



## **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 Euro-Atlantic institutions, but its progress has slowed due to a failure to arrest remaining indicted war criminals. The international community may grant Serbia's Kosovo province a form of supervised independence this year. Serbian leaders are likely to strongly reject such an outcome, possibly leading to severe damage to the country's relations with the United States and other Western countries. Serbia's ability to respond to these challenges may be hampered by the difficulties faced by democratic parties in forming a new government after January 2007 parliamentary elections. This report provides information on Serbia's political and economic situation, its relations with NATO and the European Union, as well as U.S. policy toward Serbia. It 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 economic growth in recent years, but living standards remain poor for many. Organized crime and corruption remain very serious problems.

Serbia has set as its chief foreign policy goals integration in the European Union and closer ties with NATO, but its progress has been slowed by a failure to arrest remaining key indicted war criminals. Possible clashes with Western countries over the future status of Kosovo, nominally a province of Serbia but with an autonomous government under international oversight, could also have a negative impact on Serbia's integration efforts.

# Report Documentation Page

Form Approved  
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE <b>08 FEB 2007</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2007 to 00-00-2007</b>	
4. TITLE AND SUBTITLE <b>Serbia: Current Issues and U.S. Policy</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Congressional Research Service, The Library of Congress,101 Independence Ave, SE, Washington,DC,20540-7050</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

Ethnic Albanians in Kosovo, who form the overwhelming majority in the province, favor independence, which Serbian leaders adamantly oppose.<sup>1</sup>

## Current Political and Economic Situation

**Elections.** On January 21, 2007, Serbia held parliamentary elections, the third since the collapse of the Milosevic regime in 2000. The ultranationalist Serbian Radical Party, which has been hostile to U.S. and EU policy goals in the region, received 81 seats in the 250-seat parliament. The pro-Western Democratic Party (DS) of President Boris Tadic won 64 seats. A coalition of Democratic Party of Serbia (DSS), a nationalist party which favors European integration, and a smaller party won 47 seats. The pro-free market, pro-Western G17 Plus party won 19 seats. The Socialist Party of Serbia, once headed by Milosevic, won 16 seats. A new pro-Western grouping, led by the Liberal Democratic Party, won 15 seats. The eight remaining seats went to parties representing Hungarian, Muslim, ethnic Albanian, and Roma minorities. Turnout for the vote was 60.56%.<sup>2</sup>

The elections results do not appear to demonstrate any significant ideological or political shifts in the Serbian electorate since the previous election in December 2003. Pessimistic analysts noted that gains of pro-Western forces, in particular those of the Democratic Party, were somewhat smaller than hoped. They expressed concern that the persistent strength of nationalism in Serbia may hinder the country's Euro-Atlantic integration. More optimistic observers, including European and U.S. officials, pointed out that about two-thirds of Serbian voters chose pro-Western parties.

The parties in the new parliament are engaged in difficult talks on forming a coalition government. Most observers believe that the leading democratic parties — the Democratic Party, DSS, and G17 Plus — will try to form a governing coalition, isolating the Radicals and Socialists. However, there has been a great deal of personal and political tension among the leaders of the democratic parties since the collapse of the Milosevic regime in 2000, creating some uncertainty as to whether they can reach agreement. DSS leader Vojislav Kostunica is demanding the position of Prime Minister for himself, a post that he held in the outgoing government. The Democratic Party is also claiming the position as the largest democratic party in the parliament.<sup>3</sup>

Kostunica has not ruled out the possibility of forming a coalition with the Radicals. This may be merely a tactical move designed to gain more leverage in negotiations with the DS, but it should be noted that the outgoing government which he headed relied on the tacit agreement of the Radicals and Socialists to stay in power. On the other hand, he is likely to be aware that an open alliance with the Radicals would likely have sharply

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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> Republic of Serbia Electoral Commission website, [<http://www.rik.parlament.sr.gov.yu/>].

<sup>3</sup> Serbia will hold early presidential elections in 2007. President Tadic is expected to seek re-election and will likely face a challenger from the Radical Party and others.

negative consequences for Serbian integration into European institutions, and may also cause him substantial domestic political damage.

**Serbia's Economy.** Since 2001, Serbian governments have embarked on comprehensive economic reforms. They have conducted prudent fiscal and monetary policies that have reduced inflation. The fiscal and budgetary systems are being overhauled to make them fairer and more transparent. The government ran a consolidated budget surplus estimated at 1% of GDP in 2006. The country's foreign trade regime has been liberalized. Serbia has moved to privatize some "socially-owned" firms, but many still need to be restructured and sold off. A series of corruption scandals have marred privatization efforts. Nevertheless, foreign direct investment (FDI) has increased rapidly. Serbia took in an estimated \$4 billion in net FDI in 2006.

Serbia has experienced substantial economic growth in recent years. Gross Domestic Product rose by 6.2% 2005, and an estimated 6.3% in 2006. Real monthly wages increased 11.5% year-on-year in February 2006. On the other hand, consumer price inflation remains significant, at an estimated 7.5% at the end of 2006. Unemployment remains very high, at over 30% of the workforce in 2006. 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. Serbia has made substantial progress in reducing its foreign debt, due in part to debt forgiveness deals with the Paris Club in 2002 and the London Club in 2004.<sup>4</sup>

## Relations with the European Union and NATO

Since the defeat of the Milosevic regime in 2000, Serbia's main foreign policy goal has been integration into Euro-Atlantic institutions. Serbia is particularly interested in joining the European Union. In late 2005, the EU announced that it would begin negotiations with Serbia and Montenegro on a Stabilization and Association Agreement (SAA). The agreement would provide a framework for enhanced cooperation between the EU and Serbia and Montenegro in a variety of fields, including the harmonization of local laws with EU standards, with the perspective of EU membership. However, EU officials made clear to Serbian leaders that a closer relationship with the EU, including concluding an SAA, requires Serbian cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY). In May 2006, the EU suspended SAA talks due to Serbia's failure to turn indicted war criminal Ratko Mladic over to the ICTY.<sup>5</sup>

Serbia has strong incentives to seek EU membership. In January 2007, neighboring Romania and Bulgaria joined the EU. Two other neighbors, Croatia and Macedonia, are official EU membership candidates. Failure to make progress toward eventual membership could have a negative impact on Serbia's prosperity, especially in attracting foreign investment. Serbia would also forgo many millions of Euro in additional aid from the EU that it would receive first as an EU membership candidate and then as a new member state.

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<sup>4</sup> Economist Intelligence Unit Country Report: Serbia, January 2007.

<sup>5</sup> For more information, see CRS Report RS22097, *Balkan Cooperation on War Crimes Issues*, by Julie Kim.

Yet the current political situation in Serbia may continue to stymie cooperation with the ICTY. The Radicals and the Socialists are opposed to any cooperation with the Tribunal, and, while nominally supportive, the enthusiasm of democratic parties for ICTY cooperation, particularly Kostunica and the DSS, is open to doubt. Cooperation between Serbia and the EU could also be stalled if Serbia opposes too strongly an EU-supported solution to the Kosovo status issue, especially if Serbia makes active attempts to destabilize the situation there by supporting the secession of Serbian-dominated northern Kosovo or encouraging Serbs to leave the province en masse.

Kostunica has reportedly demanded that the new Serbian government pledge to cut off diplomatic relations with countries recognizing Kosovo's independence, as a condition for DSS participation in a governing coalition. The Radicals support such a policy. The demand may be meant at least in part as a trap for the DS, which also strongly opposes Kosovo independence, but wants to keep Euro-Atlantic integration efforts on track. None of the leading parties in Serbia wants to appear to be politically implicated in a Kosovo status process that, as they see it, is likely to end in Serbia's national humiliation. Therefore each may be stalling for time and trying to shift responsibility onto another party or foreign countries. For their part, some EU countries are eager to resume SAA talks with Serbia as soon as it forms a new government, even in the absence of ICTY cooperation, in order to avoid isolating Belgrade as the Kosovo status process reaches its final stages.

It should be noted that given its own internal debates over the EU constitution and the future pace of enlargement, the EU may be reluctant to take in Serbia as a member until well into the next decade, even in a best case scenario in which Serbia cooperates with the ICTY, comes to terms with possible Kosovo independence, and accelerates needed reforms. Serbian leaders are well aware of this situation, and it may explain why Serbian governments often appear to favor playing to substantial nationalist sentiments in Serbia over genuine ICTY cooperation and other pro-Western policies with little short-term political payoff for them.

**NATO.** The Serbian government has favored closer ties with 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 participation in the program had been delayed by the country's failure to deliver Ratko Mladic to the Tribunal, but NATO members decided to invite Serbia anyway at the November 2006 NATO summit.

However, Serbia's position on seeking membership in NATO will remain unclear at least until the formation of a new government, and perhaps afterward. President Boris Tadic and his Democratic Party have led defense reform efforts in Serbia and are in favor of NATO membership. On the other hand, outgoing Prime Minister Kostunica has been much less enthusiastic about NATO membership and has avoided taking a public stance on the issue. It should be noted that, due in part to memories of NATO's 1999 bombing of Serbia, public opinion polls have shown that less than one-third of the Serbian public currently favor NATO membership, in contrast to a comfortable majority supporting EU membership. Serbia must make further progress in reforming its military, as well as its intelligence and security agencies, to be a viable candidate for future NATO membership. If Kosovo achieves independence, an even greater number of Serbs may turn against

NATO membership and closer NATO ties for their country, particularly if there is confrontation and conflict between NATO-led peacekeepers and Serbs in Kosovo in the wake of a Kosovo settlement.

## **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 early 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 substantial aid to Serbia. The FY2006 foreign aid bill (P.L. 109-102) contained \$70 million in aid for Serbia. Aid levels for FY2007 are likely to be below those of FY2006, but not dramatically so. For FY2008, the Administration has requested \$51.3 million in aid in the SEED account, and an additional \$0.3 million in IMET military training funds. 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 establish a free market economy by providing advice on fiscal reform, World Trade Organization accession, and fighting financial crime. Other U.S. aid is targeted at strengthening Serbia’s export and border controls.

In 2003, the Administration certified that Serbia and Montenegro was eligible for Normal Trade Relations (NTR) with the United States. The country’s NTR status had been suspended in 1992, in response to its role in the war in Bosnia, according to the terms of P.L.102-420 (106 Stat. 2149). Administration officials said the move was made in response to the improved situation in Serbia, especially in defense reform and cutting links between the Serbian and Bosnian Serb armed forces. In June 2005, the Administration announced that it had granted duty-free treatment to some products from Serbia and Montenegro under the Generalized System of Preferences (GSP), perhaps providing a further boost to Serbia’s exports to the United States.

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. Serbia’s cooperation with the Tribunal has moved in fits and starts, as, correspondingly, has U.S. aid to Serbia. However, 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. Six ICTY indictees, all of them

Serbs, remain at large, the most important of whom are Mladic and former Bosnian Serb leader Radovan Karadzic.<sup>6</sup>

For many years, the United States also conditioned its support for Serbia's membership in NATO's Partnership for Peace program on Mladic's transfer to the Tribunal. In a move that surprised many observers, in November 2006 the Administration reversed this policy and offered support for Serbia's unconditional membership in PFP. The move was taken in response to a letter by President Tadic to NATO leaders promising to improve Serbia's cooperation with the ICTY. The U.S. move may also have been intended to boost the chances of the Tadic's Democratic Party in the run-up to Serbia's parliamentary election in January 2007.

Perhaps the most serious cloud over U.S.-Serbian relations is the problem of Kosovo's status. The United States has strongly backed the proposal of U.N. envoy Martti Ahtisaari to resolve the status issue. Almost all Serbian leaders have rejected the plan, which they interpret as tacitly endorsing independence for Kosovo. An overwhelming majority in the new Serbian parliament views Kosovo as an inalienable part of Serbia and rejects independence for Kosovo. Serbia will likely call on Russia to threaten to veto any U.N. Security Council resolution endorsing any proposed settlement that appears to open the way to Kosovo's independence. A move by the United States to recognize Kosovo's independence, with or without such a Security Council resolution, would likely provoke a sharp deterioration of U.S.-Serbian relations, perhaps even a break of diplomatic relations.<sup>7</sup>

## **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. The 110<sup>th</sup> Congress will also likely deal with aid to Serbia in the FY2008 foreign operations appropriations bill, including whether and how to condition that aid on Serbian cooperation with the ICTY. Congress may also consider legislation on Kosovo. On January 5, 2007, Representative Tom Lantos introduced H.Res. 36, which calls on the United States to express its support for Kosovo's independence.

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<sup>6</sup> For more information see CRS Report RS21686, *Conditions on U.S. Aid to Serbia*, by Steven Woehrel.

<sup>7</sup> 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.