely to be encountered in the annals of human pretensions to morality.

The West has grossly and thoroughly violated Thompson's

edict. In its oft-interrupted intercourse with these forsaken regions of the globe, it has acted, alternately, as a Peeping Tom, a cynic and a know it all. It has invariably behaved as if it were holier-than-thou. In an unmitigated and fantastic succession of blunders, miscalculations, vain promises, unkept threats and unkempt diplomats - it has driven Europe to the verge of war and the region it "adopted" to the verge of economic and social upheaval.

Enamoured with the new ideology of free marketry cum democracy, the West first assumed the role of the omniscient. It designed ingenious models, devised foolproof laws, imposed fail-safe institutions and strongly "recommended" measures. Its representatives, the tribunes of the West, ruled the phlebeian East with determination rarely equalled by skill or knowledge. Velvet hands couched in iron gloves, ignorance disguised by economic newspeak, geostrategic interests masquerading as forms of government characterized their dealings with the natives. Preaching and beseeching from ever higher pulpits, they poured opprobrium and sweet delusions on the eagerly deluded, naive, bewildered masses. The deceit was evident to the indigenous cynics - but it was the failure that dissuaded them and all else. The West lost Eastern and Southeast Europe not when it lied egregiously, not when it pretended to know for sure when it surely did not know, not when it manipulated and coaxed and coerced - but when it failed. To the peoples of these regions, the king was fully dressed. It was not a little child but an enormous debacle that exposed his nudity. In its presumptuousness and pretentiousness, feigned surety and vain clichés, imported models and exported cheap raw materials - the West succeeded to demolish beyond reconstruction whole economies, to ravage communities, to bring ruination upon the centuries-old social fabric,

woven diligently by generations. It brought crime and drugs and mayhem but gave very little in return, only an horizon beclouded and thundering with eloquence. As a result, while tottering regional governments still pay lip service to the Euro-Atlantic structures, the masses are enraged and restless and rebellious and baleful and anti-Western to the core. They are not likely to acquiesce much longer - not with the West's neo-colonialism but with its incompetence and inaptitude, with the non-chalant experimentation that it imposed upon them and with the abyss between its proclamations and its performance.

In all this time, the envoys of the West - its mediocre politicians, its insatiably ruthless media, its obese tourists and its armchair economists - continued to play the role of God, wreaking greater havoc than even the original. While knowing it all in advance (in breach of every tradition scientific), they also developed a kind of world weary, unshaven cynicism interlaced with fascination at the depths plumbed by the local's immorality and amorality. The jet-set Peeping Toms resided in five star hotels (or luxurious apartments) overlooking the communist shantytowns, drove utility vehicles to the shabby offices of the native bureaucrats and dined in $100 per meal restaurants ("it's so cheap here'). In between sushi and sake they bemoaned and grieved over corruption and nepotism and cronyism ("I simply love their ethnic food, but they are so..."). They mourned the autochtonal inability to act decisively, to cut red tape, to manufacture quality, to open to the world, to be less xenophobic (while casting a disdainful glance at the sweaty waiter). To them it looked like an ancient natural phenomenon, a force of nature, an inevitability and hence their cynicism. Mostly provincial people with horizons limited by consumption and by wealth, they adopted cynicism as shorthand for

cosmopolitanism. They erroneously believed it lent them an air of ruggedness and rich experience and the virile aroma of decadent erudition. Yet all it did is make them obnoxious and more repellent to the residents than they already were.

Ever the preachers, the West - both Europeans and Americans - upheld themselves as role models of virtue to be emulated, as points of reference, almost inhuman or suprahuman in their taming of the vices, avarice up front. Yet the disorder in their own homes was broadcast live, day in and day out, into the cubicles inhabited by the very people they sought to so transform. And they conspired and collaborated in all manner of corruption and crime and scam and rigged elections in all the countries they put the gospel to. In trying to put an end to history, they seem to have provoked another round of it - more vicious, more enduring, more traumatic than before. That the West will pay the price for its mistakes I have no doubt. For isn't it a part and parcel of their teaching that everything has a price and that there is always a time of reckoning?

11. The Magla Vocables

Language as a Weapon in the Former Communist Bloc

Written: December 8, 1999

The Macedonians have a word for it - "Magla", fog. It signifies the twin arts of duplicity and ambiguity. In the mental asylum that the swathe of socialist countries was, even language was pathologized. It mutated into a weapon of self defence, a verbal fortification, a medium without a message, replacing words with vocables. Easterners (in this text, the unfortunate residents of the Kafkaesque landscape which stretches between Russia and Albania)

don't talk or communicate. They fend off. They hide and evade and avoid and disguise. In the planet of capricious and arbitrary unpredictability, of shifting semiotic and semantic dunes, that they inhabited for so many decades (or centuries) - they perfected the ability to say nothing in lengthy, Castro-like speeches. The ensuing convoluted sentences are Arabesques of meaninglessness, acrobatics of evasion, lack of commitment elevated to an ideology. The Easterner prefers to wait and see and see what waiting brings. It is the postponement of the inevitable that leads to the inevitability of postponement as a strategy of survival.

It is impossible to really understand an Easterner. The syntax fast deteriorates into ever more labyrinthine structures. The grammar tortured to produce the verbal Doppler shifts essential to disguise the source of the information, its distance from reality, the speed of its degeneration into rigid official versions. Buried under the lush flora and fauna of idioms without an end, the language erupts, like some exotic rash, an autoimmune reaction to its infection and contamination. And this newspeak, this malignant form of political correctness is not the exclusive domain of politicians or "intellectuals". Like vile weeds it spread throughout, strangling with absent minded persistence the ability to understand, to agree, to disagree and to debate, to present arguments, to compare notes, to learn and to teach. Easterners, therefore, never talk to each other - rather, they talk at each other. They exchange subtexts, camouflage-wrapped by elaborate, florid, texts. They read between the lines, spawning a multitude of private languages, prejudices, superstitions, conspiracy theories, rumours, phobias and mass hysterias. Theirs is a solipsistic world - where communication is permitted only with oneself and the aim

of language is to throw others off the scent.

This has profound implications. Communication through unequivocal, unambiguous, information-rich symbol systems is such an integral and crucial part of our world - that its absence is not postulated even in the remotest galaxies which grace the skies of science fiction. In this sense, Easterners are nothing short of aliens. It is not that they employ a different language, a code to be deciphered by a new Champollion. The Cyrillic alphabet is not the obstacle. It is also not the outcome of cultural differences. It is the fact that language is put by Easterners to a different use - not to communicate but to obscure, not to share but to abstain, not to learn but to defend and resist, not to teach but to preserve ever less tenable monopolies, to disagree without incurring wrath, to criticize without commitment, to agree without appearing to do so. Thus, Eastern contracts are vague expressions of intentions at a given moment - rather than the clear listing of long term, iron-cast and mutual commitments. Eastern laws are loopholed incomprehensibles, open to an exegesis so wide and so self-contradictory that it renders them meaningless. Eastern politicians and Eastern intellectuals often hang themselves by their own verbose Gordic knots, having stumbled through a minefield of logical fallacies and endured self inflicted inconsistencies. Unfinished sentences hover in the air, like vapour above a semantic swamp.

In some countries (the poorer ones, which were suppressed for centuries by foreign occupiers), there is the strong urge not to offend. Still at the tribal-village stage of social development, intimacy and inter-dependence are great. Peer pressure is irresistible and it results in conformity and mental homogeneity. Aggressive

tendencies, strongly repressed in this social pressure cooker, are close under the veneer of forced civility and violent politeness. Constructive ambiguity, a non-committal "everyone is good and right", an atavistic variant of moral relativism and tolerance bred of fear and of contempt - are all at the service of this eternal vigilance against aggressive drives, at the disposal of a never ending peacekeeping mission.

In other countries, language is used cruelly and ruthlessly to ensnare one's enemies, to saw confusion and panic, to move the masses, to leave the listeners in doubt, in hesitation, in paralysis, to gain control, or to punish. There, symbols are death sentences in both the literal and the figurative senses. Poets, authors and journalists still vanish regularly and newspapers and books are compiled into black lists with dreadful consequences. In these countries, language is enslaved and forced to lie. There are no news - only views, no interest - only interests, no facts - only propaganda, no communication - only ex-communication. The language is appropriated and expropriated. It is considered to be a weapon, an asset, a piece of lethal property, a traitorous mistress to be gang raped into submission.

And yet in other places in the East, the language is a lover. The infatuation with its very sound leads to a pyrotechnic type of speech which sacrifices its meaning to its music. Its speakers pay more attention to the composition than to the content. They are swept by it, intoxicated by its perfection, inebriated by the spiralling complexity of its forms. Here, language is an inflammatory process. It attacks the social tissues with artistic fierceness. It invades the healthy cells of reason and logic, of cool headed argumentation and level headed debate. It raises the

temperature of the body politic. It often kills. It moves masses. Submerged in and lured by the notes issued forth by the pied piper of the moment - nations go to war, or to civil war, resonating with the echoes of their language.

Language is a leading indicator of the psychological and institutional health of social units. Social capital can often be measured in cognitive (hence, verbal-lingual) terms. To monitor the level of comprehensibility and lucidity of texts is to study the degree of sanity of nations (think about the rambling "Mein Kampf"). There can exist no hale society without unambiguous speech, without clear communications, without the traffic of idioms and content that is an inseparable part of every social contract. Our language determines how we perceive our world. It IS our mind and our consciousness. The much touted transition starts in the mind and consciousness determines reality. Marx would have approved.

12. The Elders of Zion

Written: December 9, 1999

I was shown the same book in Yugoslavia, in Macedonia and in Bulgaria - "The World Conspiracy" - a shabby tome written by an ageing "scholar". The main, unabashedly anti-Semitic, hypothesis (presented as undisputed fact) is that the Jews rule the world supreme - always have, probably always will. Lists of prominent Jews in the world of international finance reprinted with lists of influential Jews in the Soviet communist regime. And it all amounts to a well organized secretive machinery of illicit power, claims the author with all the persuasion of a paranoid. In here, trash magazines dwell endlessly on these and similar themes.

Yet, anti-Semitism is only one species in a zoo of rumours, conspiracy theories, meta histories and metaphysics. Superstitions, prejudices and calumny thrive in the putrid soil of disinformation, mis-information and lack of information. In the void created by unreliable, politicized and corrupt media - rumour mills spring eternal. It is a malignant growth, the outcome of a breakdown of trust so compleat - that communication is rendered impossible. This is the main characteristic of the East (from Russia to Albania): distrust. Citizens and politicians, businessmen and government, the media and its consumers, manufacturers and service providers, the sick and their doctors - all suspect each other of ulterior motives and foul play. All are more often than not quite right to do so.

It is a Kafkaesque, sealed universe in which nothing is as it appears to be. This acrimonious divorce between appearances and essence, facade and truth, the Potemkin and the real - is a facet of daily life, of the most mundane exchanges, of the most trivial pursuits. Motives are sought with increasing urgency - why did he do it, what did he try to achieve, why had he not chosen a different path, why here, why with us, why now, what can it teach us. Information is pursued frantically, appearances discarded, data juggled, heated debates ensue, versions erupt, only to subside and be replaced by others. It is a feverish ritual, the sound of clashing exegeses, of theories constructed and demolished in vacuo.

At the heart of it all, is the unbearable uncertainty of being. Political uncertainty under communism was replaced by economic uncertainty under the insidious and venal form of capitalism that replaced it. Tucked in identical cubicles, the citizens of planet communism were

at least assured of a make belief job in a sprawling bureaucracy or in a decrepit factory, manufacturing redundant documents or shoddy goods. Subsistence was implicitly guaranteed by the kleptocracy that ruled them and, in principle, it was always possible to ignore the moral stench and join the nomenklatura, thereby developing instant upward mobility. Corruption, theft and graft were tolerated by the state as means of complementing income. Life was drab but safe as long as one abstained from politics and subserviently consumed the bitter medicines of acquiescence and collaboration. The vast majority (with the exception of the USSR under Stalin) were not affected by the arbitrary capriciousness of history. They decayed slowly in their housing estates, morally degenerate, possession-less but certain of a future that is the spitting image of their past.

Under the spastic orgy of legalized robbery of state assets that passed for privatization, millions were made redundant while thousands enriched themselves by choreographed looting. The results were instability, unpredictability, uncertainty and fear. In a world thus unhinged, the masses groped for reason, for a scheme, for a method in the madness, for an explanation, however sinister and ominous. Anything was preferable to the seemingly random natural forces unleashed upon them with such apparent vengeance. Even a "World Government" (a favourite), the Illuminati (a Freemasonry-like movement but much more odious), the Jews, the USA, aliens. The greatest conspiracy theory of them all - the Phoenix of religion - sprang back to life from the ashes it was reduced to by communism. A host of mystical beliefs and sects and cults mushroomed noxiously in the humid shadows of irrationality.

Thus, every event, no matter how insignificant, any occurrence, no matter how inconsequential and any coincidence, no matter how coincidental - assume heraldic meaning. People in these domains carry their complex jigsaw puzzles with them. They welcome each new piece with the zeal of the converted. They bellow triumphantly with every "proof" of their pet theory, with every datum, with each rumour. Things don't just happen - they whisper, conspiratorially - things are directed from above, ordained, regulated, prevented, or encouraged by "them". A group of 400 rule the world. They are Jews, they are the Serb mafia, or the Bulgarian. Or the Americans who plan to dominate (which obviously puts Kosovo in context). They are the rich and powerful, the objects of envy and frightened admiration, of virulent hate and rage. They are responsible. We pay the price - we, the small and powerless and poor. And it is hopeless, it has been like that forever. The disparity between them and us is too great. Resistance is futile.

Why was this president elected? Surely, the West demanded it. Or political parties conspired to rig the vote. Or rich businessmen supported him. What is the real aim of foreign investors in coming to these godforsaken places, if not to infiltrate and penetrate and establish their long term dominion? And wouldn't it be safe to assume that al the foreigners are spies, that all the Jews collaborate, that the neighbours would have liked to conquer and to subjugate us, that the world is a colossal puppet show? In other words, is it not true that we are puppets - victims - in a theatre not of our making? They filter out that which does not conform to their persuasion, does not accord with their suspicions, does not fit within their schemes.

This deferral of responsibility brings relief from shame and blame. Guilt is allayed by symbolically and ritually passing it onto another. Fear is quelled by the introduction of schemata. These are potent psychological incentives. They provide structure to the amorphous, bring order to the chaos that is the brave, new world of the economies in transition. Flux is replaced by immutable "truths", possibilities by certainties, threats by "knowledge". It is a re-construction and reconquest of a paradise lost by giving up the fruit of the tree of knowledge.

It is this hyper-vigilance, this elevated suspicion, these instant certainties fabricated from frail pseudo-theories and conspiracies - that make the Man of the East so easy to manipulate, so vulnerable, so amenable to collude in his own downfall. Bewitched by his self-spun myths, captivated by his own paranoia, under the spell of his magical, immature, thinking - non critical, non analytical, non discriminating - he is exquisitely susceptible to crooks and charlatans, to manipulators and demagogues, to the realization of the very threats he tried to fend off in the first place.

Here is what the DSM ("Diagnostic and Statistical Manual") IV-TR (2000) published by the APA (American Psychiatric Association) has to say about paranoids and schizotypals:

The Paranoid Personality Disorder

Schizotypal Personality Disorder

13. The Rip van Winkle Institutions

Western and Multilateral Financial Institution in Eastern and Central Europe

Written: December 10, 1999

The West - naive, provincial and parochial - firmly believed that the rot was confined to the upper echelons of communist and socialist societies. Beneath the festering elites - the theory went - there are wholesome masses waiting to be liberated from the shackles of corruption, cronyism, double-talk and manipulation. Given half a decent chance, these good people will revert to mature capitalism, replete with functioning institutions. It was up to the West to provide these long deprived people with this eagerly awaited chance.

What the West failed to realize was that communism was a collaborative effort - a symbiotic co-existence of the rulers and the ruled, a mutual undertaking and an all-pervasive pathology. It was not confined to certain socio-economic strata, nor was it the imposed-from-above product of a rapacious nomenclature. It was a wink and nod social contract, a co-ordinated robbery, an orgy of degeneration, decadence and corruption attended by all the citizenry to varying degrees. It was a decades long

incestuous relationship between all the social and economic players. To believe that all this can be erased virtually overnight was worse than naive - it was idiotic.

Perhaps what fooled the West was the appearance of law and order. Most communist countries inherited an infrastructure of laws and institutions from their historical predecessors. Consider the Czech Republic, East Germany, Poland, Yugoslavia and even Russia. These countries had courts and police and media and banks long prior to the calamitous onset of communism. What the latter did - ingeniously - was to preserve the ossified skeletons of these institutions while draining them from any real power. Decisions were made elsewhere, clandestinely, the outcome of brutal internecine power struggles. But they were legitimized by rubber stamp institutions: "parliaments", "judicial system", "police", "banks", "media". The West knew that these institutions were dysfunctional - but not to which breathtaking extent. It assumed that nothing more than technical assistance was needed in order to breathe life into the institutional infrastructure. It assumed that market forces, egged on by a class of new and increasingly wealthy shareholders, will force these institutions to shape up and begin to cater to the needs of their constituencies. Above all, it assumed that the will to have better and functioning institutions was there - and that the only thing missing was the knowledge.

These were all catastrophically wrong assumptions. In all post communist countries, with no exception, one criminal association (the communist or socialist party) was simply replaced by another (often comprised of the very same people). Elections were used (more often, abused) simply to queue the looters, organized in political parties. The

mass devastation of the state by everyone - the masses included - proceeded apace, financed by generous credits and grants from unsuspecting (or ostrich-like) multilaterals and donor conferences (recall Bosnia). If anything, materialism - the venal form of "capitalism" that erupted in the post communist planet - only exacerbated the moral and ethical degeneracy of everyone involved. Western governments, Western banks, Western businessmen and Western institutions were sucked into the maelstrom of money laundering, illicit trading, corruption, shoddiness and violence.

To perpetuate their clout and prowess, the new rulers did everything they could to hinder the reform of their institutions and their restoration to functionality.

In communist societies, banks were channels of political patronage through which money was transferred from the state to certain well-connected, enterprises. Bankers were low level clerks, who handled a limited repertoire of forms in a prescribed set of ways. Communist societies had no commercial credits, consumer credits, payment instruments, capital markets, retail banking, investment banking, or merchant banking. The situation today, a decade after the demise of communism is not much improved. In most countries in transition, the domestic powers that be conspired to fend off foreign ownership of their antiquated and comically (or, rather, tragically) politicized "banks". The totally inept and incompetent management was not replaced, nor were new management techniques introduced. The state kept bailing out and re-capitalizing ailing banks. Political cronies and family relatives kept obtaining subsidized loans unavailable to the shrivelling private sector.

The courts, in the lands of socialism, were the vicious

long arm of the executive (actually, of the party). A mockery of justice, law and common sense - judges were ill trained, politically nominated, subservient and cowed into toeing the official line. Of dubious intellectual pedigree and of certain unethical and immoral lineage - judges were widely despised and derided, known to be universally corrupt and ignorant even of the laws that they were ostensibly appointed to administer. This situation hasn't changed in any post communist society. The courts are slow and inefficient, corrupt and lacking in specialization and education. The legal system is heavily tilted in favour of the state and against the individual. Judges are identified politically and their decisions are often skewed. The executive, in many countries, does not hesitate to undermine the legitimacy of the courts either by being seen to exploit their political predilections, or by attacking them for being amenable to such use by a rival party. This sorry state is only aggravated by the frequent and erratic changes in legislation.

In communist times, the law enforcement agencies - primarily the police, the customs and the secret service - were instruments of naked aggression against dissidents, non-conformists and those who fell out of favour. In the centre of immeasurable corruption, policemen were often more dreaded than criminals. Customs officers enriched themselves by resorting to extortion, bribe taking and acts of straightforward expropriation. The secret services often ran a state within a state, replete with militias, prisons, a court system, a parallel financial system and trading companies. Again, the situation hasn't changed much. Perhaps with the exception of the secret services, all these phenomena still exist and in the open.

And then there is the media - the waste basket of post

communist societies, the cesspool of influence peddling and calumny. Journalists are easily bought and sold and their price is ever decreasing. They work in mouthpieces of business interests masquerading as newspapers or electronic media. They receive their instructions - to lie, to falsify, to ignore, to emphasize, to suppress, to extort, to inform, to collaborate with the authorities - from their Editor in Chief. They trade news for advertising. Some of them are involved in all manner of criminal activities, others are simply unethical in the extreme. They all have pacts with Mammon. People do not believe a word these contortionists of language and torturers of meaning write or say. It is by comparing these tampered and biased sources that people reach their own conclusions within their private medium.

One should hope that the disillusionment of the West is near. Post communist societies are sick and their institutions are a travesty. As is often the case with the mentally ill, there is a strong resistance to treatment and recovery. The options are two: to disengage - or to commit to an asylum with force feeding, forced administering of medication and constant monitoring. The worst behaviour is to go on pretending that the problem does not exist, or that it is much less serious than it really is. Denial and repression are the very sources of dysfunction. They have to be fought. And sometimes the patient's own welfare - not to mention that of his environment - requires arm twisting or the infliction of pain. There is a kernel of good people in every society. In the post communist societies, this kernel and suppressed and mocked and sometimes callously silenced. To give these people a voice should be the first priority of the West. But this cannot be done by colluding with their oppressors. The West has to choose - and now.

14. The Mind of Darkness

Serbia and its Former Yugoslav Neighbors

Written: January 8, 2000

" 'Group pathologies I am not buying. Not for the Balkans anyway. Collective responsibility, historical grievances, ancient ethnic hatreds, I don't buy any of it. It's good guys and bad guys. It's the dudes, like Ralph Waldo Emerson said. 'There is no history, only biography'. Yugos should read the man.'

'He would make no sense to them. In the Balkans, there is no way biography, only history. The dead rule and the living are ghosts.'"

(Baine Kerr, "Wrongful Death", Jove Books, New York, 2003)

"The Balkans" - I say - "is the unconscious of the world." People stop to digest this metaphor and then they nod enthusiastically. It is here that the repressed memories of history, its traumas and fears and images reside. It is here that the psychodynamics of humanity - the tectonic clash between Rome and Byzantium, West and East, Judeo-Christianity and Islam - is still easily discernible. We are seated at a New Year's dining table, loaded with a roasted pig and exotic salads. I, the Jew, only half foreign to this cradle of Slavonics. Four Serbs, five Macedonians (half Bulgarian, quarter Serbian). It is in the Balkans that all ethnic distinctions fail and it is here that they prevail anachronistically and atavistically. Contradiction and change the only two fixtures of this tormented region.

The women of the Balkan - buried under provocative mask-like make up, retro hairstyles and too narrow

dresses. The man, clad in sepia colours, old fashioned suits and turn of the century moustaches. In the background there is the crying game that is Balkanian music: liturgy and folk and elegy combined. The smells are heavy with musk-ular perfumes. It is like time travel. It is like revisiting one's childhood.

The Serbs - a family - are tall and ruggedly handsome. He was a soldier in the para-military Serb militias that sprang from the ashes of the JNA (Yugoslav National Army) in 1991. As the disintegration of the uneasy co-existence that once was Yugoslavia became more painfully evident, he and others seized the weapons in the depots of the JNA. In the administrative twilight zone that ensued they fought in JNA uniforms against a growing army of Croats (wearing initially the same uniforms) and Moslem Bosniaks. It was surrealistic, a Bosch nightmare. "We were near victory in Bihac" - he says, his voice a wistful admixture of melancholy and anger. "Politics." - an old spark in his eyes and, for a moment, I can see the erstwhile fighter - "All politics. We lost the war because of politics, because our leaders sold themselves to the West". This myth has a familiar ring to it, the ring of knife-stabbed backs and war. It is the ground being prepared for the next round - the war was nearly won had it not been for the traitors and their Western masters. The sound of clicking heels and marches and creaking gates of concentration camps.

And so? "Milosevic should go" - he is adamant - "we paid enough." He leans back and lets fatigue take over. His wife interjects: "He drives a milk truck. He collects milk from the villages and delivers it to Nis. The company he works for makes 1000 DM daily - and his salary is 80 DM monthly. How can you survive on 80 DM? I don't work. So, one has to steal." "There is nowhere to steal from" - I

say. A moment of comic relief, bringing identical sad smiles to their faces. "During the war (he means the Kosovo conflict), I drove the truck - it is a big truck, you see - and was bombed from behind by NATO planes. It was like that every day, for more than three months but I had to deliver the milk to town." Matter of factly, he lights a cigarette, his hand unshaken.

"All the politicians benefited from these wars, except Arkan (the infamous militia military commander - SV). His son joined us and fought with us as our commander..." - the sentence tapers off among blue clouds of cheap smoke. "And what did NATO achieve?" - his brother in law (who is married to a Macedonian and lives in Skopje) asks. "NATO went in for a year and is stuck for a decade in Bosnia." "And that is the way it is going to be in Kosovo." "They (the West - SV) don't know what they want and they don't know how to achieve it, they have no plans, they stumble, only making matters worse among us. They are ignorant and ill-prepared."

I sound incredulous: "Do you seriously think that there would have been no wars without NATO? After all, when Yugoslavia started falling apart, the West (with the exception of Germany) tried to preserve its unity. America was very unhappy and discouraged the independence of the constituent states." "Don't you believe it" - he is livid but not aggressive, there is more pain in his voice than threat - "Croatia would have never embarked on its war against us had it not been for the West. I was there, I know. And we were winning the war there when suddenly Belgrade ordered us to stop. The commander in chief of the whole front came to us, tears in his eyes, and said: I didn't give this order, I want you to know. It comes from above, from Belgrade, not from me."

"But couldn't all this have been settled differently, without bloodshed?" - I wonder. "Of course it could, without the meddling of the West and its two puppets in the region (Milosevic and Tudjman - SV)." And then, somewhat incoherently - "They (the world - SV) should have let us fight it out. Winner takes all the territory, that's the only way to settle it. But Serbia has no friends anywhere in the world and we trust no one." "And Kosovo?" "Maybe that could not have been prevented" - he concedes - "because Milosevic regarded Kosovo as the cornerstone of his regime."

We talk about nothing else. The wounds are too fresh and too prominent to politely ignore. We enter the New Millennium with the blood dripping baggage of the old one. He fought three years in Bosnia, in Sarajevo, near Banja Luka. "Milosevic determined our ultimate borders in Dayton" - he spits the words bitterly, a look of bewilderment in his eyes - "Who gave him the mandate to represent us? Someone else should have gone there, like Karadzic, maybe..." "But Milosevic gave you weapons and food and supplies. Without him surely you could not have survived as long as you did?"

"No weapons" - he protests - "Weapons we appropriated, we took them ourselves, from the JNA depots, he deserves no credit for that. Food, maybe... But this does not give him the right to determine our borders and our future without as much as consulting us. He sold us to the West. Now look at the situation. I can't go back to my home in a town that was 100% Serb and now is 100% Moslem and the Moslems can't go back to their towns who are now 100% Serb. And all towns - Serb and Moslem alike - are deserted ghost towns, where no one lives and nothing grows. Now I have to live in Serbia."

I don't ask him what he did during the war. I can't imagine him murdering cold bloodeldy or raping, for instance. He has a good face, the wrinkles of many smiles and kindly eyes. when he laughs softly, they light up in black fire and his handshake is warm and firm. Instead I say: "And now it's Montenegro's turn should they declare independence?"

There is uneasy silence. The Serbs among us move in their chairs, glance warily at each other, as though co-ordinating an as yet unspoken answer. Finally: "There will be no war in Montenegro. The Serbs will not attack the Montenegrins - but there will be a civil war among the Montenegrins themselves, if they declare independence."

"Today" - says the ex militiaman - "they are all better off than the Serbs in Serbia. The Slovenes, the Croats. Look what we achieved in a decade of 'Great Serbia' - shortly, only Belgrade will remain in the Federation, even Sandjak and Vojvodina will leave." "The problem is that we have no leadership. There is no one to replace Milosevic. Avramovic is way too old. Dzindzic and Draskovic we cannot trust..." "Political whores" - says someone - "Once with Milosevic, once without..." "...and who else is there? All the young, capable people are out and away, far far away as they can get..."

Like in all the other countries of transition, they are adherents of the cult of youth. The belief that the old - old people, old culture, old institutions - have been so heavily corrupted that they must be discarded thoroughly and mercilessly. That all has to start over again. That only the young can cope with the timeless riddles that Balkanian sphinxes are in the habit of posing. That the young are the only bridge to the promised land of the zeitgeist of capitalism.

"And Macedonia?" - I ask.

"Macedonia" - a Serb chorus around the dinner table - "Every village wants to become a country. Macedonia cannot survive on its own, it is too dependent on Serbia, it is too tiny."

"But only 17% of its trade is with Serbia" - I correct them, as gently as I can. "Including Kosovo?" - says one in great astonishment - "I see only Macedonian trucks in Serbia, it cannot be..."

"It cannot be" - they all conclude - "Macedonia is nothing without Serbia."

As the clock strikes midnight, we kiss each other on wine flushed cheeks and shake hands solemnly. In the rest of the world, a new millennium may have dawned. But in the Balkans it is perhaps the end of the beginning - but hardly the beginning of the end.

15. The Last Family

Family and Community in Eastern and Central Europe

Written: January 9, 2000

"One man cannot be a warrior on a battlefield."
(Russian proverb)

There is no word for it in Russian. Platon Karatayev, the typical "Russian soul" in Tolstoy's "War and Peace", extolls, for pages at a time, the virtues of communality and disparages the individual - this otherwise useless part of the greater whole. In Macedonia the words "private" or "privacy" pertain to matters economic. The word "intimacy" is used instead to designate the state of being free of prying, intrusive eyes and acts of meddling. Throughout Central and Eastern Europe, the rise of "individualism" did not give birth to its corollary: "privacy". After decades (and, in most cases, centuries) of cramped, multi-generational shared accommodation, it is no wonder.

To the alienated and schizoid ears of Westerners, the survival of family and community in CEE sounds like an attractive proposition. A dual purpose safety net, both emotional and economic, the family in countries in transition provides its members with unemployment benefits, accommodation, food and psychological advice to boot. Divorced daughters, saddled with little (and not so little) ones, the prodigal sons incapable of finding a job befitting their qualifications, the sick, the unhappy - all are absorbed by the compassionate bosom of the family and, by extension the community. The family, the neighbourhood, the community, the village, the tribe - are

units of subversion as well as useful safety valves, releasing and regulating the pressures of contemporary life in the modern, materialistic, crime ridden state. The ancient blood feud laws of the kanoon were handed over through familial lineages in northern Albania, in defiance of the paranoiac Enver Hoxha regime. Criminals hide among their kin in the Balkans, thus effectively evading the long arm of the law (state). Jobs are granted, contracts signed and tenders won on an open and strict nepotistic basis and no one finds it odd or wrong. There is something atavistically heart-warming in all this.

Historically, the rural units of socialization and social organization were the family and the village. As villagers migrated to the cities, these structural and functional patterns were imported by them, en masse. The shortage of urban apartments and the communist invention of the communal apartment (its tiny rooms allocated one per family with kitchen and bathroom common to all) only served to perpetuate these ancient modes of multi-generational huddling. At best, the few available apartments were shared by three generations: parents, married off-spring and their children. In many cases, the living space was also shared by sickly or no-good relatives and even by unrelated families.

These living arrangements - more adapted to rustic open spaces than to high rises - led to severe social and psychological dysfunctions. To this very day, Balkan males are spoiled by the subservience and servitude of their in-house parents and incessantly and compulsively catered to by their submissive wives. Occupying someone else's home, they are not well acquainted with adult responsibilities. Stunted growth and stagnant immaturity are the hallmarks of an entire generation, stifled by the

ominous proximity of suffocating, invasive love. Unable to lead a healthy sex life behind paper thin walls, unable to raise their children and as many children as they see fit, unable to develop emotionally under the anxiously watchful eye of their parents - this greenhouse generation is doomed to a zombie-like existence in the twilight nether land of their parents' caves. Many ever more eagerly await the demise of their caring captors and the promised land of their inherited apartments, free of their parents' presence.

The daily pressures and exigencies of co-existence are enormous. The prying, the gossip, the criticism, the chastising, the small agitating mannerisms, the smells, the incompatible personal habits and preferences, the pusillanimous bookkeeping - all serve to erode the individual and to reduce him or her to the most primitive mode of survival. This is further exacerbated by the need to share expenses, to allocate labour and tasks, to plan ahead for contingencies, to see off threats, to hide information, to pretend and to fend off emotionally injurious behaviour. It is a sweltering tropic of affective cancer.

Newly found materialism brought these territories a malignant form of capitalism coupled with a sub-culture of drugs and crime. The eventuating disintegration of all polities in the ensuing moral vacuum was complete. From the more complex federations or states and their governments, through intermediate municipalities and down to the most primitive of political cells - the family - they all crumbled in a storm of discontent and blood. The mutant frontier-"independence" or pioneer-"individualism" imported from Western B movies led to a functional upheaval unmatched by a structural

one. People want privacy and intimacy more than ever - but they still inhabit the same shoddily constructed, congested accommodation and they still earn poorly or are unemployed. This tension between aspiration and perspiration is potentially revolutionary. It is this unaccomplished, uneasy metamorphosis that tore the social fabric of CEE apart, rendering it poisoned and dysfunctional. This is nothing new - it is what brought socialism and its more vicious variants down.

But what is new is inequality. Ever the pathologically envious, the citizens of CEE bathed in common misery. The equal distribution of poverty and hardship guaranteed their peace of mind. A Jewish proverb says: "the trouble of the many is half a consolation". It is this breakdown of symmetry of wretchedness that really shook the social order. The privacy and intimacy and freedom gained by the few are bound to incite the many into acts of desperation. After all, what can be more individualistic, more private, more mind requiting, more tranquillizing than being part of a riotous mob intent of implementing a platform of hate and devastation?

16. The Author of This Article is a Racist

Written: January 15, 2000

Or, so say many of the readers who react vehemently - not to say minaciously - to my articles. They insist that I demonize, chastise, disparage, deride and hold in contempt groups of people simply and solely because they are born in a given geographical area or are of a given genetic stock. Few stop sufficiently long to notice that the above two accusations contravene each other. A territory as vast as CEE cannot and is not inhabited by one "race". It is an historical cocktail of colours and origins and

languages and bloodlines. Disregarding the pan-Slavic myth for a minute, a racist would find the CEE a very discouraging neighbourhood.

Am I a racist? If this is taken to mean "do I believe in the inherent inferiority or malevolence or impurity of any group of people (however arbitrarily defined or capriciously delimited) just because of their common origin or habitation" - then of course I am not. I am not an adherent of genetic predetermination and I think that there is very little point in discussing fictitious entities such as "pure races". That people are what they are made out to be by their up-bringing, society, history and by the reactions of other humans to them - is what I subscribe to.

Yet I do believe in the temporary inferiority, malevolence and impurity of groups of people who experienced and were subjected to prolonged corrupting and pathologizing influences. Historical processes exact an exorbitant toll. Ideologies, indoctrination, totalitarianism, authoritarianism, command economies, statism, militarism, malignant nationalism, occupation - all carry a hefty price tag. And the currency is the mind of the people: their mental health, their socialization processes and, ultimately, the social fabric. Beneath a thin veneer of kultur - the masses were savaged, the individual was crushed into a moral pulp. I do believe in mass pathology: mass hysteria, mass personality disorders, mass psychoses. I do believe in common depravity, all-pervasive venality and inescapable subornation of whole societies and of each of the individuals who comprise them. I do believe in the osmosis of evil, in the diffusion of villainy, in the corruption of the soul. In short: I do believe in terminally sick societies, whose prospects of recovery are nil. The only hope lies in their demise. Not in

the abstract sense of the word - but in the actual death and decomposition of each and every individual until the whole "generation of the desert" is done with and a new, less contaminated one, emerges to take its place.

This is why I believe that the future of Africa, the Middle East and the countries of the CEE and NIS is, for the time being, behind them. Their horizon is dim and empty. They are looking forward to the past. They are the zombies of the international arena, the walking dead and it is death that they multiply. Their growth is stunted, their speech is stifled, their leaders a vicious lot, the states that they inhabit are dens of barbarous criminality and lawlessness. Their institutions are a travesty, their parties nests of avarice and vile. Their media prostituted and defiled. The farce of elections and the newspeak of democracy and human rights and freemarketry are props to hide the vast wilderness of moral bankruptcy. These are Potemkin states run by Chicago mobs. Instruments of extortion and coercion no different to their predecessors - only they provide less security, both physical and economic. They know no different. They think no different. They swear by their malaise and by their malaise they shall die.

And die they shall. The signs are auspicious. Biology, the West and international financial institutions all conspire to retire the beast. New blood, new ideas, new hopes and aspirations are in evidence. Still overwhelmed by the abrupt and cruel exposure of their elders, still taken aback by the enormity of the project of rehabilitating the very psyche of their people, still torn between illegal self enrichment and service to their fellow citizens - but there they are, the young ones. The battle is on. The consensus of the baksheesh and the political assassination is replaced, ever so gradually, by the dissension of the

market place. Wars are fought with spreadsheets, experience imported from afar, new knowledge craved, corruption decried. It is a refreshing, gargantuan, change. And it will consume yet one more generation. But it has started and it is irreversible. And it is in the eyes of the youth, a flickering flame, so ephemeral, so vulnerable and yet, so irresistible. This flame is called the future.

17. ***Rasputin in Transition***

Frauds and Con-men in Countries in Transition from Communism

Written: January 25, 2000

The mad glint in his eyes is likely to be nothing more ominous than maladjusted contact lenses. If not clean shaven, he is likely to sport nothing wilder than a goatee. More likely an atheist than a priest, this mutation of the ageless confidence artist is nonetheless the direct spiritual descendent of Rasputin, the raving maniac who governed Russia until his own execution by Russian noblemen and patriots.

They are to be found in all countries in transition. Wild and insidious weeds, the outcome of wayward pollination by mutated capitalism. They prey on their victims, at first acquiring their confidence and love, then penetrating their political, social and financial structures almost as a virus would: stealthily and treacherously. By the time their quarry wakes up to its infection and subjugation - it is already too late. By then, the invader will have become part of the invaded or its master, either through blackmail or via tempting subornation.

This region of the CEE and the Balkans provides for fertile grounds. It is a Petrie dish upon which cultures of

corruption and scandalous conduct are fermented. The typical exploiter of these vulnerabilities is a foreigner. Things foreign are held in awe and adulation by a populace so down trodden and made to feel inferior in every way, not least by foreign tutors and advisors. The craving to be loved, this gnawing urge to be accepted, to be a member of the club, to be distinguished from one's former neighbours - are irresistible. The modern Rasputin doles out this unconditional acceptance, this all encompassing affinity, the echoes of avuncularity. In doing so, he evokes in the recipients such warmth, such relief, such fervour and reciprocity - that he becomes an idol, a symbol of a paradise long lost, a golden braid. Having thus completed the first phase of his meticulous attack - he moves on to the second chapter in this book of body snatching.

Armed with his new-fangled popularity, the crook moves on and leverages it to the hilt. He does so by feigning charity, by faking interest, by false "constructive criticism". To his slow forming army, he recruits the media, the flower children, the bleeding hearts, reformers, dissidents and the occasional freak. By holding old authority in disdain, by declaring his contempt for the methods of the "tried and true", by appearing to make war upon all rot and immorality - this creature of expediency emerges as a folk hero. It is the more cynical and world weary and "sophisticated" members of society that lead the way, succumbing to his ardour and conviction, to his child-like innocence, to his unwavering agenda. He cleverly thrusts at them the double edge of their own disillusionment and disappointment. Thus mirrored, they are transformed and converted into his camp of renewal and clean promises by this epiphany. They hand him the keys to every medium, the very codes and secrets that

make him so powerful. They pledge their alliance and allegiance and render to him the access they possess to the nerve centres of society. The castle gates thus opened from inside, his victory assured, the rogue moves on to consummate this unholy marriage between himself and the deceived.

Always in fear of light, he surreptitiously and cunningly begins to interact with the foci of power and money in the land. However loathsome he is to them, however repulsive the experience, however undesirable the effects of their surrender - they are made to recognize him as their equal. With the might of the media and a large part of the people behind him, he can no longer be ignored. Their conspiracy-prone mind, awash with superstitions and its attaching phobias, tries to comprehend his meteoric rise, the forcefulness with which he treads, his unmitigated, inane, self confidence. Is he a spy? A member of a secret order? The latent agent of a hyperpower? The heart of a world conspiracy? Has he no fear of retribution and no remorse? Before this great unknown, they kneel and yield, an atavistic reaction to atavistic fears. Now all doors are thrown open, all deals are made available, all secrets are revealed. The more he learns, the mightier he becomes - the more his might, the more he learns. To him, a virtuous cycle, to his hosts - a vicious one.

In all this tumult, he does not lose sight of his original goals - power, money, fame, all three. It is a relentless pursuit, an obsessive hunt, a ruthless and unscrupulous chase. In his war, no prisoners are taken, no price too dear, no human in his orbit left untouched. He will manipulate and threat and beg and promise and plead and blackmail and extort to accomplish that which he set out to achieve:

decision making powers, wealth, clout, exposure and resultant fame. It is at this stage that the latter day Rasputin emerges from the shadows and joins officialdom or concludes lucrative transactions based on favourably deflated prices and insider dealing. By now, his shady past is no longer a hindrance. His prowess far exceeds his invidious biography. Well installed, he ignores both media and the people. He brushes aside contemptuously all criticism and enquiry. His true, narcissistic, face is exposed and it is hideous to behold. But there is nothing to be done and all resistance is futile. The con-man now is in a haste to maximize his hard earned profits and exit the scene, on his way to another realm of guile and naiveté.

18. The Crescent and the Cross

Religion and Community in the Balkans

Written: July, 2000

"There are two maxims for historians which so harmonise with what I know of history that I would like to claim them as my own, though they really belong to nineteenth-century historiography: first, that governments try to press upon the historian the key to all the drawers but one, and are anxious to spread the belief that this single one contains no secret of importance; secondly, that if the historian can only find the thing which the government does not want him to know, he will lay his hand upon something that is likely to be significant."
Herbert Butterfield, "History and Human Relations", London, 1951, p. 186

The Balkans as a region is a relatively novel way of looking at the discrete nation-states that emerged from the

carcasses of the Ottoman and Habsburg Empires and fought over their spoils.

This sempiternal fight is a determinant of Balkan identity. The nations of the Balkan are defined more by ornery opposition than by cohesive identities. They derive sustenance and political-historical coherence from conflict. It is their afflatus. The more complex the axes of self-definition, the more multifaceted and intractable the conflicts. Rabid nationalism against utopian regionalism, fascism (really, opportunism) versus liberalism, religion-tinted traditionalism (the local moribund edition of conservatism) versus "Western" modernity.

Who wins is of crucial importance to world peace.

The Balkan is a relatively new political entity. Formerly divided between the decrepit Ottoman Empire and the imploding Austro-Hungarian one - the countries of the Balkans emerged as unique polities only during the 19th century. This was to be expected as a wave of nationalism swept Europe and led to the formation of the modern, bureaucratic state as we know it.

Even so, the discrete entities that struggled to the surface of statehood did not feel that they shared a regional destiny or identity. All they did was fight ferociously, ruthlessly and mercilessly over the corrupted remnants of the Sick Men of Europe (the above mentioned two residual empires). In this, they proved themselves to be the proper heirs of their former masters: murderous, suborned, Byzantine and nearsighted.

In an effort to justify their misdeeds and deeds, the various nations - true and concocted - conjured up histories, languages, cultures and documents, some real,

mostly false. They staked claims to the same territories, donned common heritage where there was none, spoke languages artificially constructed and lauded a culture hastily assembled by "historians" and "philologists".

These were the roots of the great evil - the overlapping claims, the resulting intolerance, the mortal, existential fear stoked by the kaleidoscopic conduct of the Big Powers. To recognize the existence of the Macedonian identity - was to threaten the Greek or Bulgarian ones. To accept the antiquity of the Albanians was to dismantle Macedonia, Serbia and Greece. To countenance Bulgarian demands was to inhumanly penalize its Turk citizens. It was a zero-sum game played viciously by everyone involved. The prize was mere existence - the losers annihilated.

It very nearly came to that during the two Balkan Wars of 1912 and 1913.

Allies shifted their allegiance in accordance with the shifting fortunes of a most bewildering battlefield. When the dust settled, two treaties later, Macedonia was dismembered by its neighbours, Bulgaria bitterly contemplated the sour fruits of its delusional aggression and Serbia and Austro-Hungary rejoiced. Thus were the seeds of World War I sown.

The Yugoslav war of succession (or civil war) was a continuation of this mayhem by other means. Yugoslavia was born in sin, in the dictatorship of King Alexander I (later slain in France in 1934). It faced agitation, separatism and discontent from its inception. It was falling apart when the second world conflagration erupted. It took a second dictatorship - Tito's - to hold it together for another 40 years.

The Balkan as a whole - from Hungary, through Romania and down to Bulgaria - was prone to authoritarianism and an atavistic, bloody form of racist, "peasant or native fascism". A primitive region of destitute farmers and vile politicians, it was exposed to world gaze by the collapse of communism. There are encouraging signs of awakening, of change and adaptation. There are dark omens of reactionary forces, of violence and wrath. It is a battle fought in the unconscious of humanity itself. It is a tug of war between memories and primordial drives repressed and the vitality of those still close to nature.

The outcome of this fight is crucial to the world. Both world wars started in central eastern and south-eastern Europe. Globalization is no guarantee against a third one. The world was more globalized than it is today at the beginning of the century - but it took only one shot in Sarajevo to make this the most sanguineous century of all.

An added problem is the simple-mindedness, abrasiveness and sheer historical ignorance of America, the current superpower. A nation of soundbites and black or white stereotypes, it is ill-suited to deal with the nuanced, multilayered and interactive mayhem that is the Balkan. A mentality of western movies - good guys, bad guys, shoot'em up - is hardly conducive to a Balkan resolution. The intricate and drawn out process required taxes American impatience and bullying tendencies to their explosive limits.

In the camp of the good guys, the Anglo-Saxons place Romania, Greece, Montenegro and Slovenia (with Macedonia, Croatia, Albania and Bulgaria wandering in and out). Serbia is the epitome of evil. Milosevic is Hitler. Such uni-dimensional thinking sends a frisson of rubicund belligerence down American spines.

It tends to ignore reality, though. Montenegro is playing the liberal card deftly, no doubt - but it is also a haven of smuggling and worse. Slovenia is the civilized facade that it so tediously presents to the world - but it also happened to have harboured one of the vilest fascist movements, comparable to the Ustasha - the Domobranci. It shares with Croatia the narcissistic grandiose fantasy that it is not a part of the Balkan - but rather an outpost of Europe - and the disdain for its impoverished neighbours that comes with it. In this sense, it is more "Balkanian" than many of them. Greece is now an economically stable and mildly democratic country - but it used to be a dictatorship and it still is a banana republic in more than one respect. The Albanians - ferociously suppressed by the Serbs and (justly) succoured by the West - are industrious and shrewd people. But - fervent protestations to the contrary aside - they do seem to be intent on dismantling and recombining both Yugoslavia (Serbia) and Macedonia, perhaps at a terrible cost to all involved. Together with the Turks, the Serbs and the Bulgarians, the Albanians are the undisputed crime lords of the Balkan (and beyond - witness their incarceration rates in Switzerland).

This is the Balkan - a florilegium of contradictions within contraventions, the mawkish and the jaded, the charitable and the deleterious, the feckless and the bumptious, evanescent and exotic, a mystery wrapped in an enigma.

In this series of articles, I will attempt to study two axes of friction: Islam versus Christianity and fascism and nationalism versus liberalism. It is hard to do justice to these topics in the Procrustean bed of weekly columns - I, therefore, beg the forgiveness of scholars and the understanding of frustrated readers.

"In accordance with this [right to act], whenever some one

of the infidel parents or some other should oppose the giving up of his son for the Janiccaries, he is immediately hanged from his doorsill, his blood being deemed unworthy."
Turkish firman, 1601

"...The Turks have built several fortresses in my kingdom and are very kind to the country folk. They promise freedom to every peasant who converts to Islam."
Bosnian King Stefan Tomasevic to Pope Pius II

"...The Porte treated him (the patriarch) as part of the Ottoman political apparatus. As a result, he had certain legally protected privileges. The Patriarch travelled in 'great splendour' and police protection was provided by the Janiccaries. His horse and saddle were fittingly embroidered, and at the saddle hung a small sword as a symbol of the powers bestowed on him by the Sultan."
Dusan Kasic, "The Serbian Church under the Turks", Belgrade, 1969

Within the space of 500 years, southeast Europe has undergone two paradigmatic shifts. First, from Christian independence to Islamic subjugation (a gradual process which consumed two centuries) and then, in the 19th century, from self-determination through religious affiliation to nationalism. The Christians of the Balkan were easy prey. They were dispirited peasantry, fragmented, prone to internecine backstabbing and oppressive regimes. The new Ottoman rulers treated both people and land as their property. They enslaved some of their prisoners of war (under the infamous "pencik" clause), exiled thousands and confiscated their lands and liquidated the secular political elites in Thrace, Bulgaria, Serbia and Albania. The resulting vacuum of leadership

was filled by the Church. Thus, paradoxically, it was Islam and its excesses that made the Church the undisputed shepherd of the peoples of the Balkan, a position it did not enjoy before. The new rulers did not encourage conversions to their faith for fear of reducing their tax base - non-Moslem "zimmis" (the Qur'an's "People of the Book") paid special (and heavy) taxes to the treasury and often had to bribe corrupt officials to survive.

Still, compared to other Ottoman exploits (in Anatolia, for instance), the conquest of the Balkan was a benign affair. Cities remained intact, the lands were not depopulated and the indiscriminately ferocious nomadic tribesmen that usually accompanied the Turkish forces largely stayed at home. The Ottoman bureaucracy took over most aspects of daily life soon after the military victories, bringing with it the leaden stability that was its hallmark. Indeed, populations were dislocated and re-settled as a matter of policy called "sorgun". Yet such measures were intended mainly to quell plangent rebelliousness and were applied mainly to the urban minority (for instance, in Constantinople).

The Church was an accomplice of the Turkish occupiers. It was a part of the Ottoman system of governance and enjoyed both its protection and its funding. It was leveraged by the Turk sultans in their quest to pacify their subjects. Mehmet II bestowed upon the Greek Orthodox Patriarchate, its bishops and clergy great powers. The trade off was made explicit in Mehmet's edicts: the Church accepted the earthly sovereignty of the sultan - and he, in turn, granted them tolerance, protection and even friendship. The Ottoman religious-legal code, the Seriat, recognized the Christian's right to form their own

religiously self-governing communities. These communities were not confined to the orderly provision of worship services. They managed communal property as well. Mehmet's benevolence towards the indigents was so legendary that people wrongly attributed to him the official declaration of a "Millet i Rum" (Roman, or Greek, nation) and the appointment of Gennadios as patriarch of the Orthodox Church (which only an episcopal synod could do).

The Ottoman Empire was an amazing hybrid. As opposed to popular opinion it was not a religious entity. The ruling elite included members of all religions. Thus, one could find Christian "askeri " (military or civil officials) and Muslim "reaya" ("flock" of taxpayers). It is true that Christians paid the arbitrarily set "harac" (or, less commonly, "cizye") in lieu of military service. Even the clergy were not exempt (they even assisted in tax collection). But both Christians and Muslims paid the land tax, for instance. And, as the fairness, transparency and predictability of the local taxmen deteriorated - both Muslims and Christians complained.

The main problem of the Ottoman Empire was devolution - not centralization. Local governors and tax collectors had too much power and the sultan was too remote and disinterested or too weak and ineffective. The population tried to get Istanbul MORE involved - not less so. The population was financially fleeced as much by the Orthodox Church as it was by the sultan. A special church-tax was levied on the Christian reaya and its proceeds served to secure the lavish lifestyles of the bishops and the patriarch. In true mob style, church functionaries divided the loot with Ottoman officials in an arrangement known as "peskes". Foreign powers

contributed to the war chests of various candidates, thus mobilizing them to support pro-Catholic or pro-Protestant political stances and demands. The church was a thoroughly corrupt, usurious and politicized body which contributed greatly to the ever increasing misery of its flock. It was a collaborator in the worst sense of the word.

But the behaviour of the church was one part of the common betrayal by the elite of the Balkan lands. Christian landowners volunteered to serve in the Ottoman cavalry ("sipahis") in order to preserve their ownership. The Ottoman rulers conveniently ignored the laws prohibiting "zimmis" to carry weapons. Until 1500, the "sipahis" constituted the bulk of the Ottoman forces in the Balkan and their mass conversion to Islam was a natural continuation of their complicity. Other Christians guarded bridges or mountain passes for a tax exemption ("derbentci"). Local, Turkish-trained militias ("armatoles") fought mountain-based robber gangs (Serbian "hayduks", Bulgarian "haiduts", Greek "klephts"). The robbers attacked Turkish caravans with the same frequency and zeal that they sacked Christian settlements. The "armatoles" resisted them by day and joined them by night. But it was perfectly acceptable to join Turkish initiatives such as this.

The Balkan remained overwhelmingly Christian throughout the Ottoman period. Muslim life was an urban phenomenon both for reasons of safety and because only the cities provided basic amenities. Even in the cities, though, the communities lived segregated in "mahalles" (quarters). Everyone collaborated in public life but the "mahalles" were self-sufficient affairs with the gamut of services - from hot baths to prayer services - available "in-quarter". Gradually, the major cities, situated along the

trade routes, became Moslem. Skopje, Sarajevo and Sofia all had sizeable Moslem minorities.

Thus, at the beginning of the sixteenth century, the picture that emerges is one of an uneasy co-habitation in the cities and a Christian rural landscape. The elites of the Balkan - church, noblemen, warriors - all defected and collaborated with the former "enemy". The local populace was the victim of usurious taxes, coercively applied. The central administration shared the loot with its local representatives and with the indigenous elites - the church and the feudal landed gentry. It was a cosy and pragmatic arrangement that lasted for centuries.

Yet, the seeds of Ottoman bestiality and future rebellion were sown from the very inception of this empire-extending conquest. The "devsirme" tax was an example of the fragility of the Turkish veneer of humanity and enlightened rule. Christian sons were kidnapped, forcibly converted to Islam and trained as fighters in the fearsome Janiccary Corps (the palace Guards). They were never to see their families and friends again. Exemptions from this barbarous practice were offered only to select communities which somehow contributed to Ottoman rule in the Balkan. Christian women were often abducted by local Ottoman dignitaries. and the custom of the "kepin", allowed Moslems to "buy" a Christian daughter off her husband on a "temporary" basis. The results of such a union were raised as Moslems.

And then there were the mass conversions of Christians to Islam. These conversions were very rarely the results of coercion or barbarous conduct. On the contrary, by shrinking the tax base and the recruitment pool, conversion were unwelcome and closely scrutinized by the Turks. But to convert was such an advantageous and

appealing act that the movement bordered on mass hysteria. Landowners converted to preserve their title to the land. "Sipahis" converted to advance in the ranks of the military. Christian officials converted to maintain their officialdom. Ordinary folk converted to avoid onerous taxes. Christian traders converted to Islam to be able to testify in court in case of commercial litigation. Converted Moslems were allowed to speak Arabic or their own language, rather than the cumbersome and elaborate formal Turkish. Christians willingly traded eternal salvation for earthly benefits. And, of course, death awaited those who recanted (like the Orthodox "New Martyrs", who discovered their Christian origins, having been raised as Moslems).

Perhaps this was because, in large swathes of the Balkan, Christianity never really took hold. It was adopted by the peasant as a folk religion - as was Islam later. In Bosnia, for instance, Muslims and Christians were virtually indistinguishable. They prayed in each other's shrines, celebrated each other's holidays and adopted the same customs. Muslim mysticism (the Sufi orders) appealed to many sophisticated urban Christians. Heretic cults (like the Bogomils) converted en masse. Intermarriage flourished, mainly between Muslim men (who could not afford the dowry payable to a Muslim woman) and Christian women (who had to pay a dowry to her Muslim husband's family). Marrying a Christian woman was a lucrative business proposition.

And, then, of course, there was the Moslem birth rate. With four women and a pecuniary preference for large families - Moslem out-bred Christians at all times. This trend is most pronounced today but it was always a prominent demographic fact.

But the success of Islam to conquer the Balkan, rule it, convert its population and prevail in it - had to do more with the fatal flaws of Balkan Christianity than with the appeal and resilience of Islam and its Ottoman rendition. In the next chapter I will attempt to ponder the complex interaction between Catholicism and Orthodox Christianity as it was manifested in Croatia and Bosnia, the border lands between the Habsburg and the Ottoman empires and between "Rome" and "Byzantium". I will then explore the variance in the Ottoman attitudes towards various Christian communities and the reasons underlying this diversity of treatment modalities.

"From the beginning, people of different languages and religions were permitted to live in Christian lands and cities, namely Jews, Armenians, Ismaelites, Agarenes and others such as these, except that they do not mix with Christians, but rather live separately. For this reason, places have been designated for these according to ethnic group, either within the city or without, so that they may be restricted to these and not extend their dwelling beyond them."

Bishop Demetrios Khomatianos of Ohrid, late 12th century and early 13th century AD

"The Latins still have not been anathematized, nor has a great ecumenical council acted against them ... And even to this day this continues, although it is said that they still wait for the repentance of the great Roman Church."

"...do not overlook us, singing with deaf ears, but give us your understanding, according to sacred precepts, as you yourself inspired the apostles ... You see, Lord, the battle of many years of your churches. Grant us humility, quiet the storm, so that we may know in each other your mercy, and we may not forget before the end the mystery of your

love ... May we coexist in unity with each other, and become wise also, so that we may live in you and in your eternal creator the Father and in his only-begotten Word. You are life, love, peace, truth, and sanctity..."
East European Studies Occasional Paper, Number 47, "Christianity and Islam in Southeastern Europe - Slavic Orthodox Attitudes toward Other Religions", Eve Levin, January 1997

"...you faced the serpent and the enemy of God's churches, having judged that it would have been unbearable for your heart to see the Christians of your fatherland overwhelmed by the Moslems (izmailteni); if you could not accomplish this, you would leave the glory of your kingdom on earth to perish, and having become purple with your blood, you would join the soldiers of the heavenly kingdom. In this way, your two wishes were fulfilled. You killed the serpent, and you received from God the wreath of martyrdom."
Mateja Matejic and Dragan Milivojevic, "An Anthology of Medieval Serbian Literature in English", Columbus, Ohio: Slavica, 1978

Any effort to understand the modern quagmire that is the Balkan must address religion and religious animosities and grievances. Yet, the surprising conclusion of such a study is bound to be that the role of inter-faith hatred and conflict has been greatly exaggerated. The Balkan was characterized more by religious tolerance than by religious persecution. It was a model of successful co-habitation and co-existence even of the bitterest enemies of the most disparate backgrounds. Only the rise of the modern nation-state exacerbated long-standing and hitherto dormant tensions. Actually, the modern state was

established on a foundation of artificially fanned antagonism and xenophobia.

Religions in the Balkan were never monolithic enterprises. Competing influences, paranoia, xenophobia and adverse circumstances all conspired to fracture the religious landscape. Thus, for instance, though officially owing allegiance to the patriarch in Constantinople and the Orthodox "oikumene", both Serb and Bulgarian churches collaborated with the rulers of the day against perceived Byzantine (Greek and Russian) political encroachment in religious guise. The southern Slav churches rejected both the theology and the secular teachings of the "Hellenics" and the "Romanians" (Romans). In turn, the Greek church held the Slav church in disregard and treated the peasants of Macedonia, Serbia, Bulgaria and Albania to savage rounds of tax collection. The Orthodox, as have all religions, berated other confessions and denominations. But Orthodoxy was always benign - no "jihad", no bloodshed, no forced conversions and no mass expulsions - perhaps with the exception of the forcible treatment of the Bogomils.

It was all about power and money, of course. Bishops and archbishops did not hesitate to co-opt the Ottoman administration against their adversaries. They had their rivals arrested by the Turks or ex-communicated them. Such squabbles were common. But they never amounted to more than a Balkanian comedia del-arte. Even the Jews - persecuted all over western Europe - were tolerated and attained prominence and influence in the Balkan. One Bulgarian Tsar divorced his wife to marry a Jewess. Southern Orthodox Christianity (as opposed to the virulent and vituperative Byzantine species) has always been pragmatic. The minorities (Jews, Armenians, Vlachs)

were the economic and financial backbone of their societies. And the Balkan was always a hodge-podge of ethnicities, cultures and religions. Shifting political fortunes ensured a policy of "hedging one's bets".

The two great competitors of Orthodox Christianity in the tight market of souls were Catholicism and Islam. The former co-sponsored with the Orthodox Church the educational efforts of Cyril and Methodius. Even before the traumatic schism of 1054, Catholics and nascent Orthodox were battling over (lucrative) religious turf in Bulgaria.

The schism was a telling affair. Ostensibly, it revolved around obscure theological issues (who begat the Holy Spirit - the Father alone or jointly with the Son as well as which type of bread should be used in the Eucharist). But really it was a clash of authorities and interests - the Pope versus the patriarch of Constantinople, the Romans versus the Greeks and Slavs. Matters of jurisdiction coalesced with political meddling in a confluence of ill-will that has simmered for at least two centuries. The southern (Slav) Orthodox churches contributed to the debate and supported the Greek position. Sects such as the Hesychasts were more Byzantine than the Greeks and denounced wavering Orthodox clergy. Many a south Orthodox pilloried the Catholic stance as an heresy of Armenian or Apollinarian or Arian origin - thus displaying their ignorance of the subtler points of the theological debate. They also got wrong the Greek argumentation regarding the bread of the Eucharist and the history of the schism. But zeal compensated for ignorance, as is often the case in the Balkan.

What started as a debate - however fervent - about abstract theology became an all out argument about

derided customs and ceremonies. Diet, dates and divine practices all starred in these grotesque exchanges. The Latin ate unclean beasts. They used five fingers to cross themselves. They did not sing Hallelujah. They allowed the consumption of dairy products in Lent. The list was long and preposterous. The parties were spoiling for a fight. As is so often the case in this accursed swathe of the earth, identity and delusional superiority were secured through opposition and self-worth was attained through defiance. By relegating them to the role of malevolent heretics, the Orthodox made the sins of the Catholics unforgivable, their behaviour inexcusable, their fate sealed.

At the beginning, the attacks were directed at the "Latins" - foreigners from Germany and France. Local Catholics were somehow dissociated and absolved from the diabolical attributes of their fellow-believers abroad. They used the same calendar as the Orthodox (except for Lent) and similarly prayed in Church Slavonic. The only visible difference was the recognition of papal authority by the Catholics. Catholicism presented a coherent and veteran alternative to Orthodoxy's inchoate teachings. Secular authorities were ambiguous about how to treat their Catholic subjects and did not hesitate to collaborate with Catholic authorities against the Turks. Thus, to preserve itself as a viable religious alternative, the Orthodox church had to differentiate itself from the Holy See. Hence, the flaming debates and pejorative harangues.

The second great threat was Islam. Still, it was a latecomer. Catholicism and Orthodoxy have been foes since the ninth century. Four hundreds years later, Byzantine wars against the Moslems were a distant thunder and raised little curiosity and interest in the

Balkan. The Orthodox church was acquainted with the tenets of Islamic faith but did not bother to codify its knowledge or record it. Islam was, to it, despite its impeccable monotheistic credentials, an exotic Oriental off-shoot of tribal paganism.

Thus, the Turkish invasion and the hardships of daily life under Ottoman rule found Orthodoxy unprepared. It reacted the way we all react to fear of the unknown: superstitions, curses, name calling. On the one hand, the Turkish enemy was dehumanized and bedevilled. It was perceived to be God's punishment upon the unfaithful and the sinful. On the other hand, in a curious transformation or a cognitive dissonance, the Turks became a divine instrument, the wrathful messengers of God. The Christians of the Balkan suffered from a post traumatic stress syndrome. They went through the classical phases of grief. They started by denying the defeat (in Kosovo, for instance) and they proceeded through rage, sadness and acceptance.

All four phases co-existed in Balkan history. Denial by the many who resorted to mysticism and delusional political thought. That the Turks failed for centuries to subdue pockets of resistance (for instance in Montenegro) served to rekindle these hopes and delusions periodically. Thus, the Turks (and, by extension, Islam) served as a politically cohering factor and provided a cause to rally around. Rage manifested through the acts against the occupying Ottomans of individuals or rebellious groups. Sadness was expressed in liturgy, in art and literature, in music and in dance. Acceptance by conceiving of the Turks as the very hand of God Himself. But, gradually, the Turks and their rule came to be regarded as the work of the devil as it was incurring the wrath of God.

But again, this negative and annihilating attitude was reserved to outsiders and foreigners, the off-spring of Ishmael and of Hagar, the Latins and the Turks. Moslem or Catholic neighbours were rarely, if ever, the target of such vitriolic diatribes. External enemies - be they Christian or Moslem - were always to be cursed and resisted. Neighbours of the same ethnicity were never to be punished or discriminated against for their religion or convictions - though half-hearted condemnations did occur. The geographical and ethnic community seems to have been a critical determinant of identity even when confronted with an enemy at the gates. Members of an ethnic community could share the same religious faith as the invader or the heretic - yet this detracted none from their allegiance and place in their society as emanating from birth and long term residence. These tolerance and acceptance prevailed even in the face of Ottoman segregation of religious communities in ethnically-mixed "millets". This principle was shattered finally by the advent of the modern nation-state and its defining parameters (history and language), real or (more often) invented. One could sometimes find members of the same nuclear family - but of different religious affiliation. Secular rulers and artisans in guilds collaborated unhesitatingly with Jews, Turks and Catholics. Conversions to and fro were common practice, as ways to secure economic benefits. These phenomena were especially prevalent in the border areas of Croatia and Bosnia. But everyone, throughout the Balkan, shared the same rituals, the way of life, the superstitions, the magic, the folklore, the customs and the habits regardless of religious persuasion.

Where religions co-existed, they fused syncretically. Some Sufi sects (mainly among the Janiccary) adopted

Catholic rituals, made the sign of the cross, drank alcohol and ate pork. The followers of Bedreddin were Jews and Christians, as well as Moslems. Everybody shared miraculous sites, icons, even prayers. Orthodox Slavs pilgrims to the holy places in Palestine were titled "Hadzi" and Moslems were especially keen on Easter eggs and holy water as talismans of health. Calendars enumerated the holidays of all religions, side by side. Muslim judges ("kadis") married Muslim men to non-Muslim women and inter-marriage was rife. They also married and divorced Catholic couples, in contravention of the Catholic faith. Orthodox and Catholic habitually intermarried and interbred.

That this background yielded Srebrenica and Sarajevo, Kosovo and Krajina is astounding. It is the malignant growth of this century. It is the subject of our next installment.

19. The Eureka Connection

How East and Central Europeans Defraud the Gullible West

Written: September 11, 2000

A common, guttural cry of "Eureka" echoed as the peoples of East Europe and the Balkan emerged from the Communist steam bath. It was at once an expression of joy and disbelief. That the West should be willing to bankroll the unravelling of a failed social experiment, freely entered into, exceeded the wildest imaginings. That it would do so indefinitely and with no strings attached was a downright outlandish fortuity.

Transition in the post communist countries was coupled with a hubristic and haughty conviction in the

transforming powers of the Western values, Western technology, and Western economics. The natives - awe struck and grateful - were supposed to assimilate these endowments and thus become honorary Westerners ("white men"). Where osmosis and immitation failed - bayonets and bombs were called upon. These were later replaced by soft credits and economic micromanagement by a host of multilateral institutions.

Accustomed to Pavolvian interactions, adept at manipulating "the system", experts in all manner of make belief - the shrewd denizens of the East exercised the reflexive levers of the Great Democracies. They adopted stratagems whose sole purpose was to extract additional aid, to foster a dependency of giving, to emotionally extort. In one sentence: they learned how to corrupt the donors.

The most obvious subterfuge involved the mindless repetition of imported mantras. Possessed of the same glazed eyes and furled lips, the loyal members of a perfidious nomenklatura uttered with the same seemingly perfervid conviction the catechism of a new religion. Yesterday communism - today capitalism, unblushingly, unhesitatingly, cynically. Yesterday, a recondite dictatorship of the proletariat or, more often, a personality cult - today "democracy". Yesterday - brotherhood and unity, today - genocidal "self determination". Yesterday - genocidal inclinations, today - a "growth and stability pact". If required to bark in the nude in order to secure the flow of unsupervised funding (mainly to their pockets), these besuited "gentlemen" would have done so with self-sacrificial ardour, no doubt.

When it dawned upon them that the West is willing to pay for every phase of self-betterment, for every stage of self-

improvement, for every functioning institution and law passed - this venal class (the soi-disant "elite" in government, in industry and academe) embarked on a gargantuan blackmail plot. The inventors of the most contorted and impervious bureaucracies ever, have recreated them. They have transformed the simplest tasks of reform into tortuous, hellish processes, mired in a miasma of numerous committees and deluged by cavils, captious "working" papers and memoranda of stupefying trumpery. They have stalled and retraced, reversed and regressed, opined and debated, refused and accepted grudgingly. The very processes of transformation and transition - a simulacrum to begin with - acquired an aura of somnolent lassitude and the nightmarish quality of ensnarement. And they made the West bribe them into yielding that which was ostensibly in their very own interest. Every act of legislation was preceded and followed by dollops of foreign cash. Every ministry abolished was conditioned upon more aid. Every court established, every bloodletting firm privatized, every bank sold, every system made more efficient, every procedure simplified, every tender concluded and every foreign investor spared - had a tariff. "Pay or else ..." was the overt message - and the West preferred to pay and to appease, as it has always done.

The money lavished on these "new democracies" was routed rather conspicuously into the private bank accounts of the thin layer of vituperable "leaders", "academics" and "businessmen" (often the same people). One third cigarette smugglers, one third uncommon criminals and one third cynical con-artists, these people looted the coffers of their states. The IMF - this sanctuary of fourth rate economists from third world countries, as I am never wont of mentioning - collaborated with the US

government, the European Union and the World Bank in covering up this stark reality. They turned a common blind eye to the diversion of billions in aid and credits to mysterious bank accounts in dubious tax havens. They ignored fake trading deals, itinerant investment houses, shady investors and shoddy accounting. They expressed merely polite concern over blatant cronyism and rampant nepotism. They kept pouring money into the rapidly growing black hole that Eastern Europe and the Balkan have become. They pretended not to know and feigned surprise when confronted with the facts. In their complicity, they have encouraged the emergence of a criminal class of unprecedented proportions, hold and penetration in many of the countries within their remit.

To qualify to participate in this grand larceny, one needed only to have a "sovereign" "state". Sovereign states are entitled to hold shares in multilateral financial institutions and to receive international aid and credits. In other words: sovereignty is the key to instant riches. The unregenerate skulks that pass for political parties in many countries in East Europe and the Balkan (though not in all of them - there are exceptions), carved up the territory. This led to a suspicious proliferation of "republics", each with its own access to international funds. It also led to "wars" among these emergent entities.

Recent revelations regarding the close and cordial co-operation between Croatia's late president, Franjo Tudjman and Yugoslavia's current strongman, Slobodan Milosevic - ostensibly, bitter enemies - expose the role that warfare and instability played in increasing the flow of aid (both civil and military) to belligerent countries. The more unstable the region, the more ominous its rhetoric, the more fractured its geopolitics - the more

money flowed in. It was the right kind of money: multilateral - not multinational, public - not private, deliberately ignorant - not judiciously cognizant. It was the "quantum fund" - capable of "tunnelling" (as the Czechs called it) - vanishing in one place (the public purse) and appearing in another (the private wallet) simultaneously. Even the exception - the never-enforced sanctions against Yugoslavia - served to enrich its cankerous ruling class by way of smuggling and monopolies.

And why did the West collaborate in this charade? Why did it compromise its goodwill, its carefully crafted institutions, its principles and ethos? The short and the long of it is: to get rid of a nuisance at a minimal cost. It is much cheaper to grease the palms of a deciding few - than to embark on the winding path of true and painful growth. It is more convenient to co-opt a political leader than to confront an angry mob. It is by far easier to throw money at a problem than to solve it.

It was not a sinister conspiracy of the Great Powers as many would have it. Nor was it the result of foresight, insight, perspicacity, or planning. It was a typical improvident European default, adopted by a succession of lacklustre and lame American administrations. It enriched the few and impoverished the many. It fostered anti-Western sentiments. It provoked skirmishes that provoked wars that led to massacres. To reverse it would require more resources than should have been committed in the first place. These are not forthcoming. The West is again misleading and deceiving and collaborating to defraud the peoples of these unfortunate netherlands. It again promises prosperity it cannot deliver, growth it will not guarantee and stability it cannot ensure. This

prestidigitation is bound to lead to ever larger bills and to the attrition of good will of both donor and recipient. Never before was such a unique historical opportunity so thoroughly missed. The consequences may well be as unprecedented.

20. Micromanaging Malignant Optimism

EU and NATO's naïveté in the Balkans

Written: March, 2001

"(America risks adopting)... a grasshopper mode - peripatetic, noisy, hopping into other people's backyards, and unready when the weather turns nasty."
Walter McDougall in "Foreign Policy in America in the Twenty First Century: Alternative Perspectives, Hoover Institution Press, 2001

Never before has the Balkan been more of a powder keg, ready to detonate thunderously. Never before has it been so fractured among political entities, some viable - many not. Never before has it been dominated by a single superpower, not counter-balanced by its allies nor shackled by its foes. This is a disastrous state of things, about to get worse.

Driven by America - this amalgam of violent frontiersmen, semi-literate go getters and malignant optimists ("with some goodwill there is always a solution and a happy ending") - the West has committed the sins of ignorant intervention and colonial perpetuation. Peace among nations is the result of attrition and exhaustion, of mutual terror and actual bloodletting - not of amicable agreement and visionary stratagems. It took two world wars to make peace between France and Germany. By forcing an unwanted peace upon an unwilling populace in the early stages of every skirmish - the West has ascertained the perpetuation of these conflicts. Witness Bosnia and its vociferous nationalist Croats. Witness Macedonia's and Kosovo's Albanians and their chimerical

armies of liberation. These are all cinders of hostilities artificially suppressed by Western procurators and Western cluster bombs.

The West should have dangled the carrots of NATO and EU memberships in front of the bloodied pugilists - not ram them down their reluctant throats in shows of air superiority. Humanitarian aid should have been provided and grants and credits for development to the deserving. But the succour afforded by the likes of Germany to the likes of Croatia and by the benighted Americans to the most extreme elements in Kosovo - served only to amplify and prolong the suffering and the warfare.

The West obstinately refused - and still does - to contemplate the only feasible solution to the spectrum of Balkan questions. Instead of convening a new Berlin Congress and redrawing the borders of the host of entities, quasi-entities and fraction entities that emerged with the disintegration of the Yugoslav Federation - the West foolishly and blindly adheres to unsustainable borders which reflect colonial decision making and ceasefire lines. In the absence of a colonizing power, only ethnically-homogeneous states can survive peacefully in the Balkan. The West should strive to effect ethnic homogenization throughout the region by altering borders, encouraging population swaps and transfers and discouraging ethnic cleansing and forced assimilation ("ethnic denial").

But the West's blunders are not confined to the political and geopolitical realms.

The West (actually, America) has many long arms, the IMF and World Bank being the most prominent. These ostensible multilaterals have committed yet another strategic blunder. Instead of weaning their clientele - the

post-Communist countries in transition - off central planning and command economics, they engaged in Washington-based micromanagement of their economies. The Bretton-Woods institutions have become all-pervasive, multi-tentacled approximations of the Communist party. They dictate policy, involve themselves in the minutest details of daily management, veto decisions (economic and non-economic), cajole and threaten governments, block private sector lending and compete in the international credit and investment markets.

The post-Communist countries in transition are like infants taking their first steps in the demanding world of free markets and capitalism. The multilateral financial institutions are the mother figures. Good mothers let go, encourage in the child a sense of independence, self-reliance, learning by mistakes and the predictability of just rewards and punishments. Bad mothers refuse to acknowledge the emerging boundaries of their off-spring. They reward clinging behaviour and punish every act of separation and individuation. They are overweening, doting, crushing figures. In short: they micromanage.

From my book "Malignant Self Love - Narcissism Revisited":

"The separation from the mother, the formation of an individual, the separation from the world (the 'spewing out' of the outside world) – are all tremendously traumatic. The infant is afraid to lose his mother physically (no 'mother permanence') as well as emotionally (will she be angry at this new found autonomy?). He goes away a step or two and runs back to receive the mother's reassurance that she still loves him and that she is still there. The tearing up of one's self into

my SELF and the OUTSIDE WORLD is an unimaginable feat...The child's mind is shredded to pieces: some pieces are still HE and others are NOT HE (=the outside world). This is an absolutely psychedelic experience (and the root of all psychoses, probably). If not managed properly, if disturbed in some way (mainly emotionally), if the separation – individuation process goes awry, it could result in serious psychopathologies. There are grounds to believe that several personality disorders (Narcissistic and Borderline) can be traced to a disturbance in this process in early childhood. Then, of course, there is the on-going traumatic process that we call 'life'."

21. The Eastern Question Revisited

Russia, Western Europe, and the USA in the Balkans

A lecture organized by the daily "Politiken"
in Copenhagen, Denmark
June 25, 2001

When the USSR disintegrated virtually overnight, in 1989, its demise was often compared to that of the Ottoman Empire's. This was a very lacking comparison. Turkey's death throes lasted centuries and its decomposition was taken to be so certain that its division and partition (the "Eastern Question") animated European geopolitics for the better part of two centuries. Yet, both left a power vacuum in the Balkans in their sorry wake.

The Big Powers of the time - Russia, Great Britain, France, Austria-Hungary, and the emerging Germany and Italy - possessed conflicting interests and sentiments. But, at this stage or another, most of them (with the exception of Austria-Hungary) supported the nationalist solution. It was Russia's favourite discussion topic, France espoused

it under Napoleon III, everyone supported the Greeks and, to a lesser extent, the Serbs against the weakening Ottomans.

The nationalist solution encouraged the denizens of the Balkans to adopt national identities, to develop national myths, to invent a national history, and to aspire to establish modern nation-states. The examples of Germany and, especially, Greece and Italy were often evoked. For a detailed treatment of this theme - see "Herzl's Butlers".

The competing solution was reform. The two Balkan empires - the Ottomans and Austria-Hungary - endlessly, tediously, and inefficaciously tinkered with their systems or overhauled them. But, to no avail. The half-hearted reforms often failed to address core issues and always failed to assuage the growing nationalist sentiment. It was a doomed approach.

Nationalist solutions were inherently self-destructive. They were mutually exclusive and strived to achieve ethnically homogeneous lebensraums by all means, fair and foul. The nation's genuine and natural ("historic") territory always overlapped with another nation's no less historic claims. This led to recurrent conflicts and to a growing sense of deprivation and loss as actual territories never tallied with national myths disguised as national histories. It also prevented the emergence of what du Bois calls "Double Consciousness" - the mental capacity to contentedly belong to more than one social or national grouping ("Afro-American", "Latino-American", "American Jew").

Thus, the Big Powers proffered a nationalist solution when a regional one was called for. Following two devastating Balkan Wars (1912 and 1913) and a World

War (1914-1918), regional groupings began to emerge (example: Yugoslavia). The regional solution stabilized the Balkans for almost 7 decades (excluding external shocks, such as the combined invasions of Nazi Germany and fascist Italy).

Yet, the regional solution was dependent on both the existence of real or perceived outside threats (the USSR, the USA, Great Britain) as well as on the leadership of charismatic figures such as Tito and Hoxha. When the latter died and the USSR evaporated, the region imploded.

The last two decades of the 20th century witnessed a resurgence of narrow geographical-political identities (a "Europe of Regions"). Countries - from the USSR to Italy to Belgium to Canada to Yugoslavia - were gradually reduced to geopolitical atoms: provinces, districts, regions, resurrected political units. Faced with the Yugoslav wars of succession, the Big Powers again chose wrongly.

Instead of acknowledging the legitimate needs, concerns, and demands of nations in the Balkans - they proclaimed two untenable principles: borders must not change and populations must stay put. They dangled the carrot of European Union membership as an inducement to peace.

In other words, even as virulent nationalism was erupting throughout the Balkans, the West promoted a ***REGIONAL*** set of principles and a ***REGIONAL*** inducement (EU) instead of a nationalist-oriented one. Yet, as opposed to the past, the remaining Big Powers were unwilling to actively intervene to enforce these principles. When they did intervene feebly, it was either too late (Bosnia-Herzegovina, 1995), too one-sidedly (Kosovo, 1999), or too hesitantly (Macedonia, 2001).

They clearly lacked commitment and conviction, or even the military ability to become the guardians of this new order.

The Big Powers (really, the West) would have done well to leave the Balkans to its own devices. Clearly its inhabitants were intent on re-drawing borders and securing ethnic homogeneity. Serbs, Croats, Bosniaks, Kosovars were all busy altering maps and ethnically cleansing minorities. The clumsy and uninformed intervention of the West (led by the USA) served only to prolong these inevitable conflicts.

By choosing sides, labeling, providing military and diplomatic succor, arming, intervening, cajoling, and imposing ill-concocted "solutions", the West internationalized local crises and prevented attrition and equilibrium - the prerequisites to peace. The West's artificial arrangements, served on the bayonets of SFOR and KFOR are unlikely to outlast SFOR and KFOR.

Moreover, humanitarian military interventions have proven to be the most pernicious kind of humanitarian disasters. More people - Kosovars included - died in Operation Allied Force than in all the years of Serb repression combined. The Balkans is simply frozen in geopolitical time. It will re-erupt and revert to old form when Western presence is reduced and perhaps even before that.

The West should have ignored the Yugoslav wars of succession. But it would have done well to offer the combatants - Serbs, Croats, Albanians - a disinterested diplomatic venue (a benign, voluntary Berlin Congress or Dayton) to iron out their differences, even as they are fighting.

The agenda of such a Congress should have included minorities and borders. There is no doubt that sporadic fighting would have punctuated the deliberations of such a congregation. It is certain that walk-outs, crises, threats, and break-ups would have occurred regularly. But the participants could have aired grievances, settle disputes, discuss differences, judge reasonableness, form coalitions, help each other to multilateral give and take, and establish confidence building measures. With the West keeping all cards close to its chest, such a venue was and is sorely lacking.

With the exception of Imperial Russia, "stability in the Balkans" has always been the mantra of the Big Powers. But stability is never achieved diplomatically. If there are lessons to be learned from history they are that diplomacy is futile, peacekeeping meaningless, imposed agreements ephemeral.

War is the ultimate and only arbiter of national interest. Parties resort to peace only when they are convinced that all military or coercive options have been exhausted. When nothing further is to be gained by means of force and its application, peace prevails. But peace (as opposed to a protracted ceasefire) is impossible even one second before the combatants are struck by this realization. Equilibrium is never the result of honed negotiating skills - and always the outcome of forces matched in battle. Attrition, fatigue, a yearning for stability, a willingness to compromise are all provoked and enhanced to the acutest level by bloodshed and atrocities. It is an inevitable phase. The road to peace is bloodied.

The Balkans has never been as politically fragmented as it is today. It has never been under the auspices of only one superpower. These are destabilizing facts. But one thing

has not changed. The Balkans has always been the battlefield of numerous clashing and equally potent interests coupled with military might. In the last decade, the West has been busy establishing protectorates (Bosnia-Herzegovina, Kosovo, and now, most probably, Macedonia) and effectively altering borders without admitting to it. NATO, that cold war anachronism, is still busy maintaining its southern flank, composed of the eternal adversaries, Turkey and Greece. Turkey is the natural road to Central Asia and its oil riches and, further on, to an ominously emerging China. The Balkans is, once again, the playground of the grand designers.

22. The Ebony Towers - A Cautionary Tale

At its peak, the Ottoman Empire ruled most of the Balkan, up to the very gates of Vienna, Hungary, Serbia, Bosnia, Romania, Greece, Ukraine, Iraq, Syria, Israel, Egypt, North Africa including Algeria, and most of the Arab Peninsula. It lasted 600 years.

The Ottomans invaded Europe while still serving as as a proxy army of mercenaries and guerilla fighters. When not at war with Byzantium, they were often used by this contemporary superpower (Byzantium) to further its geopolitical goals against its enemies - very much as the Afghan Mujaheedin or the Albanian KLA collaborated with the USA and its sidekick, the EU, during the last two decades of the twentieth century. Not unlike the Moslem Afghani warriors of 1989, the Ottomans, too, turned on their benefactors and brought on the demise of Byzantium after 1000 years of uninterrupted existence as a superpower.

The Ottomans were named after Osman I, the Oguz (Turkmen) tribal leader, the off spring of a noble Kayi

family. They were ghazis (Islamic Turkish warriors). Fleeing from the Mongols of Genghis Khan, they invaded Anatolia in the second half of the 11th century. They immediately and inevitably clashed with Byzantium and delivered to it the first of a string of humiliating and debilitating defeats in the battle of Manzikert, in 1071. They spread inexorably throughout the fertile Anatolia, confronting in the process the Byzantines and the Mongols. They were no match to the brute efficacy of the latter, though. They lost most of Anatolia to the Mongols and maintained a few autonomous pockets of resistance in its eastern fringes. One of these anti-Mongol principalities (in the northwest) was led by Osman I.

Osman's was not the strongest principality. Its neighbour to the east, the Germiyan principality, was much stronger and more sophisticated culturally. Osman, therefore, drove west, towards the Bosporus and the Marble (Marmara) Sea. His desperate struggles against the corrupt and decadent Byzantines, made him the Robin Hood, the folk hero of the millions of urban unemployed, nomads, and dislocated peasants turned brigands - from Syria to the Balkan. Osman offered to these desperados war booty, a purposeful life, and Islamic religious fanaticism. They joined his armies in droves.

Byzantium, his avowed enemy, was no longer prosperous and powerful, but it was culturally superior and vital, Christian, and modern. But it was decaying. Its social fabric was disintegrating, corroded by venality, hubris, paranoia, avarice, inter-generational strife, and lack of clear religious and cultural orientations. Its army, much reduced and humbled by defeats and budget cuts, was unable to secure the frontier. Economic, religious, and social discontent undermined its consensus. Gradually, it

lost its erstwhile allies. The Ilhanid dynasty in Persia refused to back it against its tormentors. Byzantium, high handed and conceited, was left to fight the Islamic terrorism on its borders all by itself. Mercenaries imported by the Byzantines from Europe served only to destabilize it further. Osman's successors tore Byzantium to hemorrhaging shreds, conquering the rest of Anatolia and the Balkan. They even employed Christian mercenaries against the Byzantines.

When Orhan, a successor of Osman, secured a territorial continuum and access to the Sea of Marmara, he took on another Turkmen empire, based in Aydin.

The people of Aydin were mercenaries at the service of competing factions in Byzantium (Thrace versus Constantinople). Orhan wanted to cut into this lucrative business. He started by defeating emperor Andronicus III and his advisor, John Cantacuzenus in the battle of Pelekanon in 1329. This unleashed the Ottoman troops upon Nicaea (1331) and Nicomedia (1337). Faced with the loss of the historic heart of their empire, the Byzantines accepted a Faustian deal. They made peace with the Moslem Turks and recruited them as allies and mercenaries against the Christian enemies of Christian Byzantium - the Serbs, the Italians, and the Bulgarians. Orhan became the principal ally of the young and dynamic Byzantine politician (later emperor) John VI Cantacuzenus, thus gaining entry, for the first time, into Christian Europe.

Andronicus III died in 1341and another civil war broke out in Byzantium. John Cantacuzenus, deprived of the much expected regency, confronted Alexius Apocaucus, the patriarch John Calecas, and the powerful and cunning empress mother Anne of Savoy. The Serb king Dusan

wavered between support and rejection for Cantacuzenus, who was crowned as Emperor John VI in Thrace in 1346. The new emperor, aided by hordes of Turkish troops, demolished the coalition set against him. A revolution erupted in Thrace and Macedonia. "The Zealots", having seized power In Thessalonica, declared an independent community which lasted till 1350.

Byzantium was reduced to penury by these events and by the Black Death of 1347. It fought with Venice against Genoa only to lose tax revenues hitherto paid by the Genoese. Foreign powers - the Turks included - manipulated the hopelessly fractured Byzantine ruling classes to their advantage.

In the meantime, Orhan was introduced to Europe's modern weaponry, its superior tactics of laying siege, and its internecine politics by his Byzantine masters. After he helped Cantacuzenus grab the Byzantine throne from John V Palaeologus, the new emperor granted him the right to ravage both Thrace and his own daughter, Theodora, whom Orhan married. Ottoman raiding parties between Gallipoli and Thrace became a common sight. The loot was used to attract all manner of outcasts and dispossessed and to arm them. Byzantium was thus arming and financing its own worst enemy, facilitating its own demise.

In 1354, Ottoman mercenaries occupied and fortified the earthquake shattered Gallipoli. The Ottomans crossed permanently into Europe. When Orhan's son, Suleyman, transformed Gallipoli into an ominous base from which to overpower Christian Europe - the emperor (and other Christian nations) protested. The Ottomans ignored them and proceeded with their expansionary preparations. They raided the Balkan as far as Adrianople. Cantacuzenus was

toppled and denounced for his collaboration with the Turks. Europe woke up to the nightmare on its doorstep. But it was way too late.

It was the emperor John V Palaeologus who forced Cantacuzenus to abdicate and to retire to a monastery. John V appealed to the Pope, and through him, to the Western world, for help against the Turks. But the Popes were more concerned with the three centuries old schism between the Roman Church and the Church in Constantinople. John V has begged for help for more than a decade. In 1366, he visited Hungary and pleaded for assistance, but in vain.

The Ottomans embarked on three centuries of unhindered conquests, arrested only at the gates of Vienna in the 17th century. Recurrent international (read European) alliances and crusades failed to constrain them. The Serbs, the Bulgars, the Hungarians were all routed in bloody battlefields. Cut off from its grain supplies and tax base, proud Byzantium accepted the suzerainty of the Ottomans, their former mercenaries. When emperor John V united the churches of Constantinople and Rome in a vain and impetuous effort to secure the military involvement of the West - he only succeeded to fracture Byzantium further. Murad, the Ottoman ruler, incorporated large parts of Christian southeastern and central Europe into his burgeoning feudal empire. Local kings and emperors were left to govern as administrators, vassals to the Ottomans. They paid annual tribute and provided contingents to the Ottoman army. These achievements were consolidated by later Ottoman rulers for centuries to come.

In 1449 the sultan Mehmed II prepared to assault Constantinople. The West wringed its hands but provided

no material or military help. The union of the two churches - Rome and Constantinople - was celebrated in the magnificent church of in Hagia Sophia in 1452. But the people of Byzantium revolted and protested against this opportunistic move. Many said that they preferred the rule of the Turks to being enslaved by the Latin West. Soon their wish would come true.

On May 29, 1453 Turkish soldiers forced their way into the shattered city. Most of the commanders (among them Venetians and Genoese) were dead or wounded. Constantine, the last emperor, fought, on foot, at one of the gates and was seen no more.

Constantinople was plundered and savaged for three long days and nights by the triumphant Turks.

The Encyclopedia Britannica (2002 edition) sums it up thus:

"The Ottoman Empire had now superseded the Byzantine Empire; and some Greeks, like the contemporary historian Critobulus of Imbros, recognized the logic of the change by bestowing on the Sultan all the attributes of the emperor. The material structure of the empire, which had long been crumbling, was now under the management of the sultan-basileus. But the Orthodox faith was less susceptible to change. The Sultan acknowledged the fact that the church had proved to be the most enduring element in the Byzantine world, and he gave the Patriarch of Constantinople an unprecedented measure of temporal authority by making him answerable for all Christians living under Ottoman rule.

The last scattered pockets of Byzantine resistance were eliminated within a decade after 1453. Athens fell to the

Turks in 1456-58, and in 1460 the two despots of Morea surrendered. Thomas fled to Italy, Demetrius to the Sultan's court. In 1461 Trebizond, capital of the last remnant of Greek empire, which had maintained its precarious independence by paying court to Turks and Mongols alike, finally succumbed; the transformation of the Byzantine world into the Ottoman world was at last complete."

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23. Greeks Bearing Gifts
Greek Investments in the Balkans

Even as Greece and Macedonia continued to wrestle with the name issue (should the young Republic monopolize the ancient name or not), the former continued its furious pace of investments in the latter.

According to the Greek newspaper, Elefteros Topos, between the years 2000-2006, Greeks invested almost 263 million USD in their nascent neighbor. That would make Greece the second largest foreign investor in Macedonia. Of the 20 most sizable investments in Macedonia's economy, 17 are financed with Greek capital. More than 20,000 people are employed in Greek-owned enterprises (c. 6% of the active workforce in this unemployment-plagued polity).

Greeks are everywhere: banking (28% of their total investment in the country); energy (25%); telecommunications (17%); industry (15%); and food (10%).

The foundations of the current presence of Greece in all Balkan countries - including EU members, Romania and Bulgaria - were laid in the decade of the 1990s.

Overview of Greek Investment Strategy in the Balkans in 1995-2000

On December 10, 2001 the Brussels-based think tank, International Crisis Group, proposed a solution to the Greek-Macedonian name dispute. It was soon commended by the State Department. The Greeks and Macedonians were more lukewarm but positive all the same.

The truth, though, is that Macedonia is in no position to effectively negotiate with Greece. The latter - through a series of controversial investments - came to virtually own the former's economy. So many Greek businessmen travel to Macedonia that Olympic Airways, the Greek national carrier began regular flights to its neighbor's capital. The visa regime was eased. Greeks need not apply for Macedonian visas, Macedonians obtain one year Schengen visas from the applicants-besieged Greek liaison office in Skopje. A new customs post was inaugurated in 2000. Greek private businesses gobbled up everything Macedonian - tobacco companies, catering cum hotel groups, mining complexes, travel agencies - at bargain basement prices, injecting much needed capital and providing access to the EU.

The sale of Macedonia's oil refinery, "Okta", to the partly privatized Greek "Hellenic Petroleum" in May 1999, was opaque and contentious. Then Prime Minister of Macedonia, Ljubco Georgievski, and then Minister of Finance, Boris Stojmenov, were accused by the opposition of corrupt dealings. Rumors abounded about three "secret annexes" to the sale agreement which cater to the alleged venality of top politicians and the parties of the ruling coalition. The deal included a pledge to construct a 230 km. $90 million oil pipeline between the port of Thessalonica and Skopje (with a possible extension to Belgrade). The Greeks would invest $80 million in the pipeline and this constitutes a part of a $182 million package deal. This was not "Hellenic Petroleum"'s only Balkan venture. It acquired distribution networks of oil products in Albania as well.

After the Austrian "Erste Bank" pulled out of the deal, "National Bank of Greece" (NBG) drove a hard bargain

when it bought a controlling stake in "Stopanska Banka", Macedonia's leading banking establishment for less than $50 million in cash and in kind. With well over 60% of all banking assets and liabilities in Macedonia and with holdings in virtually all significant firms in the country, "Stopanska Banka" is synonymous with the Macedonian economy, or what's left of it. NBG bought a "clean" bank, its bad loans portfolio hived off to the state. NBG - like other Greek banks, such as Eurobank, has branches and owns brokerages in Albania, Bulgaria, and Romania. But nowhere is it as influential as in Macedonia. It was able to poach Gligor Bisev, the Deputy Governor of Macedonia's central Bank (NBM) to serve as its CEO. Another Greek bank, Alpha Bank, has bought a controlling stake in Kreditna Banka, a Macedonian bank with extensive operations in Kosovo and among NGO's.

The Greek telecom, OTE, has acquired the second mobile phone operator licence in Macedonia (Cosmofon). The winner in the public tender, Link Telekom, a Macedonian paging firm, has been disqualified, unable to produce a bank guarantee (never part of the original tender terms). The matter went to the courts.

Local businessmen predicted this outcome. They say that when "Makedonski Telekom" was sold, surprisingly, and under visible American "lobbying", to MATAV (rather than to OTE), Macedonian politicians promised to compensate the latter by awarding it the second operator licence, come what may. Whatever the truth, this acquisition enhances OTE's portfolio which includes mobile operators in Albania (CosmOTE) and Bulgaria (GloBUL).

Official Greece clearly regards Greek investments as a pillar of a Greek northern sphere of influence in the

Balkan. Turkey has Central Asia, Austria and Germany have Central Europe - Greece has the Balkans. Greece officially represented the likes of Bulgaria in both NATO and the EU until their accession.

Greek is spoken in many a Balkan country and Greek businessmen are less bewildered by the transition economies in the region, having gone through a similar phase themselves in the 1950's and 1960's. Greece is a natural bridge and beachhead for Western multinationals interested in the Balkan. About 20% of Greece's trade is with the Balkan despite an enormous disparity of income per capita - Greece's being 8 times the average Balkan country's.

Exports to Balkan countries have tripled between 1992 and 2000 and Greece's trade surplus rose 10 times in the same period. Greek exports constituted 35% of all EU exports to Macedonia and 55% of all EU exports to Albania. About the only places with muted Greek presence are Bosnia and Kosovo - populated by Moslems and not by Orthodox coreligionists.

The region's instability, lawlessness, and backwardness have inflicted losses on Greek firms (for instance in 1997 in disintegrating Albania, or in 1998-9 in Kosovo and Serbia). But they kept coming back.

In the early 1990's Greece imposed an economic embargo on Macedonia and almost did the same to Albania. It disputed Macedonia's flag and constitutional name and Albania's policy towards the Greek minority within its borders. But by 1998, Greeks have committed to invest $300 million in Macedonia - equal to 10% of its dilapidated GDP. Employing 22,000 workers, 450 Greek firms have invested $120 million in 1280 different

ventures in Bulgaria. And 200 Greek businesses invested more than $50 million in the Albanian and economy, the beneficiary of a bilateral "drachma zone" since 1993. In 1998, Greece controlled 10% of the market in oil derivatives in Albania and the bulk of the market in Macedonia. Another $60 million were invested in Romania.

Nowhere was Greek presence more felt than in Yugoslavia. The two countries signed a bilateral investment accord in 1995. It opened the floodgates. Yugoslavia's law prevented Greek banks from operating in its territory. But this seems to have been the sole constraint. Mytilineos, a Greek metals group, signed two deals worth $1.5 billion with the Kosovo-based Trepca mines and other Yugoslav metal firms. The list reads like the Greek Who's Who in Business. Gener, Atemke, Attikat (construction), 3E, Delta Dairy (foodstuffs), Intracom (telecommunications), Elvo and Hyundai Hellas (motor vehicles), Evroil, BP Oil and Mamidakis (oil products).

The Milosevic regime used Greek and Cypriot banks and firms to launder money and bust the international sanctions regime. Greek firms shipped goods, oil included, up the Vardar river, through Macedonia, to Serbia. Members of the Yugoslav political elite bought properties in Greece. But this cornucopia mostly ended in 1998 with the deepening involvement of the international community in Kosovo. Only now are Greek companies venturing back hesitantly. European Tobacco has invested $47 million in a 400 workers strong tobacco factory in Serbia opened in 2002.

Still, the 3500 investments in the Balkan between 1992-8 were only the beginning.

Despite a worsening geopolitical climate, by 2001, Greek businesses - acting through Cypriot, Luxemburg, Lichtenstein, Swiss, and even Russian subsidiaries - have invested in excess of $5 billion in the Balkan, according to the Economic Research Division of the Greek Alpha Bank. Thus, Chipita, the Greek snacks company bought Romania's Best Foods Productions through its Cyprus subsidiary, Chipita East Europe Cyprus.

The state controlled OTE alone has invested $1.5 billion in acquiring stakes in the Serb, Bulgarian, and Romanian state telecoms. This cannot be considered mere bargain hunting. OTE claims to have turned a profit on its investments in war torn Serbia, corruption riddled Romania and bureaucratic Bulgaria. Others doubt this exuberance.

Greek banks have invested $400 million in the Balkans. NBG has branches or subsidiaries in Macedonia, Bulgaria, Romania, and Albania. EFG Ergasias and Commercial Bank are active in Bulgaria, and Alpha Bank in Romania. The creation of Europe's 23rd largest bank as a result of the merger between NBG and Alpha is likely to consolidate their grip on Balkan banking.

Greek manufacturing interests have purchased stakes in breweries in Macedonia. Hellenic Bottling - formerly 3E - started off as a Coca-Cola bottler but has invested $250m on facilities in the south Balkans and in Croatia, Slovenia and Moldova. Another big investor is Delta dairy products and ice cream.

Moreover, Greece has absorbed - albeit chaotically and reluctantly - hundreds of thousands of Albanian, Macedonian, Serb, Romanian, and Bulgarian economic immigrants. In the late 1990s, Albanian expatriates

remitted home well over 500 million drachmas annually. Thousands of small time cross border traders and small to medium size trading firms control distribution and retailing of Greek, European, Asian, and American origin brands (not to mention the smuggling of cigarettes, counterfeit brands, immigrants, stolen vehicles, pirated intellectual property, prostitutes, and, marginally, drugs).

As a member of the EU and an instigator of the ineffectual and bureaucratic Stability Pact, Greece has unveiled a few megabuck regional reconstruction plans. In November 1999, it proposed a $500 million five year private-public partnership to invest in infrastructure throughout the region. Next were a $1 billion oil pipeline through Bulgaria and northern Greece and an extension of a Russian gas pipeline to Albania and Macedonia. The Egnatia Highway is supposed to connect Turkey, Greece, Bulgaria, Macedonia, and Albania. Greece is a major driving force behind REM - a southeast Europe Regional Electricity trading Market declared in September 1999 in Thessalonica.

The Hellenic Observatory in the London School of Economics notes the importance of the Greek capitalist Diaspora (Antonis Kamaras, "Capitalist Diaspora: The Greeks in the Balkans"). Small, Greek, traders in well located Thessalonica provided know-how, contacts and distribution networks to established Greek businesses outside the Balkan. The latter took advantage of the vacuum created by the indifference of multinationals in the West and penetrated Balkan markets vigorously.

The Greek stratagem is evident. Greece, as a state, gets involved in transportation and energy related projects. Greek state-inspired public sector investments have been strategically placed in the telecommunications and

banking sectors - the circulatory systems of any modern economy. Investments in these four sectors can be easily and immediately leveraged to gain control of domestic manufacturing and services to the benefit of the Greek private sector.

Moreover, politics is a cash guzzling business. He who controls the cash flow - controls the votes. Greece buys itself not only refineries and banks, telecoms and highways. It buys itself influence and politicians. The latter come cheap in this part of the world. Greece can easily afford them.

Greek-American Plan to Resolve Macedonia's Name Issue?

26 August 2008

According to reliable sources, on September 23, in the presence of the foreign ministers of both countries, Condolenzza Rice, Secretary of State of the United States of America, will present a plan to resolve a festering dispute between Greece, its (anti-American) nominal NATO ally, and Macedonia, a member of the Coalition of the Willing in Iraq and Afghanistan and a NATO aspirant. On September 24, the Plan will be submitted to the United Nations Security Council, probably to be passed as a Resolution.

The Greek newspapers Ta Nea and Elefteros Typos published similar news on August 25 and August 21, respectively.

The Plan has been hatched in a series of secret meetings between Greek and American officials, culminating in a June 2008 conference held in Washington, involving Rice

and Dora Bakoyannis, Greek's feisty Foreign Minister. The Macedonian government was kept out of the loop and may still be unaware of the existence of the Plan, let alone its contents.

It seems that the Greeks succeeded to convince the Americans that Macedonia is the intransigent party, piling one obstacle after another, in an attempt to avoid a politically unpopular settlement. Lately, the tiny polity's young Prime Minister, Nikola Gruevski, sought to enlarge the scope of the protracted negotiations to include other bilateral issues, such as the restoration of property to Macedonians expelled from Greece decades ago and the recognition of the Macedonian Orthodox Church by its Greek counterpart.

The Plan includes five elements:

1. The Republic of Macedonia will change its constitutional name (probably to Northern Macedonia, although that has not been decided yet). If true, this provision will constitute a major setback for Macedonia. No Macedonian government - let alone the current one - is likely to accept it.

2. Macedonia will be granted a transition period (of up to 10 years, according to some sources) - the time it would need to amend its constitution and to alter its registered name with various international and multilateral institutions.

3. Macedonia will be issued an invitation to join NATO (but not a date to start negotiations with the EU regarding its eventual accession).

4. Both countries will be allowed to use the adjective "Macedonian" (both commercially and non-commercially).

5. The parties will renounce any and all claims to each other's territory.

The "name issue" involves a protracted dispute over the last 17 years between the two Balkan polities over Macedonia's right to use its constitutional name, "The Republic of Macedonia". The Greeks claim that Macedonia is a region in Greece and that, therefore, the country Macedonia has no right to monopolize the name and its derivatives ("Macedonian").

The Greeks feel that Macedonians have designs on the part of Greece that borders the tiny, landlocked country and that the use of Macedonia's constitutional name internationally will only serve to enhance irredentist and secessionist tendencies, thus adversely affecting the entire region's stability.

Macedonia retorts that it has publicly renounced any claims to any territory of any of its neighbors. Greece is Macedonia's second largest foreign investor. The disparities in size, military power and geopolitical and economic prowess between the two countries make Greek "fears" appear to be ridiculous. Macedonians have a right to decide how they are to be called, say exasperated Macedonian officials.

The Greek demands are without precedent either in history or in international law. Many countries bear variants of the same name (Yemen, Korea, Germany until 1990, Russia and Byelorussia, Mongolia). Others share

their name with a region in another country (Brittany in France and Great Britain across the channel, for instance).

In the alliance's Bucharest Summit, in April 2008, Macedonia was not invited to join NATO. Macedonia was rejected because it would not succumb to Greek intransigence: Greece insisted that Macedonia should change its constitutional name to cater to Greek domestic political sensitivities.

Thus, Serbia (and its ally, Russia) were left with access to a corridor, through non-NATO Macedonia to anti-American Greece and to the sea.

High-placed diplomatic sources in Washington told the Chronicle that the USA will now pressure Macedonia into changing its constitutional name in a way that will be acceptable to Greece and the powerful Greek lobbies in the USA. Should "friendly" persuasion fail, the USA will bare its fangs and may even threaten mild sanctions (the suspension of several military agreements).

Macedonia doesn't stand a chance of resisting such an onslaught. It will be forced into a humiliating retreat. An invitation to join NATO will promptly follow, in time for its ratification by all the member countries of the moribund Alliance.

Following the country's ill-advised early elections in June, 2008, the right-wing VMRO-DPMNE was coerced by the international community (read: the EU and the USA) into joining forces with DUI, the political incarnation of erstwhile Albanian insurgents in the northwest of Macedonia, hitherto an anathema as far as Gruevski, the incumbent Prime Minister, was concerned.

Hopping to bed with DUI will likely restrain the government's freedom of action. Every concession to Greece will be portrayed by jingoistic nationalists in Macedonia as capitulation and the consequence of blackmail by the Albanian parties. To the great consternation of the Macedonians, Albania, Macedonia's neighbor, has been invited to join NATO. The restive Albanians of Macedonia would like to accede to the Alliance as soon as practicable and at all costs. Understandably, they are less attached to the country's constitutional name than the non-Albanian (Macedonian) majority.

Prologue

In October 2008, the UN-appointed mediator Matthew Nimitz, presented his latest proposal on the resolution of the name issue. It corresponded almost entirely with the plan outlined above. He denied any involvement by the State Department.

The Greek-Macedonian Name Issue as a Moral Dilemma

Imagine the following:

In a bad neighborhood, plagued by outbursts of violent crime, one of the neighbors is wealthy and middle aged. Let us call him Mr. Greece.

His property borders on the ramshackle dwelling of a young adult who is destitute and ill. His name is Mr. Macedonia.

Mr. Greece insists that Mr. Macedonia change his name.

He gives many reasons for his unusual request, not the least of which is that "Macedonia" has been the name of some of his forefathers and is the epithet of the south wing of his sprawling property. It is, therefore, part of his identity and heritage.

Mr. Macedonia, having been subjected to a siege of his property by his neighbor, has agreed in the past to tweak his coat of arms, but refuses to alter his name. He claims that the name "Macedonia" has been in his family for generations. Mr. Greece asks that Mr. Macedonia add a qualifier to his name so as to make clear that he has no designs on his neighbor's prosperous property. Mr. Greece suggests: "Mr. down-the-road Macedonia" or "Mr. Macedonia (corner Alm Street)".

Until the issue is resolved, Mr. Greece won't allow Mr. Macedonia to join the city's various civic organizations and clubs, or to enjoy communal services. Should Mr. Macedonia's property be engulfed by flames or immersed in a flood, he is on his own, as he cannot expect the help of the fire brigade or the police (NATO). Mr. Macedonia can't find a job, transact business, or trade without being a member of said associations.

The question is:

Does Mr. Greece have a moral right to ask his neighbor to change his name? Is Mr. Greece right - not in the legalistic, but in the ethical sense - to impose sanctions on Mr. Macedonia?

The answer to this question is not as straightforward as one might wish or intuit.

First, we must ask ourselves: what are the rights possessed by the two parties to the dispute?

Rights - whether moral or legal - impose obligations or duties on third parties towards the right-holder. One has a right ***against*** other people and thus can prescribe to them certain obligatory behaviors and proscribe certain acts or omissions. Rights and duties are two sides of the same ethical coin.

This duality confuses people. They often erroneously identify **rights** with their attendant **duties or obligations**, with the **morally decent**, or even with the **morally permissible**. One's rights inform other people how they ***must*** behave towards one - not merely how they **should** or **ought** to act morally. Moral behaviour is not dependent on the existence of a right. People should behave morally even in the absence of specific rights. Obligations, however, are dependent on the existence of a right. People are ***obliged*** to behave in specific ways only when a right exists.

Let us examine two examples of such confusion:

1. The Right to have One's Life Saved

There is no such right because there is no moral obligation or duty to save the life of a collective or an individual. Thus, when a nation or an individual finds itself attacked unjustly with its life threatened, it has no ***right*** to demand assistance from any individual or collective. It is on its own. Individuals and groups may volunteer to come to its aid (as they did, for instance, in the Spanish Civil War), but they are under no ***obligation or duty*** to do so.

2. The Right to Terminate One's Life which yields the right to disband, dissolve, secede, and dismantle collective structures such as states (or, in individuals, the right to commit suicide or request euthanasia). All these actions

are often considered to be immoral or undesirable. People ought not commit suicide and states should not fall apart. But, the fact is that the right to do so exists and it imposes obligations on others not to interfere with or prevent its exercise by the right-holder.

Back to the feuding neighbors.

Human collectives, such as nations, and individuals clearly possess the following rights (among many others):

RIGHT

The ***Right to Exist*** which yields the prohibition against genocide (and murder) and against cultural genocide and ethnic cleansing.

APPLICATION

Mr. Greece unequivocally accepts Mr. Macedonia's right to exist and, therefore, is in compliance with this particular moral duty.

RIGHT

The ***Right to be Brought to Life and to Maintain one's Identity*** which imposes obligations on third parties to respect and not to interfere with a collective's will to attain nationhood and, subject to applicable international law, statehood. Similarly third parties must accept free and legal choices made by an individual regarding his or her identity.

APPLICATION

Mr. Greece did not interfere with Mr. Macedonia's wishes to own a house and run it as he sees fit. He is, therefore, in compliance with this part of his moral duty. Mr. Greece, however, rejects Mr. Macedonia's self-promulgated identity and tries to change it on pain of sanctions. In acting so, he is violating Mr. Macedonia's right. Mr. Greece justifies his behavior by resorting to the exception delineated below.

RIGHT

The Right to be Born which yields the principle of self-determination.

APPLICATION

Mr. Greece accepted, though grudgingly and skeptically, Mr. Macedonia's right to live in the neighborhood as an independent homeowner.

RIGHT

The Right to Have One's Life Maintained which yields the principles of non-aggression, the peaceful conduct of international relations, access to humanitarian and medical aid even in times of war, and a host of other rights that guarantee the perpetuation of decent life and its maintenance. These principles apply to interpersonal relationships as well.

APPLICATION

By imposing sanctions on Mr. Macedonia, Mr. Greece has clearly and repeatedly reneged on this moral obligation and, thus, has violated Mr. Macedonia's right to a decent and well-maintained ("good") life. Mr. Greece justifies this prima facie immoral behavior by resorting to the same exception (as per below).

RIGHT

The Right not to be Killed and to Save One's Own Life which yields the right to self-defense (though not the right to preemptive action to fend off a potential or perceived threat).

EXCEPTION

One exception to these rights is:

If the continued existence of a collective (or individual) is predicated on the repeated and continuous violation of the rights of others - and these other people object to such breaches and infringements being perpetrated against them - then the offending collective (or individual) must be punished or even "killed" if that is the only way to right the wrong and re-assert the rights of the collective's (or individual's) victims.

"Killing" in this exception has many manifestations, only few of them physical: the radical alteration or substitution of one's identity, institutions, history, culture, language, territorial integrity, sovereignty, human and civil rights, and other crucial parameters of self-determination is tantamount to effectively "killing" or terminating the collective. In extremis, killing may also include the physical extermination of classes or groups of people (such as war criminals, members of the military, the political echelon, members of resistance movements, hate mongers, terrorists, etc.).

APPLYING THE RIGHTS and EXCEPTION to the case of Mr. Greece vs. Mr. Macedonia

Mr. Greece makes four cumulative claims:

1. That Mr. Macedonia's refusal to modify his name **violates Mr. Greece's rights**.

2. That the **violation is repeated, flagrant and continuous**.

3. That changing Mr. Macedonia's name is **the only way**

to right the wrong and re-assert the rights of Mr. Greece.

4. That, because Mr. Macedonia won't change his name, Mr. Greece, resorting to the exception above, has the **right to retaliate** by, inter alia, abrogating Mr. Macedonia's right to a decent life.

Let us examine each claim more deeply.

What rights of Mr. Greece are violated? Principally, his right to maintain his identity (to exist as the same Mr. Greece whose forefathers were Macedonians and whose house contains a wing called Macedonia).

Yet, Mr. Macedonia's right to maintain his identity (to exist as Mr. Macedonia) are directly challenged by Mr. Greece's insistence that he change his name.

We are, therefore, faced with two identical, equipotent claims. This is known as a moral dilemma. It can be resolved only if we prove that one of the horns of the dilemma has been misstated or is based on falsities. Both Mr. Greece and Mr. Macedonia are trying to do just that: prove that the other side is misrepresenting facts (lying) and is acting out of ulterior motives (does not really feel violated or aggrieved).

Can we right one wrong (the breach of Mr. Greece's rights) by effecting another (the violation of Mr. Macedonia's rights)? Of course not. If the arguments of the two parties have merit, there is no ethical solution to the problem. The calculus of moral rights in this case is insoluble. The issue will be decided in accordance with the balance of might, not the appeal to what's right.

Is changing Mr. Macedonia's name the only way to address the wrong done and re-assert the rights of Mr.

Greece?

Again, If Mr. Greece is truthful, the answer is yes. But, then, we will have righted one wrong (against Mr. Greece) by committing another (against Mr. Macedonia). We are back to square one.

Is Mr. Greece justified in violating Mr. Macedonia's right to a decent life in order to force Mr. Macedonia to change its name and thus right the wrong done to Mr. Greece?

No way. Violating another person's right in order to uphold one's own is rarely justified, though such behaviour cannot be condemned. Here we have the flip side of the confusion we opened with: Mr. Greece's behaviour, though understandable and perhaps inevitable, is also morally reprehensible. One should never knowingly violate another person's rights, even if only to force that person to right a wrong.

Also Read

Foreign Direct Investment (FDI) - Pros and Cons

Foreign Investments - A Dialogue with the Prime Minister of Macedonia

Eastward, Ho - FDI in Central and Eastern Europe

Nation Branding, Place Marketing, and Investment Promotion

Export Processing Zones

24. The PCM Trail

How the Womenfolk of Eastern Europe Hunt

Foreigners

Written: February 8, 2000

It is a typical bar in a typical Balkan or East European country in a typical yellow haze, air-polluted, very late evening. The din of raucous and numbingly repetitive music reverberates through the smoke-enshrouded joint. It is an external pandemonium intended to silence internal ones and to obviate the silences of solitude. Sofas with shabby, mutilated upholstery in bordello scarlet. A dim, bawdy luminescence. Huntresses and prey study each other wearily over oily drinks. The former scantily clad in cheap imitations of haute couture, lips enclosed in heart shaped, provocative, lipstick, their make up invitingly gross. The latter - foreigners, owners of coveted passports, cars and money (PCM), a ticket out of hell, a path to paradise, a promise.

In the near and paranoiac past of most countries in transition, terror-filled xenophobia was both a wise survival tactic and an indoctrinated instinct. Self-insulated and psychotically suspicious regimes quarantined their populations and portrayed all foreigners as carriers of the malaise of social disintegration and the perpetrators of espionage and sabotage. In a classic cognitive dissonance, foreigners were denounced by the people and women who befriended them were pronounced whores. Only a select few could interact with the capitalistic plague and these were especially trained to prevent contagion.

These prejudices and perceptions changed fast with the dawn of the post transition purgatory. Economic collapse, massive unemployment, social dislocation, growing disparities between rich and poor, the educated and the unskilled - led to societies increasingly permeated by

crime, drugs and prostitution. A grey cloud of hopelessness and neglect descended upon vast territories populated by zombie-like herds of people, eyes with extinguished light, adrift in the uncharted waters of a new, ominous reality. The physical deterioration of infrastructure and public services reflected the inner state of its ever more desparate consumers. Venality erupted like a giant suppuration. Everything was on sale, especially one's self.

In this increasingly whorish atmosphere, the perception of foreigners was dramatically re-cast. With more of them around and with most of them on generous income - they constituted a tempting target, a prize, salvation embodied. Women everywhere made it a point to meet them, to work with them, to associate with them, to know them biblically and - above all other goals - to marry them and leave their country. All means justified these ends. Women studied foreign languages, applied to work for non-government organizations, hung out in the appropriate watering holes, learned to dress and talk assertively and to make their availability - their complete obtainability and accessibility - beyond doubt.

Some set about securing the desired trophy methodically and scientifically, calculating each step in a tortuous and highly competitive environment. They invested years in graduating from the right faculties and in mastering the right languages. They watched films intently, read books, clipped magazine articles, surfed the internet, questioned well-travelled relatives and acquaintances, emulated more senior and more seasoned stalkers. Others relied on their good looks, their make up, their ruthlessness, their promiscuousness, their connections, or the exotic allure of their very differentness.

But all of them pursued their prey doggedly and commitedly, with the quite perseverance and patience of the dejected, with the unflagging determination of the terminally ill in tracking a wonder drug. Often, they got pregnant, which in many local cultures would have brought on a marriage. Sometimes, they got raped, or dumped, or worse. But none of these dissuaded them - such was the ejecting power of the wretchedness of their lives. They knew that the foreigner they aspire to acquire will finally go away and carry them with him, a (sometimes white) knight on a shining vehicle. Vehemently committed to securing the future of their children and the present of their extended family - they ploughed on, ignoring diversions, never digressing, never wavering in the face of setbacks and defeats.

Some of them grew old and bitter in their refusal to countenance a local, inferior, brand of husband. It time they so identified with their purported quarry - that they held their own kind in contempt. They disdained their kin, derided their customs, haughtily dismissed their own culture as backward and oppressive, worthy only of discarding. In their unmitigated effort to be worthy of their future saviours, they disowned their very selves, their society, their upbringing, their mores and their relations. Thus uprooted, they lost both worlds - rejected by those they rejected so condescendingly as well as by foreign men who found them to be embarrassing, clunky imitations of B-movie characters.

But others went on to marry foreigners, to give birth to their children and, in time, to travel to far, affluent lands. They keep in touch, sending home photographs of sumptuous houses and shiny cars and of suburban lawns. From time to time, they wire some money or deliver gifts.

They visit once or twice a year, clad in new, faddish clothes, their accents strangely inflected, their speech suffused by foreign words. They made it, the envy of their sisters, the objects of much adulation and emulation, lean and lustrous proofs that dreams come true. A sigh and then the chase goes on. Meticulous dressing, hours of make up, the right shine but not too vulgar, the flesh exposed but not repulsively, both offered and withdrawn, a little exercise of English and to the bar. The hunting grounds where smoke and alcohol and the occasional lascivious look or comment should do the trick. And often do.

25. The Expat Experts

Experts and Expats in Eastern and Central Europe

Written: February, 2000

"There is nothing so good for the human soul as the discovery that there are ancient and flourishing civilized societies which have somehow managed to exist for many centuries and are still in being though they have had no help from the traveler in solving their problems."

Walter Lippmann

In "Alice's Adventures in Wonderland", Lewis Carroll wrote: ***"Curtsy while you're thinking of something to say. It saves time."***

What a missed career. He should have been an expat expert. To paraphrase a sentence originally written about women (no misogynism implied): "What else is a foreign consultant but a foe to friendship, an inescapable punishment, a necessary evil, a natural temptation, a

desirable calamity, a domestic danger, a delectable detriment, an evil nature, painted with fair colours?" (Anne Baring and Jules Cashford, They Myth of the Goddess: Evolution of an Image (London: Penguin Books Inc., 1993).

Not unlike poor Mr. Prufrock in T.S. Eliot's "The Love Song of J. Alfred Prufrock," foreign advisors in the exotic countries of CEE, especially once moderately inebriated, are prone to dramatic monologues and musings, "measuring out their lives in coffee spoons" as they contemplate "the yellow smoke that slides along the street, rubbing its back upon the window-panes."

All foreign advisors belong to either of three categories: the hustlers, the bureaucrats and the corporates.

The first sub-species peddle their specious wares aggressively, flamboyantly and relentlessly. They present a picturesque assortment of quaint British eccentricities and pronounced professional idiosyncrasies. They often are under a cloud - but never in the shade. Sometimes they even flaunt their chequered past and colourful adventures. It is the only form of entertainment in the drab cemetery that Eastern and Southeastern Europe is. In the hope of landing a fat consultancy contract with a confused minister or with a terror-stricken central banker, with a quadriplegic stock exchange or with a dying industry lobby, with sansculotte trade unions or with gullible Western NGOs - they gypsy around, living off tattered suitcases in shabby hotels, yearning to strike gold in the next station of their mendicant's journey. Necessarily abstemious - they are otherwise and when serendipity strikes, containers of greed and avarice and gluttony and hedonism. Unfulfilled, they often deteriorate to colluding in obscure dealings with corrupt officials. You can find

these hangers-on in every pub and bar from the farthest Russian north to the warm waters of Bulgaria, the same dogged look, the same mane of yellowing hair, the old-cut suits and sole-worn shoes and the drooling eagerness to gossip and to profit.

Contrast these has beens to the bureaucratic breed. Ever the laptopped, they travel first class and reside in five star luxurious hotels strewn among the decrepitude of their surrounding. Unashamed, they flaunt shimmering utility vehicles and satellite cellular phones in the face of the unemployed and downtrodden they came ostensibly to help. Occupied mainly by scanning the daily paper and solving simple crossword puzzles, they disrupt their onerous routine only to wine and dine venal officials on mutually fattening expense accounts. They are the malignancy of Bretton Woods, a cancerous growth of well intended aid, the hideous face of altruism. Their organizations are the dumping grounds of the inept and the unwanted, the professional failures and the embarrassingly corrupt, the egregiously ignorant and the narcissistically immature. They tax the resources of their hosts as all parasites do and give very little in return. Their advice is often wrong and almost invariably leads to adversity and woe. They tend to overstep their mandate and supplant elected offices and their humiliated occupants. They dictate and intervene and threaten and determine with the callousness of those who lose no thing when their "advice" goes awry. In time, they move on from one political carcass to another, birds of prey with metal wings and the sated satisfaction of the well fed and the multi-salaried. Earning in a day what others earn in two months - they often hold their mission and its objects in contempt and scorn. They are content to climb the autistic ladder that is a multilateral institution. The rare are

recruited by the private sector as third rate lobbyists.

The suborned politicians of this region have good use for these emissaries of defective micromanagement. They hide their thefts and their incompetence behind a fig leaf of "they told me to". They blame their failures, their patently erroneous decisions, their marked inabilities - on the negative externalities of the international community. An elaborate sign language of winks and nods develops in the execrable, fungal intimacy between native bureaucracy and foreign supervisors. The "advisors" and "country managers" and "resident officers" often come themselves from shrines of good governance and civil society, the likes of China and India and Saudi Arabia or worse. They understand the secret language of power and quid pro quo. What better than a fat and satiated cat to guard the skinny and famished ones? So, they collaborate in the most lamentable of manners, eyes closed, ears plugged, mouth stapled. The bureaucrats author delusional science fiction, delirious potpourris of wishful thinking and grotesque projections, the customary backslapping and mutual admiration. And the politicians pretend to listen, patiently ignoring the more arcane lingo and outlandish offers, waiting for the aliens to take off to their planet and allow them to proceed with plundering and loot.

The third type of expert foreigners are members of academe or business corporations (the distinction quite blurred in the United States). The infamous Harvard affair in Russia exposed the profit motives of these self appointed and self-proclaimed do gooders. It also elucidated their moral standard - rather the lack thereof. Scores of Western consultancies set shop in CEE and southeast Europe - accountancies, law firms, the odd

professional. Western know how on anything from wood processing to canning, from intellectual property to real estate and from publishing to brewing can be obtained. Ultimately, this breed of entrepreneur-consultants represents the biggest hope. True, profit motivated and all too willing to cross the lines for client, God and country - still, their thinking is a sound one, their ethos genuine, their goals are realistic and they seem to know the path. In their ruthless application of the admixture of drive and dream, they often lead the way - obtaining finance, converting others to the cause, constructing projects, educating, preaching and teaching and hectoring and, in this arduous, often derided process, falling in love with land and people.

26. The Pettifogger Procurators

Diplomats in Post-Communist Countries

Written: January, 2001

Recently, the most unusual event has gone unnoticed in the international press. A former minister of finance has accused the more prominent members of the diplomatic corps in his country of corruption. He insisted that these paragons of indignant righteousness and hectoring morality have tried to blackmail him into paying them hefty commissions from money allotted to exigent humanitarian aid. This was immediately and from afar - and, therefore, without proper investigation - denied by their superiors in no uncertain terms.

The facts are these: most (though by no means all) Western diplomats in the nightmarish wasteland that is East Europe and the Balkan, the unctuously fulsome and the frowzily wizened alike, are ageing and sybaritic basket cases. They have often failed miserably in their bootless previous posts - or have insufficiently submerged in the Byzantine culture of their employers. Thus emotionally injured and cast into the frigorific outer darkness of a ravaged continent, they adopt the imperial patina of Roman procurators in narcissistic compensation. Their long suffering wives - bored to distraction in the impassibly catatonic societies of post communism - impose upon a reluctant and flummoxed population the nescient folderol of their distaff voluntary urges or exiguous artistic talents. Ever more crapulous, they aestivate and hibernate, the queens of tatty courts and shabby courtiers.

The cold war having ebbed, these emissaries of

questionable provenance engage in the promotion of the narrow interests of specific industries or companies. They lobby the local administration, deploying bare threats and obloquies where veiled charm fails. They exert subtle or brutal pressure through the press. They co-opt name-dropping bureaucrats and bribe pivotal politicians. They get fired those who won't collaborate or threaten to expose their less defensible misdeeds. They are glorified delivery boys, carrying apocryphal messages to and fro. They are bloviating PR campaigners, seeking to aggrandize their meagre role and, incidentally, that of their country. They wine and dine and banter endlessly with the provincial somnolent variety of public figures, members of the venal and pinchbeck elites that now rule these tortured territories. In short - forced to deal with the bedizened miscreants that pass for businessmen and politicians in this nether world - they are transformed, assuming in the process the identity of their obdurately corrupted hosts.

Thus, they help to sway elections and hasten to endorse their results, however disputed and patently fraudulent. They intimidate the opposition, negotiate with businessmen, prod favoured politicians, spread roorbacks and perambulate their fiefdom to gather intelligence. More often than not, they cross the limpid lines between promotion and extortion, lagniappe and pelf, friendship and collusion, diplomacy and protectorate, the kosher and the criminal.

They are the target and the address of a legion of pressures and demands. Their government may ask them to help depose one coalition and help install another. Their secret services - disguised as intrusive NGOs or workers at the embassy - often get them involved in shady acts and unscrupulous practices. Real NGOs ask for their

assiduous assistance and protection. Their hosts - and centuries old protocol - expect them to surreptitiously provide support while openly refrain from intervening, maintaining equipoise. Other countries protest, compete, or leak damaging reports to an often hostile media. The torpid common folk resent them for their colonial ways and hypocritical demarches. Lacking compunction, they are nobody's favourites and everybody's scapegoats at one time or another.

And they are ill-equipped to deal with these subtleties. Not of intelligence, they end where they now are and wish they weren't. Ignorant of business and entrepreneurship, they occupy the dead end, otiose and pension-orientated jobs they do. Devoid of the charm, negotiating skills and human relations required by the intricacies of their profession - they are relegated to the Augean outskirts of civilization. Dishonest and mountebank, they persist in their mortifying positions, inured to the conniving they require.

This blatantly discernible ineptitude provokes the "natives" into a wholesale rejection of the West, its values and its culture. The envoys are perceived as the cormorant reification of their remote controllers. Their voluptuary decadence is a distant echo of the West's decay, their nonage greed - a shadow of its avarice, their effrontery and hidebound peremptory nature - its mien. They are in no position to preach or teach.

The diplomats of the West are not evil. Some of them mean well. To the best of their oft limited abilities, they cadge and beg and press and convince their governments to show goodwill and to contribute to their hosts. But soon their mettle is desiccated by the vexatious realities of their new habitation. Reduced to susurrous cynicism and

sardonic contempt, they perfunctorily perform their functions, a distant look in their now empty eyes. They have been assimilated, rendered useless to their dispatchers and to their hosts alike.

27. Wanted: An East European Ataturk

The Cyrillic Alphabet as an Obstacle to Economic Development

Written: November 25, 2002

Updated: April 2008

In November 2002, Citibank became the first American bank to open a retail operation in Russia, replete with phone and Internet banking. It offered middle-class Russian clients in Moscow and St. Petersburg both ruble and dollar accounts, overdraft and loan facilities in both currencies, and even debit - though no credit - cards. Murky laws regarding ownership of real estate had initially preclude mortgages. Citibank already managed some corporate business in Russia with a modest asset portfolio of c. $1 billion.

According to the Russian headquarters of the bank, the price tag of opening the branch reached "several million dollars". Most of it was to convert the bank's global systems to the 33-letters Cyrillic alphabet. This is an illustration of the hidden business costs incurred by preferring the idiosyncratic Slavic script to the widely used Latin one.

The peoples of eastern Europe have little left except their character set. Their industry dilapidated, their politics venal and acrimonious, their standard of living dismal,

their society disintegrating, and their national identities often fragile - they cling fiercely to their "historical" myths and calligraphic lettering, the last vestiges of long-gone grandeur. Bulgarians, Greeks, and Macedonians still argue rancorously about the ethnic affiliation of the 9th century inventors of the Cyrillic symbols - the eponymous Saint Cyril and his brother, Saint Methodius.

Russian news agencies reported that on November 15, 2002 the Duma passed an amendment to the Law on the Languages of the Peoples of the Russian Federation, making the Cyrillic alphabet mandatory, though not exclusive. The use of other scripts is hence subject to the enactment case-by-case federal laws.

Many of Russia's numerous constituent republics and countless ethnic minorities are unhappy. The Tatars, for instance, have been using the Latin script since September 2001. Cyrillic characters in Tatarstan are due to be phased out in 2011. The republic of Karelia, next to the Finnish border, has been using Latin letters exclusively and would also be adversely affected.

Prominent Tatars - and the Moscow-based Center for Journalism in Extreme Situations - have taken to calling the amendment a violation of human rights and of the constitution. This, surely, is somewhat overdone. The new statute is easy to circumvent. A loophole in the law would allow, for instance, the use of non-Cyrillic alphabets for non-state languages.

The economic implications of an obscure script were well grasped by Kemal Ataturk, the founder of modern Turkey. He was fond of saying that "the cornerstone of education is an easy system of reading and writing. The key to this is

the new Turkish alphabet based on the Latin script." In 1928, he replaced the cumbersome Arabic script with a Latinized version of Turkish. Literacy shot up and access to a wealth of educational and cultural material was secured.

Yet, many Slav scholars point out that other countries - like Israel, Japan and China - have chosen to tenaciously preserve their ancient alphabets. It did not seem to affect their economic ascendance.

Moreover, scriptural conversion is bound to be as costly as preserving the old letters: the transcription of archives and contracts; the reprinting of textbooks and periodicals; the recoding of software and electronic documents; the purchase of new typeset machines; the training of printers, authors, journalists, judges, teachers, bureaucrats, the populace; the changing of road signs and computer keyboards; the re-posting of Web sites and the development of fonts. And this is a - very - partial list.

To burnish his nationalist credentials, during the election campaign in Bulgaria in 2001, the incumbent president, Petar Stoyanov, distanced himself from a suggestion made by professor Otto Kronsteiner, an Austrian professor of Bulgarian studies, who advocates swapping the Cyrillic character set for the Latin one.

Similarly, Macedonian negotiators insisted, during the negotiations leading to the August 2001 Ohrid Framework Agreement which terminated the Albanian uprising, on maintaining the Macedonian language and the Cyrillic alphabet as the only official ones.

The Prime Minister of Macedonia, Nikola Gruevski, often

engages in ostentatious religious and nationalistic posturing. Wounded by Greek intransigence over the name issue (should the Republic of Macedonia be allowed to use its constitutional name or not) and by Bulgaria's insistence that Macedonians are merely culturally-inferior Bulgarians, Macedonians react well to his message.

Thus, in April 2008, MIA, the Macedonian Information Agency, embarked on yet another campaign, titled: "I preserve what is mine - while I write using Cyrillic alphabet - I exist!".

But the dominance of English is forcing even the most fervent nationalists to adopt. Moldova has reinstated Romanian and its Latin alphabet as the state language in 1989. Even the Inuit of Russia, Canada, Greenland and Alaska are discussing a common alphabet for their 7000-years old Inuktitut language.

According to the Khabar news agency, Kazakhstan, following the footsteps of Uzbekistan and Turkmenistan, is in the throes of reverting to Latin script. Kazakh officials cited the trouble-free use of computers and the Internet as a major advantage of dumping the Cyrillic alphabet.

It would also insulate Kazakhstan from the overbearing Russians next door. But this is a two-edged sword. In August 2001, the Azeri government suspended the publication of the weekly Impulse for refusing to switch from Soviet-era Cyrillic to Latin.

The periodical's hapless owner protested that no one is able to decipher the newly introduced Latin script. Illiteracy has surged as a result and Russian citizens of

Azerbaijan feel alienated and discriminated against. Recently Latinized former satellites of the Soviet Union seem to have been severed from the entire body of Russian culture, science and education.

Fervid protestations to the contrary notwithstanding, Cyrillic lettering is a barrier. NASA published in 2001 the logbooks of the astronauts aboard the International Space Station. The entries for Nov 25, 2000 and January read: "Sergei (Krikalev) discusses some problems with the way (Microsoft) Windows is handling Cyrillic fonts ... Sergei is still having difficulties with his e-mail. After the mail sync, he still has 'outgoing' mail left instead of everything in the 'sent' folder."

It took Microsoft more than two years to embark on a localization process of the Windows XP Professional operating system and the Office Suite in Serbia where the Cyrillic alphabet is still widely used. Even so, the first version was in Latin letters. Cyrillic characters were introduced "in the next version". A Cyrillic version has been available in Bulgaria since October 2001 after protracted meetings between Bulgarian officials and Microsoft executives.

The Board for the Standardization of the Serbian Language and the Serbian National Library, aware of the Cyrillic impediment are studying "ways of increasing the use of Serbian language and the Cyrillic alphabet in modern communications, especially the Internet".

But the dual use of Latin and Cyrillic scripts - at least in official documents - is spreading. Bosnia-Herzegovina has recently decided to grant its citizens the freedom to choose between the two on their secure identity cards. The

triumph of the Latin script seems inevitable, whether sanctioned by officialdom or not.

Return

THE AUTHOR

Shmuel (Sam) Vaknin

Born in 1961 in Qiryat-Yam, Israel.

Served in the Israeli Defence Force (1979-1982) in training and education units.

Education

Completed a few semesters in the Technion – Israel Institute of Technology, Haifa.

Ph.D. in Philosophy (major: Philosophy of Physics) – Pacific Western University, **California**, USA.

Graduate of numerous courses in Finance Theory and International Trading.

Certified E-Commerce Concepts Analyst by Brainbench.

Certified in Psychological Counselling Techniques by Brainbench.

Certified Financial Analyst by Brainbench.

Full proficiency in Hebrew and in English.

Business Experience

1980 to 1983

Founder and co-owner of a chain of computerised information kiosks in Tel-Aviv, Israel.

1982 to 1985

Senior positions with the Nessim D. Gaon Group of Companies in Geneva, Paris and New-York (NOGA and APROFIM SA):

– Chief Analyst of Edible Commodities in the Group's Headquarters in Switzerland
– Manager of the Research and Analysis Division
– Manager of the Data Processing Division
– Project Manager of the Nigerian Computerised Census
– Vice President in charge of RND and Advanced Technologies
– Vice President in charge of Sovereign Debt Financing

1985 to 1986

Represented Canadian Venture Capital Funds in Israel.

1986 to 1987

General Manager of IPE Ltd. in London. The firm financed international multi-lateral countertrade and leasing transactions.

1988 to 1990

Co-founder and Director of "Mikbats-Tesuah", a portfolio management firm based in Tel-Aviv.
Activities included large-scale portfolio management, underwriting, forex trading and general financial advisory services.

1990 to Present

Freelance consultant to many of Israel's Blue-Chip firms, mainly on issues related to the capital markets in Israel, Canada, the UK and the USA.

Consultant to foreign RND ventures and to Governments on macro-economic matters.

Freelance journalist in various media in the United States.

1990 to 1995

President of the Israel chapter of the Professors World Peace Academy (PWPA) and (briefly) Israel representative of the "Washington Times".

1993 to 1994

Co-owner and Director of many business enterprises:

– The Omega and Energy Air-Conditioning Concern
– AVP Financial Consultants
– Handiman Legal Services
Total annual turnover of the group: 10 million USD.

Co-owner, Director and Finance Manager of COSTI Ltd. – Israel's largest computerised information vendor and developer. Raised funds through a series of private placements locally in the USA, Canada and London.

1993 to 1996

Publisher and Editor of a Capital Markets Newsletter distributed by subscription only to dozens of subscribers countrywide.

In a legal precedent in 1995 – studied in business schools and law faculties across Israel – was tried for his role in an attempted takeover of Israel's Agriculture Bank.

Was interned in the State School of Prison Wardens.

Managed the Central School Library, wrote, published and lectured on various occasions.

Managed the Internet and International News Department of an Israeli mass media group, "Ha-Tikshoret and Namer".

Assistant in the Law Faculty in Tel-Aviv University (to Prof. S.G. Shoham).

1996 to 1999

Financial consultant to leading businesses in Macedonia, Russia and the Czech Republic.

Economic commentator in "Nova Makedonija", "Dnevnik", "Makedonija Denes", "Izvestia", "Argumenti i Fakti", "The Middle East Times", "The New Presence", "Central Europe Review", and other periodicals, and in the economic programs on various channels of Macedonian Television.

Chief Lecturer in courses in Macedonia organised by the Agency of Privatization, by the Stock Exchange, and by the Ministry of Trade.

1999 to 2002

Economic Advisor to the Government of the Republic of Macedonia and to the Ministry of Finance.

2001 to 2003

Senior Business Correspondent for United Press International (UPI).

2007 –

Associate Editor, Global Politician

Founding Analyst, The Analyst Network

Contributing Writer, The American Chronicle Media Group

Expert, Self-growth.com

2007-2008

Columnist and analyst in "Nova Makedonija", "Fokus", and "Kapital" (Macedonian papers and newsweeklies).

2008-

Member of the Steering Committee for the Advancement of Healthcare in the Republic of Macedonia

Advisor to the Minister of Health of Macedonia

Seminars and lectures on economic issues in various forums in Macedonia.

Web and Journalistic Activities

Author of extensive Web sites in:

– Psychology ("Malignant Self Love") - An Open Directory Cool Site for 8 years.

– Philosophy ("Philosophical Musings"),

– Economics and Geopolitics ("World in Conflict and Transition").

Owner of the Narcissistic Abuse Study Lists and the Abusive Relationships Newsletter (more than 6,000 members).

Owner of the Economies in Conflict and Transition Study List , the Toxic Relationships Study List, and the Links and Factoid Study List.

Editor of mental health disorders and Central and Eastern Europe categories in various Web directories (Open Directory, Search Europe, Mentalhelp.net).

Editor of the Personality Disorders**,** Narcissistic Personality Disorder, the Verbal and Emotional Abuse, and the Spousal (Domestic) Abuse and Violence topics on Suite 101 and Bellaonline.

Columnist and commentator in "The New Presence", United Press International (UPI), InternetContent, eBookWeb, PopMatters, Global Politician, The Analyst Network, Conservative Voice, The American Chronicle Media Group, eBookNet.org, and "Central Europe Review".

Publications and Awards

"Managing Investment Portfolios in States of Uncertainty", Limon Publishers, Tel-Aviv, 1988

"The Gambling Industry", Limon Publishers, Tel-Aviv, 1990

"Requesting My Loved One – Short Stories", Yedioth Aharonot, Tel-Aviv, 1997

"The Suffering of Being Kafka" (electronic book of Hebrew and English Short Fiction), Prague, 1998-2004

"The Macedonian Economy at a Crossroads – On the Way to a Healthier Economy" (dialogues with Nikola Gruevski), Skopje, 1998

"The Exporters' Pocketbook", Ministry of Trade, Republic of Macedonia, Skopje, 1999

"Malignant Self Love – Narcissism Revisited", Narcissus Publications, Prague, 1999-2007 (Read excerpts - click here)

The Narcissism Series (e-books regarding relationships with abusive narcissists), Prague, 1999-2007

Personality Disorders Revisited (e-book about personality disorders), Prague, 2007

"After the Rain – How the West Lost the East", Narcissus Publications in association with Central Europe Review/CEENMI, Prague and Skopje, 2000

Winner of numerous awards, among them Israel's Council of Culture and Art Prize for Maiden Prose (1997), The Rotary Club Award for Social Studies (1976), and the Bilateral Relations Studies Award of the American Embassy in Israel (1978).

Hundreds of professional articles in all fields of finance and economics, and numerous articles dealing with geopolitical and political economic issues published in both print and Web periodicals in many countries.

Many appearances in the electronic media on subjects in philosophy and the sciences, and concerning economic matters.

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Philosophy: http://philosophos.tripod.com/

Poetry: http://samvak.tripod.com/contents.html

Fiction: http://samvak.tripod.com/sipurim.html