

Testimony by Deputy Assistant Secretary Hoyt Yee
House Foreign Affairs Committee, Subcommittee on Europe
“Achieving Peace and Stability in the Balkans: 20 years after the Dayton Accords”
April 29, 2015

Chairman Rohrabacher, Ranking Member Meeks, Members of the Subcommittee, thank you for inviting me to appear before you today to discuss what we have achieved in the western Balkans in the 20 years since the Dayton Accords and the challenges before us today. Let me express my deep gratitude to Congress and this Subcommittee for your interest in the western Balkans, where the United States is investing to complete our shared vision of a Europe that is whole, free, and at peace. Your engagement with senior Balkan officials, trips to the region and Caucus memberships have sent a powerful signal that the United States remains committed to the region’s future.

Today that vision is more under threat than any time since the end of the Cold War. Russia’s aggression in Ukraine and ISIL’s reign of terror in Syria and Iraq have drawn the geostrategic importance of the western Balkans into high relief. In this new geopolitical context, our work with Balkans Allies and partners to create a space for free trade, free markets and free peoples is more important than ever – whether it’s supporting the right to chart their own sovereign choice for a Euro-Atlantic future; cutting off the flow of foreign fighters to Syria and Iraq intent on sowing terror in the United States and Europe; shoring up the region’s central role in Europe’s energy security future; or rooting out the cancer of corruption eating away at livelihoods, democracies and security.

The appeal of EU and NATO membership—aided by U.S. engagement and assistance—has been a transformative political and economic force for the western Balkans. Progress is happening; Albania and Croatia joined the NATO in 2009; Croatia became the 28th EU member in 2013; Montenegro is making steady progress on EU accession negotiations and is in “Focused and Intensified Talks” this year to qualify for NATO membership; Albania’s recent elections were the best democratic transition in that country’s history; Serbia and Kosovo are making landmark progress toward normalization; and, lastly, Bosnia and Herzegovina has negotiated its EU Stabilization and Association Agreement.

Since 1990, the U.S. Government has provided over \$7 billion to support these efforts through democratic reforms, focus on rule of law and counter-corruption efforts; aid the transition to market economies; advance post-conflict reconciliation; and support law enforcement in the fight against organized crime. But significant challenges remain. The Euro-Atlantic aspirations of many Western Balkan countries are still unfulfilled and threaten the progress that we’ve made in the 20 years since Dayton.

With this in mind, I would like to focus my testimony today on four key areas. First, I will provide a status update on the region’s seven countries. Second, I will talk about the complex impact that Russian malign influence is having on the region. Third, I will explore our cooperation on counter-ISIL efforts, particularly how we are working together to effectively investigate and prosecute foreign terrorist fighters (FTF). Finally, I will examine the region’s economic health.

Bosnia and Herzegovina

BiH remains one of the poorest countries in Europe and lags far behind the rest of the region in reforms needed for membership in the European Union and NATO. In order to catch up, BiH will need to accelerate reforms. We and our European partners have urged BiH to begin with socio-economic reforms that can make a tangible impact on the lives of BiH's citizens. We hope these initial reforms will lead to institutional and political reforms that BiH needs in order to become a stable, functional state fully integrated with the rest of Europe. We firmly believe that the future of BiH lies in the EU and NATO – and all new EU candidates have had to undertake substantial reform, including constitutional changes. BiH's constitution is based on the Dayton Accords, signed 20 years ago, and needs to be adapted to new facts and standards.

Key socio-economic reforms include labor law reform to enable a more dynamic jobs market, business climate reforms to streamline processes and cut red tape, and tax reforms to bring the costs of hiring in BiH more in line with EU standards. Public administration reform also has the potential to substantially improve the effectiveness of services, reduce costs to citizens through right-sizing, and unburden the private sector engine of the economy, which is right now held back by an overly cumbersome and exceptionally large public sector.

Outdated labor laws and collective bargaining agreements are difficult for any country to change, and are protected by entrenched interests – but the only way to create new jobs and growth is by modernizing the BiH economy. This includes overhauling state-owned companies that support a patronage system that favors political loyalty over professional competence. This corrupt system dooms these same state-owned enterprises to waste and mismanagement and has left some of them essentially bankrupt. Successful restructuring and privatization of these enterprises would make BiH's economy stronger, more competitive and able to create stable, well-paying jobs.

Corruption remains a serious problem in BiH. Our Embassy supports BiH's anti-corruption efforts in a variety of ways, including by working with police, judges, and prosecutors to strengthen capacity and help build cases related to corruption and organized crime. In addition to working with the government, we are also actively supporting civil society groups to advocate for transparency and protection for whistleblowers. Our goal is to help create an environment in which leaders and officials are held accountable for their actions and no one is above the law.

We also need to help foster a shared vision of the future for the citizens of Bosnia and Herzegovina. We saw the potential for this during the disastrous floods almost one year ago, when citizens came together as neighbors to meet the crisis. In the hour of need, rafting clubs, students, farmers and small business owners helped each other with no regard to ethnic background.

Serbia

Serbia continues to improve relations with neighbors, build a stronger partnership with the EU and United States, and cooperate in the international community on transnational threats.

In January, Serbia assumed the Chairmanship of the Organization for Security and Cooperation in Europe (OSCE), and Serbia's leadership thus far has shown a strong commitment to supporting the organization's founding principles. For example, Serbia has encouraged political discussion of the crisis within the OSCE and used the full toolbox of OSCE institutions and missions to support a peaceful resolution to the conflict. Recently, Serbia was successful in gaining an extension of the mandate of the Special Monitoring Mission in Ukraine until March 2016. We expect Serbia will continue as a transparent and judicious Chair, holding all participating States to the OSCE's high standards, in this fortieth anniversary year of the Helsinki Final Act. Foreign Minister Dacic's testimony here, before the Helsinki Commission in February 2015, is another indication of Serbia's readiness for dialogue and transparency.

We continue to support Serbia's aspirations to join the EU and commend Serbia's progress towards this goal. We welcome EU encouragement and assistance in support of reforms Serbia must take to bring itself in line with EU standards.

Serbia has been a NATO Partnership for Peace (PfP) member since 2006. We were pleased that after nearly four years of negotiations, Serbia completed in January its first-ever Individual Partnership Action Plan (IPAP) with NATO, which outlines a tailored set of programs for Serbian-NATO collaboration and opens a new chapter in Serbia's political relations with the Alliance. In addition, we applaud Serbia's increasing participation in global peacekeeping operations with the EU and UN in Africa and the Middle East, as well as Serbia's active participation in the multinational coalition against ISIL.

Serbian leaders have assured us they seek to strengthen regional stability and have constructive relations with all their neighbors. Several recent events have highlighted Serbia's commitment in this regard, including Belgrade's hosting of Albanian PM Rama in November 2014, the first visit at that level in 68 years, Serbian Prime Minister Vucic making his first trip abroad as Prime Minister in April 2014 to Sarajevo, and his participation in the February inauguration of the new Croatian president. Perhaps most encouraging, Serbia's commitment to the EU-led Brussels Dialogue with Kosovo has resulted in more normalized relations and concrete agreements that have increased regional security and understanding.

However, there also continue to be instances when Serbia refuses to participate in regional events in which Kosovo participates as the Republic of Kosovo. We have expressed our view that this policy of exclusion hinders dialogue and regional cooperation, and contributes to a negative image of the region, including to potential business investors. That said, we have seen promising steps recently. Today and tomorrow, in fact, Serbia is hosting a conference in Belgrade for regional Ministers of Interior – including from Kosovo – on combating the threat posed by foreign terrorist fighters. We welcome this inclusive approach.

Kosovo

Seven years after its declaration of independence and three years since the end of international supervision, Kosovo has taken great strides in its development as a fully sovereign, independent state. The United States continues to support Kosovo in its efforts to build a modern, multiethnic state with inclusive, democratic institutions.

The 2014 parliamentary elections in Kosovo were the first democratic transition of political authority resulting from free and fair elections held throughout all of Kosovo's territory. The coalition government and the process that led to its formation demonstrate the vitality of Kosovo's democratic and political institutions. We applaud President Jahjaga for her steadfast leadership during the transition to ensure Kosovo's laws and constitution were upheld.

We applaud the governments of Kosovo and Serbia on their continued commitment to the Brussels Agreement and normalization of relations through the EU-facilitated Dialogue. We fully support EU High Representative Mogherini's direct involvement. We congratulate all sides on the considerable progress made since they reconvened in February 2015, including agreements to unify Kosovo's judicial system and integrate the Kosovo Serb Civilian Protection Corps into Kosovo institutions. We encourage the EU and the governments of Kosovo and Serbia to maintain this momentum and implement agreements that will improve the lives of all of Kosovo's citizens.

We support the establishment of a Special Court to deal with the allegations contained in the 2011 Council of Europe report by Swiss Senator Marty and investigated by the Special Investigative Task Force. It is essential that Kosovo's leaders take the necessary steps to approve the constitutional amendments and legislation necessary for the creation of a Special Court that can address these allegations in a credible manner. It is important for the victims, but also for the future of Kosovo, to move beyond this chapter and continue its democratic consolidation and path toward Euro-Atlantic integration.

In addition to the United States, 106 other countries fully recognize Kosovo as a sovereign state. Kosovo is also a member of a number of regional and international organizations. The United States continues to actively encourage bilateral recognitions of Kosovo by engaging with non-recognizers at the highest levels whenever possible. We support Kosovo's eventual membership in NATO, the OSCE, and the European Union and encourage the government of Kosovo to adopt the reforms necessary to meet those institutions' standards.

Albania

In Albania, we have seen significant democratic progress since the ending of oppressive communist rule 20 years ago. Last June, the European Council granted Albania EU country candidate status. In granting this status, the European Council highlighted Albania's efforts at countering corruption, fighting organized crime, and implementing judicial reform.

With over one year under its belt in office, the new government continues to hold Albania's strong partnership with the United States as a key strategic priority. We recently signed a declaration of a U.S.-Albania Strategic Partnership, outlining areas of cooperation in

security; good governance, rule of law, and human rights; civil society; economic development; energy security; and education and cultural exchanges.

Albania's economic growth rate ceased its decline in 2014, rebounding from 1.4 to 2 percent, due in part to a three-year IMF program, EU accession progress, headway in fighting corruption, improved government revenues, energy reform efforts, and increasing growth expectations. The IMF forecasts three percent economic growth in 2015, stimulated by foreign investment and a rebound in domestic demand. We continue to look for opportunities to help Albania create the conditions for broad-based, sustainable economic growth that are inclusive and aligned with EU standards.

Nevertheless, there remains much work ahead for Albania. Despite receiving country candidate status, Albania will face significant challenges implementing the reforms necessary for beginning EU accession talks. Albania will need to intensify efforts at strengthening democratic institutions, tackling judicial reform, and fighting corruption and organized crime. The influence of crime and corruption on politics is a continuing concern. We are urging the government and opposition to work together to fight crime and corruption, and not be distracted by confrontational and corrupt domestic politics.

Montenegro

Montenegro, which began EU accession talks only in June 2013, has come a long way. However, in the last EU Progress Report, issued in October, the EU noted that "a credible track record of investigations, prosecutions and final convictions in corruption cases, including high-level corruption, needs to be developed. Serious concerns remain with respect to freedom of expression and the media, including unresolved cases of violence against journalists."

NATO has also urged Montenegro to strengthen the rule of law to improve its case for receiving an invitation to join NATO by the end of 2015. We agree with our NATO Allies that no one outside the 28 member states, including Russia, has the right to interfere with or veto NATO's decisions on the membership issue. We are also concerned about the relatively low level of Montenegrin public support for NATO membership (currently about 38 percent), which largely stems from misconceptions about the responsibilities and benefits of membership.

We and other Allies continue to monitor and review Montenegro's reform progress and readiness for membership. We believe the Montenegrins are committed to implementing the reforms needed to demonstrate full readiness to join NATO. Our hope is that Montenegro keeps up or even accelerates the pace of its efforts and puts its best case forward this year.

Macedonia

We also support Macedonia's aspirations to join NATO and the EU. Recently, however, we and our European partners have been following with concern the domestic developments in Macedonia related to the release of wiretap information by the head of the main opposition party. We are continuing to encourage the opposition, which is currently boycotting Parliament, to return to that body and help resolve the crisis. We are also looking to the government to take

action to resolve the crisis in a way that demonstrates its commitment to Euro-Atlantic principles, including rule of law, free and fair elections, and independence of the judiciary and the media. This is an opportunity to strengthen the capacity of existing institutions, to demonstrate Macedonia's ability to handle serious challenges and protect all citizens' rights, and to begin to rebuild public trust.

We are also concerned about a growing divide in society between the ethnic-Macedonian majority and ethnic-Albanian minority communities in Macedonia.

Macedonia's integration into the EU and NATO remains important for achieving lasting peace and stability in the region. At the 2008 Bucharest Summit, NATO pledged that Macedonia will receive an invitation to join the Alliance as soon as it agrees with Greece on a mutually acceptable solution to the name dispute. With a new government in Athens we continue to urge both sides to engage afresh, with a willingness to compromise.

The Government, the opposition and all involved must focus on the long-term strategic position of Macedonia, not on short-term tactical advantages.

Croatia

In Croatia, we have seen successive governments stick to an overarching goal – EU membership – to commit the resources and relentlessly pursue reforms needed to achieve it. The payoff came in July 2013 when Croatia became the newest EU member, demonstrating to the entire region that the door to EU integration is still open. We are very pleased to see that Zagreb is now sharing lessons it learned with its neighbors who aspire to join the EU and NATO.

There are still challenges that lie ahead for Croatia. First, their economy has contracted for the last six years, causing high unemployment and deterring further foreign direct investment. We have encouraged steps to promote reforms that could improve the business climate, attract more investment, and put momentum behind private-sector led economic growth. Second, until recently the Croatian government had not prioritized the liquefied natural gas (LNG) terminal project on Krk Island. We are encouraged by their recent tender for a business plan for the project. The realization of this LNG terminal would not only help Croatia remove any dependency on Russian gas, but also provide energy diversification for other central European countries who are much more dependent on Russian energy supplies.

Russian Malign Influence in the Western Balkans

Globally, the United States and Russia are cooperating on key security priorities such as countering violent extremism and the threat of foreign terrorist fighters, or in the Iran nuclear talks. We hope to achieve that same kind of cooperation in the western Balkans.

Given Russia's continued aggression in Ukraine, however, we remain watchful. We are fully committed to the Euro-Atlantic integration of the region and to supporting the aspirations in this regard of all the western Balkan countries. In contrast, since last September, Russian FM Lavrov said that NATO expansion in the western Balkans would be a provocative act. NATO

continues to reiterate that it is a defensive Alliance, and not directed at any country, and does not pose a threat to Russia in any way. The countries of the region are and will remain free to determine their own associations, and Russia has no veto.

We are working to build regional resilience through our positive support of the region's NATO and EU integration goals.

On energy, where Russia has particular leverage in the region, we are working with western Balkan leaders and the EU to diversify supply sources, routes, and types so Russia cannot use its energy supplies as a political weapon, as it has done in Ukraine.

Foreign Terrorist Fighters

The western Balkans are a significant source of foreign terrorist fighters going to Syria and Iraq, particularly when considered as a per capita proportion of the population. BiH, Kosovo, Macedonia, and Albania in particular are notable source countries.

There is no one-size-fits-all profile of a foreign terrorist fighter from the western Balkans. Individuals are being radicalized and motivated to fight in Syria and Iraq by a number of factors. Economic stagnation and lack of employment options are factors. This is compounded by skepticism of citizens about their governments.

The western Balkan countries are taking this threat very seriously – Albania, BiH, Kosovo, Macedonia, Montenegro, and Serbia have all passed legislation criminalizing foreign fighters and support for them. The U.S. is providing significant assistance through technical advice, training in capacity building in terrorism cases and legislative strengthening. In addition, the U.S. has recently placed a U.S. prosecutor in the Embassy in Tirana as a Counterterrorism Resident Legal Adviser with regional responsibilities.

Albania, BiH, Kosovo, and Serbia have all arrested suspected foreign fighters and are in the process of investigating and prosecuting them. The U.S. is providing case based mentoring in Albania, BiH and Kosovo to assist investigators and prosecutors to effectively prosecute their cases.

Economy of the Western Balkans

25 years after independence, the western Balkans are making steady progress towards Euro-Atlantic integration, but much work remains, particularly regarding their economies. Countries remain stuck in transition, with unemployment averaging over 20 percent (and more than double this among youth), out-sized public sectors, large informal sectors, and rigid labor laws that just now are being re-written to allow for more dynamic job markets. GDP in the region has grown only 10 percent from its 1989 level. Wars in the 1990s and the 2008 financial crisis had their obvious effects, but there have been successes and the region's trajectory toward the West and free-market capitalism remains.

Foreign direct investment is particularly important for the region's economic success, in light of its small national markets and persistently high unemployment. In the five years before the financial crisis, the region averaged annual GDP growth of over 5 percent with impressive foreign direct investment inflows that represented 25 percent of Montenegro's GDP in 2007, for example.

Significant job growth, particularly among youth, and a burgeoning middle class are critical for increased economic security, shared prosperity, and eventual EU accession. Together with international partners we are advocating business-friendly and growth-oriented structural reforms, legislation, and investments needed to attract businesses and transition the region's economies to more competitive, private-sector driven models of growth. Firms need to have confidence that contracts will be respected, goods will clear customs quickly, permits will be issued in a transparent and timely manner, and labor rights are respected.

Examples of recent progress include Serbia, which adopted in 2014 several business climate reforms that were drafted with U.S. technical assistance and policy support; and Albania, where we are providing technical assistance to the electricity sector and advisory services to the government as it upgrades and restructures the sector.

More broadly on energy, which plays a fundamental role in any economy, we are supporting the region's integration into Europe's energy markets, and providing options to diversify supply sources, supply routes, and energy mixes in order to increase countries' energy security. We are encouraging adoption of EU rules on competition and third party access to energy infrastructure to increase competition and make the energy sector more attractive for foreign investment.

Conclusion

What I have laid out are just a few of the numerous challenges western Balkans countries face in strengthening economies, opening new opportunities for growth and development, and building multi-ethnic democracies. The United States and its European partners will continue to assist these countries in any way that we can to implement the reforms necessary to tackle these challenges, particularly those impeding progress on their Euro-Atlantic paths. While our commitment to helping create a brighter future is unwavering, it should be clear to all that the ultimate responsibility for adhering to the path of reform and integration rests with the region's elected leaders. Citizens and civil societies must be prepared to hold their governments accountable when they stray from the path or stall along the way.

Thank you again for the opportunity to testify before the Committee.