

Macedonia

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|--|----------------------------|------------|----------------------------|---------------|------------|
| Status Index (Democracy: 3.4 / Market Economy: 3.0) | | 6.4 | Management Index | | 5.1 |
| System of government | Parliamentary Democracy | | Population | 2.0 Mio. | |
| Voter turnout | 72.9 % (1998) | | GDP p. c. (\$, PPP) | 6,110 | |
| Women in Parliament | 18.3 % (2003) | | Unemployment rate | 32.1 % (2000) | |
| Population growth | 0.7 % | | HDI | 0.784 | |
| Largest ethnic minority | 22.7 % | | UN-Education Index | 0.86 | |
| | | | Gini-Index | 28.2 (1998) | |
| <small>Figures for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Sources f.ex.: UNDP: Human Development Report 2003.</small> | | | | | |

1. Introduction

When Ljubčo Georgievski emerged from parliamentary elections in autumn 1998 as the first Macedonian prime minister whose political career had not begun in the Communist Party, many observers interpreted this as a delayed system change. The new government proclaimed its key priorities: complete the as yet rudimentary political pluralization, introduce market economy reforms, undertake comprehensive privatization and ease inter-ethnic tensions.

However, the attack of the ethnic Albanian National Liberation Army (UÇK) early in 2001 plunged more and more areas of the country into a situation that resembled civil war. The national crisis continued until August 2001, when intense pressure from NATO and the EU brought the four largest parties of ethnic Macedonians and Albanians to agree on a set of measures restructuring the political system. As a result of the inter-ethnic conflict as well as political and economic scandals that preceded it, the government was voted out of office in September 2002.

This assessment concludes that, from the perspective of absolute goals, Macedonia has lost ground; standards achieved in the mid-1990s have eroded. A broadening of transformation was not achieved. The departing administration left key work undone in the areas of state monopoly on the use of force, rule of law, market reforms and assuring the sustainability of economic development. For the medium term, the transformation process will remain dominated by political concerns, above all the Macedonian–Albanian conflicts over distribution of tangible and intangible resources that determine the quality of life.

2. History and characteristics of transformation

The economic and political transformation begun in 1988 under Yugoslav Prime Minister Ante Marković was interrupted when Macedonia attained independence in 1991–92. In the first coalition “government of experts”, nationalist intellectuals set the tone. Politics were suffused with a national discourse directed mainly against the country’s large ethnic Albanian minority. Minority rights that had been assured were restricted. This development weighed all the more heavily because inter-ethnic relations had already deteriorated rapidly in the 1980s. The government’s national intransigence was met head-on by the ethnic Albanian parties, who challenged the legitimacy of the new state.

Even now, when ethnic interests conflict with the interests of state and society, both sides definitely lean toward the former. No change of course occurred until Kiro Gligorov was elected president in January 1991. He assembled a flock of young politicians—post-communist social democrats who until then had been active on the fringes of politics or in student organizations, if at all.

Falling back on the Titoist model for resolving conflicts of nationality, Gligorov implemented a sharing of power that kept ethnic tensions from erupting into violence. All previous limitations on minority rights were revoked and the largest ethnic Albanian party (Party of Democratic Prosperity, PDP) was brought into the government. However, this model of proportional ethnic representation was not mirrored in Macedonian society, which remained split. Discrimination against the ethnic Albanian population persisted. Structural problems, such as the under-representation of ethnic Albanians in the government and administrative system and the dispute over mother-tongue education, showed little movement.

The model of transformation implemented by Gligorov was one of limited pluralization. The more radical ethnic Albanian party (Democratic Party of Albanians, DPA) successfully mobilized the ethnic Albanian population around the education issue, which, together with political and economic scandals, drove the post-communist parties from government and scuttled the original model of Macedonian transformation. After the September 1998 elections, Ljubčo Georgievski became prime minister in a coalition government of his anti-communist party and the DPA. Far-reaching reforms were promised. Instead, the government split into various power centers. The allocation of cabinet posts had a particularly negative effect, in that departments were used as arenas for the pursuit of Macedonian or ethnic Albanian interests without interference from the other side.

Conflicts in the region (Kosovo) worsened relations between the Macedonian majority and the ethnic Albanian minority. Corruption scandals and manipulated elections, including the 1999 presidential election and 2000 local elections, further discredited the political system. In the spring of 2001, mounting Macedonian–

Albanian tensions and repercussions of the Kosovo war finally led to a situation bordering on civil war in various parts of the country. Only international mediation ended the fighting.

The August 2001 Ohrid Framework Agreement called for a restructuring of the political system to allow greater use of the Albanian language, ensure proportionate ethnic Albanian representation in government institutions—particularly in the police force—and decentralize powers from the central state to the municipal level. Against this background, the economic transformation proceeded at a snail's pace. Foreign policy factors also impeded its progress. Continued regional instability—the war in Kosovo—particularly hurt the few sectors of the economy that brought in foreign currency (tourism, the textile industry, delivery of aid to Kosovo).

The steady decline in industrial production since the end of the 1980s has shifted jobs to the service sector and to small enterprises, which today provide more than 70 % of jobs. Macedonia was the last of the former Yugoslav republics to begin economic transformation; the transformation act of June 1993 took effect in 1994. In 1992, to avoid repercussions from the collapse of the Serb-Yugoslav dinar, the country sought to establish its own currency.

3. Examination of criteria for democracy and market economy

3.1 Democracy

Shaken by crisis after crisis, the transformation of Macedonia's political order has halted in midstream. Granted, democracy has advanced; the press has greater freedom since 1996, and power has shifted from the president to the parliament. However, given the population's ethnic mobilization, reforms have tended to promote the development of parallel societies. Some indicators show that democratic stability has lost ground, to the extent that the system may be in jeopardy.

3.1.1 Political regime

(1) *Stateness*: The state monopoly on the use of force is challenged in the country's western regions. Defining citizenship and who qualifies as a citizen is a central political battlefield. Macedonia's claim to national statehood remains in dispute, as does the citizenship of ethnic Albanians who have immigrated from Kosovo since 1980. There is *de jure* separation of church and state, but *de facto* close ties between the state and the Eastern Orthodox Church, to which two-thirds of the population belong. Especially since 1998, there have been concerted efforts to anchor the church's privileged status in the Constitution as well. Despite

international pressure (the Ohrid Agreement), this measure finds strong support within the Internal Macedonian Revolutionary Organization–Democratic Party for the Macedonian National Unity (VMRO–DPMNE), an opposition party since 2002. In the wake of an agreement between the VMRO–DPMNE and the DPA, the already weak governance structures in the western areas of Macedonia dwindled further and were essentially replaced by DPA party rule.

(2) *Political participation*: The Constitution prescribes universal suffrage and the right to campaign for office, but elections are plagued by major irregularities and increasingly in recent years by manipulation and partisan violence. A surge of centralization during the drive for national independence in 1991–92 effectively quashed political participation at the local level in favor of local officers situated in the central state. The military plays no role in domestic politics. The police force, which increased disproportionately in number as Macedonia asserted its independence, notoriously discriminates against Macedonia's ethnic Albanians. In 2001 and 2002 it was abused as a tool of political parties. To the extent that political and social organizations represent ethnic Albanian minority interests, their constitutional rights are often legally unclear. Civil society organizations are rudimentary at best. There are no legal restrictions on union organizations, but their options for action are greatly limited by the second-highest unemployment rate in Europe at more than 30 %. Freedom of information, freedom of opinion and freedom of association have considerably improved since 1996 and are no longer limited.

(3) *Rule of law*: Transformation deficiencies exist in checks and balances among the executive, legislative and judicial branches. The balance of power within the executive branch was unconstitutionally tilted toward the president until the mid-1990s, but when the head of state's tight control was eased after 1998, the government abused its power, illegally wire-tapping political opponents and using special police units to intimidate the opposition. The Constitutional Court's monitoring function has limited effectiveness because its members are elected by parliament with a simple majority. The Constitutional Court does not protect all basic rights, but only a few, such as freedom of opinion and freedom of association. Furthermore, the Constitution assigns the same responsibility to the normal courts without defining jurisdictional boundaries. Political and bureaucratic corruption in Macedonia is perceived as high; however, measures to combat corruption are generally applied by those who have won elections to settle accounts with their political opponents.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Democratic institutions have little stability. Frequent political blockades and parliamentary boycotts hamper the efficiency of parliament. In questions that affect inter-ethnic relations, majorities often form

across the line that separates the government and the opposition. The country is so over-centralized that nearly the entire bureaucracy, at all levels, is staffed by members of the parties in power. The close link between political power and access to economic resources exacerbates the ensuing problems. This further impairs the political actors' willingness to compromise. Political disagreement takes on the air of a fight for survival that goes beyond politics. Time and again, the political parties show their disregard for democratic institutions, boycotting elections (1994) or obstructing them (presidential election, 1999).

(2) *Political and social integration*: Macedonia's party system features three tight-knit camps and little voter volatility. The party system is not defined by clear distinctions of political ideology. Rather, its orientation follows political battle lines drawn as Macedonia attained independence. The influential political parties are chiefly personality-oriented voting organizations with strong patronage tendencies. The political parties of all three camps pursue mainly confrontational strategies and focus narrowly on their own ethnic constituencies. The landscape of interest groups is still barely differentiated and has little political relevance. Like the society as a whole, civil society organizations are stamped by ethnic segregation. Moreover, ethnic Albanian NGOs commonly sympathize with the UÇK rebels, an indication they are not a social force of political moderation.

Because of the Yugoslav system of workers' self-management, social interests that could be generalized developed much less in Macedonia than in the other Eastern European states. The two union organizations play only a marginal role. The relationships between labor and capital are still imbued with a patronage model. This is true for managers, as well. They see direct or party-mediated connections to the state as the best way to safeguard their interests. Even the job market is quite segregated along ethnic lines, with Macedonians in the run-down state enterprises and ethnic Albanians in the private informal economy. The number of ethnic Albanians gainfully employed in agriculture is also out of proportion to their percentage in the population.

The high voter turnout (more than 70 %) does not reflect confidence in the political system. Disaffection with government and politics has greatly increased during the period under study. Even in the Gligorov era, those who sought to manage inter-ethnic conflict had to contend with two ethnic camps whose political ideas were, by and large, completely opposite. While more than 80 % of ethnic Albanians supported the Ohrid Agreement, the Macedonian majority still has serious reservations.

3.2 Market economy

Macedonia has made little progress in transforming its economic order. Transfers of power after elections generally revive disputes over privatization. The fact that

most industrial enterprises are bankrupt has greatly curbed the movement toward privatization. Efforts to restore the health of banking and capital markets have made no headway because of high foreign debt and the sizeable informal economy.

3.2.1 Level of socioeconomic development

Key indicators show a medium level of development. The decline of the economy and de-industrialization since the beginning of the 1980s has impoverished broad segments of the population; 21 % live below the poverty line. Various forms of social exclusion that had significantly worsened over the years have become entrenched. During the period under study, the government failed to reverse this trend.

3.2.2 Market structures and competition

Macedonia still lacks the foundations of a competitive market economy. Widespread legal uncertainty and unclear property ownership rights changed little during the period under study. The government used the restructuring of the corporate sector mainly to practice patronage, often simply disregarding general rules of the game. An effective anti-monopoly policy was undercut by rampant corruption in the government. Direct negotiations with companies having ties to members of the government were given preference over international calls for bids. In the case of the OKTA refinery, this gave the new Greek holding company a monopoly position in the oil market. The government strengthened the legal foundations of the banking system by passing new laws governing banks and payment procedures. A new law governing mutual funds aimed to increase the attractiveness of the Macedonian stock market. One obstacle to the development of an independent capital market was that the legal distinction between owners and managers remained unclear. As a result, the government repeatedly placed managers in already privatized companies with foreign stockholders, or brought privatized companies back under state supervision and then reprivatized them under members of the party in power. On the other hand, foreign trade was facilitated by the restructuring and standardization of tariffs and by a new law governing foreign currency transactions.

3.2.3 Stability of currency and prices

After an initial period of hyperinflation (1,664 % consumer inflation in 1992 and 332 % in 1993), the currency stabilized. The rate of inflation dropped below 2 % after 1997, but it rose again during the period under study as a result of negative world economic developments, regional instability and the armed conflict of

2001. Macedonia's currency had been tied to the German mark and is now tied to the euro. After the 1998 elections, the government briefly considered letting the currency float to improve its export situation, but dropped the idea when the IMF intervened. Macedonia's foreign debt far exceeds its foreign exchange reserves and has been greatly complicated for a long time by the unresolved question of Yugoslav succession. The government reformed the income tax code, reducing taxes to make Macedonian companies more competitive. In addition, a Treasury Department was established within the Finance Ministry, and a law governing the collection of public funds was passed to increase the oversight, transparency and efficiency of the state budget.

3.2.4 Private property

The privatization of state companies has definitely advanced since 1994. During the period under study, however, state property often passed not into private hands but into the hands of the ruling parties despite laws prohibiting this. Time and again, the government did not hesitate to disregard general rules of the game. The under-capitalization of the corporate sector became structurally entrenched as capital-weak nationals, rather than foreign investors, took advantage of the inside track to privatization. In particular, transfers of state enterprises to foreign investors still rest on shaky legal footing.

3.2.5 Welfare regime

Macedonia's social safety net to compensate for poverty and other such risks is minimal. 70 % of workers earn wages below the national average; two thirds of pensions are below the average pension; only one fifth of the unemployed receive unemployment compensation. The inadequate health care system is hampered by lack of equipment and an extreme shortage of medical supplies. Private solidarity networks are far more important than the government's programs. More and more people rely on supplemental subsistence farming to get by. In Macedonia's ethnically segregated society, equal opportunity and equal access to public services are extremely limited. Environmental awareness is rudimentary.

The social security system in Macedonia is in a state of uncertainty and upheaval. In Yugoslavia, as in other socialist countries, benefits such as health care, child benefits and pensions were allocated at the workplace, not acquired through the market or guaranteed by the state. In the 1980s, an economic crisis split the job market into a public sector and a growing private and informal sector. More and more people lost their social safety net.

As a result, since the mid-1980s a new poverty has been growing alongside the old poverty, affecting qualified young adults, unqualified workers, rural families

and the long-term unemployed. Whereas in the past most emigrants were poorly educated, today Macedonia is seeing an exodus of well-educated and qualified young people. The state has taken on the dominant role in providing social welfare, and the circle of those receiving state support is steadily widening. New jobs are created mainly in the large underground economy, where at least 40 % of the workforce is now active, not uncommonly drifting into criminal activities such as forced prostitution and smuggling.

3.2.6 Strength of the economy

GDP, which had already risen perceptibly, at first continued to grow during the period under study. However, the shift of employment from the industrial sector to the service sector could not be halted. World economic conditions were but one factor slowing economic growth throughout the period. Foreign aid covered only some of the enormous costs caused by Kosovo war. The political and national-security crisis of 2001 laid waste to all the government's economic projects and brought another severe economic slump, with a downturn in practically every macroeconomic indicator.

3.2.7 Sustainability

Environmental awareness is rudimentary. Aspects of ecological sustainability are largely disregarded. Macedonia has a well-developed state system of primary, secondary and university education. However, political factors as well as social conservatism definitely put ethnic Albanians at a disadvantage in the schools. The Macedonian elite failed to solve this problem on its own, especially because both sides clearly leveraged the issue of mother-tongue education to advance their general political goals. Macedonia has almost no modern infrastructure.

4. Trend

(1) *Democracy*: Throughout the period under study, functional courts, an effective administrative system and a functional parliament existed only to a limited extent. In regard to the state monopoly on the use of force and to public safety and order, the situation has deteriorated in recent years. On the other hand, improvements are evident in citizens' options for organizing, free activity of social organizations and freedoms of opinion and of the press. The last of these also generates greater public awareness and criticism when civil liberties are violated. The system of checks and balances among the government, parliament and the judiciary is stagnant and also often breached. Corruption dominates the scene; anti-corruption measures implemented as different parties come to power are largely ineffective and generally wielded only against political opponents. Fundamental

constitutional institutions are unstable and persistently challenged by relevant minorities. Government institutions are highly inefficient. The political parties have yet to make any real progress toward political and social integration.

Cooperative and consensus-oriented patterns of interaction between labor and capital are virtually nonexistent. Civic interest groups show signs of growth, but their contribution to participatory democracy remains minimal; mainly sponsored by foreign institutions, they function chiefly as a job market for academicians. The development of civil society as the underpinning of democracy is thwarted by a tendency toward ethnocentric attitudes and political perspectives that has intensified in the past decade. The citizenry's willingness to participate is only rudimentary.

(2) *Market economy*: Fundamental development indicators show no improvement for the period. Severe income disparities, a legacy of the period when Macedonia attained independence, continued unchanged.

The institutional environment for market-economy action has improved only slightly. Unpredictable government decisions exacerbate deficiencies in regulation of the market and competition. The momentum for reform stalled midway through the period, even before the armed conflict broke out. The privatization of several large enterprises (oil refining, telecommunications, etc.) did not, as hoped, stimulate investment. Rather, the proceeds merely fed the informal patronage system. Economic growth did not meet its high targets, but continued the trend already evident before the period under study. However, one relative success can be noted: GDP growth, which had drastically declined in 2001 because of the armed conflict with the UÇK, showed an upturn in 2002.

Table 2: Development of socioeconomic indicators of modernization

| | GDP per capita (\$, PPP) | HDI | GDI | GDP Index | Gini index | UN Education Index | Political representation of women |
|------|---------------------------------|------------|------------|------------------|-------------------|---------------------------|--|
| 1999 | 4,651 | 0.766 | n.a. | 0.64 | n.a. | 0.86 | 6.7 |
| 2000 | 5,086 | 0.772 | n.a. | 0.66 | n.a. | 0.86 | 6.7 |

Sources: UNDP, Human Development Report, 2001, 2002;
http://www.undp.org/hdr2001/indicator/cty_f_MKD.htm;
http://www.undp.org/hdr2002/indicator/cty_f_MKD.html.

Table 3: Development of macroeconomic fundamentals (1998–2002)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|----------------------------|-------|-------|-------|-------|------|------|------|------|------|------|-------|------|
| Growth of GDP in % | -12.1 | -21.1 | -9.1 | -1.8 | -1.2 | 0.8 | 1.5 | 3.4 | 4.3 | 4.5 | -4.5 | 0.3 |
| Export growth in % | n.a. | n.a. | n.a. | 1.9 | 11.1 | -4.2 | 4.3 | 9.1 | -9 | 12 | -10.2 | -7 |
| Import growth in % | n.a. | n.a. | n.a. | 25.6 | 11.7 | 2.8 | 8.9 | 20.1 | -6.7 | 5.6 | n.a. | 16 |
| Inflation in % (CPI) | n.a. | 1664 | 338.4 | 126.5 | 16.4 | 2.5 | 1.3 | 0.6 | -1.3 | 6.6 | 5.5 | n.a. |
| Unemployment in % | 19.2 | 27.8 | 28.3 | 31.4 | 37.7 | 31.9 | 36.0 | 34.5 | 32.4 | 32.1 | 30.5 | 31.9 |
| Budget deficit as % of GDP | n.a. | -7.2 | -11.1 | -2.6 | -1.1 | -0.9 | 0 | -1.8 | -0.1 | 3.5 | -9.2 | n.a. |

Sources: Republic of Macedonia – State Statistical Office <http://www.stat.gov.mk>; Nardona Banka na Republika Makedonija; <http://www.nbrm.gov.mk>.

5. Transformation management

5.1 Level of difficulty

Macedonian society is comparatively well educated and its workforce well trained. This could not, however, make up for the collapse of existing economic structures, inter-ethnic strife as the crux of domestic politics, extreme regional instability, an inefficient state administration, persistent challenges to the state monopoly on the use of force, scant resources and a small market. Precisely in view of the structural conditions, the difficulty level of the transformation can be termed very high. There was never a basic consensus on central democratic rules of the game or the form of the state. Furthermore, centrifugal forces intensified during the period under study. Time and again, modest improvements in the local economy and reform measures were undercut by world economic conditions, wars in neighboring countries and regional instability.

5.2 Reliable pursuit of goals

Macedonia's major parties profess to support economic reform, but in practice each government has striven to maintain key elements of the former Yugoslavia's political and economic system in independent Macedonia. Until 2000 the country presented itself in foreign affairs as an "oasis of peace"; although the main objective of this was to drum up international loans for its economy. As in the Yugoslav era, however, most of these funds were not used for strategic investments. Instead, they flowed directly into consumption. Short-term loan expectations not only affected domestic affairs (aroused during election

campaigns, they brought a change of government in 1998), but also led to crucial foreign policy missteps such as the recognition of Taiwan in 1999. A prime example of how political strategies outweigh economic considerations is the question of transit routes. The post-communist parties favor the existing north-south axis, while the anti-communist party in power from 1998 to 2002, the VMRO–DPMNE, prefers the east-west corridor in order to increase political and national orientation toward Bulgaria and, thus, erode the post-communist parties' social and political base. Any long-term strategies are still in their infancy. Contributing factors include the highly polarized party system and the unwillingness of political actors to cooperate. Short-term, self-serving and ethnocentric strategies eclipse long-term considerations. The parties' short-lived hold on power results in unexpected changes of course at the end of the legislative term.

5.3 Effective use of resources

The government's already heavy reliance on nepotism intensified during the period under study. This contributed to several problems. Important state resources were wasted or consumed by the elite. Meaningful reforms, such as the tax reforms that had shored up state finances, could not fully unfold their stimulating effects on the economy. In general, public funds were not purposefully invested to restore the health of financial and banking markets or to restructure the business sector. The administrative system needs to be decentralized—a goal repeatedly proclaimed but never pursued. Instead, the parties in power take advantage of the country's over-centralized structures to look after their own constituencies.

The government and the opposition use anticorruption measures as political weapons. When the government lost popularity midway through the legislative period, it responded with massive abuse of state institutions for party-political purposes. The national discourse dominates the political arena; this reinforces the society's ethnic segregation, undermines civil society and erodes democratic attitudes. The UÇK's armed rebellion hastened the loss of democratic stability, though the behavior of important elements within the government—especially Minister of Internal Affairs Ljube Boškovski, an authoritarian populist—certainly contributed as well.

5.4 Governance capability

The politics of economic reform in Macedonia featured a marked discrepancy between proclamations and actual implementation. The scant professional experience of politicians within the government elected in 1998 certainly contributed to this. The patronage system's unremitting dominance left little room

for long-term economic strategies. The democratic transformation was shaped much less by active government policy than by the gradual collapse of the previous system of limited pluralization, which first became evident in 1995. Granted, the government owed its electoral victory to the media's greater independence, evident through the establishment of the first independent daily newspaper founded in 1996. Hostility directed at independent journalists and the retention of the largest media group *NIP Nova Makedonija* as a state enterprise betrayed the government's lack of commitment to freedom of the press and freedom of opinion. Moreover, external factors, such as the wave of refugees in the wake of the Kosovo war and the UÇK uprising in the spring of 2001, greatly constrained the government's power to shape events. The palpable loss of support among the electorate in the local elections of 2000 obviously thrust the government into an aggressive, defensive posture. During the national crisis, it forfeited any remaining organizational capability.

5.5 Consensus-building

All significant political and social actors say they accept the goals of reform, democracy and a market economy. In terms of economic policy, however, all parties demonstrate downright populist tendencies, under which economic recovery depends much less on a purposeful reform policy than on successful strategies to obtain international aid. The national crisis of 2001 revealed that, especially in the government camp, decidedly anti-democratic veto actors exist. However, the path to market-economy reform is blocked less by influential interest groups than by overall economic developments, including a severe drop in industrial production and an inadequate ability to compete internationally.

Political consensus within the government was defined exclusively in negative terms as a common aversion to the former nomenclature and to Yugoslavia, the neighbor to the north; long-term political perspectives remained irreconcilable. The much-heralded measures to ease inter-ethnic tension in fact relied on further segregating the two main ethnic groups and dividing the country into separate spheres of influence for the two coalition parties, the VMRO–DPMNE (representing ethnic Macedonians) and the DPA (representing ethnic Albanians). As a result, when the national crisis erupted in 2001, the two parties could not find common ground on ways to restore peace. Instead, each took the stage as a nationalistic rabble-rouser within its own ethnic camp. In the relationship between government and opposition, confrontational strategies likewise predominate on both sides.

Caught up in a bitter duel, the head of the government and the leader of the opposition gave little consideration to the stability of the political system. Newspapers linked to each of the adversaries shared a tendency not only to expose affairs but also to fabricate them, thus fanning the flames of hatred

between government and opposition. The government skirted constitutional limits, and not just during the conflict with the UÇK; even before that, in the wiretapping scandal, it violated the principles of a constitutional state under the rule of law. Patronage remains entrenched, and the system still lacks any institutional channels for resolving societal conflicts of interest. Discussion of the communist past generally centers on socialism as an obstacle to the achievement of national goals in the Balkans. By contrast, efforts to address human rights violations are marginal.

5.6 International cooperation

The Georgievski government continued cooperation with external actors (IMF, World Bank, European Bank for Reconstruction and Development) that had intensified after Macedonia finally gained international recognition in 1993. However, the government did not use the aid purposefully for economic reforms. Instead, it looked after its cronies. Furthermore, even when external assistance (such as the Stabilization and Association Agreement with the EU signed on 9 April 2001) is targeted more at political crisis management than long-term economic strategies, the government mainly exploits the opportunity to arouse unrealistic expectations among the population. To some extent, however, external actors have also exacerbated the conflict between economic and political reform objectives. For example, the IMF has called for pruning back Macedonia's bloated governmental and administrative bureaucracy, but this conflicts with the goal of increasing ethnic Albanian representation in these structures. Time and again, regional instability and domestic political crises have blindsided the plans of external actors.

When support among the electorate plummeted during the national crisis of 2001, the two major coalition parties (Macedonian and ethnic Albanian) adopted a confrontational strategy toward external actors. In the regional setting, foreign policy primarily follows domestic policy. Despite the unresolved issue of its name, Macedonia enjoys quite a good relationship with Greece, both in the political arena and in economic cooperation. The same cannot be said of its relations with other neighbors. Its orientation toward Bulgaria grew during the period under study, mainly because of a specific interpretation of national history by the governing VMRO-DPMNE, which seeks to undermine the power base of its post-communist opposition. At the same time, the government neglected to take advantage of the change of government in Belgrade to revitalize trade relations with Serbia.

Until the early 1990s, Serbia was Macedonia's most important trade partner, accounting for more than 60 % of its external trade. During the period under study, trade with Serbia shrank to less than one-fifth of that volume. Meanwhile, any ideas of replacing the dominant north-south transit route with an east-west

corridor remain an illusion. There is no domestic consensus at all about Macedonia's relations with Kosovo. In each concrete instance, any compromise depends on the inter-ethnic situation and on the government's attitude toward the external actors.

6. Overall evaluation

In view of the initial conditions, current status and evolution, as well as the actors' political achievements (management), this assessment concludes the following:

(1) *Originating conditions*: Overall the starting conditions for transformation were very difficult. The transformation to a market economy had been introduced only a few years before the period under study and was implemented very tentatively. It unfolded against the backdrop of a generally severe decline in economic activity and a collapsing industrial sector. Macedonia's neighbors challenged important aspects of its state sovereignty, while the state itself was not very functional. The definition of citizenship and who qualifies as a citizen is the dominant battleground of domestic politics. That issue took the country to the brink of civil war during the period, raising questions about the state's monopoly on the use of force and about the political system that remain unresolved. The power constellation of "old regime" versus "nationalist opposition" was not broken up. Rather, it became more entrenched during the period. While the democratic transformation deepened, at the same time some civil liberties came under new restrictions and the government showed authoritarian and populist tendencies.

(2) *Current status and evolution*: Political decision-makers were unable to qualitatively broaden democratic transformation. Instead, they behaved as anti-democratic veto actors and increasingly lost political legitimacy. Ethnic strife increasingly pervades both politics and society, presenting not only an acute threat to democracy and the rule of law, but also the prospect of a failing state. The structures framing a market economy order were improved in some areas—tax reform and the sale of several large enterprises. However, the improvements were utilized mainly to free up new resources for consumption by the governing elite and not to advance long-term strategies.

(3) *Management*: The verdict on the actors' relative management performance is negative. Compared with the preceding period, the economic transformation process gained little reliability in achieving goals during the period under study. Weak managerial achievements in the area of domestic political reforms (conflict management, inter-ethnic relations, corruption) go hand in hand with the uncertain results of macroeconomic reforms (restructuring of the corporate sector, reform of financial markets and the banking sector). That is not all: Political mismanagement exacerbated the country's state identity problems, undermined

the democratic legitimacy of the system and impeded the development of a broader democratic consensus.

7. Outlook

The inter-ethnic strife of 2001 and the international pressure needed to forge the Ohrid Agreement are signs that Macedonia's journey to transformation, once considered exemplary, has struck rocky ground. However, when the Georgievski government left office in autumn 2002, its policy of blocking Ohrid reforms also ended. Macedonia has the opportunity to start anew. A long road still lies ahead, especially in establishing the rule of law, improving the government's institutional efficiency, stabilizing democratic attitudes and patterns of representation, and overcoming the ethnic segregation of society.

It remains to be seen whether reforms actually begin to resolve the ethnic conflict or merely let the country pause to catch its breath. The deciding factor may be whether new voting mechanisms in the legislature, intended to give ethnic minorities a stronger voice in decisions, build inter-ethnic consensus or lead to blockades in parliament. For the medium term, the economic transformation will take a back seat to the demands of the political transformation and will be marked by fierce conflicts between Macedonians and ethnic Albanians over the distribution of tangible and intangible resources.