



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 four remaining indicted war criminals and by tensions with the United States and the EU 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 Serbian leaders sharply condemned the move and have withdrawn Serbia's ambassadors from the United States and other countries recognizing Kosovo's independence. New parliamentary elections were held in Serbia on May 11, 2008. Pro-Western forces did well in the elections and may form the next government. The second session of the 110th Congress may 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

Report Documentation Page

Form Approved
OMB No. 0704-0188

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1. REPORT DATE 14 MAY 2008		2. REPORT TYPE		3. DATES COVERED 00-00-2008 to 00-00-2008	
4. TITLE AND SUBTITLE Serbia: Current Issues and U.S. Policy				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) Congressional Research Service, The Library of Congress, 101 Independence Ave, SE, Washington, DC, 20540-7500				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 Approved for public release; distribution unlimited					
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 unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

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

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%. Analysts say Tadic was helped by a heavy turnout among pro-Western voters who feared that a Nikolic victory could lead to international isolation for Serbia.

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 of the DSS and President Tadic and the DS over policy toward the European Union, after many EU countries recognized Kosovo's independence. In a result that surprised many observers, the pro-Western 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. The 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.²

However, despite the strong showing of pro-Western parties, it is unclear whether they will be able to form the next government. The Socialists have emerged as the kingmaker in coalition talks. They could join the ultranationalist Radicals and the DSS, with which they have close ideological ties. Such a government would renounce Euro-Atlantic integration for Serbia for the foreseeable future, due to disagreements over Kosovo. However, the Socialists are also being wooed by Tadic and the DS-led bloc, which could form a government with it and ethnic minority representatives. Such a government could be weak and unstable due to ideological differences, but would be favorable to closer relations with the United States and the European Union, despite continuing to disagree with Western recognition of Kosovo's independence.

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

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.

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

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 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 7.5% in 2007. Real wages are rising, 10.4% in February 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 11.8% in March 2008, on a year-on-year basis. Unemployment is dropping, but remains very high, at over 20% 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.³

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 has been particularly interested in joining the European Union. In hopes of boosting the DS and other pro-European parties in the May 11 elections, the EU signed a Stabilization and Association Agreement 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. However, at the insistence of the Netherlands and Belgium, the agreement will not be implemented until all EU countries agree that Serbia is cooperating with the International Criminal Tribunal for the former Yugoslavia (ICTY).

EU leaders hailed the success of the pro-EU parties in the election, and called for a pro-European government to be formed quickly. However, even if the DS and its allies can form a government, a necessary coalition with the Socialists could hinder implementation of the SAA, as the Socialists have been strongly opposed to cooperation with the ICTY. If the Radicals and DSS form a government with the Socialists, the SAA will be a dead letter, as all of these parties reject ICTY cooperation.

No matter what government emerges from the elections, ties between the EU and Serbia will likely remain strained over Kosovo. At least 19 of the 27 EU countries have recognized Kosovo (including key countries such as Britain, France, Germany, and Italy), and others have expressed a willingness to do so in the coming weeks and months. However, a few EU countries, including Greece, Cyprus, Slovakia, Romania, and Spain,

³ Economist Intelligence Unit Country Report: Serbia, May 2008.

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. Serbia has recalled its ambassadors from countries recognizing Kosovo.

There are some differences between Serbian parties on relations with the EU. The Radicals and the DSS insist that EU countries renounce their recognition of Kosovo before ties with those countries or with the EU as a whole can be upgraded. Such renunciations would be needed before Serbia would agree to implement the SAA. The DS and its allies also reject international recognition of Kosovo, but do not want it to stand in the way of SAA implementation and eventual EU membership. The new Serbian government will likely continue to refuse to cooperate with EU-led missions in Kosovo, although the Radical-DSS-Socialist government would be more likely to use violence and confrontation against such missions than the DS-led bloc.

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.

There is a lack of consensus among Serbian parties on whether Serbia should seek NATO membership. President Boris Tadic and his Democratic Party have favored joining NATO. The DSS, Radicals, and Socialists strongly oppose NATO membership for Serbia. 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. Given the current unpopularity of NATO in Serbia, it is unlikely that even a DS-led government would push for NATO membership in the near future.

The Radicals have raised the possibility that Serbia could turn away from Euro-Atlantic integration and form closer ties with Russia, including perhaps a military alliance with Moscow and the stationing of Russian troops in Serbia. Outgoing Prime Minister Vojislav Kostunica has advocated close ties with Russia and pushed strongly for the sale of the Serbian oil company NIS to the Russian government-controlled Gazprom natural gas monopoly.

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. Four ICTY indictees, all of them Serbs, remain at large, the most important of whom are Mladic and former Bosnian Serb leader Radovan Karadzic.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. 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, despite the differences the two countries have on Kosovo.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 more information 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*, by Julie Kim and Steven Woehrel, and CRS Report RS21721, *Kosovo's Future Status 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. 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 outgoing 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 110th 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.

Legislation on Kosovo was introduced in the first session of the 110th Congress. Representative Tom Lantos introduced H.Res. 36 on January 5, 2007, which calls on the United States to express its support for Kosovo's independence. On March 29, 2007, Senator Lieberman introduced S.Res. 135, which calls for U.S. recognition of Kosovo's independence, with or without a U.N. Security Council resolution. An identical House resolution, H.Res. 309, was introduced on April 17. On May 24, 2007, Representative Bean introduced H.Res. 445, which expresses the sense of the House that the United States should reject an imposed solution on Kosovo's status and not take any unilateral steps to recognize Kosovo's independence. The second session of the 110th Congress may also consider legislation on Kosovo, as well as on conditions on aid to Serbia.