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RENTIER STATEBUILDING IN KOSOVO: LIBERAL PEACEBUILDING AND THE RENTIER ECONOMY

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Abstract: Kosovo has been under various forms of international administration since 1999. Although the political dimension of this international experience has been widely studied by scholars – especially those associated with the critical theory of liberal peacebuilding – the economic dimension of international rule has been given less attention. This article explores this dimension by linking insights from the rentier theory with critical approaches to liberal peacebuilding and statebuilding. The postulate informing this article is that the sources of income for a state have an impact on the state's institutional development. The article discusses liberal peacebuilding through the rentier theory lens, analyses the economic management in the early years of the international administration, and describes and explores some of the unintended consequences of the massive international presence in Kosovo on the local economy.

Keywords: International administration; Dutch disease; Political economy; Liberal peace; Balkans.

Introduction: Trying to Understand the 'Legitimacy Gap'

The United Nations Interim Administration Mission in Kosovo (UNMIK)[1] has been entrusted with the difficult task of administering the war-torn territory of Kosovo following the 1999 conflict, which saw more than 10,000 casualties attributed to Serbian military or paramilitary

[1] UNMIK is divided into four pillars, each originally headed by a different international organization with specific roles and responsibilities (UN, 1999). By so doing, the UN Secretariat hoped to increase the international organizations' interoperability on the ground, one of the reported deficiencies of previous peacebuilding missions, notably in Bosnia and Herzegovina (Dizdarević, 2004: 39). The first pillar was dedicated to humanitarian action under the aegis of the UNHCR until June 2000. At the end of what came to be called the 'emergency stage,' a new Pillar I was established to cover the realm of 'police and justice,' and then passed to the UN itself. The civil administration component of the mission constitutes the second pillar and is directly under the leadership of the UN. Pillar III is the vaguely termed 'democratization and institution building', led by the OSCE. Finally, the European Union has charge of the 'reconstruction and economic development' pillar. The other international organizations involved in the reconstruction and administration of Kosovo, such as WFP, UNICEF, WHO, the World Bank and the International Monetary Fund, work under the coordination of the lead agency for each pillar, and under the general coordination of the UN Special Representative of the Secretary-General (SRSG).

forces in Kosovo. Meanwhile, more than 1.5 million Kosovar Albanians were either forcibly expelled from their homes or decided to flee the conflict, representing some 90 per cent of the estimated Kosovar Albanian population in 1998. The level of infrastructural and institutional destruction in Kosovo added to the political wrangling over the final status of the territory and continuing inter-community tensions, and provided the United Nations and leading Western governments with a perfect legitimate excuse to preclude any immediate transfer of authority to indigenous authorities and to authorize an international administration that would regulate all aspects of the everyday life of Kosovars (Lemay-Hébert, 2011b and 2012). Hence, the Security Council mandated UNMIK to administer 'temporarily' the territory of Kosovo, in the process conferring on the UN administration executive, legislative and judicial powers over the territory. More than sixteen years after the adoption of Security Council Resolution 1244 establishing UNMIK, the UN is still *de jure* administrating Kosovo, even if it jump-started the process of handover to local institutions in 2004 and the European Union has taken over most of the supervisory responsibilities since Kosovo's declaration of independence in February 2008.

Despite being welcomed wholeheartedly by the local population in the immediate aftermath of the conflict, the relationship between UNMIK and Kosovars quickly soured. In fact, from the first Early Warning reports (conducted in 2002 by USAID and UNDP) to the present day, UNMIK has been one of the most unpopular political institutions in Kosovo, with the exception of the winter of 2006, when the provisional institutions of self-government (PISG) were held responsible for a delay in negotiations.[2] In other words, UNMIK fundamentally lost the struggle for hearts and minds in Kosovo. In the words of Anthony Welch, Coordinator of the International Security Sector Review for Kosovo, UNMIK simply 'failed to command the respect of the local population' (2006: 225; see also ICG, 1999). After 2004, the level of satisfaction with UNMIK action was so low that, as put by King and Mason, who had worked for UNMIK: 'If UNMIK had been up for election, it would have needed to campaign hard to win votes from anybody in Kosovo other than its own staff' (2006: 220). The Secretary-General subsequently dispatched a Norwegian diplomat, Ambassador Kai Eide, to conduct a comprehensive review of the policies and practices of all actors in Kosovo. The conclusion of the first Eide report was clear: there

[2] See Early Warning Reports and the Public Pulse Reports, available online at: http://www.ks.undp.org/content/kosovo/en/home/library.html (accessed 10 June 2015)

should be an ambitious policy of transfer of authority to the institutions of Kosovo, coupled with a restructuring of UNMIK (UN, 2004: 3–5). As Ambassador Eide further noted in a second report, 'while standards implementation in Kosovo has been uneven, the time has come to move to the next phase of the political process' (UN, 2005). Hence, it was clear that 'after administering Kosovo for six years and four months, the UN accepted that its usefulness had come to an end' (King and Mason, 2006: vii). Martti Ahtisaari, appointed Special Envoy of the Secretary-General on Kosovo's future status, built extensively on Eide's assessment and in 2007, after fruitless negotiations between Serbian and Kosovar representatives, recommended 'independence, supervised by the international community' for Kosovo (UN, 2007). Hence, as Tim Judah states, 'the years of the UN protectorate looked as though they were giving way to those of something new: an EU protectorate, at least in those areas where Albanians lived' (2008: 116).

Many authors have explored the political hurdles of governing Kosovo through an international administration (Caplan, 2005; Hehir, 2009; Lemay-Hébert, 2011a and 2013; Narten 2008; Visoka, 2011; Yannis, 2004). Most of these analyses fall into the wider frame of the critique of the liberal peace paradigm as the dominant form of externally supported peacebuilding (Chandler, 2006; Cooper, 2007; Duffield, 2007; Joshi et al. 2014; Richmond, 2005). The liberal peace refers here to the idea that certain kinds of society will tend to be more peaceful, both in their domestic affairs and in their international relations, than 'illiberal' states. Hence, liberal peacebuilding implies not just managing instability between states – the traditional focus of the IR discipline – but also building peace within states on the basis of liberal democracy and market economics (Newman et al., 2009: 7). The liberal peace encompasses socio-cultural norms associated with peacemaking, as well as the international and national structures instrumental to promoting the liberal peace. Economic considerations are also central to the model, for liberal peacebuilding implies 'the globalisation of a particular model of domestic governance – liberal market democracy – from the core to the periphery of the international system' (Paris, 2002: 638; see also Duffield, 2001; Pugh et al., 2008).

While keeping in mind the aforementioned legitimacy gap, this article analyses certain oft-neglected economic themes in the statebuilding and peacebuilding literature, all related to the international governance of Kosovo in the first decade following the 1999 war, and hints at an alternative research agenda. While there has been much critical debate about liberal peacebuilding in the last decade, leading to innovative conceptualizations of the limits of the external imposition of political institutions on so-called fragile or weak states (Grimm et al., 2014), critical scholars have recently been challenged to develop 'sharper theoretical tools to understand and explain the complex empirical cases that are thrown up by the liberal peace' (Heathershaw, 2013: 275; see also Zaum, 2012). This article tries to contribute to this new wave of theorization by explicitly drawing from rentier state theory in economics and the impact of external inflows, exploring 'the patterns of development and the nature of states in economies dominated by external rent' (Mahdavy, 1970: 428).[3] Hence, Kosovo's substantial external inflows – which amounted to a process of *rentier statebuilding*[4] – have had far-reaching consequences for the nascent state, beyond conventional impacts on sovereignty.

We argue that rentier theory can shed additional light on the travails of liberal peacebuilding and statebuilding in Kosovo, especially by linking Kosovo's sources of income with the state's institutional development, and by providing additional insights into the complex relationship between the United Nations and Kosovars. Three main themes are specifically addressed in this article. First, it explores the specific linkages between the critical approach to liberal peacebuilding and rentier state theory, further developing the interplay between these two bodies of literature through the concept of *rentier statebuilding*. Second, the article revisits the claim, often made by scholars and practitioners, that external structures such as international administrations are an efficient means to govern war-torn territories on a temporary basis (see Lemay-Hébert, 2015). Without engaging in the debate surrounding the corruption of international officials[5] – which can be enlightening when discussing culturalist claims that the 'culture of

[3] Substantial external inflows can also include worker remittances from abroad – something that is not strictly 'rent', but can have similar consequences, as discussed below.
[4] A concept also developed by Florian Kühn (2010).
[5] The most serious cases of misconduct in Kosovo were: the embezzlement of € 3.9 million of Kosovo Energy Corporation (KEK) funds by Joe Trutschler, a senior German official, and € 300,000 by Kosovo Trust Agency (KTA) Division Manager, Roger Reynolds; and allegations of corruption by Gerard Fischer, who was the Deputy SRSG and signed a contract involving Post and Telecom Kosovo (PTK) without going through procurement procedures. Mr Fischer has been arrested but has not faced trial, and has accepted another assignment. Recently, an internal report was leaked, revealing that the European Union and United Nations have abandoned investigations into serious allegations of fraud and corruption over £ 60 million-worth of funding for Kosovo. According to this report, EU funds for economic reconstruction

Kosovo' impedes any significant changes in the region (Aitala, 2008; Cilluffo and Salmoiraghi, 1999)[6] – this article looks at the limits of economic management 'from the outside-in' (Lemay-Hébert, 2009b). It revisits Kosovo's economic growth data in the post-war years, and looks at the difficulties we face in assessing Kosovo's post-war economic growth. Finally, the article analyses the impact of international transfers on the local economy through the specific lens of the rentier state and the 'Dutch disease' theory, shedding additional light on the complex interplay between the economic and political dimensions of international statebuilding.

Liberal Peacebuilding and the Rentier State

It is now commonly accepted that contemporary attempts at statebuilding avowedly or inadvertently deploy policies akin to the 'liberal peace' paradigm (see Joshi et al., 2014). Despite the common idea, the liberal peace paradigm is here not so much associated with classical liberal thinking – which is actually a heterogeneous and diverse scholarship – but instead has closer links with the democratic peace theory in international relations.[7] The democratic peace theory posits the absence of major armed conflict between economically interdependent and democratic nations who share membership of common international organizations (Gleditsch, 2008). The central mechanism behind the theory is that states that share common values, and/or are mutually interdependent, eschew the strategy of war to settle their differences. Different strands of the democratic peace theory have emerged over time, each having an impact on the liberal peace debate. They include studies on the obsolescence of major wars following a normative evolution of mental habits (Mueller, 1988), institutional perspectives, studying the impact of international institutions on the behaviour of states (Russett and Oneal, 2001), and economic theses based on cost–benefit analyses of conflict (Oneal and Russett, 1999). The liberal peacebuilding paradigm is then inspired by these discussions, and in a sense furthers the research agenda to extend it to societal cohesion *inside* state units. Hence, liberal peacebuilding implies not just managing instability *between* states – which is the central focus of the democratic peace theory – but also

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to help rebuild a war-shattered Kosovo ten years ago were hit by at least eleven scandals involving twelve cases of alleged criminal activity and twenty-seven examples of alleged breaches of rules on the award of contracts and nepotism (Buzhala 2006; Waterfield 2009; Zaremba 2007b).

[6] For a non-ideological and culturally sensitive take on Kosovo's 'shadow economy', see the work of Michael Pugh (2004).

[7] Which renders the whole argument of how 'liberal' the liberal peace is rather moot. For proponents of this argument, see Selby (2013).

building peace *within* states on the basis of liberal democracy and market economics. Mirroring the democratic peace debate, the liberal peace encompasses socio-cultural norms associated with peacemaking, as well as the international and national structures instrumental to promoting the liberal peace. Both the democratic peace theory and the liberal peacebuilding discussion are thus built on two main assumptions, presented in the literature as inseparable: an economic assumption – economic interdependence and exchange reduces the propensity to wage war; and a normative assumption – institutions or increased interactions will lead to a growing sense of a common polity and values (following a Kantian or Rawlsian approach). This article unearths these assumptions embedded in the liberal peace discussions and analyses them in light of the literature on the rentier state in Kosovo.

The economic and normative assumptions that trade between nations *directly* contributes to peace *within* and *between* societies actually have deep roots, which can be traced back to certain segments of the traditional liberal scholarship including, for instance, Baron de Montesquieu's *The Spirit of the Laws* (1748), where he argues that commerce tends to promote peace between nations, mutual self-interest precludes war, and trade softens attitudes of peoples towards each other; or in Richard Cobden's declaration that 'commerce is the grand panacea' (1835), by which he meant the pacific and civilizing effects of international trade, along with its potential for assuaging tensions between nations (see also Paine, 1791–2: 265; or, for a more recent iteration of these principles, Angell, 1910). The democratic peace theory was clearly inspired by these discussions, and developed its own statistical models to verify these claims. Hegre (2000) argued that economic interdependence reinforces peace, but mainly between more developed economies, while Russett and Oneal (2001) asserted that it is the economic dependence on trade of the least dependent on the other members of a group of nations that will determine the pacific effect of trade. Among the most recent updates proposed for the democratic peace theory is the 'capitalist' peace notion of Gartzke (2007), which goes beyond trade dependence. He argues that the intensity of trade is the least important feature in the peace engendered by capitalism; in fact, the nature of advanced capitalism makes territorial disputes – which are mainly contests over resources – less likely as the market mechanism allows easier access to resources. The nature of capitalist production makes the output of more sophisticated goods and services increasingly reliant on ideas or blueprints that are research-and-development oriented rather than resource intensive, and skilled personnel can be acquired through more open global labour markets. Moreover, financial interdependence makes war between those integrated in this manner even more costly compared to trade disruptions.

While building (consciously or unconsciously) on this scholarship, liberal peacebuilding shifts the focus from *interstate* collaboration to *intrastate* cohesion. Hence, here the liberal peace refers to the idea that certain kinds of society will tend to be more peaceful in their domestic dispute resolution compared to 'illiberal' states. Economic stagnation, or economic development that is very unevenly distributed, can cause the tolerant niceties of an existing domestic social contract to fray. Those left behind and the underprivileged may revolt if coherently organized and if opportunities present themselves, which can lead to internal conflicts and violence. Equally, the relatively rich may choose to prey on the less fortunate if they are no longer prepared to subsidize or support these groups. It is important to note that so-called liberal democracies are not immune from these tendencies; recent history has shown that they can very well behave violently towards segments of their societies. Indeed, as has been argued, since 1991 developing countries are mostly characterized by imperfect democracies or anocracies[8] containing elements of democracy (multi-party electoral competition) along with some of the more invidious traits of autocracy (no effective checks on the executive, for example). Ultimately, as the argument goes, growth and increased economic interaction through globalization, as well as rising democratization, are likely to promote peace between and within developing countries, mirroring Lipset's (1960) modernization hypothesis that democracy (and peace) inevitably follow economic growth.[9]

Proponents of liberal statebuilding aim to follow a path similar to that described by Auty and Gelb (2001) as 'benevolent and developmental', by which they mean that the state actively promotes an internationally competitive economy, discouraging in the process rent-seeking behaviour. This path, however, is directly challenged when the elite composition of the state and the nature of the economy have characteristics and tendencies that turn the state into a

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[8] See, for instance, the Polity IV project for combined democracy and autocracy scores: http://www.systemicpeace.org/polity/polity4.htm

[9] The economic objective of a competitive international economy may be retarded by external constraints to economic growth (see Chang, 2003).

rentier or predatory one.[10] A rentier state derives a substantial portion of its income from non-produced sources (Omeje, 2008: 5), and is largely dependent on these external rents and inflows. By 'non-produced income', we refer to categories of income such as official development assistance and worker remittances from abroad that augment national income but are not part of domestically produced output. Worker remittances from abroad are not strictly 'rent', but can have similar negative consequences on domestic production by providing alternative sources of income based on external inflows. We may add the windfall or Ricardian quasi-rent (shortage value) of unusually high natural-resource-related royalties (usually oil) during commodity price booms. Thus, 'rents' can originate from various sources: natural resources (in petro-monarchies, for instance), contrived rent or political manipulation of prices (Zimbabwe recently), or foreign aid, also dubbed 'geopolitical rent' by Richard Auty (2006: 37).[11] This geopolitical rent can reach 10 to 25 per cent of GDP in developing countries, according to figures compiled by Peter Boone (1996). As we shall see below, total external inflows in post-war Kosovo have been up to 35 per cent of GDP. One of the principal consequences of rents is the distortions induced on actors' behaviour, in other words the rent-seeking behaviour of economic agents.

The ideal-typical rentier state is therefore usually associated with weak public institutions, political instability, inequitable wealth distribution[12], and high levels of corruption, as well as resource inflows from abroad (Woolcock et al., 2001: 76). This configuration impacts not only the local economy, but also the nature of state–society relations and institutions.[13] External resources can drive a certain type of exogenous growth, but this comes with a vulnerability to external shocks – for instance, the progressive drawdown of international transfers. In a rentier-state context, national income contains a substantial proportion of non-produced elements:

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[10] See Verkoren and Kamphuis (2013) for an elaboration on these concepts, with an application to the case of Afghanistan.

[11] If rents can come from various sources, they don't have equal effects. Paul Collier argues that 'despite the bureaucracy, aid has been much more successful than oil', even if this is a disputed assertion in development economics (Collier, 2008: 102).

[12] The inequality of both income and wealth has been rising in the richer Western economies also, see Piketty (2014) for example. An argument can be made that these inequalities are in part due to the phenomenon of rent rather than a return to capital.

[13] This is a configuration also analysed in the literature on neo-patrimonialism, looking at personalistic and clientelistic governance systems marked by high levels of rent-seeking, corruption, waste, authoritarianism, arbitrariness and political instability (Kelsall et al. 2010 and references therein).

natural-resource revenues or royalties (which are chiefly a gift of nature); foreign aid (in the main, a transfer of resources); and remittances sent by nationals working abroad (whose value added is to a foreign economy). All three elements can seriously 'distort' the structure and future growth trajectory of the economy, via a phenomenon known as the Dutch disease (see Murshed, 2010). The Dutch disease encompasses a variety of negative impacts on an economy, giving rise to a sharp inflow of foreign currency. It describes situations in which consumption relative to investment is encouraged, where production is skewed away from traded goods (agriculture or manufacturing) towards services,[14] and in which exports are rendered uncompetitive. The original Dutch disease is traditionally linked to the real appreciation of a national currency in a context of resource wealth, which undermines the competitiveness of all produced economic activities (i.e. excluding services) (Dauderstädt, 2006: 16). Dutch disease effects may also emanate from substantial external assistance or worker remittances from abroad. The term was coined by *The Economist* in 1977 to describe the adverse impact of a North Sea gas bonanza on the economy of the Netherlands, and in this context it involves commodity exports driving up the value of the currency, making other parts of the economy less competitive, leading to a current-account surplus and even greater dependence on natural-resource exports. Later on, the economic theory of the Dutch disease focused on the negative impact of resource booms and external inflows on the long-term growth prospects of the economy (Murshed, 2010).

Worker remittances from abroad account for a substantial portion of Kosovo's GDP, as indicated in Table 1. Remittances sent by foreign workers are not strictly speaking a rent, unlike aid or certain types of natural-resource-based royalties. Yet they have been argued to reduce *long-term* growth in a cross-country econometric study by Barajas et al. (2009). Worker remittances do permit consumption smoothing, and help reduce poverty in poorer countries, but they can discourage labour supply and prevent channelizing savings into productive investment in countries with poor institutional settings. Moreover, remittances also cause real exchange-rate appreciation, but that effect may be weaker than with resource rents (Ratha, 2013). Ratha also argues that remittances may also encourage private expenditure on health and education,

[14] A high share of services in the national income may be characteristic of a mature manufacturing economy. Here we refer to a high share of services as a result of windfall external inflows.

besides helping to reduce poverty in poor countries. Driffield and Jones (2013) find that remittances may promote long-term economic growth in a cross-section of countries, but in a setting of good-quality institutions, particularly law and order (property rights and contract enforcement). Hence, the presence or absence of negative Dutch disease-type effects of substantial remittance inflows may depend on the quality of institutions related to the political economy. The cross-country econometric study conducted by Abdih et al. (2008) suggests that remittances do have a negative impact on institutional quality, as they allow governments to siphon money away for their own purposes, leading to weaker institutional quality in terms of corruption, government effectiveness and the rule of law. Scholars have also questioned the sustainability of the Kosovar economic model relying too heavily on remittances (Korovilas, 2010), even if this has probably helped mitigate the impact of the global financial crisis of 2008 (Pula, 2014), especially helping to keep consumption poverty down.

In the words of Michael Dauderstädt, one of the negative political-economy effects of the Dutch disease can be that ‘the government is not really interested in developing the national economy as a tax base because of the availability of rents’ (2006: 16). By contrast, low rents are more likely to motivate governments to create wealth as the most practical means of boosting output, which can then be taxed to increase revenue (Auty, 2006: 38). In other words, low rents could align the incentives of the elite with those of the majority in growing the economy by providing public goods and efficiency incentives, whereas high rents incentivize the elite to pursue immediate self-enrichment by channelling rent through patronage networks at the expense of markets, which distorts the economy (Auty, 2010).

In many ways, the ‘rentier state’ theory is the political economy counterpart of the purely economic Dutch disease theory, emphasizing the role of institutions (or governance) in promoting or retarding economic progress (see Mavrotas et al., 2011; Mehlum et al., 2006). In this sense, both the rentier state and the Dutch disease theories provide a counterpoint to the two classical assumptions of the democratic peace theory and the liberal peacebuilding paradigm (normative and economic, as discussed earlier). In this literature, abundant resource rents only constitute a problem for the economy if economic and political institutions are weak, leading to poor governance and corruption. Furthermore, in the context of economies characterized by an abundance of natural-resource rents the combination of Dutch disease and a rentier economy contributes to what has been dubbed the 'resource curse': economic stagnation and political discontent in the midst of plentiful resource rents, which are subjected to elite capture. A predatory state goes one step further (Verkoren and Kamphuis, 2013: 509–11): here, the elite's interest in rent extraction renders them into something akin to the roving bandits described by Olson (1996). A roving bandit merely exacts tribute, without nurturing the tax base from which the rent is exacted, effectively destroying the economy. By contrast, a stationary bandit attempts to expand the very same base by promoting growth, although he is still interested in exacting tribute. The appearance of a high volume of resource rents and substantial quantities of overseas aid can encourage predation. Rentier or predatory states invalidate most of the liberal peacebuilding postulates, since the structure of rentier economies has an adverse impact on the political and economic institutions necessary for sustaining democratization and a competitive economy, which run counter to the interests of elites in a rentier state, and more so in an even more extractive, kleptocratic predatory state.

Hence, we suggest the concept of *rentier statebuilding* to encapsulate these socio-economic dynamics. We concur with Barnett Rubin's statement that there are definite 'similarities between rentier states based on natural resource extraction and states being built through third-party aid in international operations' (2006: 30–1). A large international presence can disrupt market efficiency and have unintended consequences on the social contract binding the government and its population. The large international presence creates negative externalities – defined as a situation in which an individual or firm (in this context, the peacebuilding operation) makes a decision, but does not bear the full cost of the decision, leading to market inefficiencies. Furthermore, while external aid is vital to reconstruction and development efforts in post-conflict economies characterized by the paucity of private sources of finance, aid dependence may retard the development of state capacity and the development of the national economy as a tax base, as described in Ghani and Lockhart in the case of Afghanistan (2008; see also Kühn, 2008; Rubin, 1992; Verkoren and Kamphuis, 2013).

Breaking the Spin: Reassessing Kosovo's Growth Under UNMIK

Before addressing the specific nature of the rentier economy in Kosovo and *rentier statebuilding* processes, it is useful to stress the contested nature of the local economy, which led in turn to a very political process of the production of statistics in order to bolster the rationale for supporting liberal peacebuilding in the region. (For a discussion on the politicized nature of statistical production in the 'fragile states' context, see Rocha de Siquiera, 2014.) Liberal peacebuilding was clearly one of the cornerstones of the international intervention in Kosovo (Pugh, 2005: 26; Knudsen, 2013), but the consequences of the international policies did not follow the liberal peacebuilding model and instead led to dynamics more akin to rentierism.

In Kosovo, economic policies were determined and implemented directly by international officials, at least until the creation of the Provisional Institutions of Self-Government (PISG) in 2001. One of the local complaints addressed to UNMIK in the early years was about the pace of recovery in Kosovo, which had been too slow to meet people's demands and expectations, and which led in turn to growing discontent. This statement directly conflicts with the commonly held narrative that international actors are better managers than locals and more to be trusted in a context of widespread corruption. As was made clear by UN Assistant Secretary-General and Associate Administrator of the UN Development Programme, Ad Melkert, Kosovo was an utter shambles immediately before its declaration of independence in February 2008. After a visit to Kosovo in 2007, Melkert recognized that 'the situation in Kosovo can be compared to the circumstances in the poorest African countries: an extremely high mortality rate of newborn children (35 deaths to 1,000 births), a very high unemployment rate (42 per cent), a poor educational system and a severely polluted environment' (Melkert, 2007). Similarly, for the UNICEF, Kosovo was 'an island of poverty in Europe' in 2008 (2008: 11).

However, official statistics appeared to show impressive GDP growth in Kosovo, especially in the aftermath of the international intervention of 1999, thus strengthening the legitimacy of the liberal peacebuilding policies. For instance, economic growth was estimated at 11 per cent in 2001 and 7 per cent in 2002. On the eve of Kosovo's declaration of independence, it was widely accepted that Kosovo's estimated GDP had grown by at least a factor of two over the nine-year period. However, the key word here is "estimated". Indeed, official estimates of the size of Kosovo's GDP have been continuously revised downwards. In December 2001, the IMF estimated it at € 1.85 billion, while in June 2003 it put it at € 1.57 billion and, in December 2003, UNMIK estimated it at € 1.34 billion (IMF and UNMIK numbers, quoted in Economic Strategy and Project Identification Group [ESPIG], 2004: 7). As ESPIG notes: 'This shows a disturbing lack of any reliable statistical base for evaluating the level of activity in Kosovo upon which growth figures could be calculated. It also reveals a growing sense of unease among international officials about the nature of the post-war economy' (2004: 7). An explanatory note in IMF documents states that 'all data for Kosovo are estimates' (see, for instance, IMF, 2007). The IMF also clarified that 'estimates of the size of the economy of Kosovo are based on partial information, potentially unreliable observations, and some educated guesswork' (Corker et al., 2001: 23). Similarly, USAID noted that it had to rely on 'a professional's opinion or conventional wisdom' in some of its reports, specifying that 'in many cases, [they] were unable to separate fact from opinion' (2005: 1). As the economist Ibrahim Rexhepi states, one has to be very cautious with the so-called economic growth of Kosovo: 'As far as Kosovo is concerned, just one fact cannot be put in doubt at the moment: its area equals 10,887 square kilometres. All other data, including those concerning the present state of the economy, are not only utterly unreliable, but for the most part unknown' (quoted in European Centre for Minority Issues). For the KIPRED institute, a local think-tank, reliable information is 'Kosovo's scarcest resource' (Muharremi et al., 2003: 40), while for Gerald Knaus of the European Stability Initiative, 'public institutions [in the European protectorates] are operating in an information vacuum, cut off from the social groups they are supposed to serve' (Knaus 2006: 219). Even if one accepts the international economic data, and while keeping in mind that economic data on Kosovo before the conflict were to some extent as scant and unreliable as after it (del Castillo, 2008: 138), Kosovo is still far from its per capita GDP levels before the economic crisis of the 1980s, and the disastrous decade of the 1990s (Moalla-Fretini et al., 2005: 6; Palairet, 2001).

This should be kept in mind when considering in retrospect the triumphant press releases of the early years of the international administration. This reflects what a former UNMIK official termed the mission's greatest flaw: its propensity to 'spin information to make it appear that the situation in Kosovo is "under control" when this is not the case' (O'Neill, 2002: 108; see also Hehir, 2007: 137). In fact, the UN in Kosovo has gone further than simply spinning the story; a confidential study conducted for the German government by the Institute for European Politics and leaked to the media accuses NATO and the UN of creating a culture of systematic repression of critical reports in order to present Kosovo as a success story (Pancevski, 2007). This propensity to silence contradictory voices emerged from the very beginning of the international administration in Kosovo.[15]

In this context, the development challenges of nascent Kosovo were – and to a certain extent still are – daunting, despite the aid that flowed into the territory after 1999.[16] Economic reconstruction was handled principally through two institutions: the European Agency for Reconstruction and the EU pillar of UNMIK, as mentioned earlier. The EU clearly took a liberal and market-oriented approach towards economic reconstruction, focusing on privatization and fostering a sound economic investment culture for Kosovo. For Andreas Wittkowsky, deputy head of the EU pillar, UNMIK was undoubtedly able to put Kosovo's economy on the right path 'by introducing basic modern market institutions and hard budget constraints' in a context where there were 'clear limits to what an international protectorate can do to enroot these institutions'. It was, therefore, 'unrealistic to expect that such a protectorate [would] leave behind a fully functioning market economy' (Wittkowsky, 2006: 204). As unrealistic as it may seem, according to its own former officials UNMIK only managed to forge its strategy in 2003, a fact that hindered 'UNMIK's ability to forge a viable peace in a reasonable time frame', which in turn contributed to 'the lack of support for UNMIK by Kosovo's Serb community and the slow erosion of support among the Albanian population' (Blair et al., 2005: 206). The inability to develop an initial reconstruction strategy was compounded by the European Union's limited experience in post-conflict economic reconstruction and difficulty in finding adequate personnel for these tasks (Yannis, 2003: 180).

However disputed the economic growth figures under UNMIK, what is certain is that economic policies were clearly not pro-poor and developmental, following in that sense the basics of the rentier state theory. According to the IMF: 'The gains achieved so far not only are fragile but have left major developmental challenges largely unaddressed. These include entrenched high structural unemployment, a depleted stock of human capital, and dilapidated main public utilities

[15] For instance, the UN attempted to shut down a Kosovo Serb radio station on the grounds that it refused to air UN messages promoting participation in Kosovar elections. UN sources also mentioned that the station was referring to the international presence as an occupying force (Reuters, 2000).
[16] More than € 3.5 billion in international investment has come from international organizations, bilateral aid and international NGOs (Skendaj, 2014: 13).

and infrastructure' (Moalla-Fretini et al., 2005: 5). It seems important to mention here that, of all the problems plaguing Kosovo, unemployment is certainly one of the most acute. As for the 'economic growth' of the early years of international administration, unemployment numbers are also difficult to estimate. As the ESPIG notes, '"Unemployment" is an administrative category that measures the number of those who are actively looking for work but fail to find it. In societies where unemployment status confers benefits, there are clear incentives for people to register. In Kosovo, there are no such benefits' (2004: 9). The generally accepted estimate ranges from 30 to 50 per cent (Kosovo Agency of Statistics, 2010: 5), with an employment rate hovering around a desperately low 30 per cent. By contrast, Susan Woodward puts the unemployment rate in pre-war Kosovo at 23.1 per cent in 1985 and estimates it at 22.2 per cent by 1990 (1995: 205). Moreover, its effects are felt most acutely by children, the elderly, female-headed households and ethnic minorities (World Bank, 2005: iii). For King and Mason, the unemployment crisis in Kosovo was linked to the limits of the liberal peace model promoted by the international community: people in Kosovo 'needed more than a free market to find work; they needed employers, and these the international community could not create without reverting to socialist models' (2006: 89).

The Importance of Transfers for Kosovo's Economy: Rentier Theory and Dutch Disease

Even if we take at face value the statistics produced on Kosovo under the international administration, the so-called 'economic expansion' of post-war Kosovo described earlier depended overwhelmingly on transfers, specifically diaspora remittances and international assistance. During 2000–3, foreign assistance totalled € 4.1 billion, equivalent to over twice Kosovo's 2003 GDP, and private inflows added another € 2.4 billion (Moalla-Fretini et al., 2005: 5). According to what have been described as 'very rough estimates' undertaken by the Macroeconomic Policy Unit of the Ministry of Finance and Economy, estimated total public expenditure in 2000 in Kosovo was € 6.3 billion and had fallen to € 3.1 billion in 2003. For the ESPIG, 'the overall implications are clear: GDP growth in Kosovo's economy was driven by external transfers, rather than from any lasting increase in the productivity of Kosovo's enterprises' (2004: 7). Moreover, in 2002, the Ministry of Finance and Economy estimated that, of Kosovo's total income of € 1.57 billion, € 720 million came from cash remittances (Kosovo Government, 2003: 8). According to these figures, Kosovar households received more cash income from relatives abroad than they did by working in Kosovo. This has helped mitigate consumption poverty, as previously indicated. Of course, it is also possible to see the glass half-full. For Graciana del Castillo, for instance, ‘close to half the regular budget of $ 300 million for FY [fiscal year] 2000 was financed with domestic revenues’ (2008: 155).

While keeping in mind the caveats outlined earlier on the politicized nature of the production of statistics in Kosovo, Table 1 below contains macroeconomic data drawn from the World Bank’s World Development Indicators on Kosovo from 2006 onwards and seems to indicate that the Kosovar economy has characteristics of both a rentier economy and the Dutch disease. In 2006, for example, the total ‘rent’ from natural resources, aid and remittances reached a staggering 34.44 per cent of GDP. There is also a huge trade deficit (imports greater than exports), with exports comprising mainly base metals rather than agricultural or manufactured goods, and with the share of services about two-thirds of the economy, all of which are classic symptoms of Dutch disease. Added to that, a recent IMF report (2013) indicates that the tax-to-GDP ratio in Kosovo of about 22 per cent was very favourable compared to neighbouring states, but with a very high reliance on trade taxes (and very low income tax collection), which will need to be relaxed after trade liberalization, making alternative sources of revenue more important. It is also important to factor in the adoption of the euro, which makes competitive devaluation impossible, despite the low-wage nature of the Kosovar economy. The biggest single factor contributing to the Dutch disease is the economy’s major reliance on emigration, and emigrant remittances: one in four households had at least one family member residing abroad, and would-be entrants to the labour market had an expectation to emigrate (World Bank, 2010).

If the distortions created by the sudden inflow of aid and international workers in Kosovo at the height of international intervention in Kosovo (between 1999 and 2004, as discussed in the introduction) have been considered massive by scholars and practitioners, the absence of reliable economic information once again makes it hard to identify precisely the rent-seeking practices. Many different accounts reflect the same image of post-war Kosovo, with many Kosovars flocking to Pristina ‘looking for work or “investment opportunities”’, trebling Pristina’s population in three years (King and Mason, 2006: 132). Mark Baskin, who acted as Deputy Regional Administrator and Municipal Administrator in Prizren between 1999 and 2000, notes that ‘a significant portion of the labour force works for NGOs and international organisations’

(2006: 83; see also Perritt, 2004: 276), either by being directly employed by the international institutions or through the informal economy generated by their presence. Mr Bajrami, head of the Chamber of Commerce, explains for instance that it pays better to sell chewing gum to UN staff than to toil in the fields (Zaremba, 2007a), while a cleaning lady working for the UN in Pristina earns three to four times more than a government minister (Ammitzboell, 2007: 76–7). A Kosovar judge could earn $5,000 a year in 2004 sitting with an international judge earning $140,000 (Villmoare, 2004: 38). Not only did the employment of local staff by international agencies create a salary disparity with other local public and private enterprises – with locals working with the international organizations earning four to five times more than their local colleagues who stayed within local institutions (Skendaj 2014: 15) – but it also led to growing tensions between local and international staff working for the same organization. Hence, from the very beginning, 'wages paid by the international community as a whole created wage distortions that put serious pressure on budgetary decisions' (del Castillo, 2008: 151). It created a 'bubble economy', where the influx of thousands of international employees provided a huge boost to the service economy – restaurants, bars and bootleg-CD sellers (King and Mason, 2006: 131), all consequences of external aid inflows and the presence of aid and reconstruction workers.[17] The substantially different salary scales between internationals and locals were responsible for serious inflationary effects, especially on food and the real-estate market (Yannis, 2003: 178). The latter in particular suffered – with inflation induced by internationals flooding the territory providing opportunities for some, but a housing problem for many (King and Mason, 2006: 132). These major developmental challenges were exacerbated by the way international aid was invested. As noted by Major General Raul Cunha, Chief Military Liaison Officer of UNMIK, '[the] European Union has spent in Kosovo € 4,000 million, in different ways. From those 4,000 millions, 80 per cent was spent in capacity building and consultancy, which means that 3,200 millions went back to the base … that base has been made by two or three countries' (Cunha, 2008; see also Melkert, 2007; World Bank, 2011: 196).

A World Bank report (2010) indicates a number of other constraints on economic growth in Kosovo, including energy shortages, a very high skilled-labour premium compared to

[17] As one international official who was in Pristina in 2001 mentions, 'the most poignant development in Kosovo was the boom economy. You could see from the beginning that a bust would follow' (Villmoare, 2004: 34).

neighbouring countries, and corruption and weak rule of law related to widespread rent-seeking. In this context, the solution according to the World Bank is to do more to attract export-oriented foreign direct investment. This opinion is supported by the fact that Kosovo's economy has a large and structural trade deficit, which is a classic Dutch disease outcome (see Table 1). What is certain is that, with the level of foreign assistance dropping consistently, Kosovo seems ill-prepared to face the challenge of economically sustainable growth. From € 1.271 billion in 2001 (Moalla-Fetini et al., 2005: 65), the total of foreign assistance has steadily decreased to € 567.68 million in 2012. Some analysts describe this situation as a process of the de-industrialization of Kosovo (EU/ESI 2002), emphasizing the Dutch disease analogy described earlier. While international donor assistance for Kosovo has gradually decreased, from 45 per cent of Kosovo's general government revenues in 2004 to 27 per cent in 2010 (Republic of Kosovo, 2011: 6), remittances have been a more constant source of external financing, ranging between 11 and 16 per cent of GDP (UNDP, 2012: 20). In the absence of a competitive export sector, the economy is still highly reliant upon the inflow of remittances (Korovilas, 2002).

There is a general consensus that the main productive sectors that can feasibly be expanded are agriculture and the mining and metals sectors. As James Pettifer notes, subsistence agriculture has always been a cornerstone of Kosovo's economy, and it is imperative that agriculture is revived as soon as possible to restore local food supplies, to help restore some elements of social stability, and to reduce Kosovo's dependence on foreign aid (2002: 10). However, Kosovo's agricultural model, attuned to the needs of subsistence agriculture by the extended family, conflicts with the neoliberal model, attuned to the free market and promoted by international actors such as the European Union.[18] The same could be said of the unsatisfactory performance of Kosovo's mining and metals sector, which is largely the consequence of the dominance of the neo-liberal policy paradigm promoted by international actors (Uberti, 2014b). Finally, the international architecture set up after 1999 cannot be completely detached from Kosovo's socio-economic system, deeply marked by the extractive industry since 1945 and the rent-seeking behaviour attached to it (Pettifer, 2002; Uberti, 2014a).

[18] As a World Bank study argued, 'in the long run it will be non-agricultural job creation which will determine economic development in the rural areas of Kosovo' (1999: 2).

Conclusion

Drawing insights from the economics and political economy of rentier theory, this article has highlighted certain structural limits of contemporary statebuilding operations by focusing on UNMIK in Kosovo. Understanding the interplay between economic and political reconstruction appears key in the context of Kosovo. In the absence of clear improvements in living standards and given the fact that UNMIK was in charge of Kosovo, the population logically attributed all setbacks to the UN administration. This article developed this theme by taking a fresh look at Kosovo's economic growth data, with a specific focus on the socio-economic shortcomings that hindered Kosovo's development in the post-war years. The post-conflict statebuilding project in Kosovo is inspired by the liberal peace paradigm, but this model as a modus operandi for statebuilding is not without its internal contradictions. *Rentier statebuilding* is one of these contradictions, where the end result is a state less accountable to its people, and less interested in or able to develop an internationally competitive productive base. The former phenomenon refers to the political economy aspect of rentierism, while the latter aspect pertains to an economic malaise (the Dutch disease) where the relative abundance of non-produced income from external flows crowds out production in the agricultural and manufacturing sectors, as well as agricultural and manufactured goods exports.

In the case of Kosovo, the combined contribution of resource rents, aid and worker remittances from abroad have amounted to a third of national income. In the past, Kosovo has been able to extract a substantial geopolitical rent in the form of aid. Although the proportion of non-produced income is still very high, in recent years most of this is attributable to remittances received from Kosovars living abroad. However, Kosovo is not a classic oil-dependent rentier economy either, and aid flows are diminishing. Furthermore, it should be noted that the Kosovar state has not failed to harness resources through tax revenues. As indicated above, its domestic tax base is not insignificant, although heavily reliant on trade taxes, which will certainly diminish as the economy becomes more integrated via trade agreements with the rest of Europe.

Critics of aid (Easterly, 2006: 30; Ghani and Lockhart, 2008; Moyo, 2009; Surkhe et al., 2005) factor in many externalities – positive and negative – associated with international involvement in peacebuilding. Their view is that, on balance, aid does harm as solutions are imposed from the outside, are not *sui generis*, and can even retard statebuilding buttressed on the mobilization of domestic resources. In this context, our aim here is not to belittle the achievements of the international community in Kosovo (which are numerous), but rather to shed light on the oft-neglected theme of negative externalities of international interventions, which can take the form of *rentier statebuilding* in specific instances. The scholars who include aspects of political economy in their research focus generally on the need to design inclusive socio-economic policies to create the conditions for sustainable development in individual societies, without giving as much importance to possible negative externalities of international interventions on the local economy (Uberti et al., 2014). At the same time, traditional development economics (see, for instance, Sachs, 2005) has long considered foreign aid as a tool to 'tackle multiple socioeconomic pathologies quickly and simultaneously' (Abuzeid, 2009: 17), overlooking the potentially deleterious effects on the governments of the receiving countries. In that respect, rentier theory brings an additional level of complexity to the statebuilding and peacebuilding field, asserting that 'it matters whether a state relies on taxes from extractive industries, agricultural production, foreign aid, remittances, or international borrowing because these different sources of revenues … have a powerful (and quite different) impact on the state's institutional development' (Karl, 1997: 34). Hence, it seems impossible – or implausible – to conceptually separate institution-building from its social moorings (Lemay-Hébert, 2009a). Critics of the liberal model are not confined to those who emphasize the negative impact of aid, or those who believe in giving war a chance following Tilly (1992; Luttwak, 1999), but also involve scholars who suggest a thorough re-examination of this model and of the alternative frameworks of peace. In this context, we agree with Michael Pugh that there is a distinct need to re-politicize economic issues in peacebuilding contexts (2005: 33). It is our hope that this study will contribute to the broader research agenda on the interplay between economic development and political settlement in peacebuilding contexts, which has started to attract more attention in the last few years (see, for instance, Berdal and Zaum, 2012; Bliesemann de Guevara and Kühn, 2013; Del Castillo, 2008; Pugh, 2005; Pugh et al., 2008).

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Table 1: Macroeconomic Data on Kosovo

Indicator	2006	2007	2008	2009	2010	2011	2012
GDP at current price (in million US$)	3918,2	4743,4	5771,5	5634,8	5750,8	6636,7	6445,2
GDP per capita (current US$)	2278,62	2736,49	3302,92	3198,93	3238,65	3705,67	3566,59
GDP growth rate (annual %)	3,4	8,3	7,2	3,0	3,2	4,5	2,7
Agriculture as % of GDP	12,0	12,0	12,0	12,0	12,0	13,0	14,0
Services as % of GDP	68,0	68,0	68,0	68,0	68,0	67,0	67,0
Industry (mining, manufacturing and construction) as % of GDP	20,0	20,0	20,0	-	-	-	-
Export as % of GDP	14,0	16,0	15,0	17,0	20,0	20,0	18,0
Import as % of GDP	51,0	52,0	53,0	52,0	56,0	57,0	53,0
Trade deficit as % of GDP	3,11	3,05	3,16	2,39	2,22	2,21	1,72
Total natural resource rents (% of GDP)	0,35	1,66	2,00	1,84	3,09	2,91	2,45
Personal remittances received (% of GDP)	19,67	19,37	18,06	18,73	17,34	16,90	16,43
Net ODA received (% of GDP)	-	-	-	13,87	10,78	9,90	8,81
Total received from resource rent+ remittance+ ODA (% of GDP)				34,44	31,21	29,71	27,69
General government final consumption (% of GDP)	21,47	18,54	17,12	16,57	16,37	16,12	15,71
Poverty headcount ratio at national poverty line (% of population)	45.1	-	-	34.5	29.2	29.7	-

Source: Data collated from World Development Indicators, World Bank