

EIR is pushing for Balkans reconstruction based on a call initiated by the founder of the Schiller Institute, Helga Zepp-LaRouche, and by Faris Nanic, the former Chief of Cabinet of President Alija Izetbegovic. They called for the implementation of a Balkan Marshall Plan and New Silk Road project, in terms of real investments in real economy, not just for reconstruction, but for the development of the huge potentialities of the whole area. How do you see this strategy and this method?

Zuzul: Well, first of all, I agree very much with the picture that you presented about that part of the world, and, looking from that perspective, it is even more important to build that bridge, as you call it, to be solid and stable. Not to be the place where the connections are cut, but to be the connecting point between different worlds. And I truly believe that southeastern Europe, and that part of Asia, certainly Turkey, can be that. And I believe that it is really the moment to build that bridge. Because, what do we have? We have western Europe, which benefitted from the great ideas that some people had 50 years ago, . . . and they are now certainly much better developed than any other country in the world, maybe with the exception of Japan. So, now, to prevent that discrepancy, that gap, from becoming bigger and bigger, it is necessary to build a bridge between the two different worlds, as you put it, I think that that can open possibilities for the rest of the world to participate in that way of development.

But, I also want to add something to your question. You know, there are misconceptions in the Western world about the southeastern part of Europe, the Balkans, that that was a region where people were always fighting each other. And that misconception came about primarily because, when they think in terms of American history, they think about 200 years of history. Even when they think about western Europe, they think in a shorter period than when we address the history of southeastern Europe. So, we have a tendency to put aside everything that has happened in 2,000, 3, 4, even 5,000 years, and to think that that was one short, and one unique history. Looking from that perspective, what I want to say is that there is no difference between southeastern Europe, western, northern, or any other parts of Europe. There were periods in every part of Europe where people lived for hundreds of years, literally centuries and centuries, without being involved in any war. And there were periods where people, in northern Europe, or western Europe, were involved in several wars which lasted 10 or 20 years. So, it is simply not true that the Balkans has always been an area of instability.

That is an area which can be prosperous and develop as well as any other area of Europe, or any other area of the world. And, finally, that was the case during many periods of history, and it is also true that at this moment, western Europe, and primarily the United States, can significantly contribute to create in that area, what it has to be again—and that is an area of stability and prosperity.

A dialogue on financing Balkans reconstruction

by Edward Spannaus

The issue of how to finance the reconstruction of southeastern Europe became a significant focus of discussion during a June 15 “Balkan Assistance and Reconstruction Conference,” sponsored by Equity International. Through questions posed by representatives of *EIR*, the issues of financing, and especially the disastrous role played by the International Monetary Fund (IMF) and the World Bank, were highlighted. Every participant in the afternoon session of the conference also received a copy of the June 18 issue of *EIR*, featuring an article by Lyndon LaRouche, “Balkan Peace and World Economy: The Case for a ‘New Marshall Plan.’ ”

It was clear from the presentations and discussions at this conference, that there is significant recognition of the necessity of creating a new financing mechanism to provide capital and credit for reconstruction. It is evident that this discussion is only just beginning, but also that it is understood as an urgent and crucial question on which the success or failure of reconstruction hangs.

In the interests of fostering this discussion, we present here some of the most important aspects of the discussion and dialogue which took place at the June 15 conference.

Leveraging institutional funds

During his presentation as part of a panel consisting of ambassadors of four countries neighboring Yugoslavia, Amb. Mircea Geoana of Romania emphasized the importance of attracting private investment, both foreign direct investment and portfolio investment.

“We have a couple of proposals, and we are about to submit this to the administration,” the Ambassador said. “I think we should use some of the OPIC [Overseas Private Insurance Corp.] money, some of the TDA [U.S. Trade and Development Agency] money, some of the Ex-Im [Export-Import] Bank things, some of the MIGA [Multilateral Investment Guarantee Agency] of the World Bank—insurance mechanisms—just to leverage the creation of some investment funds for the region.”

“People are saying now: ‘The Americans have paid for the war; let Europeans pay for the peace.’ I think this is a very dangerous way of thinking. We should try to leverage some institutional and public money from the U.S. in order to attract real private money from Wall Street, from your companies, and so on and so forth,” the Ambassador told the business representatives present at the conference. “I think it is not that

difficult to create a couple of regional investment funds, using as seed money and leverage money some of the OPIC and the other institutions I have mentioned,” he said. “It is not that difficult, and I think it should be done.”

The Ambassador also suggested streamlining the procurement process: “If we are going to continue on the European Union standard procurement mechanism, or even the World Bank’s, we will not go much further.” He said that companies in Romania have regrouped themselves into a “Balkan Action Committee,” and that they want to match themselves up with European and U.S. companies to take part in tenders and the procurement process for reconstruction, for materials such as cement and steel.

At the panel’s conclusion, the first question was posed by *EIR*’s Bill Jones, who noted the appropriateness of comments made earlier by Bosnian Ambassador Muhamed Sacirbey concerning the mistakes that were made with Bosnian reconstruction. Jones elaborated the point, that the problem in the Bosnian reconstruction program “was the central role of the IMF and the World Bank, which often operate more like merchant bankers than development bankers,” who are giving priority consideration to payment of already accumulated debt.

“I think what is required in this situation,” Jones said, “is the creation of a new credit facility, devoted specifically to the reconstruction and infrastructure investment in the area, in which the countries in the area, together with the donor countries—the United States and the European nations, would have the say over the way the money will be invested, because other considerations are really unessential at this point. The necessity is to build the infrastructure . . . and therefore, there should be an independent facility, which is solely devoted to that project.”

Following some short responses by the Hungarian and Albanian ambassadors, *EIR*’s Ed Spannaus took the floor for a follow-up question.

“There was also talk about a ‘Marshall Plan’ after the fall of the Berlin Wall and of the Soviet Union,” Spannaus said. “But some people have characterized what happened there as ‘a Marshall Plan of Advice’—so-called ‘technical assistance,’ in which consultants were the people who got most of the benefit from this, the Big Six accounting firms, and so forth.” A number of the panelists nodded their heads.

“The approach my colleague was talking about,” Spannaus continued, “in terms of an independent credit facility or financing facility, is more along the lines of what was done in Germany after World War II, with the Kreditanstalt für Wiederaufbau—the Reconstruction Bank—which was the kind of thing that could work with the Ex-Im Bank here in providing credits for infrastructure, big projects, industrialization, and so forth.”

Spannaus pointed out that Bosnia was told explicitly not to rebuild industry—“and that cannot be allowed to happen again.” He pointed to the importance of “large-scale infra-

structure, to go with energy projects, transportation, industrialization,” and that this will bring in private investment, of the type that Ron Brown was talking about. “But the critical thing is to get this approach going, in which you start with infrastructure, and create the basis for industrialization—and that’s the type of reconstruction that should go on.

“But what happened in most of eastern Europe, and certainly in Bosnia, particularly under World Bank and IMF conditionalities, was that they were told: ‘No industrialization can take place.’ . . . And that’s the mistake of Bosnia that should not be allowed to happen again.”

Amb. Mircea Geoana of Romania immediately responded: “These are two excellent questions.”

Ambassador Geoana continued: “I don’t know, at this stage of the game, where we have the G-8 summit only a couple of days ahead of us, if we will be able to move toward an independent credit facility. But, having said that, I think that there is an attempt, at least to regionalize the way in which the international financial institutions, including the development investment banks like the European Investment Bank, the EBRD [European Bank for Reconstruction and Development], the World Bank, the IFC [the private arm of the World Bank], and the others, would operate. The same discussion is [going on] within the European Commission, where we have been urging and pressing to create a specialized entity within the European Commission to deal with southeast Europe. Because if you leave the current organization of all these institutions, they will go again national, as projects, and you will never be able to create enough synergy, to have enough resources for rebuilding the region.”

Ambassador Geoana said that he hopes that, perhaps even at this upcoming G-8 summit, there could be created “a sort of a consortium of the major financial institutions and investment entities . . . to come together with a common regional approach, and to really have a synergistic approach on the region.”

This could “evolve into an independent crediting unit” as a means of attracting private capital, the Ambassador said. He suggested that it might be better, working with investment banks from western Europe and Japan, to “build up one or two investment funds for the region, which would be privately run, and I say this again, because they have to reproduce, and have a return on investment which will make it attractive for a private thing.”

With this sort of a coordination, “between the consortium of the institutional investors and the creation of some private investment funds dedicated to the region,” he concluded, “then I would say that we move toward a de facto crediting policy, instead of a new entity—which in the current complexity and heavy bureaucracy of all the institutions, I see difficult to happen, at least in the near future.”

The moderator of the panel, seeing no other questions, then joked: “Thank you. I think those two questions were so good, you’ve scared everyone else off.”

The World Bank confesses

There were two afternoon panels. The first was on the topic of U.S. assistance to southeastern Europe, and included representatives from the U.S. Department of Agriculture, the Export-Import Bank, the Overseas Private Insurance Corp., and the Pentagon.

A second panel, on multilateral and international assistance, included representatives of the World Bank and the European Union—the two organizations which at present have put themselves in charge of coordinating all assistance for Balkans reconstruction. The presentations by both of those spokesmen made it clear that they intend to continue the policy of tying economic assistance to political conditions such as “democracy,” “human rights,” and market reforms—a sure means of providing the pretext for the international financial institutions to sabotage any real reconstruction and economic development.

Charles Kestenbaum, a U.S. government liaison officer to the World Bank, opened by dismissing “all the talk about Marshall Plans,” saying, with a straight face, that this doesn’t take into account the reality that the World Bank is already doing all of this, that it is engaged in more than 250 projects in the southeast Europe region. He listed the types of projects, including social and economic projects, “balance of payments assistance,” legal and environmental reforms, as well as some

infrastructure projects. Making it clear that the World Bank intends to remain in charge, Kestenbaum suggested that all that is necessary is for the World Bank to expand and upgrade its existing programs. Since the other countries besides Yugoslavia haven’t been bombed, Kestenbaum said, their needs are limited to dealing with the effects of the Kosovo crisis, such as the problem of refugees. “The World Bank is not actively engaged in an emergency effort to rebuild the economies of the countries around Kosovo, but rather to support them.”

Kestenbaum said that he wanted to point out “an element of concern,” which is that the republics of the present Yugoslavia are not members of the World Bank any longer, and that “what was the Republic of Yugoslavia was in substantial arrears to the World Bank.” Kestenbaum said that since Kosovo and Montenegro are part of the Federal Republic of Yugoslavia, the issue of how to provide any aid to them at all “is going to be a bit of a challenge. . . . It is an obstacle.”

Kestenbaum added that the IMF and World Bank “are always concerned about debt buildup,” and that while there are emergency requirements, “you end up with a situation where you lend them as much as they need or want, and then they can’t repay.”

The general thrust of Kestenbaum’s remarks was that no one should expect very much from the World Bank—even

EU official: We will not rebuild Danube bridges

Aslam Aziz, the Counsellor for Development Affairs for the European Commission in Washington, told *EIR*, during the Balkan Assistance and Reconstruction conference on June 15, “We will not rebuild the bridges over the Danube, until nations in Europe act to get Milosevic out of power.”

“The approach we will take,” he said, “is to make changes in the Balkans ‘progressively.’ We cannot have huge or stupendous amounts of money. The other approach is to have large scale infrastructure, like the TEN, the Trans-European Network. But that was only something we developed in the last few years, and only for [western] Europe. This is not something to apply in southeastern Europe.”

“We will concentrate to get the refugees back to Kosovo by December. We will provide some immediate things, like clean water supplies, power, and communications links. But we have to do the usual feasibility work. This means the European Commission has to do ‘sector

studies.’ We have to see if communications links in one area are compatible with another area.” These studies will take time before they can be considered. “We also have to decide whether to privatize. We are no longer in an age where government can do everything.”

When it was pointed out that the Rhine-Main-Danube Canal transports goods on a European-wide basis, and that its blockage blocks the economic activity of many nations in Europe, Aziz retorted, “Yes, that’s true. But we will not rebuild the bridges, until the nations in Europe act to get Milosevic from controlling things. First, we have to get two things in Yugoslavia, a democratization process and liberalization of the economy.”

When asked if there is a place for reconstruction of Serbia, he replied, “Serbia is not included. We will provide some humanitarian support, like some clean water. But reconstruction is a different question. We will certainly not support that at this time, if Mr. Milosevic is in power. We will not rebuild the bridges over the Danube.”

Asked whether there should be construction of housing in Kosovo, Aziz said, “The refugees will be happy to go to their old homes. There will be some repairs, but there will be no large-scale construction of housing.”

—Richard Freeman

though it intends to be in control of the whole effort.

One of the questions asked from the floor was from an employee of the U.S. Army Corps of Engineers in Germany, who said that the Corps' partners in U.S. private industry have complained that "it is almost impossible for U.S. firms to get contracts from the World Bank, despite the fact that we are contributing about 25% to the World Bank coffers."

The questioner said that it takes a full-time lobbying effort to get contracts from the World Bank, and that it is very difficult for small and medium-sized firms to afford that kind of presence.

Kestenbaum responded by quoting former U.S. House Speaker Rep. Tip O'Neill (D-Mass.) as saying that "all politics is local," and, Kestenbaum added, "all World Bank procurement is local." Kestenbaum protested that the World Bank doesn't make the decisions on contracts, that such decisions are made locally, and that the process involved is often "more difficult, cumbersome, and perhaps not pleasant to the companies involved."

Following this, *EIR*'s Umberto Pascali said that he had heard exactly the same stories from contacts in Europe involved in Bosnian reconstruction, concerning the obstacles confronting people who wanted to invest in Bosnia. Potential investors from Germany and Italy also were told that "this was not the moment, it was not the right way," and they were discouraged from investing.

Pascali recalled what Amb. Muhamed Sacirbey had said earlier, that the Bosnians accepted things within the Dayton peace plan which were hard to accept, because of the commitment for development and reconstruction which was made to Bosnia. But this reconstruction never happened, Pascali said, and if it had been done as the Bosnian government and the Bosnian people had hoped, probably we would not have had the war in Kosovo. "From my small experience of the situation, I am sure that if you had established an atmosphere of peace and development, like the one we are discussing now, Kosovo would never have happened," Pascali said. "There would not have been a post-Dayton escalation of rivalry with Republika Srpska, but there would have been cooperation for the common development."

Pascali contrasted the method used in Bosnia, to that of the late U.S. Commerce Secretary Ron Brown, who was advocating direct investment from the U.S. business industrial community in the area, or the method of Alfred Herrhausen of Deutsche Bank, who was killed by a terrorist bomb in November 1989 while trying to implement this kind of method, of direct investments all over eastern Europe.

"Now, my question is this," Pascali concluded. "Don't you think, gentlemen, that the moment has arrived to go for new methods, not this kind of supervision that in a way reminds us of the previous communist regimes — countries had to be 'supervised' — but rather direct investment, private investments from businessmen, from productive forces from

other countries? Investments that then will give their profit, their reward?"

Leaving it to the global markets

Hans-Dieter Lucas from the German Embassy, speaking on behalf of the European Union, acknowledged that from what he knows, "there has been indeed this problem with foreign investments in Bosnia," and that the general conclusion on Bosnia is "that this is not a success story as far as investments are concerned."

"I would agree with you that we should not repeat the same mistakes we made in Bosnia, by getting into a close dialogue with the authorities once they exist in Kosovo and in the other countries, that they do the utmost in order to make foreign investments possible and to create a reliable framework for foreign investments," he said.

Even Kestenbaum conceded: "I can only say that you make a very good point, a very strong point. I agree with you." But, he then went on to say that private investments are the result of the assessment of individual companies and executives," and he provided a "globalist" justification for the failures in Bosnia:

"If there has been lagging private investment, it is because the environment — legal, regulatory, structural, financial — is not conducive to it. Money, as we all know from the last two years in Asia and around the world, Russia, Brazil — financial markets today are very liquid and very fluid, and move quickly, and investments are determined by rate of return and degree of risk. The World Bank has been lecturing and pleading and advising and offering support, particularly to Bosnia and Croatia," he said.

"The record has not been as good as we would have liked it to be," Kestenbaum continued, "and in the region as a whole it is up to the governments and the business community the country is engaged with, to recognize what's in their best interest and to accept the assistance and the support that has been offered. . . . In this case it is really incumbent upon the governments that have been here before us to do what they need to do to enable the environment to support those investments and attract them, otherwise no amount of outside pressure of governments or World Bank advice would be sufficient."

That sort of "hands off," laissez-faire approach is a recipe for continued failure. The lesson of the Marshall Plan, the Kreditanstalt für Wiederaufbau, and, indeed, the American accomplishments of industrialization in the nineteenth century, is that successful industrial development depends upon appropriate government-sponsored credit and financing policies, plus infrastructure development. If true rebuilding of southeast Europe is to take place, then the first condition must be to exclude the IMF and World Bank from any decision-making and supervisory role over the policies of the governments involved.

Excerpts of ambassadors' conference presentations

Amb. Miomir Zuzul of Croatia

We believe that this is an absolutely proper moment to do what President Clinton formulated two months ago in San Francisco, when he said that now at this time, the Western world can do for eastern Europe what was done 50 years ago through the Marshall Plan for western Europe. We indeed believe that this is a very good moment. . . .

And just to finish by giving you another very global figure. In today's value, an estimation of the total amount of money put in the Marshall Plan is approximately \$88 billion in U.S. dollars. The estimated costs of the crisis on the territory of the former Yugoslavia are approximately \$150 billion. . . . Whatever money is spent in that region shouldn't be treated as spending of the money, but as creating new opportunities,

primarily for the people from that region, but also for the people of the rest of the world, and also preventing that some day, sooner or later in the future, that we will be spending much bigger amounts of money on crisis management. Now, the moment is for peace.

Amb. Philip Dimitrov of Bulgaria

This is not a matter of repairing; it is a matter of the rebuilding of the entire region, which probably, in the next few decades, will be not only important per se, but also important in terms of the business development and expansion to other regions, which will pose their problems, and hopefully their solutions, very soon. . . .

We believe that the most important thing is not only to have security in your home, but security in your neighborhood. . . . We also understand that it's not easy to have prosperity at home, if you don't have a prosperous neighborhood. . . . All approaches to the problem of southeast Europe—or "the Balkans" if you prefer—should be a *regional* approach. . . .

What we expect in terms of the regional approach, is that there are a few things which are absolutely obvious, which we shall be very much in favor of, in terms of general problems concerning the region.

First of all, is transportation. The transportation corridors of southeastern Europe are of extreme importance, and we very much hope that there will be financing for them on the part of the international financial institutions. And you can perfectly well understand that there is a lot of space for private business to fit in. The same is valid for telecommunications. . . . And, again, I'm not talking about the repair of what was destroyed or damaged because of the troubles in former Yugoslavia; I'm talking about rebuilding and upgrading the infrastructure of the whole region, which is the only guarantee for its future development. . . .

The electricity system of the Balkans is to a large extent interconnected, and its upgrading will have a long-lasting effect for all the countries in the region. . . .

Amb. Geza Jeszenszky of Hungary

I agree that it is not simply the task to rebuild what was destroyed, but to reconstruct it, and reconstruction is something much different, much larger, than rebuilding. . . .

[Ambassador Jeszensky addressed the problem of the clearing of the Danube, because of the crippling effects on Romania, Bulgaria, and Hungary.] This should be one of the first tasks.

Hungary is an ideal country as sort of a bridgehead for a reconstruction program. It's a kind of gateway, not only to Yugoslavia, but also to neighboring Romania. It is a very important transit route, also for countries like Bulgaria, Macedonia, Greece, and even Turkey. The European Transportation Corridors lead through Hungary, particularly Number 4 and Number 10A.

For previews and information on LaRouche publications:

Visit EIR's Internet Website!

- Highlights of current issues of EIR
- Pieces by Lyndon LaRouche
- Every week: transcript and audio of the latest **EIR Talks** radio interview.

<http://www.larouchepub.com>

e-mail: larouche@larouchepub.com