Comparative Analysis of the Wars in Kosovo and Iraq

In the last eight years the United States of America led two wars without UN resolutions and claimed successful victories. However, a realistic evaluation of these victories reveals their high costs and unfinished outcomes. Kosovo and Iraq are still in transition to stable economic and political development. This comparative analysis of the Wars in Kosovo and Iraq focuses on the cost of intervention and the impact of the wars on international trade, foreign direct investments and the economic performance of Kosovo, Iraq and their neighboring countries. The regional economies were affected by trade disruption that led mainly to higher costs of exports. To produce under the new costs of the exports, firms had to reduce their expenditures and fire some of their workers. Thus, the higher costs, caused by trade disruption, led indirectly to an increase in unemployment rate and a decrease in GDP growth rate. The analysis points out also similarities between the situations in Kosovo and Iraq.

Kosovo War (March 24, 1999 – June 10, 1999)

Until 1989, Kosovo (approximately 90% Albanians and 10% Serbians) had the status of an autonomous province within the Socialist Federal Republic of Yugoslavia. In 1989, Serbian President Slobodan Milosevic removed the autonomy of the region and placed its political control in the hands of the Serb minority. The Democratic League of Kosovo (LDK) led by Ibrahim Rugova started a peaceful opposition, building parallel governing structures. In the late 1990s, the long-standing tensions between the Kosovar Albanians and Serbs escalated into open hostilities which led to a civil war. To restore stability in the region, NATO intervened in Kosovo. The Kosovo War, consisting as it did only of air attacks, was a virtual war. During the 79-day air campaign NATO dropped twenty thousand tons of bombs which demolished houses, industrial plants and roads. While NATO and Human Rights Watch estimated that approximately 500 people were killed, the Yugoslavian government approximated the civilian casualties in the range from 1,200 to 5,700. The immediate consequences of NATO’s victory in Kosovo were mixed. Despite the presence of peacekeeping corps, the situation in the postwar Kosovo resembled anarchy and Kosovar Serbs were fleeing because of Albanian revenge killings.

Cost of the War to the United States
Steve Kosiak of the Center for Strategic and Budgetary Assessments estimated the budgetary cost of the Kosovo War to the US in the range from $2 to $3 billion. He also estimated the costs for the non-US NATO allies at about $1 billion. The Pentagon announced that it had spent $2 billion on the conflict and projected approximately an additional $2 billion on the KFOR mission per year. However, Digby Waller, a defense economist, estimated the cost of the air campaign at $12 billion and the cost of a projected Kosovo occupation at $10 billion. According to BBC, the final cost of the Kosovo War ($31.67 billion) consisted of the military cost that NATO incurred ($2.111 million) and the amounts dedicated for aid, peacekeeping and reconstruction ($29.04 million). The final estimation of the total cost of the Kosovo War should include not only the direct costs to Serbia, Kosovo, USA and its NATO allies but also the indirect costs that Yugoslavia’s neighbors incurred because of the instability in the Balkan region.

Cost of the Kosovo War for the Balkan countries
The cost of the Kosovo War for the Balkans countries should be estimated in terms of its impact on transportation, international trade and foreign direct investments. The Economist Intelligence Unit estimated that the Kosovo conflict cut US $7.8 billion from the GDPs of Yugoslavia and its seven neighbors. NATO’s bombing of Serbia’s roads and bridges damaged the transportation infrastructure. Prior to the Kosovo War, the existing Balkan transport infrastructure provided cost-effective transport of goods and stimulated trade within the region and with the European Union. The Balkan Wars in Croatia, Bosnia and Herzegovina and Kosovo have excluded the former Yugoslav Republic from being a strategic player in the Balkan market. When NATO’s bombing of Serbian bridges on the Danube, a Pan-European transport corridor, made it impassable, there was direct impact on the transitional economies of Bulgaria and Romania, as well as a spillover effect on the Austrian and Hungarian economies (two of the biggest users of Danube). The usage of alternative routes for shipments in and out of Southeastern Europe led to a significant increase in transportation costs. Romania estimated that it lost as much as $50 million per month while the Danube remained closed. According to Bulgaria’s trade minister, the economy lost $70.7 million in trade, $30.8 million in transport, $22.7 million in industry, $9.1 million in agriculture, and $8.1 million in other sectors. The Bulgarian Finance Ministry evaluated the total amount of the
losses in 1999 at US $800 million. The effect of Kosovo War on trade was a decrease in GDP growth rates and an increase in unemployment rates in Bulgaria and Romania. The Kosovo War had also a significant effect on the Croatian economy: a reduction in tourism receipts, exports and foreign direct investments. The Croatian Reconstruction and Development Bank Officials [5] estimated the damages of NATO’s air war to be more than $522 million in 1999. The Macedonian economy suffered from trade disruption, influx of refugees and prospects for political and economic instability. In the early days of Macedonian independence, Yugoslavia remained a major partner in direct and transit trade; trade links with Yugoslavia accounted for 70 percent of Macedonian exports. The Kosovo War affected not only regional trade but also foreign direct investments (FDI). The perception of political instability decreased FDI inflows and caused a slow down in the economic performance of the Balkan countries. For the period 1999-2000, the FDI inflows decreased in Bosnia-Herzegovina (from $158m to $150m), in Croatia (from $1700m to $1100m) and in Serbia and Montenegro (from $225m to $50m). FDI inflows remained constant in Romania ($1000m). Although the FDI inflows increased in Albania (from $46m to $150m) and Macedonia (from $30m to $170), the increase could be explained by the additional amounts of foreign aid received for the refugee wave.

FDI inflows are directly related to investors’ expectations regarding future returns. Domestic instability or conflict with neighboring countries reduces the profitability in countries in transition because domestic sales and exports are reduced, production is disrupted, and infrastructure is damaged. Examining the significance of political risk for investment decisions, economic studies conclude that political instability affects the value of the host country’s currency and, therefore, reduces the value of the assets invested in the host country and the prospects for future profits.

Since the Kosovo War disrupted the normal economic links among the countries of Southeastern Europe, it could easily have triggered macroeconomic instability and a reversal in the ongoing structural reforms. All countries in the region, except Greece, suffered from fragile market institutions. Although Southeastern Europe (SEE) grew more slowly than Central Europe, most of the countries in SEE managed to maintain macroeconomic stability and continued the structural reforms thanks to the generous contributions of the international community (almost 20 billion euros).
The Economies of Kosovo and Serbia
The UN mission in postwar Kosovo had unique aspects. Since Kosovo is a Serbian province, not an independent state, the UN was involved for the first time in building financial institutions from the ground up to start Kosovo’s transition to a market economy. The postwar Kosovo economy was characterized by high unemployment rate, pending reconstruction of roads, houses and industrial plants and low level of FDI. The majority of Kosovo exports prior to 1999 were mainly to other parts of Yugoslavia. The war and the establishment of a UN protectorate in Kosovo severed the economic links between Serbia and Kosovo. After the loss of the Serbian market, Kosovo’s export potential was limited. Moreover, as a landlocked region, Kosovo depends on its neighbors for maintaining its trade links. Instability in Albania and Macedonia or border clashes with Serbia make Kosovo’s economic independence fragile. In March 2001, the internal conflict in Macedonia temporarily blocked Kosovo’s main trading artery. Prices increased for several key goods because the supply of imported goods was limited. Kosovo’s economy is highly dependent on imports because the production for the internal needs is also inadequate. The development of the manufacturing sector is restricted by the obsolete production methods, insufficient investments and limited demand for its products.

Six years after the war, a large percentage of Kosovo’s population lives in poverty as unemployment and corruption continue to plague the country. With an unresolved political status, economic development remains one of the greatest challenges faced by the new Kosovar government. Over half of the population of Kosovo lives below the national poverty line – $1.65 per day (World Bank). International aid received after the war has not led to significant job creation opportunities. According to the United Nations Development Program (UNDP), official unemployment figures fluctuate between 49-57 percent. More than 70 percent of the youth aged 16-24 years are unemployed. For a country with an average age of 25, these figures are particularly troubling.

The Kosovo Albanians consider the unresolved political status a major barrier for FDI inflows. They hope investments will pour in, when Kosovo becomes free and independent. Recently, microfinance initiatives are considered to be a very good start for creating employment opportunities and building social capital. Although twenty institutions work in the field of microfinance in Kosovo, there is a strong need for programs that would concentrate more on facilitating integration among the ethnic groups. There is no available data about minority
involvement in the postwar microfinance initiatives in Kosovo. However, it should be noted that a stable macroeconomic environment is a prerequisite for entrepreneurs to take risks and invest.

The postwar Serbian economy had similar characteristics as the Kosovo one: high unemployment rate, low FDI and pending reconstruction of its infrastructure. To restore growth and reintegrate Serbia into the world economy, Serbian government removed price and trade controls and started a privatization process.

The Relationship between Balkan Politics and Economics
The economic potential of the Balkan region depends on the political situation. The unresolved status of Kosovo affects regional stability. In 2001, Macedonia experienced the consequences of the Kosovo War for its ethnic stability. The internal Macedonian–Albanian Crisis in 2001 affected Macedonian economic performance and might have had indirect effects on Bulgaria and Greece. The international community would be well advised to restrain the rise of nationalistic spirits among Kosovo Albanians because attempts to revitalize the myth of Great Albania might destabilize the future of Macedonia as independent state (Macedonians 70%, Albanians 30%). It might also awaken Hungarian pretensions to parts of Serbia and Romania where the population is predominantly Hungarian (about 20%). Potential future destabilization of the region would be too costly for the economic development of the Balkans. Therefore, it is important to foster regional cooperation. In July 1999 the Balkan Countries adopted the Stability Pact for South Eastern Europe. It was designed to prevent another armed conflict in the region after Kosovo and to bring the region closer to integration into the European structures. The combination of regional initiatives with involvement of the European Union will play an important role for economic and political stability in the Balkans.

Iraq 2003 - 2006
Officially, the Iraq War, known also as Operation Iraqi Freedom, lasted only twenty-five days, from March 20 to April 15, 2003. US President George W. Bush stated that the reasons for the invasion were Iraq’s disarmament of weapons of mass destruction, the end of Saddam Hussein’s support for terrorists and the liberation of the Iraqi people from Hussein’s dictatorship. Instead
of weakening the terrorists, the war ended up strengthening them. Despite the ongoing insurgent violence in Iraq in 2005, elections were conducted for a transitional government, a permanent constitution and a permanent government. Religious and ethnic separation, exploited by the terrorists, has reemerged as a major obstacle for Iraq’s stability.

Cost of the War to the US
In comparison with the Kosovo War, the Iraqi War turned out to be more expansive because of the war strategies used in Iraq and the difficulties that the peacekeeping operation encountered. While Kosovo War was a “virtual” war, the tactics of the Iraqi War included a combination of air attacks and ground operations. Unlike Kosovo, in Iraq the United States covered most of the expenses for the non-US force deployments. Utilizing the troop projection reported by the Congressional Budget Office, Linda Bilmes and Joseph Stiglitz estimated the total cost of the war to the United States to be $2.267 billion. Bilmes and Stiglitz included government’s spending for the war ($725 billion), health care and disability benefits for veterans ($127 billion) and hidden increases in defense spending ($160 billion). The calculations of the final cost of the Iraqi War should include the estimation of Bilmes and Stiglitz, the additional costs incurred by the 2007 surge (deployment of extra 30,000 US troops) and the aid that the United States will continue to give to Iraq for its development.

Cost of the War to Iraq
Estimating the cost for Iraq, we should include the number of civilian casualties that could have contributed to Iraq’s development as a labor force, the cost for reconstructions, the difference between real and expected GDP values, the increase of unemployment rate and the lower amount of FDI.
Three years after the end of the major combat operations, civilian casualties increased by at least 15,000 killed and 100,000 injured. As of April 26, 2006, the Brooking Institution estimated that a civilian death rate ranges from 14,030 to 24,557. Insecurity, corruption, lack of sufficient foreign direct investments (under 1 percent of the GDP), dilapidated infrastructure, and uncertainty obstruct Iraq’s economic development. Inflation is
Unemployment rates are in the range from 20 to 60 percent, despite the NGO attempts to foster local employment through various projects. By increasing the number of attacks on Iraq’s economic infrastructure and particularly the oil industry, the insurgents worsen the economic situation. The ongoing attacks have made repair and maintenance of existing installations very difficult. Development of new ones is not under consideration, though this would be greatly beneficial for increasing oil export revenues. Iraq could have exported approximately three times the current level, around 3 million barrels per day (bpd). Instead of increasing its exports, Iraq, with the fourth largest oil reserves in the world, has been forced to import significant portions of liquefied petroleum gas, gasoline, kerosene and diesel. In 2006 the Iraqi Oil Ministry estimated that the current average import cost of fuels was roughly $500 million each month. Although short-term economic prospects for Iraq seem bleak, the long-term prospects are optimistic. Accelerating reconstruction by creating jobs and improving public services would drain support for the insurgents and increase confidence in the government. If the violence is reduced and the government performance is improved, Iraq’s ample oil reserves, water resources and fertile lands can provide the means for significant growth.

**Cost of the War to Neighboring Countries of Iraq**

Iraq’s neighbors face a number of challenges because of Iraq’s insecurity. Jordan’s leaders worry that Iraq is becoming a haven for terrorist groups, a fear confirmed by the November 2005 suicide bombings in Amman executed by Al-Qaeda members in Iraq. The economic impact of the Iraqi crisis on Jordan has been mixed. Since the 1980s Iraq has provided Jordan with its total annual needs of crude oil and oil derivatives at a low price. The difference between the world market price and the price Jordan paid was a sum that far surpassed any other source of aid Jordan received. The Iraq War caused Jordan to lose not only its main source of foreign aid, but also the Iraqi market that accounted for one-quarter of all Jordanian exports. When the situation in Iraq improves, Jordan will reap trade benefits. Syria would also benefit from a stable and united Iraq, because a breakup of Iraq would have a spillover effect on Syria’s multiethnic and religious society. Saudi Arabia has an interest in Iraq’s return as a supplier to the oil market; otherwise, Saudi Arabia will have to make huge investments to increase its own output in order to satisfy increased demand for oil and gas. The prospect of a weak Iraqi government that
struggles with ongoing civil strife or the country’s breaking apart into autonomous regions would be threatening to Iran’s and Turkey’s security and economic interests. Data from World Integrated Trade Solution show that the war’s effect on trade differs among Iraq’s neighbors. For the period 2003-2006 Jordan and Turkey have constantly increased their trade deficits, while Saudi Arabia has increased its trade surplus. There is no available data for Iran, Kuwait and Syria. While FDI in Iran decreased, FDI in Iraq and all other neighboring countries increased. Since the stabilization of the region is a priority for the developed countries, FDI has increased despite the insecurity.

**Similarities between Iraq and Kosovo**

National reconciliation is essential to reduce further violence and maintain stability in both Kosovo and Iraq, as post-conflict regions with unresolved ethnic tensions. Iraq and Kosovo have undertaken a transition from centralized command economies to liberal market economies. As in Kosovo, the remittances of overseas citizens (representing almost 20% of Iraq’s population) could be of great benefit. To use their people’s entrepreneurial energy, Iraqi and Kosovo banking systems should be able to grant small loans. Since this requirement is unlikely to be fulfilled by the current banking systems, microfinance initiatives could contribute to the development of small enterprises. In November 2006, the outreach of the microfinance initiatives in Iraq included 16,673 loans valued at US $18,276,661. Economic development based on solid macro and micro factors can lead to stability in the Middle East and in the Balkans, including prevention of terrorism and organized crime. Moreover, the potential for democratic governance in a Muslim context could make Kosovo with its predominant Muslim population an important template for Iraq’s democratic development.

Despite the war costs that Iraq, Kosovo and their neighbors have to pay, the transitions in Iraq and Kosovo could be fostered more effectively by regional and international cooperation. Southeastern Europe (SEE) has benefited from the restoration of peace and temporary stability. Through trade liberalization Southeastern European countries have made efforts for economic integration within the region. Furthermore, in May 1999, the European Union (EU) provided SEE exporters with duty free access to EU markets. For 2000-2006 the EU allocated more than 220 million euro for the implementation of regional programs that fostered cross border cooperation, developed infrastructure across the region and stimulated economic growth. To promote
interregional stability and prosperity, the Balkan countries participated in several initiatives: South East European Cooperation Process (SEECP), Stability Pact SEE (SPSEE) and South East Europe Cooperation Initiatives (SECI). While the EU is a strong advocate of regional cooperation, the Arab League has not achieved any significant degree of regional integration. The Economic and Social Council of the Arab League was created to promote economic integration of the Arab States in the Middle East and North Africa, but the accomplishments thus far have been minor because the member states have not coordinated their development strategies. Recent economic studies argue that strong economic ties are crucial for averting bloodshed. It is believed that closer regional links can help erase the scars of Kosovo and the other Balkan Wars of the 1990s. Enhancing trade with Iraq and the other Arab nations can contribute to the improvement of the living standards in the Middle East and the success of the war against terrorism. Therefore, supporting economic development through regional and international initiatives opens ways for permanent stability and prosperity.

The wars in Kosovo and in Iraq have significant effects on the economic performance of Kosovo, Iraq and their neighboring countries. War-related trade disruption, political instability and destruction of infrastructure have led to a decrease in the GDP growth rate, fluctuations in the exports/imports and decrease in FDI inflows. Both interventions of the United States without UN resolutions have ended with high costs and unfinished outcomes. The estimation of the total costs of these wars should include not only the direct costs to Kosovo, Serbia, Iraq, the United States and its allies, but also the indirect costs that Kosovo and Iraq’s neighbors have incurred resulting from instability in the region. To accelerate their transitional processes to stable economic and political development, Kosovo and Iraq have implemented microfinance initiatives. Although Kosovo seems more secure (absence of violent clashes recently) than Iraq, its unresolved political status impedes the termination of its transitional process to economic, political and ethnic stability. Kosovo and Iraq would benefit if the initiatives for regional cooperation were further stimulated since regional integration in Southeastern Europe has indicated its positive effect on the macro and micro factors.

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[2] Ibid.
[3] Ibid.

World Integrated Trade Solution. www.wits.worldbank.org/witsweb