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The German hegemony in the western Balkans within the framework of international political economy

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Abstract

The western Balkans is a region that throughout history has been the field of the competition of great powers and of power games. Many hegemonies have been established in this region and even more conflicts have took place, with Germany to play an important role in most of them. Despite the past and the recent destruction that finished in 1999, the western Balkans appearing stable enough and ready to integrate into the West. Nevertheless, the terms of this integration as well as the historical experience create questions that this research comes to answer.

In particular, this thesis focuses on the role of Germany in this region and secondly on the role of the EU in the western Balkans and tries to explore whether there is a German hegemony. Furthermore, we are trying to identify the role of the European Union in the establishment of an hegemony and whether the European Union represents a tool for the promotion of certain interests in the western Balkans. As it would be obvious later, the kind of hegemony that is explored has politico-economic nature and operates at elite level. For this purpose, we will rely on the neo-Gramscian theory of hegemony. Finally, and in order to prove our case, we will conduct the research with the use of Serbia, Albania and FYR Macedonia as case studies.

Key words: Hegemony, Western Balkans, Germany, political economy.
Acknowledgements

A PhD thesis it can be considered the work of a lifetime. Its not only the time spent, which is considerable, but mostly is the mental and physical drain that a researcher faces until the completion of the PhD. There were times of happiness and even more times of disappointment and frustration. Long periods of mental breakdown and periods of extreme satisfaction. The satisfaction is bigger when this work is finishing.

The end itself it leaves a bitter sweet taste. The sweetness' of accomplishment and the bitterness of the realisation that the student life is lost for good and that the time to take life seriously has begun. Moreover, this thesis contains a big part of the author and the reader should know that, because a thesis is not a mere book but a project of a lifetime and as such it needs the required ‘respect’. Particularly, from the moment that this thesis funded by the author and completed against the odds and the beliefs of academics in my establishment.

To speak about this thesis is unnecessary vanity. I always believe that every manuscript once completed does not belong to the author but to the readers. Therefore, this thesis is now property of the reading audience, who might be. However, I feel the need to mention those who helped me in their own way for the completion of this thesis. First of all, I have to thank my parents. If someone can claim property rights they have the biggest rights. My parents were those who provided moral, mental and financial assistance and without their support nothing will be done. Important role to this thesis has my supervisor, Dr Jeremy Leaman. Working with Jeremy is like sailing in the open sea. Periods of productive cooperation and then periods of loosing pace. His assistance was essential because even though my parents provided me the ‘logistical’ support, he provided me the academic one, which was also essential.

Beyond them I have to thank my colleagues in Loughborough University and particularly my Lawyer Michael Mulligan, Vassilis Margaras, my ‘kounelaki’ Raffaella Bianchi and Dr. Borja Garcia (also know as prof. Gabriel Garcia Borja). Their advice and out of university support was substantial. Equally, substantial was the help from Val Boyle, not only because I was working under her supervision in a difficult for me financial period but also for her advice and understanding of my academic needs. I have also to thank Martha Wörsching for her help, valuable advice, and the opportunity that she offered me for my first publications. I want also to thank my panellists Michael Smith, Mark Webber and Dave Berry for their insight.

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I am closing this insight with a dedication. This thesis is dedicated primary to my parents and secondly to whoever read it.

Thanks,
Fotis I. Mavromatidis
# Table of contents

List of tables ........................................................................................................................................... xi
List of figures and maps ........................................................................................................................... xii
List of abbreviations ................................................................................................................................. xiii

Introduction .............................................................................................................................................. 1

Main objective and research questions ................................................................................................. 2

Time framework and case study selection ............................................................................................... 5

Research methods .................................................................................................................................... 6

Interviews ................................................................................................................................................ 8

Thesis outline ........................................................................................................................................... 9

Chapter 1: Theoretical framework ........................................................................................................ 10

1.1 Introduction ....................................................................................................................................... 10

1.2. Historical background ..................................................................................................................... 10

1.3. Gramscian theory of hegemony ...................................................................................................... 13

1.3.1. General introduction ................................................................................................................ 13

1.3.2. Construction and consolidation of hegemony at national level ............................................ 15

1.4. Neo-Gramscian theory of hegemony ............................................................................................. 23

1.5. Application to the current thesis ................................................................................................... 30

1.6. Strengths and weaknesses of the theory ......................................................................................... 38

1.6.1. Why neo-Gramscian theory? .................................................................................................... 42
Chapter 1: Developments in the field

1.7. Developments in the field

1.8. Why Germany?

1.8.1. The German model

1.8.2. German economic ideology

1.9. Concluding remarks

Chapter 2: The role of the EU in the German hegemony in the Balkans

2.1. Introduction

2.2. EU policy in the western Balkans

2.3. Actors in EU enlargement policy

2.4. EU and neo-Gramscian hegemony

2.4.1. EU and hegemonic ideology

2.4.2. Member states and EU economic ideology

2.4.3. The EU and the impact of the hegemonic ideology in the western Balkans

2.5. The German role in EU hegemony

2.5.1. Germany and EU enlargement

2.5.2. Germany in the Balkans

2.5.3. Interests of the German politico-economic elite

2.5.4. Further indications of interest

2.5.5. German military presence in the western Balkans

2.6. Concluding remarks
3.6. Concluding remarks .............................................................................................................164

Chapter 4: case study FYR Macedonia ....................................................................................166

4.1. Introduction ..........................................................................................................................166

4.2. Historical background .........................................................................................................166

4.3. Political developments ........................................................................................................167

4.3.1. The name dispute with Greece ......................................................................................170

4.3.2. EU membership ..............................................................................................................174

4.3.3. The Albanian Question in FYR Macedonia ....................................................................176

4.3.4. NATO and the US factor ..................................................................................................178

4.4. Economic developments ......................................................................................................180

4.4.1. Basic economic data .......................................................................................................181

4.4.2. External institutional framework ......................................................................................185

4.4.3. Domestic institutional framework ....................................................................................186

4.4.4. The economic presence of European and foreign capital ..............................................190

4.4.5. German economic presence ............................................................................................194

4.5. Neo-Gramscian application .................................................................................................195

4.5.1. First sphere: social relations of production ......................................................................195

4.5.2. Second sphere: forms of state .........................................................................................198

4.5.3. The subaltern reaction .....................................................................................................205

4.5.4. Third sphere: World orders ..............................................................................................206

4.5.5. Germany and neo-Gramscian hegemony in FYR Macedonia ..........................................208
4.5.5.1. Transmission of the hegemonic ideology by Germany........................................... 213

4.6. Concluding remarks ............................................................................................................. 214

Chapter 5: case study Albania........................................................................................................... 216

5.1. Introduction .............................................................................................................................. 216

5.2. Historical background ........................................................................................................... 216

5.3. Political developments .......................................................................................................... 217

5.3.1. EU membership ................................................................................................................. 220

5.3.2. The Albanian Question ...................................................................................................... 222

5.3.3. US as factor and NATO membership ............................................................................... 224

5.3.4. Organised crime and corruption ...................................................................................... 226

5.4. Economic developments ....................................................................................................... 227

5.4.1. External institutional setting ............................................................................................ 228

5.4.2. Domestic institutional framework and its assessment...................................................... 231

5.4.3. The Albanian economy today .......................................................................................... 234

5.4.4. The presence of foreign capital in Albania ................................................................. 236

5.5. Neo-Gramscian application .................................................................................................. 239

5.5.1. First sphere: social relations of production ................................................................. 239

5.5.2. Second sphere: forms of state ....................................................................................... 240

5.5.3. The subaltern reaction ................................................................................................... 245

5.5.4. Third sphere: world orders ........................................................................................... 246

5.5.5. Germany and the neo-Gramscian hegemony in Albania ........................................... 246
5.6. Concluding remarks

Conclusion

Summary and findings

Explanation of the results

Theoretical explanation

Appendix

Appendix 1

 Appendix 2: Areas of cooperation between World Bank and IMF

Appendix 3: The structure of economic coordination in Serbia

Appendix 4: Economic targets of Serbia

Appendix 5: Assistance programme of the World Bank

Appendix 6: FYR Macedonian FDI stock 2001-2006 in million Euro

References

Primary sources

Interviews

Documentation from international institutions

Documentation from national institutions

EU documentation

Speeches, published interviews and press releases

Websites

Secondary sources
Books and academic journal articles......................................................................................... 301

Conference papers......................................................................................................................... 320

Documents, reports and working papers from think-tanks and NGOs........................................ 320

News papers, magazines and TV broadcasts.................................................................................. 325
List of Tables

Table 1: The main EU programmes in the western Balkans................................................................. 72

Table 2: German economic penetration in central and eastern European countries in 1995 and 1998-2003 as a % of total FDI............................................................... 95

Table 3: German FDI stock in the western Balkans, 2001-2008 in million Euros...................... 97

Table 4: Percentage of German FDI stock compared to the total and trade partners' ranking............................................................... 97

Table 5.1: German exports to the Balkans 2001-2005 in % of total recipients...................... 98

Table 5.2: German imports from the western Balkan states of % of the exporting country's total........................................................................................................ 98

Table 6: German military presence in the western Balkans.................................................. 99

Table 7: German imports and exports of selected products in tonnes.................................. 101

Table 8: Selective economic indicators 1999-2006........................................................................ 130

Table 9: EU and German trade with Serbia as a % of the total. 2001-2005............................ 138

Table 10: Serbian Imports and Exports in million €, and in % of the total for the period 2007- 2008...................................................................................................................... 139

Table 11: Total FDI in Serbia 2001-2006 in $000.................................................................... 140

Table 12: Selective economic indicators 1999-2006................................................................. 182

Table 13: FDI flows 1997-2006 in million €.............................................................................. 184

Table 14.1: FYR Macedonia’s exports to its first five trade partners 2001-2005 and 2008 in % of the total........................................................................................................ 192

Table 14.2: FYR Macedonia’s imports from its first five trade partners 2001-2005 and 2008 as a % of the total........................................................................................................ 193
Table 15: Basic economic data of Albania 1997-2007 .......................................................... 235

Table 16.1: Total exports of Albania by country of destination for the period 2001-2005 as a percentage of the total ........................................................................................................... 236

Table 16.2: Total imports of Albania by country of origin for the period 2001-2005 as a % of the total ................................................................................................................................. 236

Table 17: FDI by country of origin as a % of the total and in million USD in 2004 ................ 238

List of figures and maps

Figure 1: The dialectical relation of forces ........................................................................ 31

Map 1: The energy projects in Europe ................................................................................. 104

Map 2: Pan European networks .......................................................................................... 106
Abbreviations.

Bosnia and Herzegovina

Bundesverband der Deutschen Industrie e.V

Bundesministerium der Verteidigung

Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung

Central European Free Trade Agreement

Centre for European Policy Studies

Christlich Demokratische Union/Christlich-Soziale Union

Community Assistance for Reconstruction, Development and Stabilisation

Deutsche Gesellschaft für Technische Zusammenarbeit

Deutsch-Mazedonischen Wirtschaftsvereinigung

Democratic Party of Albania

Democratic Party of Albanians

Democratic Union for Integration

European Agency for Reconstruction

European Bank for Reconstruction and Development

European Central Bank

European Economic Community

European Investment Bank

European Monetary Union
European Union (EU)
European Union Rule of Law (EULEX)
Foreign Investors Association of Albania (FIAA)
Free Trade Agreements (FTAs)
Foreign Direct Investments (FDI)
Hellenic Ministry of Foreign Affairs (HMFA)
General Affairs Council (GAC)
Institute for Democracy and Mediation (IDM)
International Council of Investors (ICI)
International Criminal Tribunal for the former Yugoslavia (ICTY)
International Crisis Group (ICG)
International Financial Institutions (IFIs)
Internal Macedonian Revolutionary Organization (IMRO)
International Monetary Fund (IMF)
Instrument for Pre-accession Assistance (IPA)
Konrad-Adenauer-Stiftung (KAS)
Kosovo Liberation Army (KLA)
Macro-Financial Assistance (MFA)
National Bank of Serbia (NBS)
National Liberation Army (NLA)
National Security Decision Directive (NSDD)
| National Strategy for Development and Integration | NSDI |
| National Strategy with the National Programme for Integration with the European Union | NPI |
| North Atlantic Treaty Organisation | NATO |
| Non-Governmental Organisations | NGOs |
| Ohrid Framework Agreement | OFA |
| Organisation for Economic Cooperation and Development | OECD |
| Poland-Hungary: Aid for the Reconstruction of Economies | PHARE |
| Partnership for Peace | PfP |
| Serbian Investment and Export Promotion Agency | SIEPA |
| Socialist Party of Albania | SPA |
| Sozialdemokratische Partei Deutschlands | SPD |
| South Eastern Europe Countries | SEEC |
| South Eastern Europe | SEE |
| Special Drawing Rights | SDR |
| Stabilisation and Association Agreements | SAA |
| Stabilisation and Association Process | SAP |
| Stability and Growth Pact | SGP |
| Stability Pact for South Eastern Europe | SPSEE |
| Trans-National Corporations | TNCs |
| Unite Nations Mission Kosovo | UNMIK |
Η αλήθεια είναι φτηνή για να πωλείτε και να αγοράζεται

Τζίμης Πανούσης

[Truth is cheap in order to be sold and bought] Jimmies Panoysis
Introduction.

The western Balkans is a region that has suffered a long period of instability and disorder since the end of the Cold War. The countries of the region (i.e. Albania, Bosnia Herzegovina, Croatia, FYR Macedonia, Montenegro and Serbia) have experienced a brutal and destructive war that led to the final disintegration of Yugoslavia. In addition, the existence of large ethnic minorities in each state, a result of the distinct historical process of these states and their late establishment as nation states, has led to armed conflicts in Kosovo in 1999 and FYR Macedonia in 2001, with the distinct possibility of new conflicts in the future.

Moreover, the wars and the economic failure of the communist regimes in the region, have left the western Balkan states with very considerable economic and social problems, while their weak political structures have compounded their instability. Therefore, the western Balkan states have embarked on the process of integrating with the West from a very low starting point. It is an integration that, due to the above mentioned characteristics of the region, is seen as vital for their survival and development. This is particularly the case for the region’s relationship with the European Union (EU).

From the other side, the West has anticipated the importance of the ‘fragile’ western Balkans for European stability and has thus responded in all the crises that have occurred, deploying violent ‘hard power’ as well as the ‘soft’ power of negotiation and persuasion. The western Balkans have also taken on an additional significance, namely as a potential energy bridge between the Caspian basin and western Europe, a role that is attracting special attention because of Russia’s position in the region. Hence, with the final settlement of the Balkan borders, the West has decided that the best solution for the stability of the western Balkans is their integration into western structures and particularly into the EU that, in Gardner-Feldman’s words, has undertaken the ‘patronage’ of these states (Gardner-Feldman 2001).
The EU's actions have taken place within the framework of the enlargement process and the integration of the western Balkans into western structures. This process was accompanied by new instruments such as the Stability Pact for South Eastern Europe (SPSEE), the regional energy community etc. The EU has also undertaken the reconstruction and the maintenance of security in the region with its police and military missions. Furthermore, the western Balkan saga has highlighted the role of Germany as an integral component of EU policy towards the western Balkans. This role remains significant up to the present day.

**Main objective and research questions.**

Within this framework, this thesis investigates the role of Germany in the process of western Balkan integration into the EU in particular and into the West in general. The main argument advanced in this investigation is whether Germany is (or is about to be) exercising hegemony in the western Balkans. The type of hegemony exercised is not the traditional hegemony of one state towards another, with the use of military force, or with more subtle means such as political patronage. Such hegemonic situations seem almost extinct in the contemporary globalised world. With the rapid movement of capital and knowledge, with the existence of global problems such as global warming and, a world where states share their power with other global and transnational actors, we are obliged to examine more embedded and indirect forms of hegemony. Thus, we are looking at a hegemony that has a primarily economic and indirect character.

It is thus becoming apparent that the primary goal of this study is to assess Germany's role as putative hegemon. The enquiry is based on an established literature which, in the first instance, debated the broad issue of German dominance in the economies of the transition states after 1990 (Goldberger 1993; Markovits and Reich 1993a; 1993 b; Sperling 2001; Baun 2005), a debate in which the claim of both economic dominance and political influence (Markovits and Reich 1993a) was persuasive. Secondly, in the wake of Germany's role in the break-up of Yugoslavia (Crawford 1996; 2007; Hodge 1998), there were renewed assertions of an international German programme to dominate a fragmented Balkan peninsula (Gervasi 1993; Chossudovsky 1996; Flurry 2002) and more differentiated analyses of
German political and economic interests in the region (Crawford 1996; 2007). It therefore seemed appropriate to test the strength of these arguments in a set of case studies and using the neo-Gramscian theory of hegemony in international politico-economic relations as the theoretical starting point. Therefore, the main research question is:

**Does Germany exercise politico-economic hegemony in the western Balkans?**

As will become explicit during the narration of this thesis, this question testing a core hypothesis is accompanied by three research questions/sub-hypotheses. These are:

- **RQ1.** Does Germany use the EU and other institutions as a means of establishing a hegemony and to what degree is this in collaboration (or not) with other states (primarily other EU member states plus the US)?
- **RQ2.** If the case for an economic hegemony is demonstrated, to what degree does it have a political dimension?
- **RQ3.** If there is a political dimension to German hegemony, what degree of intentionality is demonstrable?

**RQ1:** This question will be the centre of Chapter 2. Its importance is great because, as will be obvious later, the EU is the main actor in the region and the one with the greatest influence. Therefore, a positive answer will allow us to establish, in accordance with the theoretical framework, at least the existence of an embedded hegemony.

**RQ2:** This question will be addressed by the case studies in Chapters 3-5. The answer is crucial, because the existence of a huge economic presence may appear hegemonic, but without the existence of political back-up and planning to support the economic penetration of the region, the hegemony may be transformed into an autonomous economic dependence.

**RQ3:** Again this will be covered in the case studies. If the research shows that indeed there is a certain level of intentional action, then this could mean that German capital has intentionally shaped these policies, through the German political elite, for its benefit and that therefore this will indicate the existence of an organised
hegemonic plan. In case the research reveals different results, then German capital can be seen to be simply taking advantage of EU policies like every other EU-based capital. Obviously there is an interconnection with the other two questions. Hence, if Germany is using the EU intentionally then it is expected that German actions in the western Balkans are intentional as well, and this could be expected to have a political dimension.

At this point we have to clarify that the term Germany, as well as the name of every other state, refers predominantly to the politico-economic elite of these states. The same distinction applies to the EU as well. As will be mentioned in later chapters the term EU signifies the bureaucratic establishment that is responsible for enlargement or for political and economic relations with the western Balkan states. Moreover, political influence refers to influence on the policy-making of the recipient state.

To this end we will base the analysis on the neo-Gramscian theory of hegemony, which is the subject of Chapter 1. According to this theory, hegemony lies in the combination of political power that flows from intellectual and moral leadership (authority or consensus), and state coercion. Hence, such hegemony is both ethical-political and economic, with its base in state-civil society relations (see Femia 1981). Therefore, it becomes obvious that the analysis will be based on social relations and their mutual interactions. The analysis will also look at economic flows and economic policy decisions, at political parties and their connection to economic capital, domestic or transnational. In addition, we have to look at social resistance, the means of propaganda and issues of cultural penetration. Finally, it is necessary to underscore that the hegemony we are examining is at a regional level and primarily economic. Therefore, hegemony is evident from the level of FDI and trade relations because these are the fields that create economic dependencies that can lead to hegemony. In addition, the military and political developments take on a secondary role, which is instrumentally supportive of the establishment and consolidation of hegemony.
**Time framework and case study selection.**

The time framework of this thesis is between February 1999 up to September 2008. The beginning of the thesis coincides with the start of the NATO bombing of Serbia and thus the beginning of the Kosovo war, the impact of which is still evident in the region. In this ‘post-war’ era, the western Balkan states would seem to have stabilised and to be in tune with the process of integration into western structures, notably into the EU and NATO. This is thus the period where new social blocs are forming and an era of foreign, particularly EU-based, economic penetration is taking place. This time span has been chosen for two reasons. The first is that, by September 2008, the planned elections in the case studies have all taken place, and new social alliances have been formed. Additionally, by the end of the time-frame, the status of Kosovo had been (seemingly) settled. Therefore, there is a degree of (necessary) stability for assessing the situation relating to the case studies and for applying the theory. The second reason is purely technical and relates to the fact that this thesis was planned to be completed by the end of 2008.

The narrowing of the framework is also geographical. This thesis includes three case studies, namely Serbia, FYR Macedonia and Albania. The selection of these case studies is not random. Serbia was chosen because of its traditional linkage with Germany and is thus the case study where the validation of the hypothesis is expected to be verified. It is also the case study where the formation of hegemony and of an operational hegemonic group would appear to be most obvious. FYR Macedonia has all the elements for the establishment of hegemony and like Serbia it has close relations with Germany, though to a lesser degree. Finally, Albania is the case study where our hypothesis is less likely to be proven and is thus perfect for generating a null hypothesis. Albania lacks the historical links with Germany, it has completely different political processes compared to the rest of the region and yet at the same time it has the conditions for the formation of an Historic Bloc (i.e. the hegemonic group; see Chapter 1)) and for the existence of hegemony.

The western Balkans contain three other states that we excluded from our selection for various reasons. Croatia and Bosnia were rejected as case studies  

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1 In Chapter 1 we are analysing this group under the name Historic Bloc.
because there is already a considerable amount of research on these states. We also rejected Montenegro because, when this thesis was started, Montenegro was part of Serbia and with its independence being so recent, its political presence was not substantial enough to justify its choice as a fruitful case study.

**Research methods.**

This research has a deductive character. Hence, having set the questions, we are trying through a series of logical assumptions to reach a meaningful outcome. In this case, having set the core hypothesis and the research questions we set about answering them through a series of deductive steps. The deductive character of this thesis will be become obvious in the case study chapters, where the presentation of the data is followed by a deductive analysis that addresses our main questions. Furthermore, we have to clarify that it is our intention to apply the theory in the case studies and by applying it, to elicit whether or not a German hegemony exists in the western Balkans.

Because of the nature of this thesis and the demands of researching a dynamic process like the ongoing process of integration, this thesis will use a mixture of primary and secondary resources and it will use both quantitative and qualitative methods, with the former to account for the bulk of this thesis. In summary, the data that we use in this thesis are:

<table>
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<th>Primary sources</th>
<th>Secondary sources</th>
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<tr>
<td>EU documentation</td>
<td>Books</td>
</tr>
<tr>
<td>Documentation from international institutions that are operating in the western Balkans</td>
<td>Academic journal articles</td>
</tr>
<tr>
<td>Speeches and published interviews of prominent actors</td>
<td>Conference papers</td>
</tr>
<tr>
<td>Documentation and press releases from national institutions and agencies</td>
<td>Newspaper articles, Magazines and TV broadcasts</td>
</tr>
<tr>
<td>Websites of national and international bodies operating in the western Balkans</td>
<td>Documents, reports and working papers from think-tanks and NGOs</td>
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<td>Official statistics</td>
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<td>Interviews conducted by the author</td>
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<td>Speeches from attended events</td>
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<td>Newspaper articles written within the thesis time limit</td>
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The use of primary sources has proved extremely important because it provided us with a large body of information. Particularly, the reports from the EU and other international institutions were sufficient both to give a clear picture of the situation within the case studies and also to allow us to identify the existence of institutions that, according to the theoretical framework outlined in Chapter 1, could be called hegemonic, as well as the application of a certain economic ideological doctrine in the western Balkans. The sources from national bodies were also extremely useful because they provided us with the necessary evidence for the formation of the Historic Bloc, and the interests of the domestic and external elites.

A large proportion of these sources were retrieved from the internet, and it is true that the quantity of material on the Web has been substantial. However, the collection of primary data faced three main problems. The first had to do with the reliability of statistical resources as well as their availability. Extensive efforts were made to retrieve reliable statistics and to cross-check the data in order to verify their accuracy. The second set of problems had to do with a basic element of this thesis. As will become obvious in later chapters, a great number of companies that operate in the Balkans are eastern affiliates of German, Italian and other corporations, resulting in the need to conduct an extensive investigation of who owns what and thus establish the existence or not of hegemonic trends. Finally, some problems arose in relation to the selectivity and bias of sources, which again required cross-checking of their validity.

Deficiencies and weaknesses of primary data thus make the use of secondary sources essential for producing a balanced outcome. The literature on the Balkans and on enlargement is substantial in both quantity and quality. The same is also true for the literature on neo-Gramscian theory, and therefore it was easy to find the necessary sources. However, the sources that connect hegemony with the western Balkans and EU-enlargement have been extremely scarce, which is also an indication of the relative novelty of this thesis. Also very useful was the information that we were able to retrieve from think-tanks and NGOs such as the International Crisis Group (ICG) and the Centre for European Policy Studies (CEPS). This kind of information was crucial in providing an insight into the region and its political developments. The latter were also covered by information which could be retrieved
from the Serbian, FYR Macedonian and Albanian media as well as from Greek and German media. Certainly, problems of bias, of outdated data and outsider perspectives were obvious but the use of an extensive number of sources and cross-checking was adequate for filtering the information and providing reliable and objective information.

**Interviews.**

The roles of the interviews were important for this thesis because, despite their small number – just seven – they were in-depth, based on elite interviewees, and provided the thesis with important inside information. The interviews were in three sets, representing three different times between 2006-2008, and all of them except two, which were conducted *in the UK and Greece respectively*, were conducted in Brussels. The selection of the interviewees was based on the demands of the research and particularly on the need to find information as well as confirmation of certain issues that could not be retrieved otherwise. Hence, for each case study we tried to locate those people that were expected to fill particular gaps in the research.

The interviewees were contacted by email. Prior to each interview as well as in the introductory email, the interviewees were informed of the thesis outline, the research objectives, and the central issues of the thesis, as well as the type of questions that they could expect. Moreover, in all interviews it was made clear that they would follow strict ethical guidelines, with a special focus on confidentiality. To this end no use was made of recording equipment, which gave the interviewees the necessary flexibility to provide more sensitive information. All interviewees were explicitly asked for permission to use the data in the elaboration of this thesis and related academic work, to which they all agreed. They were informed about the ownership of the data and the final research results as well as the methods used to store information.

The interviews were semi-structured, face-to-face conversations. The time length varied between 1-2 hours, in one case lasting even longer. In each case the interviewee was aware of eight questions, while three more questions were at our disposal to be used during the conversation in case more information was needed. In all cases, more questions emerged during the conversation, while the friendly and
off-the-record character of the interviews made the speakers more relaxed, such that that their answers were gratifyingly detailed.

**Thesis outline.**

The thesis is divided into two parts. The first part deals with the theoretical aspects of the thesis. Hence, in Chapter 1, the neo-Gramscian theory of hegemony, which is the theoretical framework of this thesis, is presented. The same chapter contains a detailed discussion of the methodology that we will follow in the application of the theory as well as the developments in the field. In Chapter 2, the theoretical framework is completed by analysing the role of the EU, which for this thesis is the putative main vehicle for the promotion of hegemony in the western Balkans.

Chapters 3-5 deal with our case studies. Each case study begins with a presentation of the politico-economic conditions and then there is an analysis of the data and application of the theory. In particular, Chapter 3 deals with Serbia; Chapter 4 with FYR Macedonia and; Chapter 5 with Albania. The thesis closes with the conclusion, which summarises and explains the results and gives an overall evaluation of the core hypothesis.
Chapter 1: Theoretical framework

1.1 Introduction.
In this chapter we present the theoretical framework that we apply in this thesis and the manner of its application. In addition, the chapter also aims to provide a justification for the selection of this theoretical framework.

Hence, the chapter begins with the term hegemony that derives from the Greek word *hegemonia*, which first appeared in ancient Greece during the Peloponnesian war through the writings of Thucydides, in order to characterise the policy of the two fighting sides. In addition, the word had the meaning of leadership and control of a nation or a state over another nation or state, while hegemon takes the form of someone who controls or guides or someone who has the leadership of a group.

1.2. Historical background.
The existence of hegemony according to the above-mentioned definition was common in Balkan history, at least until 1991. For reasons of space, I will make a short historical introduction covering the region’s past in terms of foreign hegemonies.

From the 14th century, the region was under Ottoman control, as part of its Empire or as satellite states. This period of absolute Ottoman control lasted until the late eighteenth century, and was characterised by the multinational character of the Empire, where the division was religious and not ethnic (Allcock 1994; Poulton 1993). Beyond this, the division and relocation of ethnic groups created the minority problems that emerged with the creation of the first Balkan states, because the whole region was a mosaic of different ethnic groups, spread unequally among the Balkan states resulting in the existence of minorities in every state. This fact, in combination with the inability of the newly established states to include the whole of their core ethnic group, was the source of inter-state competition and conflicts (Prevelakis 1996:141).

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2 Alternatively, *ἡγεμονία* in Greek.
The decline of the Ottoman Empire signalled the beginning of the Eastern Question, namely how to dispose of the Empire’s lands after its collapse (Krieger 2001:65). This induced the interference of the Great Powers and led to the Russo-Turkish wars\(^3\) (Mowat 1930:45-51). The decisive and active role of the Great Powers was channelled through the Concert of Europe. In addition this interference was intensified particularly after 1878 and the Russo-Turkish war (Prevelakis 1996:138).

In fact, as we will show later, the interests of the Concert’s members were highly influenced by the political circumstances of the Balkans. British policy, that favoured Turkey’s integrity in contrast to Russian policy, is an indicative example. Indeed British preferences influenced the final settlement of the Balkan borders (Mowat 1930).

Another great power with vested interests in the Balkans was the Austro-Hungarian Empire that had within its territory Croatia and Slovenia. Indeed, the Hapsburg Empire was active in the formation of the new Balkan states as exemplified by the Berlin Treaty in 1878 when the Hapsburgs prevented the creation of a big Slav state with the capacity to challenge it, when it annexed Bosnia and Herzegovina and prevented a strong Serbia (Mowat 1930; Jelavich 1983a; 1983b: 59).

Moreover, the decline of Ottoman rule coincided with the development of national awareness and subsequent insurrectionism within the Balkan nations. Hence, the region became a significant locus of international relations in this period (i.e. 1815-1914). This fact transformed the Balkans into the powder keg of Europe, (which when it exploded in 1914 triggered the start of the First World War), due to the conflicting interests of the Great Powers and the national/territorial aspirations of the Balkan states (Krieger et al. 2001: 65; Jelavich 1983b).

In the first case, Russia, by winning the Russo-Turkish war of 1877-1878, made a bilateral agreement in which a ‘Greater Bulgaria’ was established with access to the Aegean Sea and with the whole of Macedonia within its territory. However, the lack of consultation and Britain’s persistent support for the integrity of the Ottoman Empire, led to the Berlin conference and the Berlin Treaty that reduced Bulgarian

\(^3\) At this point, it is worth noting that Russian influence in the region has been expanded through wars from 1774 and the treaty of kuchuk-kainarji. The Russian influence was mainly in the Danubian principalities, in Bulgaria and in Greece.
territory. In addition, it created the so-called Macedonian Question (Mowat 1930: 54-67; Allcock 1994: 149; Jelavich 1983a: 358-360).

In the second case, the increasing influence of Russia over Greece and the necessity of the Aegean for British interests motivated the Concert of Europe to interfere actively in the Greek revolution and in 1830 to guarantee the independence of the Greek state. As a result, Greece was under the protection of England, France, and Russia, forming an international protectorate with a German royal family ruling Greece (see Jelavich 1983a).

In the First and Second World Wars the western powers actively interfered in the Balkans, with the states divided among the different camps in relation to their foreign patron (Jelavich 1983b; Stavridis 2003: 12-13; Wheeler 1996: 2). It is worth noting that the outbreak of First World War hostilities emanated from the Balkans, where pan-Slavism (in Serbia and Russia) collided with pan-Germanism in which Germany used Austria as a vehicle. In the Second World War the Balkan states once again served their hegemonic patrons by joining the two fighting camps. Hence, Bulgaria, Romania and Croatia joined the Axis powers and the rest aligned themselves with the Allies (Blackwood 2001; Jelavich 1983b).

The post-War era brought division along East-West lines. Thus, Greece joined the western camp and the US sphere of control, while the rest of the Balkans joined the eastern camp under Soviet patronage. This division clearly was not without problems, with civil war in Greece between a communist-led movement and nationalists/royalists supported by US and British military intervention, whilst in the communist states it was followed by direct Soviet control (Howkins 2005:188; Crampton 2002; Farakos 2000). This period of division within the Cold War also signalled the last phase of open hegemony in the region.

The present situation of the Balkan states is an outcome of the dissolution of the Eastern Bloc and the subsequent Yugoslav wars. In addition, in this new era of globalisation we cannot unequivocally establish hegemonic presence of a traditional type in the area. Hence, the aim of this thesis is to test whether there is some kind of hegemony in the region, if not in the traditional mode, but in a new form.

4 Particularly on the basis of the common religion.
1.3. Gramscian theory of hegemony.

1.3.1. General introduction.

The Gramscian notion of hegemony can be summarised as the combination of political power that flows from intellectual and moral leadership (that generates authority and creates consensus among social forces), and coercion. The former describes the guidance of society by the hegemonic elite through the creation of a reality which expresses the ideas of the ruling class but is accepted as common sense by the subordinated classes (see Femia 1981). Hence, such hegemony is both ethico-political and economic, with its base in state-civil society relations (Femia 1981: 24). The term ethico-political indicates the strong connection with civil society and implies the element of culture. It also indicates that the hegemony is ideological and contains elements of social reality and of consensus (see Boothman 2008). The economic character of hegemony is important because a solely political character of control creates a hegemony that is based solely on violence, whereas the economic means can create a framework for consensus by accommodating the masses. Thus, hegemony can also be seen as a kind of 'alliance' between the leader and the follower, in a clear consensual framework.

For Gramsci, hegemony answers the question why the revolution succeeded in Czarist Russia and not in the much more developed western societies (Hobden and Jones 2005: 235). Gramsci’s definition of hegemony moves beyond the mainstream realist definition of a hegemonic state that assumes direct hegemony over the system. Instead, Gramsci sees a dual nature of both consent and coercion, which is close to the Centaur state of Machiavelli that, as 'semi-animal, semi-man', uses a combination of both consent and coercion for hegemonising (Gramsci 1971; Machiavelli 1961: 99; Boothman 2008: 209). Based on this approach, Robert Cox goes further and speaks of 'a coherent conjunction or fit between a configuration of material power, the prevalent collective image of world order (including certain norms) and a set of institutions which administer the order with a certain semblance of universality' (Cox 1981: 139).

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5See below for a more detailed analysis of the neo-Gramscian perspective.
According to Machiavelli, power is a combination of consent and coercion. To the extent that the consensual aspect of power is to the fore, hegemony prevails and coercion is only applicable in marginal cases. Hegemony in this sense is enough to ensure conformity of behaviour in most people most of the time (Cox 1983: 164; Machiavelli 1961).

In this sense, Gramsci makes the breakthrough between Marxism and realism. The state is not just a coercive machine that submits the mass to the will of dominant classes through coercive means, but also has the element of consent. The consent itself is produced and reproduced by the ideological and cultural hegemony of the ruling class. In other words, this type of hegemony spreads the political and cultural values of the ruling class(-es) to the rest of the society and particularly to subordinate groups and classes that accept them as their own, as common sense. Thus, these values become the ideological sediment in society to the degree that they take on the status of unchallenged common sense (Cox 1983: 164; Gill and Law 1993: 93).

Such a development requires the creation of a common culture and language which will facilitate the assimilation of different groups under the same hegemony. Culture and language have a powerful transmitting power and can indirectly create subconscious realities. It is no coincidence that the American hegemony after the Second World War was based on the creation of a common culture and the use of English as a common language. Culture must also convey a feeling of autonomy and freedom that will mislead the subordinate classes about the hegemony. An example is the ability of the voter to choose between different political parties, although the main political forces belong to the same ideological bloc, as in the case of contemporary western Europe with little ideological differences between mainstream conservative and social-democratic parties.

To summarise, Gramsci’s approach to hegemony is characterised by the ability of a group to exercise political and moral leadership in society. The other groups accept this leadership and provide the hegemon with a broad political consensus for his policy goals. The hegemon from his perspective exercises control by responding to the two basic aspects of human nature, according to Augelli and Murphy: the position of individuals in the mode of production and the shape of ideal aspirations.
that emerge within civil society (Augelli and Murphy 1993: 130). Such a structure employs coercion as a tool of last resort when consent is not possible. For instance, the use of riot police during demonstrations or, in even more extreme situations, the use of armed forces for changing the regime, are cases of coercion where consent is not possible.

1.3.2. Construction and consolidation of hegemony at national level.
The mechanism that creates and operates hegemony is the Historic Bloc. This term refers to mutually reinforcing interactions within socio-economic relations and political-cultural practices that jointly underpin a given order. The Historic Bloc describes the way in which the ruling social forces of a particular society establish a relationship with and over competing social forces. Thus, it is more than simple political alliance between social forces, represented by classes or fractions. It illustrates the integration of a variety of different class interests that are spread throughout society, establishing unanimity of economic and political aims as well as intellectual and moral unity (Gramsci 1971: 181, 366; Bieler and Morton 2003: 2; Rupert 1993: 81; Gill and Law 1988: 64).

Here, and before any further analysis of the Historic Bloc, it is necessary to define some terms. The Historic Bloc, for Gramsci, intervenes between the economic structure and the ideological superstructure. With the term structure is meant the production process, the profit motive, capital accumulation and generally the economic sphere. This, along with the two parts of the superstructure, namely political and civil society, forms the three levels of society in Gramscian theory. Political society contains the coercive apparatus of the state, and civil society is the sum of ‘cultural institutions and practices in which the hegemony of a class may be constructed or challenged’ (Rupert 1993: 79; Gramsci 1971: 263). Political and civil society together form the integral state and therefore ‘the state is the entire complex of practical and theoretical activities with which the ruling class not only justifies and maintains its dominance, but manages to win the active consent of those over whom it rules’ (quoted in Morton 2007: 120).

The Bloc’s construction begins with the formation of the dominant front. This front need not be just one dominant class that manages to overcome its rivals in the
struggle for power, but is usually a group of classes that are gathered around a core hegemonic idea. However, each Historic Bloc needs a hegemonic class (i.e. a leader). Its existence is necessary for the cohesion of the group and the propagation of a common culture. In addition, since even within the group there is a hierarchy, it becomes necessary to establish a rigorous dialogue between leaders and followers for the well-being of the Bloc (Cox 1983: 168). However, as Lentner notes, the components of the coalition are not always stable. There are instances of ‘update’, e.g. the move from Keynesian to neo-liberal economics. This results in new groups entering the hegemonic group and old ones becoming opponents (Lentner 2005: 741).

The Historic Bloc operates within the framework of state-civil society relations that represent the basis for the application of hegemony, since by definition hegemony is political, economic and cultural. In fact, for Gramsci the nature of state power is related to the strength of the dynamic synthesis between the key forces in economy and society, operating politically on an inclusive basis. This synthesis among these forces creates the Historic Bloc that, given the right circumstances, can establish hegemony (Gill 1993: 39-40).

For Gramsci ‘civil society and State are one and the same’ (Gramsci 1971: 160) from the moment that the state participates in the economic process as a substitute to private enterprises by offering protection and privileges to the extent that Gramsci considered *laissez-faire* as ‘a form of State ‘regulation’, introduced and maintained by legislative and coercive means’ (Gramsci 1971: 160).

Civil society takes the form of voluntary associations. The importance of civil society lies in its function as the place where private and group interests, (which are derived from a specific position of the group in the mode of production), are transformed into political aspirations within a broader ideological framework. Therefore, for Gramsci civil society is the first step towards hegemony, because in civil society there will be the creation and formation of identity and ideological struggle. To this end a crucial role is played by the autonomy of the system that allows the existence of debate which generates the counter-hegemonic ideas. Debate is crucial because it manages to produce a constant consent as well as the persistence of politics and conflict among and between groups. However, consent is
not the only outcome. Debate also offers the competing groups the means to struggle for dominance. Intellectuals have a significant role in this process. They will help in the construction of hegemony or the preparation of counter-hegemony. Gramsci was clear on this point in his stress on the need for ‘organic’ intellectuals, i.e. intellectuals coming from the people and who formulate their ideas through struggle. In this way a new generation of intellectuals is produced who, in addition to the ideology, come from the popular class (Harman 2007). Examples of contemporary intellectuals of neo-liberalism can be considered the managers of multinationals and of various financial institutions (Adorno 2005) as well as academics.

In sum, civil society is the place where interests are grouped, where ideologies are formed and where political action is conceived and alliances formed (Augelli and Murphy 1993: 129; Gramsci 1971: 12, 245). This is something that history teaches us with the October revolution or the French revolution which were sparked by the economic situation of the time. Political society contains the government and its institutions (Gramsci 1971: 12, 208). Here again Gramsci is revealing. In the West the main institutional apparatus is bourgeois parliamentary democracy, the struggle should therefore be through the parliamentary and democratic institutions by representing class interests and conflicts (see Bambery 2007: 100-101).

The formation of an Historic Bloc is important, because it is the main mechanism for the expression and consolidation of hegemony in society. Indeed, the Historic Bloc, by constituting an alliance of various classes that belong to the same political party in the Gramscian sense⁶, transmits the hegemonic ideas that provide strategic direction and coherence to its integral parts (Gramsci 1971: 147-150; Gill 2003: 58).

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⁶ For Gramsci the political party is the Machiavellian modern prince. The party has significant importance for Gramscian hegemony because it represents the collective will. The party is the actor that undertakes the organisation of hegemony and forms the state since it is also the expression of the hegemonic ideology. In fact, each party of course in certain given conditions represents a single social group. For instance, all the political parties that claim to be liberal are in fact parts of one party, the liberal/neo-liberal that has the ideology and the intellectuals that carry it. However, this representation depends on the party’s ability to exercise a balancing and arbitrary function between the interests of their group and those of other groups, and to succeed in securing the development of the group, which they represent with the consent and assistance of the allied groups (Gramsci 1971). In addition, the party remains the same despite splits and various factions since the main ideology is the same (Gramsci 1971: 147-156).
Having referred to the basic principles of hegemony, the next step is to define the hypothesis for a group achieving supremacy and thus establishing hegemony. According to Augelli’s and Murphy’s interpretation of Gramsci there are three conditions for a corporate actor to establish hegemony. Firstly, the group needs self-understanding of its own interests and of the hegemonic project that it has. Furthermore, members of the Bloc ‘must attain self-awareness of the economic role they perform and of the political role that they could fulfil’ (Augelli and Murphy 1993: 131). On the basis of this self-understanding the hegemon sets alliances and promotes the economic interests of the Bloc. The second hypothesis concerns ideological struggle. In other words, through the work of intellectuals and the mass media, the Bloc tries to prevail and gain intellectual and moral support for its hegemony and therefore to establish it as common sense. If they lose this battle the Bloc cannot sustain its position because another group will take its place (Augelli and Murphy 1993: 132). The last condition is economic development. The hegemon has to ensure economic development in order to consolidate the Bloc’s interests and therefore to ensure unity. Economic dominance is necessary to ensure the power of the Bloc and the preservation of its control (Augelli and Murphy 1993). Any failure of these requirements leads to a crisis of authority and prevents the hegemon from achieving supremacy and Bloc cohesion. Hence, as Gramsci notes, the supremacy of a corporate actor is based on hegemony over allies within the Historical Bloc and domination, either by force of fraud, or those social groups outside the alliance’ (Augelli and Murphy 1993: 132).

In this context, the Historic Bloc functions by gathering and distributing the combined material forces, and thus consolidates power and supremacy in civil society and the economy, which are the main areas of hegemony. Nevertheless, the Historic Bloc has a greater role which is to combine and expound a certain ideology and initiatives that can develop its political networks and organisations as well the operation of civil-society institutions for its benefit (Gill 2003: 58). Here again Gramsci explains that the political initiatives and the ideology are vital for the existence of the Historic Bloc and its power to assimilate new movements, and that when an Historic Bloc reaches the limits of its capacity it is overthrown by a new one
Having in mind this outline of the Bloc's formation the next step is the analysis of the process itself.

Firstly, Gramsci identifies two forms of social control. The first, internal, form transmits its values to the rest of the society as common sense. The second, external, form operates through carrot-and-stick strategies, for instance, by promising better conditions and by using sanctions for non-conformist societal elements, (c.f. electoral campaigns and the response of the state to its opponents). Such internal control needs a common concept of reality, in order that the values are transformed into common sense. Therefore, consent is more important than coercion because it provides control without the use of force, through the formulation of intellectual and moral leadership and its transmission from the institutions of civil society (Femia 1981: 24).

By creating this reality, force is never applied brutally (e.g. through dictatorship etc) or in the name of the group's interests, but is covered by grand moral principles, which the representatives of power always declare. For Gramsci this means that the use of force is always accompanied by the organs of mass public opinion that justify its use (Augelli and Murphy 1993:128), e.g. news agencies.

The establishment of hegemony and a new Historic Bloc also demands the existence of a period of social revolution (or counter-hegemony) beforehand. This is important in order for new modes of production and social relations to be constructed and to reflect completely the new Historic Bloc and its hegemony, which will be established with the eruption of the revolution. However, this type of revolution is not possible in all societies. In fact, it takes place in societies with advanced cultural and economic levels and thus in pre-existing hegemonic societies, such as was French society at the eve of French revolution. This is because, in these societies, there is already an intellectual base which is capable of formulating ideas and successfully transmitting these ideas to the social base which will support the revolution. Even in the case of the October Revolution, which happened in a non-advanced society, the elite was 'trained' in the ideas of the West as formulated by the French revolution, the revolutions of 1848 and in Marxist writings. For other less advanced societies, the revolution fails because they import a new order that is created abroad, without the previous annihilation of the old order. The net outcome
of this is the coexistence of these two elites in a 'new' hegemony. Thus, instead of a revolution that brings changes, there is a further facilitation of elite interests and a corresponding fragmentation of the popular masses’ demands. This development in Gramscian terminology is called passive revolution, which is summarised\(^7\) in van der Pijl’s interpretation of Gramsci as ‘the modernisation of society from above, which must remain ‘passive’ to ensure that the state class is not dispossessed’ (van der Pijl 2007: 627) and which is mimicking the adoption of foreign economic and political structures (Gramsci 1971; Cox 1983: 165).

Consequently, the failure of the local elite to establish hegemony leads to two options. The first is Caesarism and refers to the case when a person intervenes and balances the opposing forces by seizing power. The second is transforismo and involves the creation of a broader coalition of forces and interests (e.g. industrialists and workers). In addition, this case diffuses polarisation and assists in the assimilation of opposing and counter-hegemonic forces, by including them in the hegemonic Historic Bloc (Gramsci 1971: 58, 106-114; Gill 1993: 54-55). In all cases, however, a new hegemony is established after a crisis because the crisis facilitates new ideas prevailing over old ones. The French revolution is an example of such a crisis since, prior to the revolution, France had a severe economic and institutional crisis.

The Historic Bloc, by constituting an intellectual defence against co-optation by transforismo, acquires a dialectical dimension. This is achieved because the Bloc moves between the superstructure and the structure, and creates a larger unity, since the Bloc is politico-economic and thus ‘not just an alliance, but a, ‘dialectical unity of base and superstructure, of theory and practice, of intellectuals and masses’ (quoted in Augelli and Murphy 1993: 131). This interaction between political, ethical, ideological, and economic spheres of activity prevents the reduction of everything either to economic or to ideational factors (Cox 1983: 167). Thus, hegemony is established because the dominant group manages to promote its ideology and interests to the rest of the society without using coercion but by establishing them as common sense in the minds of society. Coercion is used only in marginal cases as

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\(^{7}\) The term is extensively analysed at the conclusion.
in outbreaks of social discontent. In other words, in general the subordinate classes willingly submit themselves to hegemonic control (Cox 1983: 167).

Hegemony achieves this because the ruled cannot distinguish their interests from those of the elite group and thus hegemony functions through consent. In order to achieve this, the dominant Historic Bloc needs to make concessions by partially suppressing its interests and including some of the interests of the subordinate classes. In that way, the latter become more willing to accept hegemony. Cox gives the example of post-war social democracy as such a concession. However, the concessions do not touch the essential hegemony which is ethical-political and economic⁸ (Gramsci 1971: 161; Cox 1983: 163). This inclusion also provides the hegemony with legitimacy, since the subordinate classes believe that participating in the system is advantageous (Gill 1993: 40; 2003: 34).

Such concessions mean that the elite group has clear and well-defined interests and political aspirations. These two elements are necessary for the coherence of the Historic Bloc and the definition of its political role. In addition, based on this awareness, the prospective hegemon can form alliances and defend its economic-corporate interests (Gramsci 1971: 77).

Gramscian hegemony is promoted by various mechanisms, of which two are the most dominant. These are civil society institutions and intellectuals. Thus, the power of hegemony lies in its ability not only to produce but to constantly reproduce itself through its mechanisms.

Civil society institutions facilitate hegemonic control (Hobden and Jones 2005: 236) by undertaking the expansion of the ruling ideas and their transmission to the masses, which at the same time are prevented from recognising their own interests from those of the Bloc. Thus, the education that is provided to the masses weakens any awareness and manipulation of abstract symbols like class struggle. In addition, along with education, all the other institutions that shape perception like religion, the mass media and political associations, function within the guidelines of the ruling class (Femia 1981: 44). Therefore, the superstructure contains the element of coercion, which works for the assimilation of the masses into the particular mode of

⁸ For Gramsci the hegemony is also economic because its basis should be in the decisive function exercised by the leading group in the decisive core of economic activity (Gramsci 1995).
economic production that it operates. Hence, civil society is the consensual tool of hegemony (Femia 1981: 25-26; Gramsci 1971: 263). In addition, the two sides of the superstructure are interpenetrated from the moment that political society is using the institutions of civil society for promoting its policies. These institutions operate within a legal framework of rules that has been established by the state. On the other hand, parts of civil society such as political parties become components of the state apparatus, while civil society is the realm where political society is ‘educated’ (Femia 1981: 27-28). In other words, the state comprises the whole spectrum of political and theoretical activity by which the ruling class manages to justify and maintain its domination and to succeed in gaining the active consent of the ruled (Femia 1981: 28).

An equally important role is played by the intellectuals that help in the construction of hegemony. Here we have to add that their role in creating and maintaining the intellectual, ideological and cultural values as well as the organisations which bind together the members of a class and of an Historic Bloc into a common identity (Cox 1983: 168), is primarily implemented by the political party. According to Gramsci, this is considered to be the collective intellectual (see footnote 6) (Gramsci 1971: 15-16). Their important role lies in the fact that hegemony is based on a core hegemonic ideology. Therefore, their actions support the hegemony (by justifying its political aspirations), unite the Bloc and impose the hegemonic ideas on other classes as common sense. A much more important task is to beat their opponents in the ideological struggle and to formulate the hegemonic politico-economic theory (Augelli and Murphy 1993: 131).

The intellectuals and the mass media also provide moral credibility to the system by transmitting certain images (Gill and Law 1993: 122). Moreover, the control of intellectual production, which belongs to those who control economic production, prevents the other classes from counter-imposing their ideas (Femia 1981: 32). Within the framework of the mass media, printed capitalism has an important role because it can directly or indirectly influence public opinion, as through newspapers, libraries and schools (Gramsci 1995: 155; Anderson 1983). Of course today, internet and global news agencies and the power of TV has broadened the means of propagation. Thus, every relationship of hegemony is educational,
because it involves the education of the subordinate classes by the hegemon and his class (Gramsci 1995: 157). This education extends from schools and includes the social interaction of the person.

The final thing that the hegemon should do is to ensure economic development in order to solidify the hegemonic group and to consolidate its control over the subordinate groups. Subsequently, the hegemonic class must be primarily economic in the sense that it has an important role in the economy (Augelli and Murphy 1993: 131-32). We have to remember that for Gramsci it is impossible to separate politics from economics. For Gramsci the separation is an artificial one created by the ruling class in order to keep the subaltern classes within the existing framework (Bambery 2007).

1.4. Neo-Gramscian theory of hegemony.

The neo-Gramscian school transfers the Gramscian theory of hegemony to the field of international relations, in an almost perfect analogy with the 'domestic' arena. The Coxian interpretation of Gramscian hegemony in international relations, which we will follow, claims that contemporary world hegemony exists not in the coercion of a superpower, but in the general consent that the dominant powers manage to produce and reproduce and to make acceptable to everyone, and even by those that are less benefited by it (Hobden and Jones 2005: 237; Gill and Law 1993: 93; Cox 1987: 7). Thus, in general, neo-Gramscian theory, as developed by Cox, takes for granted that power relations and institutions are subject to constant change. Hence the aim is to find out how existing world orders emerged and how dominant values and institutions were established (Bieler and Morton 2003: 2).

A basic feature of neo-Gramscian theory in international relations is the supremacy of certain states and social forces within a global society. Firstly, according to Gramsci, a social group becomes hegemonic when it gains supremacy over a group of allies that accept the hegemon as leader and political guide (Augelli and Murphy 1993:130; Gramsci 1971: 173-75). The interpretation of this theory on an international scale takes the form of a hegemonic state (which in neo-Gramscian scholarship is the US) with a hegemonic social class that, along with elite classes and social forces from other (allied) countries, forms the hegemonic Historic Bloc.
Moreover, the hegemon establishes its supremacy by using coercion and consent. The latter takes the form of certain modes of production and social relations that begin in the hegemonic state and become internationalised. In sum, the neo-Gramscian view of hegemony on an international scale refers to the creation and protection of a hegemonic system, which is universal in conception and which the other states accept because it also promotes their own interests (Cox 1987: 357-58; Augelli and Murphy 1993; Gramsci 1971: 173-75). Of course, scholarly interest is also directed at regional hegemonies like that of US on Latin America (see Morton 2007) and it is this examination of regional hegemony that we will investigate in this thesis. The issue of a common culture, as referred to above, seems to be the case today with the elements of the creation of a global culture and of a homogeneous cultural and linguistic global society becoming evident.

Subsequently this approach also includes the notion of an international civil society, with a global mode of production, that links all societies of the given hegemonic area, and also includes the need for ordinary management of that system (Cox 1983: 171; Augelli and Murphy 1993: 148-49). This consensual hegemony is based on a dominant view of the world that includes certain values that derive from a configuration of material power, and by the set of institutions that run the world order on behalf of the hegemonic state (Bieler and Morton 2003: 2). Hence, a hegemonic relationship is also an educational relationship that occurs between the various forces of a nation. At the international level, this process is between complexes of national and international/regional civilisations (Gramsci 1971: 350, 240-41).

It is also interesting however, to see the form that international relations take for the neo-Gramscian theorists. For Gramsci, international relations follow fundamental social relations (as at the national level), because any fundamental change in social structure brings changes at international level, by formulating specific technical-military expressions (Gramsci 1971: 176). What we mean is that any new development such as a new kind of regime after crisis, e.g. the October Revolution, or changes in the global economy such as the recent revival of state

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9 The term state refers to social forces and interactions between classes of different states.
intervention, bring changes in the international system. This happens because they bring changes in the mode of production and in the social structure and thus changes in the configuration of power and balance in the international system. Furthermore, applying Gramsci in international relations means that we refer to a global political system, with various components like international organisations, diplomacy, and international civil society institutions (Augelli and Murphy 1993: 129).

We have to make clear that, in contrast to realist approaches, ‘...the essential entities of the international system are not states as such but state-society complexes, and that the international system should be understood not as an interstate system but as an articulation of social forces, forms of states and world order’ (Harman 2007: 127).

Cox's interpretation considers that changes in the balance of power and in international relations are due to military-strategic and geopolitical shifts, deriving from fundamental changes in social relations (Cox 1983: 169). Useful examples concerning the changes in the world system might be the October Revolution and the rise of the Nazis in Germany in the late 1920s. Moreover, neo-Gramscian theory, in a direct analogy with the domestic level, speaks of dependency relations at international level. That is to say, the great powers have certain flexibility in exercising foreign policy according to their national interests (Cox 1983: 169). In this thesis, this could be applied to Germany exercising strong economic diplomacy in favour of German capital.

On the other side, the weaker and less-developed states (e.g. Albania) are arguably influenced in their foreign policy by great power preferences (e.g. Germany). Consequently, the economic and political life of the weaker state is totally connected with that of the powerful state (Cox 1983: 169). The process is clear and its most obvious form is financial and industrial investment and the interdependence that this creates. For example, the financial crisis in Asia, as well as the current economic crisis, was a product of this interdependence and reflects the way and the extent to which a big state influences a weaker one, even unintentionally. This dependency drives the weaker states to be net receivers of international hegemonic ideologies. As a result, the social changes in these states are by-products of international developments (Cox 1983: 170). Therefore, since the hegemony is
ethico-political (see p.13) and based on moral and intellectual leadership, it can be claimed that the hegemony is reproduced and that the hegemonic ideas within the subaltern territory become, in Gramscian rhetoric, common sense. In addition, the domestic intellectuals (see below) are considered to be the heralds of the hegemonic state rather than producers of genuine thought that respond to the domestic reality.

Since this thesis deals with the Gramscian notion of hegemony, it is expected to refer to state-civil society relations. The type of hegemony that is employed contains an amalgam of ideas from different groups, which in the end participate in the construction of a global community (Rupert 1993: 169). Thus, the state as entity and not as actor is the basic element of international relations for Gramscian thought because it is the place where hegemonies at elite level are formed and then elevated to an international level. Moreover, the state has two further important functions, which are the formation of a hierarchical class structure, while providing the ideological and legal support for these hierarchies and helping to form the social relations of production by interfering directly and indirectly in production (see Cox 1987).

Moreover, on an international scale, the state that wants to achieve dominance has to pursue the maximisation of power in relation to other states. It also has to increase power vis-à-vis subjects. Therefore, ‘a state may become world hegemonic because it can claim with credibility that the expansion of its power relative to some or even all other states is in the general interest of the subjects of all states’ (Arrighi 1993: 151). This is something that can be equally claimed for the regional level, which can be considered a micrography of the whole. Consequently, the state is important for neo-Gramscianism since classes are formed within it. The role of the leading class is to mediate between state and production and to influence both of them through the Historic Bloc. The class formation mediates between the global economy and the interstate system. It is also significant that the national societies are demarcated from each other by preserving their national origins and links across borders (Cox 1987: 356-57).

The ability to influence lies in the ability of the Bloc to affect the decisions of the state and the mode of production, particularly from the moment that the state is an active actor in the economic process. In fact, as in domestic society, here also
there is an international Historic Bloc. Due to the internationalisation of every economy/society, the elites of every state come into contact because of their common interests and together shape a specific Historic Bloc. Nevertheless, because hegemony always includes some of the interests of subordinate classes, global classes are also created. Hence, there are international organisations of workers or, as the anti-globalisation movement shows, there are several international counter-hegemonic groups that produce a flow of ideas, which is also facilitated by technology and by the system itself that has created this level of globalisation. Therefore, a world society is established around a particular interstate system, where all the states are connected and adjusted to the modes of the world order (Cox 1987: 7). The dominant Historic Bloc is believed to be comprised of those who control the Transnational Corporations (TNCs) and, those who control the nation-based corporations and regional capitalists (Cox 1987: 358). To this one must add the political elites in both 'dominant' and 'following' states, who are connected with the above mentioned groups. As Sklair has indicated, all these elites share common values and lifestyles and indeed constitute a distinct group (see Sklair 1997).

As at the national level, the leader of the Bloc has to ensure economic development in order to unify its group and consolidate its control over the popular masses. Indeed, the Historic Bloc in power, according to neo-Gramscian scholarship, has a primarily economic nature in its declarations, in its claim to promote general economic development and well-being. In fact, according to Augelli and Murphy, this central role in production gives the hegemonic group its great influence in the world economy as a whole. However, this power is made reality by planned political action aimed at achieving economic development, in forming alliances and developing critical self-understanding (Augelli and Murphy 1993: 132).

Furthermore, hegemony at the international level has its own hegemonic ideology, which provides the integration of a society into the world economy and which thus assists in the creation of a global civil society. This ideology, for neo-Gramscian theory, is the neo-liberal economy of free trade, open markets, and consumerism, while the USA is considered the modern hegemon10 (Hobden and

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10 Again the term refers to elites.
Jones 2005: 237; Gill and Law 1993: 113). Neo-Gramscian scholarship refers to the global hegemony of neo-liberal capitalism with transnational capital at the centre and with the hegemony targeting the promotion of capitalist modes of production. Nevertheless, for this thesis we have to narrow the analysis to the regional level by claiming a hegemonic role in the Balkans of Germany and by extension of the EU. This narrowing is possible because Europe will be treated as a smaller image of the world level, where the strategies of capital accumulation, uneven development relations and the promotion of a hegemonic ideology, will be seen through a regional lenses.

This hegemonic idea became common sense, by claiming that free trade benefits everyone, whilst in reality it was beneficial mostly to the hegemon, who is the most efficient producer in the world economy (Hobden and Jones 2005: 237). In fact, hegemony is also beneficial to the weaker side but to a much lesser degree, because otherwise the subordinate state would not be willing to accept this hegemony. Once again, by narrowing the framework of this thesis, Germany arguably fits quite well into the role of hegemon, since even with current economic and structural problems, German capital is still the strongest and most efficient in Europe. On the other hand, the periphery, which in this case is the Balkans, is doomed to relative underdevelopment and exploitation by German capital.

Therefore, also in the international arena, the power of the hegemon lies in its ability to produce and successfully reproduce its hegemony (Cox 1983; Hobden and Jones 2005: 237). In relation to this thesis and, as will be demonstrated in the case studies, Germany and the EU are arguably producing and reproducing their hegemony in the Balkans through the enlargement policies that, as we will demonstrate in later chapters, reflect to a significant degree German preferences for the region.rale.

In addition, world hegemony has the ability to assimilate any idea that can threaten its existence and dominance, in the manner of transforismo. The process includes the assimilation of persons from opposing groups by offering places in international organisations and other prestigious positions (Cox 1983: 173) and

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11 For instance, the Stability Pact for South Eastern Europe is a German initiative.
counter-hegemonic ideas being eroded and adjusted in the hegemonic ideology by
the mechanisms of global civil society. Hence, what hegemony manages by
preserving its ideology as common sense is the total assimilation of the subordinate
classes into the system and the repression of the opportunity of any alternative
conceptions to emerge.

Furthermore, the consolidation of hegemony also requires a set of supportive
mechanisms, which internationally are parallel to those that exist at national level.
Therefore, like the institutions of national civil society, the international institutions
are among the main assistants of the hegemonic state at international level. Their
main role is to promote the expansion of the dominant hegemonic economic and
social forces and at the same time provide flexibility and tools for the inclusion of a
subordinate's interests with minimal casualties (Cox 1983: 172).

The international organisations are formed, at the beginning of their
foundation, in accordance with the values and interests of the hegemonic state,
whose support is vital for them (e.g. Germany and the beginning of the EEC/EU). The
hegemonic state ensures discipline towards the institution, according to the
hierarchy of power among the states. In addition, the smaller states get discipline
through consent and coercion. The former takes the form of consultation, while the
latter constitutes the solution in marginal situations (Cox 1983: 172).

Apart from a hegemonic and disciplining role, the international institutions
perform an ideological role. This role is performed through defining policy guidelines
in providing assistance, known as conditionality, and by legitimate domestic
institutions and practices, which they favour. Therefore, they reflect certain
dominant social and economic forces, as in the case of the IMF that would seem to
have promoted neo-liberal ideas and the interests of western capital (Cox 1983: 172;

Moreover, the role of intellectuals is also important for neo-Gramscianism.
According to neo-Gramscian theory, the organic intellectuals are located in academia
and knowledge-intensive labour, while the mass media perform a major role in the
transmission of their ideas that give credibility to the hegemony (Gill and Law 1993:
119, 122). The difference with Gramscianism is that their actors have an effect at
global level and therefore constitute international intellectuals. For instance, a
speech by Alan Greenspan has global reach as has a Hollywood movie that promotes a global culture and a particular reality.

1.5. Application to the current thesis.
According to the analysis so far, the examination of research outcomes from the neo-Gramscian perspective will rely heavily on the suggested methodology of Bieler and Morton (2003). For them there are four steps for the analysis of hegemony, which are based on the three spheres of activity within which hegemony is manifested, as Robert Cox has defined them. The first sphere, involves the social relations of production (Cox 1987: 11-12). These comprise, apart from the production of complete commodities, the production and reproduction of knowledge and social relations, of values and institutions (Bieler and Morton 2003: 2). In that instance the analysis demands that these be distinguished and observed in relation to how the changes in domestic society are bringing new social forces, which constitute the bases of power on a global level and in the world order (Cox 1987: 4-5). The ‘interpretation’ that is given in the case studies relates to the existence of a new ideology and thus to a new mode of production, the existence of new elites and how the change has occurred. In other words the first sphere provides the ideological framework within which the hegemony is constructed. The construction is part of the following sphere.

The second sphere relates to the forms of state. This sphere is the most common form of hegemony that relates to the formation of a state on the basis of the relationship between state power and social forces. In particular, each state is created on the basis of certain configurations of power between social forces. Therefore, the focus lays on the historical construction of various forms of state as well the framework of the political struggle that brought about these outcomes. Such an effort is carried out through the examination of the Historic Bloc and state-civil society relations. This is necessary because the Historic Bloc reflects certain state-civil society relations that define the formation of every state (Bieler and Morton 2003: 2-3; Cox 1987: 5). Hence, in each of the case studies, there will be an analysis of how the Historic Bloc is formed, how it functions and who is the leading
In this sphere we are dealing with counter-hegemonic forces and how strong they are.

The third sphere relates to world orders, 'which not only represent phases of stability and conflict but also permit scope for thinking about how alternative forms of world order might emerge' (Morton 2007: 115). In other words, this sphere analyses the world order within which hegemony operates. As was mentioned previously, even though the creation of a hegemony is a national issue (from the moment that it is formed within a certain nation-state), it can move outwards and enter the world order; or if the leading class has a certain power, it can transcend the 'development of a particular form of the social relations of production' into the international sphere and thus achieve the role of a global class (Morton 2007: 121), something that could be claimed after the Second World War for the US elite. Here the conditions are quite complicated. Firstly, the fact that the thesis views hegemony from the point of the receiver, means that it is taken for granted that there is an outward expanded hegemony. Secondly, in this sphere there is reference to the transmission mechanism and the role of the media, which are basic in transmitting the hegemonic ideology. Finally, since we are referring to regional hegemony the global class has a distinct regional character, even though transnational capital as well as the US elite (in some of the cases) is also part of the Historic Bloc. However, as will be apparent in the case studies, the bulk of the transnational capital that is involved in the western Balkans has a strong European and thus regional basis. The diagram below might make the description of the three spheres easier:

![Figure 1: The dialectical relation of forces](source: Morton 2006: 115)

Based on the above, the Bieler and Morton methodology is divided into four steps. The first step considers the 'investigation of the production structure in order to identify social forces as the key collective actors'. The second step through an
empirical analysis examines which social forces are seeking to establish a hegemonic order and which is the hegemonic ideology around which hegemony is constructed. The third step relates to the way in which the hegemonic classes have formed a specific state. For Gramscianism and neo-Gramscianism, the state is reflected in the class formation and its struggles. The final step is the outward projection of the domestically established hegemony (Bieler and Morton 2003: 3-4). All these steps are incorporated in the three spheres analysis.

On the basis of this methodology the outcomes of the thesis will be examined. However, the current thesis demands some alterations of this method, since it is intended to follow a reverse process and view the hegemony from the side of the ruled i.e. the Balkan states. Therefore, instead of looking at the suggested hegemonic society, at Germany, the thesis will focus on the Balkan societies and the effects of the hegemonic project (if such a project eventually exists) on them.

First of all, the three spheres of activity seem to be well-established in the Balkans, in Germany and the EU. Thus, the social relations of production lay within the context of neo-liberal capitalism, as it is shaped in the EU, and as the dominant ideology in the Balkans, Germany and the EU. There is a strong indication that the EU is promoting neo-liberal policies in the enlargement countries, like those in the Balkans. In addition, Germany has a well-defined economic system of thought that is rooted ideologically in ordo-liberalism, which constitutes a German variation of neo-liberal economic thinking (Padgett 2003: 126-27). These policies culminate in deregulation, privatisation and penetration of foreign capital in the local economies, with an associated hegemonic attitude. This economic ideology and these policies are also the ideology of the Historic Bloc, since according to the core hypothesis the existence of German hegemony requires a hegemonic idea that is of German inspiration or is serving German interests. Therefore, a European neo-liberalism based on German ordo-liberalism should be the hegemonic idea of the Historic Bloc.

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12 At this point we have to clarify the use of ideology. When we refer to economic ideology we are referring to the set of ideas such as free markets and market deregulation that underpin the ideology of neo-liberalism. Nevertheless, when we refer to the EU or western ideology, the definition goes closer to the Gramscian sense, since we view ideology as liberal conceptions of history that provide the intellectual legitimacy for specific political groups in everyday politics. Thus, ideology constitutes a set of ideas that describe a particular world order and mode of production and which aims at the domination of a particular group that promotes this set of ideas.

13 More on ordo-liberalism and on the German model in section 1.8
Furthermore, there are indications of distinct class formations in the Balkans between rich elites and relatively poor masses, and this new class formation is a recent creation after the collapse of the eastern bloc. Therefore, we can observe in the case studies how the change of the mode of production influences the social class formation.

Regarding state formation, once again what seems to exist, through the particular configuration of power, is close to neo-Gramscian theory. Hence, we have to find what is the dominant Historic Bloc, which is the Bloc's dominant class and how it exercises its power, provided of course that a Historic Bloc exists. However, because we are dealing with the western Balkan states, German society will be considered as the stable variable. Thus, we refer to the 'weak' states that are undergoing a Gramscian passive revolution and are therefore recipients of foreign developments. Consequently, state formation in the case studies is not only the result of domestic processes but also a product of western influence. From the view of this thesis it will be useful to discover if this external influence has German elements as well as indicators of a hegemonic German role.

Subsequently, the efforts are concentrated on proving that Germany's politico-economic elite is exercising hegemony by constituting the leading class of the dominant Historic Bloc. This thesis seeks in particular to demonstrate that the German politico-economic elite is the dominant class and therefore the core of the Historic Bloc. Such effort is warranted because, according to the initial hypothesis, the hegemony should be German. Certainly, a Historic Bloc has a broader composition, which, as will be obvious in the following chapters, includes the domestic politico-economic establishment, representatives of international institutions, global capital and other actors that share the same hegemonic ideology.

Moreover, according to the theory, we have to clarify the composition of the Bloc as to whether it is based more on transforismo, (in other words in the assimilation of the other participating groups), or if it is an alliance of groups with the same ideology and interests. For instance we can search for consent or opposition to the imposed neo-liberal policies, or for evidence of class polarisation in the Balkan states in question.
Another variable that we have to take into consideration is German transnational capital\textsuperscript{14}. For neo-Gramscians like Gill and Cox the contemporary hegemonic class is the transnational managerial class (Gill 1993; 2003; Cox 1987). Indeed, German capital plays an important role in German foreign policy; for instance Germany has a special government department for the promotion of German exports and Foreign Direct Investments (FDI) globally (Freund and Rittberger 2001: 97; Conradt 2001: 271), and therefore can be considered a powerful class. Furthermore, in addition to the relations between economic and political elites, in German society there is a special relationship between transnational and domestic capital. Hence, there is a hierarchy within German capital and a kind of hegemonic relationship between bigger and smaller capital (Leaman 2004). The interconnection between the two kinds of capital, and for matters of simplicity, German capital will be considered as one under the title German economic elite or just German capital.

For the third sphere, the Balkans are progressing within the current world order. The post-Cold war period has been shaped by the forces of globalisation. New issues have emerged such as climate change, international terrorism, and the issue of the economic regulation of global economic relations. In other words there is an era of global problems that require global solutions. It is also an era of regional competitions particularly between West (i.e. western Europe and US) and East (notably Russia and China), with energy access and access to markets constituting the main issues of competition. It is an era, which since the early 1980s was confronted by an expansion of neo-liberal economic thought that up until recently seemed to be completely dominant, particularly in Europe.

From a narrower regional perspective, the ‘triumph’ of the West in the post-communist period must be underlined inasmuch as the post-communist states of Europe have had to adopt the western ideology of neo-liberalism and western Europe has been able to establish its sphere of influence over the whole of a reconstituted united Europe. This is also clearly evident in the Balkans, which after decades of communism and years of armed conflict and destruction, are now under western influence, with the West and particularly the EU providing the ideological

\textsuperscript{14} The term describes German capital that has global presence.
framework, neo-liberalism, and the context within which the states are progressing towards western integration. In addition, states such as Germany have assumed a special role on the European continent and in the Balkans, instead of more powerful actors such as the US. At the same time, old links with Russia seem to have been re-activated, challenging western dominance in the region.

Nevertheless, the focus of this thesis is not on an analysis of the world order but on how the western Balkan states are receiving and processing hegemonic influence and how are progressing within this world order. Therefore, the world order will be taken as a given in the analysis.

The assumption that the EU and Germany are the primary agents transmitting the dominant ideology, permits us to consider them as the core transmitting its ideas outwards to the periphery. In particular, as we will demonstrate in Chapter 2, Germany is the state that seeks to formulate to a very significant degree EU policy in the region (Hellmann 2001) and this allows the examination of Germany as the hegemonic state and the EU as the main institution which operates the hegemonic order. In addition, the operation and interference of other institutions like the IMF and the World Bank, which share a common ideology, permits their inclusion in the analysis as secondary hegemonic institutions in the neo-Gramscian sense.

Here of course confusion might arise, regarding the heterogeneity of the Bloc, with actors that seem to have competing agendas. However, in the case of the Balkans, as will be explicitly presented, these actors are cooperating. The EU is coordinating the activities of the other international institutions, Germany is promoting certain initiatives with the support of US and other EU members states; while the economic elite, despite its heterogeneous character, is cooperating with the other actors, without their competition being more than purely commercial.

From the analysis of the three spheres so far, the first step (i.e. the identification of the changes at the level of the production structure) is almost covered. Thus we will describe the responses of the collective actors and social forces. This means that we have to deal with the productive classes (workers, industrialists etc), their interaction, and mainly their response to neo-liberal (i.e. the hegemonic ideology) doctrine. For instance, we can try to examine the degree of consent, the discipline, and the coercive mechanisms, like the carrot- and- stick
policies of the EU. In addition, through the empirical analysis of financial and commercial exchanges, and of political agreements and decisions, we will show which social forces are involved in the establishment of hegemony.

This also means that we have to examine the role of political parties in the Balkans. Gramsci clearly defined the political party as the collective will and the mechanism for the transmission of hegemonic ideas (Gramsci 1971). Hence, it is important to locate and analyse the political coalitions, their connections with certain social forces and their dynamics in each case study. Then we have to find the degree of control in the society and which forces make up the Historic Bloc. For instance, in the case studies, if the dominant political formations in the Balkans seem to be towards the West, then a certain policy can be expected which is closer to German and EU preferences and mentality, whereby they can be seen to represent the West in this region.

Certainly, since Germany is considered to be the hegemonic state, the analysis should also include the role of German policy-making and the foreign policy orientation of the parties in office. For example, the Schröder government was arguably more interest-seeking than pro-European and as a result its policies in the Balkans exhibited many elements of national interests. Subsequently, the orientation of the Merkel government plays an important role in German foreign policy in both the EU and the Balkans.

Therefore, the thesis should look at the mechanisms that would be seen to transmit German hegemony in the Balkans. These are located in organisations and institutions that deal with the Balkans, while at the same time Germany has substantial participation and influence on them. The latter can be financial, political, military or a combination of all three. However, as we mentioned in the introduction, German politico-economic interaction is such that the system and its corresponding internal relations remain largely stable.

Regarding the third step, things seem to be a bit more complex, since there is not a single state that shapes the world order and we are interested more in the states that are subject to the imposition of hegemony. According to the main hypothesis, we have to deal with Germany and the Balkan states in the three main
case studies. Nevertheless, we have to make adjustments in order to fit in with the intentions of the current thesis.

Firstly, instead of taking Germany, which is considered to be the hegemonic state for this thesis, and examining how its dominant classes established hegemony in Germany and subsequently how they influenced the formation of Germany, we will take a different approach. We will examine how the domestic elite in each of the three case studies is formed and is collaborating with the hegemonic group and its components; i.e. we are looking at the receiver of hegemony instead of the hegemonic provider.

The application looks possible because both the elements of coercion and consent are employed by Germany and the EU in relation to the states examined here. Hence, as we will try to demonstrate in the case studies, both coercion and consent will be apparent in the decisions regarding financial assistance or the state's progress towards EU membership as well as in the military presence in the region, where Germany is among the largest contributors.

Furthermore, with this modification of the third step, instead of looking from the perspective of the hegemon, which in this case we assume to be Germany, we are looking from the point of the recipient states, which for this thesis are the three case studies from the western Balkans. Thus, the configuration of power within German society is taken to be a stable variable. Thus, we can look at whether or not Germany is the hegemon by looking from the receiver's perspective, by looking at the kind of hegemony is being received and from whom it is being transmitted if not from Germany.

To sum up, the research will look at the local, German and regional mechanisms and actors, then at how these actors are working and their influence on the local society. The difference from the original theoretical application that we presented above is that we do not deal with German society, which we assume to be the hegemonic society, but we take for granted the German societal setting, and therefore we examine how the putative hegemony is being received by the Balkans and what the implications/outcomes are. In addition, we are viewing each case study separately and are thus examining the hegemony in each case study individually. In this way the Historic Bloc is seen not as a general one but as particular for each case.
study. This allows us to test the existence of hegemony with the inclusion of the particular politico-economic circumstances of each case study.

Finally, the projection of the domestically established hegemony outwards, will be ignored. This is because already assume the existence of an outward hegemony. From the above it is becoming obvious that the hegemony is primarily economic and it will be evident by the economic penetration of the Bloc that it will be mainly reflected in FDI and in trade relations, which are also carriers of the hegemonic ideology, as is part of their management mentality. Lastly, in purely technical terms, after the presentation of the three spheres will the German role in the case study in question will be presented and an assessment made of whether and to what extent Germany fits the role of the hegemon.

1.6. Strengths and weaknesses of the theory.

To complete the presentation of our theoretical framework we have to answer the crucial question of why we chose this theory. There are various reasons why.

Firstly, we believe that in the contemporary world, which is characterised by global interdependence and the rapid flow of huge financial assets, we cannot speak of power games in a strictly nation-state framework as realist thinking does. New actors are appearing on the global scene. For instance, the decision to go to war today is not only linked with geopolitics or with balance of power considerations, but it is also linked to issues such as the reactions of world stock markets to such an event. Today, for example, China's most effective weapon against the USA is not a nuclear bomb but the Chinese stock of dollar securities which, if China decided to sell them, would deal a big blow to the US economy since these capital imports are financing the huge US debt.

Moreover, we cannot refer to hegemony in terms of the past, i.e. interstate bullying; the invasion of foreign armies; colonisation etc. Today hegemony should be embedded and indirect. In the contemporary world, those who have 'control' of the national economy and the flow of information are able to exercise hegemony. In the global economy the nation-state cannot impose total control on investments and

\[15\] Hence as it will be demonstrated in the Balkans, the Historic Bloc is assuming control of this two areas.
flows, as was possible in the past, simply because there is no closed national economy where economic assets are predominantly nationally based, and because technological advances allow the bypassing of national watchdogs through moving financial assets around globally. Furthermore, in the era of globalisation, there is a huge flow of information and the potential for cultural and ideology promotion through global media (e.g. the CNN effect). Thus, we have to refer to cultural attitudes and reasons, in order to have a full picture of international relations decisions.

Referring to the Balkans\textsuperscript{16}, we have two more elements to take into account. From one side, we refer to the EU, which is not a nation-state but has significant power that in some aspects resembles the power and function of a nation-state. The EU is also a structure which represents the collective interests of its members but at the same time is a more complex and united structure than NATO, another important multilateral institution. Moreover, the EU is exercising tremendous influence on the Balkans. The Balkans, from their side, are facing a difficult late transition, from the hegemonic context of communist patronage, to a new western context. At the same time, both the elites and ‘subordinate’ classes of the Balkan states are showing an unprecedented compliance and desire to be integrated into this new system and to accept this ideology, despite the hard measures that have to be implemented. What is also intriguing in the Balkans is the co-existence of old and new politico-economic elites, while in the case of the other former communist societies of Central and Eastern European Countries (CEECs), there was overwhelmingly a fundamental change of power.

Hence, why does this theory explain all the above better than other IR theories?

For us, the neo-Gramscian theory that we have outlined in previous sections, seems to be the most appropriate to provide answers to these questions. The theory that we apply refers to global political economy and therefore allows us to include and analyse the global interdependence of national economies as well as the general role of the economy in world politics, while it can also be easily interpreted at regional level. At the same time, as will become obvious later with the case studies,

\textsuperscript{16} The terms refers to the western Balkans.
we have the necessary flexibility to refer to geopolitics and power games in classic
nineteenth century and Cold War terms and thus to bridge (if the term is appropriate)
the economic and 'strategic' explanations.

Furthermore, with this theory we are able to refer to FDI; trade; privatisation
and other contemporary economic terms and therefore to see the influence of
globalisation on both 'weak' and 'strong' societies. We can search for a kind of
hegemony that begins through the economic control of key economic sectors in a
national economy by transnational and foreign national economic capital.
Additionally, by referring to elites we can more easily explain the indirect aspect of
hegemony, e.g. by focusing on the decisions of those economic actors that create
the hegemonic conditions, such as EU decisions on the liberalisation of energy
markets in transition states. We can also refer to the embedded aspect of
contemporary hegemony, through reference to tools such as institutions that seem
to exercise a larger influence than the mere use of politico-military force.

Another advantage of our theoretical framework is the opportunity that it
provides to use the EU and the member states as distinct actors whose actions are
connected. The use of the EU as the hegemonic institution not only fits our
hypothesis and the structure of our analysis, but also allows us to find a pattern
between the EU and the EU-27 and overall EU policy in the western Balkans. In other
words, who acts; who benefits; and who controls.

However, the biggest advantage is that it helps us explain why the western
Balkans are accepting what is actually being imposed on them. By dealing with elites,
it is easier to establish connections, influences and personal interests that explain
this compliance. In addition, the theory provides us with the ability to examine the
cultural aspects and the hegemonic propaganda through agents such as the global
mass media, or the normative power of the EU. Finally, with the term 'passive
revolution' we can provide an answer to the coexistence of old and new politico-
economic elites instead of the fundamental change of hegemonic control.

Certainly all theories have weaknesses and the one that we use is not an
exception. It is also understandable that in the limited space of an academic thesis it
is not possible or appropriate to present the whole spectrum of the debate about
neo-Gramscianism and the Coxian interpretation. For the latter there is a huge literature, and thus here we will only refer to some key points.

In a narrower sense one of the most common critiques of neo-Gramscianism in general and Cox in particular, is their connection with Marxism. Thus, the critics claim that Marxist limitations and particularly Marxist reductionism, focusing on the economic dimension – as based on the production of material goods – neglects cultural aspects (see Schechter 2002). Cox himself rejects the term Marxist and prefers the term historical materialist (Schechter 2002: 3). Moreover, as Sinclair notes, despite Cox’s admission that material production is a fundamental activity of human societies, he expands the definition of production to include ideas, norms and institutions (Sinclair 1996: 9). A similar critique is the deviation from Gramsci (see Linklater 2001). This seems true since Gramsci referred to national hegemony, and thus the extension of the theory to the international level is something that is happening from scratch. Budd mentions also that neo-Gramscians are using only the pattern of hegemony and thus their approach is not identical to a Gramscian view (Budd 2007).

Other critics refer to Cox’s analysis over the role of the state. Schechter asserts that critics are divided since they are both critics concerned with the absence or the over-importance of the state (Schechter 2002). Nevertheless, the side that mentions the neglect of state power seems more valid. Indeed, Cox’ analysis assumes that state power is eroded by globalisation forces and that new transnational actors are emerging. In addition, Cox describes a system without a central power. Critics insist that state power remains valid since it is the state with its elite that guides globalisation against the working classes, while at the same time particular class struggle is absent from the analysis (see Budd 2007). Straight describes it as:

‘The absence of formal super-power conflict and the emphasis on competitiveness within the global economy have decreased the leverage of states and seemingly increased that of corporations and other institutions of global civil society’ (in: Sinclair 1996: 5).

The supporters of Cox mention that the world order has changed and thus any state should take into account international financial flows (Sinclair 1996). Furthermore, in relation to the absence of class struggle, the very concept of hegemony as defined by Gramsci and Cox contains the elements of class struggle.
Particularly in Cox’ interpretation, the class struggle is broadened with the inclusion of normative aspects such as the collective image of world order and the inclusion of the institutions that administer the particular world order (Morton 2006). Morton continues by noting:

'class struggle is thereby faced rather than effaced in this historical materialist conceptualisation of critical theory - as an inquiry into distinct capitalist relations corresponding to forms of property ownership, state power and unfreedom' (Morton 2006: 65).

From our part, the modifications that have been made provide a solution that bridges these two opposing positions about state power. As became apparent we include in our analysis both national and transnational actors (by incorporating them in the same Historic Bloc). A further outcome is the ability to refer to both class struggle and geopolitics, since instead of referring to the state as an actor, we are referring to politico-economic elites that operate with motives that range from domestic political games to the protection of foreign interests. Furthermore, the state remains central to contemporary capitalism (and actually the recent financial crunch illustrates the central role of the state) but not because of the state as it is but because of the relationship between public and private actors, which are frequently relations of mutual support and protection. This is consistent also with the state-society relations approach of Cox.

1.6.1. Why neo-Gramscian theory?
The above section, depicting both virtues and weaknesses of the neo-Gramscian theory of hegemony showed why this theory was chosen. In this section, we expand the analysis slightly and present other theories and approaches to the issue of hegemony. The aim is not to present the whole spectrum of each theory but, by presenting the key points of the alternatives, to justify the choice of neo-Gramscian theory. On the issue of hegemony, there are two theories that use the concept, namely the neo-realist and the Neo-liberal and liberal theories. To these theories, we add constructivism which, even though it does not refer explicitly to the issue of hegemony, nevertheless offers interesting alternatives.

17 For matters of clarity we will use capital when we refer to the neo-liberal school of thought.
Neo-realism is perhaps the most used theory on the issue of hegemony, it is also one of the dominant mainstream IR theories, and can be considered to be the main alternative to our theory. Neo-realism, as Waltz defines it, refers to an international system, whose units are sovereign states that act in a similar manner; thus unit-level variation is irrelevant (Waltz 1979). It is a system of brutal struggle for power with continuous military, economic and other forms of competition (Waltz 1993: 45; Mearsheimer 1994/95). The structure of the system is defined by the ordering principle of the international system which is anarchy, the differentiation of units and the distribution of capabilities across states (Waltz 1979). Hence, international politics reflect the distribution of national capabilities (Waltz 2000: 27).

In sum, neo-realism rests on five broad assumptions: First that the international system is anarchic in the sense that it consists of sovereign units, i.e. states without a central authority. Within this anarchy there is a rank order since there are great powers etc. Secondly, the state which has a certain military capability, is the most obvious state power and the overall state power is based on its combined capabilities (Mearsheimer 1994/95; Waltz 1979). Hence, economic power is subordinate to military power, but economic power is necessary for the provision of resources and capabilities that enhance state power (Waltz 1993). A third assumption is that there is uncertainty among states about their intentions and actions and thus the states are always on the alert, while interstate relations are characterised by mistrust. The fourth assumption is that the most important motive of states is survival and maintaining their sovereignty (Mearsheimer 1994/95) or as Waltz notes 'The first duty of the state is to defend itself' (Waltz 2000: 9). The final assumption considers the states as rational strategic actors in a world of imperfect information about the intentions of other states (Mearsheimer 1994/95). The balance of power is the basic strategy for survival (Waltz 2000: 30) and is apparent in the structure of the international system (Nye 2004).

In such a system, the states rely on self-help, which means that each state stands alone, is vulnerable in the international arena and has the primary aim of its own survival and the promotion of its self-interest (Waltz 1979). Cooperation and alliances are limited and short-term since they end when their purpose is fulfilled (Waltz 2000; Mearsheimer 1994/95). The states aim to maximize their relative
power position over other states as reflected in military capacity. At this point we have to mention that for neo-realists, the economy is secondary to security and the objective of enhancing capabilities and that governments are above the markets (Waltz 1993; 2000). Relative power considerations are evident in states' cooperation, where each part 'not only considers its individual gain, but also how well it does compared to the other side' (Waltz 1993: 59-60; 2000: 12). Hence, from the moment that a state is preoccupied with the balance of power it has to ensure not only that it is able to maximize its gains but 'more important to make sure that it does better, or at least no worse, than the other state in any agreement' (Mearsheimer 1994/95: 12; c.f. also Waltz 2000). In fact, balance of power offers the check on the system and this ensures peace (Waltz 1993).

In neo-realism institutions are seen as reflections of state preferences and interests that cease to exist once they stop facilitating the interests of their creators. In other words they reflect 'state calculations of self-interest based primarily on the international distribution of power. The most powerful states in the system create and shape institutions so that they can maintain their share of world power ... institutions largely mirror the distribution of power in the system' (Mearsheimer 1994/95: 13).

According to the parameters of the system with the competition among states and the search for relative gains and an uneven distribution of power, some states achieve higher ranking than others and some are elevated to great power status (Nye 2004). The hegemonic state is the dominant power, namely the state that controls or dominates the lesser states in the system (Nye 2004; Gilpin 2001). As such it brings balance and peace once primacy is established and the need to defend this primacy is lacking (Waltz 1993: 76-77). The supremacy of the dominant power is not only in military capacity but also in the economic structures which favour its interests (Waltz 1993; 2000). In addition, the hegemon shapes the system in a way that favours it. For example, according to Waltz the promotion of democracy is a strategic choice to minimize the threats by creating images of the hegemon (Waltz 2000: 12). Equally, the hegemon designs the institutions in order to promote its interests and abandons them when this is not possible anymore. For neo-realists NATO is such an example and is considered a tool to maintain and lengthen the US
grip on the foreign and military policies of European states (Waltz 2000: 20). Therefore, as it is stronger than any other state, it can bend international law when the latter threatens to thwart its interest (Waltz 2000: 27).

However, a unipolar power is capricious and this raises the concern of other states that try to balance this power. Additionally, this behaviour worries the other states that seek to balance this power. This along with the overextension of the hegemon brings its weakening. The limit of the hegemon’s expansion is evident when the economic foundation is unable to sustain the hegemon’s status and thus the hegemonic state tries to reverse the decline by economic reorganisation and the reduction of imperial burdens (Waltz 1993; 2000). It has to be noted that the hegemon undertakes the cost of hegemony because it profits from this system. Hence, hegemony is located in a material approach based on the prevalence of material capabilities (Joseph 2008).

The debate about the validity of neo-realism is beyond the scope of this thesis. Nevertheless, we have to justify why we rejected this theory. Firstly, we agree with some of the general criticisms of neo-realism, namely that it is descriptive and thus fails to explain why and how the system and national interests and actions are formulated. It is reductionist since the basic principles of the system like self-help, the character of the anarchy and power politics are taken as given (see Wendt 1992: 396). Closer to our thesis, is that neo-realism considers states as the only actors of the system, something that contradicts our view of hegemony that pays more attention to elites and non-state actors. Another reason is the distinct absence of cultural and normative explanations, which we believe play an important role in foreign relations. Other reasons are related to the role of the economy. For us the economy is more important than military capabilities since governments do not control the markets but coexist and cooperate with them. Cooperation is another reason for rejection, since our thesis observes different national elites that cooperate without mistrust or imperfect information from the moment that they exercise hegemony together. We also disagree with the role of institutions that are considered tools for hegemonic control. We can see some elements of autonomy as in the case of the EU. Finally, we agree with Alexander Wendt when he refers to neo-realism as a self-fulfilling prophecy since it solves the problems that it creates.
instead of looking at how or why these problems occur and how the structural changes take place (Wendt 1992).

The second theory is liberal institutionalism or as some scholars like Moravcsik notes, institutionalism. It is a theory that, despite enjoying some neo-realist assumptions, such as the anarchic international system and rationality, refers to issues of cooperation, complex interdependence and institutionalisation of international relations (Keohane 1989; 2009). Hence, although states are unitary actors rationally pursuing their self-interests in a system of anarchy, they are cooperating and seeking their interests by using institutions, which give material gain and reduce competition on the basis of reciprocity (Axelrod and Keohane 1985). The states are not the only actors for institutionalists. Transnational actors such as transnational corporations and multilateral institutions are also important actors in the system. States seek to maximize absolute instead of relative gains (Axelrod and Keohane 1985; Keohane 2009). Under these circumstances, peace is achieved when the states form institutions, even if such action means that they lose some of their sovereignty. Thus, cooperation is effective and takes place when actors adjust their behaviour to the actual or anticipated preferences of others to promote mutual interests, but it is more difficult in cases where there are no mutual interests (Axelrod and Keohane 1985; Mearsheimer 1994/95). In this way, international cooperation is achieved despite the lack of central authority through reciprocity which enforces norms and values and 'civilises' the community of states. To this, free trade is an extra benefit because it enhances cooperation and brings mutual benefits (Nye 2004). It also creates the necessary interdependence and division of labour in the international economy that makes war very costly (Nye 2004). Institutionalism divides international politics into the security and the economic realm with more focus on the second (Mearsheimer 1994-95); hence soft and hard politics become equal. Finally, through reciprocity, cooperation is achieved in a situation of conflicting interests.

Within this framework, institutions are accorded a central role since they are the mediators of cooperation. The biggest advantage of institutions is the minimization of misunderstandings by providing information about each actor's perceptions and indications. Misunderstandings can lead to conflicts since
'subjective interpretations by one side become objective reality for the other side' (Axelrod and Keohane 1985: 231). The institutions reduce the lack of knowledge (or shadow of future, according to Keohane) and this enhances cooperation. An example that is used by Axelrod and Keohane is that if Germany had known the reaction of the Entente in the First World War, it would never have initiated it (Axelrod and Keohane 1985; Mearsheimer 1994/95). A great advantage of institutions is the socialisation of states and the shaping of their behaviour. In addition, the principles and rules of institutions also include the elements of punishment for those that violate the 'law' (Mearsheimer 1994/95; Keohane 1989). Moreover, an alternative to the use of force as conflict resolution occurs by constituting international regimes that fare better on sanctioning problems. Finally, once an institution is created, it preserves a kind of autonomy similar to state behaviour (Waltz 2000). Therefore, regimes and institutions assist in governing the anarchic system and motivate cooperation and multilateralism as a means of securing national interests.

Institutionalism was rejected because, like neo-realism, it considers many variables of the system as givens and is rather descriptive, and because the role of domestic and non-state actors is ignored. In addition, there are no references to how hegemony is constructed and we could not find a convincing explanation for the state-transnational capital cooperation (see Jacobsen 2003; Joseph 2008). Moreover, there is no clear reference to norms and cultural aspects, and the use of the economy is slightly different from our perspective, because free trade is regarded as something essentially positive but can, according to many development theorists (Chan, Sen, and Rodrik) be seen as a means of exploitation. Accordingly, the institutions themselves are not used simply for cooperation but as a means of exploitation and for maintaining the status quo which is central to our analysis.

Institutionalism is accused by some scholars of being closer to neo-realism than liberalism (see Moravcsik 1997; Waltz 2000; Mearsheimer 1994/95). Looking at writings that are more liberal, Moravcsik offers us some rich insights. In fact, liberal theory, with its three variations (namely republican, commercial and ideational liberalism) relies on three core assumptions. These are:

1. Primacy of societal actors. As in a bottom-up process, where socially differentiated individuals define their material and ideational interests in a
rational mode and then upload those interests through a political exchange and collective action (Moravcsik 1997: 517).

2. **Representation and state preferences.** States are institutions that represent the social configuration of power whose interests they promote. Therefore, 'state institutions alongside societal interests themselves are a key determinant of what states do internationally' (Moravcsik 1997: 518).

3. **Interdependence and the international system.** State behaviour reflects varying patterns of state preferences and the variation is evident in 'the configuration of state preferences, while treating configurations of capabilities and information as if they were either fixed constraints or endogenous to state preferences' (Moravcsik 1997: 520).

In brief, for liberals, conflicts and their prevention are not only subject to balance of power but also to the domestic structures of states, from the moment that a state preference is shaped by the interests, values and identities of the domestic group that has the power. In this way trade is important because it directs state competition to the realm of the economy instead of military action (Nye 2004; Freund and Rittberger 2001). It is worth mentioning that, for liberals, markets have superseded governments (Waltz 2000). Finally, in relation to institutions, liberals argue that they 'can help prevent conflict by stabilizing expectations, creating a sense of continuity and a feeling that current cooperation will be reciprocated in the future, providing information on whether states abide by international norms, and establishing mechanisms for conflict resolution' (Nye 2004:37).

In relation to hegemony, Neo-liberals view it as the leadership (or hegemony) of the state which brings liberal ideas, rules and institutions of international society but forsakes short-run gains in return for a durable settlement that benefits all states. In addition, the hegemon is inclined to cooperation instead of the use of power. Finally, Neo-liberals accept formations such as the EU; where states cede part of their sovereignty for integrated communities and mutual economic gains (Ruggie 1982; Gilpin 2001; Nye 2004).

Even though liberalism and particularly its commercial variation, is close to our ideas, there are certain elements that make us reject it. First of all, there is no
reference to class struggles and how the domestic groups achieve power, something which is basic to our view of hegemony. Another reason is the supremacy of the markets, which we reject, while the role of the economy and of laissez-faire policies is not benign in our opinion but aims towards exploitation and uneven development. Finally, some of the core arguments of liberalism, such as democracies not waging war on each other or the role of institutions in the international system, are in disagreement with our views. The same applies to the role of hegemon, which for this thesis is not only a state, but is also not a benign leader.

The theory of hegemonic stability in its liberal version as defined by Robert Gilpin is also interesting. According to this theory, the hegemon is a necessary but not sufficient condition for establishing a liberal international economy and the hegemon has to be committed to the liberal economy. Furthermore, hegemony makes cooperation more feasible because the hegemon is not an imperial power that coercively imposes its preferences, but its leading role is in promoting collective goods for it and its allies (Gilpin 2001: 94-96). Moreover, the hegemon can enforce compliance to the rules, something that regimes cannot, because ‘the leader or hegemon facilitates international cooperation and prevents defection from the rules of the regime through the use of side payments (bribes), sanctions, and/or other means, but can seldom, if ever, coerce reluctant states to obey the rules of a liberal international economic order’ (Gilpin 2001: 97-98). The theory clearly refers to a liberal hegemon and to the establishment of the liberal world economic order. The hegemon sets the structure of the international liberal economy, firstly to satisfy its interests, and is the only actor that can use its resources in order to maintain the system and ensure free trade (Gilpin 2001: 99).

The theory seems to fail to describe the connection between military and economic power and hegemony (Nye 2004). Moreover, the theory contains the main problems of liberal theory and particularly the role of the hegemon without insights involving class struggle and domestic actors.

The final theory that we examine is constructivism. Like neo-Marxists, constructivists are concerned with how world politics are socially constructed. This leads to two claims: i) that the structures of international politics are social rather than materialistic and ii) that the structures shape identities and interests and not
only behaviour. Thus, both claims are opposite to neo-realism and institutionalism (Wendt 1995).

Hence, state interests are largely constructed by systemic structures, which mean sociological structuralism (Wendt 1995: 73). The social structures are not only made by material capabilities but by social relationships as well and therefore have three elements, namely, i) shared knowledge such as shared understandings, expectations, which show whether the actors’ relations are conflictual or cooperative [therefore, the social structure is based on ideas, and what makes the ideas social is their intersubjective quality or sociality (Adler 1997)]; ii) material resources, where the difference with mainstream theories is that, for constructivists, material capabilities have ‘meaning for human action through the structure of shared knowledge in which they are embedded’ (Wendt 1995: 73), [changes in material power therefore change social relations]; iii) Practices, i.e. ‘social structure exists only in practice’; in other words the focus is on explaining how social structures affect practice (Wendt 1995: 74).

What has to be mentioned is that constructivism tries to explain how the structure makes actions possible by attributing to actors certain identities and interests and material capabilities, in other words ‘how agency interaction produces and reproduces structures of shared knowledge over time’ (Wendt 1995: 76; Adler 1997). The focus is not on explaining anarchy but on what kind of anarchy and on the perception that the system is not given but changes in relation to the practices of states (Wendt 1992). Another characteristic of the structure is the role of reciprocity. Each state reacts towards the other on the basis of each experience, knowledge and interdependence (Wendt 1992). For instance, if a state starts to militarise itself the others will follow, thus security dilemmas are acts of practice (Wendt 1992; 1995).

The institutions are a stable set of identities and interests with formal rules and norms and thus cognitive entities that cannot exist apart from actors, ideas about how the world works (Wendt 1992). Thus, institutionalism is a process of internalising new identities and interests not something exogenous that affects only behaviour (Wendt 1992; Adler 1997; Checkel 2004).

Constructivism seems similar to the theoretical approach that we are using, which might be natural since both neo-Gramscian theory and constructivism are
critical theories. However, there are a number of issues that made us reject it as our explanatory theory. The main reason has to do with the lack of reference to class struggle, the role of transnational capital and the exploitation strategies within societies. In addition, there is no clear reference to the role of hegemony and how this can exist.

1.7. Developments in the field.
Further to the explanation as to why we apply neo-Gramscian theory for investigating the case of hegemony in the western Balkans, it is useful to look at relevant efforts in the field in order to identify possible blind spots that this research comes to fill. In the introduction we mentioned the debate on German hegemony and that this research seeks to contribute to this debate illustrating a largely economic and indirect hegemonic policy on the part of Germany in the Balkans. Here we will try to show whether there are more reasons that can justify the conduct of this research.

The vast majority of the available literature deals with the disintegration of Yugoslavia and the role of the international community and particularly of the USA, Germany and Russia (c.f. McGrath 1999; Buckley and Cummings 2001; Ramet 1999). In most of these, the approach is either neo-realist within the framework of power games, geopolitical balance of power and fight for material capabilities and hegemony. For instance, Livanios, Brownback and Norris see Russia and NATO indulging in games in the Balkans, while Howkins and Johnstone see US or EU control (Livanios 1999; Norris 2005; Howkins 2005; Johnstone 2000). Other scholars like Noctiummes and Page, as well as Bromley and M. Cox take a leftist approach, focusing on an anti-imperialistic and critical view, which mentions the design of a grand hegemony and dominance but nothing which corresponds to the framework of the neo-Gramscian view (Noctiummes and Page 1999; Pozo-Marin 2006; Bromley 2006; Cox M. 2004). Research on the effects of globalisation is also extensive (see Steger 2004; Swyngedouw 2004; Chang 2002).

Another branch of scholarship deals with the role of Germany in the EU in relation to the events in Yugoslavia and in the post-Kosovo period. Rippert and Gardner-Feldman are good examples of this (Rippert 1999; Gardner- Feldman 2001).
Of course the largest part of this scholarship is based on the debate about German foreign policy since unification. Thus, there are scholars like Erb and Harnisch and Maul, who believe that Germany is a civilian power, and those such as Hyde-Price and Bluth, who see Germany as a new actor in the global balance of power (see Erb 2003; Harnisch and Maul 2001; Hyde-Price 2000; Bluth 2000). Within this framework the German role in the events of Yugoslavia and beyond is seen either as an example of the new German power (Pradetto 2004) or as a multilateral protector of civil rights (Rathbun 2004). Others like Crawford see a German hegemony within the EU, whereas Lilly Gardner-Feldman sees the German actor as a supplement to the American (Crawford 2007; Gardner-Feldman 2001).

The role of the EU is also seen in a variety of approaches. Hence, there are scholars such as Pond, Olsen and Smith that see the enlargement policy towards the Balkans from the view of a community of values and Europeanisation (Pond 2006; Smith 2002; Olsen 2002; Pridham 2000). Others see a more ‘sinister’ role as one of dominance and hegemony (Bechev 2006; Savran 1999) or promotion of certain member state interests (Crawford 2007). There are also scholars that are researching this relationship from the view point of the Balkans and how they react to this integration (see Noutcheva 2007; Jileva 2004).

Also interesting is neo-Gramscian scholarship itself. Most of the literature deals with the role of the USA in the post-Second World War and post-Cold War periods and how it is deploying its hegemony. Gill, Cox, Budd and Femia are good examples. (Gill 2003; Cox 1987; Budd 2007; Femia 1981). Close to them are Ryner and Cafruny that see a US hegemony in Europe through the transmission of US neo-liberal capitalism (Cafruny and Ryner 2007a; 2007b) as well as Gill and Bieler that deal with EU neo-liberalism, its impact and how it has been formulated (Gill 1998; Bieler 2003). There is also some literature on the role of international institutions and of neo-liberal economic theory in the relations between developing and developed world (see van der Pijl 2007; Seabrooke 2007; Cerny 2006; Birchfield 1999). Here, we can identify a number of scholars like Morton who focus on the issue of passive revolution (see Morton 2007). Other scholars focus on the post-Soviet world (e.g. van der Pijl 1993), on east Asia (e.g. Gills 1993) and of course on Latin America where the literature is substantial (see Morton 2007). Of course, there are a number of
other left non-Gramscians, and even more mainstream scholars like Laclau and Mouffe and Sklair who deal with the issue of hegemony (Laclau and Mouffe 2001; Sklair 1997). For instance, Beeson examines the rise of China in a mainstream security account of hegemony (see Beeson 2009), while others like Rapkin and Braaten examine hegemonic legitimacy using the ‘family resemblance concepts’ (see Rapkin and Braaten 2009). Closer to our perspective comes Ruth Deyermond who examines the use of hegemony in Central Asia. Her approach uses the concept of ‘Matrioshka hegemony’, which allows the coexistence of global, regional and local hegemons in a multi-levelled hegemony. Nevertheless, her insight is more at state level than at the elite level (see Deyermond 2009).

So far, the closest research to the approach adopted in this thesis were two articles. The first is by Türkes and Gökgöz, who apply the Gramscian theory to the role of the EU as hegemon. However, there are differences in the application method and to the findings. The most important of these are the consideration of the Commission as a central actor that sets the hegemonic project as well as the reference to the Historic Bloc for the whole region. Thus, they end up asserting that an Historic Bloc for the whole region is not feasible and that the situation in the region is merely an example of the overall hegemony of transnational capital (Türkes and Gökgöz 2006). The second is an article by Dorothee Bohle that examines neo-Gramscian hegemony in eastern and central east Europe. We agree with her findings of a Historic Bloc with participation of local forces including trade unions that see the EU as a panacea to their problems. Nevertheless, we disagree with the generalisation of the Bloc as well as with the use of the EU as an actor of the Bloc instead of a primary hegemonic institution. However, the only ‘serious’ difference is that we apply neo-Gramscianism and find similar conclusions in the western Balkans and not in eastern Europe.

It is becoming obvious that almost all the aspects of this thesis have been mentioned before, although without all of them at once. However, this thesis contains elements that make it a unique piece of research. First of all, in this thesis there is a combination of all the above elements. The approach to hegemony in this thesis combines the German and EU role in the western Balkans and at the same time treats both actors individually and within the overall framework of the EU. In
addition, the application of neo-Gramscianism to the western Balkans is rather new, since the region has not to date received much attention from neo-Gramscian scholars. Particularly the connection of Germany with the western Balkans within the framework of neo-Gramscian hegemony is something new, since until now any such connection has taken place within mainstream theoretical approaches. Close to this is the fact that we are including Albania in this research, which is something new. Albania is a state that has not been researched much so far and thus this thesis is a step in this direction. Other novel elements of this thesis include the way that we apply the theory since the reverse method is not usual in relative research. A last element is our examination of each case study separately and thus testing the hegemony in each case as well as reducing the reach of hegemony to the regional level. For the latter the passage from Deyermond is revealing concerning the scarcity of academic references to the kind of regional hegemony that we examine. Hence:

'Regional hegemony has received limited theoretical consideration; the traditional hegemony literature often identified such states as “rising challengers” to the global hegemon, rather than as states occupying a hegemonic position within a geographically limited area' (Deyermond 2009: 156).

As will become evident for us, the hegemony is regional and, even though there is no reference in this thesis to other regional hegemonies, something which is not the purpose of this thesis, we believe that today there are no global hegemons since even the US, which is considered the superpower, acts as a regional power.

1.8. Why Germany?

1.8.1. The German model.
We conclude Chapter 1 with an explanation of our choice of Germany as the putative hegemon in the western Balkans. The answer begins with Germany’s overwhelming economic power in Europe and globally (third largest economy in the world and biggest exporter) and its ability to shape key EU policies such as the enlargement policy. This makes Germany at the very least a regional (at least in economic terms) leader and this fits the regional aspect of the hegemony that we seek to examine (see Crawford 2007). Moreover, Germany has a past in the Balkans, a past of control and influence. Furthermore, the German model seems to fit our theoretical framework pretty well.
The German system is unique. As Conradt describes it:

'The Federal Republic is a complex political system characterized by the presence of several power centers. The national executive with its control over the civil service initiates the broad outlines of policy, but it cannot secure the approval of its policy proposals or their implementation without at least the tacit support of other actors in the political system: the major interest groups, the extra-parliamentary organisations of the governing parties, the back benchers in the legislature, the states, the semi-public institutions such as the Bundesbank, and even the opposition party when it has a majority of the delegates in the Bundesrat' (Conradt 2001: 270-71).

Hence, to understand and predict German policy in the Balkans it is necessary to examine the actions and the norms of the participating actors. This is important because through the examination of the actors' responses and the way in which the system takes its decisions, it is possible to explain both the actions of Germany in the western Balkans, and assess whether these actions are hegemonic. It allows us as well, to define the German politico-economic elite, which will be the basis of our framework.

Such a decentralized system with so many different actors in the political spectrum involves a policy network in the framework of 'cooperative federalism'. This term describes German federalism, which focuses on achieving common standards among the Länder (i.e. constituent states) by reducing their disparities and diversities and involves 'the interdependence and compromise-orientation between the federal level and the Länder/Bundesrat' (Jeffery 2003: 38-42). The process of compromise and consensus-building between the institutions and 'sectoral corporatism' defines the institutional setting of German policy-making, which is characterised by linkages between economic interests and institutions within that decentralised structure (Padgett et al. 2003: 3-4). Particularly, within 'sectoral corporatism' Germany's political actors typically preserve lasting and working relationships with private actors. Therefore, the system's policy outcomes lead to incremental changes, through negotiations and compromises within this setting (Freund and Rittberger 2001: 97; Sturm 2003; Conradt 2001: 271). For these reasons Germany has been described as a consensus democracy (see Burkhart and Lehnert 2008).

From a neo-Gramscian perspective the connection is rather obvious. The neo-Gramscian model requires the cooperation of economic and political actors, with
both participating within the same Historic Bloc and with one underpinning the other. In this sense the German institutional setting fits perfectly because of the connection between public and private actors. Moreover, from the moment that this cooperation is formal and long-lasting, it allows us to treat them as one elite, i.e. the German elite and as such to establish it within the Bloc.

It is worth mentioning that between private and public actors, the division is also expressed in terms of power. The former are more influential and active in economic matters, where their representation is stronger, and the latter are stronger in the political field. Consequently, the outcome of policy-making is based on balances and on consensus between different interests and on the balance of power in each of the policy domains, within a decentralised network of political power (Sturm 2003: 103-4; Hyde-Price 2000: 33-34). The extent of this lobby's power is also reflected in international agreements. Particularly in cases where German economic interests are opposed, the Chancellor tries to ‘impose’ the necessary adjustments (see Crawford 2007). For instance, German interests in relation to Russia encouraged the construction of a pipeline between Russia and Germany, which bypasses Poland and the Baltic states and which was at the time against US preferences (The Economist 2008b:45)

The representation of economic interests by the political world in the international arena is pressed even more rigorously by the current grand coalition between the two main political parties namely the Sozialdemokratische Partei Deutschlands (SPD) and Christlich Demokratische Union/Christlich-Soziale Union (CDU/CSU). This is based on the traditional link between CDU and German industry, which is represented by the Bundesverband der Deutschen Industrie e.V (BDI), as well as through the SPD via more neo-liberal channels as exemplified by Schröder’s Neue Mitte (see Allen 2006). Indications of the above are numerous such as the case with the dispute between the German government and the European Commission about the former’s ‘state aid’ protection for Volkswagen (Bryant 2008).

In relation to this thesis, Germany is expected to be more active in pursuing national economic interests abroad, which in the Balkans can derive from the pressure of economic interests. In addition, it is becoming obvious that at the moment the basic economic ideology in Germany is neo-liberalism. This is expressed
and practised by Germany within the context of ordo-liberal theory (see below). The executive, therefore, is something that we have to take into account in the analysis as the promoter of certain policies and because it has the role of representing Germany within the EU and thus exercises influence from there as well. Speaking about links with political entities, the BDI is traditionally closer to the CDU/CSU but, during the Schröder government, it was well treated by the SPD’s generally more business friendly policies (Conradt 2001: 133-35; Leaman 2004: 157). Hence, we can expect the political promotion of economic interests in foreign policy including in western Balkan states.

After the description of the public elite, we turn now to the economic elite, which is best exemplified by the BDI. The BDI is most effective in lobbying at the political level and focuses on the government’s economic policies in Germany but also on the international economic arena. It has powerful resources as a lobby and can influence legislation from committee stage to implementation level. It has an extensive research department that supplies information to its member associations and to societal actors like the media, schools and universities. The BDI has a distinct economic ideology, which is neo-liberal in orientation. Its lobbying towards the state policy thus reflects strong neo-liberal preferences (see Butterwegge et al. 2007). This is partly motivated by the simple fact that German industry is heavily dependent on foreign trade and thus favours any policy towards liberalisation of the local and global economy (Freund 2001: 242).

As was mentioned, the interactions between state and interest groups are an embedded element of German political tradition and values. This very tradition and structure along with the consensus policy style of the political parties, and the structure of the Federal Republic, have all combined to make interest groups decisive actors in the policy-making process (Conradt 2001: 131).

The successful interaction of economic interest groups in the policy-making process takes place through representation in parliament and a strong position in the bargaining process. These two elements provide them with the necessary tools to influence legislation. This can be done by the mobilisation of their parliamentary representatives or through their strong links with the ministerial bureaucracy (Conradt 2001: 131, 206). According to von Beyme almost 70% of ministerial
personnel have strong links with interest groups (von Beyme 2002: 29). Indicative of this is the fact that the process of pre-decision-making involves negotiation within a triangular network of politicians, civil servants and interest groups representatives, with the last two forming a powerful network themselves (von Beyme 2002: 29, 34).

On the basis of the above-mentioned remarks, we can confidently expect the German political class to promote German economic interests. In addition, this connection between political and economic actors fits our theoretical model since we can add them to an Historic Bloc as the German elite and as one group within that group to use them in the analysis. The business groups have the resources and the expertise in lobbying at both domestic and EU level. Subsequently they can significantly influence German and EU economic policy towards the Balkans, in such a way that we can claim that it facilitates and promotes their interests. Such influence can happen through reforms, investments and more indirect actions such as military participation, ‘democratic’ institution-building and EU presence. These indirect actions provide stability and security for investment. Later in the case studies this cooperation will become more apparent.

Hence, so far the political/public actors are seen to be undertaking the promotion and protection of German economic interests abroad with the chancellor as the central actor in economic diplomacy. Another example is the role of Merkel in the current economic crisis and her robust defence of German interests. From the other side, economic interests support the political actors and at the same time (as will be demonstrated) are used as tools of foreign policy.

After viewing the actors of the German politico-economic setting, it is necessary to define the economic ideology of the German system. We are trying to demonstrate that it is the hegemonic ideology and therefore that there is a case for asserting German hegemony in the western Balkans. This is the task of Chapter 2. For the moment it is useful to examine this ideology.

1.8.2. German economic ideology.

Germany is a coordinated market economy, with market forces coexisting with interventionist economic institutions. Cooperative relations between firms are formed in the framework of corporate shareholding where a company (often a bank)
is a shareholder in another company including non-banks. However, in the last decade the Anglo-Saxon model has been gaining ground in the German economy. Moreover, the system has an export-orientation of high-quality industrial products that is based on highly skilled labour and technological excellence. The international orientation of the economy becomes visible from its position as the biggest exporter in the world (Padgett 2003; Crawford 2007).

The German model can also be described as managed capitalism or as a coordinated market economy, which is based on the ordo-liberal school of thought. In fact, there are two opposing economic theories which coexist, according to Dyson and Padgett, in the system and constitute the German model, or 'model Germany' according to chancellor Schmidt (Dyson 2002: 135, Padgett 2003: 122, 125). The dominant party in early years of the Federal Republic, the CDU, summarizes the role of the state in the economy in its seminal party programme of 1949: after the establishment of a competitive market order with the help of monopoly control:
"the state is...freed from the worry of central direction. There remains the task of making and protecting the law, of encouraging competition and organising monetary affairs" (quoted in: Leaman 2009:xvi).

The theory of ordo-liberalism belongs to the neo-classical economic school. The theory supports, apart from the general neo-liberal ideas of the free operation of the market, the view that the state has only to provide the framework for economic activity and to supervise it in order to protect normal operations and competition. In addition, the state exercises fiscal policies of balanced budgets as part of the process of achieving a stable macro-economic environment. Monetary policy is conducted by an independent central bank that is focused on monetary stability and low inflation (Dyson 2002: 141, 126). The independent central bank is a core element of Germany's ordo-liberal economic order.

This bank in Germany is the Bundesbank, established in 1958, which has been subsequently used as the blueprint for the European Central Bank (ECB). Ordo-liberalism is evident also in the social aspects of the German system, since the executive is only a neutral arbitrator where employment relations in the broad sense

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18 Even though under the effects of the current financial crisis we are witnessing a reverse process.
are conducted through processes of bilateral bargaining between employers and employees (see Leaman 2009: Introduction).

The German model has an orientation towards exports and Germany is a powerful trading state and as such is dependent on exports for material prosperity. This compels it to support the liberalisation of world trade, which entails the necessity to lobby for this goal within the EU and the World Trade Organization (WTO) (Cole 2001: 57). As a trading state its economic supremacy underpins its political influence in the global arena, which weighs heavily upon the strategies of its neighbours. This becomes apparent in its foreign trade policy. This policy comprises all public measures taken in order to influence foreign trade. German foreign trade policy is both multilateral and bilateral within the framework promoted by the EU and the WTO. Germany conducts a dynamic set of bi-lateral relationships with other states involving export credit guarantees and assistance with FDI etc.

German foreign trade policy is further enhanced through the EU, which amplifies its trade power through EU trade links and the Union’s weight in international negotiations. At the same time Germany appears able to dominate the EU itself and thus to exploit the current economic setting of the EU for its own benefit. The biggest example of the influence of German economic preferences is Economic and Monetary Union (EMU), which was devised and based on the German model. Even though in Chapter 2 the role of Germany in EMU is analysed, we need to note two things here. Firstly, the stable prices and currencies that EMU offers favour those states that base their economic machinery on exports. Secondly, the single market of the EU provides German companies with the playing field to compete and gain the largest share of the EU market (Crawford 2007).

1.9. Concluding remarks.

The aim of this chapter was to present the theoretical framework that we will apply to the rest of the thesis and to outline how this application will take place. This theory is neo-Gramscianism as was defined firstly by Cox. This theory seems to fit best with the kind of hegemony that we want to research, namely a politico-economic hegemony at elite level. However, we had to conduct certain
modifications in order to make this theoretical approach completely compatible with our aims. This makes the application novel.

In addition, we try to provide a valid justification for the choice of the neo-Gramscian theory against other relevant theories, where the main reason is the use of elites within a politico-economic framework instead of a more statist approach which employs theoretical structures concerned with the balance of power.

Nevertheless, there is one remaining issue that has to be addressed before being in a position to apply the theory in the case studies. This has to do with the role of the EU as the hegemonic institution that acts as the main tool for the consolidation of hegemony. This is the theme of the following chapter.
Chapter 2: The role of the EU in German hegemony in the Balkans.

2.1. Introduction.
As was mentioned in Chapter 1, because of the nature of the neo-Gramscian theory, we have to identify a hegemonic group, which has a distinct hegemonic ideology and which uses its own institutions to promote this ideology. In this chapter, we will try to conclude the theoretical framework by answering one crucial question, namely whether the EU is the vehicle for the promotion of hegemonic ideas or whether the EU is an independent actor in the western Balkans. More specifically, the main aim in this chapter is to justify the claim that EU is a channel for and expression of potential hegemony, used by elites to achieve their aims. These elites as was suggested in Chapter 1 are the politico-economic elites of the member states and particularly the German elite as well as the representatives of the transnational and particularly regional European capital that interact with the EU and the Balkans.

The question is crucial, because EU membership is the biggest national target of all western Balkan states and because the EU as a result is the source of norms and values which influence these countries. The EU would also seem to be the main source of policies that these states are implementing and which are shaping their politico-economic life. At the same time, EU policy in the Balkans has been largely shaped by the preferences of its member states, with Germany one of the most prominent actors shaping EU enlargement policy. The reference to enlargement policy is crucial because, as will be shown, it is the main policy through which the EU is operating in the western Balkans. Overall, we have to clarify whether EU policy is an extension of member states' preferences (mainly of German preferences) or whether the EU as a bureaucratic autonomous actor is acting independently or whether it is a bit of both. Moreover, trying to avoid an overexpansion of the issue of EU governance, which is not central for this thesis, we will focus on enlargement policy.

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We have to clarify that in this chapter we will refer to the whole Balkans. However, after the accession of Romania and Bulgaria, the part of the Balkans which remains outside the EU is the western part. Thus, in this chapter the terms western Balkans and Balkans will mean the same thing, namely the Balkan states which remain outside the EU.
policy which is the one that most affects the western Balkans. This chapter begins with a presentation of EU policy in the Balkans in an effort to demonstrate the influence of the EU in the region, as well as the rationale of this policy. Then we will see which actors have the upper hand in this policy domain and thus whether the claim that the EU is the channel for the promotion of member state elites’ preferences is valid. Then we will refer to the role of Germany in both the EU and in EU enlargement in order to depict those elements that can justify the claim that Germany is the leader of EU enlargement. The justification of our aims in this chapter will be based on an attempt to demonstrate that the EU has an ideology which it is promoting in the Balkans and which is the ideology of member states (preferably of Germany), and that the formation of EU enlargement policy is an action driven by a particular member state.

2.2. EU policy in the western Balkans.
Western Europe began to interact in the Balkans with the expulsion of Yugoslavia from the Communist Bloc in 1948, which was shortly followed by the establishment of diplomatic and economic relations (Crampton 2002: 108). The EEC strategy had been to reward every state that wanted to be more independent of the Eastern Bloc, and in Yugoslavia the reward was in the form of economic relations such as joint ventures between western and Yugoslav businesses and diplomatic relations. In fact, Yugoslavia was not considered to be an enemy of the West and this mutual amity reached a climax with the trade agreement of 1968.

Yugoslavia was one of the founding members of the IMF and has been assisted by the Fund with substantial aid. However, the policy measures that followed this assistance, created a number of economic problems that triggered Yugoslavia’s disintegration. Particularly, the reform of economic structures and state planning, demanded by the IMF in the 1980s, helped to disrupt the Yugoslav economy. Moreover, the accumulated debt raised social tensions and stimulated the nationalist moves towards secession, since the rich republics of Croatia and Slovenia had, in the old system of fiscal federalism, to pay the others as part of Tito’s regional compact relating to economic modernisation (Sedelmeier and Wallace: 431; Gervasi 1993).
The imposed reforms and the enhanced politico-economic approach towards Yugoslavia of the late 1980s and early 1990s, was consistent with the wider policy of the western bloc (under the Reagan doctrine) towards Eastern Europe, as depicted in the National Security Decision Directive (NSDD) 54 of 1982 as well as in the NSDD 133 of 1984 according to which Yugoslavia was the key to the West’s strategy for the destabilisation of Soviet influence in Eastern Europe (The White House 1982; 1984). Furthermore, the paper describes the policy towards Yugoslavia as follows: ‘US policy will be promoted the trend (sic) toward an effective, market-oriented Yugoslav economic structure...to expand US economic relations with Yugoslavia in ways which benefit both countries and which strengthen Yugoslavia’s ties with the industrialised democracies’ (The White House 1984). In the meantime, contacts between member states and countries of the western Balkans were already established, such as at the London conference in 1951 where France, England and USA agreed to provide annual financial aid to Yugoslavia in order to carry out its reforms (Crampton 2002: 118).

At this point it is worth mentioning that the EEC was also to a certain degree responsible for the disintegration of Yugoslavia, since according to Zimmermann, it can be argued that Europe dragged the US policy into the Balkans (due to its failure to solve the crisis), while with its statements it convinced Bosnia, Croatia and Slovenia that they should leave the federation in exchange for economic aid (Zimmerman 1996).

A more active EU approach towards the Balkans has emerged with the beginning of the disintegration of Yugoslavia. The Yugoslavian wars coincided with the establishment of the Community as the EU, with its three-pillar structure. Furthermore, the extent of the aggressiveness and of the atrocities of the Yugoslav crisis shocked the Europeans who, with the establishment of a common foreign and security policy, intervened, initially at the diplomatic level, in order to stop the hostilities. Joscha Fischer for example, admitted that Srebrenica had changed the German approach towards the Balkans because it was a blow for a society that has strong norms directed against the abuse of human rights and against actions that

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resemble the NAZI era and its atrocities (see Rathbun 2004: 106), something that was true for many of the EU member states. The intervention was supported by the US, which had been reluctant up to that point, and was marked by the (in)famous statement of the Luxembourg foreign minister and chairman of the General Affairs Council (GAC), Jacques Poos, that ‘this is the hour of Europe, not the hour of the Americans’ (Pinder 2001: 134; Smith K. 2005: 275).

The events in Yugoslavia are known. What is interesting, however, is that with the US intervention not only was the Bosnian war ended, but with the Dayton Accords of 21 November 1995, the EU began to link its Balkan policy with the EU enlargement policy. Before Dayton the EU response was targeted mainly at crisis management, reconstruction and development assistance, totalling €5.5bn in assistance programmes21 (European Union 2001; Kotios 2001: 241). Thus the non-Yugoslav, Balkan states (i.e. Romania, Bulgaria and Albania) entered the Poland-Hungary: Aid for the Reconstruction of Economies (PHARE) programme which the new republics of Yugoslavia joined later, except for Serbia-Montenegro, which was excluded due to pressure on the Milosevic regime (Pinder 2001: 129; Stability Pact 2006b; Kotios 2001: 239). Furthermore, from that moment, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and international organisations like IMF and the World Bank became involved.

In the post-Dayton period, important roles have been played by international donors, such as the Paris Club, while the Contact Group has reached important post-war settlements. The Contact Group was created during the Bosnian war in the spring of 1994, with four members from the EU (i.e. Germany, UK, France and Italy) and with the EU joining later as a single actor. During the Bosnian war the Contact Group had worked for a peace-solution and post-war settlement. The actions of the Contact Group brought about the Dayton agreement and since then established the Group as an active actor in Balkan affairs (see US Department of State 2005). In the Dayton negotiations it was also decided that the EU would undertake the main cost of reconstruction and stabilisation, something that was first made explicit by the statement of the EU high Representative, Mr. Carl Bildt, in Dayton on 1 November

21 During 1991-1997 the EU spent €17 billion in the region.

The post-Dayton era made the European Union realise that any stabilisation strategy should include the whole of the western Balkans. The Regional Approach was launched in order to underpin the implementation of the Dayton/Paris agreements and to bring stability and prosperity to the region. This was supposed to happen through the establishment of closer contractual ties with the target countries conditional on their willingness to cooperate amongst each other on all fronts (European Commission 2004b; 2006a; Welfens 2001: 34; Bechev 2006: 32). In particular, the Regional Approach was decided after the Rome conference of February 17-18, 1996, which had consolidated the peace accords with the hope of setting the basis for a process of lasting stability and good neighbourly relations in the region. This was expected through full compliance with the peace accords which is intended to provide development through the cooperation of the states (European Commission 2006a; 2004b). The Regional Approach had applied conditionality to the western Balkans taking the special nature of each country’s individual situation into account while the conclusion of these agreements depended on the willingness of the countries concerned to work towards consolidating peace and to respect human rights, the rights of minorities and democratic principles (European Council 1996; 1997). In this decision, we have to locate the role of Germany that sees EU integration as a means for establishing regional security (Pradetto 2004: 211).

The conditionality clause was finally adopted after the Commission’s strategy paper of 24 February 1997 GAC, followed by other measures that are still in force today (European Council 1997). These measures were autonomous trade preferences, financial assistance, economic cooperation and contractual relations which we will analyse later. Conditionality is important for the analysis because it ‘secures’ the candidate states within a set of rules and reforms that they have to follow. Conditionality means that those states that are progressing faster on the implementation of reforms are going to sign agreements with the EU first. This process was designed to encourage the states to implement reforms but in practice it confines the actions of the candidate states to a framework which is set by the EU. As Grabbe notes, conditionality is a powerful tool that promotes the Europeanisation
of the candidate state, which has to implement the whole acquis (Grabbe 2003). Therefore, in relation to this thesis, conditionality can be seen as another tool for the consolidation of hegemony over the western Balkan states.

The current shape of the EU approach in the region is an outcome of the Kosovo war and its aftermath. During the war the EU took an active position, but in contrast with its actions in Bosnia, has accepted US leadership (Crampton 2002:276; Smith K. 2005:284-285). The Contact Group played an important role in the settlement while the EU undertook the cost of post-war reconstruction. It was decided then that Kosovo would become an international protectorate under the auspices of the UN. In addition, during the interim period the UN mission, namely the United Nations Mission Kosovo (UNMIK), undertook the administration of the province in accordance with UN 1244 resolution (Crampton 2002: 275). The EU from the first moment declared its willingness to cooperate closely with UNMIK and it did so, while, according to the final agreement, once independent the EU would undertake Kosovo’s administration (Woehrel and Kim 2003: 44, 49; Welfens 2001: 5). Indeed the EU force undertook the control of Kosovo, with the European Union Rule of Law (EULEX) mission, after the declaration of Kosovo’s independence on 17 February 2008. The aftermath of the Kosovo war brought rapid changes in the EU approach towards the region, and helped to formalise EU policies. It became apparent that the EU needed ‘a policy based on a combination of integration into its structures and cooperation at the SEE level’ (Bechev 2006: 34).

Hence, as became clear at the Lisbon European Council of 2000, the main tools for the stabilisation and integration of the western Balkans into the EU would be the Stabilisation and Association Process (SAP) and the SPSEE. At the Lisbon summit, it was also stated that the western Balkans represented a strategic priority for the EU (European Council 2000; European Parliament 2000).

The Pact was initiated in 1998, but the Kosovo war (Stability Pact 2006b; Welfens 2001: 34), had accelerated its implementation and in the Cologne European Council in June 1999 the definitions and the actions of the Pact were adopted. The Pact is a novel initiative that combines leading states with international

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22 Paragraphs 71-77 of the presidency conclusions.
organisations within a networked approach. Among its general guidelines it was the will of the EU to assume the leadership and to appoint the special coordinator of the Pact, while it made it clear that it would help the countries of the region to fulfil the goals of the Pact and that it would cooperate with the IMF, the World Bank and bilateral donors, with the special coordinator playing an important role (European Council 1999a; Welfens 2001: 29). The Pact was formally adopted on 10 June 1999 at the Cologne Council (Stability Pact 2006b; European Council 1999a: 25). In that founding declaration the Pact defined its principles and objectives that can be summarised in the promotion of democracy, respect for human rights, economic reforms and long-lasting stability in South Eastern Europe (SEE) region, while it also defined its instruments and the role of the participant members (European Council 1999b).

The Pact took its final shape in Sarajevo on 30 July 1999 (Stability Pact 1999; European Commission 2004b). Some of the interesting elements of the Pact, apart from the provisions for cooperation between international actors, are the framework of transatlantic cooperation and the Kosovo solution as a basic element of the Pact’s success and effective cooperation and the concentration of almost all actions on Balkan cooperation (Welfens 2001: 30). What is worthy of note is that, while the Pact started as a separate presence in the SEE, it ended up after 2001 as complementary to the SAP (Bechev 2006: 38). The Pact arguably reflects Germany’s desire to lead developments in the Balkans with the further aim of consolidating its interests in the region (Pradetto 2004; Welfens 2001). In particular,

‘After the Balkan region had been stabilized with the leadership and support of the United States, the EU indicated with its stabilisation Pact for South-Eastern Europe that it considered itself the political authority qualified to determine the future of the Balkans, premised on the conviction that prospects for peaceful coexistence and the prevention of further violent conflict could only be secured through a long-term commitment and the establishment of civil structures...The Germans had initiated the Stabilisation Pact for South-Eastern Europe even before the end of Kosovo war, and under their leadership, the EU accepted a political role that complemented the military one carried out by NATO in the settlement of the conflict’ (Pradetto 2004: 214).

At the Feira Council in 2000 the EU sent the political message to the countries of south eastern Europe that they were not excluded from the enlargement process, and that they are recognised as potential members. Equally, a decisive moment for
the EU prospects of western Balkan states was the EU-Western Balkans summit of 2000 in Zagreb. At this summit, both the EU and the SEECs confirmed their mutual commitments. This gave a boost to the SAP that subsequently became the leading strategy of the EU in the region (Bechev 2006: 36-37). The final formalisation of the SAP arrived with the Thessaloniki and Madrid European summits of 2003. In particular, in Thessaloniki the EU adopted the Thessaloniki Agenda for the western Balkans which represents the road map for EU policy in the region, in which for the first time it is stated that: ‘The Western Balkans and support to their preparation (sic) for future integration into European structures and ultimate membership into the Union is a high priority for the EU’ (European Council 2003). Therefore, the aim of the EU became explicit, namely the future inclusion of these states into the EU, even though there is neither timetable nor guarantee of results due to conditionality and especially to the fourth Copenhagen Criterion (European Commission 2004a: 5).

The Copenhagen Criteria were adopted by the Copenhagen European Council in June 1993. Their adoption was a response to the new environment after the collapse of the Soviet Union and marked by German backing (see Sedelmeier and Wallace 2000). The European Council in Copenhagen urged the EU to fill the power gap in central and eastern Europe by ‘absorbing’ these states into the Union (see Smith K. 2005; Sedelmeier and Wallace 2000). The Criteria are (i) stable institutions (guarantee of democracy, rule of law, human rights, minority rights), (ii) functioning market economy and the capacity to cope with competitive pressures inside the EU, (iii) the ability to adopt the acquis; accepted aims of political, economic, and monetary union and (iv) the capacity of the EU to absorb new members without endangering the momentum of European integration (European Council 1993: 13). The Copenhagen Criteria are extremely important because they provided the ability to apply conditionality. Conditionality is the tool that motivates change in domestic policies and institutions in order to meet EU standards, since each country is assessed on its merits (Glenn 2003: 216; Jileva 2004: 13; Welfens 2001: 34).

It becomes obvious that the enlargement policy, which was described above, reaches into all aspects of the politico-economic life of a candidate state for EU membership. Even foreign policy, that is the right of each state, is not fully free from the broad EU preferences, something that will become more explicit in the case
studies. At this point and as an introduction, it has to be noted that enlargement is the policy framework within which the EU is transmitting its ideology in such a manner that this ideology is received as common sense by the candidate states and thus it is the policy framework that helps the consolidation of hegemony. Moreover, enlargement by "enforcing" the candidate states to implement the entire acquis leads to the Europeanization of domestic institutions and the promotion of its values to the population and this adds to the consent towards the hegemony (see Grabber 2003; Olsen 2002). Certainly, this claim has to be proved in this chapter as well as the contention that the specific mindset that the EU is transmitting in the region is hegemonic.

Hence, turning to Balkan integration, the SAP is the framework of enlargement. It contains three components, namely the Stabilisation and Association Agreements (SAA), trade measures, and programmes of financial assistance, whilst the European Partnerships also have great importance. At the beginning the process aimed at reconstruction and crisis management, through an aid programme of €5.5 billion, but now the priorities have changed to those of development and institution-building (e.g. democratisation) (European Commission 2004a: 5-6). In addition, the SAP follows three lines that are:

- The recognition that EU membership is the only efficient tool for reform and stability.
- The fact that bilateral relations between the countries are crucial for greater economic and political stability and
- A need for an approach that provides the necessary flexibility in order for each country to move towards EU membership at its own pace.

The process also contains provisions such as intraregional trade and economic cooperation, democratisation, rule of law etc, and contributes to the work of the Stability Pact (European Commission 2003a; Bechev 2006: 36, 38; Welfens 2001: 33).

Successful implementation of the SAP qualifies the country to sign a contractual agreement with the EU, which is one step from membership. These contracts are the SAA. The SAA aims to introduce the necessary politico-economic reforms into the candidate state in order to be in a position to absorb the acquis communautaire and thus to become an EU member state. Also important is that each agreement is
tailored to the needs of each country (European Commission 2004b). Finally, the successful completion of the SAA qualifies the state to move from 'potential candidate' to 'candidate status' that leads to the start of membership negotiations. Again it becomes apparent that the provisions of enlargement are directing the western Balkan states along a certain path that accommodates the preferences and interests of the EU and which ties these states into an EU web.

In relation to trade, the EU introduced exceptional trade measures for the western Balkans in September 2000, providing the region with uniform and wide-ranging free access to the Union's market for almost all goods. These measures, in combination with reconstruction assistance and the transition to a market economy, have boosted the exports of the region to the EU, its greatest trade partner (European Commission 2004a: 9; Bechev 2006: 36). The EU through strong assistance from the Pact has created a network of bilateral Free Trade Agreements (FTAs) among the western Balkan states (which were obliged to sign), and now all of them are part of the Central European Free Trade Agreement (CEFTA). However, the SEE countries are running huge trade deficits with the EU, that betoken both the absence of an appropriate institutional and physical infrastructure and possible flaws in EU strategy. Finally, the assistance was provided by the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme. The programme ran between 2000 and 2006 with a budget of €5 billion. Its main targets were the reforms that are dictated by the SAA, notably, institution-building and administrative reforms. CARDS was followed by the Instrument for Pre-accession Assistance (IPA), which gathers all the EU programmes in the region into one. Moreover, 10% of IPA funds is devoted to regional cooperation that is considered a central issue for the EU (Bechev 2006: 36; European Commission 2004a: 10-11; European Union 2001).

In addition, the Thessaloniki agenda had also introduced the so-called European Partnerships. These Partnerships are based on assessments from annual Commission reports and identify short- and medium-term priorities that the countries have to adopt, reflecting in this way the particular level of development of each country. The implementation of these priorities, according to the EU, is based on political will and a substantial allocation of financial resources. Within that
framework the Commission monitors the progress of each state and penalises any non-agreed actions, usually by reducing the volume of economic assistance (European Commission 2004a: 5-6).

Outside the SAP framework there are some other assistance tools, such as Macro-Financial Assistance (MFA) that provides grants and loans in cooperation with the IMF’s suggestions. The MFA grants are provided only after IMF approval, which is given once the recipient state agrees to implement the reforms proposed by the Fund. Moreover, there is co-operation with the World Bank that implements joint actions with the IMF (European Commission 2004d: 6). The following table give us a more detailed picture:

Table 1: The main EU programmes in the western Balkans.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Duration</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>CARDS</td>
<td>2000-2006</td>
<td>€5 billion</td>
</tr>
<tr>
<td>OBNOVA</td>
<td>1996-1999</td>
<td>€400 million</td>
</tr>
<tr>
<td>PHARE</td>
<td>1990-1998</td>
<td>€562 million</td>
</tr>
<tr>
<td>TAIEX</td>
<td>2003-2006</td>
<td>€10 million</td>
</tr>
<tr>
<td>MFA</td>
<td>1992-present</td>
<td>€1 billion</td>
</tr>
<tr>
<td>IPA</td>
<td>2007-2013</td>
<td>€11.5 billion</td>
</tr>
</tbody>
</table>

Source: European Union.

It is obvious that the EU assistance is substantial and constant and covers a wide range of activities but that it also focuses on institution-building and civil society. It is also useful here to note that the EU is the biggest provider as well as the coordinator for other international donors. Moreover, according to one of our interviewees, the proposed projects are implemented by this agency or by private contractors from big countries like Germany and Greece (Confidential Interview 1). This means that EU policy in the Balkans is offering profit opportunities to EU-based companies, since the projects are implemented by them and not by the recipient states. The reason that aid is mentioned is because it represents another of the EU’s encouragement ‘carrots’. The assistance is linked with reforms (either as ‘no reforms, no assistance’ or as direct aid for particular actions), which in turn contain a certain ideology and are aimed at certain interests. In addition, since an important part of the aid goes to institutional building and civil society it is normal to claim that the assistance is also aimed at gaining the assent of the population and in creating a pro-

23 The total budget is decided annually.
EU institutional framework that will be more committed to the EU and will operate with the norms and values of the EU.

Hence, with EU enlargement policy and particularly with the conditionality clauses and the Copenhagen Criteria, it can safely be claimed, as postulated above, that the EU is 'controlling' or influencing almost every aspect of the politico-economic life of candidate states in the western Balkans. In particular, the economic policies of candidate states correspond entirely to EU preferences since they have to comply with the Copenhagen economic Criteria. As regards the foreign and security policy of these states, the case of Serbia is indicative (see Chapter 3) of the implications where a candidate state pursues an approach opposing the EU in the international arena. Finally, the SAP contains policies that affect all the policy areas from environment and energy through to human rights. There is thus only a small proportion of policies that the Balkan states can implement independently without colliding with EU preferences. Furthermore, the EU policy of establishing regional agreements also create a web in which the candidate states are integrated with the EU and therefore 'forced' to follow the EU's preferences. What are also very important are the carrot-and-stick policies. The EU dictates policies and provides assistance while, in case of non-compliance, the EU - which monitors the implementation of its programmes - is ready to impose penalties. On the other hand, the Balkan states have accepted this situation because of the prospect of membership and financial assistance, without, however, membership being completely certain.

In relation to the existence of hegemony, the above presentation demonstrated that the EU is transmitting a certain set of reforms and policies in the region of the western Balkans, which reflect a neo-liberal mindset, such as the economic reforms and the creation of free trade regimes as tools of economic development. From the other side the western Balkan states are not only unable to resist but, with the prospect of future membership, are fully committed to the will of the EU. Therefore, at this point we can note that the role of the EU seems to match that of the hegemonic institution which, as was described in Chapter 1, is the mechanism which transmits the hegemonic ideology and gains the consent of society. Nevertheless, whether this similarity means that indeed the EU is the
hegemonic institution or not, we have firstly to demonstrate that the EU has a hegemonic ideology that is being transmitted and if so, who is using the EU as hegemonic institution. The answer to the latter will largely define who the hegemon/leader is.

2.3. Actors in EU enlargement policy.

After examining enlargement policy and its formulation, the next step is to define how it is operated and who has the upper hand, as this is defined by decisions, policy-formulation and ideological orientation. As was mentioned above, the focus is on enlargement policy because from the moment that this policy becomes the hegemonic framework, the actor(s) that exercise influence in this framework is (are) first candidate(s) for being dubbed the hegemon. Thus, we will not expand on issues of Europeanisation and EU governance. Nevertheless, we have to justify this decision by referring to what the term Europeanisation indicates. As Olsen noted in his seminal work on Europeanisation, the term contains many definitions and many applications which often change in relation to the framework of research of the time (Olsen 2002). Hence, scholars like Lawton (1999) and Börzel (1999) stress the transfer of sovereignty or policy making from national authorities to the European Union institutions. Ladrech follows the opposite path and defines Europeanisation as incremental process of policy making to the degree that the European dynamics become part of the logic of the national political structures (Ladrech 1994:69), while Buller and Gamble as the transformation of the domestic politics in accordance to European modes of governance (Buller and Gamble 2002). In our opinion the most concrete definition is provided by Radaelli as a sum

‘of processes of a) construction, b) diffusion and c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, ways of doing things and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and sub national) discourse, political structures and public policies’ (Radaelli 2000).

On the same manner the term is used in various functions. Most popular in scholarship is the view from the point of power transfer to the EU from national authorities and the reverse downloading of Community norms and rules to national and sub-national levels of governance (see Bulmer and Radaelli 2004; Ladrech 1994; Buller and Gamble 2002; Schmidt 2001). The popularity of this field could be
explained by the fact that at the beginning the term aimed to cope with the changes inside the EEC/EU and on its member states (Anastasakis 2005:78; Bulmer and Radaelli 2004). Olsen has separated the different aspects of Europeanisation into five domains. These are:

- ‘Europeanisation as changes in external territorial boundaries’: this aspect refers to expansion of EU models through enlargement
- ‘Europeanisation as the development of institutions of governance at the European level’: namely political coordination and cooperation and forms of collective action
- ‘Europeanisation as central penetration of national and sub national systems of governance’: which refers to the division of powers and responsibilities within different levels of governance
- ‘Europeanisation as exporting forms of political organisation and governance that are typical and distinct for Europe and beyond the European territory’: this aspect refers to the export of EU norms and models outside its borders
- ‘Europeanisation as a political project aiming at a unified and politically stronger Europe’: which refers to the homogenisation of the Union and its development into more federal structures (Olsen 2002:3).

Equally, Bulmer and Radaelli define three forms of Europeanisation namely: i) ‘the impact of European policy within member states’; ii) the role of norms and values and; iii) as a process that derives from different stages of policy making such as policy formulation and implementation (Bulmer and Radaelli 2004).

As it is obvious for this thesis the only aspect of Europeanisation that seems relevant is the one of the export of EU norms and modes of governance through the enlargement process. In fact, Bulmer and Radaelli have described the enlargement as the best example of Europeanisation since the candidate state is receiving all the institutional and normative aspects of the Union (Bulmer and Radaelli 2004). Olsen views the enlargement as normative change but with compulsory action (Olsen 2002). Anastasakis describes this process, with focus on the Balkans, ‘as an increasingly demanding, externally driven, and coercive process of domestic and regional change brought about by the EU’ (Anastasakis 2005:77). He goes even
further to describe that the Balkans are viewing the enlargement as the westernisation of their countries, with the term westernisation to translate as progress (Anastasakis 2005: 80).

What are also not hard to figure out are the reasons for not pursuing the issue of Europeanisation further. Firstly, our theoretical perspective is different. Europeanisation mostly used for showing the European dynamics compare to other forms of governance (see Olsen 2002). However, for this thesis the interest is not on how the EU is transforming the local societies both culturally and politically in accordance to EU norms and rules, but whether the EU policies are creating a framework for economic control and hegemony. In other words we are looking the relation between Balkans and the EU from a primary economic point of view. Within this framework enlargement is a tool and the export of EU models and norms a part of it. Another reason has to do with the role of Germany. For this thesis, Germany has an important role is shaping the policy and taking advantage from it. In that case a deeper analysis of Europeanisation forces would conflict with the role of Germany because it would mean the Germanisation of the EU and indirectly the Europeanisation of the Balkans. Furthermore, as scholars such as Radaelli, Olsen, Bulmer, admit is very hard to prove that changes are sole result of Europeanisation from the moment that globalisation and actors such as US and Russia are having influence in the region. To this we can add the imperfect adoption of EU rules by the Balkan states (more in later chapters) which according to the relevant scholarship, is diluting the impact of EU (Bulmer and Radaelli 2005; Anastasakis 2005). Hence, even though Europeanisation offers interesting ways of research, an expansion on that field it will take us away from our central position. Nevertheless, is part of the explanatory framework since it is embedded in conditionality and thus it represents a supportive but not central element on the issue of hegemony.

Turning again on enlargement, it could be argue that it certainly has supranational and intergovernmental elements and therefore we have to clarify the actors. Specifically, if we demonstrate that the member states are those that control enlargement policy, then the role of the EU is that of the institution that promotes the interests of its member states. In different cases, the EU becomes another actor that participates in the hegemony.
Put simply, Pinder describes the enlargement process as follows:

“When an application is received, the Council asks the Commission for its 'Opinion', on the basis of which the Council may, unanimously, approve a mandate for negotiations. The Commission negotiates, supervised by the Council; and an eventual treaty of accession has to be adopted by unanimity in the Council and with the assent of the Parliament, followed by ratification in all member states” (Pinder 2001: 124).

The history of enlargement as well as the current process of enlargement demonstrates a complex interaction between the Commission and the Council. The Commission with its expertise has been able to assume a leading role in managing enlargement (Sedelmeier and Wallace 2000). This has been possible so far because the Commission is the institution that interacts with the candidate states and monitors the implementation of the agreed reforms (Smith 2002). Actually, the Commission carries out the negotiations and the enlargement as such and is responsible for issuing progress reports and opinions. We have also to add that the Commission is the institution that has taken the political initiative so far, like the Action Plan on Enlargement. The Agenda 2000 and even the Copenhagen Criteria were also an outcome of the Commission’s work and advice to the Council (see Sedelmeier and Wallace 2000; Smith K. 2005).

Despite its importance, the Commission negotiates on behalf of the Council and the Council is the one that decides to enforce or not the enlargement strategy (see Sedelmeier and Wallace 2000; Smith K. 2005). The Council has the last word on which candidate will enter the Union. For instance, FYR Macedonia’s membership is under threat of the Greek veto (see Chapter 4); Serbia’s membership depends on the removal of Dutch reservations (see Chapter 3). In the previous enlargement, Germany was in favour of the eastern members and France in favour of southern, with Greece advancing the case for Cyprus. The bargain between Germany and France is emblematic, with the latter gaining the candidacy of Romania for concessions in the Eastern enlargement and particularly Poland (see Hendriks and Morgan 2001: 152). The member states are those who adopt the strategy that the Commission proposes and they set the broad guidelines of the strategy according to their preferences (see Smith K. 2005; Smith 2002). Of course some member states play a more crucial role than others. If we view the evolution of the fifth
enlargement (1 May 2004) and sixth enlargement (1 January 2007) as well as the evolution of the western Balkan integration, then we will end up seeing that most of the decisions were adopted under EU presidencies that had a strong interest in enlargement. These states are Germany, along with Austria, Greece and Italy.

It is obvious that the member states, through the Council have the final word on enlargement policy. The role of the Commission is to carry out the member state decisions and to deal with the implementation of the requested reforms. Therefore, the Commission, and thus the EU, acts as the hegemonic institution that promotes the preferences of the member states, in this policy domain. This conclusion is reinforced by the particular issues of EU member states in the Balkans. For instance, Greece has problems with FYR Macedonia; Netherlands demands the arrest of Mlandic before allowing Serbia to enter (Confidential Interview 7); Italy supports Albania; Austria is concerned about the fourth Criterion (Confidential Interview 2); Germany is particularly in favour of Croatia; and the majority of the other member states are either indifferent or just concerned about the overall value and the need for further enlargement. Therefore, the decision as to which state shall enter the EU is political and the outcome of political interaction among the member states that reflect which states are more interesting in the western Balkan enlargement and thus which have more interest in influencing this policy.

2.4. EU and neo-Gramscian hegemony.

The next step that we have to take is to show whether the EU is used as a hegemonic institution in the Balkans with some (if not all) EU member states as the members of the Historic Bloc. Once again the term 'states' refers to their politico-economic elites. In the previous section, we made the case that particular member states have the upper hand in enlargement. Now we have to show three more things if we want to illustrate that the EU is the hegemonic institution, and first, whether the EU has a distinct hegemonic ideology. Then we have to demonstrate whether this ideology is of the EU as a whole or an ideology of a particular member state and especially, in our case, of Germany. The third step is to show whether EU policies in the western Balkans, deliberately reflect the interests of certain member state(s) or are policies that have as their only purpose the normal transition and the final integration of the
western Balkan states into the EU. For this step, we have to study not only the facilitation of economic penetration, or the disciplining of local elites towards the hegemonic idea, but also the degree to which the EU as the primary hegemonic institution is ensuring the consent and the discipline of the domestic elites and subaltern classes. This is because the management of consent is the basic element for establishing hegemony and a basic function of a hegemonic institution.

2.4.1. EU and hegemonic ideology.

It is more than obvious that the EU has a distinctive neo-liberal mindset as this is apparent from the EMU and Maastricht arrangements (Gill 1998; Bieler 2003). The EMU conditions such as the focus on low inflation and budget deficits which are measures directly linked to the measurement of the money supply and to monetarist theory. The Stability and Growth Pact (SGP) is monetarist in nature, with provisions such as the close-to-balance government budget clause and reductions in public spending, in order to avoid inflationary pressures from increased money supply. EU neo-liberalism is obvious in the EU directives concerning competition and the deregulation and liberalisation of national markets with the establishment of the free flow of labour, goods and services (Bieler 2003; Gill 1998; Gowan 1995; Rothschild 2009).

These policies are even more obvious and intense in the western Balkans, which are still on the transition road and are candidate (or potential candidate) states. Thus, as becomes obvious when looking at the Copenhagen Criteria or by reading one of the annual progress reports of the EU concerning a candidate state, that the EU proposes wide scale privatisation, liberalisation and deregulation as well as markets that are completely open to international trade. As we will discuss later in the case studies, the EU is very strict about the implementation of these reforms and is assisted in this regard by other International Financial Institutions (IFIs) with similar agendas such as the IMF and the World Bank. In particular, the IMF has been frequently criticised as extremely neo-liberal (see Stiglitz 2002), while for Gill the IMF, OECD and G7 are responsible for the restructuring of the state civil society activity of the European Union within a neo-liberal framework (Gill 1998: 8). In all cases the
neo-liberal reforms are linked to assistance and to membership as in the case of the EU.

But how different is EU neo-liberalism from global neo-liberalism (i.e. as exercised by the US) which since 1990s has prevailed as the global economic doctrine. Can we claim the existence of the specific hegemonic ideology that is transmitted by the EU?

For some scholars like Gill, Bieler, Cafruny and Ryner, the EU has been the recipient of US neo-liberalism and is thus being hegemonised by the US (Gill 1998; Cafruny and Ryner 2007a; 2007b; Bieler 2003). Cafruny and Ryner go even further to claim a minimal US hegemony in the EU by the transmission of neo-liberal economic doctrine, with this doctrine being endorsed by the EU (Cafruny and Ryner 2007a). The argument can be seen as valid since neo-liberalism was formulated in the US, where it is exercised in its purest form. Then in the UK under Thatcher, this economic doctrine reached Europe (Cafruny and Ryner 2007b; Gill 1998; Bieler 2003). However, all these scholars acknowledge that the European economic structures that contain distinct social provisions, have yet to be diminished and converted to US style neo-liberal capitalism and therefore strong social clauses remain in European economic structures (Bieler 2003; Gill 1998; Cafruny and Ryner 2007a). This is evident from the opposition to the Lisbon agenda that contains stronger neo-liberal elements such as the complete flexibility of labour. Hence, in Europe there is a distinct kind of neo-liberalism, something that Gill describes as neo-constitutional ‘disciplinary neo-liberalism’ (Gill 1998).

The virtues of this model were apparent in fact, when the latest financial crisis showed that the more cautious approach of the European economies left them less exposed to the financial crisis which created havoc in the US economy. At the same time EU member states are taking measures to protect their economies from foreign competition, e.g. Germany declared its will to ‘protect industries in 11 areas from foreign takeovers’ (The Economist 2006a), or they would refuse to implement the complete neo-liberal agenda of the EU. Other examples include the support of the Italian government in the campaign opposed to the privatisation of Alitalia and the case of Germany’s protection provided for Volkswagen against EU competition policy (Williamson 2008). In some other instances they are able to ‘bend’ the regulations as
with the SGP and Germany. This contrast is also indicative of the hegemonic approach of the EU member states since neo-liberal hegemons protect their markets but try to open the 'opposite market' (see Gilpin 1987). In Chapter 1, it was mentioned that even though the ideology is different, the US (i.e. the economic elite in this case) is part of the Historic Bloc and in fact is acting in accordance with the economic logic of the EU, which is the framework of economic activity in western Balkan economies.

The EU approach towards the western Balkans has a clear neo-liberal character in relation to the proposed (and implemented) economic policies towards the states of this region. Nevertheless, as mentioned above, EU neo-liberalism contains distinct elements that are also transmitted into the region of the western Balkans. This ideology brings certain outcomes. Firstly, the EU is opening and liberalising economies which lack the monitoring mechanisms and the culture to operate such mechanisms in a market economy, such as stock market supervision. The result is underdeveloped and non-transparent financial markets that leave the states exposed to financial crises, because they are unable to prevent the existence of speculative bubbles and of course are unable to allocate the economic resources in an efficient way, which is a basic precondition for economic development. Additionally, they allow the easy penetration of foreign capital, because local economic structures are unable to produce the resources and the investment which are necessary for development and thus seek these resources from foreign capital. This penetration is facilitated by the idea of FDI as panacea that has become 'common sense' in the Balkans and which leads to even more favourable regimes for the attraction of FDI. In addition, by observing the economic balance sheets of the Balkan states we can see huge trade deficits that vary from 11% of GDP in Bosnia to 24% of GDP in Albania. This means that these economies are forced to open themselves up to global (actually EU) competition without the necessary economic foundations and protection, and thus their integration into the EU is uneven and creates economic dependencies. One has to add to this the fact that whole sectors of the economy have been sold to EU companies, particularly in the banking sector. Emblematic of this is the total control of the Albanian banking sector by foreign banks and the 59% foreign control in Serbia. Therefore, economic dependence is
total since the banking sector, given the lack of financial markets hitherto, is the only ‘steam engine’ of the economy. At the same time, the current member states are protecting their economic sectors from foreign competition as in the case of Mittal’s bid for the French Arcelor opposed by the French government\(^{24}\) (The Economist 2006a), which is to be expected if there is reference to hegemonic attitudes. For this thesis these outcomes, which are derived from the imposition of the EU economic logic-ideology, constitute part of the hegemonic project because not only are they creating the conditions for EU economic penetration but they are also creating dependency conditions that enhance further hegemony. At the same time, as is noted in the scholarship on hegemony, the hegemon(s) protect its (their) own market (Crawford 2007; Arrighi 1993; Gilpin 2001; Nye 2004).

### 2.4.2. Member states and EU economic ideology

Hence, we can claim that the neo-liberal model that the EU imposes on the candidate states is distinct enough to be described as European capitalism and therefore to constitute a distinct European hegemonic ideology. It is a system that, even though based on US neo-liberal principles, has been distinctively influenced by European member states. The state that influenced this ideology most profoundly is Germany. This is an outcome of Germany’s general economic supremacy in Europe and of the specific conditions that led to the creation of EMU. In Chapter 1 there was a reference to the German model; here we will see the signs of this model in EMU.

Central to EMU is the existence of an independent central bank, namely the ECB. The ECB has been designed in accordance with Bundesbank preferences. Thus, it is beyond political control and its priority is price stability. The latter, as we saw, is central to the post-war German economic mentality of ordo-liberalism. Even though the ECB is the main evidence of German economic dominance, the SGP, which represents the fiscal branch of EMU, is also an important example. Germany as an economic regional leader devised the SGP in a way that protects its interests and preserves its power. In fact, the blueprint of the SGP was presented in 1996 by the German Finance Minister, Theo Waigel.

\(^{24}\) In the end the takeover took place but the French government has indicated its will to bloc further mergers (The Economist 2006a).
Firstly, after the oil shocks of the 1970s and the collapse of the Exchange Rate System, German economic stability and the Deutsche Mark's credibility became very attractive to the other member states, which were facing huge deficits, rising inflation and economic recession (see Lintner 2001). France for instance, pegged the Franc to the Deutsche Mark. Moreover, monetarism was becoming popular and therefore the need for a coordinated monetary policy and macro-economic policies for managing deficits and inflation grew (De Grauwe 2003). Furthermore, EMU was desirable for the other member states because it gave them a voice that would dilute German economic supremacy.

On the other hand, Germany, which was maintaining a huge trade surplus and was enjoying the credibility of the Deutche Mark, accepted the role only under its own conditions. Therefore, the core values of EMU were 'constructed in Germany's image and according to Germanys preferences' (Crawford 2007: 135; Gill 1998). Thus, as a hegemon it created a monetary system that both protects and promotes the German economy. Evidence for this are the Maastricht Criteria, which aim to protect Germany from imported inflation and trade-dumping. Furthermore EMU gives Germany the opportunity to spread the cost of the system. As Crawford notes, Germany through the ECB and EMU managed to upload 'its domestic institutional arrangements to European monetary policy-making' (Crawford 2007:137; Cafruny and Ryner 2007b). Moreover, as economic hegemon Germany has been able to bend the rules of the system when it found that it could not cope with them or that they were against its interests, as in the case of the German violation of the SGP between 2002 and 2005. Hence, it is also obvious that EMU contains the elements of German monetary culture and the power of the Bundesbank. Further confirmation of this is found in the statement of President von Weizsäcker that 'our monetary concept [...] becomes part of the European constitution and our social market economy the basic law of European economic policy' (quoted in Crawford 2007: 128). A further element of the German desire to bend the system as hegemon is expressed in Helmut Kohl's statement that the single currency was a step towards a stronger political union, with the Euro as a symbol of solidarity and Germany playing the central role (cited in: Crawford 2007; Gill 1998).
According to the above and the previous sections, it is possible to conclude that the EU has a distinct economic ideology, which is part of the hegemonic ideology (the other parts are political and cultural) and that this economic ideology has been largely shaped by Germany or reflects German preferences. This was also mentioned in Chapter 1. This ideology can also be seen to be transmitted unequally to the western Balkans through EU policies in the region.

2.4.3. The EU and the impact of the hegemonic ideology in the western Balkans.
How is this ideology applied to the western Balkans? In other words, how is the EU transmitting the hegemonic idea to the western Balkans and thus how does the EU succeed in ensuring the consent of the local population? As was mentioned in Chapter 1, the discipline of the 'masses' is a basic function of a hegemonic institution. Furthermore, we need to see the implications of the EU's function (and of other IFIs as well), which can be expected to create a favourable environment for foreign economic capital penetration. This last point will also reflect how deliberate this EU transmission of the hegemonic ideology is because, if indeed the economic capital from states that have an active role in enlargement is overwhelming, then it is logical to claim that the EU role contains the preferences of the hegemonic states and aims at the consolidation of the hegemony over the western Balkan states.

The transmission process looks quite straightforward (particularly during the analysis of the case study chapters). The EU brings a 'package' of reforms to the candidate states. For instance, in the case of CEECs, the European Partnerships and the single market were the main tools of the EU for consolidating the liberalisation and deregulation of the CEECs' political economies, and the EU requirements became central engines for domestic reforms. According to Bohle '[T]he 'accession partnerships' were very all-encompassing, affecting, amongst other things, macroeconomic, budgetary and monetary policies, and administrative, regional, industrial and welfare reforms' (Bohle 2006). It is also interesting that these economies, like those in the Balkans had to complete the reforms prior to membership without any linkage between liberalization and membership. The receivers accept and implement them because of their desire to join the EU and to
integrate into western institutions. From the above it can be asserted that the EU is not applying these policies without an 'invitation' and that therefore the recipient states are the ones wishing to implement these reforms. The reality, however, is not so simple.

The Balkan states, like every post-communist country, are entering the 'painful' period of transition from such a low level that they cannot manage their transition without external assistance, especially financial. As in the case of central and eastern European states, the IMF, the World Bank and the EU moved in the direction of offering financial and administrative assistance, with a particular price attached such as the imposition of certain economic policies, while the EU exported an even more market-radical variant of neo-liberalism to the new member states, which were not granted immediate labour mobility and full access to the EU’s redistributive policies (Bieler 2007: 93). Each state in the western Balkans had to implement the reforms that the above mentioned institutions were demanding. In brief, these are measures of a clearly neo-liberal nature, that urged the privatisation, deregulation and liberalisation of local economies, and which make the local economies dependent on foreign capital for their survival. The economic conditions in the western Balkans in the current crisis are indicative of the economic dependence of the local economies on foreign capital. The IMF, the EU and other IFIs (e.g. EIB) cooperate with each other (Confidential Interview 7), which increases their clout, since through the division of labour, each institution has special importance for the recipient state. In this division the EU has the coordinating role, since even the IMF provisions are consistent with the SAP provisions. This, in our opinion, represents further evidence of the hegemonic character of the EU, because it demonstrates the ability of the EU to ‘impose’ the agenda on other institutions and thus to play the role of the leading hegemonic institution.

Apart from financial assistance, the recipient states also receive the promise of joining the EU. However, even this is not secure. Membership is not certain because the candidates have to fulfil political criteria and of course because the fourth Criterion of Copenhagen refers to the ability of the EU to absorb new members, in a period where there are voices against further enlargement. This argument is based on the need for institutional reform of the EU before accepting new members. This
includes the 'old' member states such as France (e.g. Sarkozy) and Austria (e.g. Schüssel) (see Judah 2006; Welfens 2001; Bohle 2006). As Judah notes, at the Salzburg Council of 2006 the EU expressed its commitment to Balkan enlargement but also stressed that the fourth Copenhagen Criterion, i.e. the ability of the EU to absorb new members, will be taken into consideration (Judah 2006:7). This stance is supported by the comments of Mr Erhard Busek, the special coordinator of the Stability Pact, that the EU is not interested too much in SEE enlargement. As proof he mentioned that during the EU-western Balkans summit in November 2004, instead of the scheduled 45 minutes it took only 25 minutes (Busek 2005: 30). In case of no membership agreement, the hegemonic character of the EU-western Balkan relationship, becomes even more evident because the EU would have managed to make these states dependent on it and to have fully accepted the hegemonic ideology, but without having the benefits of membership, which would make this relationship one between a metropolis and a colony!

Furthermore, the integration of the western Balkan states into the EU (and the global economy to some extent) starts at a disadvantage. This is because the western Balkan states are exposed to international competition without having economic sectors strong enough to sustain competition, such as the western economies have developed after decades of protectionism. They also lack a capitalist background of strong supervisory and regulatory institutions. We justify this argument by noting, apart from the trade deficit, which we mentioned above and shows the inability of local economy to produce competitive goods; the fluctuation of inflation rates between 1.4% (FYR Macedonia) and 11.7% (Serbia), which is also result of imperfect market supervision and structure; and the high rates of unemployment that range between 13.8% (Albania) and 36% (FYR Macedonia), which also indicate deep structural problems. Thus, in neo-Gramscian terminology the western Balkans are entering the Historic Bloc and a hegemonic relationship not just in a subordinate position but also with a marked uneven development of their economies.

Can the Balkan states resist this process? The first answer is 'yes'. As Noutcheva notes, the Balkan elites have frequently delayed or refused to implement certain EU policies, when the latter threatened certain interests (see Noutcheva
2007). In addition, as a Brussels senior official stated when personal interests are in danger, or when the implementation of certain policies does not include financial gains, they simply ignore them (Confidential Interview 6). Finally, as another senior official noted, the EU has to make disciplinary threats to these states and therefore force them to continue the reforms, even if most of the time this occurs with a considerable delay (Confidential Interview 5). The local population also shows some small signs of opposition but so far these incidents are responses to national problems or as a result of the liquidation of firms and the low level of wages as was the case in Serbia and Croatia (see B92 2008e; 2008g). These two last problems are also used during election periods by the political elite, as in the case of FYR Macedonia, when the leading party stated that they would not ‘sacrifice’ their name to qualify for admission to the EU (Elefterotipia 2008c).

This phenomenon should not be a surprise given that trade unions in these countries have also embraced neo-liberalism in the hope that it will serve their interests as well, having fresh memories of the communist past (see also Bohle 2006). This support for the EU might change as the years pass and the economic situation remains the same or deteriorates, as is happening with the western EU member states, which are becoming increasingly Eurosceptic because of the economic conditions. Furthermore, the only serious opposition that we observe in the Balkans is in the shape of nationalist and xenophobic forces that, as we will see in the case of Serbia and FYR Macedonia, are linking EU integration to national causes. This populism is consistent with the trend that has appeared in the EU European elections that empowered nationalist forces.

Hence, the Balkans look as if they are caught in a web, where they are forced to follow certain reforms that are integrating their economies with the international economy but at the same time are condemning their economies to west European control, since whole sections of the economy are in west European hands (more in following sections). But how does the EU manage the consent of both elite and masses?

25 The pace of implementation is also an indication of the resistance of both domestic administration and population to the Europeanization process that follows the enlargement criteria (see Olsen 2002; Radaelli 2003).
Starting with the elites, it is interesting to note the existence of pro-EU political elites in all western Balkan states. The best evidence of this can be found in the election campaigns of the pro-EU political parties as in the case of Serbia and FYR Macedonia. Unquestionably, the EU is providing support (both moral and financial) to these elites. For example, as we will see in Chapter 3, the EU has openly intervened in the last Serbian elections on behalf of the pro-EU elite. The pro-EU elite is not motivated simply by material concerns but in various cases there are ideological reasons as well, as in the case of Djindjic who promoted Serbian membership to the EU unquestioningly (see Pond 2006). Therefore, there is a political elite which cooperates with the EU and which promotes EU interests and policies. As we will see later in all three case studies there are pro-EU political coalitions. The few domestic economic elites are connected with the international system and they are in full support of the EU as we will see in later chapters.

However, the real work of the EU as a hegemonic institution involves the obedience of the working classes, which are the classes over which the hegemony will be exercised. In annual opinion polls popular support for the EU seems massive (see Chapter 3 and Chapter 4), while in all opinion polls the target of EU membership appears as a ‘national cause’. In 2008 the Balkan Monitor published an opinion poll from the Balkan states according to which the support for EU membership varied from 28.5% in Croatia (plus 36% that are neutral) to 83.1% in Albania, with Serbia and FYR Macedonia at 58% and 66.1% respectively. In answer to the question whether the majority supports EU membership the variation is between 39.2% in Croatia to 84.6% in Albania, with Serbia and FYR Macedonia scoring 73.5% and 82.9% respectively. Furthermore, 84.3% of FYR Macedonia respondents believe that EU membership is essential for peace and stability with the scores of 57% for Serbia and 74.6% for Albania. Finally, to the question ‘How much you identify with Europe?’ the response was 72.5% in Albania, 63.7% in FYR Macedonia and 56.9% Serbia (Balkan Monitor 2008).

The opinion polls explain this in terms of the prospect of better economic days and of course the ability to travel around Europe, especially for work. The latter is obvious in Serbia (Confidential interview 2). Another indication of popular support towards the EU is found in the electoral success of pro-EU political parties. If we
want to find more reasons for this support we can start from the normative power of the EU, which is managing to transmit its norms and values and thus also to become attractive to other societies, by projecting an ideal image (see Nikolaidis and Howse 2002; Olsen 2002). It has to be noted that, as in every post-communist society, there is a strong feeling of belonging to Europe and that for too long they had been cut off from it. To this is added the belief among the population that they will become as 'rich' as EU citizens. In some cases, the West is seen as the only guarantor of security (e.g. in Albania).

Hence, the EU manages to transmit the hegemonic idea and ensure the consent of the domestic population as a hegemonic institution should do. The next step is to depict the outcomes of the EU policies as outlined at the beginning of this section.

Starting with the economy, the EU is promoting European capital by creating the environment for its penetration in the region. For instance, while the region is seen as a market of 150 million consumers living in small countries, the EU through its regional cooperation provisions and with the FTAs between the western Balkan states has largely unified this market (World Bank 2006c: 1), permitting the creation of scale economies and profitable investments for European companies. This is achievable because even though these companies are producing in fragmented states they have a regional market to distribute their production lines and establish commercial networks and thus maximize their profits.

Another area where efforts towards EU economic integration can be asserted is the Euroisation (i.e. the use of Euro as national currency) in the Balkan economies. According to a CEPS study, Euroisation is the only measure that allows complete integration into the payments system, the money and capital markets of the Euro area. Of course for the achievement of such integration the CEPS study showed that it required a large presence of EU-25 banks with 60-70% control of the region's banking sector (Emerson 1999: 18). The current presence of the EU Banks in the western Balkans is approaching that level. Such market shares mean that foreign investors are 'controlling' the national economy, since the banking sector is the steam engine of these economies that still have very underdeveloped and small financial markets. In particular, the share of foreign bank assets in the western
Balkans in 2002 ranged from 44% in FYR Macedonia to 90% in Croatia and 77% in BiH (Walter 2004: 373). Furthermore, at least three states - BiH, Montenegro and Kosovo - have completely Euroicized economies. Moreover, as Professor De Grauwe showed in his book 'The Economics of the Monetary Union', a monetary union like EMU is rather to the disadvantage of economies without a certain level of economic development, particularly if these economies are small in size (De Grauwe 2000). To the above we can add the US perception that the Europeanisation of the Balkans is the only solution for a final settlement of Balkan problems (Gardner-Feldman 2001: 5-6; Pridham 2000). Here the role of the EU is evident because EU policies favour and create the conditions for such foreign penetration in the Balkan banking sector.

Equally important is that the EU today represents a significant actor in conflict prevention and crisis management in the western Balkans, something that is confirmed by the transfer of police and military operations from NATO to the EU like operation ALTHEA and the current European Union Force (EUFOR) that have replaced the NATO-led Stabilisation Force (SFOR) and the operation CONCORDIA in FYR Macedonia. The above position that the EU itself might seek control in the Balkans, is reinforced by the position of the CEPS, that in its plan for the Balkans speaks of the need for permanent EU military and police forces in the region and complete EU control of customs and border controls, with the latter viewed also as appropriate for the 'association' criterion (Emerson 1999). An example of this is the situation in BiH where the UN High Representative has supreme powers and effectively governs alone (Gervasi 1993; Emerson 1999).

In summary, it seems that the EU is implementing the advice of its member states as they are formed in the bargaining process, whilst in terms of institutions it works normatively, on the basis of human rights etc and towards stabilising its backyard. For example, in the case of the Euroisation of the Balkans we can claim that member states and especially Germany as a leading EMU country, is promoting its interests. What we have to make clear is that hegemony is primarily economic and is evident from the level, kind and direction of FDI and from trade integration because these parameters are those that reflect the penetration of foreign capital and are those that create dependency relations. For instance, as we will see in Albania (Chapter 5) the massive penetration of Italian capital has made Albania
extremely dependent on Italy. The economic means of hegemony are supported by political and military means. The former has mainly the role of facilitating the economic penetration and the latter of safeguarding it.

2.5. The German role in EU hegemony.

The core of our thesis is the role of Germany in the western Balkans as a neo-Gramscian hegemon. Thus, to conclude the analysis on the EU's role as the hegemonic institution, we have to look into the German-EU relationship and particularly the role of Germany in EU enlargement policy. This is important because to establish Germany as the leader of a hegemonic group, which operates the hegemonic institution (i.e. the EU), requires us to prove or indicate that Germany influences the EU or at least EU enlargement policy to a significant degree. At the same time, it is necessary to show that Germany benefits more than any other member state from this influence. We mentioned above the impact of Germany on the economic mentality of the EU that reflects German preferences. Now the focus will be on more general aspects and of course on enlargement policy.

From the very beginning of its creation, the EEC had Germany at its core, particularly since its priority was to consolidate peace and stability in western Europe by solving the German problem, i.e. the accommodation of Germany's economic size and geopolitical position in Europe, which had contributed to the previous wars (Dinan 2004: 13; Hyde-Price 2000: 180). Equally, for Germany, the EU is the most important domain of its foreign and economic policy. The EU was part of Germany's Westpolitik, namely the simultaneous integration and deepening of the EU. This target was consistent with the Article 25 of Basic Law (i.e. the Federal constitution) according to which Germany should work for the political unity of Europe. The EU was the vehicle for bringing the country once again into the international community and for restoring its sovereignty. It also allowed Germany to pursue its national interests within a multilateral framework by granting it important posts within the Union, without raising suspicion among its allies. The EU assisted Germany in achieving its economic supremacy both by providing a market
for German industry and a forum for the promotion of German industrial as well as general economic interests (Cole 2001: 24; Pradetto 2004: 210) and thus to constitute Germany as a regional leader (Padgett et al. 2003: 14).

The White Paper on German Security from 2006 provides a clear view of the EU’s importance for Germany. According to the paper: ‘the European Union stands for political stability and prosperity in Germany and its other member states...it remains the pre-eminent political goal of Germany, therefore, to strengthen the European Union as the core of the European area of stability and to push ahead with the process of European integration...Germany’s national interests can best be asserted in a capable European Union’ (BMVG 2006: 33).

Germany influences the EU indisputably by dint of its power and resources, and it has an important part in shaping the future of Europe and beyond, given its geographical location at the heart of Europe (Mitteleuropa) (BMVG 2006: 5-6, 15). Germany was able to upload certain elements of its federal institutional setting (Erb 2003), the most obvious being European Monetary Union. EMU along with the single market demonstrate the ‘way in which German industrial standards dominated the forming of European standards’ (Paterson 2003: 210-11). Apart from the realm of economy, the central role of Germany is also evident in the Common Foreign and Security Policy (CFSP) and in European Security and Defence Policy (ESDP) that are ‘a constitutive element of German foreign and security policy’ (Pradetto 2004: 209). In addition, for some other scholars like Crawford, Germany manages to hegemonise Europe indirectly through the EU setting (Crawford 2007).

Furthermore, because German capital has an important influence in the German political setting, the EU is also a forum for the German political elite either to promote sectoral interests or to defend them. Therefore, it is normal to expect some decisions over enlargement to favour German enterprises, especially since there is an important lobbying presence of German firms in the EU (Auswärtiges Amt 2006; Deutsche Auslandshandelskammern 2006), and with the German government explicitly stating that one of its purposes is the promotion of German capital abroad (Auswärtiges Amt 2006).

The latter is of primary importance. According to the Auswärtiges Amt, foreign trade provides one quarter of German GDP and employs a fifth of the German labour
force. The German economy is so dependent on foreign trade, because – typically for many advanced industrial economies – domestic demand is unable to sustain the growth ambitions of German companies; this means that international economic crises can have severe effects (Padgett et al. 2003; Hübner 2004). Thus, trade is vital for the German economy. Consequently, the German government states that: ‘...the task of Germany's foreign policy is to both promote and protect German economic interests in the world and to help foster the further development of just and sustainable global economic cooperation’ (Auswärtiges Amt 2006). This element, along with the admission that government and industry are working closely for the promotion of the German economy by combining their powers, especially with the Auslandshandelskammern (i.e. Chambers of Commerce abroad), gives us the first indications that German policy in the Balkans is primarily connected to the needs of German capital.

In consequence, German capital has a say and its preferences are embedded in German foreign policy. A final element is the admission that: ‘the state's task is to use bilateral and multilateral negotiations, e.g. in the EU, in the OECD and in the WTO, to work towards a framework through which competition and trade can develop as freely as possible. In addition to this, where high barriers make access to foreign markets difficult for German companies, it can endeavour to help dismantle them’ (Auswärtiges Amt 2006). Therefore, there is a clear statement that Germany uses the above mentioned institutions that have a significant presence in the Balkans and that these are the engines for the promotion of neo-liberal, market-oriented reforms. An example is the German agency Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) that financed various automotive cluster projects for the car industry in the Balkans (World Bank Group 2006a: 6, 36).

So far we have seen that the EU is an important domain for the promotion of German economic interests, particularly from the perspective that it provides open markets and a forum for the promotion of German economic interests. These along with the role of member states in the EU and its enlargement policy create enough elements that indicate the role of the EU as a vehicle for the promotion of the German interests. To claim that Germany is the leader of the EU is highly debatable. Elements that might support this argument were noted above, such as German
dynamism and the country’s position in the centre of Europe and its policy orientation since unification. Certainly, one could claim the leadership for any other member state that is active in the western Balkans. However, as was mentioned in Chapter 1 and will become more obvious in later chapters, Germany has those elements, which the other ‘competing’ states lack and which reinforce our claim, such as huge economic power, political influence in Europe, military presence in the western Balkans as well economic presence in the whole area of the western Balkans and traditional historical links with this region and is a regional power particularly in economic terms.

2.5.1. Germany and EU enlargement.

German enthusiasm for enlargement is well documented (Sedelmeier 2005: 407; Anderson 2006: 266) and is rooted both in the historical German interests in Mitteleuropa and the more recent dynamic process of Ostpolitik (Spaulding 1997: 489f; Leaman 1988: 196ff). Spaulding’s accurate description of Ostpolitik as ‘politicised trade’ captures the essence of the new foreign trade policy of the 1970s which – in the context of European rapprochement – secured (west) Germany an unparalleled foothold in Council for Mutual Economic Assistance (COMECON) markets long before the end of the Cold War. Anderson notes correctly that ‘West Germany was often out front of its fellow EC partners on the question of relations with the Eastern Bloc; lacking the capability to formulate common foreign economic objectives, the EC did not seek to stand in for its member states in their evolving economic relations with the Soviet Union and its satellites. (Anderson 2006: 255). Eastward trade expansion represented a strategic choice to continue the policy of export-led growth in the 1950s and 1960s which was further reinforced in Germany’s approach to managing the stagflationary crises of the 1970s and early 1980s. Allied to the security concerns of a reunified Germany bordering a potentially destabilised post-COMECON eastern Europe, Kohl and Genscher and later Schröder and Fischer promoted the cause of both bilateral assistance to transition states and of a speedy and large-scale enlargement of the EU, binding first the EU-8 to the acquis and the
Copenhagen Criteria and later Romania and Bulgaria. The eastern enlargement was also considered a tool that would bring Germany and Russia closer (Harnisch and Maul 2001).

The conditions of membership imposed on the CEE transition states also reflected German preferences, in particular in relation to market liberalisation and monetary ‘stabilisation’. The accumulated body of EC/EU regulations and commitments, known as the *acquis communautaire* (80,000 pages of legislative text), included the most recent wave of deregulation and liberalisation measures embodied in the Single Market Act which required all members to open their commodity, service, capital and labour markets to businesses in all other member states; Germany’s consistently strong espousal of the Single Market Act was again based on the state’s export-led growth strategy (Michalska 2006: 274). In the case of the transition states, advisors and monitors from the old EU-15 were programmatically deployed to ensure close compliance with EU standards in the gradual absorption of EU-directives into national law. A similar process is already under way in the Balkans as well.

This support has followed the economic penetration of Germany which is evident in the following table:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>30%</td>
<td>20%</td>
<td>6%</td>
<td>23.7%</td>
<td>17.7%</td>
<td>5.6%</td>
<td>-</td>
</tr>
<tr>
<td>Hungary</td>
<td>21.9%</td>
<td>43%</td>
<td>22.1%</td>
<td>41.5%</td>
<td>15.6%</td>
<td>-</td>
<td>6.6%</td>
</tr>
<tr>
<td>Poland</td>
<td>11%</td>
<td>29.6%</td>
<td>32.4%</td>
<td>9%</td>
<td>22.8%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Slovakia</td>
<td>7.6%</td>
<td>23.2%</td>
<td>54.1%</td>
<td>54.8%</td>
<td>28.8%</td>
<td>54.1%</td>
<td>66.8%</td>
</tr>
</tbody>
</table>

Source: UNCTAD 2005c: 14; 2004b: 72

The table confirms the strong economic presence of Germany prior to eastern enlargement since German FDI averages a quarter of the total. This presence is enough to justify the political interest of the German elite in the issue of enlargement which, beyond the security gains brought further gains to German
capital. In addition, it is useful to bear in mind that the fifth enlargement shows the connection between economic presence and political support for enlargement most clearly. Therefore, if such a connection exists in the western Balkans then it will be possible to establish another argument in support of German interest in this region.

Furthermore, in the process of CEECs enlargement, a 'stable economic and monetary environment' was added to the Copenhagen Criteria by the European Council (Michalska 2006: 275) which unsurprisingly led to all applicants establishing autonomous central banks, free from the influence of their respective Finance Ministries. Equally, they were expected to commit themselves to the parallel fiscal arrangements embodied in the SGP of 1997, which obliged all members of the monetary union to maintain strict controls on both annual public sector borrowing and overall state debt; the SGP was passed at the Dublin European Council at the insistence of the German administration, in the shape of Finance Minister Theo Waigel and the Bundesbank. The now established monetary arrangements of the Eurozone and the wider EU-27, together with their fiscal underpinnings in the shape of the Stability Pact, created the institutional basis for the optimal realisation of German trading and FDI strategies in the liberalised markets of Central and Eastern Europe. Under such conditions, the initial chronic capital poverty of these transition states could only be remedied by large-scale capital imports, i.e. by selling state-owned assets in CEECs to foreign (predominantly German) corporations.

Of course, one can claim that the case of the fifth enlargement was special since Germany had vested interests in the political development of its close neighbours in central and eastern Europe, while its economic capital was well consolidated in these states. Nevertheless, the same implications that apply to the CEECs seem apparent in the Balkans and to verify this we can try to trace German interests in the Balkans as well, in order to justify its interest in influencing the EU enlargement to the Balkans. The economic presence of Germany in the western Balkans is laid out in Tables 3-6.
Table 3: German FDI stock in the western Balkans, 2001-2008 in million Euros.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>2.4</td>
<td>2.8</td>
<td>2.9</td>
<td>2.9</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>BiH</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>196.8</td>
<td>206.6</td>
<td>225</td>
<td>227.5</td>
<td>n/a</td>
</tr>
<tr>
<td>Croatia</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>1627.4</td>
<td>2153.1</td>
<td>1774.8</td>
<td>3786.5</td>
<td>n/a</td>
</tr>
<tr>
<td>FYROM</td>
<td>n/a</td>
<td>n/a</td>
<td>70.6</td>
<td>64.1</td>
<td>64.1</td>
<td>85.9</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Montenegro 26</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>214.3</td>
<td>365.1</td>
<td>1085.1</td>
<td>1135.6</td>
<td>n/a</td>
</tr>
<tr>
<td>Serbia</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>41</td>
<td>67.9</td>
<td>105.4</td>
<td>127.7</td>
<td>n/a</td>
</tr>
</tbody>
</table>


Table 4: Percentage of German FDI stock compared to the total and trade partners’ ranking27.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>1.8%</td>
<td>2.8%</td>
<td>1.2%</td>
<td>1%</td>
<td>9%</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>BiH</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>8.2%</td>
<td>3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Croatia</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>17.5%</td>
<td>2%</td>
<td>17.5%</td>
<td>8.5%</td>
<td>4%</td>
</tr>
<tr>
<td>FYROM</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>4.4%</td>
<td>6%</td>
<td>3.6%</td>
<td>3.1%</td>
<td>8%</td>
</tr>
<tr>
<td>Montenegro 28</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>7.2%</td>
<td>5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Serbia</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>10.8%</td>
<td>3%</td>
<td>11.6%</td>
<td>3%</td>
<td>16.6%</td>
</tr>
</tbody>
</table>

Source: WIIW 2009.

At first glance the data demonstrate a more modest participation of German capital in the region, which in no way justifies the claim of a German hegemonic presence in the western Balkans. What is apparent instead is a particular interest of Germany towards Bosnia, Croatia and Serbia and a complete absence from Albania. In addition, the tables depict an increasing level of investment that also proves that the western Balkans have only lately attracted German economic interest, which is normal if the crises in the region are taken into account. Thus, more investments might be expected with the normalisation of life and greater security in the region. Moreover, the reduction of the German percentage over time is a result of the increase of overall FDI flows.

However, this picture changes dramatically if we consider that most of the FDI stock is either from Austria, Greece or eastern European countries, such as Hungary, which are countries that contain many German affiliates. In fact, as we will see in the case studies German companies prefer to penetrate the western Balkans through their affiliates from the above mentioned countries. In addition, there are important levels of FDI from tax havens such as the Netherlands Antilles in FYR Macedonia.

26 Montenegrin FDI are included in Serbia until 2005.
27 The first column contains the percentage of German FDI compare to the total. Column two shows the ranking of Germany as trade partner among all the trade partners.
28 Montenegrin FDI are included in Serbia until 2005.
Other FDI relate to single transactions of such volume that elevate some countries to the top of the list of investing countries, without having invested more than once. Finally, we decided to show the FDI stock at this point because the stock is the one that shows accumulation of FDI and long-term commitment to the host economy.

To enhance the case that we are making here, it is important to view the trade integration between Germany and the western Balkan states.

Table 5.1: German exports to the Balkans 2001-2005 in % of total recipients.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>5.6</td>
<td>5.6</td>
<td>5.3</td>
<td>5.2</td>
<td>6.1</td>
</tr>
<tr>
<td>FYROM</td>
<td>10.8</td>
<td>13.3</td>
<td>12.7</td>
<td>13.3</td>
<td>12.3</td>
</tr>
<tr>
<td>BiH</td>
<td>12.4</td>
<td>12.7</td>
<td>12.6</td>
<td>12.6</td>
<td>12.3</td>
</tr>
<tr>
<td>Serbia and Montenegro</td>
<td>13.5</td>
<td>14.7</td>
<td>13.8</td>
<td>13.9</td>
<td>14</td>
</tr>
<tr>
<td>Croatia</td>
<td>17</td>
<td>16.3</td>
<td>15.6</td>
<td>15.5</td>
<td>14.7</td>
</tr>
</tbody>
</table>

Source: WIIW 2006.

Table 5.2: German imports from the western Balkan states of % of the exporting country’s total.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>5.6</td>
<td>5.6</td>
<td>5</td>
<td>4</td>
<td>4.3</td>
</tr>
<tr>
<td>FYROM</td>
<td>18</td>
<td>17.1</td>
<td>13.3</td>
<td>19.7</td>
<td>16.8</td>
</tr>
<tr>
<td>BiH</td>
<td>10.5</td>
<td>10.1</td>
<td>12.7</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>Serbia and Montenegro</td>
<td>13</td>
<td>13</td>
<td>14.7</td>
<td>10.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Croatia</td>
<td>15.1</td>
<td>12.1</td>
<td>16.3</td>
<td>11</td>
<td>10.7</td>
</tr>
</tbody>
</table>

Source: WIIW 2006.

The trade data reinforce the evident trends in the development of FDI. Germany remains an important trading partner with an increased presence. Certainly, it will be obvious in the case studies that Germany is one of the top three trading partners in the western Balkans but it is the state that has an important presence in all states apart from Albania. This might be hegemonic, since it indicates that Germany is interested in whole region and not in a single country for reasons of lower industrial costs.

Hence, if we want to comment on all the tables then we can say that Germany has a significant economic presence that might justify political support for enlargement, which is the policy, within which the EU is consolidating its hegemony. This might also indicate that Germany has an interest in influencing this policy in order to reap the benefits. Moreover, it offers us the foundation for economic penetration that might be hegemonic in the case studies particularly taking into account the German strategy of using affiliates for penetrating the local economies.

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29 Due to the lack of data, we are unable to produce the shares of other states as well. Nevertheless, we believe that since the data represent a percentage of the total it can provide meaningful indications of German-western Balkan relations.
One last comment relates to Albania. As will be presented in Chapter 5, Albania is a country that has only recently started to attract the economic attention of German investors and it is a country where the German presence is small but promising for the future.

Beyond its economic presence, Germany is participating in the police and military missions in the western Balkans as we can see in Table 6:

<table>
<thead>
<tr>
<th>Operations</th>
<th>Duration</th>
<th>Strength</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHARP GUARD</td>
<td>30/6/1995-19/6/1996</td>
<td>4000 soldiers</td>
<td>Former Yugoslavia</td>
</tr>
<tr>
<td>IFOR</td>
<td>20/12/1995-20/12/1996</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFOR</td>
<td>20/12/1996-8/1/2005</td>
<td>3000 soldiers</td>
<td>BiH</td>
</tr>
<tr>
<td>EUFOR</td>
<td>8/1/2005-present</td>
<td>1100 soldiers</td>
<td>BiH</td>
</tr>
<tr>
<td>Allied Harbour</td>
<td>13/4/1999-10/6/1999</td>
<td></td>
<td>Albania and FYROM</td>
</tr>
<tr>
<td>KFOR</td>
<td>10/6/1999-present</td>
<td>2875 soldiers</td>
<td>Kosovo</td>
</tr>
<tr>
<td>Allied Harvest</td>
<td>12/6/1999-24/8/1999</td>
<td></td>
<td>Adriatic 30</td>
</tr>
<tr>
<td>Essential Harvest</td>
<td>27/8/2001-23/9/2001</td>
<td></td>
<td>FYROM</td>
</tr>
<tr>
<td>Amber Fox</td>
<td>27/9/2001</td>
<td></td>
<td>FYROM</td>
</tr>
</tbody>
</table>

Source: Federal Ministry of Defence (Bundesministerium der Verteidigung 2005).

These missions make clear that for Germany the regional conflicts in Europe are a matter of concern for German foreign policy because they threaten its stability. In this context the Germans justify their participation in Balkan military missions (BMVG 2006: 18, 47). It also indicates that Germany’s interest in the stability of this region also has an economic rationale since stability is a necessary condition for economic investment. It also reflects wider German economic and geopolitical interests that are outlined below and which indicate that hegemony is primarily economic and that military operations are auxiliary. It also supports the argument that Germany wants a leading role in the security missions in the area; the number of troops that it contributes to the various missions underscores this. Certainly other states have an important presence but if one adds all missions to the economic presence, and then it is possible to advance the idea of leading German interest in the region. However, a safe conclusion has to be proved in the case studies.

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30 Even though this was in the Adriatic, the mission was linked to the blockade of the former Yugoslavia.
What was demonstrated up to this section is the strong interest of Germany in EU enlargement in the western Balkans. Furthermore, if one considers that most of the enlargement decisions were taken under German presidencies and that Germany has undertaken a very important role in the post-war Balkan reality, either by initiating actions like the Stability Pact or shaping the SAP, it can be claimed that Germany has influenced, to a large extent, EU enlargement policy. This is supported by the fact that the Balkans are following the enlargement blueprint from the fifth enlargement which was strongly influenced by Germany. In addition, according to the tables, Germany has an important presence that might be an outcome of the enlargement or a reason for it. The next step is to discover why Germany has an interest. In other words what motivates Germany in seeking a hegemonic position in the western Balkans? This is significant because if we establish the existence of German interests in the area then the search for hegemony can be justified as well.

2.5.2. Germany in the Balkans.

Previously we mentioned that Germany had an active role in the shape of the post-war developments in the Balkans and that it took a leading role in shaping EU responses in this region. The main reasons were security but also economic considerations since, as in the case of the first eastern enlargement, economic interests were focused on ‘a much wider market and greatly increased opportunities to evade the labour rigidities that have depressed German economic performance in a new division of labour where the low-value processes are outsourced by German firms’ (Padgett et al. 2003: 11).

Thus the question that arises is whether Germany is interested in the Balkans to such a degree that it makes itself a hegemonic leader, beyond general security and economic considerations. We have to note that for a long time, according to the statement of the representative of Auswärtiges Amt, Mr Almer, Germany took a negative view of Balkan enlargement but in the end had to take the initiative and shape policy (Almer 2008).

A serious answer may involve energy considerations. A heavy industrial country like Germany has a tremendous need for energy and raw materials in order to preserve its dominant economic position. According to a German White Paper, ‘a
secure, sustained and competitive supply of energy is of strategic importance for the future of Germany... Germany’s and Europe’s growing dependence on imported fossil energy resources calls for the intensification of the dialogue and cooperation between producer, transit and consumer countries, including trade and industry. To ensure energy supplies in the long term, it will be vital to have differentiated sources of energy... it is also imperative to ensure the security of the energy infrastructure’ (BMVG 2006: 20).

The need for secure energy resources becomes greater from the moment that the EU wants to differentiate its sources due to the insecurity that Russia’s attitude brings. Russia still refuses to ratify the 1994 Energy Charter Treaty for energy and its transport between Eastern Europe and the EU (Elefterotipia 2006a; 2006b). Indicative of the volatility of EU-Russian relations is the fact that the new Partnership and Cooperation Agreement between the two sides is yet to be ratified. We have to bear in mind that Germany’s energy policy was always towards free access to it and not to control it (Perthes 2005: 6). A look at Table 7 reinforces the above argument by presenting Germany’s important raw material and energy imports.

| Coal and lignite | 2007 | 196 |
| Crude petroleum and natural gas | 51759 | 3610 |
| Metal ores | 3618 | 98 |
| Coke, refined petroleum products and nuclear fuel | 15278 | 12050 |
| Basic metals | 37505 | 41079 |


Table 7 underscores that Germany as an industrial power has a vital and considerable need for resources; this dependency is expected to lead to FDI in relevant sectors that will secure the necessary inflows. In relation to this thesis, if it is proved that the western Balkans contain resources that are in required by Germany or if they are in sectors that German companies are investing, then it is possible to explain German interest there as well as to explain certain German actions in the events of former Yugoslavia. In addition, the struggle for resources is a primary hegemonic motive, since a hegemon wants the needed resources in a secure and
stable environment, which is something that EU enlargement and the EU missions can offer.

The soil of former Yugoslavia is rich in minerals and raw materials such as iron, nickel and bauxite (aluminium) (see Appendix 1) that are necessary for industrial production. In fact, during both the First and Second World Wars, the region was of extreme importance for German supplies, due to the provision of nickel and iron for German tanks and aeroplanes (Rippert 1999). According to the Bundesministerium, für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ) the resources of raw materials in Kosovo are among the largest in Europe (Bundesministerium, für wirtschaftliche Zusammenarbeit und Entwicklung 2004a: 5). This becomes apparent if we consider that Kosovo has 17 billion tons of coal reserves and represents one of the biggest reserves of lead, zinc, gold, silver and lignite (Rippert 1999). It is known that the Trepca mines in Kosovo are among the largest in Europe, with 25% of the region's industrial production. Indicative of the energy importance is the World Bank's recent grant to Kosovo of $8.5 million for the exploitation of its large energy resources through the construction of a power plant and mine. The construction will be implemented by private investors that will be motivated by this grant (World Bank 2006c). Given that Germany as a trading economy is highly dependent on a secure supply of raw materials and safe transportation routes around the world, any problem in the free flow damages the national economy and its prosperity (BMVG 2006: 19). The establishment of hegemony could be a solution for securing these sources and thus the existence of the sources indicates an interest that could justify the efforts for hegemony in the western Balkans.

The above fact underlines the importance of the Balkans for Germany, since the region is of great importance for the location of energy pipelines from the Caspian Sea towards Europe. Energy is one of the priorities of both German and US foreign policy. At the moment, the Caspian basin provides an alternative source of considerable magnitude for both German and US energy supplies (Rippert 1999; Emerson 1999: 19; Howkins 2005: 236). What makes the western Balkans an important region for German capital is its location on the energy supply routes of Central Asia towards Europe. The Balkans are located in the middle between the Central Asian energy sources, (particularly from the sources of the Caspian Sea), and
European markets. The location of the Balkans as the bridge between East and West gains further significance because the safest routes for the transfer of oil and gas are through the soil of a peaceful, stable and pro-EU Balkans (Erickson 2001: 236-37).

Thus, it is imperative for the EU and industrial member states such as Germany to have a smooth supply of energy from these sources. The answer to this problem is in the form of pipelines. The existing pipeline projects that affect the region are the Baku-Cheihan, Blue Stream, the South Caucasus pipeline, the CPC and the Cosnstanza-Omisalj-Trieste. All these are directed to Turkey, while in the Balkans only Romania, Croatia and Bulgaria are the recipients of gas and oil. In addition, Croatia and Serbia receive oil through the Druzhba pipeline. Thus, there is a series of new projects such as the Turkey-Greece-Italy interconnector, the Nabucco project (which is sponsored and coordinated by the EU), the Bourgas-Alexantroupolis and the AMBO (Energy Community 2007; European Commission 2001:29; INOGATE 2007). In summary, according to the Energy Community of the European Union, there are nine projects, with only the Bourgas-Alexantroupolis currently under construction (Energy Community 2007). The importance of the Balkans as a transit region becomes greater given the fact that a secure Balkan region can be a corridor away from Russian interference. This importance as a transit region was also mentioned in the EU study from 2004, according to which the EU must ensure the security and stability of producer and transit countries, something that enlargement is creating (European Commission 2004c:22). Therefore, the security of the Balkans, which is best promoted through their integration into the EU, is one of the key points for the EU’s energy supply. The following map is indicative of this:

Map 1: The energy projects in Europe.
It will be interesting to examine who carries out these projects. At first glance, the main contractors are the EIB and the European Agency for Reconstruction (EAR) of the Balkans. However, despite the contribution of these institutions, that is considerable according to our first interviewee (Confidential Interview 1), the bilateral relations between donor countries and the beneficiary states also play an important role. In our case, according to the BMZ, Germany is directly financing certain projects that it believes will promote the economic development of the western Balkan region, (and consequently to the benefit of German capital). At the same time it contributes substantially to the work of organisations such as the World Bank and of course to the various EU programmes that are operating in the western Balkans. In fact, Germany is the second largest bilateral donor after the US and for its direct actions in the region uses special agencies like the German Office for Reconstruction and Development. This agency is based in Kosovo and operates as an advisor to the BMZ and as coordinator of its projects. The reason that we refer to aid has to do with the simple fact that most of the aid goes to projects such as institution-building and the road infrastructure that aims to create a favourable economic environment, facilitating investment by foreign capital in the host
economy. A lesser reason is that the direction of aid could indicate interest on behalf of the donor.

Germany also supports the involvement of the private sector in the region, mainly through its agency the Deutsche Investitions-und Entwicklungsgesellschaft. Its scope is to promote the creation of joint enterprises between German companies and local enterprises, and with the provision of German financing. Two examples are the Micro Enterprise Bank of Kosovo that operates with the German Commerzbank and the public water utility of Albania, the Elbasan supported by the private German company Berlinwasser. In addition, there are twinning projects of the German Chambers of Industry and Commerce that provide expertise to local firms. Finally, as the BMZ admits, ‘the promotion of trade relations and the initiation of joint enterprises with German firms both play an important role’ (BMZ 2004a: 83).

Beyond energy considerations, the Balkans are the main location for the Pan-European transport networks. In fact, Corridors\textsuperscript{31} 4, 5, 8, 9 and 10 that connect the main ports of Durres, Rijeka and Split with the mainland are currently under construction (European Commission 2001: 12; Howkins 2005: 192-93). Among them, the most important are corridor 8 that connects the Caspian with the Adriatic Sea through Bulgaria, FYR Macedonia, Kosovo and Albania, and corridor 10 that connects Austria and Greece though the territory of former Yugoslavia. According to the EU, these corridors and the whole idea of the Pan-European network is for the regional integration of the area into the West and for boosting trade. The map below is indicative:

\begin{quote}

\textsuperscript{31} Corridors are part of the Trans-European transport networks and relate mainly to roads.
\end{quote}
Map 2: Pan European networks

Source: European Union, DG Transport and Energy website. URL:

What is also interesting in this case is the project for a corridor that will connect China with the EU through Turkey via a network known as the Silk Road. So far there is a route connecting China with Turkey and Iran. Therefore, the project wants to expand this to western Europe (Howkins 2005: 192-93, 194). The project thus has a geopolitical significance, because such a road connects industrial Europe with Asian energy resources. Thus, the transit areas (i.e. the Balkans) have to be stabilised for the undisrupted dual flows between western Europe and Asia.

The Balkans are also important because of their proximity to Russia. Russia shares strong cultural, historical and religious connections with the region. Serbia has the strongest link, while the other republics have a more western orientation. Nevertheless, from this relationship and taking into account the special relations between Germany and Russia, it seems that Germany is trying, through the Balkans,
to enhance its role as mediator between NATO and Russia (Paterson 2003; Timmins 2007; Pradetto 2004). We saw this strategy in Kosovo, in the negotiations for the Energy Charter and even in the German response to the invasion of Georgia. As a matter of fact, Russia always feared that the growing penetration of NATO and EU in the region could pose a threat to its position, especially during the wars of Yugoslavia (Baranovsky 2001: 9; Norris 2005).

In order to support the above mentioned assumptions, we have to take into account that when the last Yugoslav prime minister, Ante Marcovic, visited Washington D.C. in 1988 in an effort to seek assistance and investments, the West asked for economic reforms in exchange, even though it refused the one billion dollars for these reforms (British American Security Council 2006; Gervasi 1993). The implementation of the reforms package without the required funds intensified the economic problems and the tension in the relations between the republics, which were also rooted in the economic problems of the federation and provided the emergence of the nationalist parties. This incident implies that the West exercised its power in order to promote its ideology (in the face of certain economic reforms) and to bring Yugoslavia under the western sphere of influence.

In addition, before the outbreak of war the EU had blocked assistance in the name of minority rights violation. Nevertheless, the EU promised to support Yugoslavia's integrity but in a new institutional structure where the constituent republics would be virtually independent. As proven by the events such a promised structure motivated the republics to leave Yugoslavia. In an article in the New York Post, Mark Fisher notes that the EU was dealing with the unity of Yugoslavia, while the German government had an open communication channel with Croatia, and was provided assurances for of its recognition as an independent state (see Fisher 1992). This second incident shows that the plans on Yugoslavia were also European. More importantly it reveals the role of Germany as possible hegemonic leader. The role seems valid because the German attitude proved that Germany as true hegemon can impose its preferences on the other members of the group or, in case this is not possible, can move unilaterally as in the case of the unilateral recognition of Croatia and Slovenia (where there were strong German interests), which followed the initial German threat and which in the end forced the EU to follow, suit but without doing
the same for Bosnia which, although it was a similar case, had/ has no obvious interest for Germany.

2.5.3. Interests of the German politico-economic elite.
Certainly, someone might claim that these are speculations. Therefore, we have to provide evidence that there is indeed interest from the German politico-economic elite. In order to identify this, we have to look for actions of prominent members of the German economic and political elites and identify the actions of German politico-economic diplomacy in the region.

Starting from the actions of the German industrial world, we have to note the position of the chair of the Eastern European Committee (O斯塔usschuss), which is an industrial group for the promotion of business links with Eastern and South East Europe. The former chairman, Klaus Mangold, said of these states that ‘it’s our natural market...in the end this market will perhaps bring us to the same position we were before World War I. Why not?’ (quoted in: Fisher 1992). This position by the Eastern European Committee is important because of its historical centrality to Germany’s Ostpolitik and because it is supported by the major industrial, trade and banking associations in Germany whose interests it promotes. Additionally, this committee illustrates the interest of German capital in Central East and South East Europe by stating that its purpose is to bring German enterprise closer to these states through four actions: the network of contacts with government representatives and German business associations with SEEC; coordination and institutionalisation of dialogue between the two sides; information on investments in the region and through the organisation of seminars conferences and delegations (East European Committee 2006). An interesting example is the World Bank-European Commission conference in September 1999 on the Balkans that was sponsored by the Deutsche Bank. This can be viewed as an example of interference and lobbying by private economic interests in the work of an international organisation (Welfens 2001: 98).

The position of the German political elite towards the western Balkans is also explicit. In particular, from the very end of the Cold War, the German political elite
had expressed its intentions towards Eastern Europe. Firstly, Kohl’s response to the 
communist collapse was to stress Germany’s responsibilities towards Eastern 
Europe, such as Germany’s need to be able to intervene outside its area due to its 
new responsibilities matching its size and economic power (Kinkel 1997; Rathbun 
2004: 86; Hyde-Price 2003: 190). These statements in combination with the clear 
pro-Croatian and pro-Slovenian German stance, with the ensuing unilateral 
recognition of these two republics, may demonstrate a threat or actual desire for 
political and economic leadership in the region (Rippet 1999; Gervasi 1993; Hyde-
Price 2003: 190). Statements over the future of the region took the form of 
integration into western structures namely NATO and the EU. Klaus Kinkel stated in 
1997 ‘we see ourselves as the spokesman for the young democracies of central and 
Eastern Europe on their way into the Euro-Atlantic structures’ (Kinkel 1997). German 
decisiveness in the western Balkans is also expressed, according to the last US 
ambassador in Yugoslavia Warren Zimmermann, by the unilateral raising of Bosnia’s 
recognition issue by the EEC, after Germany’s demands relating to Croatia and 
Slovenia, which led on 17 December 1991, to the EU offering Bosnia of a timetable 
for final recognition (Zimmermann 1996).

This rhetoric continued with the SPD/Green coalition government, but in a 
more normative way, since its leaders lacked an immediate memory of the Nazi era, 
having been at most children at that time, and thus they were not so normatively 
bound to the guilt of the Nazi era (Rathbun 2004: 82-3). Hence, they moved German 
policy forward, by assuming a more aggressive response towards the Balkans that, as 
we have seen, ‘was marked by the participation of the German army in out-of-area 
military operations for the first time since the end of World War II. Moreover, during 
the Yugoslav crisis and particularly during the Kosovo crisis, the rhetoric of the 
SPD/Greens emphasised human rights and their protection, in order to prevent 
the ‘re-emergence’ of Nazi crimes. Indicative of this approach are the speeches of 
Joschka Fischer in order to convince the German political world of the value of 
German participation in the intervention, deploying the slogan ‘never again and 
ever again Auschwitz’ (Johnstone 2000; Rathbun 2004). In fact, the Red-Green 
government seems to have elaborated the Kohl plan for the future of the Balkans, 
and inserted it into EU policy, through the SAP and the SPSEE.
Today, Merkel seems to be continuing this policy but within the framework of transatlantic cooperation in a way that ensures German interests. This argument is repeated in the 2006 White Paper that states that German security policy is driven ‘by the values set forth in its Basic Law and by the goal of safeguarding the interests of our country’ (BMVG 2006: 6). This is reflected in one of Merkel’s speeches at the Munich Conference for Peace and Security in 2006 where she stated that the current situation in the Balkans is proof of the efficiency of Europe in dealing with its own affairs, having of course the assistance of US (Merkel 2006; BMVG 2006: 7). This was also mentioned before with the 2005 coalition agreement that speaks of strategic partnership with the US (Guerot 2006: 52,) and the reform of the constitutional status of Germany’s Bundeswehr (i.e. federal army) in order to be able to intervene globally in out-of-area missions (Breuer 2006: 206)

Hence, what appears as a first example is that both the political and economic elite were in favour of an active involvement in the Balkans as well as around the world, in a way that might mean seeking a degree of control or at least safeguarding and promoting national interests. This takes the shape of the significant penetration of German capital in Central East and South East Europe and the presence of the German army and the political elite in key posts. What also seems to be the case is that Germany is more relaxed in regard to the use of force for interest-seeking, as well as the idea that the bigger the participation the better the post that it will receive (Breuer 2006: 206, 208). This has occurred particularly from the moment that the collapse of the Soviet Union created a gap that the EU and its member states raced to fill (Smith 2003: 135-38; Schweigler 1997).

2.5.4. Further indications of interest.
Dealing with the actions of German diplomacy for the achievement of a dominant position in the Balkans, the best example is provided by the presence of Germany’s Chambers of Commerce and the German embassies in the region. In addition to the role of the Eastern European Committee, valuable information is provided by the former Serbian and Montenegrin embassy in Berlin that shows how the meetings between politicians and the organisation of conferences by private actors, made
Germany, the most important economic partner of Serbia and Montenegro. In addition: 'During Chancellor Schroeder’s visit, a Germany-Serbia Montenegro Economic Cooperation Council was established...to develop appropriate projects to attract potential German investors. Chancellor Schröder announced that companies like ‘Hermes’ and other institutions will guarantee German investments in Serbia and Montenegro’ (Serbian and Montenegrin embassy in Germany 2006).

Moreover, there could be reasons that go beyond economic considerations, proving Germany’s desire for intervention, something that Professor August Pradetto asserted in 1998 by saying that the NATO response in the Balkans had strong power-political considerations. These had resulted in the expansion of the western alliance into the previous sphere of influence of the Soviet Union and in conflict over the competence and extent of political decision-making and the influence of the Caspian oil reserves that were largely under Russian control (Pradetto 1998). The argument in Pradetto’s article (written a year before the Kosovo war) was supported by the fact that NATO had offices in Albania and FYR Macedonia and had also conducted joint exercises with these countries, while NATO was expanding its influence to the whole SEE (Pradetto 1998).

It is within this context (i.e. of Germany’s seeking to promote national interests and expanding its international presence) that German military participation in Kosovo during and after the war is located. It can be claimed that the German presence operates for the protection of certain economic interests. The fact that Germany is developing its army in order to be operational worldwide and that the former and current chancellor is ready to emphasize Germany’s obligation to intervene wherever necessary (within multilateral frameworks, of course) supports this argument (Merkel 2006; Rippert 1999; BMVG 2006: 9). Furthermore, according to the 1992 strategy paper of the Federal Defence Ministry, the new responsibilities of the Bundeswehr include the maintenance of free international trade and access to strategic raw materials (Rippert 1999; Breuer 2006: 206). Once again the White Paper confirms the above quotation by stating that German economic prosperity depends on access to raw materials, goods and on an open world trade system with

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32 Furthermore, at the donors’ conference in Brussels on 29-30 June 2001, Germany was the second largest donor with €78.23 million.
unrestricted transportation routes (BMVG 2006: 17). Hence, in connection to hegemony the development of security capabilities and their use in the Balkans, might reveal an interest protection policy and thus an indication of the establishment of hegemony.

Important indicators of Germany's active interest and role in the region are the German responses to the Yugoslav crises. Germany was the first country that supported the secessionist movements of the former-Yugoslav republics while it was among the first supporters of the Kosovo Liberation Army (KLA). We can find examples of this in the German press referring to the 'barbarian' Serbs and the 'European' Croats and the representation of the KLA as champions of self-determination. Another example is the view of the BMZ that the Serbs where operating a 'Serbian apartheid' in Kosovo (BMZ 2004a: 7; Gervasi 1993). Germany was also the first EU country to open an embassy in Kosovo on 27 February 2008.

2.5.5. German military presence in the western Balkans.

Beyond the evidence of 'German economic and associated security interests and their clear articulation, there is one last thing that supports our position about the existence of German interests in the Balkans. This links the EU to the German military presence (as well as to the wider EU military and police presence in the region). In the aftermath of the Yugoslav crisis, Germany appears in the region with growing economic penetration, a significant aid contribution and with a military presence in Implementation Force (IFOR) (with 4000 military personnel) and in SFOR (with 3000 military personnel). In SFOR the German troops were combat units, and here Germany demanded and received high ranking posts in SFOR and in Bosnia (Gardner-Feldman 2001: 19, Baumann 2001: 171-72). Thus, it undertook the leadership of SFOR and it succeeded in getting its candidate appointed to the position of the High Representative in Bosnia and Herzegovina (BiH33) (Baumann 2001: 172). Germany also initiated the Stability Pact that we noted at the beginning of the chapter, once again with its own candidate in the leading position (Crampton 2002: 277; BMZ 2004a: 9).

33 We are using the same initials that the EU uses for Bosnia and Herzegovina.
After the Kosovo war Germany demanded and obtained key posts like the leadership of Kosovo Force (KFOR), while the High Representative (HR) of UNMIK was also a candidate favoured by Germany, namely Michael Steiner, a German diplomat with experience in the former Yugoslavia, while in KFOR Germany took the leadership, with Klaus Reinhardt, and also provided one of the largest troop contingents (around 8500). Moreover, Germany took under its command one of the five sectors, while now along with the US are in command of sectors of KFOR in the borders with FYR Macedonia (Hyde-Price 2000: 119, 118; Crampton 2002: 276; Baumann 2001: 173). Steiner was praised for his focus on how UNMIK should work and the structure that he created. Moreover, UNMIK established the Deutsche-Mark as the Kosovar currency, until the Euro’s arrival which in turn became the official currency (Woehrel and Kim 2003: 45-6). The German military presence is consistent with the growing expansion of the Bundeswehr in out-of-area missions and, as was mentioned in the introduction, Germany is the largest contributor of troops to UN missions globally (see Crawford 2007).

This might mean that Germany appears in the western Balkans as a stability factor and is seeking a power role like that of France and the United Kingdom in the past. Hence in connection with hegemony, and for this thesis, the role of military participation can be closely linked with the above mentioned economic interests. The military and police presence is bringing the necessary stability that favours economic penetration and protects foreign investments, i.e. German and west European investments in this case. In addition, it could be claimed that the stability of the Balkans is strongly connected with the wider interests of EU member states, and particularly of Germany in Eurasia, as we will try to demonstrate in case studies. Thus, the military presence could be considered as part of the hegemony as well.

2.6. Concluding remarks.

Trying to make an assessment of this chapter, we have to focus on three key points.

Firstly, in pure neo-Gramscian language the EU has all the ‘requirements’ to be called

34 The German presence includes the Deputy Special Representative of the civil administrative pillar of UNMIK, Mr. Tom Koenigs and Mr. Haekkerup, the UNMIK chief, while the Germans control the justice and police administration pillar. In addition, in FYR Macedonia NATO appointed German ambassador Hans-Joerg Eiff to be its senior representative in the country.
a hegemonic institution. It has an ideology that reflects certain national interests and it transmits this ideology in the recipient states in such a way that it becomes 'common sense'. Thus the establishment of hegemony looks uncontested. In this sense it can be argued that the EU member states constitute a group that as we will show in the case studies is participating in the Historic Bloc, and that the EU as bureaucratic structure is a tool for the promotion of the Bloc's preferences.

Secondly, unquestionably the policies of the EU in the western Balkans are creating a favourable environment for the penetration of foreign economic capital (and as will be seen, of German capital in particular) as well as making the domestic societies look 'submissive' to EU preferences. This facilitates the 'control' of these societies and their economic exploitation by the Historic Bloc which, by having economic control, can gain political control as well. Finally, we can establish a strong German interest in the region as well as the existence of significant economic penetration, which give us grounds to move onto the case studies in an effort to discover if there is 'fire under the smoke'. Before this, however, there is a question that has to be answered:

Can this mean that Germany is the leader of an Historic Bloc that is hegemonising the Balkans?

In this chapter, it was demonstrated that Germany has an interest in enlargement and that it has shaped this policy. Particularly, in the western Balkans, the main framework of enlargement, i.e. the SAP was shaped under the German presidency, while Germany was the state that created the Stability Pact. Moreover, it was demonstrated that Germany has an important economic presence, which is protected by participation in military and police missions in the western Balkans. To these is added a number of possible reasons that might explain the German interest in the region of the western Balkans. Hence, if we add the findings from the introduction and Chapter 1, about the influence of Germany on the EU and the formulation of EU economic logic, then there is a good case for considering Germany as the leader of the Bloc. This is supported by the fact that Germany is satisfied with the enlargement, which means that it was successful in the bargaining process and has effectively imposed parts of its ideology (Gardner-Feldman 2001; Zimmermann
However, this hypothesis as well as the core hypothesis of this thesis has to be tested in the following three chapters.
Chapter 3: case study Serbia.

3.1. Introduction.

The aim of this chapter is to apply the theoretical framework that we formulated in the previous two chapters. Therefore, in this chapter, which is our first case study, we will investigate, in accordance with our theoretical assumptions, whether Germany is exercising politico-economic hegemony in Serbia. As becomes obvious we take each case study independently. Finally, in this case and in the following two cases, the chapter starts with a description of the politico-economic data of each case that will provide us the necessary data for the application of the theory and the analysis.

3.2. Historical background.

Serbia dates its existence as a distinct national entity, back to the sixth century and the arrival of the Slav tribes in the Balkans (Ostrogorsky 1986: 81). The first independent Serbian kingdom was founded in 1217 by Stefan I. The medieval Serbian kingdom ended after the battle of Kosovo on 28 June 1389 that led to the gradual imposition of Ottoman rule in the region that was completed in 1459 (Jelavich 1983a). Kosovo’s historical burden starts then. Kosovo was not only the place of the ‘final’ battle of the last Serbian empire but also the centre of this empire and the stronghold of the Serbian patriarch. The latter’s escape to the Hapsburg Empire in 1459 from the Ottoman menace has until today significant normative power for Serbs and signalled the mass advance of Albanian groups in the region of Kosovo (Glenny 1999; Ahrens 2007). Serbian independence was completed in 1878 when the congress of Berlin gave international recognition to the Serbian principality. The Serbian kingdom was established on 6 March 1882 (Jelavich 1983a: 144-5, 163; Glenny 1999).

The role of the Great Powers was decisive in the achievement of independence. It is indicative that the Austro-Hungarian Empire wanted Bosnia and not a strong Serbia; the Russians wanted a strong Serbia but also a big Bulgaria, and the British along with the French wanted a controlled Serbia and Greece as
counterbalance to the Ottoman Empire and Russia (see more in Glenny 1999; Jelavich 1983a; Crampton 2002). Therefore, Serbian independence (as well as the independence of the whole Balkan region) resulted from the competition between the Great Powers. This competition also initiated the Balkan wars of 1912-1913, since Austria, Russia and Great Britain used their Balkan satellites for solving the Eastern Question in Europe. These wars also enhanced the power and size of the Serbian kingdom. The role of the Great Powers was also evident in the First World War since Austria’s demands on Bosnia and Russia’s interests in Bulgaria initiated the Balkan front.

After the First World War (and the dissolution of the Austro-Hungarian Empire), the Serbian kingdom became the central state of the first Yugoslavia, namely the Kingdom of Serbs, Croats and Slovenes on 1 December 1918. The Kingdom was the location for competition between Serbs and Croats with the former seeking to control the Kingdom. The internal divisions threatened the existence of the First Yugoslavia, which collapsed in 1941 after the German attack. However, the guerrilla war of the Partisans led eventually to the creation of the ‘second’ Yugoslavia on 31 January 1946, formally known as Socialist Federal Republic of Yugoslavia, with Serbia retaining the central role but under the leadership of the Croat, Tito (Crampton 2002: 21-22; Glenny 1999). The death of Tito and the deep economic problems of the mid-1980s brought the rise of nationalism and the bloody dissolution of Yugoslavia. The term Yugoslavia was finally abandoned with the dissolution of the federation between Serbia and Montenegro. The period of wars until the late 1990s was marked by the activities of Serbian president Slobodan Milosevic, whose actions caused destructive armed conflicts among the Yugoslav people. Milosevic’s arrest in April 2001 signalled a new era in Serbian history (Pond 2006: 215; Crampton 2002: 281).

From this historical presentation, we depict some crucial aspects for our research. Firstly, Serbia’s historical development was always influenced by foreign powers and their preferences, with some of these powers such as Russia and

\[35\] Milosevic was not the only ‘negative’ figure in former Yugoslavia. Tudjman, the Croatian head state, the Bosnian Serb Karadzic etc were also important but since we are focusing on Serbia we have to exclude them from any of our analysis.
Germany continuing this important role until today. Secondly, Serbia always had a dominant role in Balkan affairs and a central role in every plan that was related to the Balkans, such as the consolidation of Soviet rule after 1945 or now with the integration of the region into the West. Finally, Kosovo and Yugoslavia have shaped Serbian identity, and were central for justifying Serbian actions during the war in Kosovo. In relation to this thesis, this identity is important because its manipulation by Milosevic brought a Serbian mobilisation towards war, and it is still in use by the current political forces for their interests and is thus possible for the Bloc to use as well.

3.3. Political developments.
The post-Milosevic era finds Serbia on the difficult path of transition to a liberal market economy and towards integration into western structures, notably the EU and NATO. The current political situation in Serbia reflects the Milosevic legacy and the difficulties of a fragile political environment. In 2000 the first democratic elections brought to power a predominantly pro-western elite under a coalition grouping with the overall title Democratic Opposition of Serbia. The EU, US and Germany along with international NGOs and IFIs were the main forces for the organisation, promotion, financial backing and cohesion of the opposition seeking to overthrow Milosevic (Pond 2006: 213; McCarthy 1998). In fact, this was a central strategy oriented at regime change as was admitted by Germany (Welfens 2001; McCarthy 1998). The first democratic government with Zoran Djindjic of the Democratic Party as Prime Minister and Vojislav Kostunica as a president began the reforms towards integration into the western structures, notably into the WTO (still in negotiations) and the EU. However, the fragile political situation and the assassination of Djindjic on 12 March 2003, led to elections in that year and the minority government of Kostunica with President Boris Tadic, since the winners (i.e. the Radicals) were prevented from forming a government after strong western objections, notably by the EU and USA.

36 The latest news mentions that Serbia is in the last stage before its admission to the WTO (see B92 2009).
The minority government that was formed faced many difficulties of which Kosovo was arguably the biggest. Consequently, the reforms slowed down and in 2006 the EU put the SAA negotiation on hold, as a result of non-compliance with the International Criminal Tribunal for the former Yugoslavia (ICTY) (The Economist 2003; Pond 2006: 221-2). The internal political situation was in turmoil, with the federal system simply not functioning. It has to be noted that the federal system was created after strong EU pressure to sign the constitutional charter for the state union of Serbia and Montenegro in March 2002 (EBRD 2007a: 13; Elefterotipia 2002; Pond 2006: 233; Lavenex and Schimmelfennig 2007: 149).

Within this framework, crucial parliamentary elections were held in Serbia in 2007. The Radicals won with 28.6% of the vote but Kostunica formed a minority government after strong pressure from the EU and Germany (EBRD 2007a: 14; Solana 2007; Confidential Interview 2; Heaney 2007: 543, 550). These pressures continued when the Radical Party was prevented from choosing the president of the Serbian parliament (Papadopoulou 2007; Euractiv 2007b). The government formed after the 2007 elections began the implementation of the proposed reforms and had substantially improved its record, even though it was still criticised because, in the long awaited constitution, Kosovo is referred to as a province of Serbia (Articles 114, 182) and because of the hard line that it maintained in relation to the final settlement of Kosovo’s status.

The current political setting was formalised after the crucial presidential and parliamentary elections in Serbia in 2008. The elections were crucial because of (a) the Kosovo developments (b) the internal strife of the pro-EU elite and (c) the growing influence of Russia, which was (and still is) jeopardising both Serbia’s path towards the EU, as well as the overall EU plan for the Balkans, and the finalisation of Kosovo’s status (see ICG 2008).

The importance of these elections rose after the previous success of the Radicals and the growing influence of Russia at that time due to developments in Kosovo. In this climate the West and in particular the EU intervened in favour of Tadic who won in the second round with 51.19% of the votes, after the Radicals had won the first round with 40%. Emblematic of the ambivalent outcome of the elections was Kostunica’s support for Nicolic (who had Russian support as well) and on the other
side EU support for Tadic (Vatou 2008). The EU’s support was reiterated by Solana on 21 January 2008, who stated that Serbia would be encouraged to have closer ties with the EU (B92 2008a). On the opposite side, the pro-Russian position of Nicolic was reflected in his reference to the possibility of establishing a Russian military base in case of his victory (ICG 2008:4).

The electoral result sent signals to the EU about divisions within Serbian society and made clear to the EU that Kosovo’s independence will not bring Serbia to the point of abandoning the EU track, since the majority remains committed to EU membership despite the shock of the loss of Kosovo. In other words, it became apparent that even with only a small majority the Serbs were willing to ‘sacrifice’ Kosovo in favour of EU membership. What the presidential elections also revealed is the deep division within the pro-EU camp. Tadic’s victory meant the continuation of the two-track approach i.e. both the status of Kosovo and EU membership, without the developments in two policies being linked. On the other hand, Kostunica was preserving the ‘nationalist’ position that connects Kosovo’s status with Serbia’s EU membership, a position which was supported by the Radicals (see B92 2008a) and which brought him into a clash with the pro-EU/West camp.

Kosovo’s unilateral declaration of independence and the decision of the EU to send its EULEX mission to Kosovo, intensified the divisions and the rift within the pro-EU elite and led to the collapse of Kostunica’s coalition government. Tadic’s two track approach called for intense diplomatic actions with parallel progress in the EU ‘field’ (B92 2008c). Kostunica from his side was diametrically opposed to such a strategy and in favour of a more ‘aggressive’ approach. Indicative of this approach was the rejection by Kostunica (during his premiership) of the Interim Agreement on trade and trade-related proposals between Serbia and EU in an effort to delay the EU recognition of Kosovo (Moshonas 2008a). This of course brought an open rift between Tadic and Kostunica, where the latter had Russian support and was willing to side with the nationalists (Elefterotipia 2008a; ICG 2008). An example of the magnitude of the crisis in the pro-EU camp was the statement by Tadic that Kostunica would not be a Prime Minister in a coalition government with his party (B92 2008d). The outcome was the collapse of the government and the calling of new elections, which were held on 11 May 2008. Hence, the situation created
strange alliances in the sense that Kostunica was supported by the Radicals, while Tadic remained the main champion of EU norms. In the elections that followed on 11 May 2008, Tadic won with 38.4% (leaving the Radicals second with 29.46% and Kostunica’s party third with 11.62%). The new PM is Mirko Cvetković. EU interference in the internal political affairs of Serbia was once again explicit but this time as a statement of the importance of the election result for Balkan stability (B92 2008f).

In relation to this thesis, in these elections we can identify explicit interference by the EU in favour of Tadic, who personally asked for western support. There were also huge demonstrations by those opposing Kosovo’s independence, involving fatalities (see ICG 2008) and the break-up of the pro-EU elite that had overthrown Milosevic. Hence, within a year and because of the Kosovo issue Serbia saw a change in the balance of political power, with an obvious impact on the formation of the Serbian Historic Bloc as we will analyse in a later section. Finally, the election result shows an apparent preference on the part of Serbian society for the target of EU membership.

The result of the elections becomes important as well because of the power balance in the Serbian system. Serbia is a parliamentary democracy with the Prime Minister enjoying the dominance of executive power and the government reflecting the will of the Prime Minister. Furthermore, both the former and current government, were formed to a large extent by members that have a strong western background (Serbian Government 2007e). This fact will be useful in the following analysis applying the neo-Gramscian approach because it indicates possible positions of the Serbian government. Another important outcome of these elections was the losses of the pro-Russia camp. As we will mention in detail in later sections, Russia has active and historical connections with Serbian society and is trying to use them whenever possible in order to increase its influence on Serbia and to ‘drag’ Serbia towards Russia. Hence, in this case study we expect to see an external confrontation to the Serbian Historic Bloc.

More details in section 3.5.1. Nevertheless, the fact that he is a relatively new figure in Serbian politics, prevents us from having more details about his political actions.

In each case study we will define the character of the Historic Bloc at the beginning but for the rest it will mentioned as Historic Bloc.
Having seen the configuration of political power in Serbia and the role of various actors, that will be analysed later, we move to the presentation of four main political challenges that Serbia faces. These are EU integration and economic transition; the status of Kosovo; the ICTY and the NATO membership. These are analysed below. The presentation of these challenges is necessary for several reasons. It allows us to see the various interactions among the actors that would probably form the Serbian Historic Bloc. Moreover, it explains certain attitudes of the actors and allows us to create a platform for the explanation of certain actions and particularly of the hegemonic consolidation. The latter is assisted by outlining, through these challenges, how the hegemonic ideology is transmitted and functions.

3.3.1. Transition and EU membership.
EU membership is the main political target of Serbia. It enjoys the support of a broad political and social consensus in the country something that is evident from public opinion polls like the 2008 poll by the Balkan Monitor that found that 57.8% of Serbs are in favour of EU membership (Balkan Monitor 2009). This is underscored, as noted in a confidential interview in the European Commission, by the fact that even the anti-West and pro-Russian Radical Party is in favour of EU membership (Confidential Interview 6), which means that almost the entire Serbian society wants membership of the EU. With this objective in mind, the Serbian government has created an arguably very efficient set of cooperative arrangements between ministries and agencies with the most important being the EU integration office. In 2005 the office published the National strategy of Serbia for Serbia and Montenegro's accession to the European Union which represented the main Serbian strategy for the EU membership process. The strategy paper stated that '[T]he road towards the EU is viewed as the road towards a modern society with stable democracy and developed economy' (Serbian EU Integration Office 2005: 7).

Serbia joined the SAP in June 2003 (i.e. during the Thessaloniki summit) and entered SAA negotiations in October 2005. However, the political instability of the country and non-compliance with the ICTY conditions led to the freezing of negotiations on 3 May 2006. The talks were resumed on 13 June 2007, during the German presidency of the EU, which played an active role in the negotiations
(German Presidency of the EU 2007b; 2007c). On 10 September 2007, Serbia successfully completed the SAA negotiations. The Agreement was signed on 29 April 2008 and signalled a new era in EU-Serbia relations, which are now on a contractual basis. Currently Serbia is ready to sign the Interim Agreement on trade and trade-related issues (Serbian Government 2008). This development reflected the will and the careful planning of Serbia for joining the EU. The Serbian strategy is defined by the SAP and SAA (i.e. the Thessaloniki agenda) and by the Copenhagen Criteria and the Lisbon strategy (Serbian EU integration office 2005:7; Serbian Government 2008). Hence, in May 2008, Serbia replaced the National Strategy with the National Programme for Integration with the European Union (NPI). The new programme corresponds to the new situation in the EU integration process of Serbia after the completion of SAA and represents a programme for the adoption of the acquis. As the NPI states:

‘NPI should become one of key documents of the Government in the years to come. It shall serve not only as a means of reforms coordination on the road towards the EU and a basis for drafting of Government’s annual plans of work (sic), but also as a transparent and well prepared information on planned reforms, intended, on one hand, for the European Commission and EU member states, and the Serbian society on the other’ (Serbian Government 2008).

The new programme mirrors the EU progress report, and according to its authors, is designed to complete the adoption of the acquis communautaire in an efficient manner. It focuses on the Copenhagen Criteria and therefore the programme corresponds to the priorities set by the European Partnership programme and the EU Progress Report. Some of the political challenges refer to public administration and judicial reform and to the general provision for the protection of human rights and minorities (Serbian Government 2008).

In answer to these challenges, the Serbian state has created an extensive network of ministries and agencies with the target of EU integration. The coordination of the Serbian accession process belongs to the Office for European Integration of the Government of the Republic of Serbia. In addition, the government is advised about strategic issues of the integration process by the Council for European Integration, which was established in 2002. This Council also established the Committee for Coordinating the EU Accession, with the main task of proposing
measures for improving cooperation between agencies and organisations and to ‘establish the priorities and most favourable manner of harmonising Serbian regulation with EU standards’ (Serbian EU integration office 2005:14; 2007c). Moreover, the ministries have special European integration departments where the civil service is regularly trained by the EU. Two further features of the structure are, firstly, that Parliament has the European Integration Committee of the Serbian Parliament. The whole structure is in tune with the Commission that monitors the integration process. Secondly, individual member states, such as Germany, are also ‘advising’ Serbia e.g. in the area of police reforms, through regular meetings or exchange of missions (Serbian Government 2004a).

In the 2008 programme, this network is expanded and now comprises the whole spectrum of agencies and ministries. This reveals Serbian determination and an organised plan relating to the target of EU membership. This determination is also obvious in the position of the Serbian elite (see below) towards the necessity of EU membership. Furthermore, only two years after the launch of the Strategy and with the new programme, Serbia appears to have implemented a large number of its targets and to be on track towards membership.

3.3.2. Kosovo.

The status of Kosovo, (along with EU membership), remains the main political and national issue for Serbia. The Serbian position up to Kosovo’s declaration of independence of 17 February 2008 was (as stated explicitly in the official website of the Serbian government for Kosovo-Metohija, www.srbija.sr.gov.yu/kosovometohija/) and in the 2004 Plan for the political solution to the situation in Kosovo and Metohija still is ‘more than autonomy, less than a state’. This means enhancing autonomy within the Serbian borders. The term ‘enhancing autonomy’ is interpreted by Serbia as meaning that it would ‘retain authority for foreign policy, guarding the borders and protecting Serbian cultural monuments’ while the Kosovo authorities have absolute power in all other matters without Serbian interference (ICG 2007: 5, 9; Serbian Government 2004a; Serwer 2004: 2,4).

Serbia based this position on the UN Security Council Resolution 1244 that recognised Serbian sovereignty over Kosovo, even though this sovereignty was for a
limited amount of time (i.e. an 18 month interim period) (ICG 2007: 1; Serbian Government 2004a). Another of Serbia’s arguments against Kosovo’s independence was the threat that it would destabilise the whole region because other ethnic minorities might try to do the same. In fact, such ‘fears’ exist for FYR Macedonia, Greece, Montenegro and Russia (see ICG 2007; Ahrens 2007). This position was explicitly defined by the former Prime Minister of Serbia, Kostunica, in his Brussels speech on 12 September 2007 (Kathimerini 2007; Serbian Government 2007c; ICG 2007: 11; Serwer 2004: 4; Serbian Government 2007f). The scenario was also considered by the EU but from the opposing point of view, namely that if Kosovo did not become independent, then destabilisation was inevitable (ICG 2007: 12-13; Euractiv 2007c; German Presidency of the EU 2007a). The events since Kosovo’s independence seem to justify the EU position, because the Balkans remains stable and Serbia remains on its EU path. Indicative of the former is the recognition of the independent Kosovo by Montenegro and FYR Macedonia, which are neighbours. Both have Albanian minorities. Therefore, as the EU predicted, an independent Kosovo seems to bring stability.

On the other side and until 2008, the Kosovar\textsuperscript{39} position was in favour of immediate and full independence. This was an old demand dating back to the Berlin Treaty (1878) when the Albanian populations were divided into three states (Ahrens 2007: 266, 484; Glenny 1999). During the Yugoslavian wars in the 1990s, the Albanians pursued the goal of a Greater Albania (more in Chapter 5) but the negative response of the international community turned them to the solution of Kosovar independence (Ahrens 2007: 321-323; Sell 1999: 15). Then the Kosovar Albanians shifted to the idea of a Greater Kosovo, which was again stopped by the international community, which made it certain to the Albanian leadership that such an option was not acceptable (Pond 2006: 120; Ahrens 2007: 323-24).

The final status of Kosovo was subject to long-term negotiations, with the international community (namely EU and US) to decide, on the basis of the Ahtisaari proposal of \textit{supervised independence}, i.e. in favour of an international protectorate under the control of the EU (Serwer 2004; ICG 2007). On the other hand, Russia was

\textsuperscript{39} The term describes the Albanian ethnic community of Kosovo.
making it known in all instances that it would block the UN recognition of Kosovo and its admission to all international fora (ICG 2007; 2008). The Russian position was consistent with the position of the former Serbian leadership.

The obvious deadlock of the negotiations and the tremendous internal pressure to declare independence, (something that the international community had realised and was trying to avoid initially, but later accepted), sowed the seeds of independence, with the political 'coverage' of EU and US (ICG 2007: 14), since the Kosovar leadership knew that the West would protect them in the event of independence. Hence, the long expected unilateral declaration of independence by the Kosovar leadership, which was followed by bilateral recognition on the part of several EU member states and the US. Germany was the first state to establish an official diplomatic mission on 20 February 2008. The EU as a whole preserves a position of de facto recognition since because of the veto of some member states it is not recognising Kosovo as an independent entity but at the same time has undertaken the 'control' of Kosovo with its EULEX mission (ICG 2007; Portuguese Presidency of the EU 2007).

As was expected, the EU and US were pushing Serbia for a solution in accordance with the Ahtisaari plan. As a result, Serbia began to move towards Russia, which was offering support for Serbia’s positions on Kosovo. This of course meant that Russia could gain access to Serbia and thus increase its expansion in the Balkans, which is of extreme concern for the West. Indicative of this prospect was a statement by the Serbian government which mentioned that economic relations with Russia should have priority (Serbian Government 2007a). In relation to this thesis and the issue of hegemony, this competition between the West and Russia over influence in Serbia could be the decisive factor for Bloc formation and hegemony itself. At the moment, the West has the last word in Serbia but a future rebalancing in favour of Russia, as a result of national events such as Kosovo’s independence, could bring fundamental changes in the hegemony to such a degree that a new Bloc could be formed. The Russian actions during the latest Serbian elections are indicative of Russian interest in Serbia and the possibility of changes in the balance of power in Serbia.
The news of Kosovo's independence caused huge protests in Serbia involving some fatalities. At the political level it produced the above mentioned political rift and the current two-track approach. Serbia under Tadic's government is working towards preserving Serbian sovereignty over Kosovo (or at least over the Serbian areas of Kosovo) through the EU and international bodies such as the UN in order to preserve Kosovo. Thus, Kosovo plays an important role in Serbian politics and has changed the balance of power within Serbia in two instances so far. In addition, Kosovo reveals the traditional role of external actors in the Balkans, highlighted by the fact that western interference was the catalyst in the final developments in Kosovo. Therefore, for the formation of the Historic Bloc it is necessary to see how the domestic elite group is forming and how it cooperates with the foreign elite that seems to have a rather different approach towards Kosovo. The interaction of the two elites in relation to Kosovo's future could reveal the power relations within the Bloc, because in case the foreign elite has the power to impose its preferences on the domestic elite without the opposite being possible, then obviously the foreign elite has more power in the Bloc.

3.3.3. ICTY compliance.

The ICTY was established by Security Council Resolution 827 of 1993. Its purpose is to bring to justice the war criminals of former Yugoslavia and therefore to facilitate the reconciliation of the nationalities of former Yugoslavia. Full cooperation with the ICTY is a condition for membership of the EU. From its side both the Serbian government and population regard the ICTY with suspicion, as a tool of Serbia's enemies that will prosecute only Serb heroes that fought for Serbia. Thus many Serbs believe that ICTY is biased (Pond 2006: 220-21; Ahrens 2007: 19-20).

The Serbian government used to cooperate reluctantly and this stance was frequently criticised by both the EU and its member states (c.f. B92 2007b; 2007e). A good example was the explicit accusation of the former main prosecutor, Ms Del Ponte, aimed at Vojislav Kostunica and the Serbian government of deliberate non-compliance (B92 2006a). Until Kostunica's 'fall', Serbia had handed low ranking officers to the ICTY, while important suspects such as Mladic and Karadzic enjoyed a kind of protection (Pond 2006). This reluctance on the part of Serbia led to the
freezing of SAA negotiations. However, in the 2008 report of the European Commission and in the statements of EU officials, ICTY cooperation would seem to be of secondary importance for EU membership. The change of government led to Karadzic’s arrest on 21 July 2008. It is interesting that the arrest took place only a few days after the change of government, which gives an indication of the orientation of Serbia under Tadic. In addition NPI stresses clearly that Serbia is willing to cooperate with the ICTY (Serbian Government 2008: 84-7).

The role of the ICTY is not only important because it is a precondition for EU membership. The insistence of the Dutch government that it would block the Serbian candidacy until the arrest of Mladic and, on the other side the reluctance of Serbian society to hand over Mladic, creates a conflict that may affect Bloc cohesion. Lately, the Serbian government has revealed its plans to bypass the Dutch veto by unilaterally applying the trade provisions of the association agreement with the EU (Elefterotipia 2008d).

3.3.4. NATO membership.

NATO offered a Partnership for Peace (PfP) agreement to Serbia on 29 November 2006, which was signed on 14 December 2006. For Serbia, admission to NATO is the least important political area for Serbia but a necessary target for the complete integration of Serbia into western structures. Serbian President Boris Tadic noted, Serbia’s entry into PfP means the end of its isolation (NATO 2006). From its side, NATO sees Serbia as another part of the jigsaw for the stability of the region and its expansion, while the ICTY cooperation is also a condition of the PfP (NATO 2006). It is also significant that NATO already has military bases in Kosovo and Bosnia. Germany is arguably the main supporter of the Balkan expansion of NATO (Schweigler 1998; NATO 2007).

The events in the Caucasus as well as the close cooperation between Serbia and Russia make Serbia an even more important part of the Balkan puzzle. Hence, we expect conflict between elites within and outside Serbia about which camp (i.e. Russia or the West) Serbia will choose. In addition, one might expect increased pressure from NATO on Serbia, as it is a key state not only for the stability of the
3.4. Economic developments.

Serbia has faced severe economic shocks in the last 17 years, which have severely damaged its economy. The country has faced international embargos, a series of wars and internal turmoil. All these events (especially the NATO bombings of 1999) have destroyed much of the production and infrastructure capacity of the country (for instance, in 2006 the Gross National Income was 60% of the 1989 level), whilst the embargo brought hyperinflation and increased cross-border organised crime that profited from smuggling during the embargo. Added to this is the large number of refugees\footnote{There are 106,700 refugees and 207,923 internally displaced persons in Serbia (European Commission (2006b: 16).} that have made the huge unemployment rate even worse and increased the size of the grey economy (Office for South East Europe 2007: 26; Heany 2007: 550).

Thus, Serbia has entered the transition process late, in 2001 when the coalition of ‘opposition’ parties formed the government and overthrew Milosevic. The international community and particularly the EU with its member states, the IMF, World Bank and the US have helped Serbia implement the reforms deemed necessary by them. Thus, since December 2000, Serbia has been in the process of reintegration into the international community by rejoining the World Bank and the EBRD. At the moment, Serbia is in the process of implementing the economic preconditions for EU membership and is in negotiations with the WTO.

3.4.1. Basic economic data.

Annual real GDP growth in 2007 accelerated to 7.5% from 5.7% in 2006, mainly due to private and public consumption. Industrial production also rose 6%, due to the production of a US Steel plant and per capita income has increased to 35% of average EU-27 levels, and inflation remains under control. However, unemployment is high at 18.3% and this is an outcome of the neo-liberal recipe of deregulation, privatisation and restructuring of the economic base that Serbia is pursuing and
which has led to job losses. Services represent the most important sector and particularly the areas of transportation, telecommunications and financial intermediation (European Commission 2008c). The European Commission, however, notes significant problems in the Serbian economy. The biggest problem is the size of the current account deficit and the external debt, which accordingly required inflows on the capital account to compensate. These inflows are mainly FDI from privatisation acquisitions and portfolio investments rather than greenfield projects which are those which produce new jobs and increase the economy’s capacity (European Commission 2006b: 19). The following table is revealing about Serbia’s economic situation:

Table 8: Selective economic indicators 1999-2006

<table>
<thead>
<tr>
<th>Year/indicators</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth (Real GDP %)</td>
<td>n/a</td>
<td>4.5%</td>
<td>4.8%</td>
<td>4.2%</td>
<td>2.5%</td>
<td>8.4%</td>
<td>6.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Inflation</td>
<td>43.5%</td>
<td>79.6%</td>
<td>93.3%</td>
<td>16.6%</td>
<td>9.9%</td>
<td>11.4%</td>
<td>16.2%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>14.5%</td>
<td>13.3%</td>
<td>13.3%</td>
<td>14.5%</td>
<td>16.0%</td>
<td>18.7%</td>
<td>21.1%</td>
<td>21.0%</td>
</tr>
<tr>
<td>General government</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>-n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>0.8%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>balance (GDP %)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government debt (GDP %)</td>
<td>n/a</td>
<td>n/a</td>
<td>101.6%</td>
<td>69.5%</td>
<td>64.3%</td>
<td>53.3%</td>
<td>50.1%</td>
<td>33.2%</td>
</tr>
<tr>
<td>Trade balance (in millions €)</td>
<td>-1167</td>
<td>-1713</td>
<td>-2577</td>
<td>-3414</td>
<td>-3555</td>
<td>-5201</td>
<td>-4252</td>
<td>-4962</td>
</tr>
<tr>
<td>Current account balance (in millions €)</td>
<td>-427</td>
<td>-166</td>
<td>-318</td>
<td>-1319</td>
<td>-1255</td>
<td>-2307</td>
<td>-1788</td>
<td>-2912</td>
</tr>
<tr>
<td>Exports (in millions €)</td>
<td>1452</td>
<td>1781</td>
<td>2033</td>
<td>2339</td>
<td>2934</td>
<td>3282</td>
<td>3995</td>
<td>5166</td>
</tr>
<tr>
<td>Imports (in millions €)</td>
<td>2620</td>
<td>3494</td>
<td>4610</td>
<td>5753</td>
<td>6489</td>
<td>8482</td>
<td>8247</td>
<td>10121</td>
</tr>
</tbody>
</table>

Source: European Commission 2008c

The most striking information that this table gives us are the effects of the war and of the Milosevic era on the Serbian economy. In fact, Serbia faced hyperinflation until 2002 and increased debts. In the post-Milosevic era, the neo-liberal policies of transition, privatisation, deregulation and restriction of public finances as well as strict monetary policy might have led to the reduction of inflation and of debts (the latter are still considerable) but have increased the unemployment rate. In addition, we see an increased trade deficit that threatens the economy, revealing its lack of competitiveness as well as the effects of trade openness without prior economic restructuring.
3.4.2. External institutional framework.

The first part of our economic presentation involves the external institutional framework. As was mentioned in Chapters 1 and 2, these institutions are expected to have an important role in the consolidation of hegemony, since according to neo-Gramscian theory these institutions are instruments of hegemonic control. Therefore, it is necessary to examine what these institutions are and what their role is in Serbia. Once again, the EU has an equally important role in the economic realm as in the political, since two out of the four Copenhagen Criteria are economic. Additionally, Serbia is pursuing the Lisbon Criteria\(^{41}\) and according to the Serbian government and the National Bank of Serbia (NBS), the country is attempting to fulfil the Maastricht Criteria for admission to the Economic and Monetary Union (National Bank of Serbia 2007b; Serbian Government 2008). EU actions include primarily the implementation of reforms and the monitoring of the progress of the Serbian transition.

The EU also influences Serbia as the largest donor that targets certain areas of assistance, namely the establishment of good governance and institution-building; economic reform and social development; the energy sector and transportation. This assistance comes through three channels. The main one is the IPA, which distributed €771 million for the period 2007-2010 and has as its main target transition assistance, institutional building and cross border cooperation. Another is the EAR, which also uses IPA funds and has an accumulated portfolio in Serbia of €1.13 billion. The third component of the assistance is bilateral assistance by the member states, where Germany is one of the largest (European Commission 2006b: 6; EBRD 2007a: 25). All these actors cooperate and the EU, through the Commission, has been given the leading and coordinating role.

An important part of this network is the IMF. The IMF has a long history in the former Yugoslavia. The Fund policies and the Yugoslav debt towards the Fund were significant factors in the destabilisation of Yugoslavia in the 1980s. Serbia, due to balance of payments difficulties, rejoined the Fund on 13 May 2002 (initial membership on 14 February 1992). In February 2006 the Extended Arrangement was

\(^{41}\) The criteria are the Lisbon Strategy objectives, namely "preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D".

131
approved for Special Drawing Rights (SDR) of 50 million (i.e. $937.2 million) for the period of Serbia's 2002-2005 economic programme. The Arrangement was extended twice, on 13 May 2005 and on 21 December 2005 (IMF 2006a). The last part of the disbursement was signed on 7 February 2006 with the sixth and final review of the EA for the amount of $90 million (IMF 2008a). It is generally estimated that the Fund has channelled €2 billion towards Serbia up to today. Recently, Serbia asked for and received a 15-month precautionary Stand-By Arrangement, in the form of a loan of SDR 351 million (about US$518 million), to cope with the recent economic crisis (IMF 2008c). The Fund's main responsibilities are macroeconomic policies and 'consultation' on reforms and privatisation. The consultation is implemented through regular IMF staff papers (IMF 2008a; Heaney 2007: 550-1). It is important to stress that IMF funds come with a certain set of reform packages that reflect a certain economic ideology, i.e. neo-liberal.

The work of the IMF is supplemented by the World Bank. The Bank began its operations in Serbia in 2000 with $300 million pre-membership assistance (International Finance Corporation 2004: 1), and another $540 million up to 2004. In 2004, the World Bank launched a three-year programme amounting to $400-$500 million. The World Bank strategy since 2001 has remained stable and is organised in three pillars, namely: creating a smaller, more sustainable, more efficient public sector; creating a larger, more dynamic private sector; and reducing poverty levels and improving social protection and access to public services (International Finance Corporation 2004: 8; World Bank 2009). In this context the World Bank supports structural reforms and is leading the 'policy dialogue' in areas that are also of direct interest for the Fund (with which it cooperates closely) such as public expenditure management; energy sector reform and the privatisation of public enterprises (IMF 2006a: 56, 58f). Moreover, since 2001 the Bank has been providing its services in Serbia and particularly in the financial sector and in the creation of a regional energy market (World Bank 2009). We have to note that the Bank's operations (as well as those of the IMF) are consistent with the SAP and the overall EU strategy in Serbia.

Other institutions that participate in the economic transformation of Serbia are the EIB that is currently funding projects in Serbia in energy and infrastructure, and the EBRD. The latter is the largest institutional investor in Serbia since 2001 with a-
cumulative business value of €1 billion. Since 2004 EBRD commitments rose by 97%, involving 69 projects and with three main directions: in the corporate sector (i.e. restructuring for privatisation), in infrastructure (mainly the transport and energy infrastructure\textsuperscript{42} in cooperation with the EU and the World Bank) and the financial sector (i.e. further banking consolidation) (EBRD 2007a: 7-8; 2007b). The coordination is undertaken by the EBRD resident office in Belgrade and is based on dialogue between public and private actors and with the \textit{Foreign Investment Council of Serbia} (EBRD 2007a: 9-10).

Apart from that, the EBRD provides the framework for foreign corporations that wish to invest in Serbia, and helps to finance greenfield investments for this purpose (EBRD 2007b). In addition, in cooperation with the EU and the Serbian government, the EBRD is implementing projects that further enhance the attractiveness of Serbia as an investment destination. These are the infrastructure projects and particularly the Pan-European Corridor VII (Danube) and Corridor X (Hungary-FYR Macedonia), which according to the EBRD 'will further foster Serbia's ties with neighbours, its role as one of the key transit countries in Eastern Europe and its potential in attracting new FDIs' (EBRD 2007a: 22).

The Stability Pact plays an important role in Serbia's economic transition. The Pact operates through its Working Table II, for the creation of regional actions in trade, infrastructure and investment, with a particular focus on trade and energy. As we saw, the Pact has initialised and managed the FTAs in the western Balkans that have created a unified market, which is seen as part of the solution for the problems of economic development and investment due to the small size of these states (Confidential Interview 2; Busek 2005: 32,33; Zakharov and Kusic 2003: 14). Moreover, the Pact assisted in the creation of the Energy Community (Confidential Interview 3; Stability Pact 2007) and has played a significant role in the coordination of projects by the IMF and the World Bank (European Commission 2006b: 18).

In this context, there is a distinct division of labour. The IMF is dealing with Serbia's economic reforms towards a liberal market economy and is operating within the framework of the SAP with the cooperation of the Commission. The World Bank

\textsuperscript{42} That receives the largest part of EBRD commitments.
for its part is assisting in the structural reforms, while cooperation with the IMF is located in five policy areas (see Appendix 2). Furthermore, the EU and the Bank are cooperating jointly in the organisation of Donor assistance. A jointly sponsored World-Bank-EU Donors' Conference held in June 2001, raised $1.3 billion for economic restructuring. In November 2001, the Paris Club agreed to reschedule the country's public debt (which was $4.5 billion) as well as to write off 66% of this debt. In July 2004, the London Club of private creditors wrote off $1.7 billion of debt, just over half the total owed (Heaney 2007: 552). The cooperation between the EU and the World Bank is manifested through the Office for South East Europe whose main target is to facilitate the work of the European Commission and to jointly administer international assistance (Office for South East Europe 2007).

Furthermore, the EBRD cooperates extensively with the EU, mainly through the European Agency for Reconstruction (EAR). In addition, the IMF is cooperating with the SPSEE, which works in parallel with the EU (the latter also has the leading role), while the former (i.e. the SPSEE) is coordinating the work of international donors (Welfens 2001; IMF 2006a). Hence, an extensive network that has three main characteristics is being established around Serbia. This network has a distinct neoliberal character or, to make it simpler, it expresses a certain economic ideology. Furthermore, the main focus of the majority of their actions is the creation of a favourable economic environment that will be able to attract FDI. The final characteristic is the conditionality of actions, which keep Serbia 'under control' since no compliance means no assistance, and thus Serbia is forced to implement certain policies. Most characteristic was the freeze of SAA negotiations due to Serbian reluctance to cooperate with ICTY (cooperation is part of conditionality guidelines) as well as certain reforms of the judicial and institutional framework that attract the Commission's criticism and have led to pressure on Serbia towards their implementation (European Commission 2008c). In relation to this thesis there is a network of hegemonic institutions that promote the hegemonic ideology and at the same time gain the consent of the recipient society. The EU has a central role in this network, as coordinator.
### 3.4.3. Domestic institutional framework.

Having achieved most of the economic targets of the National Strategy (see Appendix 4), the following National Programme deals primarily with the economic Criteria of Copenhagen and Maastricht. Some of the key economic fields are macro-economic stability and strengthening the institutional framework of economic activity. In particular, the focus is on price stability; fiscal consolidation; more financial control and enhancement of the overall institutional framework (Serbian Government 2008).

In the 2005 Strategy one of the main targets was the accomplishment of competitiveness in EU markets 'since most of the Serbian foreign trade and capital flows, as well as the largest portion of its foreign debt are realised with the EU states' (Serbian EU Integration Office 2005: 56). The latter is supposed to be resolved by an increase in competitiveness and the full exploitation of the FTAs and CEFTA as well as with closer economic relations with Russia. Within the last three years Serbia's trade deficit with the EU has widened considerably. The Serbian answer comes with its Export Promotion Strategy, which plans to:

> 'increase the volume, quality and diversity of export products, as well as to provide institutional support to Serbian exporters in placement of their products, identification of pertinent markets and their sustainability on them. The strategy plans to conquer new markets and increase the number of companies with the value of exported good' (Serbian Government 2008: 130).

However, it is yet to be seen how effective the Serbian government will be in addressing these issues. Great importance is also placed on FDI attraction as the main source of both investments and development. Particularly for economic development, the Serbian government is planning to spend 1/3 of FDI receipts for the modernisation of its infrastructure. The importance of this is that it reflects the dominant modern neo-liberal economic ideology in Serbia, an ideology that considers FDI to be a panacea for economic development along with deregulation etc (European Commission 2006b; IMF 2008a; Serbian EU Integration Office 2005).

For the implementation of its economic plans, Serbia has created a system parallel to the one that we saw in the previous section. The main agency here is the Serbian Investment and Export Promotion Agency (SIEPA)\(^\text{43}\). The role of SIEPA is to

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\(^{43}\) See Appendix 3 where we offer a summary of this structure.
attract FDI to Serbia and to promote Serbia as a business destination to foreign companies. It is the main such agency of this kind and is considered by domestic and external observers to be very successful. The SPSEE, in its joint report with the OECD on the Investment Reform Index 2006, declared SIEPA to be the best national investment agency in the Balkans after the Bulgarian investment agency (OECD 2006: 64). Furthermore, apart from SIEPA, at ministerial level the Ministry of International Economic Relations takes the lead in all coordination. The efficiency of the whole structure is also noted in the Investment Reform Index, where Serbia is among the top countries in every category (OECD 2006).

Despite the well-acknowledged progress, the EU notes a series of vulnerabilities of the Serbian economy. One of them has to do with the 2006 National Investment Plan, which the EU saw as ambitious and inflationary since the Serbian authorities had wanted to use privatisation revenue for public investments (European Commission 2006b; Heaney 2007). In December 2007, Serbia submitted an Economic and Fiscal Programme for 2007, which the European Commission regarded as 'a generally coherent and ambitious macroeconomic and fiscal framework together with an ambitious agenda for structural growing level of external debt create (sic) important external financing needs requiring significant capital flows' (European Commission 2008c: 25). The data that were presented above seem to justify the EU critique, since Serbia reveals considerable growth but with growing deficits and unemployment.

The overall assessment of the EU, as stated in the 2008 progress report, mentions the vulnerability of the economy and the existence of structural problems which it ascribes to the continued heavy interference of the state in the economy and to political instability (European Commission 2008c). The IMF agrees with the Commission and adds the vulnerability of the financial sector due to credit expansion, the increased Euroisation, loose fiscal control and underdeveloped capital markets (IMF 2008a: 5).

There are some issues that arise at this point. In relation to the vulnerabilities of the financial sector, it is our firm belief that the implementation of neo-liberal policies in a transition economy, without the cultural background of a market economy, created tremendous problems by the very inability of the state to form
effective mechanisms of supervision. Contrary to logic, and to what happened in western economies, in the transition states there is firstly an imposition of market economics and then the institutional framework which regulates the market. On the other hand such a situation offers almost unlimited opportunities for foreign capital penetration and domination.

Another point to note relates to the increased Euroisation of the Serbian economy. Interesting information that is also mentioned by the EU is that the widespread Euroisation of the Serbian economy distorts the transmission mechanism of the interest rate, which is important for the macroeconomic stability of Serbia (IMF 2008a; European Commission 2008c: 26). This is happening because a change in interest rates (e.g. assuming an increase in the interest rate) impacts upon the money supply of the domestic currency that in turn influences consumption, income, inflation and so on. However, when an economy is dominated by a foreign currency (e.g. the Euro) and particularly when the banking reserves are in Euros, the interest rate cannot work properly because the Euro is not influenced by the domestic interest rate but by the European interest rate.

It has to be noted as well that the neo-liberal (or monetarist or neo-classical) school of economic thought, which dominates thinking in the IMF and the EU, sees the money supply and the interest rate as basic determinants of macroeconomic stability, even though an article in the Economist shows persuasively that the current economic orthodoxy seems no longer to be fully functional (The Economist 2007a: 94). The current financial crisis is illustrative of this because the inability of the system to control the growth of the money supply along with the lack of transparency in the markets in the name of competition has created the conditions for financial collapse and proved that the manipulation of interests rates alone is not enough since not even close to zero US interest rates have proved helpful.

Another of Serbia’s characteristics is its culture in dealing with external actors. A good example of this is the attitude of the Serbian government after repaying an IMF loan that was demanding more control over its economic planning and thus ignoring the IMF suggestions. However, the economic problems of Serbia and the current crisis that forced Serbia to ask for the Fund’s assistance might mean that Serbia is still in the IMF’s grip. Finally, it is more than obvious that the EU operates
within an extensive institutional framework. This framework promotes certain economic principles, which create certain outcomes. This of course comes in perfect harmony with the definition of a hegemonic institution employed in this thesis and which demands from the hegemonic institution (i.e. the EU) to promote the hegemony and its ideology (mainly) by obtaining consent.

3.4.4. The economic presence of European and foreign capital.

Looking at the data, the hegemonic presence of the EU becomes immediately apparent. The trade share of the EU-27 accounts for 56% and 54% of exports and imports respectively for 2007 (see European Commission 2008c). As the National Programme reveals, the vast majority of total exports are orientated towards the EU, while the most important import partner is Germany with 21.4% (Serbian Government 2008). This is an indication of the significant economic integration of Serbia with the Union. The next two tables are revealing:

<table>
<thead>
<tr>
<th>Year/partner</th>
<th>IM</th>
<th>EX</th>
<th>IM</th>
<th>EX</th>
<th>IM</th>
<th>EX</th>
<th>IM</th>
<th>EX</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>36</td>
<td>35.2</td>
</tr>
<tr>
<td>EU</td>
<td>49.1</td>
<td>47</td>
<td>52</td>
<td>54</td>
<td>49.7</td>
<td>54.3</td>
<td>56.3</td>
<td>51.6</td>
</tr>
<tr>
<td>Germany</td>
<td>13.5</td>
<td>13</td>
<td>14.7</td>
<td>13</td>
<td>13.8</td>
<td>12.3</td>
<td>13.9</td>
<td>10.2</td>
</tr>
<tr>
<td>Rank</td>
<td>3rd</td>
<td>3rd</td>
<td>1st</td>
<td>3rd</td>
<td>1st</td>
<td>3rd</td>
<td>1st</td>
<td>3rd</td>
</tr>
</tbody>
</table>

Source: WIIW 2006

Table 9 confirms the great importance of the EU for the Serbian economy and particularly the important role played by just four economies. The latter fact also indicates the role of regional proximity of the EU-4 in Serbia’s trade relations and might indicate the fragmentation of production that seems to be directed towards four economies. Interesting also is the presence of Germany, which appears as an important trading partner and this is something that we have to take into account when we analyse the formation of the Historic Bloc, since the investigation of Germany’s role in Serbia is the core of this chapter.

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44 I.e. Austria, Germany, Italy and Greece
45 The rank refers to the ranking of Germany as trade partner of Serbia in comparison to the total number of trade partners.
Table 10: Serbian Imports and Exports in million €, and in % of the total for the period 2007-2008

<table>
<thead>
<tr>
<th>Units</th>
<th>Year</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Exports to</td>
<td>Imports from</td>
</tr>
<tr>
<td>Total</td>
<td>2007</td>
<td>4728,9 (100%)</td>
<td>9642,6 (100%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>9642,6 (100%)</td>
<td></td>
</tr>
<tr>
<td>European Union</td>
<td>2007</td>
<td>2699,1 (57,1%)</td>
<td>5306,9 (55%)</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5306,9 (55%)</td>
<td></td>
</tr>
<tr>
<td>EU-4</td>
<td>2007</td>
<td>1381,2 (29,2%)</td>
<td>2523,2 (26,1%)</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2523,2 (26,1%)</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>2007</td>
<td>514,9 (10,9%)</td>
<td>605,6 (10,6%)</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>605,6 (10,6%)</td>
<td></td>
</tr>
<tr>
<td>Rank (Germany)</td>
<td></td>
<td>2nd</td>
<td>1st</td>
</tr>
</tbody>
</table>


Table 10 reinforces the results of table 9 and indicates the growing importance of Germany for Serbia. What is also important in Table 10 is Serbia’s growing trade deficit, which reflects the lack of competitiveness of the Serbian economy and might indicate the ‘exploitation’ of Serbian production for the satisfaction of more advanced industrial economies like that of Germany. In addition, this growing deficit also reveals potent threats to the Serbian economy that requires external funding to adjust its balances.

The well established ‘dominance’ of European capital is also obvious from the level of foreign ownership and FDI inflows. In particular, as SIEPA inform us, important sectors are controlled by European companies: agribusiness; automotive and component production; IT; electronics; textiles; pharmaceuticals (SIEPA 2007a), as well as financial services. Between 2003 and 2005 seven out of ten of the largest transactions in Belgrade were by corporations from within EU member states (one of them German). The exception that proves the rule is the purchase of the Serbian mobile company Mobtel by Telenor of Norway in August 2006 for €1.5 billion (SIEPA 2005a: 10; Heaney 2007: 552). Even though Telenor is not an EU company it has benefited from the rules that the EU is imposing on Serbia. The banking sector, according to the NBS is dominated by European banks, directly or through affiliates (NBS 2007a; SIEPA 2006). In particular, they control 72% of the sector with the top five holding 47% of Serbian financial assets (Serbian Government 2008). This trend is now apparent in the insurance sector, where the recent privatisation of the second largest insurance company DDOR, (and sale to an EU-based company), has raised overall foreign ownership in the sector to 62.8% (European Commission 2008c).

In Serbia, the research encounters a quite popular phenomenon in the Balkans, namely the use by European companies (particularly German and Austrian) of their eastern European affiliates to penetrate the Serbian market. Examples include the
Hungarian MOL that belongs to the Austrian OMV and the Slovenian Nova Ljublianska Banka that controls the Serbian NLB Continental Bank and which is co-owned by the Slovenian government, the Belgian KBC and the Austrian Erste Bank (NBS 2007a). An even bigger example is the case of Deutsche-Telekom-OTE. Until 2007, the national Greek telecommunications company, OTE, had a dominant position in Serbia, Romania, Bulgaria, Albania and FYR Macedonia. In 2007, the German operator, Deutsche-Telekom, bought OTE and consequently all OTE’s affiliates in the above-mentioned countries.

In terms of FDI, the EU remains dominant with €2.3 billion in 2008 and it is impressive that the net FDI share of the EU has doubled in 2007 to 116% from 61% in 2006 (European Commission 2008c). This means that the EU countries remain almost the only investors in Serbia. What remains to be found is which countries have the largest share, because those countries will be primary candidates for the role of hegemon, since the hegemony is primarily economic. The following table is indicative:

Table 11: Total FDI in Serbia 2001-2006 in $000.

<table>
<thead>
<tr>
<th>Year/Country</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>2</td>
<td>74</td>
<td>280</td>
<td>0</td>
<td>29</td>
<td>1,546,993</td>
<td>1,547,378</td>
</tr>
<tr>
<td>Germany</td>
<td>9,788</td>
<td>82,801</td>
<td>75,708</td>
<td>51,985</td>
<td>187,320</td>
<td>905,824</td>
<td>1,319,578</td>
</tr>
<tr>
<td>Greece</td>
<td>1,280</td>
<td>12,496</td>
<td>62,268</td>
<td>52,968</td>
<td>249,536</td>
<td>923,698</td>
<td>1,302,580</td>
</tr>
<tr>
<td>Austria</td>
<td>1,421</td>
<td>33,876</td>
<td>93,747</td>
<td>146,104</td>
<td>201,189</td>
<td>520,356</td>
<td>996,876</td>
</tr>
<tr>
<td>Netherlands</td>
<td>102</td>
<td>2,248</td>
<td>598,963</td>
<td>102,008</td>
<td>92,113</td>
<td>-214,119</td>
<td>581,315</td>
</tr>
<tr>
<td>Slovenia</td>
<td>11,254</td>
<td>9,561</td>
<td>29,036</td>
<td>15,706</td>
<td>183,563</td>
<td>201,241</td>
<td>450,394</td>
</tr>
<tr>
<td>France</td>
<td>81</td>
<td>87,489</td>
<td>7,858</td>
<td>24,022</td>
<td>62,347</td>
<td>159,085</td>
<td>340,882</td>
</tr>
<tr>
<td>Great Britain</td>
<td>1,225</td>
<td>6,618</td>
<td>20,631</td>
<td>79,520</td>
<td>63,330</td>
<td>135,915</td>
<td>307,339</td>
</tr>
<tr>
<td>Hungary</td>
<td>275</td>
<td>1,167</td>
<td>4,224</td>
<td>16,567</td>
<td>24,677</td>
<td>244,045</td>
<td>290,955</td>
</tr>
<tr>
<td>Croatia</td>
<td>1,096</td>
<td>5,243</td>
<td>34,446</td>
<td>10,806</td>
<td>40,484</td>
<td>25,240</td>
<td>117,315</td>
</tr>
<tr>
<td>Italy</td>
<td>594</td>
<td>7,553</td>
<td>21,325</td>
<td>10,149</td>
<td>18,316</td>
<td>52,752</td>
<td>112,695</td>
</tr>
<tr>
<td>USA</td>
<td>1,906</td>
<td>18,009</td>
<td>15,068</td>
<td>10,806</td>
<td>22,257</td>
<td>-29,612</td>
<td>46,248</td>
</tr>
<tr>
<td>Russia</td>
<td>3,581</td>
<td>2,556</td>
<td>3,359</td>
<td>538</td>
<td>14,324</td>
<td>15,992</td>
<td>41,086</td>
</tr>
<tr>
<td>Total</td>
<td>32,605</td>
<td>269,781</td>
<td>966,913</td>
<td>528,660</td>
<td>1,158,485</td>
<td>4,487,410</td>
<td>6,931,461</td>
</tr>
</tbody>
</table>

Source: SIEPA 2007b.

The table demonstrates the strong investment position of EU countries, while with Norway’s addition to this group, the investment in Serbia from European countries is overwhelming. In addition, the investments are growing over time, which means that the more Serbia is integrating into the EU, the more investments...
are growing. This of course has to do with privatisation since only lately Serbia was able to conduct serious privatisation and therefore able to sell key companies. The case of Norway is emblematic because the total FDI ascribed to Norway refers to only one purchase, namely the investment in Telenor. Equally important for later analysis is the fact that the EU-4 group and particularly Germany remain significant economic actors and this is consistent with the data that existed for trade. This shows the role of proximity and of trade and investment goes together, and constitute a serious interest in Serbia. One last element that has to be incorporated into the following analysis is that many German investments are indirect and channelled through eastern European, Greek and Austrian affiliates of German companies, with the result that the actual level of German investment in Serbia is much higher than these statistics suggest. Nevertheless, even without these investments Germany remains the largest investor and this is an indication of the level of German interest in Serbia. SIEPA data confirm that the German, Italian and US investments are bigger than the direct data show because of their use of their affiliates from other European countries (SIEPA 2007b). More indications for this can be seen from Eurostat that notes that 59.5% of EU-25 FDI stocks received by Serbia derived from the new EU members. The same applies to the 16.1% of EU-25 stocks held in Serbia that were ostensibly owned by the ten new EU members (Eurostat 2006: 34, 47).

It is important to remember in this context that the banking sector is extremely important for Serbia because it is the sector that is expected to allocate financial resources to areas that are important for economic development. Therefore, the expansion of European banks in Serbia also means the channelling of the resources towards those activities that are consistent with the wider economic policy that the EU is promoting in Serbia and the profit interests of European corporations. In addition, as the Office for South East Europe Report of 2007 has demonstrated, the banking sector is also responsible for intra-regional cooperation because it provides the means for cross-border actions and the homogenisation of financial markets, unifying the Balkan market in the process (Office for South East Europe 2007: 1,2). Here again we have to remember the advanced Euroisation of the economy and its effects that were described in Chapter 2.
3.4.5. German economic presence.

Turning our attention to Germany, it is interesting to note the presence of German capital in almost all sectors, which does not apply to other investor countries and this could be element of hegemony because it reflects the economic ‘supremacy’ of Germany in Serbia. Nevertheless, one can note a particular focus on the food, machinery and raw materials sectors, such as copper and aluminium (UNCTAD 2004a; Statistisches Bundesamt Deutschland 2006: 289-94). As noted above, Germany is Serbia’s biggest trading partner. German companies such as Siemens and Deutsche Bank and their affiliates have extensive operations in Serbia. Germany is dominant in the pharmaceuticals sector; Stada recently bought Hemofarm, the biggest pharmaceutical company in Serbia (and among the biggest in the region) (Southeast European Times 2006). In 2007, the credit company Baufinanzierung-Bayern made a huge investment in the Serbian finance sector. According to SIEPA Baufinanzierung-Bayern is expecting to make Serbia part of its global services group (SIEPA 2007c).

Final evidence of the prevailing importance of Germany are the actions of the BMZ. According to the Ministry, from the moment that Milosevic was overthrown it started its operations in Serbia. The BMZ’s main focus is on economic reforms and the reconstruction of the country with a special interest in the lignite mines and the power plants in Serbia (BMZ 2004b: 55, 56). The BMZ played an important role in the privatisation process in Serbia, by providing technical assistance and training to SIEPA. The Ministry also seems to express general German capital interests and makes known that it ‘is supporting the privatisation of state-owned and nationalised enterprises...The significance and difficulties of this process are clearly illustrated by the ongoing cooperation with Serbia’ (BMZ 2004b: 37, 38).

EU economic penetration is obvious from the above data. This significant economic presence seems to be the result of the politico-economic reforms in Serbia as well as an outcome of the region’s relative stability. It is these two elements that arguably created the necessary environment for the attraction of economic resources from the private sector involving capital inflows from EU member states. What we have to find is whether this economic penetration is of hegemonic proportions and could lead to political hegemony as well.
3.5. Neo-Gramscian hegemony.
In this section we will apply the theoretical framework to Serbia and we will have to answer the question relating to the existence of hegemony. Working according to the pattern described in Chapter 1, the analysis is divided into three parts, i.e. the three spheres of activity within which hegemony is projected. It is again important to note that we are referring to a regional type of hegemony, with a primarily economic dimension.

3.5.1. First sphere: social relations of production.
Since 2001, liberal economic ideology has become well embedded in Serbian society. This is apparent from the National Strategy and the NPI in which Serbian rhetoric is now clearly neo-liberal and monetarist in character. Indications of this are to be found in the emphasis on interest rates as tools for macroeconomic stabilisation, the great importance of FDI as development factors as well as the political rhetoric in favour of privatisation and deregulation. For instance, in the SIEPA impact assessment of investment, the neo-liberal policies of privatisation are considered to be the main vehicles of success (SIEPA 2005b: 28-32). Another element that we have to take into account is that Serbia is an economy in transition from a communist and self-management system to a free market economy (or liberal capitalism). This transformation, which started in the 1990s with the death of the Yugoslav doctrine of brotherhood and unity, brought new social forces that dramatically altered power relations in Serbian society.

Thus, the communist elite was replaced by nationalists with Milosevic and his ‘court’ and later by the pro-western elite that governs today. This new Serbian elite consists of the opposition to Milosevic, e.g. Kostunica, Tadic et al. and the economic elite e.g. Miroslav Miskovic etc. (Jovanovic 2007; B92 2007h). Therefore, in theoretical terms, the change in the social relations of production, i.e. the first sphere, which took place with the dramatic events in Yugoslavia, has significantly changed the hierarchy of power and created an ideological as well as a pragmatic reality that seems consistent with the preferences of the EU (and of course of

\[46\] In Keynesianism in contrast a greater role is accorded to national savings and public spending
Germany) and the US. This is a reality that according to the previously mentioned sections (mainly section 3.3.), is beneficial for western capital, particularly for German and Austrian capital, which would seem to have gained a dominant economic position in Serbia. Furthermore, within the first sphere we expect that the domestic elite, as part of the dominant Historic Bloc, is transmitting the hegemonic ideology (i.e. neo-liberalism) to the rest of the society and this is expected to happen, since this elite is deploying all these policies, promoting neo-liberalism as well as the interests of European capital.

Official positions that support this argument can be located anywhere across the spectrum of Serbian political opinion (except the nationalists) such as in the statement of the former Minister of Economics Mr Dinkic that Serbia will do everything to join the EU (Serbian Government 2007b) or Tadic’s positions on this matter (ICG 2007: 10). The creation of a pro-EU political elite is performing the function of transmitting hegemonic ideology and, by exploiting the hegemonic institutions, gaining discipline over domestic society. Thus, this domestic elite looks hegemonic inasmuch as it seems to assist in the consolidation of the hegemony and of the hegemonic ideology. Furthermore, we have to consider that the current political elite was financed by the US and EU when it was opposing Milosevic, something which is stated in USA Senate archives (see US Congress Senate Committee of Foreign Relations 2000) and, as Elizabeth Pond notes, this created an American-trained resistance, with unity around one chosen leader, namely Vojislav Kostunica, who was also viewed by the West as the hope for putting Serbia on the EU integration path (Pond 2006: 213-14). This support (which continued in the latest 2008 elections) is a testament to the pro-western preferences, not to mention of course the open interference of the EU and its member states in the last Serbian elections, on the side of the pro-EU elite led by Tadic.

The formation of the pro-EU group began during the period of the Yugoslav crisis, aimed at the overthrow of the Milosevic regime. It was a heterogeneous group linked by their common opposition to the Milosevic regime, a link created for a variety of reasons. Prominent personalities in this group were Zoran Djindjic, Vuk Draskovic, Boris Tadic, and Vojislav Kostunica. All of them were leaders of opposition parties and all of them came together in one group with the active encouragement
of the West\textsuperscript{47}. Therefore, we are speaking of a group whose formation was largely influenced by outside forces. Typically the US government spent significant time uniting these groups against the common opponent (BBC\textsuperscript{2} 2003; Pond 2006). Furthermore, it is a group that has received substantial financial, technical, moral assistance and training (particularly during the election campaign). In other words it owes its victory in part to the West. The archives of the US Senate are revealing since according to ambassador Pardew:

'We are working (i.e. the US) with our allies in Europe in a range of measures to undermine the Milosevic regime and to promote those forces that support democracy. We are pursuing a number of initiatives. We are supporting independent media in the FRY. We are working with the Serb opposition' (US Congress Senate Committee of Foreign Relations 2000).

A very revealing background detail about the role of the US and EU in the creation of a unified opposition against Milosevic (who was right to insist that the opposition was built with foreign money), is provided by the Hearing of the European Affairs Subcommittee of the Senate Foreign Relations Committee on Yugoslavia. There are four points from this hearing of key significance. The first has to do with the US and European efforts to unite the opposition. Characteristically one of the participants and chair of the hearing, Mr Gordon Smith admitted that:

'opposition forces...must put aside personal differences and political ambition and for the sake of their country to work together' (US Congress Senate Committee of Foreign Relations 1999).

Later a second spokesman, Mr Gelbard (who was the special representative of the President and Secretary of State for the implementation of the Dayton Peace Accords) reveals that:

'In all our dealings with Serbian opposition leaders - and I am in regular contact with every segment of the democratic opposition - we have urged them to overcome the politics of ego and to work together instead' (US Congress Senate Committee of Foreign Relations 1999).

The second point has to do with the mechanisms of support. According to Gelbard, the strategy for supporting the opposition democratic forces of Serbia had five pillars. One of them was related to the support of the independent media of Serbia and to the creation of 'a network of transmitters that permits us to broadcast Voice of America, Radio Free Europe,...throughout the country' (US Congress Senate Committee of Foreign Relations 1999). The strategy included funding of NGOs,

\textsuperscript{47} With the term is implied EU member states and the USA.
political parties, independent labour unions etc., with an overall budget of $100 million. In an article in the New York Times, there is confirmation of the amount (five days before the hearing) and a note of the refusal of US aid officials to reveal the names of the recipients of this money (Becker 1999). The final point is the reassurance that US actions have the approval of Europeans according to the US Senate (see US Congress Senate Committee of Foreign Relations 2000).

Hence, we have strong indications that the domestic dominant elite has strong links with the foreign elite and its institutions. Therefore, this elite is part of the Historic Bloc since it shares the same hegemonic ideology and cooperates with other groups in the Bloc. In addition, the use of the media is significant since they represent a key tool for the transmission of the hegemonic ideology and the cultural accommodation, through their promotion, of certain behavioural values and norms, something which is consistent with the neo-Gramscian perspective. This is obvious in the westernisation of Serbian society as well as the great appreciation of western Europe, which is also promoted in the Serbian media.

Moreover, the fact that its formation was provoked from outside, also meant that its leadership was artificial. In fact, as is known today, Kostunica was selected as leader because he was unharmed by state propaganda, because he was representing a small party and therefore was acceptable to the larger parties (Draskovic and Djindjic were political enemies) (see BBC2 2003); and because he was balancing between nationalists and ‘westerners’ (Pond 2006; BBC2 2003). As is expected, such artificial cohesion of the opposition coalition often erupts into disputes. The biggest example were the disputes between the first post-Milosevic president, Kostunica, and the first Prime Minister, Djindjic, about Serbia’s path towards integration with the West (see The Economist 2001; 2002). Then as now, with the rift between Tadic and Kostunica, the response of the West was either to intervene and impose cohesion or to find a new candidate, like Tadic who won the leadership of the Djindjic party in 2004 and since then remained committed to the West and integration into the EU (see BBC 2004). As we will see, Tadic remains a favoured personality of the EU and USA.

In the aftermath of their victory the pro-EU elite began its western orientated reforms and the integration of Serbia with the West. From this group the main
political personalities, until the 2008 general elections, were Zoran Djindjic — until his assassination — and then Boris Tadic and Vojislav Kostunica, who as we saw above played an important role in the political life of Serbia. Kostunica, despite his EU programme, had caused problems because his nationalism stood out against any thought of an independent Kosovo. His policy also brought Serbia closer to Russia, adding to the dissatisfaction of the West. Another problem was Kostunica's attitude towards ICTY which also caused many problems for Serbia's EU integration (see Gowan 2007; Reljic 2007).

For Tadic, it is worth noting that he is considered the most pro-European and is rewarded for that, not only formally — with prizes for example, such as the Europe Prize for Political Culture — but also by receiving the confidence of the West. An example was the support for Tadic in the previous elections (Serwer 2004) as well as the support that he received for the presidential elections in both 2007 (ICG 2007) and 2008. Tadic is considered the person who can reduce Russian influence in Serbia and who will help find a solution to the Kosovo impasse. In the past he had supported ICTY and he called on the Serbs not to boycott the Kosovar elections. An indication of Tadic's pro-EU attitude was the arrest of Karadjic soon after his victory in 2008 and keeping Serbia on the EU track despite the (for Serbia) negative development in Kosovo. However, until the 2008 elections, Tadic depended on Kostunica's support in order to beat the Radicals and this of course limited his pro-EU rhetoric (Pond 2006: 139,230; ICG 2007: 10). Hence, the split with Kostunica and the narrow victory of his coalition have strengthened his power. Serbian society is still divided and thus delicate actions are needed. Hence, within this framework we have to add Tadic's speech on 27 September 2007 at the UN where he mentioned that Kosovo independence is unacceptable.

All these events indicate important hegemonic elements. Firstly, it becomes obvious that there is a strong connection between the pro-EU Serbian elite and the EU, as well as the latter's interference in Serbian affairs in favour of 'its' supported elite. This subordinate elite seems to base part of its legitimacy and cohesion on EU support, which proves that the elite's cohesion is to certain degree imposed from outside. Additionally, the actions of Tadic and the interdependence between the domestic and foreign elites elevates the former to the level of the Historic Bloc since,
as has been often repeated in this thesis, this group shares the same hegemonic ideology and aims and it demonstrates active cooperation with other members of the group.

The new Prime Minister, Mirko Cvetkovic, is a pro-western personality but is considered a low-profile technocrat (see International Herald Tribune 2008). He was also a consultant of the World Bank, director of SIEPA and minister of finance in the Kostunica government. Hence, he is a personality that has connections with the West and its institutions and of course with the particular economic ideology which is the basis of the hegemonic ideology.

Hence, there are obvious links between the local and the foreign elite. The latter uses the former for the establishment of a certain politico-economic status quo. The former has used the support of the latter to remain in power. Further evidence is the formation of the recent cabinet which is made up largely of people with close links with the West and western capital. In addition, in contrast to other states in the region (e.g. Albania) the old elite is not participating in the Historic Bloc, which indicates the fundamental change of power in the domestic elite.

3.5.2. Second sphere: forms of state.

The next step is to examine the forms of state that give us the formation of the Historic Bloc and state-society relations, by identifying the dominant Historic Bloc and the hegemonic class. Within Serbian society the important class is the above mentioned politico-economic elite, but this position does not mean that it is the leader of the Serbian Historic Bloc. The rest of the Bloc can be considered to consist of the officials of multilateral organisations such as the IMF, the World-Bank as well as NATO, the representatives of foreign capital (both transnational and national), and EU officials. At this point two questions can be addressed. Firstly, what are the criteria that make someone part of the Bloc and secondly why are other actors such as Russia excluded?

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48 To this group we include the politico-economic elite of states that are active in Serbia such as Germany.
49 It is obvious that the institutions have a dual role. They are hegemonic tools but also their staff have the role of forming policy and action.
The answer to the first question is found in their common values and common goals, their ideology, their communication, cooperation and their coordination. The answer to the first question is the answer to the second, namely that the excluded actors have a different ideology and agenda. Russia traditionally has the role of the protector of the Serbian people. Russia's influence in Serbian society has increased during the Kosovo war and even more in the post-Kosovo war period where Russia has been promoting the Serbian positions over the status of Kosovo in the international arena, mostly by veto the UN recognition of Kosovo independence. This Russian influence finds expression in economic links and in the nationalist party which is the mouthpiece of the pro-Russian section of Serbian society. Hence in Serbia there are two opposing camps: the pro-western and the pro-Russian with both having different ideas and agendas. At the moment the pro-western camp has the power and is part of the Historic Bloc. Therefore, Russia and the pro-Russian camp remain an opposition anti-hegemonic force ready to take power when the circumstances allow it. As such Russia remains an important factor in the developments in Serbia and in the establishment of hegemony and we can account for the Bloc reaction during the last Serbian elections in this framework.

A second actor that we exclude is the 'powerful' Serbian church. The Serbian church played a crucial role in the Yugoslav wars and particular in Kosovo, since it was providing moral support for the Serbian actions, and here its influence within Serbian society was significant. The reason that it is excluded is its severe weakness after the Yugoslav wars, which reduced its moral power, and marginalised it from the political arena, while its views are consistent with the Radicals and not with this Bloc.

Returning to the description of the Bloc, the first SO group (i.e. the multilateral organisations) influence the political and economic life of Serbia to a significant degree. As we saw earlier, they are imposing certain reforms on Serbia by linking their policy preferences with economic assistance that is badly needed by Serbia. This is especially significant as we have been informed that international donor assistance finishes soon and thus Serbia has to find other financing sources (Confidential Interview 2). This imposition takes place through formal meetings,
informal consultation (e.g. IMF staff proposal papers) and country assessment reports. The latter are important because they influence foreign investment in the country, which is the main revenue source according to neo-classical (i.e. neo-liberal) economic policies that are pursued. The foreign capital elite (better known as transnational capital) has interests in Serbia and represents a vital element of Serbia’s economic development. Evidence of this mutual relationship can be tracked through the investments of this class in the Serbian economy, and their positions, e.g. according to Klaus Mangold of Germany’s Eastern European Committee, Serbia has significant economic potential, which supports the continued cooperation between Germany and Serbia (Invest in Serbia 2005). This mutuality can also be traced from the policies for attracting investments and from declarations by the Serbian elite in support of transnational capital. Therefore, their influence in policy-making and their influence in Serbian society constitutes part of the Bloc. In addition, the good relations with the other two groups (i.e. international institutions and the EU) also allow their inclusion into this group.

The third group appears to be the most influential. In Chapter 2 the EU was defined as the hegemonic institution, the vehicle which promotes European capital in the western Balkans and ensures its hegemonic consolidation. Particularly in the EU-Serbia case, the role of the EU is to impose policies, monitor their implementation and punish any signs of non-compliance. Two examples that we saw earlier were the freezing of SAA talks due to Serbian reluctance to cooperate with ICTY, and the Serbian elections. For instance the German presidency mentioned that the formation of a pro-European government was welcomed and that it would keep Serbia on a European course (German Presidency of the EU 2007b). Another example is the pressure from the EU to prevent the party that won the 2007 elections from choosing a president in the Serbian parliament. For the latter, Angela Merkel expressed her concerns personally to Kostunica and ‘urged Serbia...to take action that would maintain the country's European perspective’ (B92 2007a).

Following this direction, the German presidency of 2007 urged the ‘democratic’ parties of Serbia to form a government, while at the same time the visa agreement with the EU was postponed (European Commission 2006b), until its signing on 18 September 2007. In addition, the EU played an active role in determining the status
of Kosovo and overall Balkan stability. Certainly, one can assert that the EU is not going into a country without an invitation, but the fact that EU financial assistance in transition countries (and in the case of Serbia, a country devastated by war) is connected with certain policies within the framework of conditionality, constitutes a kind of imposition. Particularly, when this assistance and these policies are covered with the veil of membership in a powerful institution such as the EU. We say 'veil' because there are growing voices from the EU insisting that any new enlargement shall wait until institutional reform of the Union is agreed. This was supported by Mr Barroso's statement on 26 September 2006 that until the new constitution is agreed enlargement stops with Romania and Bulgaria (B92 2006b). A similar position was expressed by a representative of the German Ministry of Foreign Affairs (Almer 2008). Furthermore, the existence of the Copenhagen Criteria gives a formal dimension to this situation, while in 2008 Mr Barroso again indicated that Serbia could receive candidate status provided that it remained committed to reform and cooperate with ICTY (see B92 2008h). Nevertheless, the delay in the adoption of the Lisbon Treaty on the part of the EU poses a great obstacle for any future enlargement, since the EU seems unable to deal with the extra institutional demands of such action.

Hence, within the Bloc there is a distinct division of labour that demonstrates how it is using its power. The multilateral fora are proposing reforms, policies, the foreign economic elite along with the domestic elite are implementing them, and the EU, as was mentioned in Chapter 2, proposes policies, coordinates the activities of the other groups and monitors the implementation of a certain package of policies. The question that arises, therefore, is who is leading this Bloc.

At first glance the overwhelming and leading presence of the EU can be claimed to represent this leadership. However, as was mentioned in Chapter 2, the EU appears as a 'facilitator' of member states' interests in regard to enlargement and therefore it is the member states that are behind these actions. However, the Kosovo status question is weakening the influence of the EU on Serbia which in turn has approached Russia. In other words the position of the EU in favour of Kosovo's independence is turning part of Serbian society away from it and in favour of those
actors that support the idea of Serbian Kosovo as Russia does. This argument is mentioned also by Pierre Hassner, emeritus research director at the Centre for International Studies and Research in Paris (Euractiv 2007a). Perhaps the victory of Tadic will reduce Russian influence but we have to take into account that more than 40% voted for the Radicals, which means that there is still a strong pro-Russian group within Serbian society. Lavenex and Schimmelfennig argued that ‘the EU’s hopes that its European perspective would make the loss of Kosovo acceptable to Serbia have not materialised so far’ (Lavenex and Schimmelfennig 2007: 150) but this seems partially true since Serbia is still on the EU track. Therefore, the EU is dismissed as the leader of the group not only because it is operating as a ‘means’ of member state interests, but because its grip around Serbia is not absolute. The fact that Serbia remains on the EU path does not mean that the threats of a deterioration in EU-Serbian relations have ended but that at the moment, for the Serbs, the EU choice is still better.

This very balance between Kosovo’s status and integration into the EU arguably indicates who the leader of the group is, because in the end either the side that supports the western path despite Kosovo’s loss or the side which links the western path with the Serbian sovereignty over Kosovo, will prevail in the political terrain of Serbia. The argument is based on the fact that, for Serbia, Kosovo cannot be relinquished, while the West is pushing for Kosovo’s secession in favour of the integration of the region (the statement of US assistant Secretary of State for European affairs, Daniel Fried, in B92 in 2007 is indicative of this) (B92 2007f; ICG 2007; Sell 1999).

The Serbs, however, are managing to maintain steady positions in relation to ICTY and Kosovo, and with popular support for these policies it is difficult to change because no-one wants to incur the political cost of accepting the independence of Kosovo (see Bilandzic 2007; Kojen51 in B92 2007g; Deutsche Welle 2007). This political cost along with some nationalist positions in parts of the Serbian pro-EU elite and the Russian willingness to interfere in Serbian affairs have made Serbia defiant in relation to the EU and give the impression that the Serbian elite could

51 Former Kosovo team coordinator.
even play the central role in the Bloc, since they seem to be in a position to formulate an autonomous policy having the other classes on their side, which are receiving the hegemonic manipulation directly from this elite, since the domestic elite has direct communication with the subaltern classes. However, there are some factors that cast doubt on this conclusion.

Serbia is largely dependent on foreign funds; it aims to achieve full integration and to create a competitive market economy with the ultimate objective of EU and EMU membership. To this end, it relies on the EU and foreign capital in a way that (separate from the political sphere), establishes an economic hegemonic situation that is expressed by policies, actions and economic penetration. All these together are creating dependency relations. Therefore, since the reference is to a hegemony from the view of political economy, the latter (i.e. Serbia’s economic dependence) opposes the view of the power of the Serbian elite as the hegemonic class. Furthermore, Tadic’s victory erodes this defiance against the EU, since the EU ‘made’ Tadic President. Add to this political patronage, the economic assistance of the EU towards the government elite (that creates further dependencies) as well as the connection between Serbian political actors with foreign capital, which along with the EU is providing the necessary legitimacy and power consolidation of the domestic elite towards the rest of Serbian society.

The group of international institutions for its part has the role of the political institutions that are creating those structures which are necessary for the facilitation of economic penetration and dominance of western (European in this case) capital. Therefore, they are seen as ‘junior’ partners of the transnational capital elite (see Chapter 1). Transnational capital and its representative elite in Serbia present an interesting case. Economic capital always has the means to combine independent economic actors and to form a common front without the need for an organised plan. In this case, the large presence of foreign capital is ‘socialising’ national groups (e.g. the German Auslandshandelskammern office in Serbia) and preserves a ‘national’ character, in a way that form national associations that with the support of

52 As it is known the membership process contains the commitment to the eventual adoption of the euro (Liebscher 2005:3).
53 Obviously we are referring of course to the officials in these institutions.
parent economies, promote their interests. Within a capitalist system, the companies are competing with each other. This competition, it could be claimed, has nationalist characteristics since only companies from a handful of countries are investing in Serbia and within this, particular companies from the EU-4 group. This character is preserved even though the use of affiliates from other countries is diluting the national character of the foreign economic elite. Indicative of this is the position of the Union of Greek banks that demanded that the Greek government help them to finance their affiliates and customers in the Balkans because otherwise Greece was threatened with losing its position to other countries (see Zioti 2009).

Despite the national division, it is possible to find common lines in terms of demanding the same reforms, either directly or through national governments and international associations. An example of this is the Council of Foreign Investors in Serbia that publishes its recommendations annually or through its survey poll according to which the foreign investors state what has to be done (SIEPA 2007c). The reality, with or without the existence of common lines, is that foreign capital influences the decisions of the Serbian elite, since the foreign inflows are of great importance for the Serbian economy, but we have to clarify how this influence is expressed. The obvious way that relates links to direct external influence is expressed through interviews and conferences of economic elites and with meetings with government officials, but these efforts remain at an advisory level and sometimes reflect personal opinions. For instance, in April 2009, the Council of Foreign Investors presented the draft bankruptcy law of the Serbian government, while ‘at the end, Ministry was informed that FIC would send the revised comments in written, based on the input received at the meeting’ (sic) (Council of Foreign Investors 2009). Foreign capital has also in the past advised the government on legislation, for instance, in 2006 when Council members confirmed the good cooperation between business and the government in producing legislation (Serbian Government 2006).

Indirect implementation is fully operational, less visible and more powerful. National governments such as the German government are pushing the reforms or explicitly promoting their companies. The same applies to the EU in that it urges reforms and policies for attracting foreign capital (see Rehn in B92 2007d; Merkel in
The consultation of international institutions should be seen in that framework. Both indirect and direct influence focus on the economic sphere, while in the political sphere they express their support for issues that best accommodate their interests, such as the stability of the region and the need for a European perspective in Serbia, with the further objective of facilitating economic penetration. Add to this the partisan external intervention in the last Serbian elections and the power of the indirect form of influence becomes obvious. Thus, from the perspective of political economy, the foreign economic elite can be considered to be the prominent class of the group. However, two issues remain to be addressed. Firstly, how coherent is the Bloc? And, secondly, since foreign capital is using its national governments as a conduit, who has the upper hand?

For the former, as was stated in previous chapters, the fact that there is a common ideology, common objectives and common ways of achieving the objectives provides adequate cohesion. In addition, the fact that there is cooperation among the Bloc groups in terms of the division of labour that was mentioned above, secure the necessary evidence to claim the Bloc’s coherence. We will deal with the latter later, but it is clear that if we manage to distinguish the German economic elite as the most powerful and influential in Serbia then we can speak (from the perspective of neo-Gramscian theory) of the economic hegemony of the German (economic) elite.

3.5.3. The subaltern reaction.

An analysis of the second sphere (i.e. forms of state and state-society relations) requires that we shed light on the subaltern classes as well, and how they receive this hegemonic situation, in other words how efficiently the coercive mechanisms work. Serbian society is pro-EU as the latest opinion poll by the EU Integration Office of Serbia showed: 69% of the population is in favour of EU integration, while 42.1% feel like citizens of Europe rather than the Balkans (Serbian EU Integration Office 2007b), which demonstrates the desire of the Serbian people to enter the EU family. In the survey of the Balkan Monitor, 67.4% of the age group 15-24 and 61.49% of those between 24 and 39 supports EU membership as something very good. The smallest support comes from those above 55 where the support is 49.7% (Balkan
Monitor 2009). These results indicate that the young generation and especially the one with no experience of communism and with a vague experience of the Kosovo war is pro-EU, while the older and probably the generation that was the backbone of Titoist Serbia are against. Another thing that we can mention is that the pro-western camp will become stronger in the future because the balance between pro and post communism people would be in favour of the latter. Also interesting was that both rural and urban populations support EU membership at the same rate, namely 57.3% and 58.2% respectively (Balkan Monitor 2009). Nevertheless, the fact that the support is below 60% might reflect the division of Serbian society that was evident in the election results. These responses also show that the Bloc is successfully imposing its ideas. Supporting this is the fact that painful reforms have been implemented without massive social discord (for example the closure of Zastava directed the protests of the unemployed at the inability of the government to find them a job and not to the reason for the closure (B92 2007g).

However, another four responses in the 2007 poll by the EU Integration Office are significant. Firstly to the question 'which of the following factors obstruct integration of our country with the EU most?' 49.1% responded: 'policy of constant conditioning and blackmailing of the EU towards our country'. In addition, 45% believe that the EU is preparing Serbia to give up Kosovo for membership, and 40% believe that the EU is deciding the status of Kosovo. Finally, 71% believe that if Kosovo leaves, Serbia would continue to fight but maintain relations with the EU (Serbian EU Integration Office 2007b), which was exactly what happened. What emerges from these responses is the strong commitment of Serbs towards the EU as policy objective, a commitment that is strong enough to by-pass the emotions surrounding the loss of Kosovo. They also show an awareness of the role of the EU and its influence, and confirm the belief that the Serbian elite has enough popular support to continue down the EU path despite the cost. In relation to the theme of the thesis, this opinion poll reveals two important factors. Firstly, it is evident that the hegemonic elite is managing to promote its interests and to 'sell' the EU and the ideology that the EU carries as something important and necessary. This links up with the second aspect, namely the reception of the hegemony by the subaltern
classes without objection, which reveals the power of the hegemonic machinery to impose its preferences and to transmit its ideology in a very effective manner.

The fact that the Serbian elite has the popular support to continue down the EU path despite the cost, is reinforced by the positions of Serb officials that there is a dilemma between Kosovo and the EU (B92 2007c). The first responses also demonstrate the ideological penetration of a European identity and the need for EU membership, and thus for reforms, while the last answer in the latest opinion poll also shows the need for the EU in spite of a serious national loss, like the loss of Kosovo. In addition, once again it is evident that, as in the economic sphere with the hegemonic penetration of EU capital in Serbia, there are hegemonic elements of a neo-Gramscian nature in cultural terms as well. These elements are apparent in the adoption (or better penetration) of Serbian society by a certain culture, which is the western European culture that is promoted by the EU. The sense of feeling part of Europe that was mentioned above is indicative of this cultural penetration. Thus, from a neo-Gramscian perspective the cultural aspect of hegemony, which is the transmission of certain cultural images and values that are adopted by the subordinate society and thus facilitate the consolidation of the hegemony and of the hegemonic ideology is evident. The same pro-European attitude is apparent in the 2006 opinion poll (Serbian EU Integration Office 2006). Despite the pro-EU tendency, we have to note the division of society over Kosovo, with the riots that followed the latter’s recognition, proving that the pro-EU trend can be reversed due to issues such as Kosovo.

The opposition so far was coming from nationalist and xenophobic forces, something that Bohle had indicated in the case of CEECs (Bohle 2006), and from those interests that are feeling threatened by the EU reforms. On the other hand, trade unions and the working class seem to support the Bloc and to base their hopes for a better future there. Both the election results and the popular demonstrations against the EU were stimulated by nationalist issues such as Kosovoan independence and not by the neo-liberal policies that were being imposed on Serbian society. Trying to interpret these developments, we are remember that the ordeal of communist rule was still fresh and thus neo-liberalism, that has only fifteen years of practice, is still viewed as a solution. In addition, Serbia, as well as FYR Macedonia,
has open national issues that fuel the nationalist forces particularly when the Bloc interests are against the nationalist aspirations of Serbian people.

Judging from the above we can say that the Bloc is successfully imposing hegemonic ideas on Serbia (since even a national loss is not enough to distract its people from the vision of Europe) and that in the economic and cultural dimensions its force is working efficiently through the familiar mechanisms of punishment for non-compliance with their preferences.

3.5.4. The third sphere: world orders.

The third sphere is the contemporary world order within which Serbia functions. In summary, the Balkans have adopted a certain set of ideas and the ideology which is promoted by the Historic Bloc and which was initially developed by western economic powers and reproduced in the western Balkans by Germany and the EU, as we defined them in Chapter 1. The question here is how Serbian society is receiving these ideas. The means of transmission are simple, notably through cultural, economic and political developments. The first involved the media’s promotion of western culture and the need to belong to Europe. Firstly, during the struggle against the Milosevic regime, west European actors such as the German government, the US and western NGOs were financing the Serbian opposition media. Since 1994, the EU has committed €6 million, while currently in the IPA a significant part goes to the media (European Commission Delegation on Serbia 2007). Also important is the contribution of the Konrad-Adenauer-Stiftung (KAS), which is largely funded by the German government. Particularly in Serbia, one of the projects of the KAS is an economic broadcast on Serbian TV that relates to issues of the economic transition based on foreign examples. The programme is broadcast weekly and the KAS

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54 Quoting from KAS website: 97.3% of the Konrad-Adenauer-Stiftung’s funds come from public remittances, while 2.3% are derived from admission charges and miscellaneous revenues. In addition, private revenues (income from funds and donations) account for another 0.4% (status: budget of the Konrad-Adenauer-Stiftung for 2004). Most public remittances are project-related funds. Thus, project-related remittances account for 61.8% of the entire revenue of the Konrad-Adenauer-Stiftung.
estimates that 13% of the population watch it (KAS 2008b). The KAS is also
organising events such as the EU-day in Belgrade during 2007 (Serbian EU
Integration Office 2007a) and the seminar series for state officials in Serbia in
summer 2008 (KAS 2008a).

In addition, USAID, through its media section, the International Research and
Exchanges Board, has been supporting the ‘independent’ media in Serbia since 1997.
In 2007, it assisted in the reform of the Radio-televizija Srbije, the national
broadcasting agency of Serbia (International Research and Exchanges Board 2007).
The main independent station, B92 TV and radio, is one of the success stories which
USAID supported during and after the Milosevic regime (International Research and
Exchanges Board 2007). In 2006 USAID expenditure in Serbia was $57.8 million of
which $12.9 million went on democratic governance (USAID 2006). At the level of
NGOs the National Endowment for Democracy (NED) is important. Since 1988 (along
with the Soros Foundation and European agencies and governments) it had been
financing the Serbian independent media with the aim of toppling the Milosevic
regime (McCarthy 1998), while taking a look at its projects database we can see a
stable presence in Serbia since then, with projects such as the broadcast of policy
debates in 2007 for the Serbian elections (NED 2008).

As was mentioned in Chapter 2, these organisations and NGOs are operating
within the framework that is set by EU enlargement policy, where the Commission is
coordinator and their operations demonstrate how the West has deployed
considerable resources for the creation of ‘independent’ and ‘democratic’ media. It
could be claimed that the message that they transmit is different from the
hegemonic one, but this is not so simple. No matter what the source of funding, the
message is quite the same and has to do with the promotion of liberal market
economics and western type democracy. In addition, the integration with western
structures is a shared aim and therefore there are no messages that obscure the EU
actions or the adoption of certain cultural values.

Hence, we can see a significant mobilisation of the international community in
support of certain political positions through the media. The cultural transmission is
also through bilateral agreements. Germany for instance, has signed a series of
cultural agreements with Serbia, which include cultural and educational projects
(Serbian Ministry of Foreign Affairs 2006b). This (within our theoretical framework) is facilitating the German influence since language is a powerful tool for the creation of a pro-German population. This is not something new, since Britain with the British Council, France with the French Institute and Germany with the Goethe institute are trying to create a favourable image for themselves abroad.

The economic mechanism of transmission of the hegemonic ideas involves the introduction of foreign capital and the impact that it generates in Serbian society, e.g. marketing new products, new modes of production etc. The political mechanisms were covered above. However, despite this overwhelming influx of western influence, Serbian society has shown elements of resistance, as we have seen.

3.5.5. Germany and hegemony.

The core of this thesis is that of a German hegemony in the Balkans. In Chapter 2 we demonstrated that Germany has been highly influential in policies towards western Balkan integration into both the EU and of NATO. We also showed that the German elite has imposed its ideas onto the EU while German capital has profited considerably from EU policies in the region. The latter was acknowledged by Chancellor Merkel at the G8 summit in Heiligendamm in 2006 (Merkel 2006). Considering this, we have to apply the three spheres of activity in our analysis of German-Serbian relations. Firstly, Germany has a prominent economic presence, which is an indicator of the interest of the German economic elite in Serbia. In fact the tone was already evident in 2000. The then Foreign Minister, Joschka Fisher in his speech for the SPSEE noted:

'private economic commitment, know-how and capital transfer also have a key role to play in the creation of permanent economic structures in the region...The German government therefore considers practical advisory services from business and industry to be indispensable...The goal is to establish efficient, self-reliant market economy structures to create a regional, outwardly open, market' (Fischer 2000).

After him Gerhard Schröder, in his meeting with Kostunica, mentioned that 'continued and improved economic cooperation between Germany and Serbia will contribute to the improvement of the two countries' political relations', while he
also noted the good economic cooperation between the two countries for decades (i.e. even during Yugoslavia's time) (Serbian Ministry of Foreign Affairs 2004).

In addition, Dr Merkel in 2007 promised the Serbian president, Mr. Tadic, that ‘the German government would therefore encourage German business to become more involved in Serbia’ (Bundeskanzlerin 2007b). The German economic elite has also repeatedly showed an interest in the Serbian economy. An example was the 2004 statement of the Serbian Economics Minister about German business interests in Serbia (Serbian Ministry of Foreign Affairs 2004) and the much more important visit of the president of the Eastern European Committee, Klaus Mangold along with twenty representatives of German industrial associations and companies to Belgrade in 2005. In that visit the German delegation stated:

‘...German businessmen are interested in cooperation in all areas, especially privatisation, energy, trade cooperation, infrastructure and agriculture’ and ‘...Germany has found considerable economic potential in the Serbian business community, which has promised its support towards useful cooperation...Germany is interested in gaining additional benefits from using the tax-free trade status of Russia and Serbia’ (Serbian Government 2005c; 2005d).

In the same meeting we saw an example of how the German economic elite is in a strong position to influence Serbian policy, since the German delegation demanded reforms and favourable policies in order for German capital to invest (Serbian Government 2005c). We have to mention here the role of the Eastern Committee in the eastern enlargement and the acknowledgement at that time that Germany will reach the position that it had in the East before the First World War (cited in Fisher 1992). Moreover, within the framework of relations between the German and Serbian elites we have to mention the award to Mr Tadic of the Europe Prize for Political Culture for his efforts in the democratisation of Serbia and for keeping Serbia on the European track (Auswärtiges Amt 2007b). This is an example of a reward for the pro-western elite in instilling the hegemonic ideals. Another example is the 2006 meeting of the Serbian and German Economic Ministers, where the Serbian Minister stated that Serbia is planning a series of projects, particularly in the energy sector and was seeking the participation of German companies. His German counterpart mentioned political instability as the main reason for the low level of German investments hitherto and he expressed German interest in the Serbian
energy sector (Serbian Ministry of Foreign Affairs 2006b). We have of course to note that Germany had invested much time and money during the Yugoslav period in order to re-establish its relations with Yugoslavia and, as Ahrens mentions (he was one of the diplomats in Belgrade for this purpose), the cultural and economic links were greater with Serbia than with Croatia (Ahrens 2007: 510-12).

Moreover, the economic interest in Serbia can be explained by the wider economic interest of German capital in the region. Examples here are the energy projects in the region for the supply of energy to the EU in which Germany has declared its interest. Of course the supply is secured by the stabilisation of both transit and producer countries, something that seems to be the case with Serbia (i.e. a transit country) (German presidency of the EU 2007b). According to the current Federal Minister of Foreign Affairs, Steinmeier, if Germany wants to safeguard its interests in energy supply security it ‘must become more involved in the exploration and recovery of new reserves. In order to make this move into the production side of the sector, Germany needs global players who are able to make large investments and cooperate with companies in the producer nations’ (Auswärtiges Amt 2007c). In addition, German companies such as Siemens Hellas are participating in the construction of energy installations (HMFA 2006). To this is added the information that was obtained from a confidential interview in Brussels that Serbia, due to the geological advantage of its depleted mines, will become a major location of gas storage in Europe (Confidential Interview 2). In addition, Serbia enjoys a central location in the trade transportation routes in South Eastern Europe with four navigable rivers and connection to the main EU transport corridors (Aherns 2007: 237). Added to this, the free trade regime between Ukraine, Russia and Serbia creates a potential market of 300 million consumers (Aherns 2007) for German and other EU corporations.

Finally, at this moment Serbia is a central factor for the stability of the region and consequently for the continued economic presence of Germany and the EU there, something that the German Chancellor has noted by stating that ‘we want Serbia to be an anchor of stability in the western Balkans’ (Bundeskanzlerin 2007b). A similar statement was made during the German presidency of the EU in 2007 according to which, ‘[A]s the largest country in the Balkans, Serbia is crucial to the
region’s stability’ (German Presidency of the EU 2007a). Consistent with this rhetoric are the German actions on the ground for promoting this stability where these actions aim to incorporate stability into the regional programmes and the agencies that operate in the area, such as with the Stability Pact. The Stability Pact works for the integration of the region and for its interdependence that will enhance stability. This might mean that Germany is influencing Serbia indirectly and in a similar way to Germany’s embedded hegemony in the EU as described by Crawford (see Crawford 2007). In other words Germany exercises some ‘control’ in Serbia by controlling those institutions that obviously influence Serbian politico-economic decisions.

Within this framework we have to place Germany’s military presence in Serbia, which is located in Kosovo (i.e. a former Serbian province). Chancellor Merkel mentioned in her speech at the 43th Munich Conference on Security Policy in 2007, Germany wants NATO to be a primary tool for Transatlantic cooperation and stated that they will try to ensure that NATO is adapted to modern needs, but at the same time Germany is ready to assume a more active role outside NATO boundaries (Merkel 2007).

3.5.6. Is Germany the hegemon?

In order to ‘translate’ the German actions in Serbia into a neo-Gramscian hegemonic perspective, it is necessary to demonstrate that the German elite is the leader of the Bloc. Particularly, as we have demonstrated that the foreign economic elite group is leading the Bloc, we now have to explore the extent to which the German economic elite is leading this group and by extension the Bloc. The statistics on their own can provide a convincing answer, but unequivocally, because other national capital elites have an important presence as well. From the official Serbian position there have been repeated statements about the great importance of Germany. For instance, the Serbian Prime Minister Mr Kostunica mentioned that Germany is one of Serbia’s biggest economic partners, something which was also expressed by the former deputy prime minister, Miroljub Labus, in 2005. In addition, on the basis of this acknowledgment of Germany’s importance, the agreement was signed in February 2005 concerning German assistance in the promotion of the Serbian economy in Germany (Serbian Government 2005a).
Moreover, in order to draw a conclusion we have to consider the ‘competitors’ to German capital in Serbia, namely Austria and Greece. The latter, is also used as a base for German capital (e.g. Siemens Hellas, Allianz etc), while German capital has a substantial presence in Greece as a whole. As for Austria, its importance (according to the size of Serbia) is limited to the economic sphere (and only in certain economic sectors) and thus it lacks political influence. At the same time Germany’s importance is demonstrated in particular in regard to Serbian international relations, as the assignment of Wolfang Ischinger as representative of the EU in the troika for the Kosovo talks (Auswärtiges Amt 2007a), indicates. Furthermore, in cultural terms the Germanic-western influence is arguably more significant than Greek influence despite the latter’s affinities with Serbian culture. However, due to national stereotypes in the region, Greece finds it more difficult to penetrate Serbian society. Germany moreover, is financing special training programmes and university chairs in business schools and universities (Welfens 2001: 72), an action that can be seen through the neo-Gramscian prism as a contribution to the reproduction of hegemony, particularly with Germany financing such programmes in the whole region (Welfens 2001: 73). To this we can add the indirect influence of Germany through the EU and its ideology which is applied in Serbia.

3.6. Concluding remarks.
The aim of this chapter was to apply the theoretical framework in the case of Serbia and to investigate whether Germany exercises politico-economic hegemony. Certainly, there are elements that could support this conclusion. Firstly, from the point of Serbia, there is a strong commitment to the West and a domestic elite which shows total willingness to cooperate. This commitment is also apparent at the non-elite level, with the rest of the society viewing the hegemony as common sense. In addition, the connecting bond between domestic and external hegemonic actors is more than the level of cooperation, since the former’s formation and legitimacy is based on the latter’s actions.

Secondly, we demonstrated that the West and particularly the EU is defining the policy framework and exerts huge influence on Serbia, in the context of the enlargement of the EU. This influence is manifested in the implementation of certain
policies and in the interference of the Bloc in Serbia's domestic political affairs. Nevertheless, the most important influence is economic, since the economic policies of the EU are leading to the huge penetration of EU-based capital in Serbia. The most important role of the EU, however, was matching the role of the main hegemonic institution and thus part of our theoretical assumptions were covered.

Within this framework, we had to prove whether Germany is leading a hegemony. The data have showed a significant economic and political influence on Serbia by Germany. In addition, the data demonstrated active German interests that might justify an interest in hegemony. The German influence also has a strong traditional character.

All these elements enable us to argue the existence of a neo-Gramscian hegemony in Serbia, with Germany as leader, even though a direct leadership of Germany is not very obvious, something that seems to apply for the indirect/embedded hegemony that seems more powerful. Hence, to give a first answer we have to support the existence of indirect hegemony by Germany.
Chapter 4: case study FYR Macedonia.

4.1. Introduction.

In this chapter we examine the second case study of this thesis, with the same aims that we set in Chapter 3. Once again the structure and the application of the theoretical framework will allow us to compare the results between the case studies.

4.2. Historical background.

FYR Macedonia’s history is very similar to that of Serbia. The Slav tribes arrived in the sixth century, where they mixed with the Greek-speaking tribes of the region (Ostrogorsky 1968). During the middle-ages the region was under Byzantine and then under Serbian control when finally in 1389 it was incorporated into the Ottoman Empire along with the Serbian kingdom (Parry et al. 1976; Heaney 2007). This strong connection with Serbia was also the reason for their characterisation as ‘south Serbs’ in the first Yugoslavia (Jelavich 1983a; Glenny 1999). However, part of the region was also part of the Bulgarian kingdom which capitulated to the Ottomans in 1387 (Parry et al. 1976). During that time we also see the reinforcement of the Albanian Muslim elements in Macedonia (see Jelavich 1983a). The revolutionary era of the Balkans finds Macedonia contested among three states, namely Serbia, Bulgaria and Greece. This made Macedonia a primary field of conflict in the Balkan wars, usually involving ruthless methods (Roudometof 2001; Prevelakis 1996).

Modern FYR Macedonia firstly appeared in socialist Yugoslavia as one of the six republics. That status changed in the 1990s when it became independent, with FYR Macedonia remaining the temporary name due to its dispute with Greece. In 2001 the civil war between the two main ethnic communities (i.e. the Slavomacedonian\(^{55}\) and the Albanian) demonstrated the fragility of the state and the subsequent need for the imposition of stability by the international community. Today FYR Macedonia is progressing towards its integration into western structures.

\(^{55}\) The term is used to distinguish the Albanian from the Slav side.
4.3. Political developments.

The presentation begins with the Ohrid Framework Agreement (OFA) that ended the Tetovo crisis of 2001. The choice of starting in 2001, lies in the fact that since then the political framework of FYR Macedonia has stabilised; the international community started to pay attention to this state, which until then was viewed through the lens of the Greek-Macedonian\(^{56}\) name dispute; and because, since 2001, FYR Macedonia is following steadily the path towards its integration into western structures.

Hence, the OFA has set the institutional structure, which has as one of its main provisions the proportional filling of public posts in accordance with the ethnic composition of the state; respect for minority rights; the elevation of the Albanian ethnic community as the second constituent nation; and the establishment of coalition governments with the participation of parties from both Slav and Albanian ethnic communities (Kim 2003; ICG 2009).

The OFA was an outcome of the cooperation between the EU, NATO and the US all of which continue to support its implementation (European Commission 2005a: 6; Ringdal et al. 2007). This support has been in terms of police and military missions to maintain stability and to ensure the implementation of the agreements, as well as in terms of political back-up for the leaders of both ethnic communities (see ICG 2009). However, the OFA implementation has not been uncontested. A good example here were the events that followed the 2004 presidential elections. These elections were highly contested by the nationalist opposition of the Internal Macedonian Revolutionary Organization (IMRO\(^{57}\)), while the National Liberation Army (NLA) leader, Ahmeti, declared the OFA dead and called for partition of the country (Pond 2006: 182-83). There were also demonstrations of Slavomacedonians against the OFA reforms such as the establishment of Albanian as a second official language (Heaney 2007: 403-5; ICG 2009). This political instability increased the anxiety of the international community and particularly of the EU and US, because this state is located in the centre of the Balkans and had been involved in brutal

\(^{56}\) Due to the open issue regarding the name of FYR Macedonia, when we refer to this country only as Macedonia we will use italics.

\(^{57}\) Vatreshna Makedono-Odrinska Revolyutsionna Organizatsiya (VMRO) in the local language.
conflicts in the past such as the Balkan Wars of 1912-1913. Within this framework, the US recognised FYR Macedonia as the Republic of Macedonia believing that this would stabilise the political situation and as a reward for its participation in the 'war on terror' (Pond 2006: 183; Crampton 2002).

The political instability of FYR Macedonia and the rift between the two ethnic communities has been evident throughout the political history of this state up until the present day, something that keeps the international community on the alert. Characteristic examples of this situation are the incidents that followed the rejection of FYR Macedonia’s membership to NATO at the 2008 Bucharest Summit. The first was the steep rise in nationalist rhetoric in the face of Greek hostility which led to new parliamentary elections. The elections were held in a highly nationalist atmosphere and were marked by serious incidents and voting irregularities. The elections were stigmatised by nationalist radicalisation of the electorate since the name dispute with Greece was the main issue in the election campaign. This helped the nationalists to attract 48.8% of total votes against 23% for the socialists allowing them to form the government. As expected the end of the elections was followed by an aggressive foreign policy and by a period of difficult cohabitation with the President, who was the leader of the socialist party and hostile to the Prime Minister (ICG 2009; The Economist 2009). This hostility also indicates that the Slav elite as well as the Slav community is not coherent but in contrast there are rifts. If we look back in Macedonian politics, the dispute between the two main political parties has been bitter. For instance, in 2005 the nationalist opposition of IMRO forced a referendum of OFA implementation in order to bring down the socialist government and in fact it used nationalist rhetoric to achieve this, claiming that the socialists were traitors (ICG 2005). Similarly, in 2008 presidential elections the President Crvenkovski took a position in favour of negotiation and compromise with Greece that came in complete opposition with the policy of the Prime Minister Gruevski and which used by IMRO during the election campaign in order to discredit the socialist as traitors and them as champions of the Macedonian cause (see Elefterotipia 2009; ICG 2009; The Economist 2008a). This division of course is also reflected in the electoral results. However, the division has to do more with the approach towards Greece and the Albanian community accommodation as well as in domestic policies.
and less with the fundamentals, namely EU and NATO membership, in the economic orientation of the country. Hence, despite the disputes we can treat the Slav elite as one. Something that applies also for the Albanian side. Additionally, for the first time there was an armed conflict within the Albanian side, between the two Albanian parties, to a degree that was capable of destabilising the state. However, this dispute reflects personal matters (see The Economist 2008a). The cohabitation problem has been resolved after the last Presidential elections since the leading party managed to elect its candidate as President, while the Albanian problem solved with change in government's coalition.

Despite its political fragility, since the late 1990s, FYR Macedonia is progressing rather well towards its integration into western structures, namely EU and NATO, and is implementing the required reforms, while on 15 November 1995 it entered the NATO PfP. FYR Macedonia has developed into a warm supporter of regional cooperation, despite the problems with Greece and Bulgaria. It has also developed linkages with all the countries of the region through Memoranda of Understanding and Free Trade Agreements, which are mainly motivated by the EU for the purpose of regional cooperation (European Commission 2005a: 13-15; 2004a). FYR Macedonia is also a member of the WTO, IMF and World Bank.

A final element of this presentation is the political system which is a parliamentary democracy with the President as head of state and the Prime Minister head of the government (CIA 2008; Heaney 2007). The role of the president, who is elected through popular suffrage, is enhanced by the right to appoint three members of the Security Council of the Republic of Macedonia which he chairs. Thus, the cohabitation between the President and the Prime Minister is very important for the Macedonian political system. The current governing coalition is between IMRO and the Albanian party, the Democratic Union for Integration (DUI), which received most votes from the Albanian community. It is interesting that the initial choice by IMRO of the Democratic Party of Albanians (DPAs), which was second highest in the Albanian vote, as a potential government partner created a 'split' in the Albanian community. However, in the end they formed a government with DUI.

Finally it is worth mentioning a few things about IMRO, which has a central role in Macedonian politics and thus in the Bloc formation. IMRO was first formed in
1893 in Thessalonica, with the main aim of creating an independent *Macedonian* state (Allcock 1994). It organised and implemented the uprising in 1903 that was suppressed violently by the Ottomans. The event took place on St Elijah day and for that reason it is named the *Ilinden revolt* and today is celebrated as a national holiday (Prevelakis 1996). The party reappeared in the 1990s with the disintegration of Yugoslavia and it maintained its nationalist position, especially against Albanian demands, although today it has conceded to OFA’s demands towards the Albanian minority. Therefore, for the later analysis we have to keep in mind the fact that IMRO preserves its nationalist norms and these will define the foreign and domestic policy of FYR Macedonia under IMRO’s leadership.

Within this political framework FYR Macedonia has four political challenges ahead that will be critical for its existence as a state. These are the name dispute with Greece; Albanian integration; EU membership and NATO membership. As was mentioned in Chapter 3 and as will be the case in Chapter 5, the reason for this form of presentation is to view the various interactions among the actors that would probably form the *Macedonian* Historic Bloc and to explain certain attitudes of the actors.

### 4.3.1. The name dispute with Greece.

The name problem is part of the wider *Macedonian Question*, i.e. the creation of ethnic states in a multiethnic region. The problem appeared with the collapse of the Ottoman Empire and the creation of the new Balkan nation-states (Poulton 1993: 2), that began a competition for Macedonia’s population and land (Glenny 1999). The outcome of this competition were the two Balkan wars of 1912-1913, while the hostilities continued during the two World Wars. This competition is indicative of the nationalist norms and the minority problems of the Balkans, since none of the new states were able to include all the lands containing their ethnic populations. This was a key problem in Macedonia that was populated by various ethnic communities such as Greeks, Bulgarians and Slavs, and was contested by three countries (Bulgaria, Greece and Serbia) (Roudometof 2001: 180; Prevelakis 1996: 141).

After the Second World War the Serbian territory of Macedonia became a Yugoslav republic under the name Macedonia. The newly formed republic lacked
national unity and a strong national consciousness, and thus the Macedonian literary language after 1947 was created as a solution (Crampton 2002: 22, 28). The new republic was utilised for Tito’s expansionary strategies towards the Aegean Sea and in Yugoslav-Bulgarian negotiations. For the former, a characteristic of Tito’s strategy was a conversation between Tito and Stalin with the former demanding the Aegean Macedonia and Thessalonica and the latter agreeing by claiming that Thessalonica was always a Slav city and that Yugoslavia needed access to the Aegean Sea (Crampton 2002: 35). The end of the Cold War and the disintegration of Yugoslavia created the first independent Macedonian state, which was eager to use its constitutional name as any other independent state and this is the heart of the problem today.

Hence, at first the problem seems to relate to nation-building. The very existence of FYR Macedonia as a nation, seems to lie in the name Macedonia. Any effort to use language as a connecting bond in Macedonia is doomed to failure because of the similarities with Bulgarian and because it is not the language of the Albanians. Therefore, they have to turn to national mythology, since religion was not also applicable (Allcock 1994; Anderson 1983). Thus, they have adopted historical figures of the region such as Tsar Samuil and Alexander the Great (Allcock 1994; McDonald 2002). Equally important is the fact that Macedonian identity has largely been shaped as response to Macedonia’s four neighbours. This, as Balalovska explains, leads to stereotypes that solidify the ‘nation’ as well as making the outside acceptance of their identity necessary (Balalovska 2004: 195-96).

The Greek side is concerned that this could lead to territorial claims, something which the Slavomacedonians ‘foolishly’ demonstrate with their propagandistic actions (see The Economist 2009). As many writers on the Balkans note, one of the characteristics of the Balkan population is suspicion and the fear of foreign power patronage, which makes the Greek worries understandable. These worries are also linked to the Albanian Question since the Greek political system has explicitly stated that FYR Macedonia is necessary as a buffer against any Greater Albania concept which is considered a worse outcome, as an interviewee reminded us (Confidential Interview 4; Glenny 1999: 656).
At the time of writing, negotiations between Greece and FYR Macedonia were in deadlock with neither of the two sides willing to compromise. Nevertheless, a short presentation is useful in order to define political lines and actors that could be useful during the theoretical application.

FYR Macedonia continues its diplomatic offensive and territorial claims towards Greece and Greek history as can be seen from school textbooks, which still describe the Greek and Bulgarian territories as occupied lands, or the naming of Skopje airport after Alexander the Great (ICG 2009). The IMRO government is maintaining a hard line on the negotiations with seemingly no room for compromise. These actions and the hard position of the government are consistent with the electoral programme of IMRO, which in the last elections used the name issue as the core of its policy. Within this hard line framework, the Macedonian side puts more issues on the negotiation table such as the existence of a Macedonian minority in Greece; and the compensation for those Slavomacedonians who left Greece after the end of the Greek civil war. For instance, on 14 July 2008, the Macedonian Prime Minister sent a letter to the Greek Prime Minister, calling on him to recognise the rights of the Macedonian minority, which for Greece does not exist (Elefterotipia 2008b). Consequently, the negotiations have stopped, while a public statement of the Macedonian Prime Minister Mr Nikola Gruevski on 24 August 2008, made clear that under the current framework the negotiations are meaningless.

The main Macedonian argument is that every country has the right to choose its name and that similar cases exist elsewhere, without causing territorial threats. Macedonian diplomacy seems to rely on two things for pushing its agenda. The first is the explicit US support that has been expressed in a series of actions, with the unilateral recognition of the state under its constitutional name being the most notable. US patronage and support is such that in October 2008, the Greek newspaper Ethnos revealed a document detailing communications between the Macedonian president and the former US administration that was trying to ensure that Nimetz' latest solution package was in accordance with FYR Macedonia's strategy (Ethnos 2008).

The second argument is the recognition of FYR Macedonia with its constitutional name Republic of Macedonia by the majority of UN member states,
but not by the UN itself. The latter fact was explicitly mentioned by the Macedonian foreign minister Mr Milososki on 21 October 2007 who answered to the Greek threat of a veto on Macedonia's candidacy to NATO and the EU, that FYR Macedonia is not changing its constitutional name and Greece can do whatever it wants! (Oi Neoi Fakeloi 2008).

The Greek position speaks for a mutually acceptable solution with the term Macedonia included. The problems of the Greek side relate to external pressure, mainly from the US, and to domestic pressures, particularly from forces within the Greek Macedonian territory. The pressure has led to the 1992 joint agreement of all political forces that a solution, which contains the term Macedonia, is not acceptable. Since then the Greek position has been relaxed, even though the agreement is still active. Greece is moving towards the mutually accepted name and for that purpose is involved in a diplomatic race. Its main power is the veto against FYR Macedonia’s NATO membership, which was used, and the threat that this will also happen in the case of EU membership if necessary.

In the meantime, the tensions between the two sides continue, with the last episode being the appeal of FYR Macedonia to the Hague against Greece on the issue of the Macedonian minority. This action means that the negotiations, would have been halted, at least, until 2010. Furthermore, the actions of the Macedonian government have created a rift between the Prime Minister and the President as was mentioned above.

What is expected in the analysis section is a pro-US stance by Macedonian officials as well as an intensified approach towards Germany and other 'big' member states of the EU in relation to their diplomatic aims, in order to bypass the threat of a Greek veto. Therefore, we have to see whether the German elite is intervening in this problem and what it might gain from such action. Before reaching the relevant section it is worth mentioning that German positions are close to those of the US, since the German state cannot accept that a country is not free to choose the name that it wants, not to mention that both countries are in favour of Macedonia's stability as a requirement for regional stability. Added to this, the name issue has a significant impact inside the state and it is the main barometer of the internal political balance. It is the issue that connects with Macedonian nationalism, which
would play a crucial role in Bloc formation. It is also an example of the role of the ‘Great Powers’ which have used Macedonia and the name problem for their interests. This is something that must be investigated in the analysis.

4.3.2. EU membership.

EU membership is perhaps the most significant objective for FYR Macedonia and the popular support for this has reached 66.1% (Balkan Monitor 2009). The state, having escaped the Yugoslav wars, was able to start the integration process quite early despite Greek lobbying against a Macedonian candidacy (Heaney 2007; Pond 2006). FYR Macedonia entered the SAP on November 2000, and on 9 April 2001 successfully completed the negotiations for a SAA, an agreement that entered into force on 1st April 2004 (European Commission 2006c:4). In fact, FYR Macedonia was the first country of the western Balkans to achieve this. On 22 March 2004, FYR Macedonia submitted an application for EU membership and the Commission published its opinion on 9 November 2005 (European Commission 2005a: 4). The opinion was based on the Copenhagen Criteria. On the basis of these criteria the Commission recommended to the Council that candidate status be granted as a political recognition of a closer relationship between the EU and FYR Macedonia on its way towards membership (European Commission 2005a: 137-39).

The Council granted FYR Macedonia candidate status but without setting a date for commencing the candidacy negotiations (Heaney 2007: 409). For this decision, there was a behind-the-scenes bargain. France connected candidacy status with the general enlargement process and the fiscal issues of the EU. This blocked FYR Macedonia’s candidacy. The government sent a letter to President Chirac pleading for French support on the European perspective of FYR Macedonia. Finally, and after German support for the candidacy, and a compromise on the fiscal issues of the EU, the European Council granted this state candidate status (Elefterotipia 2005a; 2005b; Moshonas 2005; Steinmeier 2005).

The opinion was followed by the Commission’s European partnership programme in 2004, where the OFA implementation, fair elections and constitutional amendments were the main priorities (European Commission 2005b). Most of the 2004 priorities are mentioned in the Accession Partnership of 2008.
particular some of the key priorities are judicial and electorate shortcomings; OFA implementation and inter-ethnic dialogue, and good neighbourly relations, mainly with Greece (European Council 2008). In the 2008 Commission progress report, FYR Macedonia’s satisfactory progress towards SAA implementation is noted. However, the shortcomings that are mentioned in the Accession Partnership remain, with the most ‘serious’ shortcomings being the elections, which failed to meet international standards, with a number of irregularities and incidents of abuse of the electorate (European Commission 2008b: 5, 7). The overall assessment of the Copenhagen Criteria looks positive even though both the Commission progress report and the position of Olli Rehn mention that the country is still not ready for membership, particularly as long as it follows its current foreign policy (European Commission 2008b; Moshonas 2008b).

From its side, the Macedonian government launched the **National programme for adoption of the aquis communitaire** in 2007. In the political criteria, the two main priorities are OFA and EU membership. For the latter, FYR Macedonia plans reforms regarding forms of governance and the relations between ethnic communities in accordance with the EU recommendations. Moreover, they plan to reform the national assembly in order to participate more strongly in the process of EU integration. For this purpose the **Committee on European Issues** was created in November 2003, which is responsible for the implementation of the national strategy. Its responsibilities also contain regional cooperation, which is necessary for EU membership and cooperation with other EU committees (Government of the Republic of Macedonia 2007: 6-7). The implementation of these measures is yet to be seen.

Prior to this, the Macedonian government had launched a 2006-2010 strategy, where EU and NATO membership received special importance. The EU in particular is seen as the road to stability and prosperity, where the government stresses its will to undertake whatever steps are necessary for the accomplishment of this target (Government strategy 2006). An example is given in the following passage: ‘[T]he government is determined to intensify the reforms aimed at EU accession and to establish continuous cooperation with all political factors towards maintaining and deepening the national consensus for obtaining this national priority’ (Government
of the Republic of Macedonia 2007: 7). Special care is also paid to decentralisation and a more equal representation of ethnic minorities, which is an OFA obligation as well (European Commission 2005c; Taleski 2005). However, the EU continues to note the slow implementation of reforms and of decentralisation (European Commission 2008b).

What is obvious so far is that for FYR Macedonia, the EU is a priority and the only conceivable way of achieving economic, political and societal progress. The latter has to do with Macedonian identity that can be consolidated by integration into the EU (Balalovska 2004: 194). The Macedonian government seems ready to do anything to achieve this purpose, as the National Strategy reveals, and as its overall approach which tries to present the country as a positive force and an exception in the Balkans shows. Despite the pro-EU political rhetoric, the implementation of EU measures has not been not satisfactory. The main reason for this was political instability and of course the competition between the two ethnic communities. These facts could signal a very pro-EU position and cooperation at both elite and state level, since the EU is also a guarantor of stability. Considerable support is also expected from public opinion in both ethnic communities in favour of the EU project.

4.3.3. The Albanian Question in FYR Macedonia.

Even though the Macedonian government considers the EU to be the main priority, this target cannot be achieved without a sufficient solution to the Albanian Question. Its importance lies in the simple fact that it threatens the stability and cohesion of FYR Macedonia.

The Albanian presence in FYR Macedonia is as old as in Kosovo. Its presence was artificially created after the Balkan Wars and the creation of Albania that finalised the Balkan borders (Ahrens 2007; Glenny 1999). ‘Macedonian’ Albanians had the dream of unification with Albania proper, something that has been repeatedly expressed (Ahrens 2007: 397). The Albanian issue became important during Yugoslav times and in the first period of independence when the polarisation of the two ethnic communities was intense (Crampton 2002; Ahrens 2007: 383). The existence of a nationalist Slav government in combination with a certain degree of

Prior to this it was the Kosovo crisis that paved the way for Albanians to push their demands for more equal status, with actions such as the referendum on 11-12 January 1992 and their support for a Belgian or Swiss model where the Albanians were supposed to be the second nation (Ahrens 2007: 397-98). However, all these plans were opposed by the Slavomacedonians and by IMRO that blocked the negotiations (Crampton 2002: 296). Before this, the Macedonian Albanians along with the Kosovar planned unification in a Greater Albania (see Chapter 2), which was opposed by the international community (Ahrens 2007: 397; Kim 2003: 104-5). As in Kosovo, the international community ignored the Albanian issue in FYR Macedonia ensuring that the Kosovo war became the example for Macedonian Albanians who realised that only if they took up arms would they receive international attention and support (Ahrens 2007). This perception was enhanced by the attitude of the Slav majority as well.

Hence, in 2001, the situation reached a climax with one of the main provocations being the exclusion of the Albanian community from any civil post (Ahrens 2007; Ringdal et al. 2007). In 2001 KLA fighters penetrated FYR Macedonia and trained the Ahmeti’s NLA. Albanian arms entered FYR Macedonia in vast quantities, which was rather easy as the Albanians had controlled smuggling in the area since the embargo in Yugoslavia (Ahrens 2007; Pond 2006; Willemsen 2006).

The Tetovo (i.e. the main Albanian area) conflict was sparked off on 26 February 2001 (Heaney 2007: 403; Ringdal et al. 2007), with the newly formed Macedonian army too weak to restore order (Heaney 2007; Ahrens 2007). Nevertheless, the international community, having fresh memories of Kosovo, was concerned about regional stability at the moment that all the states of the region seemed to be following the path of western integration. Therefore, the US, NATO and the EU began a diplomatic race that ended with the OFA on 13 August 2001 (Ahrens 2007: 460-2; Gardner-Feldman 2001: 10). OFA was followed by NATO peacekeeping missions Operation Essential Harvest that disarmed the NLA, and then Amber Fox (Heaney 2007; Kim 2003). In 2002 Amber Fox was replaced by Operation Allied Harmony and then by the EU-led mission Concordia which in 2003 was replaced by
the EU-mission Proxima. We have to note that Germany played a leading role in the first missions in FYR Macedonia (Erb 2003). The latest missions involved police reform and election monitoring with the aim of training local police and fighting organised crime and the instability of the country. Today the situation would seem to have improved but nationalist positions exist in both communities, while the OFA reforms are yet to be fully implemented (European Commission 2007a).

In summary, the Slav side wants to remain the main power of the state, while Albanians want an equal share of power. Despite these grievances, the international community is firm in its commitment to maintain the stability of the region and to implement OFA. Even the US is playing an important role in Macedonian politics and is determined on this matter. A good example of how fragile and crucial the accommodation of the Albanian minority within FYR Macedonia is, was the short and bloody conflict between the two Albanian parties during the 2008 parliamentary elections, with Ahmeti’s side stating that it would start a new guerrilla war if his demands were not accepted.

Therefore, what we can expect is FYR Macedonia leaning towards the US, EU, Germany and certain member states in order to ensure its stability. Also expected is the use of the stability threat as a political tool in its foreign affairs. Furthermore, it is obvious that we have two different domestic elites that have to be taken into account in our analysis. Finally, it is interesting that FYR Macedonia, rather unofficially, enjoys US protection, which gives the US an important role in Bloc formation.

4.3.4. NATO and the US factor.
NATO membership is another important target for FYR Macedonia. According to the Government Plan of 2006, NATO is the most important security organisation and a community of values. The latter of course, is in reference to the values of democracy, freedom etc, which are also shared by the EU and which are part of the hegemonic ideology, since both EU and NATO are western structures with common actors and almost similar destinations. NATO seems to link up with notion of hegemony in two ways. Firstly, NATO is another institution that promotes hegemony and which imposes certain policies on FYR Macedonia, while most NATO members are also
members of the EU such as Germany and in fact NATO has been used in the western Balkans in favour of European interests. The second reason has to do with the significance that FYR Macedonia gives to NATO.

This is significant since NATO is vital for its security and stability. This can be explained by reference to the Tetovo crisis and the NATO missions. In the former, NATO and the US played the main role in achieving stability, particularly with the NATO-led missions and with their diplomatic actions during the Tetovo crisis. The US has an important role in keeping the nationalist aspirations of the Albanians under control and without US support it would be very difficult to prevent the dissolution of FYR Macedonia, since only the Americans were able to keep the Albanians at bay, exploiting the pro-US position of the Albanians in Kosovo and Albania (Ahrens 2007; Kim 2003). Furthermore, the US supported the Macedonian side from the very first moment of its existence, while it could be claimed that as a newly independent state it is tending towards the US like most of the Central and Eastern European states.

These actions have also made Macedonian society and the political leadership extremely pro-US, which in relation to NATO is reflected in the participation of FYR Macedonia in the War on Terror, in the Coalition of the Willing in Iraq and in Afghanistan. In fact, on 2 November 2007 the Macedonian government decided to double its troop numbers in Afghanistan as a gesture of its willingness to join NATO. In particular, according to an opinion poll conducted by USAID between 15-21 December 2007, 90% of the population supports NATO membership (Government of the Republic of Macedonia 2006b; USAID 2007).

Hence, in relation to hegemony, NATO is another tool for its consolidation and for gaining the consent of the population. In addition, apart from the economy, security has also been 'delivered' to the West and of course to the Bloc. Furthermore, this political challenge reveals US patronage towards FYR Macedonia. Characteristic of this patronage was President's Bush opening speech at the 2008 NATO Bucharest summit in which he declared that FYR Macedonia would receive NATO status.

59 As will become apparent the hegemonic institutions are more than one and NATO is one of them. Nevertheless, the EU is the central one and thus the main hegemonic institution. Later we will see the role of the EU in coordinating the other institutions. Gramsci was referring to the institutions of civil society and something equivalent we have at international level.
ignoring the Greek opposition that led to the Greek veto against FYR Macedonia's membership.

In conclusion, NATO is a means for the stability of FYR Macedonia as well as a tool for the Bloc to preserve the stability of the region in general. Therefore, NATO is also a tool of US influence in this state and over the region in general. It is interesting that Germany is also a champion of FYR Macedonia's candidacy to NATO. For this thesis it is expected that a clear pro-NATO and pro-US position and the use of NATO as a security and foreign policy reference will be displayed by FYR Macedonia. Moreover, we have to examine the role Germany is playing as part of NATO as well as the implications of this Macedonian position on the interethnic relations in FYR Macedonia.

4.4. Economic developments.
Although FYR Macedonia, despite being a former Yugoslav republic, managed to avoid the Yugoslav wars, its economy was not in a better condition than the other economies of that state. In fact, FYR Macedonia was the poorest republic of Yugoslavia, and after the dissolution, it appeared even weaker. FYR Macedonia was not only a 'victim' of Yugoslav economic backwardness, but in its first steps as an independent state it faced the Greek trade embargo of 1994 that damaged its economy and later the Kosovo war that cut off FYR Macedonia from its main markets (i.e. Serbia and Montenegro) and which brought almost 200,000 refugees onto its territory. Therefore, the recovery of the country's economic growth was delayed and even today is still modest compared to regional standards. For instance the per capita income is 29% of the EU-27, while Serbia's is 35%.

4.4.1. Basic economic data.
The annual rate of growth reached 6% in the first half of 2008 from 5% in 2007 and 4% in 2006 (European Commission 2008b). Exports have slowed down whereas imports remained high, which increased the current account deficit to chronic levels (13% of GDP). In fact, the economy is so open that trade amounts to 130% of GDP.
As noted by Gligorov and the European Commission, growth was mainly boosted by the increase of domestic private consumption, which explains the high value of imports, and less by any growth of investments (Gligorov 2007; European Commission 2006e:23). Inflation remained relatively low at 2.3%, while the gross external debt remained under control at 50% of GDP (government debt is only 21% of GDP (European Commission 2006e: 19; 2008b: 24; 26; Gligorov 2007). This positive trend allowed the government to repay €78 million to the Paris Club (IMF 2007).

Despite the initiation of structural reforms, unemployment remains high (33.8%) especially among younger workers (56%), even though the high level of informal employment redresses the problem in part (European Commission 2008b: 24). The problem is also intensified by the neo-liberal combination of privatisation and economic reforms that has contributed to an increase in the unemployment rate and thus makes economic recovery even more problematic. This happens for two reasons, according to basic economics. The first is the reduction of national income through a decline in domestic private consumption, which in FYR Macedonia is an important factor in GDP formation, the second reason has to do with the rise of the grey economy, which is considered very high in FYR Macedonia (European Commission 2007a). Finally, the existing greenfield projects are in non-tradable sectors like banking and telecoms and thus they do not create added-value for the economy (IMF 2007). The IMF concludes that ‘the impressive fiscal consolidation reflects politically difficult measures undertaken by the authorities, such as utility price rises and reduced expenditure’ (IMF 2006b: 62; c.f. also European Commission 2007a: 19-20). It is obvious that FYR Macedonia is caught in the neo-liberal web that fails to address its real problems as a developing economy with its grave unemployment and societal problems.

It was mentioned that FYR Macedonia is performing well in regional cooperation though intra-regional agreements in areas like trade and infrastructure (European Commission 2006e). In particular, FYR Macedonia has completed 11 FTAs and since 19 December 2006 and is a member of the CEFTA. The country has an active role in regional cooperation since by being open it can compensate for its small size (with a population of just 2,036,000 in 2006). This has great economic
value for the Macedonian economy, since it depends on the economic performance of the region due to its geographical position but also the formation of its trade relations. In spite of the importance of the region, the EU remains the main partner with 55% of total Macedonian trade (European Commission 2005d). However, the low added-value of Macedonian products and the lack of competitiveness of the Macedonian products (iron, steel, textiles, foodstuffs) leads to the marginalisation of its products which are failing to enter EU markets (OECD 2006).

A clear picture can be obtained in the following table that shows some of the main indicators of the country for the period 1999-2006.

Table 12: Selective economic indicators 1999-2006

<table>
<thead>
<tr>
<th>Year/Indicators</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth (Real GDP %)</td>
<td>4.3%</td>
<td>4.5%</td>
<td>-4.5%</td>
<td>0.9%</td>
<td>2.8%</td>
<td>4.1%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.6%</td>
<td>6.1%</td>
<td>3.6%</td>
<td>3.4%</td>
<td>0.3%</td>
<td>1.3%</td>
<td>0.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>32.4%</td>
<td>32.2%</td>
<td>30.5%</td>
<td>31.9%</td>
<td>36.7%</td>
<td>37.2%</td>
<td>37.3%</td>
<td>36.1%</td>
</tr>
<tr>
<td>General government balance (GDP %)</td>
<td>0.3%</td>
<td>2.3%</td>
<td>-2.5%</td>
<td>-0.5%</td>
<td>-0.1%</td>
<td>0.4%</td>
<td>0.3%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Central government balance (GDP %)</td>
<td>0.8%</td>
<td>2.7%</td>
<td>-5.8%</td>
<td>-5.3%</td>
<td>-0.1%</td>
<td>0.4%</td>
<td>0.3%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Government debt (GDP %)</td>
<td>32%</td>
<td>48.1%</td>
<td>48.8%</td>
<td>43%</td>
<td>39.1%</td>
<td>37.6%</td>
<td>40.2%</td>
<td>35.6%</td>
</tr>
<tr>
<td>Trade balance (in millions €)</td>
<td>-465,4</td>
<td>-749,1</td>
<td>-588</td>
<td>-853,9</td>
<td>-750,2</td>
<td>-894</td>
<td>-853,4</td>
<td>-1,015</td>
</tr>
<tr>
<td>Current account balance (in millions €)</td>
<td>-30.4</td>
<td>-78.5</td>
<td>-272.1</td>
<td>-379.8</td>
<td>-227</td>
<td>-389</td>
<td>-114</td>
<td>-209</td>
</tr>
<tr>
<td>External debt (GDP %)</td>
<td>39.2%</td>
<td>40.1%</td>
<td>41.9%</td>
<td>39.4%</td>
<td>37.7%</td>
<td>40.2%</td>
<td>47.1%</td>
<td>45.7%</td>
</tr>
<tr>
<td>Exports (in millions €)</td>
<td>1,117</td>
<td>1433</td>
<td>1290,7</td>
<td>1180,7</td>
<td>1203,2</td>
<td>1343,1</td>
<td>1642,2</td>
<td>1833</td>
</tr>
<tr>
<td>Imports (in millions €)</td>
<td>1582,3</td>
<td>2182,1</td>
<td>1878,5</td>
<td>2034,5</td>
<td>1953,5</td>
<td>2237,1</td>
<td>2495,6</td>
<td>2847</td>
</tr>
<tr>
<td>FDI (GDP %)</td>
<td>0.9%</td>
<td>4.3%</td>
<td>12.4%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.9%</td>
<td>2.9%</td>
<td>1.7%</td>
</tr>
<tr>
<td>FDI in million €</td>
<td>30.7</td>
<td>183,4</td>
<td>493.2</td>
<td>82,6</td>
<td>81.4</td>
<td>127.2</td>
<td>79.4</td>
<td></td>
</tr>
</tbody>
</table>

Source: European Commission 2007a; IMF 2008b.

At first glance, the fluctuations in economic performance in response to the different political crises are obvious. For instance, the government debt was at high levels during the period 1999-2000. Furthermore, there is a very high level of unemployment and consistently huge external deficits, especially in the trade and current account balances. Inflation remains low and under control, largely due to the de facto pegging of the Macedonian Denar to the Euro that has at least provided FYR Macedonia with the required monetary stability and the credibility of a strong currency. Unemployment has not been reduced substantially, and one reason is the restructuring process of the economy that has replaced labour intensive with capital-intensive activities. According to the Commission, the figures will improve as a result.
of the liberalisation of the labour market. Finally, the excessive trade deficit illustrates the significant demand for private and investment consumption. Nevertheless, in recent years we can observe an increase in export performance which, however, fails to improve the current account deficit due to huge imports. Again what is evident is that the neo-liberal recipe of tight fiscal balances does not appear to be helpful to the real economy as is obvious from the huge unemployment rate.

Another factor that explains this economic performance is the business climate, which is important for the attraction of foreign investment, and which remains unfavourable due to political and security risks. The European Commission acknowledges progress but further problems of corruption, organised crime and shortcomings in the judicial system continue to damage the business environment (European Commission 2008b; 2006d:19). In sum and according to the Commission’s 2007 progress report, FYR Macedonia seems to be on the path of economic development but at a slow pace of implementation (European Commission 2007a; c.f also Demekas et al 2005).

Another aspect of economic policy in FYR Macedonia, which is following a neo-liberal economic model and which is implementing the directions of the EU and IMF, is that it has to employ policies to attract FDI. Indeed, FYR Macedonia has a very favourable regime for the attraction of FDI and it has opened its markets to all forms of investment, and foreign investors receive the same treatment as locals in many respects. Moreover, various types of incentives including tax-exemptions are offered to investors, such as a corporation tax of 10% on profits and an average tariff rate on imported goods of 15%. Taxation is much lower than in the EU-27 and this could be expected to give Macedonia some advantage (UNCTAD 2005a: 13; IMF 2007). This is also the aim of FYR Macedonia’s leadership as expressed through the Macedonian investment agency (see Invest in Macedonia website). However, FYR Macedonia’s FDI remains low and up until now they have succeeded in covering only a quarter of the current account deficit with capital imports, with the rest being covered by international donors and private debt-flows (UNCTAD 2005b: 75; European Commission 2007a: 23). This development is also proof that the tax incentives alone
are not able to bring investments and boost the economy (Mavromatidis and Leaman 2008).

The fluctuation of FDI is evident in Table 13:

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI in million €</td>
<td>20.6</td>
<td>113.9</td>
<td>30.7</td>
<td>189.4</td>
<td>493.2</td>
<td>82.6</td>
<td>81.4</td>
<td>127.2</td>
<td>79.4</td>
<td>286</td>
</tr>
</tbody>
</table>

Source European Commission 2007a; WIIW 2006

Table 13 demonstrates the impact of political instability, since after the 2001 civil conflict FDI suffered a steep fall, and also confirms the overall low level of FDI. However, FDI appears to be increasing which might imply further investments in the future, provided that political stability remains. Nevertheless, to have a clear picture about FDI it is necessary to examine whether the FDI are greenfield projects or just portfolio acquisitions and financial flows. It is also important to identify the national composition of these investments as well as the sectors into which they are channelled. The first is needed because, if they are greenfield projects then they are investments that add to existing capacity in the host economy, otherwise they are just speculative investments that could leave the country if they found a better market. The second is needed because it will indicate the interest of certain countries in FYR Macedonia, and the last because some sectors, such as banking, are so central that their control affords extensive control of the rest of the economy.

Another point that we have to mention is that most of the foreign direct investments are speculative and thus subject to fluctuations in accordance with the global economic climate. Moreover, a large number of these investments produce privatisation revenues, which are one-way payments without added-value. Thus, FYR Macedonia faces the same problem as Serbia, namely that in a period of economic recession, FDI inflows are not secure. Here the problem is intensified because the economy is considerably smaller than that of Serbia and FDI represents the main revenue source. This reveals a ‘flaw’ in the IMF and EU policies and their economic mentality, because instead of focusing on the development of a domestic productive base, they insist on an open economy in which FYR Macedonia obviously cannot compete. The net outcome is a deterioration of economic indicators since FDI revenues are declining and there is nothing else to cover these losses.
The bulk of the FDI during 2000-2001 was in the tertiary sector ($129 and $402.1 million respectively) and in particular in 2000 the largest element was in finance ($104.7 million) and in construction ($19.1 million). In fact, the banking sector is 100% privatised with most of the banks and assets belonging to foreign owners (UNCTAD 2005a). In 2008 the main FDI was channelled towards the banking sector and some greenfield projects (European Commission 2008b). Furthermore, according to the Greek ministry of foreign affairs there is a process of privatization and greenfield projects in the area of energy which are forecast to yield several hundred million Euro (Hellenic Ministry Foreign Affairs 2006).

4.4.2. External institutional framework.

The IMF, World Bank and EU are the main players. Their role is not very different from that in Serbia and therefore, in order to avoid repetition, we will focus on the most exclusive arrangements as they obtain in FYR Macedonia.

Beginning with the IMF, it is obvious that it is concerned with the macroeconomic stability of FYR Macedonia and its economic reform within the hegemonic ideological framework. Additionally there were three financial arrangements between 2000-2008 with a total value of SDR31.65 million (IMF 2007: 42). The interests of the Fund are facilitated in cooperation with the World Bank, and in FYR Macedonia they are cooperating in five areas. These are judicial reform, labour market reform, health sector financing (which makes up 15% of Government spending and is considered corrupt), civil service reform and decentralisation, that has more to do with the equal representation of minorities in the civil service (something that is part of the OFA) (IMF 2007: 47-8). The World Bank for its part has provided 39 loans (total $810 million) since 1993. In Appendix 5 documentation is provided concerning the strategy of the current programme of assistance.

FYR Macedonia remains firmly committed to the Copenhagen and Lisbon Criteria. Cooperation with the EU is close and there is a broad consensus on policy goals and their implementation methods (European Commission 2006c). Hence, the EU has the role of setting the rules of the game. In addition, the European Agency for Reconstruction (EAR) is undertaking a series of projects on behalf of the EU and of
course is coordinating part of the financial assistance to FYR Macedonia. The cumulative portfolio of EAR is €293 million, with 89% of this amount already contracted. In 2006, the Agency spent €30.5 million and its main focus related to OFA since it was concerned with support for the decentralisation process. Decentralisation involves the largest amount (i.e. €8.1 million), followed by justice (€7.6 million) and the environment for investments (€4.5 million).

The final part of the international institutional web that operates in FYR Macedonia is the SPSEE. FYR Macedonia, as one of the main members of Pact, participates in all SPSEE regional initiatives with a special interest in energy and in investment attraction projects (Confidential Interview 1; Stability Pact 2006a; OECD 2006). It is interesting to note that the objectives of the infrastructure projects have an intense economic and regional character, which seems to recognise the small size of FYR Macedonia and the fact that only within a larger unified regional market can FYR Macedonia be attractive for investments. The very small size of the economy is also obvious from the low level of FDI, particularly of greenfield FDI; and from the low level of bank intermediation (IMF 2007; Stability Pact 2006a). The SPSEE administers the Investment Compact Agency, which deals with everything that has to do with investments in the region and cooperates closely with the EU, IMF, EBRD and the World Bank. An equally important role for the agency is as navigator for FDI in the region and as a pressure agency on the national governments for employing FDI-friendly policies, since it publishes an annual report on the most FDI-friendly national government (OECD 2006).

Once again, it is obvious that a complete network of agencies is controlling and directing the economic actions of FYR Macedonia, which in turn is behaving accordingly. Consequently, it could be claimed that the economy is completely integrated into the neo-liberal order of the global economy and particularly into the EU economy. Therefore, these are indications both that foreign capital is in a dominant position and that the EU plays its role as the hegemonic institution.

4.4.3. Domestic institutional framework.

The response of FYR Macedonia to the demands of EU and other external actors is apparent in the 2006-2010 Government programme. In this programme some very
interesting characteristics about the economic orientation of the Macedonian government can be traced. In general the strategy has three main directions, namely EU and NATO reforms; FDI attraction and competitiveness of the domestic economy; and OFA implementation and politico-economic reforms (Government of the Republic of Macedonia 2006: 1).

The programme covers all dimensions of political and economic life that would be pointless to mention in full detail. For that reason we will focus on those economic areas that we believe to be the most important. First is the strategy for FDI attraction. Macedonia has set eight actions for this purpose, among which are:

- ‘Promotion of investment opportunities in Macedonia by a team headed by the Prime Minister, in cooperation with economic chambers and businessmen’.
- ‘hiring 20-50 distinguished, world-known consulting agencies...in order to attract greenfield investments’
- Two ministers without portfolio will work for the attraction of FDI. In addition, ‘[T]hese ministers have spent longer periods abroad, working for famous financial or multinational companies and have been involved in international financial and investment activities’ (Government of the Republic of Macedonia 2006: 10).

What is obvious from these objectives is the ‘desperate’ desire of FYR Macedonia for FDI as well as the willingness to do whatever is necessary to achieve this goal. This is leading to increased regional competition with the other western Balkan states, which could easily generate a ‘race to the bottom’, especially since FYR Macedonia aims to achieve the lowest corporation tax in the world as proclaimed by the Macedonian Agency for Foreign Investments (for further details see the website of the agency at http://www.investinmacedonia.com). Another element that we can identify is the explicit neo-liberal orientation of FYR Macedonia and its close connection with transnational capital, which will be very interesting for the following analysis.

Also interesting is the organisational structure of this ‘investment offensive’ that the Macedonian government is planning. In contrast to Serbia the process is from the top and particularly from the executive that operates as a private company in a way that partly justifies Friedman’s belief in the state company in the global world (Friedman 2000). Moreover, in principle, such an initiative can succeed in the
era of globalisation but there is some important evidence that proves the opposite. Firstly, taking the poor economic condition of FYR Macedonia as given, we find that it is impossible to establish more than 10-15 such agencies due to their significant cost. Also the 20 international offices seem too optimistic, and we have to take account of the traditional Balkan tendency to exaggerate. Furthermore, FYR Macedonia faces problems of corruption, administrative delays and lack of infrastructure (see European Commission 2008b).

Other interesting elements of this strategy relate to infrastructure. FYR Macedonia has a central location at a crossroads between East and West, and therefore they are planning projects in order to exploit this comparative advantage. In fact, as our interviewee in EAR told us, FYR Macedonia has a strategic location in the area which could/should be an investment incentive (Confidential Interview 1). The main projects are the transport routes linking Turkey-Bulgaria-FYR Macedonia-Albania and the Serbia-FYR Macedonia-Greece, and the connection to corridors 8 and 10 (Government of the Republic of Macedonia 2006). However, infrastructure currently remains poor and implementation slow.

In relation to energy, FYR Macedonia is following EU directives and is planning a series of projects (both plants and networks) for the upgrading of its energy capacity and the introduction of natural gas (Government of the Republic of Macedonia 2006). Currently FYR Macedonia is supplied by refineries in Thessaloniki, Greece, and thus in terms of energy supply is over-dependent and weak, as well as outside the main energy networks. However, in 2006 it managed to receive €225 million from the privatisation of the electricity distribution network (IMF 2007: 6).

The government’s strategy has been further elaborated in the 2006 National Strategy of FYR Macedonia that followed the EU’s 2006 progress report. The main economic guidelines remain the same since the focus remains on the necessary structural reforms and on attracting FDI. Nevertheless, the strategy provides more explicit views of three important issues in our opinion. These are the Copenhagen Criteria, the macroeconomic situation and the institutional framework for success. The authorities believe that they have a functioning market economy, and this objective has broad political and popular support with 90% of the population in favour of EU membership, according to the government (see Government of the
Republic of Macedonia 2007). The Balkan Monitor currently rates this level of support at 66.1% (Balkan Monitor 2009), which is still very high.

At an institutional level, FYR Macedonia has created its own network which is much smaller than in Serbia. In brief the government has the two ministers without portfolio whose main role is to attract foreign direct investments and to promote FYR Macedonia abroad. In addition, the agency Invest in Macedonia is responsible for investments and export promotion. Beyond that, in November 2006, the Coordinating Committee was established under the leadership of the deputy Prime Minister for Economic Affairs, with the task of implementing the reforms. This task is supported by the Commission for implementation of the regulatory reforms. The Commission is cooperating with the chambers of commerce, the International Council of Investors (ICI) and the National Entrepreneurship and Competitiveness Council. Parallel with this there are working groups within the ministries and other administrative bodies, while the government has set up a Regulatory Reform sector with its own finances (Government of the Republic of Macedonia 2007: 28).

However, FYR Macedonia is not yet ready to cope with the competitive forces within the Union since it lacks basic structural reforms and an efficient regulatory framework (European Commission 2008b). In fact, the government accepts this delay in structural reforms for which it blames the 'external and non-economic shocks, as well as.... (the) lack of information and experience from the developed countries on the manner of functioning of the modern market economies and the absence of interaction between various social groups' (Government of the Republic of Macedonia 2007: 22), even though the social 'partners' (i.e. industry and trade unions) are committed to the EU goal and to the implementation of reforms. A good indication of this is the economic data that were cited in section 4.4.1. Despite these problematic figures, which demonstrate the economy's vulnerability in the current economic crisis, the public debt remains below the Maastricht Criteria (Government of the Republic of Macedonia 2007: 23), which is largely an outcome of the IMF-led monetary policy, which is focused on control of the money supply, reduced public spending and the pegging of the Dinar to the Euro.

This evidence demonstrates that the government is taking responsibility for the whole strategy, in that way giving a political colour to the investment and reform
process. In addition, it shows the commitment of the government to attracting FDI. We could claim therefore that there is a connection between the state and investors since, as stated, the structure is more political. Nevertheless, the whole structure was set up in late 2006 and thus it is too early for it to be properly assessed. Nevertheless, this delay itself shows the backwardness of FYR Macedonia in the economic transformation of the western Balkans, despite the signs of economic stability.

4.4.4. The economic presence of European and foreign capital.

European capital is well embedded in the Macedonian economy in terms of both FDI and trade. According to the Macedonian Central Bank, the stock of FDI between 2001-2006 was overwhelmingly dominated by capital from the EU member states (see Appendix 6). In particular, the usual four (i.e. Austria, Germany, Greece and Italy) are once again the largest economic sources. The difference with the Serbian case is that Greece outstrips the other three and Germany seems on the surface to have a rather modest and stable investment position. In particular, the Austrian presence is quite low. However, it would be entirely wrong to judge Germany’s FDI presence in FYR Macedonia purely on the number of German companies. The reality is considerably more complex, in that German capital is using its eastern European affiliates extensively to penetrate FYR Macedonia and the rest of the Balkans. Matav is arguably the best example.

Hence, as in Serbia, eastern affiliates are used by western European companies to penetrate the Macedonian economy. For instance, Matav (now Magyar Telekom) is a Hungarian affiliate of Deutsche Telekom (59.21% holding) and it has made the largest investment in FYR Macedonia so far by acquiring 51% of Makedonski Telekomunikaci. This purchase brought Hungary to the top of the investor countries in FYR Macedonia, despite its (German) subsidiary status. The Matav case is a good illustration of transnational elites operating effectively together. Another example is Siemens Hellas. It has undertaken several energy projects in the area of FYR Macedonia and even though the accounting register refers to Greece, the capital is again German (HMFA 2006). A similar example is the operation of OTE as we saw in the case of Serbia (see p.138). One of OTE’s affiliates operates in FYR Macedonia.
Therefore it is now an affiliate of Deutsche Telekom. We can cite plenty of such examples of an indirect German presence, especially with a strong presence of affiliate corporations in Hungary, the Czech Republic and Slovenia appearing as dynamic investors in the region.

It is interesting to note furthermore the extensive connections of German capital with Austrian corporations. Through an wide network of corporate linkages, particularly in the banking and engineering sectors, German companies also benefit from Austrian penetration in the western Balkans. For instance, the Austrian EVN (the biggest Austrian energy company) acquired the electricity network company of FYR Macedonia. What is interesting is that 35% of EVN belongs to the German group EnBW. In addition, German executives have addressed the security problem as the main constraint affecting investments in FYR Macedonia (Makfax 2007a) along with the small size of the market and its lack of reforms (Bitzenis et al 2007: 516). Even so, by checking the largest Greek registered enterprises operating in FYR Macedonia we found that a quarter of them are not Greek, such as Nestlé and Toyota Hellas and the Athenian Brewery (subsidiary of Heineken), with Germany maintaining a large share in the latter. Another interesting difference with Serbia is that the German and Greek presence in the banking sector exceeds that of Austria.

In addition, Edwards in her Wiener Institut für Internationale Wirtschaftsvergleiche research has proved that many countries are using tax havens for investment in the region and in FYR Macedonia in particular. For instance, Greek firms as well as Russian and Serbian firms are using companies registered in Cyprus as investment vehicles, while Liechtenstein is also a popular cover. Two such examples in FYR Macedonia that Edwards notes are the 1998 purchase of USJE cement by a Cypriot company that was in fact cover for a Greek-Swiss consortium and the 1998 purchase of Skopje steel mill by the Serbian multinational Balkan Steel, which is registered in Liechtenstein (Edwards 2003: 10). The IMF confirms this by listing Hungary as the top investor in 2003 and Cyprus as third (Demekas et al 2005: 11). In 2004-2006 it was the turn of the Hellenic Ministry of Foreign Affairs (HMFA) to show us that among the top four investors were the British Virgin Islands (!) (HMFA 2007a).
Regional proximity plays an important role as well. Greece has managed all these years, and despite bilateral problems at the political level, to become a significant economic actor in FYR Macedonia with a registered volume of €950 million in investments (HMFA 2007c; Bitzenis et al 2007: 516). Greek capital is keen on energy, banking and food industries with many SMEs following the big Greek companies (HMFA 2007c). Characteristically our first interviewee mentioned to us that whole streets are full of Greek companies and names (Confidential Interview 1).

Regarding the other three states, Austria is operating in Telecommunications and in energy (paradoxically Austria has no presence so far in the financial sector of FYR Macedonia); Germany in metals (e.g. Krupp), chemicals and in the financial sector, and Italy in food and dairy products (HMFA 2007b; 2007c). In the manufacturing sector Greece controls 39.2% and Germany 10.1% of current capacity. The specialisation is also clear, with Greece and Germany focussing on textiles, Austria on paper products and Italy on furniture60 (Bitzenis et al 2007: 509-10). In addition, as the HMFA informs us, many multinationals from Germany, Austria and the US are moving to FYR Macedonia (HMFA 2007a). Of them, half are equally distributed between Greece and Germany (UNCTAD 2005a: 11). Even so, the amount of FDI in FYR Macedonia is the lowest in the region and one of the lowest in the world and this explains the presence of domestic capital in key sectors such as banking, which in the other countries of the region are completely in foreign hands.

In terms of trade, the situation looks different in the sense that Germany is the leader, with trade in the categories food, beverages, tobacco, textiles, miscellaneous manufactures, iron and steel (CIA 2008). The first five trading partners of FYR Macedonia are shown in the following tables:

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<tbody>
<tr>
<td>Germany</td>
<td>10.8</td>
<td>13.3</td>
<td>12.7</td>
<td>13.3</td>
<td>12.3</td>
<td>8.9</td>
</tr>
<tr>
<td>Greece</td>
<td>14.7</td>
<td>18</td>
<td>17.2</td>
<td>16.5</td>
<td>13.8</td>
<td>7.4</td>
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<tr>
<td>Italy</td>
<td>17.1</td>
<td>6.3</td>
<td>6.2</td>
<td>0.4</td>
<td>6.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Austria</td>
<td>2.5</td>
<td>3.8</td>
<td>3.2</td>
<td>3.3</td>
<td>2.8</td>
<td>-</td>
</tr>
<tr>
<td>Slovenia</td>
<td>6.4</td>
<td>6.4</td>
<td>8.9</td>
<td>9.2</td>
<td>6.6</td>
<td>2.8</td>
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Source: the WIIW Balkan Observatory; the 2008 data from the State Statistical Office of Macedonia 2008.

60 It is interesting that Bulgarian and eastern European countries are also present but we have insufficient details to figure out the ownership structures.
Table 14.2: FYR Macedonia’s Imports from its first five trade partners 2001-2005 and 2008 as a % of the total

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<tr>
<td>Germany</td>
<td>18</td>
<td>17.1</td>
<td>21.4</td>
<td>19.7</td>
<td>16.8</td>
<td>14.2</td>
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<tr>
<td>Greece</td>
<td>5.8</td>
<td>4.1</td>
<td>7.6</td>
<td>9.0</td>
<td>10.8</td>
<td>14.5</td>
</tr>
<tr>
<td>Italy</td>
<td>7.4</td>
<td>8.2</td>
<td>11.4</td>
<td>0.7</td>
<td>11.7</td>
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<tr>
<td>Austria</td>
<td>0.6</td>
<td>0.5</td>
<td>0.6</td>
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<td>-</td>
</tr>
<tr>
<td>Slovenia</td>
<td>9.6</td>
<td>1.9</td>
<td>2.3</td>
<td>2.0</td>
<td>1.7</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: the WIIW Balkan Observatory; the 2008 data from the State Statistical Office of Macedonia 2008.

In both tables the importance of Germany and Greece as trade partners for FYR Macedonia is evident. In particular, Germany registers as the main trading partner, while Greece seems to be assisted by regional proximity. We have to remember the fact that many Greek companies that operate in FYR Macedonia are ‘exporting’ their products to Greece, while some of these companies are also German affiliates. Moreover, we can observe a decline in exports in 2008 that might imply that other sources of imports have emerged for FYR Macedonia. Most of these are the other western Balkan states, and this reveals the impact of CEFTA on regional trade. Furthermore, even though the percentages look equal the growing trade deficit reveals that the actual volumes are extremely unequal, whilst the difference between German and Greek exports with imports implies the low competitiveness of Macedonian products in the EU market and reveals a dependency on German industrial products. The imports from Greece are mainly oil products, since FYR Macedonia lacks sufficient storage facilities for its needs. In relation to this thesis, we can confirm the prominent position of Germany as the main trading partner that occupies a special position for FYR Macedonia.

FYR Macedonia ranks as 75th exporter to Germany with €370 million and 80th as importer of German products with €343.5 million; currently therefore Macedonia enjoys a small trade surplus with Germany (Statistisches Bundesamt Deutschland 2009). Overall FYR Macedonia’s trade is strongly integrated with EU markets; the EU accounted for 60% of its exports and 47% of its imports in 2008 (European Commission 2008b:29). Despite its small size, its openness to total trade in goods and services exceeds GDP by a considerable margin, amounting to 130% in 2007.
4.4.5. German economic presence.

At first glance the German presence does not seem so powerful. However, as was mentioned, German companies use their affiliates to enter the Macedonian market. Further research on the German presence is revealed by the Deutsch-Mazedonischen Wirtschafts-vereinigung (DMWv) (i.e. German-Macedonian economic association), which includes more than 130 German (large and medium sized) companies as members. Searching the association it also includes German subsidiaries in Eastern Europe. The greatest interest is in metals, engineering, chemicals and food. Also interesting is that the German interests extend to almost all economic sectors (see AHK/DMWV website), something that also only applies to Greece in FYR Macedonia. Apart from that, until recently seven German transnational corporations have been operating in the country with their main focus on industrial and tertiary sectors (UNCTAD 2005a). This confirms the above results concerning the German presence and its importance. FYR Macedonia also benefits from the remittances of the 62,000 Macedonian migrants in Germany, which are estimated at $50 million annually (Auswärtiges Amt 2008b).

Germany also has a role as the leading donor in FYR Macedonia, through its agencies GTZ and KfW and the BMZ. For Germany FYR Macedonia is classified as a priority partner country where their development cooperation began in 1992. In the past, this cooperation led to pledges of €6 million in 2003 in order to provide assistance in three priority areas. These are drinking water supply and sanitation, democracy and civil society and economic reform and development of the market system (BMZ 2007). Moreover, Germany also contributes to FYR Macedonia through the Stability Pact (BMZ 2005). The German presence is significant in technical cooperation too. In fact, since 1992 Germany has spent €100 million in FYR Macedonia in the area of environmental policy and developing the market economy as the main areas of focus, mainly through the banking sector and small and medium enterprises (more on the Auswärtiges Amt website). In addition, the Federal Statistical office is conducting a twinning project with the Macedonian Statistical Office (Statistisches Bundesamt Deutschland 2006b). According to the BMZ the bilateral ODA commitments to FYR Macedonia in 2003 totalled €4.5 million in bilateral technical cooperation and €15.9 million overall (BMZ 2007).
Therefore, this section ends with three preliminary conclusions. Firstly, that FYR Macedonia is strongly keen on the attraction of foreign capital as the solution to its economic development. This reflects how consolidated the neo-classical mentality of the Macedonian elite is. Secondly that Germany, even though at first glance it appears to manifest modest economic penetration, is considerably more involved than appearances suggest. What we can observe in FYR Macedonia is the impact of EU and IMF policies that are leading to massive penetration of EU-based capital. Finally, and perhaps most importantly for the following section is the willingness of German capital to enter FYR Macedonia and, to this end, makes recommendations for the implementation of certain reforms that will facilitate this penetration. To the latter is added the implementation of certain projects by German aid agencies such as in the physical and technical infrastructure that provide the framework for such support.

4.5. Neo-Gramscian application.

4.5.1. First sphere: social relations of production.

As before the analysis starts with the first sphere and the social relations of production. The objective here, as in Chapter 3, is to demonstrate the existence of a social transformation that led to a change in the social hierarchy in FYR Macedonia. As is apparent from the above presentation, FYR Macedonia functions within the framework of neo-liberalism as is currently practised and expressed by the EU and which reflects German economic preferences and mindset. This economic ideology, which is embedded in FYR Macedonia, also reveals the change in the social relations of production that have taken place. FYR Macedonia was part of Yugoslavia and in the aftermath of the latter’s collapse it changed the Yugoslav self-management communist model to a western capitalist one.

The next step is to identify whether this change also meant a change of hierarchy within Macedonian society. In contrast with Serbia, the transition to a liberal market economy was peaceful under the leadership of Kiro Gligorov who was also the communist leader. It was the communist elite that conducted the elections, (in which they ended as the second largest party, but Gligorov managed to be
elected as president), as well as the referendum for independence from Yugoslavia on 8 September 1991 (Heaney 2007: 406; Willemsen 2006). However, FYR Macedonia did not escape from the harmful effects of nationalism and inter-ethnic conflicts. For instance, in the first elections the nationalist IMRO won with 37 out of 120 seats with the Albanians voting only for ‘their’ parties. The latter also abstained from the referendum (Heaney 2007). The nationalist elite is personified in IMRO and its sub-parties, such as the Democratic Party for Macedonian National Unity. These developments mean that instead of fundamental political change, there is a coexistence of old and new elites, which are mutually assimilated in a way that demonstrates transforismo. 61 This argument is further supported by the clear absence of a communist party, as well as by the pro-EU and market oriented policy and rhetoric of its successor, the Social Democratic Alliance of Macedonia.

The lack of a political struggle for power after the fall of communism is not the only difference of the Macedonian case. Another difference is the division of society into ethnic groups and the important political role of the second largest ethnic community, namely the Albanian. It was demonstrated above that after OFA the Albanian minority has obtained significant rights as well as an important role in the political affairs of FYR Macedonia. At the same time the Albanian elite is following a distinct path from the Slav elite which means that we cannot refer to them as one elite. In fact, the Albanian parties are dealing mostly with Albanian matters and they preserve different agendas from the Slav parties. For instance, in relation to the name dispute, the Albanian side was in favour of the Greek approach because for them the EU has priority and not the name of the state, which is exactly the opposite of Slav side’s perception. Hence, there is a significant problem that the application of the theory faces. This has to do with the formation of the domestic elite that functions within the Bloc. To overcome this problem the domestic elite will be analysed on two levels, namely at the level of ethnic community and at state level. To this it helps, as it was mentioned earlier, that despite their internal rifts all the groups agree to the fundamentals.

61 As we mentioned in Chapter 1, transforismo in Gramscian terminology is the situation where the old and new elites or the old and new historic bloc coexist due to lack of fundamental change or the lack of institutional capacity for the assimilation of the external influence (for more details see Gramsci 1971).
At the community level, as in the case of the Slav group, the Albanian community contains both the old and new elite. The old elite refers to those representatives of the Albanian side that fought in favour of Albanian rights during the Yugoslav era and now continue their activities through political parties. The oldest is the DPAs of Xhaferi62 (ICG 2000). The new elite is the one that emerged after the Tetovo crisis. Even though it is hard to call them nationalists, since all the Albanian parties have similar national aspirations, they maintain the toughest position. The central figure is Ali Ahmeti and his party, the DUI. Consequently, at state level we are dealing with four political elites that coexist and interact with each other. The relations between these elites are not the best or at least are not harmonious. A recent article by Willemsen indicates that the polarisation between the two ethnic communities and consequent segregation remains marked at both political and societal levels (Willemsen 2006). As in Serbia, the domestic elites have been forced to work together because of the external environment and not on the basis of domestic national communication. The external pressure was manifested in OFA and the interest of the international community in FYR Macedonia’s stability, which is part of an overall Balkan stability. These elements provide us with two conclusions: firstly, that we are dealing with transforismo and secondly that the cohesion of this group (i.e. the domestic political elite) seems to have been imposed from above and that its future seems uncertain (as we can predict from the frequent disputes between the political parties of FYR Macedonia). The loose cohesion is evident from the growing conflict between Prime Minister Gruevski and the former President Crvenkovski and from the mistrust within the Albanian elite towards government policy. However, the imposition of coherence and the agreement on the broad targets such as EU and NATO membership and economic transition as well as the imposed coexistence of both communities in power, will allow their treatment as one elite for further analysis.

In relation to the domestic economic elite, the situation is rather odd. Until recently the bulk of economic life was in state hands, while FYR Macedonia avoided the wild economic expansion of certain groups as happened to other states of the

62 Xhaferi has a history of fighting for Albanian rights and he suffered imprisonment and exile for the rights of Macedonian Albanians.
*Eastern Bloc* after the fall of communism. The poor economic situation of FYR Macedonia, which was at its highest during the Kosovo crisis, played an important role and has led to a fragmented domestic economic elite.

Hence, closing the analysis of the first sphere, the change in the social relations of production is obvious. A new domestic elite has been formed (it can only be considered as an extension of the old one) as well as a new hierarchy of power, which as in Chapter 3 has created a new social order with a new ideological framework that promotes certain politico-economic interests, namely the interests of the Bloc and the consolidation of the Bloc’s economic supremacy. Hence, as in Serbia the domestic elite in FYR Macedonia is acting as a member of the Bloc trying to promote the hegemonic ideology and to consolidate the hegemony by acquiring the consent of society.

### 4.5.2. Second sphere: forms of state.

Entering the second sphere, we examine the formation of the Bloc, as well as the interactions between the Bloc actors, which shapes the leadership of the Bloc and its function. The current Historic Bloc of FYR Macedonia, is expected to consist of the above mentioned domestic elite, the representatives of IFIs and NATO, that are carrying the hegemonic ideology and promoting policies, as well as by the representatives of the EU. Other actors are the foreign economic elite\(^63\), the US administration with its important influence on FYR Macedonia and its domestic elite. The criteria of membership are the same as in Chapter 3 and it will be the same in Chapter 5 as well. Briefly, the above actors share common values and goals, share the same ideology and interact with each other. One thing to note is that in FYR Macedonia there is no church or Russian influence to any great extent, while Albania itself preserves a discreet role in relation to the internal affairs of FYR Macedonia.

Following the same format as Chapter 3, the next step is to identify the leader of the Bloc and how the Bloc functions. The domestic elite is not coherent and preserves its surprising unity due to foreign pressure. Naturally, there are moderates

\(^{63}\) As was mentioned in Chapter 3 and it will be the case in Chapter 5, in this group we include the politico-economic elite from states such as Germany that are active in FYR Macedonia.
in both ethnic communities but the continuous existence of inter-ethnic tensions between them, which are emerging from the problematic implementation of OFA, prove the fragility of this coalition. For example, there is still tension concerning the use of Albanian symbols [which according to IMRO is not an OFA obligation, even though it is explicitly mentioned] (ICG 2005: 9), or the tensions about the name of the country, since the Albanians are demanding an equal voice in this matter (Skal 2007).

Furthermore, due to its small size the domestic elite in FYR Macedonia is clearly oriented towards the West (i.e. US and EU) and the politico-economic ideology that the West represents. Significant evidence that tends to confirm this argument is the explicit connection between government and transnational capital, as we can see by the establishment of the two ministers for FDI and the background of the government members. Moreover, the political declaration of FYR Macedonia that it is willing to do everything necessary (apart from changing its name), in order to achieve EU and NATO membership, as well as patronage by the USA and some EU member states on foreign policy decisions, strengthens the argument about the weakness of the domestic elite in playing a leading role within the Bloc. Perhaps the theory that an artificial entity (if FYR Macedonia can be described as such), always needs foreign patronage for its self-determination (see Allcock 1994) is confirmed in this case. In addition, the external actors in addition to patronage and protection offer legitimacy to the established politico-economic status quo. This is naturally derived from the fact that the established status quo is rooted in the OFA, which is a product of certain external actors who in turn guarantee its application.

The second group that we will examine is the US administration. As we mentioned in section 4.3.4, FYR Macedonia considers the US (and US-led NATO) as the key to its foreign policy, not to mention for its own existence. This is evident from the constant Macedonian pleas to the US against Greece regarding the name dispute and corresponding US responses. The same conclusion derives also from the effect of the US recognition of FYR Macedonia as Republic of Macedonia on 4 November 2004 as well as from the reception of the US by Macedonian society. Moreover, FYR Macedonia's political world has repeatedly linked its hopes for US support on NATO membership to the name dispute. In addition to this 'unconditional
surrender’ (sic), we have to place FYR Macedonia’s participation in the War on Terror in Iraq and in Afghanistan. From its side the US continues to support FYR Macedonia’s stability, which is linked with the name settlement. This was also the justification for the 2004 recognition. In relation to this recognition, the following quotation is revealing:

‘But playing an unexpected trump card three days before the Macedonian vote—and two days after the US presidential vote, so as not to prejudice support for Bush among disgruntled Greek Americans— the United States suddenly recognised the Republic of Macedonia by its chosen name, thus rewarding Skopje for its calculated participation in America’s coalition of the willing in the war and coalition of the unwilling against the International Criminal Court’ (Pond 2006: 183).

Therefore, the US administration has a powerful influence on FYR Macedonia as well as exercising a powerful patronage which is recognised by the domestic elite. US support is crucial for both the legitimacy of the domestic elite as well as for the stability of the state. The US administration also enjoys broad popular support from both ethnic communities, which enhances its influential role. As for the criteria for membership to the Bloc, their coverage is obvious. But could the US administration be the leader of the group?

From the presentation so far, it is obvious that the US represents the main political force that the Macedonians listen to, ‘obey’ and direct their hopes at. FYR Macedonia is one of the most pro-US states in the region and in that sense the US can be considered to be a leader. To this is added the open channel of US diplomacy with the EU and its member states about the FYR Macedonia’s affairs. However, its modest economic presence and the fact that the EU has undertaken FYR Macedonia’s integration and its compliance with the necessary reforms suggests otherwise. In addition, despite the significant role of US diplomats in Greece (e.g. Rhys, Burns) and in FYR Macedonia (e.g. Milovanovic) as well as in the State Department, the crucial decisions are taken in cooperation with the EU or with some of its member states. In addition, even in cases of US unilateral actions such as the recognition of FYR Macedonia as Republic of Macedonia, the EU did not follow and managed to keep its line. Of course, several member states have recognised FYR Macedonia as Republic of Macedonia, creating the contradiction by which the EU refers to as FYR Macedonia and its members as Macedonians, not to mention that
solidarity towards Greece has prevailed so far. Therefore, the case for US leadership of the Bloc is rejected.

The group of IFI officials transmit the hegemonic ideology and impose a certain package of policies on FYR Macedonia that favour foreign and particularly European capital and facilitate the consolidation of the Bloc's hegemony. As Stiglitz notes, the power of these institutions is such that '[n]ot only countries seeking their help but also those seeking their "seal of approval" so that they can better access international capital markets, must follow their economic prescriptions' (Stiglitz 2002: 18), while he also notes the close connection between the officials of those institutions with the western business community and with western governments whose interests are promoted (Stiglitz 2002: 19). Their leadership is rejected for the same reasons as in Chapter 3, namely because they are acting as hegemonic institutions that bear and promote the hegemonic ideology and the Bloc's interests instead of formulating an autonomous agenda.

The same applies to the EU officials. Once again we have to clarify that the reference to EU officials denotes those who are dealing with the integration of FYR Macedonia. From the moment that EU membership became the primary target for FYR Macedonia, the influence of EU officials has been significant. Their role is enhanced by the fact that the EU is operating a series of programmes in the country. Furthermore, EU membership means survival as a state and for that reason FYR Macedonia so far has agreed to everything that the EU has demanded, even though the implementation of reforms has hitherto fallen short. This lack of implementation has led to the conclusion by scholars, such as Noutcheva, of a challenge to the normative power of the EU. Nevertheless, even these scholars agree that the material benefits that the EU promises play an important role in the state's conforming to Brussels' norms. One should not forget that, as Noutcheva demonstrates, in the end everything has happened after determined EU intervention (Noutcheva 2007).

Could we then consider the EU officials as the leading group of the Bloc? The answer is negative. As was mentioned in Chapter 3, the EU officials are following the

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64 Obviously, we are referring to EU officials that are monitoring the implementation of FYR Macedonia's commitments for EU membership.
directions of member states and thus are promoting their interests in FYR Macedonia. In addition, the EU is not the only anchor of foreign policy and does not have a coherent approach due to the name dispute. Certainly, DG Enlargement has a certain plan for FYR Macedonia and this is directed towards compliance with the Copenhagen Criteria, as is evident from its reports about FYR Macedonia. In addition, despite the primacy that the EU gives to integration and the enlargement process, the slow implementation shows that internal forces are still resistant. Thus, the role of the EU remains that of the main hegemonic institution, which seems to be consistent with the EU’s actions.

The last group is transnational capital. Here matters look simpler than in the previous case study (i.e. Serbia). As we saw earlier, European capital dominates the privatised economy of FYR Macedonia, but with the corporations of the big four countries (i.e. Austria, Greece, Italy and Germany) sharing the largest part on paper. For this group, we have to work at two levels. Firstly we have to show if they do constitute the leading group of the Bloc, and then who leads the group. Certainly, transnational capital is overwhelmingly European and from now on we will mention it as European capital; it also has the financial resources to be the leader. The question, however, is: how coherent is it in order to use this power?

In FYR Macedonia at this moment, there is the ICI that operates as the platform and the forum for foreign investors in FYR Macedonia. Looking at its website in http://www.ici.com.mk we noticed two things. Firstly, that it is a Greek initiative and is dominated by Greek economic representatives and secondly that there is an apparent absence of Austrian and German capital. A second forum that was mentioned above is the DMWv. This forum also has under its umbrella the Austrian companies and plays an important role as the portal between the economic relations between Germany and FYR Macedonia. In fact, this forum is the largest in FYR Macedonia as noted by the DMWV itself:

‘Die DMWV is mit über 130 Mitgliedern der größte bilaterale Wirtschaftsverband in Mazedonien und das Netzwerk und Sprachrohr der hier vor Ort aktiven Unternehmen aus Deutschland und Mazedonien, die sich aktiv an den Wirtschaftsbeziehungen zwischen beiden Ländern beteiligen’ [The DMWV is with more than 130 members the biggest bilateral economic association in Macedonia and the network

202
and megaphone of the enterprises active on site here from Germany and Macedonia which take part actively in the economic relations between both countries] (DMWV 2008).

Beyond these two fora, there is a series of smaller ones, which represent the economic relations of FYR Macedonia with other national economies. At this point, we have to make clear that the importance of each forum is viewed, by us, in terms of its activities, size and importance for the recipient economy. Therefore, there are instruments that could constitute a coherent voice for foreign capital. However, the data so far, indicate no direct and thus open cooperation between them in order to claim a holistic representative instrument. At the same time, we observe a lack of fierce competition among the different national capitals that we can explain in two ways.

Firstly, there would seem to be a division of the markets among themselves. Thus, the Austrians are moving into banks and telecommunications, the Germans into mining and raw materials, the Greeks into consumer products and the Italians into tourism. Certainly, this national division does not exclude the case of national variation in all sectors. However, it is true that certain countries are focusing on certain actors, which might be to do with the specialisation of the parent countries. For instance, a country with a strong banking sector like Austria is likely to invest more in the banking sector of other countries. The second reason might be the interconnection of the ownership of various companies from these four countries as we saw above. Nevertheless, competition exists in areas such as energy as we are informed by the Greek liaison mission in FYR Macedonia (HMFA 2006) and telecommunications. The thing here is that these sectors are not yet completely privatised and that there is thus space for conflict over market shares.

The Bloc formation analysis has revealed that so far no group is strong enough to seize leadership. Nevertheless, there is an apparent division of labour among the group members. The EU is setting the reform agenda along with other IFIs that have, however, a narrower agenda and comply with EU demands. Added to this, the EU is checking, monitoring (penalising when necessary) and coordinating all the activities that are taking place in FYR Macedonia. From the latter, the most important factors perhaps are the twofold services that the EU provides to the rest of the Bloc. Firstly, it provides stability for both the domestic and foreign (economic) elites, through its
military, economic and diplomatic protection. Secondly, the EU is creating a favourable economic environment and is promoting the development of an adequate infrastructure that facilitates investments and trade.

The domestic elite from its side seems to participate with a dual role. On the one hand, it ensures that all the proposed reforms are going to be implemented and that the outcome will be in the expected direction. Nevertheless, there are still huge delays in implementation that show both institutional weakness and the existence of personal interests. However, FYR Macedonia, which is much weaker than Serbia (and without the latter’s Russian patronage), can be more easily disciplined. Secondly, it ensures the compliance of the rest of society towards the externally imposed preferences, with extreme efficiency, judging by the support of the population towards EU and NATO membership. In FYR Macedonia, this is extremely apparent, since the current political elite which, apart from people that have been trained in US and British business schools and universities, is focused on FDI attraction and is doing everything possible to attract foreign capital. At the same time the target of EU and NATO membership is managed so that it has become a national priority for the whole society. A recent opinion poll conducted on behalf of USAID shows 89% support for NATO and 94% support for EU membership (USAID 2007).

The US administration also works in the direction of preserving the stability of the state and moral support for NATO and EU reforms. An indicative position is expressed by the deputy assistant secretary for European and Eurasian affairs, Ms DiCarlo, who noted FYR Macedonia’s progress but stressed that much has yet to be done (US Embassy in FYR Macedonia 2007). This kind of support we believe to be very important to a fragile state such as FYR Macedonia because it can downplay inter-ethnic tensions. Finally, the foreign economic elite is reaping the benefits of this situation; it implements the majority of the projects and most importantly, it ensures the ‘obedience’ of both the domestic elites and the population through the economic benefits that it brings and of course provides the necessary legitimacy for the reforms that the state is undertaking since they are taking place in the name of FDI and development.
4.5.3. The subaltern reaction.

The neo-Gramscian hypothesis requires the discipline of the subaltern/working classes and how they receive hegemony. FYR Macedonia faces great problems of unemployment and poor economic conditions, which instead of leading to confrontation with Bloc policies, as one could expect, have significantly turned people in favour of the Bloc as a possible solution. According to the Balkan Monitor, 83.9% of the Albanian community and 56.4% of the Macedonian, support EU membership. In our opinion this has to do with the belief of Albanians that their national demands will be addressed within the EU. Additionally, as in Serbia, the same age groups of 15-24 and 25-39 year-olds support EU membership with 74.2% and 68.4% respectively while, with 61.6%, the group of 55+ is the least supportive, but again the support is huge, which might have to do with the fact that FYR Macedonia was one of the poorest republics of former Yugoslavia and thus less favoured by the communist system. Equally, important is the finding that in all categories more than 80% of the respondents believe that membership will bring stability and security (Balkan Monitor 2009). It is our strong belief that this result reflects the huge national and cohesion problems that FYR Macedonia faces. In another poll by USAID there is also support for the hegemonic ideology with the specific economic doctrine that it promotes, since 80% believe that FDI is necessary for their economy (USAID 2007). This is confirmed by the Balkan Monitor that finds more than a 50% belief in the importance of FDI for development (Balkan Monitor 2009). The opinion polls results also demonstrate the consolidation of the hegemonic ideology since that the society has accepted it as common sense and therefore is becoming unable and unwilling to resist the hegemony.

Nevertheless, as in Serbia, opposition exists in elite resistance towards certain reforms and to nationalist forces. For example, the negative outcome of the Bucharest summit and the growing tension due to the name dispute caused huge demonstrations. The demonstrations were mainly directed against Greece, France and other actors that oppose the Macedonian line, that are subsequently used as scapegoats. In relation to the EU, the mood was that they would not sacrifice the name for membership. Thus national problems and their exploitation by nationalist forces are the main opposition to the Bloc force.
4.5.4. Third sphere: world orders.

FYR Macedonia functions within the politico-economic framework that was established in the post-communist era. Particularly, FYR Macedonia as a candidate state, functions in the sub-framework, which has been defined by the EU and the German initiatives of SAP and SPSEE. The question that we have to consider is how the Bloc manages to transmit its hegemonic ideology and thus to establish a hegemony. Based on the above-mentioned division of labour, we believe that the transmission is taking place by political, economic and cultural means. In all these the EU has a key role.

The political means involve (in addition to the above-mentioned division of labour) the use of pressure and of ‘advice’ from the foreign elites towards FYR Macedonia. These can take the form of IMF officials meetings or EU-Macedonian meetings about the reforms as well as pressure from other states such as Germany. The German political elite has repeatedly mentioned the need for FYR Macedonia to reform e.g. on 18 December 2007 (Makfax 2007f). ‘What all these ‘influences’ are achieving is to deliver both pressure on and reward for, the domestic political elite, which in turns convinces the lower classes of the necessity of certain sets of reforms. Nevertheless, in order for the population to be convinced, it needs some ‘rewards’ such as US recognition of their institutional name; candidate membership of the EU; or the German police missions. These actions are convincing the population that it has to continue this particular politico-economic path, without realising that those who truly benefit are the Bloc and transnational capital. Here the EU is transmitting the ideology and the pressure for the implementation of reforms.

The economic means are more tangible. Here again there is the same kind of pressure and subsequent propaganda towards the population about the necessity of reforms and the sacrifices that have to be made. Beyond this there is the direct use of material resources (by funding certain projects and events) and the transmission of the hegemonic ideology through the working process, e.g. neo-liberal economic applications etc. The EU role once again is the transmission of economic ideology and implementation of the required reforms as well as the protection of investments.

Finally, the cultural means are of special importance since neo-Gramscian hegemony is not only economic but includes cultural aspects. Culture has a
significant role because it can penetrate the society and its class divisions, and can establish certain attitudes in the long term that favour the consolidation of the Bloc as common sense. In this case study, because of the smooth change of power, this could mean that the media, which are the primary agents of the transmission of a cultural product, were not used by the Bloc for the support of a certain elite, as in Serbia, but for the establishment of a particular status quo between the two ethnic communities. An example of this is the media strategy the SPSEE mentions, that seeks to promote reconciliation and to bring together the two communities as well as to address issues such as corruption (Stability Pact 2004: 12; 2005). For this purpose, an extended network of international donors has contributed towards these efforts. The following is an example:

'The OSCE works with MRTV. Press now works in the faculty of journalism in Skopje and See University in Tetovo. IREX focused on media associations, yet their programme is about to close. IFA supports television production in MRTV and legal reform' (Stability Pact 2004: 12).

The support of the local media by foreign agencies includes the broadcasting of certain types of programmes, which are funded by western donors, and which promote the ideology of the Bloc. These are programmes that either support the EU and the ideas of democratisation, economic liberalisation etc or more purely cultural programmes such as western TV shows. This is to be expected since hegemonic consolidation requires cultural penetration that will create the environment for acceptance of the hegemonic ideology as common sense. Do not forget that in FYR Macedonia the SPSEE had admitted that they, along with other donors, had supported the Macedonian media that were facing survival problems due to the small size of its market, as well as in an effort to promote plurality (Stability Pact 2004: 7).

Nobody claims that there is a crude direct influence but the influence exists. This takes several forms such as ownership, sponsorship etc. Nevertheless, the biggest manipulation is indirect and normative. Media that are convinced that the EU is the only way are media that will support this idea. In the case of FYR Macedonia, the fall of communism and the desire to become western is a powerful factor for the promotion of this purpose in society. This factor is also consistent with the theoretical framework being applied here because the acceptance of a reality as
common sense, which in this case is the western life-style and EU membership, is reproduced by the local media. The net outcome is the reproduction of the hegemonic ideology within society and its consolidation as undisputed common sense.

Beyond the media, the EAR informs us that it is funding educational programmes such as the ‘EU-funded youth campaign on tolerance’. This programme receives €900,000 and for two years it brings together the youth of FYR Macedonia’s communities in order to achieve reconciliation (EAR 2007a). In addition, ‘the Business Centre for Education and Post-graduate Studies at the South East European University’ was opened in FYR Macedonia (Tetovo). The university is supported by the EAR and its aim is to train ‘future managers and entrepreneurs from all communities’. Moreover, the University directly works for regional reconciliation (EAR 2007b). Therefore, even here we can see an effort for the promotion of the Bloc’s ideology. Even here the EU money and coordination is key to cultural transmission.

4.5.5. Germany and neo-Gramscian hegemony in FYR Macedonia.

This thesis is about German hegemony in the western Balkans and in this case FYR Macedonia. Therefore, we have to explore whether Germany is the hegemon and, to do this, we have firstly to locate the role of Germany within the three spheres of activity.

In the first sphere as was mentioned in Chapter 2, Germany was able to insert its economic mindset into EU enlargement policy. Moreover, the German actions were important in the formation of the domestic elite, from the moment that they undertook diplomatic and later ‘security’ actions in the Tetovo crisis and by supporting the stability of FYR Macedonia and providing legitimacy to its elite. Thus, it could be claimed that Germany has played a key role in social change, since it participated in the formation of the new ideological framework of production as well as in the consolidation of the new domestic elite.

The second sphere, even though we failed to establish a leader, shows that Germany has an influence. It has a significant economic presence and is regarded by
the local elite as an important politico-economic partner. These two elements will also allow us to identify the role of the German elite within the Bloc.

The first is covered in the introduction since we demonstrated that the German preferences are consolidated within the EU and in enlargement policy. For the second, the German political elite (we are referring mainly to federal government’s officials) have referred to FYR Macedonia concerning its stability and its progress towards EU and NATO. An example is the reference of Dr Jung to the stability that EU and NATO can bring to FYR Macedonia at the 44th Munich security conference\(^{65}\) (Jung 2008).

Even more explicit is the German embassy in Skopje which seems to confirm everything that we have claimed so far. Hence:

"Die bilateralen politischen Beziehungen sind von besonders guter Qualität. Deutschland ist nicht nur der wichtigste wirtschaftliche bilaterale Partner, sondern auch einer der wichtigsten politischen Partner Mazedoniens. Die frühe und konsequente Unterstützung Mazedoniens nach seiner Unabhängigkeit, die Rolle Deutschlands als wichtigster Handelspartner sowie enge menschliche Bindungen durch ca. 70.000 in Deutschland lebende mazedonische Staatsangehörige mögen für dieses ausgezeichnete Verhältnis die zentralen Anknüpfungspunkte sein. Auch die deutsche Unterstützung in der Kosovo-Krise 1999 und in der Krise in Mazedonien im Jahre 2001 sowie die Einhaltung von Hilfszusagen haben den deutschen Ruf gefestigt, ein besonders verlässlicher Partner zu sein. Mazedonien sieht in Deutschland ferner den wichtigsten Fürsprecher für seine Bemühungen um eine Annäherung an die NATO und die Europäische Union. Deutschland unterstützt diesen Prozess auch durch Beratung und finanzielle Hilfe für eine Vielzahl von Projekten (u.a. im Rahmen des Stabilitätspaktes für Südeuropa). Regelmäßige Treffen von Bundestagsabgeordneten, Ministern und den Regierungschefs sowie den Präsidenten beider Staaten in Skopje und in Berlin unterstreichen die engen Beziehungen' [The bilateral political relations are of especially good quality. Germany is not only the most important economic bilateral partner, but also one of the most important political partners of Macedonia. The early and logical support of Macedonia after his independence, the role of Germany as the most important trading partner as well as narrow human connections by approx. 70,000 Macedonian citizens living in Germany may for this excellent relation. Also the German support in the Kosovo crisis in 1999 and in the crisis in Macedonia in 2001 as well as the observance of auxiliary assents have strengthened the German call to be an especially dependable partner. Macedonia sees in Germany further the most important advocate for his efforts towards an approach in NATO and the European Union Germany supports this process also by consultation and

\(^{65}\) Dr Jung had repeated this on 30 August 2007 in his visit to FYROM (Makfax 2007d).
financial help to a huge number of projects [our emphasis] (among other things within the scope of the stability pact for Südosteuropa). Regular meetings of members of the Bundestag, ministers and the heads of the government as well as the presidents of both states in Skopje and in Berlin underline the narrow relations.) 66 (Deutschen Botschaft in Skopje 2008).

It is important to remember that Germany appeared as guarantor of FYR Macedonia's stability by assuming the leading role in KFOR and with its diplomatic efforts during the 2001 crisis. Even today, the German political leadership expresses its support of the stability of FYR Macedonia. For instance, in June 2007 the Bundestag decided to extend the mandate of the German troops in FYR Macedonia (within KFOR) as necessary for FYR Macedonia's stability (Makfax 2007c).

Other interests might be the geographical location of FYR Macedonia in the heart of the Balkans. Instability could easily disrupt the whole trade between Western Europe and the Middle East. In addition, with so many contenders for power within Macedonia (as well with neighbour countries having claims on Macedonia itself) the threat of instability is always present. Unfortunately for FYR Macedonia, it lacks importance as an energy factor since it is isolated from the energy projects of the region. Therefore, we have to focus on the factor of stability as the main interest, particularly (as our second interviewee has mentioned to us) from the fact that FYR Macedonia is a classic example of a buffer state against Albanian expansionism.

The next thing that we have to answer is the role of the politico-economic elite. To answer this, it has to be demonstrated that Germany is influencing the political and economic decisions of FYR Macedonia. Evidence in this direction is sparse. Even though Germany urges reforms, their implementation is slow. In addition, in the name dispute between FYR Macedonia and Greece, the German position is rather neutral but again its advice in favour of compromise is not easily accepted. For instance, in Bucharest Dr Merkel, expressed a desire for a positive signal towards the EU but at the same time is bound to EU solidarity. Further to this, the US administration's clout appears stronger, as can be judged from the constant reference of Macedonian diplomats. At this point perhaps it is useful to note the

66 Emphasis added.
view of observers like Noutcheva, that the normative power of the EU (and to a certain extent of its member states) in imposing its will is not so powerful considering the slow progress of reforms and the growing tension between the EU authorities and the elites of the western Balkans (Noutcheva 2007). This is evident from the EU and NATO progress reports on FYR Macedonia.

Therefore, we have, on current evidence, to dismiss the idea of the power of the German political elite as hegemonic. Perhaps one reason might be the overwhelming focus of German diplomacy on Kosovo. In that respect, the interests of the German political elite seem to be around wider western Balkan stability instead of on FYR Macedonia as an individual player. What strengthens this conclusion are (in the absence of more primary resources) the positions of the German elites that mention at every opportunity the need to avoid a wider conflict in the Balkans by destabilising FYR Macedonia and the need for the inclusion of FYR Macedonia in NATO and the EU as the only permanent solution for stability. Here we have also to note the normative aspects of German society which, based on the right to self-determination, justified the decision of the Bundestag to recognize FYR Macedonia as Macedonia.

In contrast to the political elite, the economic elite seems ready to consolidate its supremacy in FYR Macedonia’s economic affairs. Despite the economic data that have been presented, the German economic elite has repeatedly sought to promote its interest in investing in FYR Macedonia as is obvious from the numerous exchange of German and Macedonian economic delegations such as the Expo Real in Munich (Invest in Macedonia 2007), or the June meeting between the Macedonian president Mr. Crvenkovski and Bundestag president Mr Lammert (IDIVIDI 2007). Furthermore, the German economic elite appears powerful enough to ‘impose’ some of its demands on FYR Macedonia. The German economic representatives in FYR Macedonia have repeatedly urged reforms in order to invest their capital and they have repeatedly stated the need for FYR Macedonia’s political stability (Makfax 2008; Bitzenis et al. 2007).

Hence the issue is how these ‘recommendations’ were received by FYR Macedonia’s elite. Here is the big difference from the political one. FYR Macedonia is implementing (even though slowly but with willingness to speed up) an economic
programme that aims largely at attracting capital. In addition, FYR Macedonia’s leadership is assuming special importance for Germany (Makfax 2007e; Invest in Macedonia 2007) through its participation in various German trade fairs. Another requirement is to demonstrate that German capital is more significant than the other competing national capitals. As was seen earlier, the German economic elite appear to be the umbrella for Austrian capital as well as the main ‘negotiator’ with FYR Macedonia’s representatives. Certainly we can mention the ICI as another important source of economic pressure on FYR Macedonia by capital. For instance, ‘[T]hrough continuous efforts of its Executive Committee and the administrative personnel and based on the constant support of its members ICI has managed to be an influential partner of the competent authorities of the country’ (ICI 2009).

However, the ICI is independent and has an NGO status, and from that perspective we can speak of a transnational capital elite. Therefore, it is important to try to give a definite answer (if this possible) of German economic dominance even though it is not the only pillar of influence. Nevertheless, because German capital is the only one that is well represented in FYR Macedonia and this representation connects the promotion of German capital with wider German interests in the region, we could claim that German capital has strong influence.

Hence, we have to answer the question of how we connect the actions of the German economic elite with wider German interests in the region. Firstly, as was mentioned in Chapter 1, the German political elite represents, promotes and protects German economic interests. For example, there is German economic ‘advice’ which speaks in favour of the regional market, for stability and for business-friendly policies. At the same time German foreign policy repeatedly mentions stability, regional integration (see SPSEE role) and of course the promotion of German capital. We should not forget that German delegations always stress the problem of stability as regards their investments in FYR Macedonia and in the western Balkans in general (Confidential Interview 2; Bitzenis et al. 2007). Two other reasons were the small size of the market and the lack of stability. Thus, the German economic elite remains (so far) the only one with strong national connections.

In order to be certain about the role of German capital we have to see how the domestic elite perceives German capital. The political elite constantly mention the
need for German capital. For example, the Macedonian minister of foreign affairs in his interview on 28 December 2008 confirmed this importance. The same view was expressed by the former Macedonian president Mr Crvenkovski during his visit to Germany in June 2007 (Milososki 2007). It also gives great importance both to the political role of Germany for its EU and NATO membership as well as a counterbalance to Greek pressure (Milososki 2007; Makfax 2007b).

4.5.5.1. Transmission of the hegemonic ideology by Germany.

However, the final conclusion will come in relation to the third sphere, where we have to show how the ‘hegemon’ is transmitting its influence. Firstly, we mentioned above that FYR Macedonia is operating within the framework that is set by the EU and which is largely based on a German initiative (see Chapter 2). This means alone does not prove anything in relation to German hegemony. Moving further, we have to prove that the German elite is using its resources for transmitting its ideology. Firstly, at the cultural level Germany is using its cultural and education policies for the promotion of its interests as we are informed by the Auswärtiges Amt:

‘Germany’s cultural relations and education policy is part and parcel of our foreign policy. As such, policy guidelines in this field are formulated by the Federal Foreign Office... it is an integral part of German foreign policy aimed at conflict prevention and peacekeeping’ (Auswärtiges Amt 2008b)

In regard to FYR Macedonia, the German Ministry of Foreign Affairs informs us of an agreement on cultural cooperation which was signed on 16 October 1997. The interesting feature of this agreement is the focus on the German language. The German embassy and the Deutscher Akademischer Austauschdienst are not the only pillars of German cultural policy in FYR Macedonia. The KAS is operating in the country through its ‘Media programme for South East Europa’, which aims to ‘strengthen the media as an important factor in democratisation and to encourage positive developments’ (KAS 2008).

Another institution is the Friedrich Naumann Foundation, which is associated with the liberal Free Democratic Party in Germany and which has an office in FYR Macedonia. Nevertheless, for us the most important element of German ‘cultural’ policy is its educational branch. As the Auswärtiges Amt states, Germany is conducting an active campaign for the promotion of the German language which is
considered the second in importance in FYR Macedonia (Auswärtiges Amt 2008b). From a neo-Gramscian point of view this could be claimed to be an effort to transmit the hegemonic idea. There is the promotion of liberal economic ideas as well as media reconstruction along more western lines. As for the use of language, again the neo-Gramscian view provides an answer/justification. Language is a powerful cultural tool and its promotion is part of cultural promotion as well as of the creation of a pro-German society. Thus, the cultural aspect is covered and with this the application of the three spheres on Germany is concluded. However, the question about the role of Germany as the hegemon in FYR Macedonia, has not yet been answered. This is attempted below.

4.6. Concluding remarks.

Trying to make an assessment of the data that have been presented in this chapter, we could claim that Germany has characteristics that might justify the use of the neo-Gramscian concept of hegemony in FYR Macedonia. As outlined, Germany has a significant economic presence, which is growing. It has also political influence, whilst it promotes German culture in this country as well. An equally important hegemonic element is the German guarantee of FYR Macedonia’s stability, even by military means, through the German military presence in the region. Also significant is the indirect German economic influence through the affiliates of German companies, with some of them located in ‘competitor’ countries such as Greece and Austria. Therefore, the actual economic clout of Germany is much greater than it appears.

The indirect political influence that Germany exercises in FYR Macedonia, through the institutions that are operating there (mainly the EU), is also important, since as was mentioned in Chapter 2 Germany was successful in inserting its preferences in the EU enlargement policy. Consequently, the EU policies in FYR Macedonia, contain German preferences in a way that satisfies German interests. In addition, as neo-Gramscian hegemon, the German elite is using the EU as a hegemonic institution in FYR Macedonia, and at the same time the EU actions are leading to a tremendous penetration of EU-based capital, and to a significant opening-up of the Macedonian economy.
However, some questions remain. Firstly, the economic power of Germany, even though significant, is not hegemonic. For the first requirement, despite the strong economic presence of Germany, (and the use of its ‘competitors’), the other states, particularly Greece, remain economically strong. Thus this economic presence might be huge but not hegemonic. Nevertheless, even in the case that the German economic presence was hegemonic, problems exist with the second requirement. It is worth adding that FYR Macedonia only has secondary importance for German political interests and it sees it as part of the wider Balkan puzzle. In fact, German interest is more on Kosovo and elsewhere in the western Balkans where there is a problem which could jeopardise its interests, such as in the case of the latest Serbian elections.

Hence, neither the economic nor the political German elite could claim leadership of the Bloc. Even the promotion of German culture is embedded in the wider promotion of western culture and EU policy towards the media and westernisation. To this is added the fact that the German military presence is within a multilateral framework either of the EU or NATO and thus is not directly representing the expression of German interests. Therefore, all the evidence indicates that the hypothesis of German hegemony in FYR Macedonia has to be rejected. In fact, none of the actors of the Bloc exercises hegemonic power, but at the same time there is hegemony. Signs of this hegemony are located in the political patronage, in the economic dependency towards the Bloc and of course in the cooperation of the members of the Bloc, to a degree that allows us claim collective actions.

Who then is exercising the hegemony?

If we want to provide a satisfactory answer, then we have to say that the Bloc is one with a distinct division of labour among its members. However, this thesis investigates the role of Germany and thus from this perspective the answer is that there is no German hegemony in FYR Macedonia, because there is no direct influence, while the embeddedness through the EU is not very clear since other member states benefit from the EU’s actions.
Chapter 5: case study Albania.

5.1. Introduction.
Before beginning the historical presentation, it is useful to say a few words about this case study. Albania is a completely different case from the other two. Firstly, it is not a Slavic state and its historical development is very different from that of the other two. In addition, Albania endured very distinctive communist rule which emphasised self-sufficiency, while its minority problem relates to the Greek minority in the South and not to a Slavic one. To the latter we have to add the role of Albania in the minority problems of both FYR Macedonia and Serbia and the existence of the ‘Albanian Question’, which continues to unsettle political leaders across the Balkans.

5.2. Historical background.
Contemporary Albanians claim to be descendants of the Illyrian tribes (see Crampton 2002; Pond 2006), even though Vasiliev mentions a much later arrival date (Vasiliev 1932). Albania was an important Byzantine province and later had an exceptional role during the Ottoman rule in the Balkans. (see Ostrogorsky; Joffe 1996). During this period large sections of the population converted to Islam (see Gatzios 2003; Crampton 2002).

The collapse of Ottoman rule in the Balkans peninsula found Albanian inhabitants annexed into the newly formed Balkan states which resulted in the artificial creation of minorities that have played an important role in Balkan history. Albania has been an important component of the ‘Great Power’ plans in the region (ICG 2004; Vickers 2008: 13). Not only were Albanian lands used for the formation of protectorates, but also the creation of the Albanian state was an outcome of ‘Great Power’ diplomacy that saw Albania as a buffer to Serbian expansion towards the Adriatic in 1913 (Pond 2006: 193).

The exploitation of Albania by foreign powers and their use of patronage was constant until the late communist period. The newly formed Albanian state used to be an Italian protectorate, with indirect and direct patronage including the
occupation of a united Albania in 1941-1944 by Italy (Glenny 1999; Ahrens 2007). This explains the important influence of Italy in the country, through language and religion. It also accounts for the considerable Italian economic presence. Therefore, later in our analysis we have to expect limited German influence or links since historically the Germans were not so interested in Albania. Foreign patronage continued in the communist period until Albania broke from the Soviet block and followed an isolated, self-sufficient path (Gatzios 2003). Hence, it is obvious that Albania was almost always under foreign patronage and this has shaped Albanian attitudes until today.

Political awareness began with the San Stefano Treaty of 1878, which depicted the threat of the assimilation of Albanians within Slav and Greek states. At that point, there was the first Albanian response in the direction of the creation of a 'Greater Albania', i.e. the inclusion of all Albanian communities into one state, with the Prizren League (Crampton 2002; Jelavich 1983b). The fear of their neighbours also cultivated negative stereotypes towards the neighbouring nationalities and fuelled the notion of 'Greater Albania'. The national stereotypes are also connected with another Albanian belief that the international community is always against them, as well as with the belief that Albania has never possessed a reliable foreign patron and that it has gained everything through armed struggle. All these elements make up the core of the 'Albanian Question'. Thus, in relation to the thesis it is interesting to examine the role of the new patron in the Historic Bloc and the extent to which the norms influence the formation of hegemony.

5.3. Political developments.

The fall of communism found the Albanian political system polarised between two main political parties, namely the Democratic Party of Albania (DPA) of Sali Berisha and the Socialist Party of Albania (SPA) of Fatos Nano. The two parties are largely representative of the 'clannish' character of Albanian society with its regional divisions, since the DPA represents the Gheg 'clan' of the North and SPA the Tosk 'clan' of the South. Certainly, both parties have delegates from the whole of Albania.

67 Since 2005 Edi Rama is the leader of SPA
but the party base is primarily distributed according to the 'clannish' criteria (see Crampton 2002; Pond 2006). Crampton also indicates that 'neither side found it easy to abandon the habits and aspirations of one-party domination' (Crampton 2002: 299).

The DPA is the party in office and the first non-communist party in post-Hoxha Albania. The party began with a pro-western and market economy agenda. Its founder is Sali Berisha, who is also a central figure in Albanian politics. His first presidency between 1992-1996 was marked by his efforts to reintegrate Albania into the West and particularly to align the country with the USA. Equally memorable was the authoritarianism of his government involving political and media purges (see Crampton 2002; Pond 2006). For example, in 1995 with the ‘Genocide Act’ he prevented his political opponents from having an active role in political life (see Heaney 2007). His foreign policy brought Albania close to the US, offering every assistance during the NATO operations in Bosnia and at the same time he clashed with Greece over the treatment of the Greek minority of south Albania (Crampton 2002: 301).

After a decade of SPA governance, in 2005 Berisha won the elections, which were characterised by irregularities and violence (Pond 2006; Southeast European Times 2005). The current Berisha administration appears to be pursuing a more careful foreign policy, with a more 'democratic' way of dealing with the opposition, and a focus on the daily problems of the Albanian people. Hence, in relation to this thesis, we can expect a pro-US position by the current government in its foreign policy. Moreover, we are expecting that the regime will be favourable to foreign capital and to the EU path, since this is what is revealed by its attitude as well as from the actions of the current administration.

The other side of the political spectrum is the SPA, which is the successor of the communist party (Crampton 2002). In contrast to the previous case studies, the communist party won the first multi-party elections in March/April 1991, and held power until Berisha’s victory in 1992. The leading figure of the party until the 2005 electoral defeat was Fatos Nano. On 9 October 2005, the SPA voted Edi Rama as its new leader after Nano’s resignation. The SPA’s agenda is pro-western and with the market economy as a model. In fact, its agenda is more or less the same as...
DPA's and, despite its communist past, it follows the agenda of a west European socialist party. Hence, another difference in Albania is the evolution of the communists in the direction of acknowledging the new realities, something which is more obvious with the election of Edi Rama as president of SPA. Mr Rama, who is an artist, became popular during his term as mayor of Tirana with his 'ambitious programme to beautify the capital's public spaces' (Southeast European Times 2005).

Thus, as regards the creation of the Albanian Historic Bloc, there is an old political elite that is fully embedded in the current hegemonic ideology, and what we have to prove, is whether the elites of both parties can be accommodated in the same Bloc, and if so, under what conditions.

To the latter, the answer seems to be negative. Albanian society was so oppressed by the self-sufficiency programme of Hoxha that the transformation of the SPA did not cause problems. The electoral success of the party confirms this. However, as regards political co-existence of SPA and DPA elites, things are not clear. Despite their common ideas, the two groups have a history of bitter competition and struggle. Albanian political history since 1990 is full of political abuse of power, e.g. the use of the security forces for Berisha's political means (Pond 2006), corruption and scandals, such as the politically promoted 'pyramid' schemes which were exposed in 1997, which cost the population of Albania $1.25 billion. Emblematic of the competition between the two parties was the detention of Fatos Nano by the Berisha regime for abuse of power (Crampton 2002: 302); while in the latest elections the international observers noted political irregularities and the abuse of voters (Heaney 2007: 59). Hence, in relation to the demands of our theory there are two opposing domestic elites that probably co-exist under external pressure.

Beyond the two main political parties, there are a number of other political forces with limited influence. A good example of this 'bipolarity' in Albanian politics is that in the last elections the two main parties received 98 out of the 140 seats, leaving the other 52 shared among eleven other parties (Heaney 2007: 80). What we have to remember is that the Albanian political setting is highly fragmented and represents the division of Albanian society as a whole. In addition, it is a highly corrupt system with suspected connections to organised crime (see European Commission 2008a).
Albania is a parliamentary republic with the Prime Minister holding executive power. This also explains the great effort of the elite figures to gain the premiership. Therefore, in the construction of the Historic Bloc we have to take into account the background of the political actors that participate and how ideologically coherent they are. The president of the state has typical powers and is elected by the parliament in a secret ballot. Albania has three main political issues, according to National Strategy for Development and Integration: 2007-2013 (NSDI), namely EU membership, NATO membership and the combating of corruption and organised crime (Albanian Government 2008a). To these can be added the Albanian Question which in our opinion represents an important factor in the relations of Albania with the rest of the western Balkans and with Europe in general.

5.3.1. EU membership.
EU membership represents a national priority for Albania, with the popular support currently standing at 83.1% (Balkan Monitor 2009). To achieve this target Albania has developed an institutional network and has followed a pro-EU political agenda. Within this framework, in March 2008, the Albanian government has launched the NSDI, which represents the Albanian road-map towards EU membership. Prior to this strategy there was the Government Plan of 2005-2009, in which the national priorities were firstly established. As a senior official from DG Enlargement informed us, the Albanian institutional network is still in a very rudimentary state, due to lack of funds and inexperience; the Albanian side is not yet ready to progress faster, which also explains part of the slow progress (Confidential Interview 6).

Albania is participating in the SAP and in November 2006 signed an SAA. Before that in January 2006, Albania had signed a European Partnership, which provides guidance for what has to be done to achieve membership. The difference in this case is that the reforms are encouraged through political dialogue, which is conducted by ‘Ministerial Troika, joint committee and consultative task force meetings at ministerial level and working party meetings at deputy minister level’ (European Commission 2007b:5).

According to the 2008 EU progress report on Albania, despite the focus on the implementation of the political Copenhagen Criteria, Albania has a long distance to
cover (see European Commission 2008a). The polarisation of the political system prevents a constructive consensus between political parties on implementing the required reforms (European Commission 2007b: 6; Confidential Interview 6), although lately there are signs of a greater consensus on major issues (European Commission 2008a: 6). Another important parameter is the power of the executive that is such that it has the ability to influence the judicial system, while state officials and members of parliament enjoy immunity from criminal investigation and prosecution (European Commission 2008a: 10). This power of the executive is another unstable variable of the Albanian political system.

The structure of the Albanian political system creates a situation in which, when an issue is receiving serious attention from the EU in the form ‘do it or incur a penalty’, the Albanian leadership becomes disciplined; but when there is no pressure, things go slowly. Particularly, when some reforms are touching certain interests, their implementation halts. In addition, in Albania as a senior official with high expertise in this country, has mentioned, the Commission has to convince the Albanians to do certain things (Confidential Interview 6). For instance, despite the EU efforts the accountability mechanisms in public administration remain weak and appointments are based on political preferences that favour the clientele relations and certain interests (see European Commission 2008a).

The European Commission has also identified serious shortcomings in the judiciary, with problems of independence, corruption, law enforcement and infrastructure; in the civil service that is highly politicised and corrupt; with an absence of supervisory institutions, and, imperfect democratic institutions. An equally serious problem is the police abuse of power, given that ‘[T]he European Court of Human Rights (..) delivered five judgements finding that Albania had violated the European Convention on Human Rights (..) and related protocols’ (European Commission 2008a:11). Overall, the European Commission observes that progress has been made but at a slow pace.

The Albanian Ministry for European Integration (AMEI) has a central position in the institutional network of Albania. This is the main coordinating ministry (European Commission 2008), something that is obvious by looking at its mission statement that outlines all the necessary steps from preparing the institutions for EU
membership to making Albanian law compatible with the *acquis communautaire*. In addition, it supervises and coordinates the activities of all other agencies relating to EU integration (Albanian Ministry for European Integration 2008). However, the European Commission stresses two serious problems with the AMEI, which undermine the overall integration process of Albania. The first is the AMEI’s underfunding and the lack of staff, and the second its bypassing by the other ministries. The result is law-making that is not fully compatible with SAA requirements (European Commission 2008a).

Beyond the MEI the institutional setting is accompanied by EU integration units in twelve ministries, while according to the National Strategy there will be twenty-three sector strategies and ten cross-cutting strategies (European Commission 2006d: 6). Furthermore, as can be seen in the NSDI, the requirements of the SAA and particularly the deficiencies in the rule of law are the subject of special attention (Albanian Government 2008a). Of course the level of consistency in implementing the NSDI remains a question. However, as was stressed by the European Commission, what is important is the relative progress, which is significant even if, by absolute measurements, Albania lags behind to a great extent (Confidential Interview 6).

From this brief view, the high importance of EU membership for the Albanian politico-economic establishment is apparent, because the EU seems to be the factor that can normalise Albanian institutions that to date are dominated by a powerful political elite, something that we will use in the Albanian Bloc formation analysis. EU membership also reveals the commitment of the political elite, which seems to be motivated by the need for legitimacy as well as the financial benefits, the latter being obvious by the nature of those reforms that look good on the surface, that indicate a partial absorption of EU norms and demands. Hence, what we might expect to find is a pro-EU elite largely integrated in the Bloc and to the hegemonic ideology with the EU playing an important role in decision-making.

5.3.2. The Albanian Question.

The Albanian Question describes the creation of ‘Greater Albania’ by including all Albanian ethnic communities in one state. Such communities are located today in Montenegro, Serbia, Kosovo and FYR Macedonia, with the number of Albanians
outside Albania proper, standing at around 3 million (Gatzios 2003; ICG 2004). There
is also a significant number of Albanian economic immigrants in Greece and Italy
(Kostovica 2008). In addition, the Albanian minorities are located in areas
neighbouring Albania proper, which makes a possible unification easier. Therefore,
pan-Albanianism as the ICG notes, ‘...is seen by many observers as a serious threat to
Balkan stability’ (ICG 2004: i).

Historically, the Question emerged in the nineteenth century with the late
awakening of Albanian national awareness, prompted by the actions of the ‘Great
Powers’ as was mentioned above. During the Cold War, the Albanian issue was
neglected, since Yugoslavia was the focus of both the Eastern and Western camp.
The disintegration of Yugoslavia and the fall of the Hoxha regime, awakened the
Albanian Question from its communist hibernation (ICG 2004; Ahrens 2007). The
armed conflicts in Kosovo (see Chapter 3) and Tetovo (see Chapter 4) have further
fuelled concerns about the creation of ‘Greater Albania’. The nationalist approach of
the Berisha regime was largely motivated by the support of the (Gheg) Kosovars and
of the Albanian Diaspora, which funded and promoted the Albanian cause played a
significant role in this support (Kostovica 2008; Pond 2006; Ahrens 2007).

The Albanian question is important because of the implications that it has for
Balkan and European stability. A ‘Greater Albania’ could bring instability to Serbia
and Montenegro and could lead to the collapse of FYR Macedonia, while the
Albanian demands on the Greek territory of Hipirus are also worrying (see Ahrens
2007). For the latter, the Albanian propaganda about Chameria (Τραχαρία in Greek)
is characteristic, with demands for compensation for expelled Albanians as well as
claims for the support of the Albanian minority in Greece68 (ICG 2004; Glenny 1999).

However, the probability of another crisis resulting from the Albanian Question
seems unlikely today. The main reason is the clear negative response of the
international community to any such development. As Ahrens noted, when the
international community said ‘no’, immediately, the Albanian delegation turned its
focus onto minority and human rights issues (Ahrens 2007). The ‘external factor’ is
important to a society that has always been patronised by the ‘Great Powers’ of the

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68 Note that the Greek state does not accept the existence of Chams.
time (see Glenny 1999; Vickers 2008). The same external factor has shaped the Albanian Question in Kosovo and Tetovo in a way favourable to the Albanian cause. Another reason is division among the Albanian communities. There are cultural differences which derive from the different political processes in the two communities, which actually creates two separate ‘nations’ with the same language (Gatzios 2003; Vickers 2008).

Today, Albanians are committed to Euro-Atlantic and regional integration, and for the Albanians this is the only way to create a free space with economic, cultural and family connections among the Albanian communities without the threat of changing borders (Vickers 2008; Confidential Interview 6). Indicative of this is the fact that both KLA and NLA received popular support when they abandoned the Greater Albania rhetoric (ICG 2004). In political terms, both big parties have abandoned the policy of Greater Albania. Hence, as Vickers notes:

‘Although Albanians would like to see what they regard as a tremendous historical injustice redressed - the imposed incorporation of Albanian-inhabited territories into Yugoslavia and Greece - political elites in Tirana, Pristina and Tetovo fully accept the notion of the inviolability of existing borders and consequently have no desire to push for a Greater Albania... Today, the Albanian national essentially centres on the indeterminate status of Kosovo and the political future of the ethnic Albanian populations of Macedonia and Montenegro’ (Vickers 2008: 14).

To this we add the statement of Berisha in Kosovo on 22 November 2008 that Albania will support a multi-ethnic Kosovo and that the Serbian minority of Kosovo has to be protected (Albanian Government 2008m).

Since the threat of Albanian extremism seems to have declined then, why have we incorporated it into our analysis? The Albanian Question is an issue which is easily influenced by external factors, such as the US and EU. Thus, the role of foreign elites might influence the future development of the Question.

5.3.3. US as factor and NATO membership.

Albania is one of the most pro-US states in Europe. Characteristic of the close relations was the reception of the US president George W. Bush, as a national hero by the Albanian population and leadership in 2007 (The Economist 2007b). On this visit, the cooperation between the two states was reinforced by the exchange of military delegations and joint military manoeuvres (Vickers 2008: 21). Another
example was the speech by Berisha on the signing of the protocol for Albania’s membership of NATO when he called the US president the ‘most distinguished friend of the Albanian nation’ (Berisha 2008b).

The pro-US attitude is also reflected in Albanian participation in Afghanistan and Iraq (CIA 2008). In addition, Albania offered assistance to the US and NATO forces as a base during the war in Kosovo. In a more official tone, according to the Government Programme of 2005-2009: ‘Relations with the United States remain of a primary strategic importance to us...’ (Albanian Government 2005). The US administration confirms the warm relations between the two sides since, according the State Department, ‘Albania has been a steadfast supporter of US policy in Iraq, and was one of only four nations to contribute troops to the combat phase of Operation Enduring Freedom’ (US Department of State 2008).

The explanation of this pro-US stance is the role of the US in relation to the Albanian Question. The US has intervened in Kosovo favouring the Albanian side and it was the US that supported Kosovo’s independence. The same actor brokered an agreement between the Albanians and Slavomacedonians of FYR Macedonia, with the OFA. The US government was active in the Albanian transition in both political and economic terms, with USAID contributing significantly to Albania’s transition (see USAID 2008).

Another important role of the USA has been the promotion of Albania’s candidacy for NATO membership. Albania began negotiations for NATO membership in 2003 and in 2004 joined the PfP Initiative. The importance of NATO integration for Albania is well illustrated in the NSDI by the statement:

‘NATO integration is one of the main goals of the country’s foreign policy...This goal constitutes a major national project that enjoys support from all political forces as well as more than 90% of the public. Albania will not spare any efforts to meet all criteria for receiving the invitation for membership’ (Albanian Government 2008a: 23).

The invitation was extended at the Bucharest NATO summit of 2008, after strong US backing. The US also ratified the protocol for Albania’s membership of NATO on 25 October 2008. Nevertheless, the strong commitment towards NATO is in contrast to the lack of serious progress in relation to EU membership (Confidential Interview 6) and one of the more obvious reasons, beyond the pro-US orientation of
the Albanian elite, is that the feasibility of joining NATO is greater than joining the EU (Vickers 2008).

The support for NATO also has a strong popular base according to a survey on the Albanian perceptions of NATO by the Institute for Democracy and Mediation (IDM), on behalf of NATO in 2007. According to this survey 89.4% of the population were in favour of NATO membership. 21.4% found alliance with the US most important and 24.3% with the EU, while 52% consider both to be of equal importance. Finally, for Albanian society NATO membership is not strictly military business but also a means of EU integration and socio-economic progress (IDM 2007).

In relation to the later analysis the US factor is expected to have an important influence on the domestic elite and it remains to be seen to what degree US preferences collide with those of the EU and Germany (if the latter has any). The US approach resembles the traditional approach of Albania towards Great Powers. This relationship could be evidence that the power of the EU and of Germany is weaker in Albania than in the other parts of the region.

5.3.4. Organised crime and corruption.

These two issues are of great importance for Albania and represent very serious challenges for the country since they influence both EU and NATO membership. According to the 2008 progress report of the European Commission, 'corruption remains a particularly serious problem in Albania' (European Commission 2008a: 10)

In more detail the European Commission identifies deficiencies in almost all aspects of public life in Albania. Corruption extends as far as the judiciary, political parties and administration, while organised crime is involved in the trafficking of human beings, drugs and arms (European Commission 2008a). Both corruption and organised crime are dealt with as part of the European Partnership and therefore their management is requirement for Albania's membership of the EU. The European Commission speaks of modest steps towards addressing these problems, even though Albania has entered international fora and has signed international agreements and conventions against these two problems (European Commission 2007b). In fact, as our interviewee told us, there is a distinct lack of Albanian political will on that subject (Confidential Interview 6).
Similar to those of the EU, are the comments of EUROPOL that finds Albania to be an important transit state for trafficked human beings and drugs (Europol 2008). The ‘notorious’ Albanian mafia is everywhere in Europe, while the clan system of Albanian society makes it hard to combat the gangs (Pond 2006; Confidential Interview 6).

The Albanian response to these two problems ‘seems’ to be determined on paper. In the Government programme it is stressed that ‘[T]he government declares as top priority the fight to uproot and demolish the pillars of the corruption system’ (Albanian Government 2005: 14). The same applies to organised crime, i.e. ‘[T]he fight against organised crime and trafficking..., will be a priority of the government’ (Albanian Government 2005:17). The response is more detailed in the NSDI that puts the problem in its proper dimension, by accepting that growing corruption is undermining the trust of the population in state institutions (Albanian Government 2008a: 32). For both problems, the Government is adopting a series of measures in accordance with the SAA and the EU recommendations (see Albanian Government 2008a). However, the problem of implementation, we believe, is very hard and yet to be faced.

Hence, in relation to this thesis, we expect the response of the domestic elite to be negative in some of the aspects of EU legislation since it will be in contrast to their interests. Thus, it will be interesting to see the cohabitation between domestic and foreign elites within the Bloc, especially when the former is suspected of links with ‘underground’ elements. Thus, this might have implications for Bloc formation and reveal the true extent of EU persuasive power and to the degree that its influence is hegemonic.

5.4. Economic developments.
Albania is one of the poorest states in Europe, with per capita income of only $6,400 in 2008 (CIA 2008) which equates to one fifth of the EU-27 average (European Commission 2008a: 19). The poor condition of the Albanian economy is not a surprise considering the long era of radical autarkic communism and the huge organised crime networks, plus the civil unrest in 1997 after the collapse of various pyramid schemes. The Albanian economy was also tested during the Yugoslav wars
and particularly during the Kosovo war, when a mass influx of refugees\textsuperscript{69} onto Albanian soil put the Albanian economy under a severe burden. A good example of the bad shape of the Albanian economy is the huge number of Albanian economic migrants all over Europe, accounting for a quarter of the total population (Heaney 2007: 68; CIA 2008).

It becomes obvious that Albania has started on its path of transition into a liberal market economy from a very low point. Along this path, Albania has the assistance of the international community and particularly of the EU, the USA, the IMF and the World Bank. These actors offer guidance and aid and are playing a crucial role in the economic policy of Albania.

5.4.1. External institutional setting.

As previously explained, the examination of this institutional setting will help us in identifying the exact role of these institutions as well as providing a clear picture of the ‘freedom of choice’ of Albanian authorities in their economic policy.

Once again, the EU is the dominant actor with Albania needing to follow the Copenhagen and Lisbon Criteria (Albanian Government 2008a) and the Commission defining what has to be done and how and (mainly through the European Partnership reports) monitoring Albania’s progress. The EU is the actor, which ‘coordinates’, up to certain degree, the actions of the other financial institutions and is the largest donor, and through IPA it has allocated €70.7 million in 2008 (European Commission 2008a: 5).

The second most influential institution is the IMF.\textsuperscript{70} The IMF has been in Albania since 1992, when the newly post-communist government asked for the Fund’s assistance. After the pyramid crisis, the IMF became more involved, with actions such as the 2002 three year Poverty Reduction and Growth Facility Programmes and of course linked its assistance with certain policies that Albania had to implement (Nano 1997; Heaney 2007). Until today the Fund has channelled 45.04 SDR million (IMF 2008d: 55) and as previously, its priorities are macro-economic

\textsuperscript{69} Around 450000 (McGrath 1999).

\textsuperscript{70} This categorisation reflects our personal view and it is based on the magnitude of actions and the institution’s reception by the local authorities.
policy and structural reforms. In comparison to the previous two case studies, Albania is a much weaker and more underdeveloped state and therefore it has to implement more radical and stricter reforms, which make it also less able to negotiate.

Nevertheless, despite the 'imposition' of certain policies, there are still elements of 'resistance' in the form of serious implementation delays that cannot be explained in mere technical terms. This is obvious in the IMF criticism on that very subject (see IMF 2008d). This attitude is also apparent in Serbia where, as one interviewee stated, as soon as the IMF is repaid, nobody pays attention to it (Confidential Interview 7). Particularly in Albania, our last interviewee noted that when the reforms affect certain interests, then nothing moves on (Confidential Interview 6).

The third main institution is the World Bank. Relations between the World Bank and Albania date back to 1991, when Albania joined the World Bank Group. Since then, the Bank remains a central institution in development assistance with 67 projects totalling $997.5 million (World Bank 2008b). The Bank is the second largest donor after the EU and its current portfolio is $311 million, with most of the funds going to energy, infrastructure and business environment projects (World Bank 2006a; 2008b).

The blueprint for the World Bank's operations is the 2006-2009 Country Assistance Strategy. Looking at this strategy it is interesting to note that the Bank's projects are in line with the SAP provisions and that its aim is to assist Albania in achieving the SAP requirements (World Bank 2006a; IMF 2008d: 54) and this is further evidence of the central role of the EU. Another interesting element is that among the projects there are programmes for the de-politicisation of the civil service along with anti-corruption measures (see World Bank 2006a). Hence, the Bank goes further than mere technical projects.

Beyond the three main institutions there are a number of smaller ones which are operating within the established framework. From these we can pick out the EBRD and the SPSEE, which focus on trade, privatisation, democratic reform and energy. The EBRD operates forty projects with a total value of €1.2 billion (EBRD 2009a) and according to its website:
The Bank is concentrating on developing the private sector and emphasising infrastructure development as an integral part of business progress. The present focus for infrastructure activity is the restructuring and rehabilitation of the energy sector and the development of transport and telecommunications networks (EBRD 2009a).

Hence, once more the division of labour among the various external institutions is obvious and powerful. The EU has the central role in setting the agenda and the implementation process. This was inevitable from the moment that Albania planned to join the EU. Furthermore, the EU is acknowledged by the other institutions to be the primary actor in Albanian affairs. It is true as well that all the external institutions share the same ideological mindset, imbued namely with neo-liberal economic doctrine. This means that there is no ideological conflict and thus no conflict on what has to be done and how.

Within this framework, which reflects EU preferences, the World Bank and the EBRD are dealing with structural projects, which are intended to establish the foundations of a liberal market economy and a business environment which is favourable towards international capital. The IMF ensures that both fiscal and monetary policy follows neo-liberal doctrine and that Albania implements all the (neo-liberal) structural reforms. The Pact’s responsibilities range from democratisation to privatisation and it has played a major role in creating a free trade regime among the western Balkan states.

At this point, it is necessary to mention what the senior official from the European Commission stated about cooperation: firstly, that cooperation and coordination are necessary in order to avoid overlaps or conflicts. The good thing with Albania is that everyone has the same targets. While this fact has reduced the cost of coordination, some sectors are left outside because none of the participant actors was interesting in dealing with them. Furthermore, the Commission undertakes all the coordination (and the accommodation of the Albanian side within this coordination). For instance, the IMF asks the Commission before doing anything, since the EU has the greatest weight (Confidential Interview 7).
5.4.2. Domestic institutional setting.

As was expected, the Albanian government has developed its own structure in order to cope with the demands of its transition. Albanian economic policy is consistent with the Copenhagen and Lisbon Criteria, which not only reveals the overwhelming influence of the EU but also the neo-liberal character of its policies.

The National Strategy stresses that Albania follows the economic priorities of the SAA and that it ‘shares with the European Union and its member states the goal of a balanced, harmonious and sustainable development and the Lisbon Agenda of growth and jobs’ (Albanian Government 2008a: 42). The main priorities are in infrastructure and energy which seem to be the main problems of the economy at the moment. The neo-liberal pattern of Albanian economic policy is also revealed in the Government programme. The Programme mentions the need for open trade and free competition along with FDI as the basic means of economic development. Particularly for the latter, the Programme states: ‘[A]ttracting foreign investments is of crucial importance to ensure higher rhythms (sic) of development and integration of Albania’ (Albanian Government 2005: 28). The NSDI goes even further by defining clear actions for trade promotion and FDI attraction (see Albanian Government 2008a). In relation to free trade as a means of development, Albania is a member of CEFTA, and the NSDI states as a target the creation of a free trade zone with the EU (Albanian Government 2008a: 21). Further elements of neo-liberalism in the NSDI include the admission that the Albanian economy has to ‘adapt to the logic of internationalisation and integration into the world markets’ (Albanian Government 2008a: 53). As before the implementation of these policies is yet to be seen.

The research so far has revealed the Ministry of Finance and the Ministry of Economics, Trade and Energy to be the main ministries involved. Other important pillars are the Bank of Albania and the Albanian Investment Promotion Agency, the Albinvest.

Albinvest is coordinated by the Ministry of Economics and includes in its objectives ‘assisting and accelerating the inflow of foreign investment into the Albanian economy, improving the competitiveness of Albanian exporters, and providing professional services to assist the growth of Albanian SMEs’ (Albinvest 2009a). The agency has undergone recent restructuring and according to its annual
report and the assessment by the *Investment Compact for South East Europe* (an OECD-Stability Pact unit) it is a success (see Albinvest 2007; OECD 2006). The responsibilities of the agency are so great that it can be claimed that in fact it operates the main investment and export promotion strategies alone, despite its political supervision by the Ministry of Economics. For instance, the agency cooperates with the Albanian diplomatic missions abroad for the promotion of Albania as an investment destination and it is the institution which speaks to the business world (Albinvest 2007). Except for its clear neo-liberal attitude, it is interesting that investment attraction is considered a national cause, as stated in the annual report:

'Since its inception, this department was conceived to bring the best and brightest of young people returning to Albania after study and work in top institutions overseas, to contribute to a mission of increasing investments in the country' (Albinvest 2007: 7).

The Bank of Albania from its perspective is responsible for the difficult task of monetary stabilisation and low inflation, taking into account the structural problems of the Albanian economy. Despite the difficulties, both the EU and the IMF credit the Bank with some success (see European Commission 2008a; IMF 2008d).

At first glance, it seems that Albinvest is bearing the whole burden of promoting FDI and trade policies. The Central Bank controls monetary policy and the ministries are responsible for the creation of a favourable business climate by implementing the reforms and maintaining responsible fiscal policy. Nevertheless, the efforts of Albinvest cannot materialise without prior progress in the economic climate, which is in political hands, coordinated as it is by the Ministry of Economics which contains the seeds of political influence. Furthermore, the Prime Minister along with the diplomatic corps play important roles in the economic diplomacy of Albania (Albanian Government 2008j). Therefore, even though the setting seems decentralised, in reality it functions in a top-down manner. Another characteristic of the structure is the complete acceptance of EU preferences and therefore of the neo-liberal ideology, as has been demonstrated so far.

When considering this, the acknowledgement of the efficiency of this setting by both the EU and IMF is not a surprise. The EU sees that Albania is taking the necessary steps and plans, and sees political consensus (European Commission
Other positive elements are the privatisation process and the measures for improving the business climate (European Commission 2008a:21). However, in the 2007 Progress Report, the European Commission notes that:

'\textit{the business environment remained very weak and calls for further significant improvements. Outstanding deficiencies of the judiciary, uncertainty about property rights, a high level of corruption, inadequate infrastructure and unreliable energy supply, in particular, continued to hinder economic development and investment}' (European Commission 2007b: 24).

The Fund from its side is even more favourable since it speaks of 'new milestones in its (i.e. Albania’s) economic and political development' (IMF 2008d: 6). Here the criticism refers to weak governance (IMF 2008d: 6) with concern for the institutional weakness that hampers progress (IMF 2008d:17). The Fund, additionally, agrees with the EU on the weakness of the judiciary and on the extensive corruption that distorts efforts to achieve a favourable business environment (IMF 2008d: 10, 20).

However, as a well-informed interviewee has told us, what is interesting for the Commission is the significant relative progress in Albania, but this still leaves the country at a low economic level. Moreover, in relation to the efficiency of the domestic institutions, the interviewee mentioned that Albanian officials are telling the Commission that they are ready to implement further reforms but that they lack the funds and therefore request the Commission to find extra funds. Moreover, the international institutions that were described above, ignore the Albanians in programming and implementing reforms, with the result that the Albanians lack information about what is going on. Finally, the interviewee admitted that, despite the good will and the institutional framework, Albania lacks the administrative capacity to cope with all these actors and all these challenges (Confidential Interview 6).

This information means that the international institutions and particularly the EU have significant clout in Albania and that the latter is fully integrated in the former’s preferences and demands.
5.4.3. The Albanian economy today.

Growth has been substantial during the last five years with GDP growing at an annual rate of 6% in 2007 and 2008. This was mainly the outcome of an increase in industrial production and the opening of new mines, growth in the construction and services sectors and an increase in domestic demand (European Commission 2008a; EBRD 2009b). Inflation has been kept below 3%. This success on the inflation front was the result, in part, of monetary tightening (which reduced the expansion of credit) and of prudent fiscal policies (EBRD 2009b; IMF 2008d: 10). However, 12% of GDP is composed of remittances from abroad (European Commission 2008a: 19), which demonstrates the weakness and the vulnerability of the Albanian economy and mirrors the situation in several other Balkan economies. A good example of the underdevelopment of Albania is the sectoral structure of the economy with agriculture accounting for 24% of GDP, industry 13%, services 39%, transport 12%, construction 11% and remittances 12.8% (US Department of State 2008). It is obvious that the primary sector is still big but that the productive base is rather small.

External debt fell to 24.8% of GDP in 2007 from 25.1% the previous year. A similar fall was in the public external debt to 15.4% of GDP, while the overall public debt fell to 51.2% of GDP in 2008 from 56% in 2006. This fall was the result of large-scale tax administration measures. The government deficit reached 3.5% of GDP and the current account deficit has risen from 10.6% of GDP in 2007 to 12.2% in 2008 (European Commission 2008a: 19, 20, 21; IMF 2008d: 11, 16). The increase in the government deficit is the outcome of an expansive fiscal policy, which seems rather necessary for an underdeveloped country such as Albania. However, for the European Commission fiscal expansion in Albania hides risks, taking into account the increasing vulnerabilities of external balances and the serious problems in the area of electricity production (see European Commission 2008a; IMF 2008d: 23). The debt problem and the general vulnerability of the Albanian economy force it to rely on foreign aid and institutions and this, from a theoretical perspective, reinforces the hegemony.

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71 This is important since according to our interviewee, Albania has a culture of tax evasion and avoidance (Confidential Interview 7).
Exports rose 24% in 2007 but imports were increased even more (25%), with the result that the trade deficit exceeded 25% of GDP. As for FDI, its volume increased to 6% of GDP (EBRD 2009b). Once again the increase in food and energy72 import prices, the high demand for imports due to construction and the increase in commodity trade are the main reasons for this deficit (EBRD 2009b). The external imbalances remain high and risky, particularly since the remittances from abroad are likely to be absolutely reduced. In 2007, the reduction was covered by increased net FDI inflows that rose to 5.9% of GDP in 2007 from 3.5% in 2006. However, the trade deficit was such that even these inflows failed to relieve the Albanian economy from its external deficit (IMF 2008d: 23; European Commission 2008a: 19, 20). Of course, the current financial and economic crisis is expected to hit Albania hard since the volume of FDI will be seriously reduced on top of lower remittances and since the economy still has a weak productive base, external vulnerabilities will be reinforced. This deficit has similar effects as previously but also reveals the impact of Albanian economic integration that allows penetration by foreign capital and makes the state dependent on external actors.

Below the main variables of the Albanian economy are presented:

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth (Real GDP %)</td>
<td>-10.8</td>
<td>9.0</td>
<td>13.5</td>
<td>6.7</td>
<td>7.9</td>
<td>4.2</td>
<td>5.6</td>
<td>5.7</td>
<td>5.8</td>
<td>5.4</td>
<td>6.0</td>
</tr>
<tr>
<td>Unemployment</td>
<td>-</td>
<td>-</td>
<td>18.4</td>
<td>16.8</td>
<td>16.4</td>
<td>15.8</td>
<td>15.0</td>
<td>14.4</td>
<td>14.1</td>
<td>13.8</td>
<td>n/a</td>
</tr>
<tr>
<td>Inflation</td>
<td>-</td>
<td>8.7</td>
<td>-1.0</td>
<td>4.2</td>
<td>3.5</td>
<td>1.7</td>
<td>3.3</td>
<td>2.2</td>
<td>2.0</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>General government balance (deficit) (GDP %)</td>
<td>12.7</td>
<td>11.8</td>
<td>9.0</td>
<td>7.6</td>
<td>6.9</td>
<td>6.1</td>
<td>4.9</td>
<td>5.1</td>
<td>3.4</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>Government debt (GDP %)</td>
<td>49.8</td>
<td>53.5</td>
<td>53.7</td>
<td>60.2</td>
<td>58.5</td>
<td>63.9</td>
<td>61.5</td>
<td>58.3</td>
<td>55.3</td>
<td>59.7</td>
<td></td>
</tr>
<tr>
<td>Trade balance (deficit) (in millions €)</td>
<td>433</td>
<td>565</td>
<td>754</td>
<td>896</td>
<td>1145</td>
<td>1259</td>
<td>1252</td>
<td>1344</td>
<td>1385</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance (deficit) (in millions €)</td>
<td>313</td>
<td>61</td>
<td>129</td>
<td>185</td>
<td>315</td>
<td>422</td>
<td>331</td>
<td>288</td>
<td>493</td>
<td>535</td>
<td></td>
</tr>
<tr>
<td>External debt (GDP %)</td>
<td>15.0</td>
<td>17.0</td>
<td>16.1</td>
<td>17.0</td>
<td>17.2</td>
<td>22.1</td>
<td>21.1</td>
<td>19.0</td>
<td>16.6</td>
<td>16.9</td>
<td></td>
</tr>
<tr>
<td>Exports (in millions €)</td>
<td>140</td>
<td>185</td>
<td>258</td>
<td>277</td>
<td>340</td>
<td>346</td>
<td>395</td>
<td>486</td>
<td>530</td>
<td>631</td>
<td></td>
</tr>
<tr>
<td>Imports (in millions €)</td>
<td>615</td>
<td>722</td>
<td>884</td>
<td>1174</td>
<td>1489</td>
<td>1567</td>
<td>1572</td>
<td>1762</td>
<td>2007</td>
<td>2316</td>
<td></td>
</tr>
<tr>
<td>FDI in million €</td>
<td>42</td>
<td>40</td>
<td>39</td>
<td>157</td>
<td>231</td>
<td>141</td>
<td>157</td>
<td>278</td>
<td>224</td>
<td>259</td>
<td>477</td>
</tr>
</tbody>
</table>

Source: European Commission 2007b; IMF 2008d.

The above table confirms the poor condition of the Albanian economy. In particular, the growing trade deficit represents a clear threatening factor, since the

72 Albania's energy is based on hydroelectric plants with the result that the 2007 draught caused many problems in the energy supply of Albania.
economy continues to consume more than it produces. Furthermore, this makes Albania extremely vulnerable in the current economic crisis because Albania has to seek external borrowing to finance its external deficit, in a period when international money markets are increasingly difficult for borrowers. Another important finding is that Albania is extremely dependent on foreign capital and we have to see whether the rising volume of FDI is directed towards productive or financial investments. In any case, the results for the Albanian economy show a dependence on external actors. This makes its bargaining position weak and reveals the impact of the hegemonic policies on the local economy. This is also evident is the mass migration as well as of the huge grey economy.

5.4.4. The presence of foreign capital in Albania.

As expected foreign capital is well consolidated in Albania. The trade share of the EU-27 accounts for 64% of the total, in a country where trade covers 81% of GDP. However, in contrast to the other case studies, Albania has a very weak production base since Italy accounts for two-thirds of total exports and half of its imports (European Commission 2008a). Tables 16.1-16.2. show this clearly:

Table 16.1: Total exports of Albania by country of destination for the period 2001-2005 as a percentage of the total.

<table>
<thead>
<tr>
<th>Country/year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>36.6%</td>
<td>39.3%</td>
<td>38.2%</td>
<td>34.7%</td>
<td>32.7%</td>
</tr>
<tr>
<td>Greece</td>
<td>24%</td>
<td>24.4%</td>
<td>21.2%</td>
<td>19.8%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>5.6%</td>
<td>5%</td>
<td>5.3%</td>
<td>5.2%</td>
<td>6.1%</td>
</tr>
<tr>
<td>EU-27</td>
<td>80.3%</td>
<td>77%</td>
<td>74.3%</td>
<td>70.5%</td>
<td>67.2%</td>
</tr>
</tbody>
</table>


Table 16.2: Total imports of Albania by country of origin for the period 2001-2005 as a % of the total.

<table>
<thead>
<tr>
<th>Country/year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>69.8%</td>
<td>76.6%</td>
<td>73.2%</td>
<td>73.4%</td>
<td>63.5%</td>
</tr>
<tr>
<td>Greece</td>
<td>12.7%</td>
<td>2.7%</td>
<td>4.2%</td>
<td>4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>5.6%</td>
<td>5.6%</td>
<td>5.2%</td>
<td>4%</td>
<td>4.3%</td>
</tr>
<tr>
<td>EU-27</td>
<td>91.3%</td>
<td>92.6%</td>
<td>93.8%</td>
<td>90.9%</td>
<td>89.4%</td>
</tr>
</tbody>
</table>


Both tables confirm the overwhelming economic importance of the EU and the great dependence of Albania on EU markets and particularly on the Italian and the Greek economies. This dependence means that the production base of the country is designed for the satisfaction of certain markets and thus lacks any development
vision and diversification and this makes it vulnerable to economic downturns. Furthermore, Albanian imports are either machinery (German mainly) and food (from Greece and the Balkans) or energy. Exports, even though they show large percentages, are actually very small by volume. This explains the difference between exports and imports since, as we will see in the following paragraphs, Albanian production is destined for certain markets and therefore Albania is a low-skill and low-wage economy compared to its developed neighbours. Another conclusion is that Greek penetration is declining over time and the best explanation of this might be Greek inflation that makes the substitution of Greek products by Balkan goods much easier. Also interesting is that the share of the EU, although great, is steadily decreasing. The European Commission explains this in terms of the effects of CEFTA on Albania which has opened up the western Balkan markets for Albanian products (European Commission 2008a). To this, we can add the important penetration of China and Turkey (see CIA 2008).

Italy’s dominance can be viewed from its penetration in key sectors of Albania’s economy. According to Albinvest the main economic sectors of Albania are clothing, agriculture (25% of GDP); tobacco, tourism, mining and agriculture (Albinvest 2009b). Characteristic of the garments sector is that Italy owns 69% of total investments, followed by Greece (27%) and Germany (4%) (Albinvest 2005a). Part of the garment industry is shoe-making which accounts for the country’s leading export products, with 1.2 million pairs per month, making Albania one of the main shoe-making countries in Europe. In this sector, Italian dominance is well consolidated such that 100% are oriented towards exports to Italy and from there to the rest of Europe (Albinvest 2005b). The main advantages which Albania poses are geographical proximity and low wage levels (Albinvest 2005b), with both advantages allowing Italy to use Albania as its low cost investment destination. The latter indicates how inflexible the production base in Albania is and how it is oriented towards low-skill products for the satisfaction of certain markets. Furthermore, speaking about proximity for Italian producers, Albania offers them the opportunity to ship production to Italy within 24 hours (Albinvest 2005a). In November 2008 at a meeting between a group of Italian investors with Berisha, the importance of Albania as a base for the Italian economy became explicit, since, according to the investors,
Albania can become a call centre and a tourist centre in the Adriatic (Albanian Government 2008k). On the same day there was a similar meeting with Austrian investors who were interested in Albania’s energy sector and particularly in the country’s hydroelectric potential (Albanian Government 2008l).

In the mining sector, Albania has some of the largest reserves of chromium, copper and bauxite and in 2000, an Italian consortium signed a 30-year concession agreement to exploit 30% of the country’s chromium reserves, while three of the largest copper mines where were leased for 30 years to a Turkish company (Albinvest 2009c). In the oil industry the government is about to privatise the state oil company, Albpetrol, as well as the ARMO oil refinery (European Commission 2008a).

According to the Foreign Investors Association of Albania (FIAA), the sectors of banking, telecommunications and construction are fully in the hands of foreign investors, mainly from Greece, Italy, Germany and to a lesser degree from Arab states and Turkey (FIAA 2009; Holzner 2007). The Turkish presence, with its ownership of Albtelekom and the National Commercial Bank, is also interesting. This might be the result of the religious, cultural and political connections between the two countries. Geographical proximity seems to be a valid explanation not only because of the Italian and Turkish presence but also because Greece is represented by more than two hundred and seventy companies (Farmakis 2008). Geographical proximity is also connected with the lack of infrastructure and the marginalisation of Albania from pan-European networks that prevents capital penetration from non-neighbouring countries. Table 17. is indicative of this.

<table>
<thead>
<tr>
<th>Country</th>
<th>% of the total</th>
<th>Total volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>47.9</td>
<td>672.5</td>
</tr>
<tr>
<td>Greece</td>
<td>34.2</td>
<td>480.2</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>2.2</td>
<td>30.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.0</td>
<td>28.1</td>
</tr>
<tr>
<td>USA</td>
<td>2.0</td>
<td>28.1</td>
</tr>
<tr>
<td>Germany</td>
<td>1.3</td>
<td>18.3</td>
</tr>
<tr>
<td>France</td>
<td>1.3</td>
<td>18.3</td>
</tr>
<tr>
<td>China</td>
<td>1.3</td>
<td>18.3</td>
</tr>
</tbody>
</table>


Even though this table is five years old, due to the lack of recent data, it provides us with important details. Firstly, the geographical proximity and the dominance of
Italy and Greece is apparent. Equally important is the appearance of FYR Macedonia (that indicates the presence of foreign affiliates) as well the presence of Turkey and China which has been strengthened since then. Also interesting is the low level of German investments and the US presence, which is bigger in comparison to the other two case studies. The main thing that has to be noted is the Italian and Greek economic domination. 73

5.5. Neo-Gramscian application.

Once again the analysis is conducted in accordance with the three spheres of activity within which hegemony is constituted.

5.5.1. First sphere: social relations of production.

The first sphere tries to demonstrate whether there is a change in the social relations of production. Albania could not be an exception from what is happening in the region. With the fall of the Hoxha regime and particularly with the 1992 Berisha victory, Albania has begun its transition to a liberal market economy. The transition is obvious from the programmes and the policies of all post-communist governments. Another indication, beyond the blunt adoption of EU-style neo-liberalism, is the 'agreement' between the two main parties on the necessity of integrating into western structures, notably the EU and NATO, that demonstrates the commitment towards change. Thus, indeed there is a new social method of production, namely of European neo-liberalism in contrast to the previous communist system of self-sufficiency. This change is not only theoretical but also at a practical level with the adoption of reforms towards the establishment of a liberal market economy. Furthermore, the change in Albania is even greater than in the other two case studies, since Albanian communism was the most radical in eastern Europe.

73 Before going to the next section, we have to state that due to the low level of German presence, we skip the presentation of the German economic presence at this point and we have address this in a later section.
5.5.2. Second sphere: forms of state.

Entering the second sphere, we have to remember that the prerequisite for a group to be a member of the Bloc is the existence of the same purpose, ideology and way of exercising hegemonic power. According to the first sections, the groups which seem to fill the above criteria in Albania are the domestic elite, the officials of IFIs and of the European Commission/EU, the US administration and the foreign and transnational capital elite.

The domestic elite, as was demonstrated, consists mainly of the two biggest parties, reflecting approximately the ‘clannish’ character of Albanian society where cooperation and coherence are largely imposed from abroad. In the second group, the European Commission operates the enlargement policy, and sets the politico-economic framework within which Albania moves. It is also the actor that directly or indirectly coordinates the actions of all the other institutions, which as was mentioned, do not always inform the Albanian authorities about their actions. This indirect influence means that the EU sets the framework and the other institutions are ‘forced’ to operate within this given framework. Certainly, the EU is working within the guidelines which have been set by its member states through the various European summits. However, the Commission also has the flexibility to act independently by choosing how it will fulfil the task that has been established. The European Partnerships are indicative of this flexibility, because the Commission sets out what has to be done and how. However, the research so far shows the main role of the EU, namely as the main hegemonic institution. Therefore, its importance within the Historic Bloc is secondary.

Albania is the state where the third group (i.e. the US administration) has the biggest influence compared to previous cases. Albania is one of the most pro-US states in the world, with participation in the ‘War on Terror’ and with enhanced cooperation with the US military establishment. This support is largely a reaction to the US role during the Kosovo war and later in the diplomatic field in favour of Kosovo’s independence. Therefore, the USA is considered a protector of Albanian rights and interests and of Albania proper. The US is the champion of Albania’s NATO

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240 i.e. by providing military bases; common military exercises etc.
membership as was apparent in the Bush speech at the Bucharest NATO summit (Bush 2008). The US administration has an apparent influence on political decisions in Albania since it represents an important reference for Albanian foreign policy (Confidential Interview 6; Berisha 2008a). Berisha for instance declared: 'I would like to assure President Bush and the US administration that Albania and the Albanians will be with them in all their efforts to develop and consolidate freedom and whenever there is a need' (Berisha 2008a). For its part and as is stated on the website of the US State Department, the Albanian pro-US stance is fully acknowledged (US Department of State 2008). Another difference with the previous two case studies is that the USA has a strong economic presence in Albania as well. This presence is in terms of US companies operating in the country, while the FDI and trade volumes, even though they look bigger than in the other cases, are still small. The presence is also apparent in the significant role of USAID in Albania with overall US aid amounting to $616 million since 1991 (US Department of State 2008). Furthermore, it preserves personal contacts with the domestic elite and particularly with the Berisha regime.

The fourth group looks even more influential within the Bloc than the US administration. It is obvious from the economic presentation of Albania that foreign economic penetration is massive and in many respects reaches levels of an African colony, especially since it would seem that Italian capital owns half of the country! According to the HMFA in 2004 Italy accounted for 47.9% and Greece of 34.2% of total investments (HMFA 2004). For Albania, foreign capital is the main source of economic development since the country has never had an industrial base or serious infrastructure. To this can be added the lack of strong domestic economic actors in order to highlight the great importance of foreign capital for Albania. This is also evident in the approach of Albinvest towards FDI, which is the approach of a national cause (Albinvest 2007).

Hence, also in Albania we observe a division of labour within the Bloc. It is obvious that the EU operates and sets (with assistance from the other IFIs as well) the framework of action and ensures the preservation of the special conditions within Albania and the consent of the population towards the hegemonic project. The domestic elite implements the externally designed reforms and deals with the
rest of society. The US administration participates in the whole process and although it has allowed the EU a free hand in Albania’s integration into western structures, it intervenes to influence certain policies such as the consent of Albania in certain US actions (e.g. in the Iraq war). Finally, international capital legitimises the whole process and the existence of the hegemonic framework, and it is the group that transcends and confirms the existence of the hegemony.

The next step is to investigate whether there is a leader of the Bloc. For obvious reasons the domestic elite is excluded from the candidacy for leadership. This group is weak and unable to oppose the other actors of the Bloc, and on the contrary implements, what the other actors have decided. Moreover, the domestic elite bases part of its legitimacy on the support of the external actors: the US, the EU, or the business community. Added to this is the lack of strong national economic capital, which makes the dependence of the domestic elite on foreign actors even greater. It must not be forgotten that, as an economy, it cannot survive without external help. The second group (i.e. EU and IFIs officials), by acting mostly as a hegemonic institution, i.e. as an operational tool of the Bloc, has been excluded from claiming the leadership of the Bloc. Even though the EU exercises tremendous influence on Albania as well as on the actions of other actors who operate in this country, for reasons that have been explained in Chapter 2, the EU must be rejected as leader of the Bloc. Its actions are limited by the preferences of the member states and its role as the main coordinator is a result of a Euro-Atlantic agreement and of the EU’s expertise in issues of integration. In addition, its role as the hegemonic institution hampers its bid for leadership. To this is added the US influence that dilutes the overall influence of the EU.

In relation to the other IFIs their role in relation to the leadership is even smaller. Not only do they never express such notions but they also operate within the EU framework or in some cases with strong influence from their national state members as in the case of World Bank with the US (see van Houten 2007). The USA, despite its influence on Albanian issues, is not powerful enough to play the group leader. This ‘weakness’ is mainly a two-factor outcome. Firstly, although USAID has a significant presence in Albania, its actions are within the SAP and SAA provisions which were set by the EU enlargement policy, and focus more on
development and relatively technical projects. Secondly, task of reconstruction and integration of the western Balkans (Albania included) has been given to the EU and its member states (Gardner-Feldman 2001) and thus the US role is located in issues of parallel importance, such as participation in the ‘War on Terror’ or the facilitation of US missions. Consequently, its influence does not seem powerful enough to suppress that of the EU particularly in non-security related policies.

Therefore, the foreign capital group has the strongest claim to be the Bloc leader. It is the group which benefits most from the actions of the Bloc. It is also the actor which is the primary agent of the hegemonic ideology, and it is the actor in whose name certain policies and reforms are adopted. Nevertheless, the question of the cohesion of the group and the awareness of its existence as a group is yet to be answered. Beginning with the latter, foreign capital appears to move collectively in a manner that resembles a herd or as Thomas Friedman smartly describes it in his book *The Lexus and the Olive Tree*, international capital represents an electronic herd (see Friedman 2000), as a ‘herd’ moves in one direction but without having a central guide or a pre-set plan. However, it has one common purpose, which is profit, and, as long as all the agents of foreign capital in Albania are working towards the same purpose and using approximately the same means, one can justify their grouping as a distinct group within the Bloc. Communication is also reinforced by the operation of investors’ associations such as the FIAA, which is the main representative of foreign capital. To this, we add chambers of commerce such as the Albanian-Italian, the Greek-Albanian and the recent German-Albanian Chamber of Commerce, which promote the interests of foreign investors. Moreover, the overwhelming presence of capital from two countries solidifies this cohesion.

In relation to their awareness that they represent a distinct group of an Historic Bloc, the answer can be given by examining their internal and external awareness. With the term internal awareness, we mean their awareness that they constitute a group. In this case, the awareness is apparent through the establishment of foreign investors associations such as the FIAA, as well as with the establishment of chambers of commerce and the holding of events such as conferences. The external, i.e. their awareness of being part of an Historic Bloc, also seems to exist but in a more subtle manner. There is clear communication between companies and their
parent states, with Germany being the best example. There are also consultations between institutions and the business community, something that is the case with the EU since the business community undertakes the implementation of the bulk of EU projects in Albania. In fact, as one piece of research has shown, the vast majority of Transnational Corporations (TNCs) preserve their national character by keeping their main offices in parent states (see Swyngedouw 2004; Pozo-Martin 2006). On the other hand, everything (in terms of reforms and projects) functions in the name of attracting foreign capital.

All these elements give primacy to the foreign capital group, which is aware of its special role; particularly, since in the era of globalisation the TNCs can destabilise any economy within a day through the use of international markets. The word subtle indicates that the group has not openly sought that role. Finally, the cohesion exists in the sense of common purpose and the means of its successful materialisation. In Albania, this cohesion is even greater because there is little diversity of foreign capital in terms of nationality, since half of Albania is producing for Italy's market. Therefore, we can claim that the foreign economic elite represents the leading group of the Bloc and particularly in the shape of Italian capital.

Based on the analysis so far we have to decide on who is the leader of the Bloc. However, none of the groups can be an absolute leader. Transnational capital, even though it seems to have an advantage over the others, has severe limitations in relation to foreign policy and in promoting political reforms. The very fact that the Albanian economy is designed for few markets is also a factor that makes transnational capital less interested in assuming leading control in this state. In addition, even though most of the relations are implemented in the name of FDI and economic development, the TNC is not able to impose orders on the other actors, or at least, we do not have indications for this yet. What exists instead is cooperation with the other actors. For what can be safely claimed is that the current division of labour offers the ability for a collective hegemony with the leadership 'rotated' among the groups. What is meant with the term 'rotated' is not that each group takes the leadership for a certain amount of time; what is meant instead is that within the existing division of labour each actor has supremacy in its 'sector'. Thus, the US is the main security point of reference; the EU the coordinator of other
institutions and of the integration; and capital controls the economy. Lastly, the domestic elite is the one that has supremacy on domestic affairs and over relations with the rest of Albanian society.

5.5.3. The subaltern reaction.

Albania's uniqueness is also apparent in the almost complete lack of social opposition to the Bloc. In a poor and clannish society, like the Albanian, that has also faced radical communism, to oppose the only possible way of achieving some kind of prosperity and rationalisation of governance is difficult. Even the political parties have the same agenda, with the only differences to be found in the way policy is made and domestic issues are addressed. A good example of the lack of opposition is that the only demonstrations that were held in Albania were against corrupt governments or for national causes like Kosovo's independence. The Balkan Monitor poll is indicative of this, showing that support is above 80% with those over 55 being the biggest supporters with 85.5% and the age group 40-54 the least supportive with 80.9%. These results might be because of the grave memories of the Hoxha era. The support towards EU membership is evident in the regional character of the responses where 81.4% of urban population and 85.3% of the rural population supports this target (Balkan Monitor 2009) that proves a universal support that penetrates all social classes.

Another explanation could be that the lack of an industrial base for restructuring social relations (which also caused problems in other transition societies), clearly plays a role here. Furthermore, social discontent is also downplayed by the existence of a huge informal sector that absorbs a significant part of the unemployment pool. It must be noted that, for the Albanian population, the EU is viewed as the only way of achieving the eventual unification of all Albanian territories (Confidential Interview 6). This is reinforced by the tendency of the Bloc to favour the Albanian cause, as in the case of Kosovo. We have to add that Albania has no open national issues as in the other two case studies and this helps to downplay the nationalist and anti-western voices.
5.5.4. Third sphere: world orders.
The third sphere is the world order within which Albania is functioning and within which the Hegemonic Bloc consolidates its power. Unquestionably, the world order is known and the same with the other two case studies. Nonetheless, the analysis cannot close without exploring the mechanism of transmission and control. It is obvious from what has been said that transmission takes place through the implemented projects; through the domestic elite with its actions and through mass media propaganda. Institutions, such as USAID, IMF, EU, the World Bank etc, are implementing two kinds of programmes. The first are the infrastructure programmes, which indirectly promote the Bloc’s hegemony by showing the benefits of their actions.

The second kind of projects are those that are aimed at the society under such labels as the promotion of civil society, the reform of governance, free media support etc. There are programmes that are intended to train and educate and there are those that are indirectly promoting the Bloc’s hegemony by transmitting certain norms and preferences into Albanian society. Such projects include the World Bank’s ‘Protecting the relations of ethnic minorities by increasing the role of the electronic independent media in the sub-prefecture of Saranda’ and the €4 million from the EU for the promotion of civil society and the media (World Bank 2008a; European Commission 2008a).

The domestic elite promotes the hegemonic project through its policies (e.g. education) and its direct communication with the rest of society. In Albania the clan-based system makes this process even easier, since it is very difficult for members of a clan to oppose the clan’s principles. Finally, the media have the usual role of promoting or hiding issues and the ability to imbue the population with their messages, transmitting the hegemonic ideology in an easy way.

5.5.5. Germany and the neo-Gramscian hegemony in Albania.
Even though we assumed that there might be no single leader of the Bloc, we have to look at the role of Germany and of German capital in Albania. From what has been presented so far, it seems that the German economic presence and role in the Albanian economy is marginal or at least ‘late-coming’. Italy and Greece appear
dominant in relation to which foreign countries have invested and operated most in Albania. If we try to find the rationale behind this, a good argument could be the geographical isolation of Albania (particularly in relation to energy projects); the small size of the Albanian economy and; its structural problems such as poor infrastructure and corruption. The Auswärtiges Amt mentions as the main reasons: ‘Bilateral trade relations suffer from the small size of the Albanian market, legal uncertainty and the lack of Albanian supplies. Nevertheless, the Albanian market for German consumer and investment goods is larger than in the past thanks to an increase in purchasing power’ (Auswärtiges Amt 2008a).

Someone could supplement this with the comment of one of our interviewees, that Albania is excluded from the main pan-European networks as well, as the very poor infrastructure prevents any serious investment outside the region of Tirana (Confidential Interview 6). Despite the negative elements, there is still a German economic presence, and a German economic interest, underpinning the relationship between the two countries (i.e. Germany and Albania).

First of all, there are a number of big German companies that operate in Albania, such as Siemens, Hochtief, Berlin Wasser et al.75 Furthermore, even though, the presence of German capital is currently minimal, there are efforts on both sides for a more intensive economic relationship. Examples of these efforts are the business conferences in Frankfurt in 2006 and in Tirana in 2007 that were aiming at attracting German investors (see Deutsch-Albanische Wirtschaftsgesellschaft e.V. 2006; 2007). This is consistent with the Annual Report of Albinvest, according to which ‘Albinvest considers Germany as a favourable market for attracting potential investors in Albania’ (Albinvest 2007: 13). Turning back to these conferences it is interesting that Albania promotes economic cooperation between the two states. As for the presentation at the Frankfurt conference Albinvest’s effort to promote, Albania as a favourable place for German investors is explicit, particularly in tourism and raw materials. Also interesting in this presentation was the highly professional preparation of cooperation pursued hitherto between Albania and Germany and which according to the data is increasing steadily (more in Albinvest 2006) that seems to reveal a serious focus on increasing German-Albanian relations.

75 According to a presentation of Albinvest there are around 30 large German corporations that are operating in Albania (Albinvest 2006).
Within this framework in late 2007 the Albanian-German Chamber of Commerce was established but it is still in its infancy. Consistent with this climate are positions of prominent members from both states. In October 2008 the Albanian Prime Minister Sali Berisha stressed the desire to ‘extend economic cooperation with Germany and joint efforts to enhance this cooperation into levels of political cooperation constituted a major task for the government’ (Albanian Government 2008b). An example of the importance of German capital for the Albanian leadership and of the unconditional ‘surrender’ to foreign capital is the admission in the same report that German businessmen ‘expressed their highest estimations on reforms in Albania and establishment of a positive climate for investments in major projects in all fields’ (Albanian Government 2008b).

On the other side, the German political and economic elites do express a clear interest in Albania. For instance, the Federal Minister of Economics and Technology, Mr. Schauerte, indicated that ‘political and economic relations between the two countries are excellent, but they need intensification, taking into account the fact that Albania has great potential in many fields’ and concludes by stating that ‘we [i.e. Germany] would like to have a serious and long-term economic cooperation in Albania’, while promising a visit with ‘a wide delegation with businessmen and high-rank German authorities in the field of economy, in the framework of promotion of German investments in Albania’ (Albanian Government 2008g). Even more important was the position of the German Chancellor Dr Angela Merkel on her meeting with the Albanian Prime Minister, in which she stated Germany’s willingness for more cooperation in economic and political fields and German satisfaction with the participation of German companies such as Siemens in Albania (Albanian Government 2008d). Similar praise and interest was expressed by the Federal Minister of Foreign Affairs, Frank-Walter Steinmeier who ‘ensured Premier Berisha of the support of the government of Germany for Albania’s quick NATO integration as well as for EU integration’ (Albanian Government 2008e).

It is more than evident that both sides want to enhance their bilateral relations, and the fact that the current German presence is small, might indicate that German interest is developing rather late. Therefore, in the future the situation
might be different. This possibility is reinforced by the rapid increase of more than 30% in trade flows between the two states (see Albanian Government 2008b).

However, there is one area where the German role is very significant. This field is bilateral aid. Germany is Albania’s biggest donor, with €700 million, which is the highest per capita aid in the world (see Albanian Government 2008c). The aid is directed towards infrastructure projects (Albanian Government 2008c) which are the projects that promote the business environment and facilitate the economic penetration of foreign investors such as the Germans. In October 2008, Premier Berisha stated that Germany was about to commit €120 million to investments in major projects (Albanian Government 2008i). In this field, intensive activity comes from the BMZ, the GTZ and the KFW banking group. All of these focus on the promotion of infrastructure and the business climate, as their websites state. From the deployment of assistance, it is becoming obvious that they are aimed at facilitating both economic activity and the penetration of foreign capital. Furthermore, it has to be noted that the cooperation of the German actors in the implementation of the assistance projects are both private and public. An example of this action is the €30 million agreement between the German and Albanian governments for economic cooperation and between Albania and the KFW which is undertaking the implementation of the proposed actions (Albanian Government 2008h). According to the BMZ the main priorities are in energy and economic development, which includes tourism and the business environment (BMZ 2008). In relation to tourism, it is not only the BMZ that assists Albania in this sector but also USAID with its director of the Albanian office underlining that tourism currently accounts for 12% of total employment in Albania and 15% of GDP (USAID 2009). The pattern of aid might reveal two things. Firstly, Germany is becoming very important for Albania and this might imply dependency. Secondly, the projects that are sponsored by Germany are largely aimed at business and investment promotion that favours foreign capital and German capital in particular.

So far this research has ignored the political field, because so far it seems to be the ‘weakest link’ of the German presence in Albania, since Albania is not a part of German diplomacy in the region. As in the economic field, at first glance the role of Germany seems to be marginal with other actors, such as the USA and Italy.
playing a more important role. For instance, during the pyramid crisis of the mid 1990s, Italy, the USA and Greece had undertaken the peace missions. German activity seems to have been deployed more within NATO and the EU, with the aim of the integration of Albania into western structures. Such an approach was to be expected since Germany is used to operating as a multilateral civilian power. We find more concrete support in Angela Merkel’s speech on 18 February 2008 in which she expresses the need to pursue foreign goals within NATO, the EU or UN (Bundeskanzlerin 2008), as well as in her speech on 11 May 2007 according to which Germany, as member of the EU and NATO, was supporting Albanian integration (Bundeskanzlerin 2007a). The position of the German Minister of State, Mr Gernot Erler, was similar on his visit to Albania, when he confirmed the support of Germany for Albania’s candidacy for membership of the EU and of NATO. He also mentioned Germany’s willingness to intensify the political dialogue between the two states (Albanian Ministry of Foreign Affairs 2007). However, so far we are unable to find political communications and dealings between Germany and Albania outside the framework of the EU and NATO, unlike the case with US-Albanian relations.

Hence, so far we have observed that, despite the desire of both sides for closer relations, their development is still low. Perhaps the fact that diplomatic relations between Germany and Albania have a history of just 20 years may explain the limited extent of German influence in this country. Characteristic of this late German presence in Albanian affairs is that the Konrad Adenauer foundation, which was present in the previous two case studies is only now planning to open an office in Albania in order to ‘organise and coordinate all the activities...in the framework of consolidation of the democratic institutions, the rule of law’ (Albanian Government 2008f). Therefore, the only way to claim any considerable German influence is indirectly through the EU. Such an approach seems valid from the point of view that the EU sets the framework and coordinates the actions of other actors.

5.6. Concluding remarks.
In this case study, the research seems to disprove the hypothesis of German hegemony. German economic presence is marginal, while the political focus of Germany towards Albania is late and limited. In other words, Albania does not seem
to attract German interest. Even cultural promotion and military presence seem negligible in Albania. Thus, there is no direct influence.

What about indirect influence? Here things might be different. As before Germany is exercising indirect influence through the EU. The difference is that the EU influence is biggest in Albania and in fact German influence could be claimed to be substantial. However, this is not proven, because what appears instead, is that Italy and Greece have benefited most. It seems that Germany is not greatly interested and therefore other member states are gaining from this indirect influence.

Furthermore, the special conditions of Albania, such as the pro-US position and the economic dependency, prevented us from locating a candidate for leader of the Bloc and thus a potential hegemon. This might seem strange, since in Albania all the indications of the hegemony's existence are evident, such as economic dependency, political cooperation and ideological commitment. Nevertheless, no single actor was powerful enough for us to claim its supremacy. Therefore, for Albania we have to admit that the hegemony is exercised without a central hegemon, but with cooperation and division of labour within the Bloc. Such a case is not in contradiction with our theoretical assumptions since for neo-Gramscian scholarship what matters is the hegemony and the hegemony can exist without a central actor as long as a cohesive hegemonic ideology exists.
Conclusion.

Summary and findings:
The purpose of this thesis was to examine whether Germany exercises politico-economic hegemony in the western Balkans, a hegemony that has been practised directly, or indirectly through EU operations in the region. For this purpose the neo-Gramscian theory of hegemony, as elaborated mainly by R.W. Cox was applied and tested. On the basis of this theory we developed a theoretical framework which, with necessary modifications, has been compatible with the scope of this thesis. Hence, the focus was on the formation of the Historic Bloc76 (in cases that the formation of a Bloc was possible) and its operation. Fundamental to this theoretical structure has been the role of Germany.

In the introduction, the initial hypothesis was presented, namely whether Germany exercises politico-economic hegemony in the western Balkans, as well as the tools for conducting this research, like the supportive research questions (see p. 3). Hence, by referring to the methodology that we intended to use, we moved onto the first part of this thesis, which is the construction of the theoretical framework.

The exploration of the hypothesis and the testing of the methodology commenced in Chapter 1. In this chapter, the main part of the theoretical framework was constructed. The criteria by which this research was conducted and its findings justified were defined. These were the regional character of the hegemony, its economic character and the separate consideration of each case study. Chapter 1 also presented the general developments in the field and indicated what makes this approach quite novel. Of course the weaknesses of this approach were presented in an effort to provide the reader with the overall theoretical background for judging the findings of this thesis. Last but not least was the identification of the hegemonic ideology, that of neo-liberal economics, which represents a focal point of this research. An equally important part of Chapter 1 was given over to the description of the German politico-economic model, in order primarily to find those elements that

76 We remind the reader that the term Historic Bloc describes the way in which the ruling social forces of a particular society establish a relationship with and over competing social forces.
influence the hegemonic ideology of the Historic Bloc and the general economic mindset of Europe. A secondary aim was to identify the connections between public and private actors within Germany that would allow us to treat the German political and economic world as one elite and as such to establish it within the Historic Bloc. Hence, the analysis in Chapter 1 sought to demonstrate sufficient links between the political and economic elites of Germany, such that they could be treated as one. In addition, we were able to trace elements of German influence on the hegemonic ideology and to identify the required elements for move further.

Having managed to provide the platform for the theoretical application of this thesis, we moved to Chapter 2. In this chapter, the formulation of the theoretical framework was concluded by defining the last crucial part of the puzzle, namely the identification of the key hegemonic institution, namely the EU. The importance of this identification lies in the extensive activity of the EU in the region that fits perfectly with the parameters of the hegemonic institution, since it transmits the hegemonic ideology and obtains the consent of the population. The EU is also coordinating the work of the other IFIs that operate in the area. Nevertheless, this identification required showing that the EU is a channel for member states' interests, something that we managed to establish for enlargement policy, which is the main framework of hegemony, without moving deeper into EU governance issues. The second requirement was to show that the EU has a distinct hegemonic ideology. This was also demonstrated since the EU neo-liberal model preserves part of its social characteristics that make it differ from the US neo-liberalism.

Equally important was the connection that we established between Germany and EU enlargement and EU ideology. We demonstrated that Germany was able to 'upload' key elements of its institutional setting to the EU, particularly through the Single Market and EMU to shape the economic ideology of the EU to a degree that it largely reflects German preferences. This was important because, the hegemonic institution is the vehicle that transmits the hegemonic idea and consolidates the hegemony by gaining the consent of the subject population. Thus, by confirming German influence on this institution, we could claim indirect German influence on the western Balkan states. In addition, we can claim that Germany might be the
hegemonic leader. With the theoretical framework complete we entered the empirical part of the research, namely the case studies.

Beginning with Serbia, the research revealed a society divided into two opposing camps. There are those who support an unconditional integration with the West and those who put Kosovo's status as the national priority. The division is not only within society but also in the political realm which gives the division an ideological character. Emblematic of the division is the role of external actors that play the role of 'patron' like Russia and the EU member states. This 'conflict' and competition has resulted in the creation of an anti-hegemonic group, which has provoked the response of the Serbian Bloc. In fact, this very response of the Bloc in safeguarding its interests by intervening in the domestic affairs of Serbia has confirmed both the Bloc's existence and function. In this chapter, we saw that Germany is seen to have the most prominent presence (in comparison to the other case studies) at both the economic and political levels. Hence, Chapter 3 confirmed, within the parameters that were set, the existence of German economic hegemony, but mainly in an indirect way through the EU and through the foreign capital group. In relation to the research questions, all of them were answered in a positive manner. Hence, we demonstrated that Germany uses the EU as a means of establishing hegemony (RQ1); we showed also a political influence, as in the case of the elections (RQ2) and we indicated the intentionality of the actions (RQ3). Chapter 3, by presenting the role of the Bloc and of Germany, introduced the pattern upon which the other two case studies were examined.

The FYR Macedonia case study was slightly different from the Serbian. In this case, the split in the society is ethnic, while in political terms the split between the domestic elite is not ideological but ethnic or in relation to policy planning. Actually, the Bloc made its existence apparent in this case study by imposing the co-existence of opposing elements of the domestic elite, namely an old and new Slav and an Albanian elite respectively. This also happened because the threat to the Bloc was much less apparent and thus the Bloc has less reason to intervene and make itself apparent. Furthermore, as in Serbia, the Bloc's response was a catalyst for political developments in FYR Macedonia. The Bloc's actions also demonstrated that the weaker the recipient state, the greater the hegemonic control that is imposed upon
it. The weak economic position of FYR Macedonia also revealed the extent of the economic hegemony that can be established and the level of dependence of this state.

In general, the research revealed many common elements with the case of Serbia, but also differences which result largely from the different historical process, from national challenges and from the interactions of external actors. These differences were proven to be powerful enough to dismiss the role of Germany as the unquestionable hegemon.

Once again in relation to the research questions the answers vary. We showed that Germany uses the EU but also that other member states have profited and make use of the EU. So the answer is not clear (RQ1). Nevertheless, the political character of the hegemony was revealed (RQ2); as well as certain levels of intentionality (RQ3). Therefore, we showed the existence of hegemony but in a less intensive way, while the German presence makes it an important factor, and an indirect hegemony on Germany’s part a possibility.

The last case study was chosen because we believed in advance that it would have had the most negative outcome in relation to the validation of the core hypothesis. The research on Albania demonstrated the very poor condition of Albania and its transformation into an economic ‘colony’ of Italy and to a lesser degree of Greece. It revealed as well the almost total lack of social and political resistance towards the Historic Bloc and an absolute focus on the hegemonic ideology and project. This was consistent with the complete dependence of Albania on the Bloc. Moreover, as in the previous case studies, the research was able to confirm the role of the EU as hegemonic institution and to identify a Bloc formation similar to that in FYR Macedonia. Nevertheless, Albania’s distinctiveness along with a significant US influence on Albanian policy-making did not allow us to identify elements of German hegemony. Here also, the notion of indirect German influence seems not to work. However, the late ‘discovery’ of Albania by German capital might change these results in the future. In relation to our case studies, the answer to RQ1 is negative, because Italy and Greece rather than Germany profit from EU actions. The political dimension of hegemony was evident (RQ2) and intentional (RQ3) but not from Germany.
In all the case studies, the research revealed some common trends. There is the same division of labour among the hegemonic groups and in all the case studies the existence of an Historic Bloc was vital for the legitimisation of domestic elites. EU activity is significant and its ‘ideology’ has been totally absorbed and implemented by the recipient states and thus in all cases there is a strong popular support for the Bloc. The EU appears as the main coordinator and the only actor with clear power and influence in the case studies. Finally, hegemony exists in all the case studies but with different configurations of power. However, the findings disprove the case of German hegemony since German hegemony can only be claimed in a very indirect and diluted manner.

Trying to make an overall assessment, we have been able so far to trace elements of hegemony in all case studies. What seems to vary is the configuration of power. Thus Germany appears strong in Serbia, less powerful in FYR Macedonia and absent from Albania. Instead, because of the special provisions of the theoretical framework that requires a hegemonic group, we were able to find collective structures of control, largely of an indirect nature and mediated by the EU.

**Explanation of the results.**

Perhaps the best explanation for the results is to be found in the different conditions that exist in each case study. In Serbia, the current political and economic establishment was born of the wars that led to the disintegration of Yugoslavia; of the NATO bombings during the Kosovo war, and of political developments around Kosovo’s status. It is also an outcome of the Milosevic legacy, which fuelled further nationalism and the anti-western feelings of the population. All these elements (particularly Kosovo’s status) were easily exploited by Russia in order to penetrate the western Balkans region which is claimed by the West as a sphere of influence. The West, for its part, has created its own domestic political elite, which it protects and supports, while at the same time the Bloc prevents the anti-Bloc elite from acquiring political power. In this chapter, Serbia’s central position in the geopolitical and energy competition between the West and Russia was examined. Therefore, Serbia was the ‘battleground’ of this competition with the result that the Bloc’s activity was seen to be intensive and explicit. In other words, the threat, to its
interests provided basic proof of the Bloc's existence. Finally, in relation to Germany, it has to be noted that Serbia and Germany have traditional links which have created the conditions for the current politico-economic presence of Germany in Serbia, not to mention the vested interests of Germany in relation to Serbia, which we had already mentioned. These reasons led to the validation of our hypothesis to a significant degree.

In FYR Macedonia, the conditions were such that the Bloc has no need of making its presence as apparent as in Serbia. Even though FYR Macedonia, escaped a huge armed conflict, it had a small civil war, which opened ethnic wounds in Macedonian society. Nationalism and cohesion are the key words here. FYR Macedonia has two big national problems, namely the accommodation of the Albanian ethnic community and the name dispute with Greece. These form the basis of Macedonian identity and the social cohesion of the state. The state is built on 'weak foundations' with the result that its cohesion is under threat. This threat has been the driving force of the Bloc's activity and appearance. Hence, here again the Bloc's existence was evident by its response to the threat to its interests and cohesion, because in this case the possible dissolution of FYR Macedonia is perceived to be a destabilising factor in the Balkans. In FYR Macedonia the power of the Bloc (and thus of the hegemony) is stronger due to the absence of an opposing camp and the lack of social opposition towards the Bloc. As a result, the Bloc has less need of making explicit its role, which however, is manifested by the imposition of cooperation between the two opposing ethnic elites. Finally, in FYR Macedonia the validation of our thesis was weaker; furthermore other actors such as the USA are diluting the role of Germany. Therefore, we had to dismiss the existence of a central role of Germany in the Bloc, in favour of a more collective hegemonic structure.

Albania appeared to be the country most dependent on the Bloc. The Historic Bloc has consolidated its power simply because Albania based its development on it. The poor economic conditions and the particular structure of Albanian society, in combination with the lack of open national or minority problems, prevent any serious opposition to the Bloc, and in contrast encourage the courting of foreign patronage. Therefore it was expected that the Bloc's hegemony would be strong in Albania, something which again was manifested by the imposition of cooperation.
between opposing domestic political elites. Despite this, the core hypothesis was rejected since Italy, the USA and other actors have much more influence than Germany. However, in Albania we encountered the problem of finding a leader of the Bloc and thus we ended up with a collective exercising of hegemony.

Another factor that help us to understand the different results among the case studies, relates to the transnational links between the case studies and Germany. As the term of transnationalism indicates these are links created by human activities and social institutions that exceed national boundaries and are taking the form of migration patterns, remittances, investments (especially by small diasporic entrepreneurs), ideas etc (see Vertovec 1999; Basic 2006; Spohn and Triandafyllidou 2003). As the research showed there are active links of Germany with Serbia and in a lesser degree with FYR Macedonia. We depicted that German companies operate in these countries and they are bringing their expertise. There is also a certain number of immigrants in Germany, which according to German statistics there are 62000 Macedonians and around 200000 Serbs (Bundesamt für Migration und Flüchtlinge 2008) and which not only sending back remittances but also ideas and personal experiences that help in creating the ‘myth’ about Germany, even thought their small number is not causing fundamental influence. Its not coincidence that during the Yugoslav era, Germany was considered as the promise land by Yugoslavs. These links have also cultural aspect since as we have seen German cultural institutions are operating in these states adding further to the acceptance of Germany as something positive (see Baker 2006; Cohen 1996). Hence, these links could explain to a degree why Germany is accepted as something positive and thus why its hegemony could be easier established. In FYR Macedonia, because of the US and Greek influence the German attractiveness is less strong and our results showed that the case of German hegemony was weaker than in Serbia. In contrast, Albania is very close to Italy and Greece. Half of the Albanian workforce, as was mentioned, is working in Italy and Greece sending back an important volume of remittances and most importantly due to the regional proximity the immigrants are bringing back to Albania parts of the Italian and Greek culture, ideas and business expertise. In fact, small diasporic entrepreneurs are opening businesses in Albania
and, in many cases, continue to preserve their links with Italian and Greek businesses. Therefore, from this perspective we have to admit that the difference between Albania and the other two case studies also reflects that Albania’s links with Germany are still negligible.

**Theoretical explanation.**

If we try to find an answer in more theoretical terms, then we have to look at the concept of passive revolution. The term describes the ‘modernisation of society from above’ (Gramsci 1971: 114), or in Adam Morton’s words: it is ‘a revolution, marked by violent social upheaval, but it involved a relatively small elite leading to the creation of state power and an institutional framework consonant with capitalist property relations’ (Morton 2007:66). The term refers to the reorganisation of social relations and of the balance of power within society in order to fit the new social order. Passive revolution takes place when the ruling class fails to integrate the producer class with the conditions of hegemony. Thus the state is modernising but without a prior political revolution, which means that the ‘new’ social structure is developed without fundamental changes and without the ideological mechanisms to cope with the new order. In other words, what changes is the composition of the elite instead of the social structure. Consequently, the state creates structures, which are imitations of the international structures of the given order. Hence the structures of public power, administration, planning and national development are ‘mirrors’ and do not reflect the conditions and needs of the recipient state.

This process of mimicking the international system reveals the second aspect of passive revolution, i.e. the influence of the international on the national. Hence, in addition to the description of how certain identities were constructed through a series of class struggles; passive revolution also reveals how the expansion of state power and the reorganisation of state and subaltern producer class identities have been developed through the influence of international pressure. This can be via a new system and ideology or an intervention of a powerful external factor. We can summarise the meaning of passive revolution with a passage from Adam Morton’s book *Unravelling Gramsci*, according to which:
Imitative behaviour within such states coping with social crises generated by the circumstances of uneven and combined development therefore entailed attempts to create a modern state as the necessary precondition for the furtherance of capitalism. This means that the universal rule of capital through passive revolutions—often resulted in a 'bastard birth' of 'strikingly incomplete' achievements besides the construction of a modern state' (Morton 2007: 152).

All the case studies have undergone passive revolution even though with different expressions. In Serbia it ended up with an imposed Caesarism, namely that a leading elite was imposed by outside forces, while the other two case studies involved an imposed trans/orismo, i.e. the imposed co-existence of opposing elites. Hence, from the moment that there is passive revolution, the western Balkan states enter a phase of mimicking western norms and structures, (mainly those of the EU) and become net recipients of the hegemonic ideology, without the necessary structures for filtering and adjusting this ideology for society as a whole. Particularly in the western Balkans, this influence of the international is explicit. This is happening because the EU, through the process of enlargement, is setting the momentum of state transformation and modernisation in a way that is compatible with the EU-preferred modes of production and ideology that the EU itself is transmitting to the region. This also reveals the strength of the hegemonic institution in the case studies. At the same time, at the national level, again in total accordance with the concept of passive revolution, there is an expansion or reconfiguration of the elite instead of a fundamental political revolution. Even in the case of Serbia, parts of the old elite participate in the new Historic Bloc.

Within this framework, the western Balkan states become easy 'prey' for the Historic Bloc, which can transmit its hegemonic ideology and dissolve any serious social opposition against it. This development is enhanced by two basic elements. Firstly, it is the Historic Bloc which creates the structure. In the theory of hegemony, the existing structure is modified (or upgraded) in order to accept the hegemonic ideology. In the case studies, there is a fundamental reconstruction of the structure according to the Bloc's preferences and interests. Hence, the hegemony is uncontested. Secondly, due to the special conditions of the western Balkan states (e.g. poverty, nationalism etc), the hegemonic domestic elite bases its legitimisation and power on the Bloc and on the structures that the Bloc provides. In this sense, the local elites can be viewed as corporate managers of a multinational subsidiary.
At the same time, the domestic elite undertakes the further consolidation of hegemony and hegemonic ideology by communicating with the society and controlling the civil society apparatus. Therefore, the Bloc controls structure, ideology and operation, which automatically means total control.

The manifestation of hegemony lies in its imposition in all case studies. This imposition confirms the above analysis since, by controlling structure and ideology, the Bloc can impose the operation. In Serbia, the Bloc has imposed a certain elite which governs within the framework of Caesarism, i.e. by assuming power and balancing the opposing forces. The power of the Bloc is such that it not only imposes the elite that it wants but manages to curb the opposition in an efficient manner, mainly through the operation of the hegemonic institution. In Chapter 3, moreover, we realise that the Bloc is prepared to become aggressive in order to safeguard its control and interests.

In the other two cases there is an imposed transforismo (i.e. the creation of a broader coalition of forces and interests which diffuses the polarisation and assists in the assimilation of opposing and counter-hegemonic forces by including them in the hegemonic Historic Bloc). However, the weakness of the domestic elite to achieve control, the dependence on the Bloc, and the sharing of the same hegemonic ideology force them to work together under the aegis of the Bloc. FYR Macedonia is the best example of this. Even now, the rift between the two political camps is significant but they are working on the same project i.e. EU and NATO membership, and on promoting the same interests. This situation also reveals that both camps have the same foreign patronage.

Thus, in theoretical terms the existence of hegemony is confirmed. What has to be defined is the existence of a hegemonic leader and of a Historic Bloc. The research has managed to locate the Historic Bloc in each case study but it failed to find a clear hegemonic leader in each of the Blocs. While the former has been identified the existence of a leader was not. This might reflect some of the limitations of the framework that we used that require certain criteria for the hegemon that we could not trace in the case studies, with for the exception of Serbia. Perhaps a test of the theoretical framework on more pro-German states such as Bosnia and Croatia would produce different results. Equally interesting could be a
modification of the hypothesis or of the framework in relation to what kind of hegemony we want to find. For instance, we can look for an EU hegemony. All these suggestions could be used for future research that might produce different results.

Finally, despite the limitations of this theoretical approach, that we discussed in Chapter 1 and which explain into a certain degree the findings of this thesis, it remains the best available for the type of hegemony that we want to examine, i.e. a politico-economic hegemony at elite level. After all the choice of this approach was based on the opportunity to work at elite level instead on a more statist approach with focus on balance of power.
## Appendix

### Appendix 1.

Table 19: Natural resources and export commodities of the western Balkan states.

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<tr>
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<th>Export commodities</th>
<th>Natural resources</th>
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<td><strong>Albania</strong></td>
<td>textiles and footwear; asphalt, metals and metallic ores, crude oil; vegetables, fruits, tobacco</td>
<td>petroleum, natural gas, coal, bauxite, chromite, copper, iron ore, nickel, salt, timber, hydropower</td>
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<tr>
<td><strong>BiH</strong></td>
<td>metals, clothing, wood products</td>
<td>coal, iron ore, bauxite, copper, lead, zinc, chromite, cobalt, manganese, nickel, clay, gypsum, salt, sand, forests, hydropower</td>
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<td><strong>Croatia</strong></td>
<td>transport equipment, textiles, chemicals, foodstuffs, fuels</td>
<td>oil, some coal, bauxite, low-grade iron ore, calcium, gypsum, natural asphalt, silica, mica, clays, salt, hydropower</td>
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<td><strong>FYROM</strong></td>
<td>food, beverages, tobacco; miscellaneous manufactures, iron and steel</td>
<td>low-grade iron ore, copper, lead, zinc, chromite, manganese, nickel, tungsten, gold, silver, asbestos, gypsum, timber, arable land</td>
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<tr>
<td><strong>Montenegro</strong></td>
<td>n/a</td>
<td>bauxite, hydropower</td>
</tr>
<tr>
<td><strong>Serbia</strong></td>
<td>manufactured goods, food and live animals, machinery and transport equipment</td>
<td>oil, gas, coal, iron ore, copper, lead, zinc, antimony, chromite, nickel, gold, silver, magnesium, pyrite, limestone, marble, salt, arable land</td>
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</table>

Appendix 2: Areas of cooperation between World Bank and IMF

1) Public expenditure management
2) Energy sector reform
3) Pension health and social assistance reform
4) Restructuring and privatisation of enterprises and banks
Appendix 3: The structure of economic coordination in Serbia.

The first agency is the Council for sustainable development which provided the conditions for the National development strategy, while the Guarantee Fund undertakes to provide loans to SME. SIEPA is the main agency for FDI and trade promotion and operates with the Commission for promotion of investment in Serbia. The Commission contains members from 17 ministries and government institutions and the leading one is the International economic relations ministry. The main task of the Commission is the implementation of the 2004 Action Plan for investments. SIEPA is also assisted by the Export Promotion Agency whose task, apart from exports, is to improve the area of trans-European networks and infrastructure. The final agency is the Energy Agency (more information at the website of the EU integration office and in Heaney 2007:558-559).
Appendix 4: Economic targets of Serbia.

1. 5% annual increase of GDP until 2010

2. Increase of export participation of goods and services from 24% in 2004 to 28% in 2005 and to 36% of the GDP in 2010 (or export increase from $3.8 billion to $10 billion).

3. Reduce of the deficit of services and goods from 29.2% in 2004 to 19% of the GDP in 2010

4. Investment participation in GDP from 15.8% in 2004 to 25% in 2010

5. Reduce the participation of collective expenditure from 26% in 2004 to 17% in 2010 (Serbian EU integration office 2005:57, 59).
Appendix 5: Assistance programme of the World Bank.

'The World Bank’s current program of assistance is outlined in a Country Partnership Strategy discussed by the Board on March 27, 2007. Reflecting Government priorities, the CPS aims to accelerate FYR Macedonia’s perspective to join the European Union. Proposed activities envisaged under this CPS are focused on two pillars: (i) fostering job-creating economic growth, and increasing living standards for all, and (ii) improving governance and transparency in public sector delivery to support a market economy. The CPS will employ a selected mix of investment and policy lending, along with a robust program of Analytical and Advisory Activities (...) work to support the CPS goal. The CPS also provides for total financing in a high case lending scenario of up to $280 million over four years’ (IMF 2007:46).
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Source: National Bank of Macedonia
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