European Identity and the Euro in Kosovo

Abstract

How can nationalist leaders advocate for independence while accepting the use of the euro, a supranational currency? At first sight, unilateral euroization – the adoption of the euro instead of a national currency – seems inconsistent with the goal of nationalism, an ideology intrinsically linked to the promotion of a sense of unique national identity among the in-group. However, this needs not to be the case. The apparent inconsistency can be explained by the flexible and complex nature of nationalism, which skilled policy makers can reshape to incorporate seemingly contradictory stances. Through a detailed case study of Kosovar nationalism, this paper shows how adopting the euro can be consistent with nationalist objectives. As the content and direction of Kosovar nationalist discourse evolved, the euro became a powerful identity symbol rather than a symbolic threat to Kosovars' identity.

Keywords: currency substitution, nationalism, monetary sovereignty, European Union, the Euro
Wordcount**:** 8500

Introduction

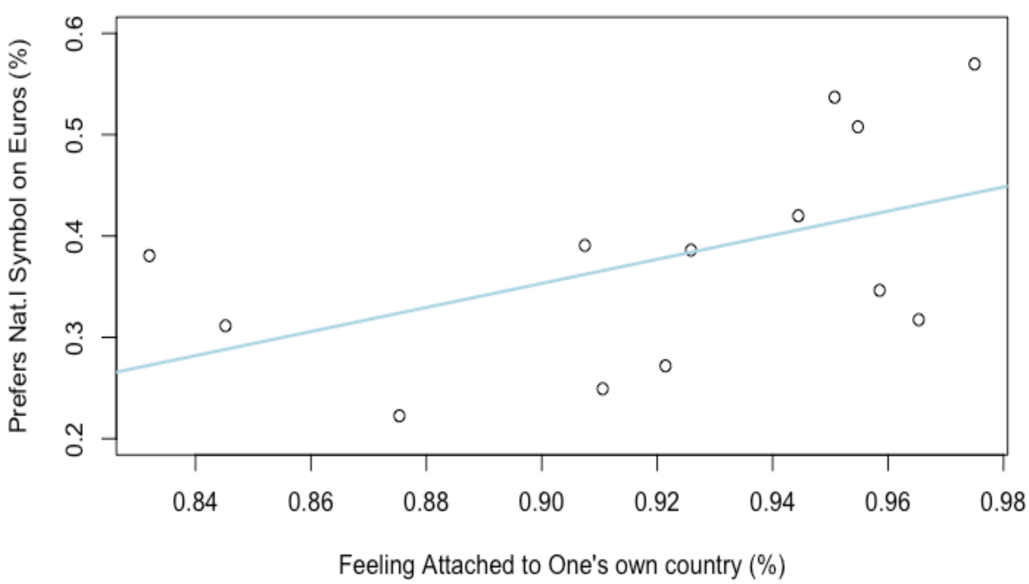
As a vast literature suggests, states frequently utilize visual symbolism on official items – from stamps to flags –to create and strengthen a sense of national identity while also legitimizing their own power (Binzer Hobolt and Leblond, 2008; Norkus, 2018). Within this institutional architecture, a national currency is seen as an important "symbol of national independence and sovereignty" (Kotios, 2002, p. 33). After all, scholars in the 19th century were already aware that national currencies may foster national identities, thus contributing to the state-building process (List, 1841). More recently, Helleiner (1998) identifies five channels through which this may happen: a national currency can engender an imagery of collective memory and tradition, act as a common means of social communication, provide collective 'monetary experiences', strengthen the feeling of popular sovereignty, and reinforce the faith in nationalism.

Such recognition has inspired scholars of International Political Economy (IPE) to focus on more cultural-based explanations to develop a 'nationalist' approach to IPE (Abdelal, 2005; Helleiner, 2020; Fetzer, 2020; Nones 2023). To link economic policy to identity factors, IPE scholars have often drawn from related disciplines in the social sciences, where the symbolic dimension of money has been deeply investigated. In particular, political geographers and scholars of nationalism have emphasized the link between currency and identity building. The fast movement of national money - hand by hand in umpteenth transactions per day – constantly reminds citizens who they are and where they are supposed to belong (Raento et al., 2004). Less visible than emotionally charged ceremonies and commemorative events, currencies still infiltrate national feelings in the everyday life of individuals in a way that makes it look 'banal', but nonetheless effective (Billig, 1995). Overall, this literature emphasizes how the creation of national currencies is frequently a purposeful endeavor aimed at influencing the construction of national identities (Gilbert and Helleiner, 1999).

Is the relationship between a national currency and a national identity relevant even in the case of the euro, a quintessentially supranational currency which still allows for national symbols on the rear side of the coins? To explore such linkage, we can refer to the Special Eurobarometer

67.3[1] (May-June 2007), which asks respondents about their knowledge, experience and impressions about the euro currency and the coins' national side. While this special survey did not include questions about feelings of identity towards one's own country, we can leverage the ordinary Eurobarometer survey administered at around the same time (Eurobarometer, 67.1, February-March 2007) to calculate country-level aggregate measures for these questions as well. I use QE9A from the Eurobarometer 67.3. It asks the following open-ended question to those respondents who previously said it is a good thing for the euro to have a national side: "What are the reasons that explain best why you think it is a good thing that euro coins have national sides that are different from country to country?". I calculate the country-level percentage of respondents who mention that they "like to see a national symbol of [OWN] country". To assess the feeling of attachment, I rely on Q.A14 from the Eurobarometer 67.1, which asks "Please tell me how attached you feel to [OWN COUNTRY]". Then I calculate the country-level percentage of respondents who answered either "Very attached" or "Fairly attached". As we can see in Fig.1, there is a positive correlation between the two scores: countries with a higher percentage of respondents feeling attached to their own country tend to display a higher percentage of respondents who prefer to see a national symbol on the euro coins ($r = 0.50$, $p=0.083$).

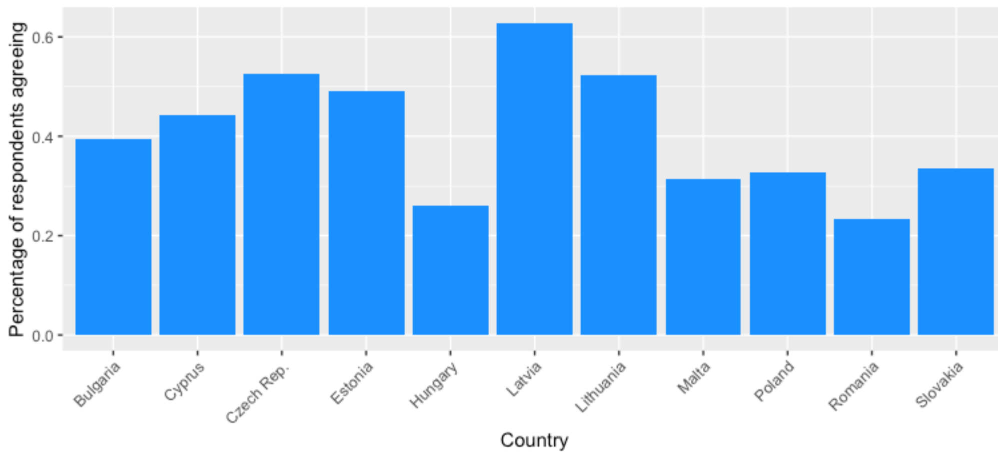
Figure 1: Feelings Towards Own Country and National Symbol on Coins



Likewise, the Flash Eurobarometer survey 214 (September 2007) sheds some light on how the populations of *new* EU members – not yet part of the Eurozone – view the introduction of the Euro as a potential threat to their national identity. Based on item Q22, Fig. 2 shows the percentage of respondents by country who agree with the statement "Adopting the Euro will mean that [COUNTRY] will lose a great deal of its identity". Ranging from a minimum of 23% (Romania) to a maximum of 63% (Latvia), we can see that a sizeable proportion of respondents in all new member states implicitly acknowledged the link between a currency and its symbolic dimension.

[1] The 2007 Special survey is the only Eurobarometer survey that asks specific questions about the national side of the currency. Fortunately, it also happens to be at around the same time of Kosovo's independence (2008).

Figure 2: Will Adopting the Euro Weaken the National Identity?



If the populations of present and (possibly) future members of an already existing currency union take the symbolic dimension of money seriously, it is reasonable to expect elected policymakers to do the same. Moreover, while the distinctive channels linking collective identity and a national currency might overlap in such a way that individual causal relationships become hard to determine, the overall effect should be remarkably appealing to nationalist politicians. Since nationalist feelings are usually at their strongest in the wake of independence (Smith, 1994), we may expect policymakers in Newly Independent Countries (NICs from now on) to be particularly interested in fostering national identities through the issuing of a national currency. As Berg and Borenstein conclude in their studies on full dollarization (2000, p.18) 'Countries introducing their own currencies have done so during exceptional political circumstances, notably in the context of newly gained national independence'. Moreover, as Starr (2004) suggests, this should be ever more prevalent in the case of post-conflict states, such as Kosovo, where a newly independent national identity needs to be foetered and protected.

The symbolic dimension of money may explain, for example, the preference of many NICs in the 90s for currency boards over dollarization. While the latter implies using 'someone else's' currency, a currency board system still allows to use a national currency, to expel foreign currencies, and to 're-cultivate national pride' (Saavalainen, 1995: 3). Interestingly, this was also the IMF's preferred approach in the wake of the collapse of the Soviet Union. While the IMF initially posited that there was no need to discourage currency substitution from a strictly economic perspective, it eventually adopted a more pragmatic approach recognizing the importance that NICs attach to the issuing of an independent currency (Camdessus, 1992).

Given this context, an intriguing deviation from the expected pattern can be observed in the case of Kosovo. This case becomes even more remarkable when one considers the meticulous representation of national identities on the currencies of other newly independent Eastern European countries as well as post-conflict new countries in general (Unwin & Hewitt, 2001; Kotios, 2002; Starr, 2004). Kosovo adopted the euro as its currency at the beginning of the 21st century, a decision made under the supervision of a UN-led peacekeeping mission. However, even *after* gaining independence in 2008, Kosovo has continued to utilize the euro as its currency. This research paper aims to shed light on Kosovo's deliberate choice to *not* introduce a national currency after achieving independence.

This paper makes a threefold contribution. Firstly, against the conventional interpretation of nationalist economic policies as irreducibly mercantilist, I join a more recent conversation in IPE in problematizing the concept of economic nationalism (Helleiner, 2020; Fetzer, 2020). Secondly, the paper extends a theoretical framework first proposed in Nones (2023) in the case of Montenegro to a new case. In doing so, it goes beyond existing studies by emphasizing an alternative mechanism by which nationalists may eschew a national currency. This decision is not solely driven by political expediency and short-term strategic considerations as suggested by Helleiner and Pickel (2005), but also serves the purpose of cultivating a national identity. In essence, the argument suggests that a transformation in the *directionality* and *content* of nationalism accounts for the deliberate choice to maintain euroization instead of pursuing a national currency. The decision to retain the euro was not a contradiction to the country's pursuit of independence; rather, it was a deliberate strategy aimed at attaining and safeguarding the agonized political independence and fostering a European identity. Finally, the paper contributes to the expanding research agenda examining the role of currencies as unassuming symbols of national identity (Raento et al. 2004; Norkus 2018).

NICs and the choice in currency: Puzzle, research question, and methodology

The historical record shows that the vast majority of NICs have opted for national currencies either upon or soon after declaring independence (Berg and Borenzstein, 2000; Nones 2023). As shown in Nones (2023), among the countries that have gained independence since 1945, all those that eventually issued a national coins or banknotes did so by their *eighth* year since independence. By contrast, just 20 countries have adopted *only* 'someone else's money' upon independence.[2] Following Cohen (1998), these cases can be classified into two groups: 1) Countries with a history of colonial relationships, such as some former French African colonies that achieved independence in the 1960s; 2) Micro-states, such as the Vatican State. However, as Cohen himself highlights (1998), these cases do not pose significant puzzles. The combination of very small size and a legacy of political and economic colonialism imposes considerable structural constraints, thereby limiting the available choices. For these countries, the adoption of an independent currency would prove to be economically and/or politically too costly.

However, Kosovo does not neatly fit into either of these group. Despite researchers' extensive efforts to understand its defining attributes, there is no universally accepted definition of a micro-state (Amstrup, 1976; Maas, 2009). Nevertheless, two commonly referenced thresholds are a non-sea area of less than 1000km² (Amstrup, 1976) and a total population of fewer than 100,000 people (Ross, 1997; Sutton, 2011). With a population exceeding 1.8 million and an area of 10,910km², Kosovo is not typically classified as a *micro*-state. While various other criteria can be employed, Kosovo rarely, if ever, appears on lists of microstates. For instance, a recent study aimed at classifying European small and micro-states using quantitative and relational criteria only includes Andorra, Lichtenstein, Monaco, San Marino, and the Vatican in the latter category (Kurecic et al., 2017). A recent paper from the Centre for Small State Studies arrives at the same conclusion using a broader definition that encompasses political dependency (Dumieński, 2014).

Furthermore, Kosovo does not fall into the category of former colonies, nor is it a dependent territory of any European Union (EU) member state as defined by the United Nations under Article 73e. However, it is widely recognized that Kosovo has only achieved partial

[2] Other countries, such as Panama, have adopted a foreign currency alongside a national one, thus preserving, to some extent, the symbolic dimension of money.

diplomatic recognition (with 118 countries recognizing it as of 2018) and has been under a UN international protectorate in its recent history. This raises the possibility that the country may have faced structural limitations in pursuing autonomous currency arrangements even after gaining independence. Nevertheless, the case of Kosovo merits investigation for two reasons. First, whether international coercion played a role or not remains an empirical question worth investigating. In fact, the potential influence of the EU as an alternative explanation for the 'non-decision' is considered and discussed later in the analysis. Second, even if the EU had pressured Kosovo to maintain the euro, but I could not detect it in the coercer's actions, the analysis of the evolution of nationalism in Kosovo (the coerced) would likely expose it. As a vast literature on the EU attests, the European project and its institutions are among the most frequent targets of nationalist rhetoric, nationalist rhetoric is an appropriate *locus* to look at to understand whether foreign powers are perceived as 'oppressors.'

Keeping all the above in mind, the research question of this study is: *What explains Kosovo's decision to maintain 'someone else's money' rather than seizing such a powerful symbol of political sovereignty?*

The methodology used in the paper aligns with an established research design tradition in the social sciences called deviant case analysis (Gerring & Cojocaru, 2016). Extensive existing literature and my own data (Fig. 3) strongly support a well-developed theoretical expectation regarding the relationship between the establishment of newly independent countries (NICs) and the issuance of a new currency. Consequently, the case of Kosovo is considered 'deviant' in relation to a general trend (Gerring & Cojocaru, 2016). In other words, I examine a case where the key factors—establishment of a new independent country and strong nationalist sentiments—are present, but the expected outcome of issuing a national currency did not occur (Odell, 2001). This approach allows me to inductively refine the existing hypothesis that links nationalism and the choice of currency arrangements. While the case studies presented in this paper do not establish a causal relationship, the paper further probes for the plausibility of the argument by examining the most pressive alternative explanations to demonstrate their limited explanatory power.

The theoretical argument: content and directionality shift in Kosovar nationalism

While economic and political considerations undoubtedly play a role in currency politics, constructivist scholars have long emphasized the role of identity as well. Abdelal (2005) argues that the presence of nationalist feelings, or lack thereof, explains the variation in currency arrangements in eastern Europe in the 90s by showing how countries with strong nationalist governments issued independent currencies, while those with weak nationalist sentiments opted for remaining in the ruble zone. Interestingly, though, such hypothesis seems not to apply to the more recent experience with euroization. Instead, following a recent study on Montenegro (Nones, 2023), I propose that the important factor is not nationalism *per se*, but rather the way that nationalist discourse is socially constructed. It was the shift in nationalist *content* and *directionality* that made the idea of using "someone else's" currency a viable policy option. Such shift was heavily guided by political agents well placed within the country's elites. However, unlike their predecessors in the 19th and late 20th centuries, the decision to adopt the euro does not indicate an intention to link citizenship to a shared and often fabricated national history. Instead, it symbolized an aspiration to align the national identity with a specific (European) *future*. Following the tradition of banal nationalism, the euro serves as a quiet yet constant reminder of the future identity of Kosovars, rather than emphasizing their past.

In this context, the concept of *content* can be understood as representing the significance of a collective social identity (Abdelal et al., 2006). The content of national identities can manifest in various forms that are not necessarily mutually exclusive. However, it typically revolves around a core set of interconnected aspects, such as the defining norms that determine group membership, as well as the shared social purpose and goals among in-group members. Furthermore, the content of national identity inherently possesses a sense of *directionality*, as identities are often defined by what they are not as much as by what they are (Abdelal, 2002). While directionality commonly encompasses both negative and positive components, nationalism may evolve over time in terms of its emphasis, either shifting towards or moving away from the "other". Consequently, nationalists may perceive their country's economic reliance on certain states as a "security threat," while simultaneously viewing dependence on other states as mutually advantageous (Abdelal, 2005). Indeed, not unlike the nationalist elites in its euroized neighbor, Kosovar nationalists changed their dominant political goals, so that a previous anti-Serbia directionality was replaced by a positive pro-European stance. Over time, there was a noticeable shift in the direction of nationalist identity. Previously, the focus had been on a 'negative' definition of identity (Kosovars being distinct from Serbians). However, it gradually transformed into a 'positive' definition that emphasized Kosovars as Europeans. Hence, they started mobilizing in favor of EU membership to achieve independence and foster a national identity. Showing the euro as enhancing the cause of independence was part of a broader strategy that allowed policymakers to shape a cultural and political environment conducive to the 'thinkability' of a currency arrangement that is at first sight inconsistent with nationalist goals.

The argument proposed here suggests that this process is primarily driven by elites, aligning with the original ideas put forth by scholars of banal nationalism (e.g. Billig, 1995). However, scholars have long recognized that symbols are not infinitely malleable and may not be interpreted exactly as their designers intended. Any endeavor by the state to shape national identity beyond the boundaries of how the population perceives themselves would be seen as illegitimate (Malešević, 2013). As Malešević (2013) suggests, the top-down and bottom-up factors are mutually constitutive. Therefore, based on the argument presented above, there are two primary areas of empirical investigation. First, I will examine how nationalist elites frame the euro, considering its significance in terms of identity. Second, it is also important to consider the perspectives of non-elites in terms of how they viewed the euro and the European Union (EU).

Finally, it is worth emphasizing that the main argument should not be viewed as an exclusive explanation. As it is the case for any complex phenomenon, the outcome is the result of multiple causal interactions. For example, had the euro not been a stable currency, the governments of Kosovo would have been unlikely to opt for sustained euroization even in the presence of a pro-European nationalist discourse. Nevertheless, in a counterfactual scenario in which nationalist elites had maintained the previous *direction* and *content* of nationalist discourse, euroization would have also been hard to sustain. In other words, material and symbolic considerations have been individually necessary, but only jointly sufficient, conditions.

Currency Politics and the Shifting Nature of Nationalism in Kosovo

Kosovo had never been an independent country until recently. Kosovo never had an independent currency throughout its history – except for an unofficial currency printed by and circulated among nationalist groups in the late 90s (Fig. 3 below). By and large, Kosovo's history is one of monetary dependency to more powerful political entities, starting back from the Ottoman empire until Serbia. At the same time, the country experienced a surge in nationalist sentiments eventually leading to the unilateral declaration of independence in 2008. Why not acquiring a national currency as a symbol of national sovereignty upon gaining independence? As I suggest below, the 'non-decision' has been heavily influenced by an identity shift among Kosovars.

Kosovar nationalists have not always held the same nationalist *content* and *directionality* that they currently embrace. As in the case of their euroized neighbor, Montenegro, the history of Kosovo nationalism is closely interconnected with that of Serbia. In the latter case, though, this history has been more conflictual (Pavlakovic and Ramet, 2004). As the Ottoman empire's grip on the Balkans waned by the early 19th century, the Serbs were among the first to obtain autonomy and then nationhood. The Albanians developed a sense of distinct nationhood more slowly (Frusetta, 2004). The Treaty of Santo Stefano in 1878 represented a turning point, as Albanian leaders in Kosovo revolted against the proposed transfer of territory to the Christian state of Serbia. With the Ottoman threat diminishing, the directionality of Kosovo nationalism turned against Serbia, the new main 'other'.

In the following decades, indeed, Albanian leaders unsuccessfully fought to create a 'Greater Albanian' province to counterbalance other Slavic entities (Frusetta, 2004). Although the First Balkan war eventually resulted in the ousting of the Ottoman Empire, Kosovo could not gain independence. As a result of the Second Balkan war, its territory was divided again between Serbia and Montenegro (Veremis, 2014). Soon after, though, with the breakup of World War I, Montenegro and Serbia were defeated and occupied by Austria, thus completely losing any monetary authority on the current territory of Kosovo. While the Montenegrin Perper and the Serbian Dinar remained in circulation for practical reasons, an Austrian seal had to be imprinted on paper and coins (Fabris, 2015). With the collapse of the empire and the end of the war, the Kingdom of Serbs, Croats, and Slovenes was established. Upon the formation of the new state, it was necessary to proclaim a single currency. These tasks were solved by modelling the monetary system on the monetary system of Serbia and adopting the dinar as a legal tender (Hinić et al., 2014). From the establishment of the Kingdom in 1918 to the Tito's period, Albanian nationalist feelings against the federal state, and the Serbian nation, intensified. As World War II unraveled, chaos followed in Yugoslavia. Divided between Germans and Italians, issuing activities were conducted by the central banks of the occupying authorities (Hinić et al., 2014). The Italian Lira and the German Mark circulated alongside the Dinar. Once again, the end of the war brought a new political entity, Tito's Socialist Federal Republic of Yugoslavia (SFRY). The New Yugoslav Dinar became the only legal tender, and some degree of economic and monetary stability ensued (Fabris, 2015).

It would be Kosovo itself to first disturb the apparent peace within Yugoslavia by demanding more autonomy. While always denying Kosovo the coveted status of a Republic, Tito undertook a process of political decentralization – which culminated in the revision of the constitution in 1974 – to placate the growing grievances in the regions of the confederation (Veremis, 2014). Instead of appeasing nationalist claims, such policy backlashed as it legitimized and actively supported the development of Albanian cultural institutions, such as the University of Pristina. These policies raised expectations in terms of both political autonomy and economic development. As these expectations waned in the 80s, the result was an outburst of nationalism.

Throughout the 80s, Kosovo was hit hard by several economic recessions (Morrison, 2009). Contemporaneously, the first highly educated students from the University of Pristina were ready to enter the job market. More sophisticated than their parents, holding higher expectations for their future, they were met only with disappointments, which culminated in the 1981 riots at the University. Such uproar, unlike instances in the past, soon took a nationalist dimension that was embraced and revamped by highly educated people with a more solid understanding of nationhood (Andersen, 2002). Within the nascent nationalist camp, irredentists calling for union with Albania were particularly vocal (Pavalakovic and Ramet, 2004). As many of them emigrated, or had their children study abroad, they would return later with higher educational and economic status. In the 90s, this new intellectual elite would actively participate in Kosovo's politics by joining or establishing their own pro-independence movements and, with their help, the Kosovo Albanian nationalist movement became a mass movement (Veremis, 2014).

As the process of Serbian mobilization led by Milosevic unfolded, tensions escalated. As Serbian public opinion and intellectuals focused on the alleged 'Albanization of Kosovo', the province became the cornerstone of Serbian nationalism. In 1990, the Serbian parliament assumed direct control of the province (Pavalakovic and Ramet, 2004). Kosovo's parliament and government went underground and, in May 1992, Ibrahim Rugova, the nationalist leader of the Democratic League of Kosovo, won a convincing majority campaigning on a platform of nonviolent disobedience (Veremis, 2014). Meanwhile, in an attempt to slow down the rampant inflation in Yugoslavia, the Dinar was pegged to the German mark at a 7:1 ratio. With the establishment of partial convertibility, unofficial dollarization soon intensified – usually in the form of German Mark (DM) deposit. Following the disintegration of the Federation, the situation was soon to change, and monetary issues would become prominent again. As the war in Bosnia broke up, Belgrade's political incentives 'to buy social peace' through monetary manipulations ensued. The result was the longest and second highest hyperinflation rate in history.

At the same time, many in Kosovo had grown wary of Rugova's non-violent strategy. Nationalists took arms and the Kosovo Liberation Army (KLA) was born (Pavlakovic and Ramet, 2004). As the war in Kosovo unfolded, an emergency provisional currency started being printed and circulated as means of payment to finance the KLA. As it can be seen in Fig.3, the Albanian double-headed eagle, a potent symbol of Albanian ethnic identity, was the chosen imagery.

Figure 4: Provisional Kosovar currency

As violence escalated, Western powers intervened. The 78-consecutive-day NATO bombing marked the end of the Milosevic regime and the transfer of governance to the United Nations (Veremis, 2014). Under UN Resolution 1244, Kosovo nominally remained under the sovereignty of the FRY, but it became a de facto UN protectorate. With one of its first rules, the UNMIK identified the Deutsch Mark as the preferred currency. Since the euro changeover in 2002, the economy has been fully euroized. On February 17th, 2008, the Kosovo National Assembly unilaterally declared independence.

Over time, there was a noticeable shift in the content and directionality of Kosovo's nationalism. Previously, the focus had been on a 'negative' definition of identity (Kosovars being distinct from Serbians). However, it gradually transformed into a 'positive' definition that emphasized Kosovars as Europeans. Moreover, while the first wave of nationalist fervor emphasized the goal to reunite with Albania, Kosovar nationalists gradually re-directed their message emphasizing their willingness to enter the 'European family' and their European identity. Psychologically, the appeal of Europe as a supranational territory can be understood considering Kosovo's decade-long experience under communist rule. In Yugoslavia, indeed, there was an implicit 'ethnic hierarchy' starting from the Slovenes at the top and the Albanians (and Romas) at the bottom (Andersen, 2002). For Kosovo's Albanians at the turn of the millennium, EU integration meant an opportunity to play on equal foot with all other Yugoslavian nations that had been on top of them for so long. Indeed, Kosovar nationalism arguably undertook 'a process of diversification after a period where the Albania ethnie has been mobilized and united against Serbia', Andersen (2002: 5).

Following its independence, Kosovo underwent several symbolic changes, but the idea of issuing a national currency was mostly conspicuous by its absence. By contrast, a new flag and coat of arms were adopted. The flag was selected through an international competition and the winning design, now the official flag of Kosovo, features a blue background with a gold map of Kosovo's territory at the center, accompanied by six stars representing the six largest ethnic groups. Similarly, the coat of arms mirrors the design of the flag. The symbolic resemblance with the EU flag is obvious. Additionally, a competition was held to select a national anthem. Interestingly, the legislative branch chose Mendi Mengjici's composition titled 'Europe,' which lacks lyrics.

Many of the prominent political and intellectual elites in the 90s and 2000s were the college students of the previous decades. Once in the position to act, they played an important role within the Interim Administrative Council of Kosovo established in 2000, the first proto-Assembly. In so doing, their nationalist rhetoric linked the European integration with the cause of independence. As Andersen (2002) highlights when reflecting on the early debates regarding nationhood and symbolism, it is evident that "the political elites are actively engaged in both emphasizing newly appeared sentiments and gradually contributing to changing the mainstream nationalistic sentiments" (Andersen, 2002: 141).

Kosovo's elites saw no inconsistency between national and European identities. In doing so, once again, the euro was not interpreted as an impediment, but rather as another tool, for an independent Kosovo with a distinctly European national identity. As Ibrahim Rugova – both intellectual and first president of the partially recognized Kosovo – stated:

> We have the euro as a currency, which means a lot. […] It has facilitated the direct contact that we have with Europe […] Until now we had the DM, now we have the Euro. People know what the euro means (Winne, 2005)

As still another member of the Interim Council, editor and journalist Veton Surroi, pondered over the question of how to shift from the process of Yugoslav disintegration to that of European integration:

> A sovereignty that is shared in many ways by other people and countries in matters related to finance […] drives relative notions of nationalism as a force for preserving identity but not as a force for the destruction of either one's own identity or the identity of others (CCCB, 2005)

Once again, the euro is surely seen as a tool of economic stability, but also a powerful symbol. As Naip Zeka, economic advisor of Rugova, stated:

> The goal [stability] was achieved with the mark and with the euro. But these [euro notes] symbolize Kosovo's presence in Europe (Monitor, 2012)

Indeed, as Albertini (2012: 23) notes, in Kosovo "the currency and the national anthem serve as pivots of a different narrative […] a 'redemption narrative', which defines the only place in which the new 'Kosovar identity' *in fieri* could be significant: the European one". As the author further notices, it is hardly by chance that in Serbian populated areas, such as the Mitrovica region, the dinar is still partially in use.

Has the Kosovar population shared this symbolic link between the euro currency and identity? There is some evidence to suggest that that this is indeed the case. Somehow paradoxically, this is most evident at the hardest time for the European currency. Indeed, as the Sovereign Bond crisis intensified, criticism of the euro – mostly by experts and based on economic reasons – also became more pronounced. Nevertheless, as Gjergj Erebara – a Tirana-based journalist following Kosovo's politics for the Balkan Investigative Reporting Network - suggested, these criticisms have not found widespread consent exactly because they fail to address the identity dimension enshrined in the euro. In his own words:

> When it comes to discussing the use of the euro in Kosovo, many basic economic facts are forgotten or difficult to understand because the euro is not just a currency, an economic tool, but *first and foremost a dream. The dream is for Kosovo to become a European country* (the Diary of Tirana, 2013, emphasis added)

Similarly, Violeta Hyseni, a communication expert with consultancy experience with the Government of Kosovo, notices that the population's reluctance to "blame" the euro cannot be disconnected by its symbolic dimension. In her words:

> Kosovars have represented the euro as their currency and say *it makes them feel more European*, even though Kosovo is still de facto far from integrating into the European Union (BBC-Albania, 2010, emphasis added)

In conclusion, it seems that Kosovar nationalist discourse engaged in a shift similar to that of their neighbor, Montenegro. Rather than pursuing an anti-Serbian stance *per se*, they refocused on European integration and its meaning for Kosovo's independence. In other words, Kosovars successfully embraced the non-exclusive dimension of identity. As journalist Kunushevci (2014) put it:

> We are Europeans with culture, we are Europeans with geography, we are Europeans with history and this cannot and should not change. There is no contradiction between being Albanian, being Muslim and being European.

In doing so, they legitimized the common currency as just another symbolic instrument within the wider framework of independence in Europe. After all, as Kunushevci also observes, Kosovar nationalists recognized that "the strength of national identity comes from economic strength"

(Kunushevci, 2014). As the case study shows, such shift was arguably led by the country's elites, but was also accepted by the population. As one interviewee put it when the European Sovereign Bond crisis started and doubts about the euro started circulating in Kosovo as well: "the currency as a currency is not to blame, the euro is good" before moving on to discuss the real 'ills' of Kosovo's economy (BBC-Albania, 2010).

Alternative Explanations

As mentioned in the theory section, the main argument put forward in this paper should not be viewed as an exclusive explanation. What other factors may account for the decision to retain the euro? In what follows, I focus on what are arguably the most pressing alternative explanations. First, at the international level, given the power relationship between Pristina and Brussels, the EU itself might have played a prominent role in Kosovo's decision to sustain euroization. Second, at the domestic level, given Kosovo's low socio-economic development, one may argue that the country did not have a choice: path-dependency makes it hard to alter the status quo (the use of the euro), above all for low state capacity countries. More generally, Kosovo might have had the *willingness*, but not the *ability* to issue its own currency.

Finally, a further possibility is that the aggregate economic justification for euroization outweighed other considerations. Under this scenario, Kosovo might have had the *ability*, but not the *willingness*, to change the status quo, due to its economic gains. In the Online Appendix, I provide a brief overview of each of these domestic-level arguments and present evidence indicating that they are insufficient explanations on their own.

The realist argument: Coercion, Soft Power and Europeanization

At the international level, one may argue that the EU exerted pressure on Kosovo to maintain euroization. The notion that the issuing country, the EU, may have imposed sustained euroization to benefit *economically* can be dismissed quickly. In fact, scholars widely agree that the issuer's economic benefits are insignificant in the case of small countries (Winckler et al., 2004). Nevertheless, there could be *political* reasons, as realists and Marxist suggest. After all, as Kirshner (1995, p.29) reminds us: 'Monetary power is […] the most potent instrument of economic coercion available to states in a position to exercise it'. Similarly, from a Marxist perspective, encouraging the use of the common currency may be seen as a form of imperialism: 'Through the introduction of the Euro [as a competitor to the dollar] the EU is now a potential competitor for the systematic appropriation of value along this dimension' (Carchedi, 2001p. 63).

Nevertheless, the EU's cold response to the prospects of unilateral euroization significantly weakens this argument (Kotios, 2002). According to public officials who have expressed their views in official documents and interviews, the act of unilateral euroization undermines the convergence process leading up to the adoption of the euro and diminishes the effectiveness of evaluating new candidates for euro membership (Padoa-Schioppa, 2000). This stance has been emphasized by the EU, as it has actively worked to discourage such a course of action on the ground that 'it would run counter to the underlying economic reasoning of EMU in the Treaty, which foresees the eventual adoption of the euro as the *endpoint* of a structured convergence process within a multilateral framework. Therefore, unilateral euroization would not be a way to circumvent the stages foreseen by the Treaty for the adoption of the euro' (ECOFIN, 2000, p.21).

Overall, it seems that EU institutions frame euro membership as the ultimate "reward" that can be leveraged to exert pressure on potential euro members to achieve macroeconomic stability. This pressure is aimed at discouraging the adoption of euroization as a favored policy, particularly due to EU's emphasis on exchange rate stability as a prerequisite for euro membership. In line with this reasoning and in response to the discussions on euroization occurring in Eastern Europe during the early 2000s, the EU clearly expressed a preference for currency board arrangements as the desired option for monetary integration among countries seeking accession and described unilateral euroization as "not compatible with the Treaty and [not a possible] way to bypass the convergence process foreseen by the Treaty" (ECOFIN, 2000). In line with the stance of ECOFIN, the European Central Bank (ECB) has wholeheartedly endorsed this perspective. This viewpoint was articulated by Jürgen Stark, a former member of the ECB Executive Board, when he stated that "allowing a Member State or a future Member state to take a "short-cut" to the euro, rather than following the official roadmap, could be detrimental to that country and possibly the euro area" (ECB, 2008).

The EU's resistance to unilateral euroization should not come as a surprise since allowing non-member countries to use the euro would set an unwelcomed precedent in the future. In the short and medium term, euroized economies might start lobbying the ECB to take their stake into account as well, even if there are no formal obligations to do so. Over the longer term, they might even campaign for observer status or even explicit representation bypassing the standard procedure for joining the eurozone (Cohen, 2003).

Notwithstanding the EU official position vis-à-vis potential unilateral members in general, we might be tempted to interpret Kosovo as an 'easy' case of coercion, given the fact that the euro was first introduced by international administrators. Nevertheless, it would be hard to explain why the EU coercively forced Kosovo to keep the euro while, at the same time, tolerating and even encouraging the use of a national currency in Bosnia & Herzegovina, which had been subject to a similar kind of international protectorate (Veremis, 2014). While the official use of foreign currencies in Kosovo was sanctioned at the UN level, there is no indication of negotiations taking place with the German Bundesbank nor the European Central Bank nor any other EU political body, which would have been the beneficiaries in a realist/Marxist perspective.

Admittedly, one may counter that the lack of empirical evidence regarding coercion is not particularly surprising per se. After all, coercion is not the policy tool we usually associate with the EU. The EU's ability to co-opt, rather than to coerce, may have played a greater role instead. As such, even without the EU's explicit coercion, a related explanation would stress the importance of the EU's soft power in shaping the 'Europeanization' of Kosovo (Radaelli, 2000). If coercion is based on (possibly implicit) threats, Europeanization takes place in the context of (possibly implicit) promises and represents the soft and normative side of the EU power. In this perspective, countries such as Kosovo are effectively stripped of their ability to negotiate due to their weak position vis-à-vis the EU. The EU needs not to voice its preferences. Structurally weak countries simply internalize those preferences because they have no alternative (Anastasakis, 2005).

Two points are worth noticing here. First, this explanation is not in contrast with the main theoretical argument of the paper. The literature on Europeanization identifies two main mediating factors that influence the degree to which norms are internalized domestically (Börzel and Risse, 2010). Beside a political environment conducive to consensus-building and cost-sharing, scholars have emphasized the role of so-called 'change agents.' The logic of Europeanization thus still requires that some domestic actors in position of power implement those changes. Second, this explanation is inconsistent with the available empirical evidence presented above. If the EU's *true but unobserved* preference is to support the use of the euro outside the eurozone, why would the EU even bother to signal its discontent at the prospect of euroization? The logic of Europeanization would suggest that peripheral actors have internalized the EU's preferences, thus making explicit pressure unnecessary. In this case, instead, it seems clear that Kosovo (and Montenegro)'s decisions to sustain euroization run *against* EU's preferences.

The institutionalist argument: Path-dependence and low-state capacity

A related domestic-level argument would stress the country's structural weaknesses. While Kosovo is not usually classified as a micro-state nor as a former colony, it might still experience the structural economic and institutional constraints typical of those countries. In particular, institutional path-dependency and low state capacity may have made *any* change to the currency politics status quo somewhat unattractive.

While the argument has some merit, it is important not to exaggerate its significance. It is possible for any country to leave a particular exchange rate arrangement, although there may be associated costs, as seen in the cases of former colonies. Various successful strategies of de-dollarization have been employed in different contexts (Windischbauer, 2016) and in Eastern Europe in particular (Brand, 1993). Not only are de-dollarization policies feasible, but they are often the 'result of a struggle for independence' (Fabris et al., 2004: 24). In fact, historically, such policies have predominantly been implemented by governments 'with strong nationalist orientations' (Gilbert & Helleiner, 1999: 151). Even countries with limited organizational and state capacity have demonstrated the possibility of implementing soft and gradual de-dollarization measures. In those cases, international institutions have readily offered technical assistance to successfully establish their own currency (Abrams, 1995). As observed in the history of post-Socialist countries in the 1990s, the IMF provided such assistance, *despite* their preference being against the issuance of a national currency (Norkus, 2018).

In any case, the state capacity argument can also be examined empirically. To do so, I rely on the composite state capacity index developed by Hanson and Sigman (2021). I compare Kosovo's state capacity with that of the 'censored' countries from Figure 3, for which the data is available.[3] The logic of the test is that we can expect that for these countries it was too costly to issue their own currency (a matter of ability rather than willingness). Hence, if Kosovo resembles these countries in terms of state capacity, it will shed doubts on my argument, which fundamentally relies on Kosovo's willingness to sustain euroization. Recall that independent countries generally adopt a national currency within eight years. Hence, I show the average state capacity index over the same timeframe. I also show the state capacity upon independence for reference. Higher values indicate a stronger capacity. Unsurprisingly, Kosovo has a low state capacity score in absolute terms (the mean state capacity score in the full dataset is 0.25). Nevertheless, it has greater capacity than any other country in the group both upon independence and, on average, over the first 8 years since independence. Indeed, a formal test of means equality for the two groups (Kosovo on the one side, and the other countries on the other side) over the eight years since independence yields a statistically significant result (Kosovo's mean = -0.25; others' mean = -0.62; $t=3.4$, $df = 8$, $p\text{-value} < 0.01$).

Table 2: State Capacity

[3] Recall that the censored cases include several micro-states, which are not included in Hanson and Sigman's dataset.

Description	Kosovo	Senegal	Mauritania	Cameroon	Burkina Faso	Gabon	Togo	Niger	Benin
8-year av.	-0.25	-0.42	-0.43	-0.52	-0.52	-0.55	-0.56	-0.65	-0.82
1st Year	-0.18	-0.46	-0.57	-0.49	-0.64	-0.65	-0.75	-0.78	-0.84

In conclusion, the available evidence clearly suggests that euroization was not encouraged and was at best tolerated. Moreover, although concerns regarding the potential "costs of exit" might have had some impact, they cannot be regarded as insurmountable barriers (see also the Online Appendix). Overall, all these factors offer, at best, an incomplete explanation for sustained euroization upon independence.

Conclusion

Official currency substitution is hardly one of those policy traditionally associated with economic nationalism (Helleiner and Pickel, 2005; Helleiner, 2003). This is due, on the economic side, to a tendency to equate economic nationalism with mercantilism and, on the political side, with the need to foster nationalist feelings of uniqueness among the population. This needs not to be the case, though.

Indeed, a more in-depth analysis of the *content* and *directionality* of Kosovar nationalism shows that euroization has been much more consistent with nationalist goals than we may think, As such, the Kosovar case differ with the experience of post-Soviet countries in the 90s (Abdelal, 2005) in ways that in line with the experience of its euroized neighbor, Montengro (Nones, 2023). The case shows that the surrendering of monetary sovereignty should not necessarily be seen as a dismissal of nationalism, but it can instead be framed as an expression of it. The official currency did not lose its significance as a powerful emblem of nationalism. Instead, the nature of nationalism changed, enabling the euro, a supra-national currency, to be embraced as a symbol of nationhood. As Snyder (1976: 264) noticed some time ago, the ultimate paradox of the relationship between European integration and state sovereignty can be stated as follows: ‘Is it possible that nations struggle to become sovereign states in order to surrender that sovereignty? Can one expect the succession states of Eastern Europe, still tasting the wine of independence, to relinquish voluntarily even a small part of that sovereignty they had worked so long to achieve?’ The answer, as it concerns monetary sovereignty at least, seems to be positive and its rationale resides in the fluid and multifaceted nature of nationalism.

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