



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 and most EU countries have recognized Kosovo's independence. Serbian leaders sharply condemned the move.

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). The global economic crisis poses serious challenges for Serbia. The Serbian government expects the economy to contract by 5% in 2009. The downturn has required painful budget cuts. In January 2009, the International Monetary Fund approved a \$530 million stand-by loan for Serbia and another \$4.2 billion loan in April.

The European Union signed a Stabilization and Association Agreement (SAA) with Serbia on April 29, 2008. It provides a framework for enhanced cooperation between the EU and Serbia in a variety of fields, with the perspective of EU membership. However, at the insistence of the Netherlands, the implementation of provisions of the SAA will not start until war crimes indictee Ratko Mladic is transferred to the International Criminal Tribunal for the former Yugoslavia.

Serbia has vowed to take "all legal and diplomatic measures" to preserve Kosovo as part of Serbia. Serbia won an important diplomatic victory when the U.N. General Assembly voted on October 8, 2008, to refer the question of the legality of Kosovo's declaration of independence to the International Court of Justice. A decision on the case is not expected for several years. After taking office, the new government sent its ambassadors back to EU countries that recognized Kosovo's independence, signaling that it does not want to isolate Serbia while continuing to oppose Kosovo's independence. Serbia agreed to the deployment in December 2008 of EULEX, an EU-led law-and-order mission in Kosovo, perhaps with a similar purpose.

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. Serbia is not currently seeking NATO membership. In January 2009, Serbia warned that NATO's role in overseeing the new Kosovo Security Force (seen by both Serbia and ethnic Albanians in Kosovo as a de facto Kosovo army) could have a negative impact on Serbia's cooperation with the Alliance.

The most serious cloud over U.S.-Serbian relations is the problem of Kosovo. Serbia sharply condemned U.S. recognition of Kosovo's independence. Nevertheless, during a May 2009 visit to Belgrade, Vice President Joseph Biden stressed strong U.S. support for close ties with Serbia. He said the countries could "agree to disagree" on Kosovo's independence. He called on Serbia to transfer the remaining war criminals to the ICTY, promote reform in neighboring Bosnia, and cooperate with international bodies in Kosovo.

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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. The global economic crisis has dealt a setback to Serbia's economy. 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 indicted war criminals. Serbia's ties with the United States have been negatively affected by the leading role played by the United States in promoting the independence of Kosovo, formerly a Serbian province.¹

Current Political and Economic Situation

Political Situation

Serbia's most recent presidential elections were held 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 reelection 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

¹ 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.

Party won 5.3% of the vote and 14 seats. The remaining seven seats went to parties representing Hungarian, Bosniak, and Albanian ethnic minorities.²

On July 7, 2008, the Serbian parliament approved the new Serbian government, with a slim majority of 128 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.

The government's position was strengthened in September 2008 with the split of the Radical Party, the largest opposition party in parliament. The largest group, under Nikolic's leadership, became the Serbian Progressive Party. It has adopted a more pragmatic attitude to such issues as EU integration for Serbia than the Radicals. Some Democratic Party leaders reportedly see the Progressives as a possible partner in a future Serbian government, although such statements may be intended to keep small parties in their fractious coalition in line. The rump, ultranationalist wing of the Radical Party continues to exist under the leadership of indicted war criminal Vojislav Seselj, who is currently being held at the International Criminal Tribunal for the former Yugoslavia in The Hague, Netherlands. The global economic crisis may have hurt the government's popularity. In local elections in Belgrade in June 2009, the SNS did very well, at the expense of the DS.

Serbia has faced some problems with the Presevo Valley region in southern Serbia. This ethnic Albanian majority region bordering Kosovo has been relatively quiet since a short-lived guerrilla conflict there in 2000-2001 between ethnic Albanian guerrillas and Serbian police, in the wake of the war in Kosovo. However, there have been sporadic incidents and problems since then. Most recently, in July 2009, two attacks were made against Serbian police, resulting in several injuries. Local Albanians claim discrimination and a lack of funding from Belgrade, despite pledges by Belgrade of greater support after the 2000-2001 uprising. Some local ethnic Albanian leaders have called for the region to be joined to Kosovo. Others have called for the territory to be swapped with Kosovo in exchange for Serbian-dominated northern Kosovo. The Serbian government and the international community have strongly opposed these ideas.

Serbia's Economy

The global economic crisis poses serious challenges for Serbia. Until the crisis hit in late 2008, Serbia experienced rapid economic growth. This growth was fueled by loose monetary and fiscal policies (in part keyed to election cycles), including increases in pensions and public sector salaries. Serbia's central bank estimated that Serbia's real Gross Domestic Product (GDP) grew by 5.4% in 2008, on a year-on-year basis. This figure was lower than expected, as 4th quarter growth slowed to 2.5%. Serbia's GDP dropped by 3.5% in the first quarter of 2009 year-on-year. Serbia's central bank has estimated that Serbia's GDP would fall by an estimated 6% for 2009 as a whole. Serbia's foreign trade has dropped sharply. The recession in the EU has cut demand for Serbia's exports in such areas as steel and chemicals. In the first five months of 2009, metal exports dropped by 62.6%, year-on-year. Even before the economic crisis, unemployment was

² Serbian election commission website http://www.rik.parlament.sr.gov.yu/index_e.htm, accessed on May 14, 2008.

high in Serbia, at about 17.6% of the workforce in 2008, and is likely to exceed 20% in 2009, according to some estimates. Inflation remains high; consumer price inflation was 8.3% in June 2009, year on year. However, inflation is decelerating, as a result of the recession.

In January 2009, the International Monetary Fund approved a \$530 million stand-by loan for Serbia. In April 2009, the IMF agreed to provide Serbia with an additional \$4.2 billion loan. Under the agreements with the IMF, Serbia will have to cut its 2009 budget deficit to 3% of GDP. As a result, Serbia has offered to slash the government workforce and increase some taxes. Nevertheless, plunging government revenue and persistently high government spending has made it very difficult for Serbia to meet the 3% budget deficit limit. Belgrade has asked the IMF to allow it to run a deficit of 4.5% of GDP in exchange for agreeing to make further cuts in government employment. The IMF has reportedly suggested a boost in the value added tax, but Serbia has resisted that approach.³ In addition to IMF funding, Serbia is receiving loans from the World Bank and budgetary support from the EU. This funding could be in jeopardy, if the IMF and Serbia cannot reach agreement on disbursing the IMF loan.

In December 2008, the Russian natural gas monopoly Gazprom signed an agreement with Serbia to buy a controlling stake in NIS, the Serbian national oil company. Gazprom's effort may have been helped by Moscow's opposition to Kosovo's independence. The two sides also signed legally non-binding plans to route a branch of Gazprom's proposed South Stream natural gas pipeline through Serbia and for Gazprom to invest in a gas storage facility in Serbia. Serbia and other Balkan countries suffered a two-week-long supply interruption of as a result of the Russian-Ukrainian natural gas crisis in January 2009. The crisis pointed up Serbia heavy dependence on Russian energy supplies, which the NIS agreement does not alleviate.

Relations with the European Union and NATO

European Union

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.

At the insistence of the Netherlands, 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, and later transferred him to the ICTY. However, the Netherlands continues to block implementation of some provisions of the SAA until fellow indictee Ratko Mladic is transferred to the Tribunal as well. In an effort to show its strong support for EU integration, Serbia unilaterally began to implement trade provisions of the SAA in February 2009, lowering tariff barriers for EU goods to enter Serbia. Serbia hopes to submit an application for EU membership as soon as the SAA enters into force.

³ Economist Intelligence Unit Country Report: Serbia, August 2009.

Ties between most EU countries and Serbia have been strained over Kosovo. Twenty-two of the 27 EU countries have recognized Kosovo (including key countries such as Britain, France, Germany, and Italy). Five EU countries, including Greece, Cyprus, Slovakia, Romania, and Spain, have declined to recognize Kosovo's independence. 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. Prime Minister Cvetkovic has vowed to take "all legal and diplomatic measures" to preserve Kosovo as part of Serbia. Serbia won an important diplomatic victory when the U.N. General Assembly voted on October 8, 2008, to refer the question of the legality of Kosovo's declaration of independence to the International Court of Justice. A decision on the case is not expected for several years.

Perhaps partly in a desire to improve its relations with the EU, Serbia agreed to the deployment in December 2008 of EULEX, an EU-led law-and-order mission in Kosovo. Nevertheless, Serbia has continued to stress that such cooperation does not imply recognition for Kosovo's independence.

In July 2009, the EU decided to allow Serbian citizens visa-free travel to the EU starting in January 2010, if Serbia meets several conditions before then. Many Serbs may see the decision as the most tangible (and most prized) benefit they have received so far from the Serbian government's pro-EU policy.

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. Serbia's government has pledged to enhance cooperation with NATO through the PFP program. However, in January 2009, Serbia warned that NATO's role in overseeing the new Kosovo Security Force (seen by both Serbia and ethnic Albanians in Kosovo as a de facto Kosovo army) could have a negative impact on Serbia's cooperation with the Alliance.

Serbia is not currently seeking NATO membership. 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 it does, 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. According to the FY2010 Congressional Budget Justification for Foreign Operations, in FY2009, Serbia will have received an estimated \$49.95 million in U.S. aid. Of this total, \$46.5 million is aid for political and economic reforms. Other aid includes \$0.8 million in Foreign Military Financing (FMF), \$0.9 million in International Military Education and Training (IMET) assistance, and \$1.75 million in the Non-Proliferation, Antiterrorism, Demining, and Related (NADR) account. The Obama Administration requested \$54.575 million in aid for Serbia in FY2010. This includes \$51 million in aid for political and economic reforms, \$1.5 million in FMF, \$0.9 million in IMET, and \$1.175 million in NADR funding.

The goal of U.S. aid for political reform is to strengthening democratic institutions, the rule of law, and civil society. It includes programs to strengthen the justice system, help fighting corruption, foster independent media, and increase citizen involvement in government. Aid is being used to help Serbia strengthen its free market economy by reforming the financial sector 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. U.S. military aid helps Serbia participate in NATO’s Partnership for Peace program.

The signing of a Status of Forces Agreement with Serbia in September 2006 has permitted 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. The Ohio National Guard participates in a partnership program with Serbia’s military. 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.⁴

The most serious cloud over U.S.-Serbian relations is the problem of Kosovo. The United States recognized Kosovo’s independence on February 18, 2008.⁵ 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,

⁴ For background, see CRS Report RS21686, *Conditions on U.S. Aid to Serbia*, by Steven Woehrel.

⁵ 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: Background to Independence*, by Julie Kim and Steven Woehrel, and CRS Report RS21721, *Kosovo: Current Issues and U.S. Policy*, by Steven Woehrel.

leading to speculation that they had been deliberately withdrawn by Serbian authorities. 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. President Tadic condemned the attack and vowed to investigate why the police had allowed the incident to occur.

Serbia has made some moves to improve ties with the United States in 2009. After having been withdrawn after the recognition of Kosovo, Serbia's ambassador to Washington returned to his post in October 2008. In March 2009, President Tadic called for "a new chapter" in bilateral relations with the United States, saying such better ties are needed to secure peace and democracy in the Balkans. He said he expected to meet with President Obama "in the period ahead of us."

On May 20, 2009, Vice President Joseph Biden visited Serbia, in a trip to the region that also included Kosovo and Bosnia. Biden said the United States wants to improve ties with Serbia. He acknowledged that Serbia must play "the constructive and leading role" in the region for the region to be successful. He expressed the belief that the United States and Serbia could "agree to disagree" on Kosovo. Biden stressed that the United States did not expect Serbia to recognize Kosovo's independence, and would not condition U.S.-Serbian ties on the issue. However, he added that the United States expects Serbia to cooperate with the United States, the European Union and other key international actors "to look for pragmatic solutions that will improve the lives of all the people of Kosovo," including the Serbian minority. He said the United States also looks to Serbia to help Bosnia and Herzegovina become a "a sovereign, democratic, multi-ethnic state with vibrant entities." U.S. officials have often asked Serbia to use its influence with Bosnian Serb leaders to persuade them to cooperate with international officials there. Finally, Biden called on Belgrade to cooperate fully with the International Criminal Tribunal for the Former Yugoslavia. Biden said that the United States "strongly supports Serbian membership in the European Union and expanding security cooperation between Serbia, the United States, and our allies." He called for strengthening bilateral ties, including military-to-military relations, economic ties (the United States is currently the largest foreign investor in Serbia) and educational and cultural exchanges.⁶

Congressional Role

The 110th Congress 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. According to Serbian and U.S. officials, Serbia has paid full compensation for the damages.

⁶ Text of Vice President Joseph Biden's address to the press in Belgrade, May 20, 2009, from the White House website http://www.whitehouse.gov/the_press_office/Remarks-By-The-Vice-President-At-The-Palace-Of-Serbia/

As in past years, the FY2009 Omnibus Appropriations Act (P.L. 111-8) conditioned part of U.S. aid to Serbia on an Administration certification of Serbia's cooperation with the ICTY by May 31, 2009. The House-passed version of the FY2010 State Department-Foreign Operations appropriations bill (H.R. 3081) contains the same provision, with a certification deadline of May 31, 2010. The Senate version of the bill (S. 1434), which has not yet received floor consideration, contains the same provision. The committee report for the House bill recommends \$47 million in political and economic aid for Serbia, while the Senate version funds all of the Administration's request of \$51 million.

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. On August 3, 2009, Senator Kerry introduced S. 1559. The bill calls for U.S. aid and other support for the NATO membership candidacies of Bosnia and Herzegovina and Montenegro. It also "encourages as strong a relationship as is possible between NATO and the Government and people of Serbia."

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