



## **CRS Report for Congress**

# **Serbia: Current Issues and U.S. Policy**

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### **Summary**

Serbia faces an important crossroads in its development. It is seeking to integrate into the European Union (EU), but its progress has been hindered by a failure to arrest remaining indicted war criminals and by tensions with the United States and most EU countries over the independence of Serbia's Kosovo province. The United States recognized Kosovo's independence on February 18, 2008. Britain, France, Germany, Italy and most other EU countries have also recognized Kosovo. Serbian leaders sharply condemned the move. New parliamentary elections were held in Serbia on May 11, 2008. On July 7, the Serbian parliament approved a new government coalition led by pro-Western forces, but which also includes the Socialist Party (once led by indicted war criminal Slobodan Milosevic). Serbia's capture of indicted war criminal Radovan Karadzic on July 21, 2008 in Belgrade may open the way to further improvement of Serbia's ties with the United States and EU. The second session of the 110<sup>th</sup> Congress will likely consider legislation on Serbia, including conditions on aid to Serbia. This report will be updated as needed.

### **Background**

In October 2000, a coalition of democratic parties defeated Serbian strongman Slobodan Milosevic in presidential elections, overturning a regime that had plunged the country into bloody conflicts in the region, economic decline, and international isolation in the 1990s. The country's new rulers embarked on a transition toward Western democratic and free market standards, but success has been uneven. Serbia has held largely free and fair elections, according to international observers. A new constitution adopted in 2006 marked an improvement over the earlier, Socialist-era one, but has some shortcomings, especially concerning the independence of the judiciary. Serbian governments have undertaken economic reforms and the country has experienced rapid economic growth in recent years, but living standards remain poor for many. Organized crime and corruption remain very serious problems.

Serbia has set integration in the European Union as its key foreign policy goal, but its progress has been slowed by a failure to arrest remaining key indicted war criminals. Serbia's EU integration efforts as well as its ties with NATO have been negatively

affected by the decision by the United States and most EU countries to recognize the independence of Serbia's Kosovo province.<sup>1</sup>

## Current Political and Economic Situation

**Elections.** Serbia held presidential elections on January 20, 2008. Incumbent Boris Tadic of the pro-Western Democratic Party (DS) faced Tomislav Nikolic from the ultranationalist Serbian Radical Party (SRS), as well as several candidates from smaller parties. Nikolic won 39.99% of the vote. Tadic came in second with 35.39%. The other candidates trailed far behind. As no candidate received a majority, a runoff election was held between Tadic and Nikolic on February 3. Tadic won re-election by a narrow majority of 50.6% to 47.7%.

On May 11, 2008, Serbia held parliamentary elections. The previous government broke up in March 2008 as a result of dissension between Prime Minister Vojislav Kostunica and President Tadic over policy toward the European Union. Kostunica conditioned improvement of ties with leading EU countries on their renunciation of support for Kosovo's independence, effectively shelving EU integration for Serbia. Tadic gave top priority to EU integration, while still opposing Kosovo's independence. In a result that surprised many observers, Tadic's For a European Serbia bloc (headed by the DS) performed well, receiving 38.8% of the vote and 102 seats in the 250-seat parliament. The Radicals won 29.2% of the vote and 77 seats. Kostunica's nationalist Democratic Party of Serbia (DSS)-New Serbia list received 11.3% of the vote and 30 seats. A bloc led by the Socialist Party of Serbia (SPS) – the party once led by former Yugoslav strongman Slobodan Milosevic – won 7.8% of the votes and 20 seats. The pro-Western Liberal Democratic Party won 5.3% of the vote and 14 seats. The remaining seven seats went to parties representing Hungarian, Bosniak, and Albanian ethnic minorities.<sup>2</sup>

On July 7, 2008, the Serbian parliament approved the new Serbian government, with a majority of 127 votes in the 250-seat assembly. The government is led by Prime Minister Mirko Cvetkovic, an economist who was Finance Minister in the previous government. The ruling coalition is led by the DS, and includes other pro-Western groups and representatives of ethnic minorities. It also includes a bloc headed by the Socialist Party, once led by indicted war criminal Slobodan Milosevic. Socialist leaders say they are trying to transform the SPS into a European-style social democratic party. They say they support European integration for Serbia.

**Serbia's Economy.** Since 2001, Serbian governments have embarked on comprehensive economic reforms. The government ran a budget surplus of 0.4% of Gross Domestic Product in 2007. Nevertheless, the International Monetary Fund has called on Serbia to restrain public sector spending. This may be especially important as Serbia's privatization effort is nearing its final stages, and a key source of revenue will

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<sup>1</sup> Serbia was linked with Montenegro in a common state until Montenegro gained its independence in June 2006. For more on Serbia's development from the fall of Milosevic until Montenegro's independence, see CRS Report RL30371, *Serbia and Montenegro: Background and U.S. Policy*, by Steven Woehrel.

<sup>2</sup> Serbian election commission website [[http://www.rik.parlament.sr.gov.yu/index\\_e.htm](http://www.rik.parlament.sr.gov.yu/index_e.htm)], accessed on May 14, 2008.

dry up. Over 2,000 state-owned firms have been sold off since 2001, with about 1,000 left to go. The government hopes to finish Serbia's privatization process by 2010. Foreign direct investment (FDI) has been substantial. Serbia took in \$4.4 billion in net FDI in 2006. This figure dropped to \$2.2 billion in 2007, showing the impact of a slowdown in large privatization sales. In January 2008, the Russian natural gas monopoly Gazprom reached an agreement with Serbia to buy NIS, the Serbian national oil company. Gazprom's effort may have been helped by Moscow's opposition to Kosovo's independence. The deal includes a plan to route a branch of Gazprom's proposed South Stream natural gas pipeline through Serbia.

Serbia has experienced rapid economic growth in recent years. Gross Domestic Product rose by 8.2% in the first quarter of 2008. Real wages are rising, 6.7% in May 2008, on a year-on-year basis. The increase has been in part due to raises given to government workers and those working in state-owned companies. Consumer price inflation has been increasing, reaching 11.6% in May 2008, on a year-on-year basis. Unemployment is dropping, but remains very high, at about 18% of the workforce. Poverty also remains a problem. The World Bank has estimated that over 10% of the population of Serbia is impoverished, and another third is close to poverty.<sup>3</sup> Serbia's new government has vowed to fight inflation and accelerate privatization of banks, utilities, and other state-controlled firms. The government's cohesion may be challenged by Socialist demands for increases in pensions and other social programs.

## **Relations with the European Union and NATO**

In hopes of boosting the DS and other pro-European parties in the May 11, 2008 elections, the European Union signed a Stabilization and Association Agreement (SAA) with Serbia on April 29, 2008. The agreement would grant trade concessions to Serbia. It would also provide a framework for enhanced cooperation between the EU and Serbia in a variety of fields, including help in harmonizing local laws with EU standards, with the perspective of EU membership. Serbia's new government plans to submit the SAA for ratification by the parliament, and then move forward quickly with its implementation. It hopes to gain EU member candidate status in late 2008 or early 2009, an ambitious, if perhaps unrealistic, goal.

At the insistence of the Netherlands and Belgium, the implementation of provisions of the SAA will not start until all EU countries agree that Serbia is cooperating with the International Criminal Tribunal for the former Yugoslavia (ICTY). Serbia made substantial progress in this regard when it detained indicted war criminal Radovan Karadzic on July 21, 2008. Karadzic is expected to be transferred to the ICTY in late July or early August. However, it is unclear whether the Netherlands and Belgium will now permit early implementation of some provisions of the SAA or whether fellow indictee Ratko Mladic's transfer will be required as well.

Ties between most EU countries and Serbia have been strained over Kosovo. At least 20 of the 27 EU countries have recognized Kosovo (including key countries such as Britain, France, Germany, and Italy). A few EU countries, including Greece, Cyprus, Slovakia, Romania, and Spain, have declined to recognize Kosovo's independence.

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<sup>3</sup> Economist Intelligence Unit Country Report: Serbia, July 2008.

These countries are either traditional allies of Serbia, or have minority populations for whom they fear Kosovo independence could set an unfortunate precedent, or both. Serbia has recalled its ambassadors from countries recognizing Kosovo. Prime Minister Cvetkovic has vowed to take “all legal and diplomatic measures” to preserve Kosovo as part of Serbia. However, the new government has announced that it will send its ambassadors back to EU countries that recognized Kosovo’s independence, reversing the previous government’s actions and signaling that it does not want to isolate Serbia while continuing to oppose Kosovo’s independence.

Serbia has opposed the deployment to Kosovo of EULEX, an EU-led law-and-order mission that will monitor, advise, and if necessary, overrule the actions of Kosovo authorities. EU leaders appear to hope that the election of a pro-EU government in Belgrade will lead to improved cooperation in Kosovo between Serbia and the EU, but this remains to be seen. It may be difficult for Serbia to square its desire to join the EU with rejection and even obstruction of a key EU mission.

**NATO.** In December 2006, Serbia joined NATO’s Partnership for Peace (PFP) program. PFP is aimed at helping countries come closer to NATO standards and at promoting their cooperation with NATO. PFP membership is a prerequisite if a country wishes to join NATO in the future. Serbia’s new government has pledged to enhance cooperation with NATO through the PFP program.

There is a lack of consensus in Serbia on whether the country should seek NATO membership. President Boris Tadic and his ruling Democratic Party have favored joining NATO. The Socialists, also part of the government, have opposed NATO membership, as have the opposition DSS and Radicals. Due in part to memories of NATO’s 1999 bombing of Serbia, public opinion polls have shown that only about one-quarter of the Serbian public favor NATO membership. At its April 2008 Bucharest summit, NATO said it would consider granting Serbia an Intensified Dialogue with the Alliance, if Belgrade requests one. If Serbia requests and receives an Intensified Dialogue, it could eventually be followed by a Membership Action Plan, which would lay out in detail what steps Serbia would need to take to become a serious candidate for NATO membership.

## **U.S. Policy**

Serbia has played a key role in U.S. policy toward the Balkans since the collapse of the former Yugoslavia in 1991. U.S. officials came to see the Milosevic regime as a key factor behind the wars in the region in the 1990s, and pushed successfully for U.N. economic sanctions against Serbia. On the other hand, the United States drew Milosevic into the negotiations that ended the war in Bosnia in 1995. The United States bombed Serbia in 1999 to force Belgrade to relinquish control of Kosovo, where Serbian forces had committed atrocities while attempting to suppress a revolt by ethnic Albanian guerrillas. U.S. officials hailed the success of Serbian democrats in defeating the Milosevic regime in elections in 2000 and 2001. The United States has seen a democratic and prosperous Serbia, at peace with its neighbors and integrated into Euro-Atlantic institutions, as an important part of its key policy goal of a Europe “whole, free and at peace.”

The United States provides significant aid to Serbia. For FY2008, the Administration requested \$51.3 million in aid in SEED funding for political and economic reforms, \$1.65 million in NADR non-proliferation, antiterrorism, and demining funds, and \$0.3 million

in IMET military training funds assistance. For FY2009, the Administration is requesting \$46.27 million in SEED funding, \$1.5 million in FMF military assistance funds, and \$1 million in IMET aid.

U.S. SEED aid is aimed at strengthening democratic institutions and civil society, including by supporting the development of effective local governments. It also is being used to help Serbia strengthen its free market economy by providing advice on fiscal reform, fighting financial crime, and promoting a better investment climate. Other U.S. aid is targeted at strengthening Serbia's export and border controls, including against the spread of weapons of mass destruction. The signing of a Status of Forces Agreement with Serbia in September 2006 permits greater bilateral military cooperation between the two countries, including increased U.S. security assistance for Serbia as well as joint military exercises and other military-to-military contacts. In 2005, the Administration granted duty-free treatment to some products from Serbia under the Generalized System of Preferences (GSP).

However, there remain difficult issues in U.S.-Serbian relations. One is Serbia's failure to fully cooperate with the ICTY. Since FY2001, Congress has conditioned part of U.S. aid to Serbia after a certain date of the year on a presidential certification that Serbia has met several conditions, the most important being that it is cooperating with the ICTY. The certification process typically affects only a modest portion of the amount allocated for any given year, due to the fact that the deadline for compliance is set for a date in the spring of the fiscal year, and that humanitarian and democratization aid are exempted. U.S. officials hailed the arrest of indicted war criminal Radovan Karadzic on July 21, 2008. Former Bosnian Serb army chief Ratko Mladic and another Serb, Goran Hadzic, are the only two remaining ICTY indictees at large.<sup>4</sup>

The most serious cloud over U.S.-Serbian relations is the problem of Kosovo. The United States recognized Kosovo's independence on February 18, 2008. Serbia condemned the move and withdrew Belgrade's ambassador to the United States. The deterioration of U.S.-Serbian relations may last for some time, as Serbian leaders see the United States as the leading force in pushing for international recognition of Kosovo's independence. Nevertheless, the United States has continued to express support for close ties with Serbia.<sup>5</sup>

On the evening of February 21, 2008, Serbian rioters broke into the US Embassy in Belgrade and set part of it on fire. The riot, in which other Western embassies were targeted and shops were looted, took place after a government-sponsored rally against Kosovo's independence. The embassy was empty at the time. Observers at the scene noted that Serbian police were nowhere where to be found when the incident began, leading to speculation that they had been deliberately withdrawn by Serbian authorities.

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<sup>4</sup> For more information see CRS Report RS21686, *Conditions on U.S. Aid to Serbia*, by Steven Woehrel.

<sup>5</sup> For a text of the U.S. announcement on recognition of Kosovo's independence, see the State Department website, [<http://www.state.gov/secretary/rm/2008/02/100973.htm>]. For more on Kosovo, see CRS Report RL31053, *Kosovo and U.S. Policy*, by Julie Kim and Steven Woehrel, and CRS Report RS21721, *Kosovo's Future Status and U.S. Policy*, by Steven Woehrel.

Police arrived later and dispersed the rioters at the cost of injuries on both sides. One suspected rioter was later found dead in the embassy.

U.S. officials expressed outrage at the attack and warned Serbian leaders that the United States would hold them personally responsible for any further violence against U.S. facilities. Non-essential personnel and families of U.S. diplomats were evacuated from Serbia after the incident. President Tadic condemned the attack and vowed to investigate why the police had allowed the incident to occur. Although Prime Minister Kostunica also criticized the violence in general terms, observers note that the DSS controlled the Serbian police. Slobodan Samardzic, Serbia's minister for Kosovo and a former Kostunica aide, blamed the United States for the violence, saying that it was the result of the U.S. recognition of Kosovo.

## **Congressional Role**

The 110<sup>th</sup> Congress has considered legislation on Serbia. On January 17, 2007, the Senate passed S.Res. 31 by unanimous consent. It expressed support for democratic forces in Serbia and strong U.S.-Serbian relations. It called on the United States to assist Serbian efforts to join the EU and NATO. Division J of the Consolidated Appropriations Act of 2008 (P.L. 110-161) includes FY2008 foreign aid appropriations. Section 699D permits U.S. aid to Serbia after May 31, 2008 if Serbia meets certain conditions, most importantly, cooperation with the ICTY. The FY2008 Supplemental Appropriations Act (P.L. 110-252) withholds from obligation FY2008 aid to Serbia's central government equal to the damages caused to the U.S. Embassy by the February 21, 2008 riot in Belgrade, if the Secretary of State reports to the Appropriations Committees that Serbia has not provided full compensation for the damages.

On May 18, 2008, the Senate passed S.Res. 570. The resolution hailed NATO's decision at the Bucharest summit to invite Albania and Croatia to join NATO, as well as NATO's offer to start talks on an Intensified Dialogue to Serbia, Montenegro, and Bosnia.

Senator Hillary Clinton, Senator Charles Schumer, and Representative Maurice Hinchey have demanded that Serbia return to the United States a Serbian citizen charged with assaulting a U.S. citizen in New York state, leaving him in a coma. The State Department has issued a diplomatic note to Serbia with the same demand. Miladin Kovacevic jumped bail and left the country in June 2008, despite having surrendered his passport. Two diplomats at the Serbian consulate supplied Kovacevic with an emergency passport to assist his flight. Serbia has offered to apologize for the incident. It has started disciplinary proceedings against the two diplomats and is considering criminal charges. However, Serbia has refused to return Kovacevic, saying that its laws do not permit extradition of its citizens.