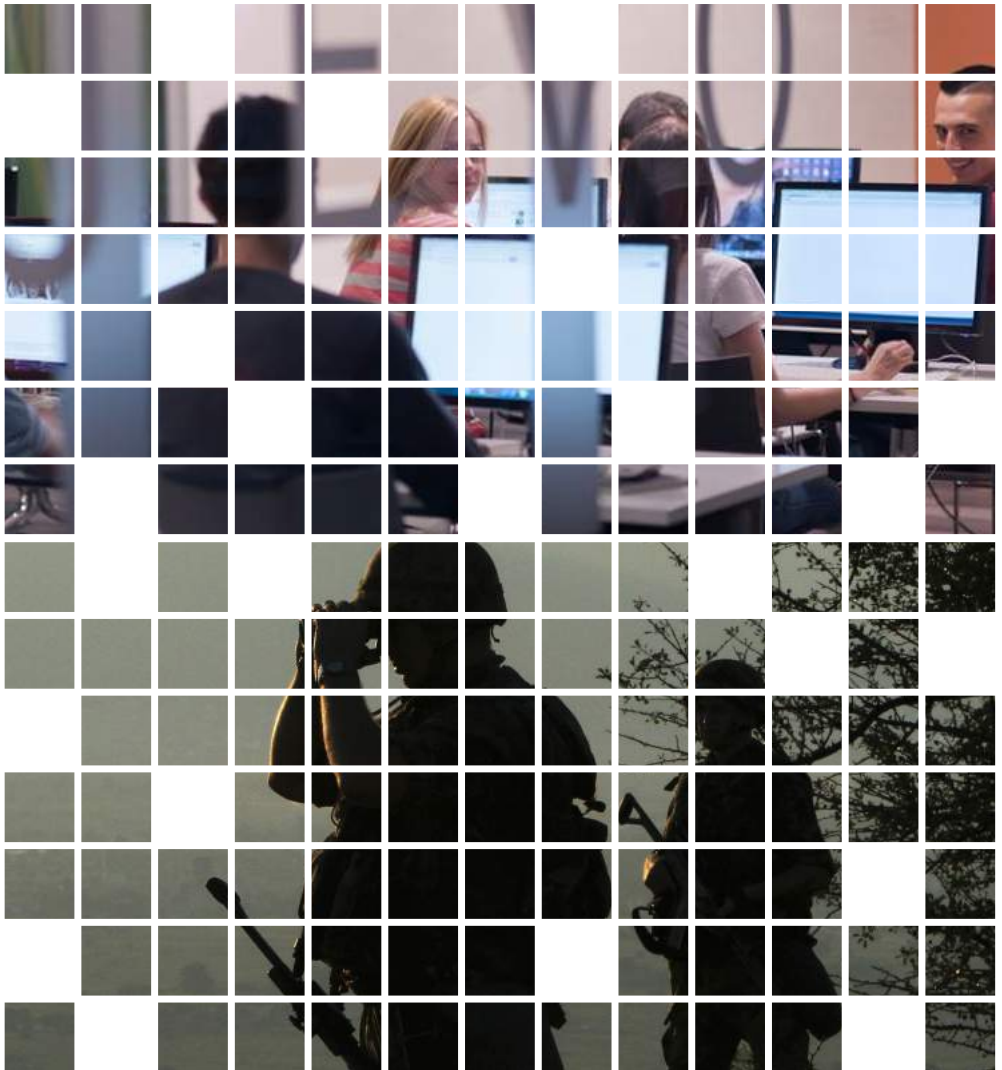


A PLAN B FOR THE WESTERN BALKANS:

Reigniting U.S. Leadership in Southeast Europe



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Courtney E. Doggart with Filip Šašić, Lisa Rhoads, and the Network 20/20 Project Delegates
March 2017

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**Reigniting U.S. Leadership
in Southeast Europe**



NETWORK
20/20

About Network 20/20

Network 20/20 builds foreign policy understanding in leaders from diverse backgrounds, creating a multinational, multigenerational network. We believe in broadening perspectives of leaders who will take a more nuanced view of the world back to their professional and personal lives.

Network 20/20:

- Provides its members access to leading foreign policy experts via in-depth briefings.
- Sponsors on-the-ground research in countries of strategic interest by our members to inform policymakers and business leaders.
- Promotes an international network of members and partners.

Network 20/20 was established in the wake of the September 11 attacks to further a deeper understanding of foreign affairs. As nationalism and isolationism increase, the need for frank and informed discussion of global affairs that involves both the private and public sectors grows stronger.

Initially, Network 20/20 focused on bridging the divide between the United States and countries with Muslim-majority populations, fielding research delegations to Turkey, Pakistan, and Iran. The organization's Entrepreneurial Diplomacy Program has expanded to include countries and regions that are often overlooked. These research trips and ensuing reports prove that you cannot understand the dynamics of a country without being physically present and without speaking to a wide range of leaders.

Network 20/20's Briefing Series with foreign policy luminaries—often held in private homes—addresses current global issues. These events stimulate learning, discussion, and networking, advancing the belief that foreign policy should be accessible and vibrant, not esoteric and stuffy.

Founded in 2003 by Dr. Patricia S. Huntington, Network 20/20's goal was to build bridges between the next generation of leaders in the United States and their counterparts abroad. Today, Network 20/20's membership is intentionally multinational and multigenerational, ensuring that its programs and dialogue reflect multiple viewpoints and generate unique networking opportunities. It is made up of professionals from a wide array of organizations such as the Federal Reserve Bank of New York, United Nations, Financial Times, IBM, New York University, and NBC Universal. Network 20/20 prides itself on being a diverse group from several countries including Bangladesh, Canada, China, France, Georgia, Germany, Iran, Serbia, South Africa, the United Kingdom, the United States, and Zimbabwe.



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FOREWORD

In 2015, when Network 20/20 was considering where to conduct our next Entrepreneurial Diplomacy research program, the Western Balkans seemed an unlikely contender. We had not heard much about the Western Balkans from either experts or the media. Why would we? Armed conflict ended almost two decades ago and with crises demanding attention in other parts of the world, it was difficult to make the argument that Southeast Europe needed time and attention.

Yet, as we started to talk to people familiar with the region, we learned that there is a festering mix of political stagnation, corruption, and economic malaise that threaten the delicate peace that the United States and other countries worked so hard to bring about. Furthermore, many of the emergencies that the world has been contending with—the refugee crisis, radical extremism, and a resurgent Russia—affect Southeast Europe.

What we learned during the past eighteen months of interviews underscores how a boutique organization like Network 20/20 can contribute to the foreign policy debate by going to under-covered areas. We learned that the potential for renewed conflict or the creation of a hub for radical extremists could add to the world's woes, further straining the international system in a time when the liberal world order is already being challenged. However, attention from U.S. policymakers and the business community could help channel the highly educated and often unemployed youth into a force for positive change, particularly when coupled with policies and connections that promote entrepreneurship.

A few important notes on terminology and methodology. We refer to the region in the manner that is generally used by people in the region, which is by its geographic coordinates: Southeast Europe. This term avoids the political, cultural, and historical connotations that accompany the use of the word

“Balkans.” This area encompasses a much wider region than the four countries that we focus on: Bosnia and Herzegovina (BiH), Croatia, Kosovo, and Serbia.

We chose those four countries knowing full well that others in the area demand attention too. Macedonia, as of this writing, is in political crisis, unable to form a government since elections last December. Montenegro has weathered an assassination attempt on its Prime Minister as it prepares to join NATO. However, with limited time and with much input from experts, we chose to focus on BiH because of its complex demographics and Serbia because it was “the elephant in the room” as one interviewee said, as the engine of the former Yugoslavia. Kosovo is integral to regional stability because of the current dynamics between Serbia and Kosovo. Lastly, the EU-member state Croatia is a useful counterpoint to see the impact of EU accession and the possible challenges that lie ahead for the EU candidate countries of Southeast Europe.

Throughout this project, we have spoken primarily with those who would be considered elites—people leading the governments and their oppositions, the media, businesspeople, civil society, and others. We understand that limitations exist in this approach, as the opinions of the elites may not always be reflective of those of the public.

Network 20/20 members conducted these interviews. We are not experts in the region, but experts in our own fields. The questions we ask and the conclusions that we draw are informed by our decades of experiences as lawyers, investors, data scientists, and consultants. Yet, the lens through which we view these countries is clear: we come as students, to hear what people in the region want to say. Whenever possible, we allow the voices of the interviewees to come through in the report, but have backed up individual assertions and opinions with data when warranted. Lastly, to address our shortcomings in regional expertise, we enlisted the input of experts in the region to ensure that our context and understanding was on-point. It is only with the help of the many reviewers and others who gave input that we feel confident in releasing the following report.

It is our sincere hope that this project continues following this report’s publication. As highlighted in these pages, opportunities exist for business leaders and policymakers to make a difference. In the coming months, Network 20/20 will work to make connections and raise awareness about a fragile part of the world that has tremendous potential.

Lastly, it is with a deep debt of gratitude that I thank all those who made this project possible, from the Carnegie Corporation of New York to the people listed in these pages who were so generous with their time, insight, and connections. Finally, this project would not be possible without the collective insights of the Network 20/20 trip delegates who took their own vacation time and paid their own travel expenses to learn more about a region that is hidden from the headlines.

Courtney Daggart

Network 20/20 President

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Network 20/20 wishes to thank all of those who have provided insight and guidance throughout this project. The individuals listed below have gone above and beyond by reading drafts and providing comments and suggestions. Please note that the views in the report are Network 20/20's and do not necessarily represent those of the interviewees or reviewers.

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Credits

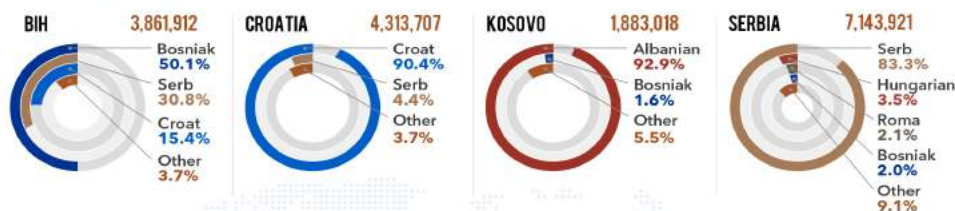
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REFERENCE INFORMATION

Map of Western Balkans



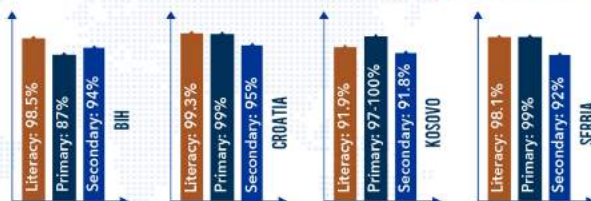
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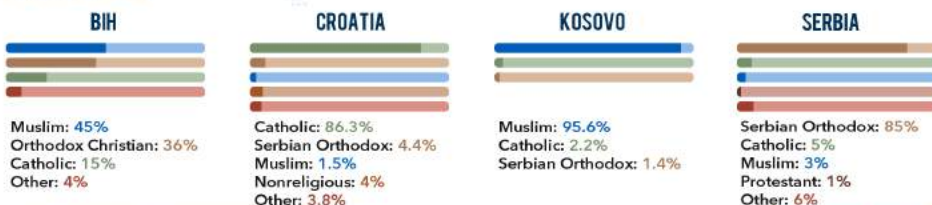
GOVERNMENT

	EU	NATO
CROATIA	YES	YES
BIH	NO	NO
SERBIA	NO	NO
KOSOVO	NO	NO

EDUCATION



RELIGION



UNEMPLOYMENT



ECONOMY



GDP - Purchasing Power Parity



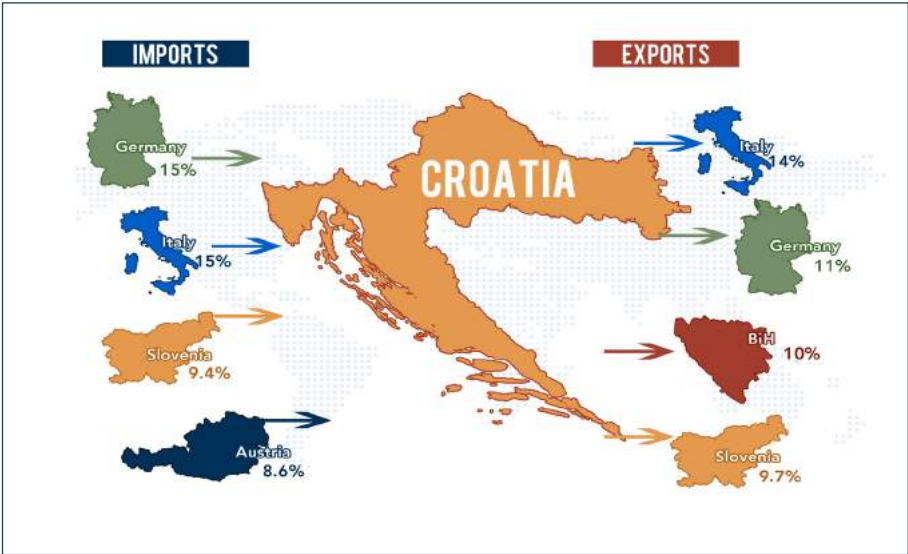
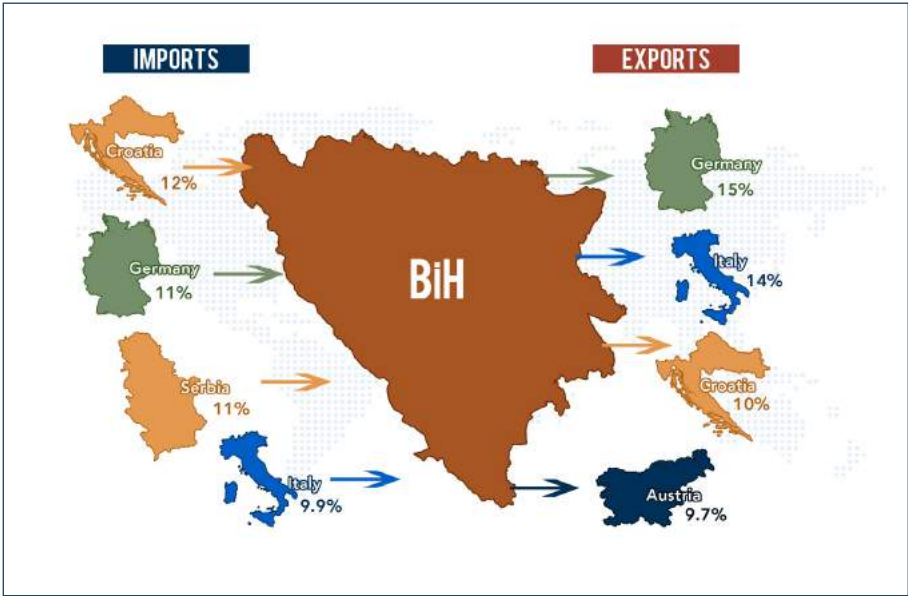
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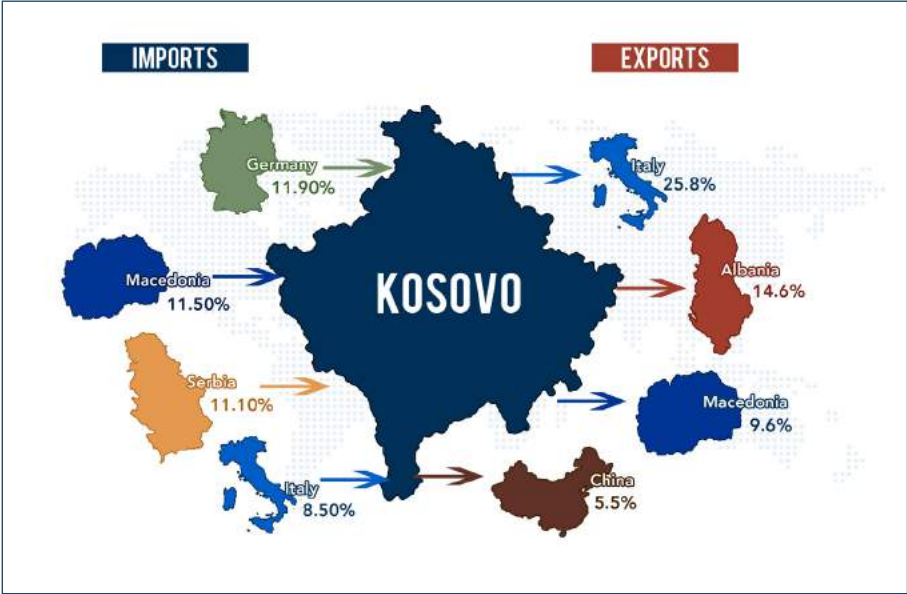
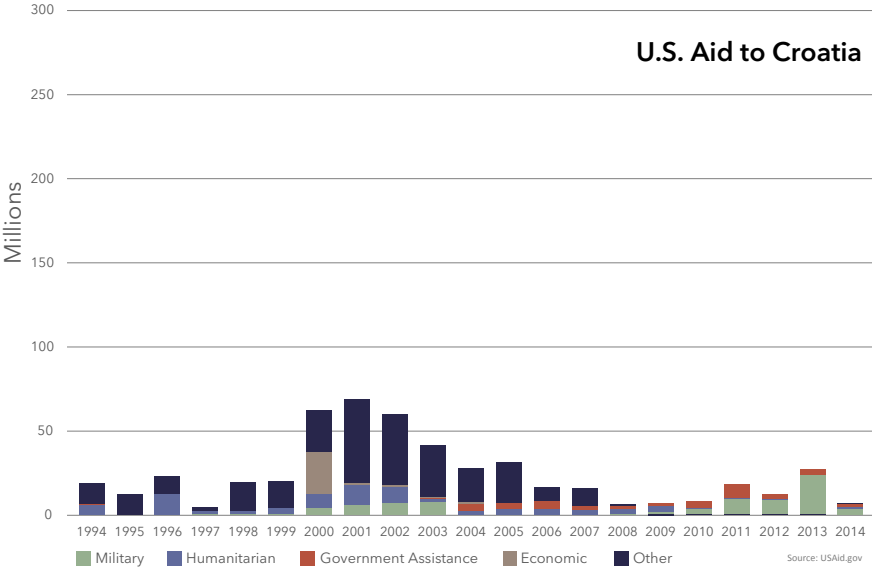
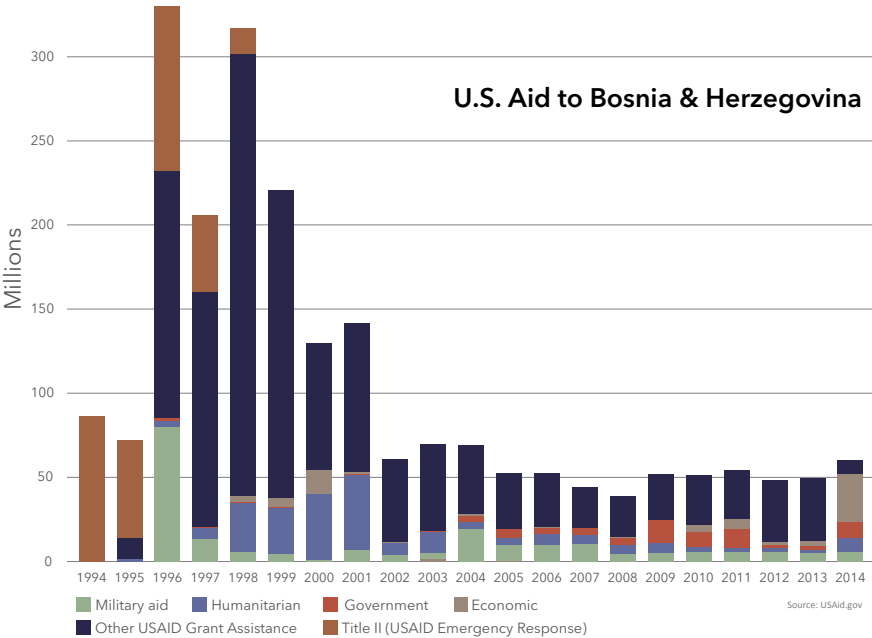
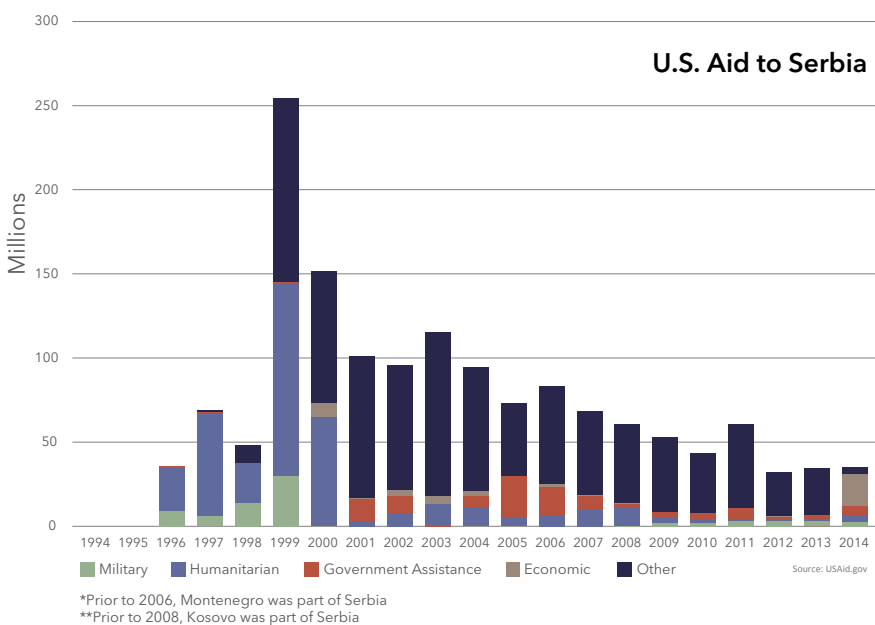
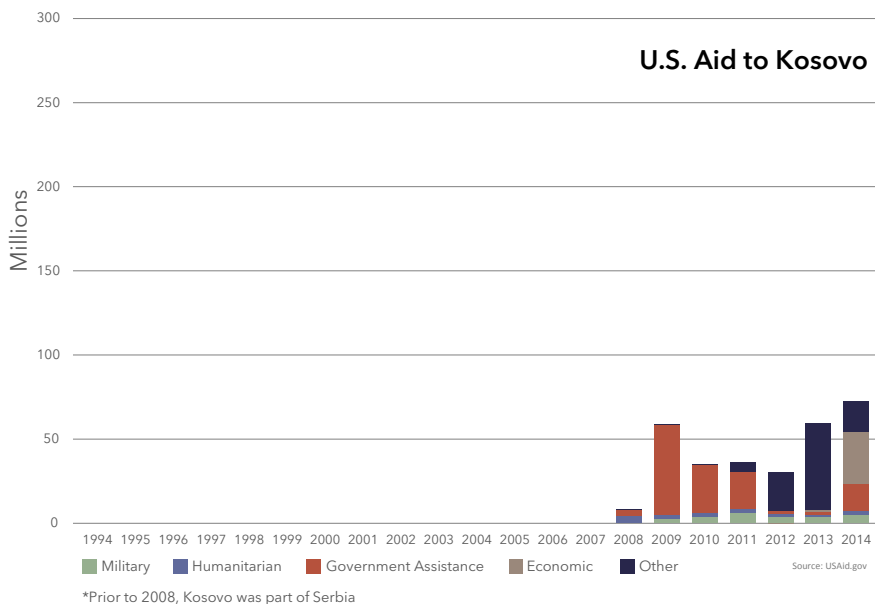


Chart of the U.S. Aid for Western Balkans





List of Abbreviations and Acronyms

BiH	Bosnia and Herzegovina
BIRN	Balkan Investigative Reporting Network
EBRD	European Bank for Reconstruction and Development
EU	European Union
GDP	Gross Domestic Product
HDZ	"Hrvatska Demokratska Zajednica" - Croatian Democratic Union
ICT	Information and Communications Technology
ISIS	Islamic State of Iraq and Syria
KFOR	Kosovo Force
LGBT	Lesbian, Gay, Bisexual, and Transgender
NATO	North Atlantic Treaty Organization
NDH	"Nezavisna Država Hrvatska" - Independent State of Croatia
NGO	Nongovernmental Organization
RS	Republika Srpska
SDA	"Stranka Demokratske Akcije" - Party of Democratic Action
SMEs	Small and Medium-Sized Enterprises
SNSD	"Savez Nezavisnih Socijaldemokrata" - The Alliance of Independent Social Democrats
UN	United Nations
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

AS THE WORLD tends to the Middle East, Brexit, and the new U.S. administration, a potential crisis is unfolding in the countries of Southeast Europe. Corruption, growing ethnic and religious tensions, and external influences threaten to destabilize Bosnia and Herzegovina (BiH), Croatia, Kosovo, and Serbia, with possibly disastrous consequences for the region and the rest of Europe.

Although each country in the region faces specific challenges, the theme is uniform: weak and inconsistent rule of law undermines the foundation for economic growth, security, and a stable democracy. Each country's unique and overlapping struggles manifest in the same results: high levels of unemployment, especially among youth, with serious consequences for the future; corruption that has hampered a transition to a market economy; and rekindled nationalism, often with religious undertones, that is gaining ground in government and veering from the secular European Union (EU) mandate.

The current solution—using EU accession as a catalyst for internal reforms in these countries—is a risky proposition. The timeline is too long and uncertain, the EU itself is under pressure, and when accession is achieved, as in Croatia, the reforms don't always stick. Between rising nationalism, a meddling Russia, and the threat of Islamic extremism, the region poses a real security threat to Europe and the world if it cannot overcome political differences, work towards creating a stable economy, improve bilateral regional relations, and ensure stability and security that will ultimately benefit all countries in the region.

Bright spots exist. Growing the private sector, especially small- and medium-sized enterprises (SMEs), has the potential to provide an alternative future for the English-speaking, technologically savvy youth who can fuel it. Shifting power away from government could help create a more diversified society, unlocking opportunities outside the official bureaucracy to combat unemploy-

ment, disaffection, and the lure of extremism. Ultimately, efforts that bring all actors together to work toward a positive future based on development and coexistence will create a more stable region.

This report examines the current forces shaping Southeast Europe and identifies major challenges and opportunities, drawn from extensive interviews over the course of eighteen months with leaders in and experts on the region. The report concludes with recommendations for U.S. policymakers, business leaders, the media, and philanthropists, all of whom have a vital role to play in shoring up a region adrift.

Policymakers in Washington should stop ceding responsibility for the region to Europe; press traditional allies and other partners to respect international norms; take immediate action while opportunity still exists to stabilize Bosnia and Herzegovina; and prepare for the possibility of renewed conflict or disintegration of BiH.

Business leaders should recognize the opportunities in tech, health care, and SMEs; companies with licensable products should connect with companies in the region for local commercialization; all should look to the local IT sector as a source of affordable back-end support.

The media, educators, and civil society should recognize that the Trump administration is likely to ignore Southeast Europe as much as, if not more than, the Bush and Obama administrations and work to shore up institutions; U.S. media outlets should look for mutually beneficial partnerships with local outlets; educators and foundations should help develop training centers for IT and facilitate access to reputable news sources to counter Russia's propaganda in the information sector in Serbia.

INTRODUCTION

THE COUNTRIES OF Southeast Europe—including Bosnia and Herzegovina, Croatia, Kosovo, and Serbia—are at risk. Following the bloody ethnic wars of the 1990s, these countries are experiencing what seems to be a period of peace and economic development. Yet, in reality, the seeming stability of the past two decades is built on a foundation of nationalism, corruption, ethnic tensions, and government stagnation that threatens to erode if left unattended—with dangerous consequences for the region and the world. Active U.S. leadership has been absent in the region for more than a decade. During that time, the potential for Islamic extremism to take root, the actions of foreign powers including Russia, and—until borders were closed—a stream of refugees fleeing violence and economic deprivation have all increased pressure on a region with little political leadership at home and little attention from abroad.

What happens to these counties is no small matter: NATO surrounds Southeast Europe and each of these countries is either a NATO member or a partner in varying degrees. One country is a European Union member and the others aspire to that status. All counties are situated squarely in Europe—both important for the continent’s stability and too often overlooked. If the EU accession process stagnates or is applied unevenly, if foreign influences shift political and economic dynamics, if economies do not provide youth the opportunities they are seeking, or if governments continue to stoke ethnic nationalism as a means of distracting citizens from economic and other problems, then the United States and the world could face at worst a new home for Islamic extremism on the European continent or renewed ethnic conflict and at best the end of a foreign policy success story after decades of halting progress.³

In the 1990s, the United States, the United Nations, and NATO managed to stop two wars, but that legacy is at risk. Washington and the countries in question have not yet been able to guide the growth of functioning political environments or economies that are necessary for regional stability and security. Under the administrations of George W. Bush and Barack Obama, the United States has

retreated from its earlier prominent leadership in the region, focusing instead on policy crises such as the Arab Spring and its fallout in Libya, Syria, and Iraq; Russia's illegal annexation of Crimea; an increasingly bellicose Beijing in the South China Sea; and the ongoing conflicts in Afghanistan and Iraq.

These challenges all rightly deserve attention, but without leadership, a region that has been a success story threatens to unravel, jeopardizing a relative accomplishment in the annals of U.S. foreign policy and risking lives and the security of Europe. The region is an important bulwark in the fight against terrorism—one of the suspects in the November 13, 2015, terror attacks in Paris traveled through Serbia and Croatia from Syria and weapons used in those same attacks also came through the region.⁴

Recent global developments threaten to change regional dynamics, making the need for leadership in political and economic development more urgent than ever. International actors—Russia, China, Turkey, and Saudi Arabia—are actively pursuing their own interests, some of which run counter to U.S. objectives. These interventions, which include investing in journalists and media outlets (as in the case of Russia in Serbia) and supporting the development of strict Wahhabi Islam (in the case of Saudi Arabia in Kosovo and BiH), threaten to strangle independent media and alter the religious-cultural landscape. The 2016 vote by the United Kingdom (UK) to leave the European Union has fomented an existential crisis, reinforcing a pervasive sentiment against further enlargement of the union this decade. Two of the non-EU member countries that we visited—BiH and Kosovo—have no Plan B for political and economic advancement other than EU membership. The third non-EU member, Serbia, is currently looking to both EU membership and Russian support as a means of advancement.

A new strategy is needed, one that addresses the political exploitation of ethnic tensions, the waning pull of the European Union, and the region's sputtering economies. Interviews conducted with forty-five regional and local policy and opinion leaders over the course of ten days in May of 2016 reveal opportunities for constructive changes in U.S. policy, as well as a vital and mutually beneficial role for increased private sector investment. This report draws on those interviews in Pristina and Mitrovica, Kosovo; Zagreb, Croatia; Sarajevo and Banja Luka, Bosnia and Herzegovina; and Belgrade, Serbia; as well as others that took place in New York, Washington, DC, and by phone both prior to and following the regional travel. This report highlights the issues that the authors find to be of particular relevance for policymakers and business leaders in the United States.

Each country in the region has its own political, economic, and cultural peculiarities that shape its unique challenges. Yet, our research finds many shared and interconnected themes that are emerging across the region. For that reason, this report will lead with an overview of each country and then delve into specific challenges that unite some or all of the countries in the region.

SCENE SETTER

Just over twenty years ago, representatives from Bosnia and Herzegovina, the Federal Republic of Yugoslavia, and the Republic of Croatia signed the Dayton Peace Accords, bringing an end to the war in BiH and relative stability to the region.⁵ A little over a decade later, the Ahtisaari Settlement Plan laid the groundwork for Kosovo's 2008 independence following its war with Serbia.⁶ However, the Dayton Accords were designed to end conflict, not foster peace: the borders and political agreements mandate an ethnically divided country. Similarly, the Ahtisaari plan paved the way for Kosovo's independence, yet Kosovo has yet to achieve full international recognition. The unfinished business of Dayton, combined with the internal trends in each country, leave the region unstable. "The biggest misconception about the Balkans," says one former Croatian diplomatic official, "is that the conflict is over because the violence is over."

This instability matters not only to the region and its immediate neighbors, but also to the United States, which has an interest in keeping the peace and countering Russian interference, and to Europe, where shared borders and significant economic ties between European and Balkan markets create strong incentives to maintain stability. The map below shows how—although the Balkan region is encircled by EU and NATO countries—it remains unintegrated. As one businessman says, "There is a hole in the underbelly of Europe."

In Bosnia and Herzegovina, the continuing reliance on the Dayton Accords as a framework for the current political structure leaves that country in a precarious political situation where ethnic divisions are emphasized. Croatia's rightward drift, while stabilized, still manifests in nationalist sentiment: a recent government appointed an avowed nationalist as its minister of culture. Kosovo struggles to find political stability amid a backdrop of increasing emigration. And Serbia, the heavyweight of the region, is experiencing a decline of free and independent media, despite Prime Minister Aleksandar Vučić's aim of joining the European Union.



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Recent news stories about ethnic and religious divisions are not encouraging. Tensions between the governments of Kosovo and Serbia spiked in early 2017 following an attempt by Belgrade to send a train emblazoned with the slogan “Kosovo is Serbia” to the border of Kosovo;⁸ in October 2016, Kosovar journalist Leonard Kerquki has received death threats for his recent documentary detailing war crimes against Kosovar Serbs by members of the Kosovo Liberation Army;⁹ at a soccer match in October 2016, Croats and Kosovars came together to chant “kill the Serbs”;¹⁰ in July 2011, Serbian nationalists set fire to the border crossing in Northern Kosovo and have had repeated clashes with the Kosovo police and international KFOR protection forces;¹¹ and Croatia’s government had been appointing high-level government officials who are apologists for the fascist Ustaše movement.¹² Although the current Croatian government—formed after a no-confidence vote in early 2016—has backed away from this practice, the appointment of an anti-secular foreign minister who supports the Roman Catholic Church’s involvement in public life underscores another regional flashpoint. Religion looms large. Whether a magnet for national identity or a political tool used to deflect attention from scandal and retain power, religious identity continues to serve as a divisive force in the region.



Collision course? The government of Serbia sends a Russian-donated tourism train to the border of Kosovo.¹³

Legal frameworks reinforce divisions along ethnic and religious lines. Serbs in Kosovo live primarily in separate enclaves and increasingly look to Serbia—where most have dual citizenship—for their future. Similarly, the roughly 500,000 Croats living in BiH have dual citizenship.¹⁴ With a frustratingly weak political position within the federation of BiH, many see Croatia and the broader European Union as an increasingly attractive prospect and are emigrating, decreasing the number of Croats in BiH. Within BiH, ethnic quotas and requirements for government jobs make it difficult to identify as simply Bosnian—a far cry from the Yugoslavia of Josip Broz Tito, the former leader of Yugoslavia from World War II until his death in 1980, where ideological identity subsumed ethnic identity. Even today, there is no unifying Bosnian identity; it is fractured along ethnic lines and leaders of political factions play the ethnic-nationalist card in order to stay in power. There is no place for an individual to identify by political ideology.

In all Balkan countries, the long shadow of socialism has yet to disappear. Prior to the collapse of the Socialist Federal Republic of Yugoslavia and the fall of socialism, it had been nearly a century since any of these countries experienced a free market economy. In the ensuing period, industries were

shattered by war and the transition to capitalism was either hindered by a mentality stuck in centralized-economy mode or burned by failed privatizations and government bloat, which discourages entrepreneurship and rewards entrenched voting patterns.

Bosnia and Herzegovina



Bosnia and Herzegovina is sometimes described as a mini-Yugoslavia. Of all the republics of the former Socialist Federation of Yugoslavia, BiH was and is the most ethnically diverse. That diversity, while enriching in times of peace, is also one of the reasons that the Balkan Wars of the 1990s hit this country the hardest, as ethnicity became a mobilizing factor leveraged by political leaders in the war. The siege of Sarajevo was the longest of any capital in modern history.¹⁵ The three warring factions—Bosnian Serbs (supported by Serbian forces), Bosnian Croats (supported by Croatian forces), and Bosnian Muslims (Bosniaks, supported by an influx of foreign fighters)—eventually came to peace through the 1995 Dayton Accords. The accords were a vehicle for peace, but not a plan for sustainable governance, thus leaving BiH today in a precarious political position. As one interviewee explains, and others echo, “Until the Bosnia and Herzegovina issue is resolved, there cannot be stability in the region.”

The state of Bosnia and Herzegovina is, in reality, comprised of two main entities: The Federation of Bosnia and Herzegovina and Republika Srpska (RS).¹⁶ Both entities are facing demographic and political challenges that affect the future integrity of the current political system. Within the Federation, disputes among its two largest ethnicities, the Bosniaks and Croats, over power sharing and electoral law continue to affect the overall stability of the country, as the shrinking number of Croats become increasingly frustrated by a lack of representation in key positions throughout the political structure. Separately, within RS, the dominance of one political party and lack of opposition has allowed for a virtual stranglehold on legislation at the federal level for the past decade. These challenges originate from the political structure that the Dayton Accords put in place to end the war.

Within that structure, only three large ethnic groups are recognized by the constitution. Furthermore, both RS and the Federation of BiH control their own healthcare, education, agriculture, culture, veterans' issues, labor, police, and internal affairs. RS also has its own assembly, president, and other political structures. By law, the president of Republika Srpska must be a Bosnian Serb and the regional assembly of RS is entitled to veto legislation at the national level if 25 percent of its members agree.

The international intervention and external state-making that brought about peace also left the country divided and without a common identity, particularly as there is no unifying federal education system. The "two schools, one roof policy" often separates children by ethnicity starting in kindergarten, where they are taught history, for example, from different vantage points that diverge along ethnic lines. Corrupt governments use ethnic tensions to distract voters from other problems. As one academic says, "The bigwigs in the war twenty years ago aren't being convicted and people are noticing." However, there are bright spots of potential unity that could be realized in BiH. One official in an international organization suggests that a protest of economic issues in February 2014 did not take on an ethno-nationalistic bent "because everyone was united by the same problems."

Demographic shifts during the past two decades further complicate matters. The 1990 census reported that the population was 43 percent Bosniak, 31 percent Serb, and 17 percent Croat.^{17*} The most recent census—conducted in 2013 and the only one since the war—was released after a three-year delay

* Please note that the data present is available on the BiH government's website while the infographics data (page 12) is collected from the IMF, WB, CIA fact book, and UNICEF.

caused by political concerns over the results.¹⁸ Bosniaks now comprise over 50 percent of the population and Serbs and Croats have fallen to 30 and 15 percent respectively. The census itself was contentious. People and politicians with nationalist aims have incentives to campaign for a more prominent role in BiH's decision-making. Others reported a preference for identifying with a common Bosnian citizenship, rather than with an ethnicity or religion, but were unable to do so. One businessman relays a story of a friend who identifies as Bosnian, but had to identify as Bosniak (Muslim) in order to take a quota-based government position. However, as one interviewee argues, these provisions exist within the constitution in order to preserve a multinational, multiethnic character that is essential to maintaining cohesion in the country.

The presidency of the country consists of a tripartite system that mandates a representative from each of the three major ethnic groups, resulting in three members of the presidency. Each representative takes a turn serving as chair once every eight months. No other ethnic minority is allowed to run for political office. Although this provision was found to be in violation of the European Convention on Human Rights in the 2009 Sejdić and Finci case, no tangible changes have been made.^{19*} Such a system precludes effective reform and change. Some left-wing parties have even advocated for adding a fourth chair to the presidency to account for minorities not of the three major ethnic groups. However, given the current political environment, it is unlikely that any of the three constituent groups would cede power to a fourth.

"Bosnia and Herzegovina can't perform the functions of a state," says one interviewee. Echoes a U.S. government official, "The political system in BiH is so ossified it can't change on its own. It needs outside help." This situation is compounded on the local level. Each of the administrative cantons can decide whether to adopt a federal law. "This makes it notoriously difficult to start projects because cantons are continually changing where they stand," explains one businessperson. "It is very hard to get them together toward the same goal."

This stagnation, along with an entrenched political elite, has resulted in voter apathy. The leading Party of Democratic Action (SDA) is a "political machine" with few other parties able to compete against it other than Croatian Democratic Party (HDZ) and the Party of Independent Social Democrats (SNSD), both parties that represent specific ethnicities. The opposition parties tend to be divided among themselves. Multiple regional experts and the public agree

* Two citizens of BiH, one Roma and the other Jewish, charged that the constitution is discriminatory because it prevents people of their respective ethnicities from running for office.

that the constitution needs to be reformed, and legislators have come close in the past. However, as one U.S. government official says, a British-German initiative²⁰ went nowhere because “BiH did not take them seriously,” suggesting that a stronger leadership role would have yielded more positive results.

Of further concern are the continued rumblings from Republika Srpska calling for a referendum on independence. Although this secessionist talk is nothing new—a 2011 International Crisis Group report references it—its continuation can be destabilizing, even if the International Court of Justice explicitly forbids it.²¹ RS leader Milorad Dodik, however, has said that the republic “is a state and the fact that it has been disputed tells us how important it is.” In October 2016, voters in Republika Srpska passed a referendum confirming January 9, the day that RS declared independence from BiH in 1992, as a holiday.²² January 9 is also the day that Orthodox Serbs celebrate the patron saint of Republika Srpska, underscoring the way religious identity buttresses political aims. On January 17, 2017, the United States placed sanctions on Dodik for this act, which U.S. officials say undermines the Dayton Accords.²³ In a sign of its willingness to intervene in the country’s disputes, Russia’s ambassador to BiH attended a celebration marking the January 9 holiday.²⁴

Dodik has made a mess of the economy, says a U.S. government representative, diverting attention from problems by playing the nationalist card. “Dodik’s friends own everything. Transparency International and other organizations are under pressure. Political opposition is dealt with roughly.”

On a positive note, the Ferhadija mosque in Banja Luka, which had been destroyed in the war, was recently reconstructed and reopened (with the help of the Turkish government).²⁵ A 2001 attempt to lay a cornerstone and begin reconstruction had resulted in riots that killed one person.

The next two years are critical, as BiH prepares for presidential and parliamentary elections in 2018. Should Croats make common cause with Serbs as a bulwark against a now-majority Bosniak population, or if the Bosniaks show a reluctance to support ethnic power-sharing on the federal level, or if both Croats and Serbs push for more autonomy, there is a chance that the balance underpinning the current system could be undermined. “We have nationalists who are increasingly showing signs that they want to divide the country along ethnic lines by 2018,” says an opposition leader with whom we spoke. However, recent local elections showed growth in youth support in both the cities and in ethnically diverse villages in the countryside for Naša Stranka, a social-liberal opposition party that aims to be neutral. And within the ranks of

the dominant nationalist SDA party, younger leaders such as Senad Sepić are reportedly talking about breaking away and forming their own parties. This could weaken the SDA grip and open the door for other parties to participate.

At issue for the left-leaning parties, which could—as the recent local elections indicate—have enough votes to form a coalition, is a vision for the country. Naša Stranka leader, Predag Kojović, wants to see a country that is post-ethnic and which doesn't rely on ethnic designations for the presidency. Says Kojović, "There should be one chair that is available and accessible to everyone. The United States doesn't mandate a white president and an African-American vice president. It took fifty years [following the civil rights movement] for a black president to rise up naturally in the United States. Maybe in the first cycles the inertia of ethnic democracy will continue, but at some point down the road this will break down." Another interviewee counters this vision, saying that it would not work within the context of BiH, with the current political situation in BiH pitting ethno-nationalists of the three constituent peoples drifting further apart against a small group of liberals who need to continue to gain ground in a polarized environment.

Croatia



Croatia could have been the success story of the region. Unlike the other countries, which have EU accession timelines that are a decade long at best, Croatia joined the EU in 2013, merely nine years after being confirmed as a candidate country. It has a coastline that supports a burgeoning tourism industry and potential for offshore fossil fuel extraction, and it is working with countries along the Adriatic and Baltic Seas to form a regional transport corridor.

Over the past few years, Croatia has faced an uptick in nationalism that resulted in a rightward drift during the country's 2015 parliamentary elections. Furthermore, government instability has provided an opening for leaders to use nationalist sentiment for political gain. It has taken nearly two years for the government to form a coalition composed of political leaders who are less controversial than those appointed in the past. Although the government as of October 2016 is stable and less overtly nationalist, the religious, predominantly Roman Catholic society and a not-so-distant history of fascism still permeate the contemporary socio-political environment. The country's World War II collaboration with the fascists included atrocities committed by the Ustaše government, yet in recent years, revisionist views of the wartime Ustaše movement and the fascist-allied Independent State of Croatia (NDH) have entered Croatia's political mainstream.²⁶ Nor does Croatia operate in a vacuum: the status of Croats in BiH impacts the regional dynamics, with both Serbia and Croatia using developments in BiH to maintain their own balance of power within the region, according to a prominent Croatian elected official.

After taking office in early 2016, the now former minister of culture, Zlatko Hasanbegović, attempted to cut funding for progressive nongovernmental and civil society organizations,²⁷ tightened restrictions on independent media, and lauded a widely criticized documentary film that questioned the death toll at the Jasenovac concentration camp.²⁸ Against this backdrop, the freedom of the press is under pressure. When a prominent Croatian journalist was attacked in the coastal city of Split, the response of the Ministry of Culture was to caution him on the content of his articles. More recently, Croatian investigative journalist Domagoj Margetić, who testified about war crimes committed by the Croatian army against Serbs in the town of Sisak in 1991 and 1992, was attacked and told that "he will never write again."²⁹ "I have been an activist for twenty years," says one civil society representative, "and I am tired of this system. Even though I want to live in the country, I also feel the outlook is bleak and there is no incentive for the society and political system to change."

The Serbian minority in Croatia is facing increased hate crimes and reduced funding, leaving many members of the community wondering if they should

leave for Serbia. Ruža Tomašić, a Croatian member of the EU parliament, has publicly stated that “Croatia is for Croatians.”³⁰ And under the previous government of Prime Minister Zoran Milanović (December 2011–January 2016), violent protests erupted over a law on the application of dual-alphabet (Roman and Cyrillic) signs in cities with a large Serbian minority. During the protests, the government decided to postpone the application of the dual-alphabet laws due to public opposition.

The government itself has been through several crises. In June 2016, Croatia’s parliament gave a vote of no-confidence to the now-former Prime Minister Tihomir Orešković, who has been criticized as a Canadian carpetbagger who “speaks Croatian using Google Translate.” This followed a narrowly averted no-confidence vote one month earlier against then Deputy Prime Minister Tomislav Karamarko.

A European Union member as of 2013, Croatia may have been able to reap some benefits, as EU data shows a 7 percent annual average export increase between 2009 and 2015.³¹ However, the economy still lags that of other EU countries, with one of the highest unemployment rates at 17 percent and low growth rates of about 1.5 percent in 2015 (compared with 3.2 percent for BiH, 3.5 percent for Kosovo, and 0.7 percent for Serbia).³²

In 2014, Croatia launched its first-ever tender for offshore oil and gas exploration, awarding the majority of the ten licenses to a consortium formed by Houston-based Marathon Oil and Austrian OMV.³³ In addition, the country is also taking bids for construction of a liquefied natural gas (LNG) terminal on the island of Krk. The terminal would be able to receive, store, and re-gasify LNG received from LNG suppliers such as Qatar. While these are positive developments, the benefits accrue primarily to international corporations and state-owned companies; local businesses that could drive employment and create growth opportunities in the region progressed only minutely. While the number of small enterprises in Croatia has grown, the number of those employed by medium-sized enterprises has declined from 2008 to 2013.³⁴

Kosovo

Kosovo is “newborn,” proclaims a sign in the capital, reflecting the country’s embrace of its 2008 independence and the energy that accompanies youth. One observer describes Kosovo as “upbeat and bright-eyed,” enjoying statehood for the first time. Although shared ethnic and family ties connect the



country to Albania—93 percent of Kosovars are ethnic Albanians, according to the 2011 census³⁵—most people are firm in their identity as Kosovars. However, a preponderance of Albanian flags and some nationalist movements suggest that there is an undercurrent of those who wish to become part of a greater Albania.

Kosovo is no longer the world's newest nation, but it is yet to achieve certain privileges of statehood, such as admission to the UN. (In contrast, South Sudan was admitted to the UN in 2011, the same year it achieved independence.) Although this holdup is due to politics—China and Russia, both members of the Security Council, will not vote in favor of admission—it demonstrates the precarious existence of this new country. Serbia, from which Kosovo broke off, also opposes its independence. Currently, Kosovars enjoy visa-free travel to only a handful of countries, underscoring the country's isolation.³⁶ An EU proposal to allow Kosovars visa-free travel to the Schengen Zone stalled after a split vote in September 2016. They are the only country in the region that does not enjoy the benefits of a visa-liberalization program.

Kosovo is slowly gaining recognition of its sovereignty from international bodies such as the International Monetary Fund, World Bank, Council of Europe Development Bank, Fédération Internationale de Football Association (FIFA), and the International Olympic Committee. However, it has not yet

received recognition from the United Nations, the five EU member states that do not recognize Kosovo (some because of their own territorial issues), and Serbia.³⁷ Without those acknowledgements, Kosovo is unable to function as an independent entity in the international system.

Many members of the Serbian minority live in communities that are separated by a KFOR buffer zone and, says one young Serb, “As of right now, young Serbs cannot plan their lives in Kosovo, as they see their future in Belgrade.” At the same time, the government is working on erasing displays of nationalism. The national anthem has no words in order to prevent offending anyone. A “peace park” was constructed in the divided city of Mitrovica although, according to one activist from the city, “These types of projects are not feeding anyone. We need schools, not parks.” The park, constructed by Serbs, served in effect as a continued barrier in the city. The Serbian enclaves receive money from both Kosovo and Serbia, and have political and economic ties to Belgrade in addition to Pristina.

Kosovo’s education system faces major challenges. Kosovo has the lowest rate of preschool enrollment in the Western Balkan region.³⁸ A 2015 report by the Program for International Student Assessment (PISA)—a widely recognized global report card on education—ranked Kosovo last in Europe and in the bottom three of the 72 countries surveyed.³⁹ Although enrollment has increased in universities, the corresponding infrastructure—hiring qualified professors, for example—and program development has lagged. “Education is treated with the seriousness of ordering coffee at Starbucks,” laments one Pristina-based entrepreneur.

“Seventeen years after the intervention,” says one politician, “Kosovo has not yet matured as a democracy. Our legal system has good laws, but they are not being implemented.” While Kosovo has its own judiciary that is monitored by the EU, nearly everyone we spoke with stressed that, in effect, Kosovo’s judicial system is a failed project. Corruption is pervasive and the judiciary lags international norms, with independence from the executive and legislative branches not fully established.

Economic decentralization has created issues as well. Coal and mineral-rich Kosovo has, like the other Balkan countries, yet to establish a fully operational market-based system. The Trepca mine, which was one of the region’s biggest economic engines during the socialist era, is mired in an ownership dispute between Kosovo and Serbia. The mine is barely operating and costs money to maintain, yet is treated as a national prize rather than as a

potential source of jobs and income if effectively privatized. The government still plays an outsized role in employment and the economy, allowing the elite to control the elections through interference in and ownership of the media. The country is heavily reliant on aid and remittances—16.7 percent of Kosovo's GDP is sent from abroad, placing the country among the most remittance-dependent in the world⁴⁰.

A recent study cited Kosovo as having the highest number of recruits for the self-declared Islamic State (IS) per capita of any European country, which drew attention to the issue of religion. The government fiercely advocates for putting this figure in perspective, as more than 95 percent of Kosovo's population is Muslim, which makes for a misleading comparison with other countries in Europe.⁴¹ In fact, the country is extremely secular. The largest religious building is not a mosque but the Roman Catholic Cathedral of Blessed Mother Theresa in Pristina and many people frequent bars and restaurants throughout the country, unconcerned with any religious strictures.

Serbia



Like other countries in the region, Serbia is in transition, although its path reflects a specific tension between East (Russia) and West (the European Union)

and other Western powers). Its political activities and alliances during the wars of the 1990s led many Western media outlets to portray Serbia as the sole aggressor of the Balkan wars. The NATO bombing of Belgrade in 1999 angers many Serbs to this day and Russia's defense of Serbia has burnished Moscow's image. As a result, NATO membership is a political nonstarter due to lack of public support, leaving the door open for Russia—with its powerful UN Security Council veto that it wields in defense of Belgrade—to build up its military cooperation with Serbia.

Serbian leaders were complicit in—and convicted of—some of the most heinous crimes and incitements during the war in Kosovo, as well as in BiH due to its relations with Republika Srpska. However, atrocities were committed on all sides and many Serbian civilians were themselves victims in a political game that was outside of their control. Today, the repercussions of the violence are still felt. One Serbian interviewee says that prior to the war, well-known Western entertainers and officials constantly passed through Belgrade, providing the city and country with alternative perspectives and connections to the West. The perception has been that the number of those visits has dropped since then. If that is indeed the case, that could contribute to increased isolation.

Serbia's historical legacy as the economic engine of the region has given this country a boost when it comes to economic development and foreign direct investment. For example, international companies such as Microsoft and General Electric have chosen Belgrade for their regional headquarters. However, Serbia has not escaped the quagmire of corruption and bureaucratic entrenchment that afflict other countries in the region and slow the country's progress. The privatization of the media, driven by EU reforms, has ceded a relatively open press to one that is increasingly narrow in focus. The Vučić administration has been hostile toward investigative media. Reporters from the local and independent Balkan Investigative Reporting Network (BIRN)—which is partially funded by foreign grants—have been accused of being spies and traitors.⁴²

Serbia would like to join the European Union. However, Kosovo and Serbia are codependent in the EU accession process, which will require Serbia to recognize Kosovo before becoming a member. With the EU in disarray and Brussels giving Belgrade an ever-distant timeline for accession, politicians lack incentives to publicly advocate for recognizing Kosovo. This leaves the rationale for reforms toothless.

One of Serbia's most ambitious development projects has been met with significant resistance. Over 10,000 people turned out to protest the controversial Belgrade Waterfront project in June 2016.⁴³ This massive real-estate development plan was created without public participation, classified as a project of national significance—which allowed it to be fast-tracked—and lacked an open bidding process. Refugees camping at the site were forcibly resettled in the night without advance warning. Activists have kept up the cry throughout the fall of 2016 that the project is trampling the rights of the people and enabling corruption.

"The situation can deteriorate in terms of democracy and human rights," says one activist. The current situation is that stability is very fragile. It is easy for the government to escape from real concerns like the economy and instead focus on security issues. This happened in the 1990s."

FINDINGS

- 1** A new plan for the region is urgently needed, as Plan A—EU membership—is unlikely to result in accession within the next five years, if at all. The United States government and businesses should take a leadership role in providing an alternative plan.
- 2** Islam is more of an opportunity than a threat in the Balkans, particularly in Kosovo. The traditionally moderate practice in the region is a counterweight to the fundamentalist interpretations that fuel extremism and its expression should be protected. However, resources should be given to help both Kosovo and BiH, but particularly the latter, counter the spread of hardline ideology.
- 3** Russia, Turkey, China, and Saudi Arabia are each vying for influence and changing the dynamics of the region. However, EU countries remain the biggest partners for trade.
- 4** Economic development should be mindful of the legacy of socialism and failed privatizations and instead be pursued with a focus on connecting capital with small- and medium-sized businesses, rather than on securing large-scale projects. Technology, agribusiness, and health are sectors with particularly strong potential. Investment, not aid, is what is needed in order to develop economies and counter corruption.
- 5** Political corruption needs to be addressed as an underlying issue hampering development and can be done with gradual measures.
- 6** The U.S. has abdicated oversight to Germany and the United Kingdom, yet the countries in the region want U.S. leadership.

EUROPEAN UNION: A ROTTEN CARROT?

“What is keeping the entire region stable and moving forward is the prospect of EU integration.”

According to many interviewees, the promise of EU membership is the solution to almost every problem in the region, from protecting human rights and generating economic development to stamping out corruption and unleashing the rule of law. Yet the enthusiasm for EU membership is matched by fatigue about the process and skepticism regarding the strength of EU leadership. Public support for EU membership has fallen from 71 percent in 2009 to 48 percent in 2016 in Serbia.⁴⁴ This is not surprising when, across all four countries, we were told that the EU is “bureaucratic and slow” and “has an inability to do anything positive in its backyard and region.” In Bosnia and Herzegovina, the fact that EU officials regularly talk to Bosnian officials viewed as corrupt and develop economic plans without seeking local input has helped to solidify the perception of the European Union as ineffective and out of touch.

Also dampening enthusiasm among prospective EU countries is the backslide that Croatia is experiencing since joining the bloc in 2013. Reforms undertaken as part of the EU accession agreement have failed to make a deep and lasting impact in Croatia, resulting in disappointment. A director of an independent media network says, “The problem is, now there is no stick with which to beat Croatia, now that it is in the EU.” Prior to becoming an EU member, says another anti-corruption civil society group, there was progress on anticorruption issues, government transparency, and minority rights. However, the European Union does not want to police all member states, so there is no monitoring in place. Without signs of progress, Croatians are tiring of the EU, although there is still support for NATO.

Complicating matters is the United Kingdom’s “Brexit” referendum on June 23, 2016, in which the UK narrowly elected to leave the European Union, Italy’s December 2016 referendum, which solidified the possibility that the euro-skeptic Five Star Movement could gain power in the 2018 general election, and the possibility that France will elect the anti-EU Marine LePen as its president in 2017. The bloc itself is in crisis. Long before the Brexit vote, both Jean-Claude Juncker, president of the EU Commission, and Johannes



Uncertain outlook: The threats to EU unity and hold on expansion weaken the urgency of the accession process.⁴⁵

Hahn, the EU's neighborhood and enlargement commissioner, had said that no new countries would be allowed to join the EU before 2020. With the EU now negotiating the terms of the UK's exit, the union will be in turmoil for some time.

One official in Kosovo explains that "there is little energy from the EU to push Kosovo toward the next round of integration and reform." And yet, says Ramadan Ilazi, deputy minister of European integration, "There is no Plan B for Kosovo." This sentiment was echoed across all the non-EU member countries in the region.

This should worry U.S. officials. The idealistic vision of the European Union as a knight in shining armor, pulling candidate countries away from the possibility of socio-economic decline and toward full democratic and economic success, is appearing less and less likely to come true. Significant roadblocks to accession exist, including the moratorium on new members through the end of this decade, the need for Serbia to formally recognize Kosovo, and a corresponding recognition of Kosovo by the five EU member states that do not yet acknowledge its independence. Furthermore, even if BiH, Kosovo,

and Serbia do join the European Union, Croatia's experience shows that it takes vigilance after EU accession for initial reforms to take root and transform the socio-political and business environment

Lastly, some sources express concern that if accession is applied unevenly—or within unequal timeframes—ensuing demographic shifts could destabilize the region, and BiH in particular. BiH's 2013 census, which clearly indicated that Bosniaks now comprise more than 50 percent of the population, has sown fears that shifts in the balance of ethnicities might enflame ethnic and religious tensions. Should the European Union admit Serbia before BiH, for example, there is a chance that many Bosnian Serbs will decamp to Serbia and the promise of the EU—as many Bosnian Croats have done—further eroding the multiethnic, multireligious state. Given BiH's current political unwieldiness, this hollowing out of diversity could lead to conflict or a nonfunctioning state that is already a magnet for religious fundamentalists.

RELIGION AND RADICAL ISLAM

In the Balkans, religion and national identity are intimately, and fatally, linked. Religion has long been the primary national identifier and it has precipitated a history of division. At the time of the schism between the Eastern Orthodox and Roman Catholic churches in 1054 CE, the Croats were Catholic, like their neighbors in Italy, and the Serbs were Orthodox, having been absorbed by the Byzantine Empire. Bosniaks—the Slavic people who lived in the medieval Bosnian state at the time—primarily practiced a form of Christianity that may have been part of the dualist Bogomil sect, though this remains a controversial subject⁴⁶. The Bogomils were condemned as heretical by Orthodox Serbs, who expelled them, and by the Roman Catholic Church, whose calls for crusades were answered by the Kingdom of Hungary, then in a union with Croatia. Following the Ottoman conquests of Bosnia and Herzegovina in the 1400s, many Bosnians converted to Islam.⁴⁷ Thus, religion, rather than ethnicity, has long sowed distrust in the region and been used as a pretext for political gains. Prior to the 1995 Srebrenica massacre, in which thousands of Muslim Bosniaks were killed, Ratko Mladić, one of the architects of that horror, invoked the Ottoman Turks' defeat of the Serbs in the year 1389: "The moment has finally arrived when . . . we will have vengeance against the Turks in this place."⁴⁸

Each country has a different relationship with its primary religion. Of all the countries in the region, the church in Croatia has the largest influence over social and political life. The office of the president was only one of several political entities that supported recent calls by In the Name of the Family, a Roman Catholic NGO, for gender-segregated education and antiabortion measures. In Serbia, politicians regularly use religion to stir up nationalist sentiment, which can function as a distraction from painful economic realities, weak enforcement of the rule of law, and other unresolved domestic issues.

The inhabitants of the two countries that have large Muslim populations, BiH and Kosovo, now practice a very moderate form of Islam. Following a post-World War II campaign, women generally stopped wearing headscarves, mosques were decorated with representational figures, and drinking alcohol became common. However, a 2016 article in the *New York Times*, “How Kosovo Has Turned Into Fertile Ground for ISIS,” drew attention to the risk that Islamic extremists pose in the country.⁴⁹



Pristina Nights: Patrons at The Cuban bar in Kosovo. ⁵⁰

According to the report, the self-declared Islamic State has found the highest number of European recruits per capita in Kosovo and the would-be Caliphate has chosen Albanian—the language of Kosovo—as one of the languages used

by its propaganda arm. However, the risk that Islamic extremism poses is nuanced, say interviewees—depending on history, economics, and other factors—and varies from Kosovo to Bosnia and Herzegovina.

“There is an issue with radicalism in Kosovo” says Petrit Selimi, Kosovo’s former acting foreign minister, “but *The New York Times*’ article did not realistically present the situation in Kosovo.” Comparing per capita recruits from a country that is 95.6 percent Muslim with countries that have only Muslim minorities does not present an accurate picture; it is “political mathematics,” says another high-ranking official. Lacking the strict Wahhabi interpretation of Islam that dominates countries like Saudi Arabia, Kosovo’s practice of Islam exists in a country that recently held its first gay pride parade, where recognition of the LGBT community is part of the constitution, where 40 percent of ambassadors are female, and which elected the first female president in the region.

Similarly, BiH practices a more moderate form of Islam. It was only during the wars of the 1990s that foreigners who followed strict interpretations of Islam came to the country after Bosnian Muslims invited outside help to fight on their side.⁵¹ According to media reports, hundreds of these traveling mercenaries were given citizenship and remained in the country, where they formed communities, predominately in rural areas.⁵² “The issue with the Wahhabi Islamic practitioners is that they seem to be peaceful, but no one can enter these communities, so no one really knows what happens there,” says Dobrila Govedarica of the Open Society Fund Bosnia and Herzegovina. An increasing number of tourists from countries such as Saudi Arabia and the United Arab Emirates are buying property in BiH’s cooler, greener climate for vacation homes. According to some sources, this trend is exerting an influence on BiH’s practice of Islam.

Of more concern to security specialists is the ability of foreigners to open shell corporations for real estate transactions. Easy to open, these firms quickly become hubs for hundreds of millions of euros of property, facilitating all-cash transactions. Similarly, the funding of Islamic charitable organizations in BiH have come under scrutiny by U.S. counterterrorism agencies⁵³. If even a small fraction of this difficult-to-trace money is used to fund terrorism, the impact could be tremendous. For example, the September 11, 2001, attacks on the United States cost just \$400,000 to \$500,000 to carry out.⁵⁴

Both BiH and Kosovo were early adopters of laws designed to deter fighters from joining the so-called Islamic State—returnees are jailed for a year in both countries. Of the 330 Bosnians known to have left, 26 were killed and

55 returned and were incarcerated.⁵⁵ Members of BiH's Muslim communities are coordinating with BiH's intelligence services to apprehend returning fighters and some Muslim leaders have demanded that the government shut down illegal madrassas that are not controlled by BiH's officially recognized Muslim communities⁵⁶. However, the scope of the monitoring exceeds the government's capabilities. There are reportedly dozens of Wahabbist communities in BiH, each with young adults who are susceptible to extremist messages.⁵⁷ According to a high-ranking government official, there is an ongoing struggle against the Wahhabi movement in BiH. "The problem is that, even though we speak the same language, there is a misuse of religion and its influence over youth."



Grim graffiti: The ISIS flag painted in a village in BiH.⁵⁸

Despite these efforts and a history of more moderate Islam, interviewees say that countries such as Saudi Arabia and Turkey are using soft diplomacy, in different ways, to promote a form of Islam that runs counter to historically moderate interpretations. Although they have differing objectives and roots in different schools of Islamic thought, both Saudi Arabia and Turkey are exerting influence and shaping perceptions amid high youth unemployment

rates and governance challenges. They are building and restoring mosques in both countries, with Saudi-funded mosques often differing aesthetically from the local norms. Representational images, forbidden in most interpretations of Islam, nevertheless traditionally adorned mosques in Kosovo, but that is not the case in the new mosques, says an academic. Saudi Arabia is also educating imams and providing scholarships for study in Saudi Arabia. "Secularism is failing in Kosovo, as Turkey and Saudi Arabia introduce more conservative forms of Islam," says Ilir Deda, a member of Kosovo's parliament.

"We are concerned with the return of foreign fighters from Syria and Iraq," says Croatian President Kolinda Grabar-Kitarović, in reference to the allure of IS for disaffected youth in BiH and Kosovo, "and have been working with partners in that region." President Grabar-Kitarović has gone so far as to ask President Recep Tayyip Erdoğan of Turkey to put pressure on Turkey's religious community, as she sees Turkey's "neo-Ottomanism" to be of concern, along with the Salafist push of the Gulf States. With the decades-long presence of Wahhabis in BiH and the continued outreach by Saudi Arabia and Turkey, there exists the possibility that the more temperate form of Islam traditionally practiced in BiH would give way to a more extremist version in a country that in many ways already resembles a failing state.

Of greater concern to the rest of the world is the region's position on a transit route for terrorists, arms, and drugs. Weapons used in both 2015 terror attacks in Paris can be traced to the Western Balkans and a study by the Flemish Peace Institute in Brussels found that the majority of illegal weapons in the EU have come through the Balkan countries.⁵⁹ Nasser bin Ali Ansi, an al-Qaeda operative who claimed responsibility for the January 2015 attacks on Charlie Hebdo's offices in Paris, was a Bosnian war veteran.⁶⁰ Ambassador Richard Holbrooke, the architect of the Dayton Peace Accords, once said that "if it had not been for the Dayton Peace Accords, 9/11 would probably have been planned in Bosnia and Herzegovina, not in Afghanistan."⁶¹ With the accords now hindering the development of a more politically functional BiH, that statement could presage an ironic turn of events. Angelino Alfano, the Italian minister of the interior, said in January 2015, "This part of the world, the Balkans, can be considered a shelter for terrorists."⁶² This assessment comes at a time of relative political stability; rising political instability would only increase the threat.

The emerging threat is coupled with an important opportunity. Both Kosovo and BiH practice a moderate form of Islam with secular governments, and are willing partners in maintaining that tradition. Kosovo has taken a hard line

against Saudi Arabia, closing Saudi-funded exchange programs, expelling rabbleroxing foreign imams, and jailing domestic imams who incited violence. Both countries could form a bulwark against extremism, demonstrating to increasingly fearful and xenophobic societies in the rest of Europe that Islam is compatible with democracy.

FOREIGN INFLUENCE

Saudi Arabia and Turkey are not the only countries influencing societies in Southeast Europe. China and Russia also have a presence, particularly in infrastructure investment and the media. The United States is conspicuously absent in the region, both politically and economically. If the United States continues to sit on the sidelines, Washington risks ceding political and economic influence to countries who have developed and maintained a presence across the region—and whose own interests might run counter to those of the United States.

Russia, with its demonstrated wish to undermine Western interests, is the biggest cause for concern. Although there is almost no risk of Russia taking direct military action—for both demographic and geographic reasons—as it did in the 2008 invasion of Georgia⁶³ and the 2014 annexation of Crimea in Ukraine,⁶⁴ it is clear that Russia is “trying to undermine and shame the U.S. and the West’s success story,” according to Ilir Deda, a member of Kosovo’s parliament. “There is the potential for Russia or the U.S. to light the fuse,” says one Serbian government official, with larger powers using regional proxies to exert influence, fueled by rising nationalism, military partnerships, and security concerns. Russian President Vladimir Putin has met twice with President Dodik of Republika Srpska since 2014⁶⁵ and with Serbian President Nikolić on three occasions since 2013.⁶⁶ In a sign of the two countries’ religious and cultural ties, the Russian ambassador was officially ordained as the “guardian of the Serbian people, especially in Kosovo,” by the Serbian Orthodox Church.⁶⁷

When it comes to Belgrade’s relationship with Moscow and the West, Serbia “sits on two chairs,” says one politician. President Nikolić is known to be supportive of Russia’s agenda. By comparison, Serbian Prime Minister Aleksandar Vučić is pushing for EU membership. When it comes to Serbia’s preference for the EU or Western systems, the answer is that “it’s complicated.” The government of Serbia is pursuing EU membership⁶⁸ and has achieved the closest possible



Putin' on the Ritz: Russian President Vladimir Putin and Serbian President Tomislav Nikolić meet in Belgrade in October 2014.⁶⁹

partnership with NATO without becoming a member⁷⁰—a consequence of low public support—reflecting a desire for the hallmarks of a liberal society and economy: rule of law, freedom of the press, and open markets.

The ties between Russia and Serbia are equally complicated. On the one hand, the two countries, as well as Republika Srpska, share a common religion—a potent unifying force in this region. However, some interviewees, including journalists and politicians, say that when it comes to Russia, the “Slavic Brotherhood” bond is predominantly “emotional” and “an illusion,” albeit a powerful one. Few younger Serbs speak Russian or have traveled to Russia, particularly when compared with the growing number of English-speaking citizens.⁷¹ Yugoslavia’s expulsion from the Communist Information Bureau in 1948 led Tito, the former leader of Yugoslavia, to help found the Non-Aligned Movement in 1961, reducing Cold War-era ties to the Soviet Union. What remains important is the notion that “Russia has Serbia’s back,” having stood up for the country as it was roundly criticized by much of the world for being the aggressor in the wars of the 1990s. “I am concerned when Russia

makes statements in which it says that boundaries in Bosnia and Herzegovina and the region will change and that there is unfinished business,” says one Serbian civil society activist. “This type of manipulation is not soft power.”

Russia’s financial stake in Serbia’s economy is not particularly large, amounting to an average of approximately 5 percent of total foreign investment from 2001 to 2014.⁷² According to the Serbian Chamber of Commerce, Russia has invested in oil and gas, but “other than that there are not many investments from Russia.” However, a presence in the energy market is an effective way to influence domestic politics and Russia has a track record of doing so elsewhere, notably in Ukraine. Had the South Stream natural gas pipeline deal gone through—sanctions scuttled the plan in 2014—Russia would have had much more influence in Serbia.

Russia has a strong media presence in Serbia.⁷³ At a time when major international networks are pulling out—BBC Serbia and Radio Free Europe, for example, have closed their Belgrade offices—Russia is developing and increasing its presence through media brands such as Sputnik News and RT. Not only are outfits associated with the Russian lobby in Belgrade buying networks and entering the broadcast market, they are also, according to one Serbian opposition politician, financing individual journalists. The official U.S. government-funded broadcasting institution, Voice of America, by contrast, is described as being “not influential.”

China, which also backed Serbia during the war with Kosovo, has a growing presence in the region—and in Serbia in particular—one that is based on China’s interests in developing its own New Silk Road economic plan.⁷⁴ Chinese investments, like Russian ones, are concentrated primarily in energy, but also in infrastructure. In 2014 Serbia and China signed thirteen agreements and memoranda on finance, infrastructure, telecommunications, and investment, according to an article in *EUobserver*.⁷⁵ In May 2016, China’s Gezhouba Group signed an agreement with Elektroprivreda of Bosnia and Herzegovina for the construction of part of a coal power plant worth roughly €700 million.⁷⁶ Although the investment is welcome in BiH, there is some frustration that the construction of coal power plants “is not the future we should be moving toward,” according to a businesswoman in BiH. According to a U.S. official, China is investing heavily in BiH and Herzegovina, as Beijing sees BiH as a good opportunity to gain a foothold in Europe, and there are currently more than 100 different Chinese-owned businesses in Sarajevo. By comparison, there are fewer than 50 U.S. companies and business there. As a result, China and Russia are having a large effect on both the economic and political agenda in the region.

Turkey is also making a strong push in the former borderlands of the Ottoman Empire. During a 2013 visit to Prizren, Kosovo, President Erdoğan of Turkey declared: "We all belong to a common history, common culture, common civilization. We are the people who are brethren of that structure. Do not forget, Turkey is Kosovo, Kosovo is Turkey!"⁷⁷ Turkey, with its Ottoman-era ties to Kosovo, is set to sign a trade deal. More than 700 Turkish businesses already operate in Kosovo and the Turkish International Cooperation and Development Agency (TIKA) supports more than 400 projects in health, education, and agriculture. TIKA sponsors restoration of religious sites in both Kosovo and BiH, including heavy participation in the rebuilding of the Ferhadija Mosque in Bosnia's Republika Srpska region.⁷⁸



Solidarity in Sarajevo: Bosnian Muslims protest in support of Turkish President Tayyip Recep Erdogan following the July 2017 coup attempt in Turkey.⁷⁹

Amid all of these other influences, EU countries remain the region's most significant source of business, and therefore influence. Italy and Germany are top export destinations for each of the countries, and Austria and Slovenia are

also important.* Moreover, the countries trade with each other, particularly BiH, Croatia, and Serbia. These ties are important and underscore that regardless of influence in other areas, trade remains an important and constructive connector.

BUSINESS AND THE ECONOMY

The Balkan region needs to restart its economy. Although the legacy of socialism and the impact of the wars have delayed the region's economic development, a highly literate and multilingual workforce with human capital potential in IT, agribusiness, and healthcare position these countries to take advantage of a rapidly transitioning global and digital economy.

The countries of the former Yugoslavia have only limited experience with a free market economy over the past century. Although small private industries were encouraged by the government of Yugoslavia during a period of reforms in the 1960s, the government later favored the acquisition and management of industrial enterprises. Under this "self-management" planned economy, the state acquired and worker unions managed industrial enterprises with a mandate to provide products and jobs⁸⁰. The outbreak of war in the 1990s cut short Yugoslavia's experiments with the market reforms that started in the mid-1980s. Postwar privatizations that occurred without competitive bidding, at large discounts, or with bribes soured public opinion regarding the sale of state assets. Other state-owned industries were privatized in the current form, versus attempting to update and pivot established infrastructure to new products and services. In short, the region never had an opportunity to effectively privatize many of the industrial companies that were the backbone of the old economy and that could have been the basis of a new economy.

Although corruption is often cited as the reason that privatization was never completed,⁸¹ the lack of value among the assets being privatized also hindered the process.⁸² Many of the businesses that were not affected by war were antiquated and irrelevant in the postindustrial, information-age marketplace. Previously, the region's economy had been based on an industrial model.⁸³ Shipbuilding, early tech manufacturing, petrochemicals, and pharmaceuticals were a few prominent industries in the essentially self-sustaining former

* Please see infographics on pages 12-13.

Yugoslavia. During the technological and globalization revolution of the 1990s, other counties leapt ahead whereas these countries were mired in war, leaving any remaining businesses and products unappealing and uncompetitive. Thus, the region found itself with antiquated businesses and business models, compounded by a scarcity of management talent capable of pivoting in an information age, and yet many blamed the inadequacies on privatization itself.

Of paramount importance to each country in the region is developing the economy and attracting trade and investment. Today the region's youth unemployment rate hovers around 50 percent. Those who are lucky enough to work are paid low wages—in 2015, monthly salaries averaged \$450 in BiH, \$815 in Croatia, \$445 in Kosovo, and \$430 in Serbia.⁸⁴ Remittances in 2015 accounted for 18 percent and 12 percent of GDP for Kosovo and BiH respectively, with only ten countries worldwide edging out Kosovo with a higher dependency on diaspora funding.⁸⁵ In Serbia, BiH, and Croatia, a oversized public sector distorts wages and stymies entrepreneurial vision—a 2015 European Bank for Reconstruction and Development report cites a small private sector and high government salaries as reasons why people in Bosnia and Herzegovina “wait” for a job in the public sector.⁸⁶ Most countries have had little-to-no experience or guidance on how to build an economy in a free market, postindustrial, global age. These challenges are further compounded by the comparatively limited relevance of the region in the global economy, and the hurdles of corruption, government stagnation, cumbersome bureaucracy, and weak rule of law, which make investment risky for outside investors.

Interviewees cite the region's mentality as an obstacle to growth and development. Aid money distorts the economies, particularly in Kosovo and BiH, where some respondents say that aid has “spoiled citizens” and that outside money fuels corruption. In Kosovo, says one academic, “Many people have degrees but no practical knowledge.” Across the region, forward-thinking citizens expressed the desire to shift from receiving handouts or routine jobs to a more creative and entrepreneurial society.

Old systems are a drag on the economy. The public sector dominates in almost all of these countries, with government salaries in BiH twice as large as those of the private sector.⁸⁷ Croatia's efforts to privatize are hindered by a public that is reluctant to sell what they see as public goods, a holdover from botched privatizations. Serbia is trying to reduce the size of its public sector and government spending, but the public sector is still a heavy burden on the economy and reliant on subsidies.⁸⁸ Says one businessperson in Serbia, “It is difficult to work with the government sector because there is no

clear line of responsibility.” A 2016 loan by the International Monetary Fund to BiH is being used mainly to support the payment of government salaries and pensions.⁸⁹ With electoral participation in BiH often tied to government employment, this type of loan serves to shore up the ruling parties.

However, the global economy’s transition from manufacturing and industry to digital services presents a major opportunity for these countries, where small- and medium-sized enterprises are growing. A 2015 World Bank report states that four in five formal jobs in emerging and developed markets are in SMEs.⁹⁰ Yet, more than fifty percent “lack access to finance, which hinders their growth.” BiH, Croatia, Kosovo, and Serbia certainly fit this description. To date, these countries have struggled to attract large multinational or manufacturing companies, while also lacking the infrastructure to launch and scale more SMEs.

There are two potential growth paths for countries in the region. The first is to leverage the region’s burgeoning IT capabilities to enable technology-based businesses that reach across all sectors. The emerging global economy, rooted in technology and information, does not require vast capital expenditure; rather, it requires connectivity to the Internet and local market expertise. Combining these two factors allows for the development of a strong and flexible sector that can help transition from the outmoded industrial economy. Many emerging-market countries are taking advantage of the wired world and low local costs to provide back-end services to companies needing digital coders. Regionally, Romania is a good example of a country that has seen strong GDP growth driven by development of IT and a policy environment that encouraged this growth.⁹¹

In each of the countries this report examines, government officials, business leaders, and civil society activists are holding out hope that IT will provide jobs for youth and boost the economy. Kosovo, we were told, is called “Little India, for its growing role as Europe’s IT service center.” According to a U.S. official, IT is said to be the fastest growing sector in BiH, increasing over 70 percent in the past few years. In Serbia, Microsoft has been working with high schools and universities to develop IT hubs. According to Zeljko Vujinović, the general manager of Microsoft in Serbia, the average age of IT experts at the Microsoft Development Center in Serbia is 30 and the Serbian Chamber of Commerce expects an annual addition of 3,500 new IT graduates.

Many of these countries are starting to develop an ecosystem of technology hubs that provide development services to both the European and U.S. markets. BiH’s HUB 387, Innovation Centre Kosovo, Open Data Kosovo, and Serbia’s accelerator at Novi Sad are promising potential models that provide

access to those who have skills to code. These hubs serve as both training centers and incubators, offering courses and providing connections to grow. However, there is still work to be done. According to the Serbian Chamber of Commerce, Serbia is currently investing only €60 per capita into the development of the IT industry, far less than Croatia (€200), which itself invests only one-quarter of the EU average (€800). An entrepreneur in Kosovo says that the education system needs to be developed to encourage this kind of training—right now there are still not enough graduates well versed in coding.

Another option for regional growth is to support and grow entrepreneurship. This can be assisted by U.S. companies that develop products and services that target both consumer and business markets. These products—such as social media platforms, video games, healthcare, data analytics, and insurance, along with services across all sectors—are quickly becoming the backbone of growth across the developed world. The opportunity is for companies with such products to license their technology and business models to local companies in the region. To date, most product innovation in the United States is developed, funded, and sold in U.S. markets. However, as with all profitable products, the business is a combination of the product/technology and business model, as these companies are often creating businesses and new business models that have not existed in the past. The combination of the business model “know-how” and the product/technology itself form a package that the original business can market to local entrepreneurs and regional partners.

Under this structure, local firms partner with larger U.S.-based companies to provide local market knowledge, including sales, marketing, and distribution expertise. This model creates additional profit for the U.S. company through licensing fees, without having to assume all the risk of a global expansion. Local companies in countries such as BiH, Croatia, Kosovo, and Serbia can commercialize these products without having to go through the cost of developing and funding a new product from scratch.

According to a local expert in innovation and technology, most programs focus on investing in local innovation. Yet, this is the most difficult way to create both a business and a vibrant economy—it requires a wealth of expertise and resources to converge at one time, including access to capital, management experience, and technological innovation. However, developing a new model that licenses innovative products and technologies will allow the region to create local companies around products that have already been piloted and funded through the early-stage venture ecosystem in the United States. This is a rapid way to create an economy, employ people, and start to develop experience.

The most promising sectors for growth in this area are businesses that leverage technology and those that provide healthcare. The changing shape of healthcare, with digital health becoming a leading growth industry, opens ample opportunities worldwide. Digital health encompasses electronic health records, digital diagnostic systems, and wireless technologies and can be used to record a patient's history, make a diagnosis, run radiology images, conduct lab tests, track insurance information, and share treatment plans. Focusing on this sector will allow the region to leapfrog infrastructure requirements, much as the development of cellular technology made the wired infrastructure required for landlines redundant. For example, many diagnostic tests no longer require large capital expenditures on equipment⁹². Instead, diagnostic tests can be done digitally without investments in equipment-heavy labs. Distribution of care is at the start of an upheaval worldwide. Cost-efficient digital technologies leverage data, accessing global expertise, and making use of the internet for monitoring will provide better access to care, particularly in rural regions. Given the region's strong IT potential and historically well-trained medical professionals and pharmaceutical researchers, there is a lot of opportunity in the growing area of digital health for these countries

In order to take full advantage of these countries' potential for both technology and entrepreneurship, regulatory changes should be made. According to the World Bank Ease of Doing Business Survey in 2016, Croatia ranks 43rd of 190 countries in having a regulatory environment that is conducive to the establishment and operation of a local firm, just behind Russia in European rankings. Serbia is 47th, Kosovo 60th, and BiH ranks 81st. Governments will need to make starting a business easier in each of these countries. Similarly, governments should ensure flexibility in labor laws, allowing companies to hire and fire at will. Although this introduces uncertainty and risk, and care will need to be taken to ensure that hiring flexibility is not abused, without this ability start-ups cannot thrive. Even in this risk-mitigated business environment, there will be much trial and error in establishing sustainable business models, and entrepreneurship needs to allow for learning failures.

GOVERNANCE AND CORRUPTION

All of the countries in the region need to urgently address underlying issues of governance and corruption. The persistence of these problems explains

the attraction of EU reforms and the disappointment in their lack of effectiveness in Croatia. In each country that we visited there is the sense that the political elite have no incentive to change a system that benefits them.

In Croatia, a constricted press, entrenched bureaucracy, and a slow judicial system that lacks independence have left the country “in a state of chaos,” according to one opposition leader. “In the current political coalition, you cannot differentiate what is a personal and what is a professional relationship between politicians and judges,” laments this opposition politician. A civil society leader echoes that sentiment, saying, “The legal system is full of loopholes and flaws,” with judges often elected based on political ties. The civil society leader pointed to the case of Ivo Sanader, the former prime minister of Croatia, who was convicted of corruption and yet released after only two-and-a-half years of a ten-year sentence.⁹³ The head judge in the case against Sanader was observed drinking coffee with the secretary of Sanader’s party, the Croatian Democratic Union (HDZ), yet did not see an issue with this meeting. This system underscores the public’s lack of faith



Free at last? Former Croatian Prime Minister Ivo Sanader leaves prison following a much-reduced sentence. (Borna Filić/PIXSELL)

in privatization: they see any further sales of government assets as likely to benefit only corrupt politicians and businesspeople.

Serbia faces an entrenched ruling elite and a restrictive media environment, with the added challenge of Russia using Serbia and the Republika Srpska to maintain both regional influence and leverage in Western Europe. "The people are afraid of changes, especially the political elite," says one civil society activist. "The tycoons do not want change to happen because they are in control and can continue to personally benefit from the chaotic economic and socio-political situation." The government's strategy, says one opposition leader, is "to marginalize crucial issues in Serbia so they can remain in power." One representative from a major international company pointed to the problem of corruption: "We are losing deals because of corruption even though we might offer a better price, product, and terms. We can complain but the government does not care. . . wherever there is public involvement, there is corruption."

Both BiH and Kosovo are hampered by the inability to make laws, let alone enforce them. To amend the constitution in Kosovo requires a two-thirds majority of the mandated twenty seats held by minorities in parliament, half of which are held by Serbs "and influenced by Belgrade," according to a Kosovo NGO.

In BiH, the structure of the Dayton Accords allows Republika Srpska to hold the federation of Bosnia and Herzegovina hostage. The city of Mostar, home to some of the most intense fighting between Croats and Bosniaks during the war, has not held elections since 2008, reflecting deep concerns that voting would unleash renewed conflict. "I fear certain developments can quickly turn negative and we have to understand that we are at a turning point and that a lack of readiness will be our downfall," says a high-ranking official.

However, to blame the Dayton Accords is to ignore the disincentives for those in power to relinquish the seats that provide money and influence. "There is no political leadership in BiH and no progress or development in the country while those in power are benefiting from the status quo," says one former official. "It's a lucrative business to be the one in power," echoes one U.S. official, "The issue with reforms is that they know what happened in Croatia—the prime minister was jailed as the last part of Croatia's EU negotiation process."

Corruption is one of the world's trickiest issues to stamp out. Yet some of our interviewees offered ideas that might help shift the power balance. One option is to create alternate power sources. BiH, whose economy is stagnant and often corrupt, is currently ruled primarily by the SDA party and few

other political parties can compete. Bolstering competition in the political arena would be one way of holding politicians accountable. In addition, one businessman suggests that business has the power to address stagnation in the political sphere. By bringing steady and improving wages to the region, particularly through IT development, this entrepreneur argues that an emerging middle and professional class will help “unlock” the political realm.

WHERE IS UNCLE SAM?

Almost every conversation emphasized the need for U.S.—not European—leadership. Below is a selection of comments from respondents in the region:

“What kept me and the majority of the population of Kosovo going forward from 1990 to 1999 was the pursuit of liberty and achieving peace. We were inspired by U.S. ideology.” **Member of Parliament, Kosovo.**

“The problem is that the U.S. feels this is an EU agenda, but they are very slow,” **says one Government official from Mitrovica, Kosovo, in regards to helping Kosovo move from newborn status to a functioning adult democracy.**

“Kosovo could have been the success story of a U.S. intervention over the past 20 years but they did not see it through—typical for U.S. foreign policy. And this has put the country and region in limbo.” **Former politician and member of a prominent independent media**

“The U.S. was visible in the past with public statements made by ambassadors but now it seems that U.S. interest has disappeared and there is no positive movement.” **Member of Committee of EU integration from Kosovo**

“The U.S. funds anti-corruption groups [in Croatia] but they have to be more critical of the government.” **NGO in Croatia**

“The U.S. is not sensitive but efficient. The E.U. is sensitive but not efficient.” **High-ranking official in Bosnia and Herzegovina.**

"The U.S. has withdrawn from the region." **Executive of NGO in Serbia.**

"The U.S. should push for rule of law, help build new institutions as they have been hollowed out from inside. If the US does not reengage with Serbia and the region, the region might become unstable. The U.S. under Obama has been much less present in region." **NGO in Serbia.**

"The U.S. can be helpful in pushing BiH toward the EU and helping understand the proper mix of people to support federalism. However, the U.S. continues to insist on citizen principle." **Former President of Croatia, Ivo Josipovic, about the United States pushing for a unified Bosnia and Herzegovina.**

Many people in these countries are calling for an enhanced U.S. presence in political leadership and economic support. Yet, total U.S. aid to these four countries is a third of what it was prior to the attacks of September 11, 2001.*



Trumped up claims? A mural in New Belgrade, Serbia, in December 2016. ⁹⁴

* See USAID data on pages 14-15.

It is understandable why Washington wants to pull back. With limited bandwidth and resources—and crises like the fight against the Islamic State group and Russia's thwarting of international norms—it is understandable that a region ensconced in Europe and at peace would not receive attention. Yet, it is precisely for this reason that it warrants increased involvement.

U.S. credibility abroad is low. The decisions that Washington made regarding Libya and Syria are casting doubt on the ability of the White House and State Department to handle foreign crises. Two decades ago, the United States led negotiations and an air campaign in pursuit of peace in BiH and Kosovo respectively, both of which were widely considered success stories. Today that success threatens to unravel. The region is at a dangerous crossroads and, as multiple people have told us, is threatening to “implode.”

It will take effort from the United States to guide the region on the path toward liberal democracy and open markets. Yet, a solid base exists in terms of education, geography, and connectivity. Serbia ranks 4th of 76 countries in business English, and across the region the young population is well-educated and multilingual.⁹⁵ All four countries boast literacy rates near 100 percent*. Flights to Vienna last less than an hour, underscoring both the opportunity that comes from proximity as well as the need for concern about the region's security.

There are several ways in which the various sectors in the United States can make a difference:

* See infographics on page 11.

RECOMMENDATIONS

FOR POLICYMAKERS AND IMPLEMENTERS

- 1** The United States should cease abdicating leadership in the region to the EU and the Trump administration should take a more proactive and strategic role in the region.

In recent years, the United States has ceded leadership roles to the United Kingdom, Germany, and other EU countries. However, these countries have failed to achieve results and people are noticing. People in the region welcome U.S. leadership.

For diplomats and others, this means working with a broad range of political parties to foster the next generation of regional leaders by providing civics, economics, and communications training through programs like the International Visitor Leadership Program at the State Department.

In Bosnia and Herzegovina, the State Department and USAID should support consensus-building among political parties, particularly as a means of fostering a democracy based on issues rather than identities. In addition, the U.S. government should support or scale-up existing programs that draw on best practices from other countries with complex cantonal structures, such as Switzerland, to help improve local governance while increasing dispute resolution, coordination, and cooperation between the local and the federal levels. In addition, the United States should also increase the number of intelligence personnel working on counterterrorism in the region, particularly in BiH. According to a regional security expert, current numbers are a fraction of what they were in the 1990s.

In Serbia, the United States should seek ways to strengthen Voice of America or provide an attractive soft-power alternative to compete with Russia's dominant position in Serbia's media.

Across all countries, the United States should develop programs that help to reduce the size of governments throughout the region in order to foster efficiency and increase the attractiveness of working in the private sector and speak out quickly and definitively when rule of law, human and minority rights, or press freedom is threatened.

As noted above and in recommendations for business leaders, the IT sector presents a potentially stabilizing opportunity for the region. Washington can encourage the growth of this sector through USAID in BiH and Kosovo and through the U.S. embassies and chambers of commerce in Croatia and Serbia as a means of unlocking an alternative source of economic and political power while simultaneously encouraging programs that focus on IT security. Furthermore, embassy officials should consider using State Department and USAID programs to press on countries to create the business conditions that will help grow the private sector. Focusing on labor law, tax policy, and ease of doing business would help eliminate some barriers to entrepreneurship.

2 The United States should work with the countries in the region as well as with other countries with stakes in the region—including EU countries, Russia, and Turkey—on areas of mutual interest, such as security and creating conditions for economic development.

Although the United States should take a leadership role, Washington needs to work with its allies and even adversaries—as well as with the countries in the region—to tackle areas of common interest. Foremost is ensuring that adequate resources are devoted to counterterrorism efforts and arms trafficking. While the United States and its European allies are devoting resources to the region they are not, as one security expert mentioned, of the caliber necessary to tackle the potential of the problem.

In addition, Kosovo's lack of recognition by the UN presents barriers to participation in the international system. There are security implications for the United States as well, as Kosovo cannot participate in Interpol without being recognized by the global institution, leaving a broken link in a global security chain. Kosovo must also rely on Slovenia and Monaco for its country code, which hinders the country's ability to fully participate in global trade and commerce without confusion.

Economic development could counter the possible draw of extremism in some of these countries. Continuing to use U.S. government programs to promote IT development—perhaps with a security focus—will help. Developing programs that promote rule of law is another. Corruption remains a challenge for each of the countries in the region. The United States should remind its partners that engaging in bribery and corrupt practices only perpetuates this system.

3 The United States should develop a contingency plan for renewed conflict in the region or the breakup of Bosnia and Herzegovina. Similar contingency plans should be made for a radical restructuring or dissolution of the EU.

As unpleasant and unwelcome as the task may be, it is important that the State Department have a contingency plan for the breakup of Bosnia and Herzegovina, including how it will react if the Republika Srpska declares independence, if the Croats move toward greater autonomy or independent institutions, if Bosniaks seek to alter the political structure due to their majority status, or if fighting again breaks out.

Similarly, if EU membership becomes a waning beacon or vanishes altogether in the event of further EU fracturing, the United States should be ready to propose alternative alliances as a means of countering the pull of Russia, China, and others. NATO becomes an increasingly potent unifying force in the case of an EU breakdown. Although EU membership is decades off for three of these countries, if viable at all, NATO is a much more attainable union that has taken on more political significance over the years. If European countries take a more proactive and financially responsible role in NATO, in response to the Trump administration's demands that NATO member countries increase defense spending to 2 percent of GDP, then Washington should encourage them to include the countries of Southeast Europe as a placeholder for EU membership. Although NATO expansion following the collapse of the Soviet Union was criticized by some as a provocative action toward Russia, having a unified, strong, and expanded NATO is important given the aggressive actions by Russia in recent years.

FOR BUSINESS LEADERS

1 Take advantage of the rich IT potential of the region

Venture capitalists and technology companies can take advantage Southeast Europe's wealth of engineering and coding talent, creating a hub of innovation to provide back-end services to both start-ups and emerging global technology players. The region has a wealth of aptitude and human capital that can be tapped through coordinating efforts across universities by country to create a new regional hub of tech talent. Businesses looking for cost-effective software development and engineering services should consider Southeast Europe, which presents a viable alternative to other IT centers, such as India. There is a growing, well-trained, low-cost pool of tech talent with high levels of English-language proficiency waiting to be tapped. In addition, the opportunity exists to support private and academic accelerators and incubators to grow tech support and services as an export.

2 Increase profits by developing licensed business models that connect innovative products and technologies in the United States with local businesses in the region.

U.S. companies fund and develop innovative products and services that generally stay within the U.S. market. Although the U.S. venture capital ecosystem supports innovation and development through both financing and commercial models, these technologies often do not make it to other regions of the world. There is an opportunity to connect these emerging U.S. companies with entrepreneurs in the region, setting up new companies that will license fully developed business products and business models to market locally. The parent company secures either an upfront licensing fee or royalties from sales in the region. The new local company provides local market knowledge, including sales, marketing, and distribution expertise.

Businesses with developed, innovative, patent-protected products and services should explore Southeast Europe as a potential market for in-licensing their products. While healthcare is one sector that can benefit from this business model, any innovative tech-based business is an ideal candidate. The profile of a company for which this in-licensing business model may work is one that comes from any sector, but that has a product based on intellectual property that is already developed or in early-commercial to fully commercial stages, that has a disruptive technology or business process, and which may have venture funding or private equity.

FOR THE MEDIA, EDUCATORS, AND CIVIL SOCIETY

1 Develop partnerships that expand local outlets' access to wire stories and brings underreported stories to U.S. outlets that lack foreign coverage in the area.

As the number of international correspondents shrinks, global media outlets in the United States lose the ability to report on stories from small countries absent major headlines. As one media executive in Serbia says, "The international news will only report if there is a revolution." However, a responsible media should be reporting on developments before a major crisis or global shift occurs. There are a few reputable and independent media outlets in the region like the Balkan Investigative Reporting Network that can be a source of information for resource-strapped outlets in the United States.

In addition, with Russia dominating foreign reach in the media in Serbia, and Voice of America having a hard time attracting listeners, wire services like the Associated Press and ThomsonReuters should find ways to make their stories more cost effective with competitors like Russia's RT or Sputnik that make their content available for free. This could be an area where foundations and other civil society actors can make a difference by funding the translation and licensing of wire service content for local media outlets. Allowing local news outlets to translate stories available from reputable sources in English would increase the clarity, and therefore reach, of those stories.

2 Philanthropists and educational institutions can help develop the IT sector

The potential for the IT sector to become a significant contributor to the economy is strong. However, as one IT entrepreneur says, there needs to be more development of education in the field. Creating centers of training and certifications to complement the work already being done would help the region yield enough trained IT specialists to become a destination for capital and business.

CONCLUSION

THE DANGER POSED by political dysfunction and economic stagnation in these four countries is real. The region's location along terrorism and arms-smuggling routes means that further instability could pose a threat to European and global security. Economically, the long shadow of socialism and the weight of a dominant public sector burden these countries' transitions to a sustainable market economy, which is further corroded by corruption. Ineffective governance hinders forward momentum. Externally, foreign influences could lead to political instability, and uncertainty about the viability of the European Union may diminish the allure of membership as a catalyst for reform.

Yet, each country boasts vibrant and well-educated youth and the desire to make changes conducive to market economies and a liberal democratic order. Religion in the region is both an opportunity and a threat. The secular practice of Islam in Kosovo and BiH can be a counterpoint to Islamic extremism worldwide. However, the manipulation of religion by both internal and external actors in all countries could be destabilizing, contributing either to renewed conflict or as a platform for international terrorism.

The challenge for the United States is to help harness the region's potential before the negative factors overwhelm it. It is better to address signs of instability now with strategic actions and interventions than to deal with a potentially violent crisis in the future. With focus and funding, this is an achievable task, and one that could once again be a success story for U.S. foreign policy.

APPENDIX

LIST OF PERSONS INTERVIEWED

This report is a compilation of the views of dozens of people who agreed to speak to Network 20/20. From participating in Skype calls to in-person meetings, each individual on this list has been extremely generous with their time and insights and for that Network 20/20 is so grateful. This project would not have taken shape without their knowledge; the views in this report are Network 20/20's alone

Serbia

Tijana Andrić	Country Advisor, North Atlantic Treaty Organization Military Liaison Office, (NATO)
Milan Antonijević	Director, Lawyers Committee for Human Rights (YUCOM)
Branislav Anđelić	Organic Vineyard and Winery, Plavinci
Sonja Biserko	President, Helsinki Committee for Human Rights in Serbia
Marko Čadež	President, Serbian Chamber of Commerce
Mihailo Crnobrnja	President, European Movement in Serbia
Yugo Cvetkovich	Sales Manager, General Electric Holdings D.O.O
Jovana Filipović	Market Development Analyst, General Electric Global Growth Organizations
Gordana Igrić	Director, Balkans Investigative Reporting Network (BIRN)
Sonja Licht	President, Belgrade Fund for Political Excellence
Nikola Janković	Head of Centre, Serbian Chamber of Commerce
Jadranka Jelinčić	Executive Director, Open Society Foundation (OSF)
Lazar Jovičić	Managing Director, MD Solution
Dragijana Radonjić Petrović	Partner, MD Solution

Ivan Knežević	Deputy Secretary General, European Movement in Serbia
Brigadier General Cesare Marinelli	Chief, North Atlantic Treaty Organization Military Liaison Office, (NATO)
Veran Matić	Chief Executive Officer, B92
Milovan Milošević	Executive Director, Atlantic Council Serbia
Dragana Žarković	Country Director, Balkans Investigative Reporting Network (BIRN)
Sandra Orlović	Executive Director, Humanitarian Law Center
Luka Paunović	Prospect Manager, Atlantic Council Serbia
Jovan Ratković	International Secretary, Member of the Presidency, Social Democratic Party (SDS)
Petar Susko	Deputy Ambassador, the Slovak Republic
Marica Vidanović	Advisor, Serbian Chamber of Commerce
Željko Vujinović	General Manager, Microsoft
Vladan Živulović	President, Atlantic Council Serbia

Kosovo

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Endrit Bytyqi	Software Engineer, Open Data Kosovo
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Georges Labrèche	Founder, Open Data Kosovo
Leon Malazogu	Co-Founder & Executive Director, Democracy for Development (D4D)
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Veton Surroi	Publicist, former Journalist, founder of Koha Ditore

Bosnia and Herzegovina

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Aida Cerkez	Bureau Chief, Associated Press (AP)

Maureen Cormack	United States Ambassador to Bosnia and Herzegovina, United States Department of State
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Dobрила Govedarica	Director, Open Society Foundation (OSF)
Predrag Kojić	President, Naša Stranka
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Daria Sito-Sučić	Bureau Chief, Reuters
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And others who wish to remain anonymous.

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Mark Fleming	Political Officer, United States Department of State
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Erol Avdović	Senior Diplomatic Correspondent, United Nations
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President of Network 20/20

Courtney Doggart

Throughout her career, Courtney Doggart has focused on international affairs with an emphasis on people-to-people diplomacy and cross-cultural communication.

Most recently, she was Deputy Director of Global Communications and Media Relations at the Council on Foreign Relations and focused on communications strategy. Prior to that, she was a member of the U.S. Foreign Service, serving in Ashgabat, Turkmenistan, where she managed the U.S. embassy's cultural and educational programming. Ms. Doggart's field experience includes a Fulbright grant to conduct research on civil society development in Turkey and work with a nonprofit in the Republic of Georgia to research comparative energy efficiency laws. She participated in Network 20/20's field research trips to Turkey and Iran, and co-authored one of the resulting reports—**Iran's Next Green Revolution: Turning Catastrophe into Cooperation**.

For her work, Ms. Doggart has received an individual Superior Honor Award from the U.S. State Department, a group Meritorious Award from the U.S. State Department, and Network 20/20's Ted Sorensen Award.

Ms. Doggart earned her Master of International Affairs from Columbia University's School of International and Public Affairs, where she concurrently

received a certificate in Russian and Eurasian Studies from the Harriman Institute. She earned her Bachelor of Arts from New York University and speaks Russian. Ms. Daggart is a Term Member of the Council on Foreign Relations.

Network 20/20 Delegates

Sara E. Klein

Sara joined Network 20/20 as a Program Coordinator in 2015. Before coming to Network 20/20 she was an Intern at the Atlantic Council for the Events and Development team. She was also a Press intern for the New York State Attorney General's Office.

She graduated with distinction from Syracuse University's Maxwell School of Citizenship and Public Affairs with degrees in international relations and history. During her undergraduate studies, she conducted a comparative study on the roles of the United States and Russia in the Balkan region. Additionally, she piloted an original research paper on the degrees of brutality on the eastern front during World War II.

Lisa M. Rhoads

Lisa is a Managing Director at Alberlees FOS. From 2010 to 2016 she worked as Managing Director at the Easton Capital following her repatriation from Bermuda. Lisa was previously with Celtic Pharma, a Bermuda-based global biotech private equity firm where she was a founding member of the management team. Lisa's spent the last 7 years acquiring and developing a portfolio of later-stage biotech programs where she was involved with all aspects of the development process and managed their Intellectual Property portfolio. Lisa has been involved in all aspects of the investment and development process and sits on the board of electroCore, Respiratory Motion, Shimojani, and is in an observer board role for Resolve and Perceptimed. Lisa also sits on the board at America's Best Home Healthcare, a home healthcare company. Prior to her role with Celtic Pharma, Lisa consulted and helped launch a number of hedge funds and has held senior positions in the Pharma industry with Bristol Myers Squibb J&J's McNeil Consumer Products Company and Zeneca's US pharmaceutical division.

Lisa holds an MBA in Marketing and Finance from The Wharton School of Business and a BM from The Curtis Institute of Music. She has performed around the world. She serves on the executive committee of the Bermuda International Film Festival.

Shery Saeed

Shery is an independent business advisor and executive coach. She works with teams and individuals to produce both breakthrough business results and personal transformations that drive growth. Previously, at Naissance Capital she was the head of the Swiss firm's U.S. business development. At Bear Stearns she was a managing director who managed the program office for the firm-wide cost saving/revenue enhancing restructuring initiative. At American Express she led a cross functional team of 30 people upgrading the charge card. She also turned around a dysfunctional team of 45+ system experts and completed the implementation of a new technology platform. As a freelance consultant she did projects for Johnson & Johnson and Ford.

Shery was on the Board of Financial Women's Association. She created the "Transition Tuesdays" lecture series to assist unemployed members. She was also on the board of Horizon Condominiums where she implemented a formalized budgeting, scheduling and payroll process. She is an active member of Network 20/20.

Shery has an MBA in management and an undergraduate degree in physics. She also holds the New York real estate license.

Filip Sasic

Filip Sasic is Network 20/20's International Outreach Coordinator. He was raised in England and Croatia, and was a member of the Croatian Water Polo Junior National team. He graduated from St. Francis College, New York with a BA in International Culture Studies and a minor in Political Science and Italian. While completing his education at St. Francis College, he was the captain of the Water Polo team. He has continued to pursue his MSc degree in International Relations and Transnational Governance at the Vrije University in Amsterdam, the Netherlands.

He has traveled extensively throughout Europe and the U.S. and is fluent in Croatian and Italian and has studied Arabic. He has been part of Network 20/20's staff for four years working on international bridge building and cultural exchanges and participated in Network 20/20's 2014 Entrepreneurial Diplomacy trip to Iran.

Levan Shaorshadze

Levan is a Senior Data Analyst with AIG. Prior experience includes working as a consultant for Societe Generale, evaluating project risk in infrastructure investment for Capital Innovations, and working as a business analyst for GFI Group, JP Morgan, and Safra National Bank.

Mr. Shaorshadze is originally from Tbilisi, Georgia and graduated from the Technical University of Georgia in Tbilisi with a degree in Civil Engineering

and has a Master of International Affairs from Columbia University's School of International and Public Affairs where he focused on Energy Policy and International Finance. He speaks English, Georgian, and Russian.

Dennis P. Sheahan

Dennis Sheahan is an entrepreneur primarily involved in wireless telephony including various aspects of licensing, built out, and management. Additionally, he is currently an investor/advisor to a variety of startup initiatives including: Montage Talent (Delafield, WI); ManCan Wine (Cleveland, OH); and Gramercy Place Partners (Glen Rock, NJ). He served as Vice President of Cushman & Wakefield's Investment Management Group while representing domestic and international institutional clients in the financing, purchasing, and sale of commercial real estate worldwide. He also served as Vice President of the International Real Estate while representing First Chicago Corporation and The First National Bank of Chicago in the acquisition and management of the company's international real estate portfolio. Dennis is currently active with the following nonprofit organizations: Network 20/20, Cristo Rey New York High School, The Point Foundation, The Center for LGBT, the YMCA of Greater New York, and the Creative Alternatives of New York.

He received his BA degree in Economics from Marquette University, a Juris Doctorate in Urban Planning and Law at St. Louis University Law School, and completed a Special Studies program in System Dynamics at the Sloan School at MIT.

Martin R. Trautmann

Martin Trautmann is the Managing Director and Partner in the Life Sciences practice at Navigant Consulting, a publicly traded consulting firm. In his role, Martin advises biopharmaceutical companies on their business development needs and helps commercialize biopharmaceutical products. His work is international in nature and has taken him to various locations in Europe, Asia and the Americas.

He holds a dual business degree from the University of Pittsburgh and the European Business School (Germany). He was raised largely in South America and Portugal and has subsequently lived in France, Germany and the U.S. He was a participant in Network 20/20's 2014 Entrepreneurial Diplomacy trip to Iran and is a Network 20/20 Board Member.

Hope B. Winthrop

Hope Winthrop is an Adjunct Professor of Law at the Benjamin N. Cardozo School of Law where she teaches mediation in the Cardozo Kukin Program for Conflict Resolution. In addition, she is a mentor at Columbia Law School for students in the Mediation Seminar.

Ms. Winthrop has been involved with mediation since 1991 and has been an active mediator in the New York Supreme Court, the Manhattan Civil Court, the Equal Employment Opportunity Commission EEOC, The New York Civilian Complaint Review Board (disputes between civilians and the police), the New York State Unified Court System's pilot program for mediation in The Surrogate's Court, and the New York State Dept. of Human Rights. Under the auspices of The New York Peace Institute, she has mediated multiparty community wide cases and victim offender dialogues. She is a member of the New York State Unified Court System's Mediation Advisory Committee on Ethics, Mediators Beyond Borders, and was a member of the New York City Bar Association Committee on Alternative Dispute Resolution. Prior to her career in mediation, Ms. Winthrop worked as a lawyer in the field of legal and government relations, first in high technology and then aviation. She graduated Cum Laude from Harvard College and Boston University School of Law.

Ms. Winthrop has served on the Boards of The New York Historical Society, The Center for Reproductive Rights, and is a member of the Harvard University Committee on University Resources. Currently she is Vice Chair of Network 20/20. She participated in Network 20/20's 2014 Entrepreneurial Diplomacy trip to Iran.

Network 20/20 Entrepreneurial Diplomacy Program Reports

Reporting Turkey: A Private Perspective on Public Diplomacy

Patricia Huntington and Richard Murphy, October 2004

Poland Beyond Solidarity:

Defining New Priorities for Polish Domestic and Foreign Policy

Joanna Gwozdzowski with George Billard and Ion Nemerenco,
November 2005

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Patricia S. Huntington with George Billard, and Tai-Heng Cheng,
February 2007

A Different Kind of Partner: A Paradigm for Democracy and Counter-Terrorism in Pakistan

Andy McCord with Patricia Huntington, Glenn Johnston,
and Clark Lombardi, October, 2008

Project - Talking Turkey: Foreign Policy and Business

Arthur Sculley, May 2012

Iran Remembers “Made in USA”:

What if Sanctions were Suspended or Eliminated?

Arthur Sculley, June 2014

Iran’s Next Green Revolution:

Turning Catastrophe into Cooperation

Patricia Huntington with Courtney Daggart, June 2014

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Cover Photos:

Top: Young tech talent at Hub 387 in Sarajevo. Photo courtesy of Hub 387.

Bottom: Serbian servicemen patrol along the Serbian-Macedonian border to prevent illegal entry of migrants, near the south town of Presevo on August 5, 2016. (SAŠA ĐORĐEVIĆ/AFP/Getty Images)



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