SERBIA'S U-TURN

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

In politics and policies, Serbia increasingly resembles the Milosevic-era without Milosevic. Its reaction to the catastrophic mid-March 2004 near collapse of the UN mission in Kosovo (UNMIK), the strong showing by ultra-nationalists in the 28 December 2003 parliamentary elections and the subsequent two-months of squabbling before democratic parties could form a minority government that depends for survival on the support of Milosevic's old party all are signs that more trouble lies ahead. In 2004 Serbia can anticipate continued political instability, increasingly strained relations with the West and further economic decline. The spasm of ethnic cleansing of Serbs by Albanians in Kosovo has raised the prospect of Kosovo partition, strengthened the nationalist right wing and increased anti-Western sentiment. Instability and economic weakness could hasten moves by Montenegro towards independence, while Kosovo tensions could spill over into the Presevo valley, Sandzak and even Vojvodina.

These prospects should prompt the international community to re-evaluate its policies towards Serbia. The results should include: no longer assuming that Serbia is a factor of regional stability; relying less on the "carrot" of European integration and insisting less on the Serbia-Montenegro union; and making more use of a stricter aid conditionality. If there is a bright side, it is that the ongoing -- and likely to worsen -- economic slide gives the international community greater leverage over the Serbian government if it is prepared to use it.

Serbia's new government could prove short-lived. It has serious internal differences, and its minority status reduces the chances that it can take the tough decisions necessary to turn the economy around, especially if it does not get major outside help. Nonetheless, its initial actions (and those of the parliament) hint that it could prove more stable and last longer than anyone expects. The Kosovo unrest has been a unifying factor, however temporary. But such stability as there may be will come through lowest common denominator politics, which in Belgrade today is anti-Western populism. Although Prime Minister Kostunica has stated that Serbia has no alternative to Europe, it does not appear that he considers cooperation with The Hague Tribunal a priority.

In spite of the government's pronouncements, Serbia's path towards a wider European future may be rocky. Events in Kosovo have reduced the appeal of European institutions to the country and damaged UN, EU, U.S. and NATO credibility. Parties that are either opposed to or ambivalent about European integration control 71 per cent of the parliament. The ultra-nationalist SRS has one third of the seats in every committee. Anti-reform forces within the "democratic" bloc appear intent on forestalling or rolling back many key Djindjic-era measures, while the SRS is pushing for a return to the past. The economy and Kosovo place tremendous pressure on the government, and the SRS is most likely to benefit in the upcoming presidential and municipal elections from any dissatisfaction.

To become a stable state, Serbia must undergo two transitions. The first is from the Milosevic-era criminalised state to a more normal society. The second is the classic Eastern European transition from a socialist command economy to a democratic market economy. Until there is significant progress in the first transition, the second will not happen. It is this failure to cleanse Serbia of the Milosevic legacy -- particularly in the security services -- that has led to the resurgence of the extreme right and cessation of reforms. International assistance should be redirected to target the first transition. Unfortunately, the new

government has indicated that it is more interested in removing traces of Djindjic than Milosevic.

It is increasingly apparent that 5 October 2000, the day on which Milosevic stepped down, was less revolutionary than it seemed at the time. Many of Serbia's democrats accepted the Milosevic-era myth that all the country's problems were caused by a decade of wars and international sanctions and the NATO bombing campaign of 1999. With these "causes" removed, many democrats showed little enthusiasm for reforms and, in many instances, actively blocked them. As a result Serbia failed to make a clean break with the Milosevic heritage. With the December 2003 elections, the past has partially returned to endanger the scant progress made to date, both domestically and in Serbia's relations with its neighbours.

Milosevic-era structures and personnel are still relatively intact in the judiciary, police, army and other key institutions. Serbia's media and judiciary are less independent today than two years ago. The myriad intelligence services still appear out of control and engage primarily in spying on domestic political opponents. It is nearly as difficult to do business in Serbia in 2004 as it was under Milosevic, a fact confirmed by the scant foreign investment. The only institutions that appear to function with any efficiency are the army and the National Bank. In the meantime, the lack of a final status resolution for Kosovo will continue to overshadow domestic politics and warp normal political dialogue.

ICG will shortly publish a separate report on the March 2004 events in Kosovo and their implications for the future of Kosovo and international policies in the wider region.

RECOMMENDATIONS

To the European Union:

1. Make economic aid, both from the EU and from its member states, subject to a formal annual review of Serbian government achievement of specific benchmarks, including cooperation with The Hague Tribunal (ICTY).
2. Appoint a senior diplomatic Special Representative in Belgrade to be a first point of contact and contribute to coordination of a common voice within the Western diplomatic and international donor communities.

To the United States:

3. Continue and strengthen aid conditionality, including the requirement that Serbian government cooperate with the ICTY;

To NATO:

4. Adhere to the policy of not admitting Serbia and Montenegro to Partnership for Peace until it drops its lawsuit against NATO and cooperates fully with the ICTY.

To the Donor Community:

5. Extend conditionality to include IMF, World Bank and EBRD assistance.
6. Demand greater accountability from the Serbian government on capital investment projects.
7. Insist upon greater cooperation by Serbia with international community structures in Kosovo and impose greater accountability for its actions in supporting parallel structures in Kosovo.

To the Serbian Government:

8. Give higher priority to economic reform.
9. Cooperate with the ICTY, including by arresting and transferring to The Hague all indictees on its territory.
10. Reform the judiciary and media to make them functional and independent.
11. Restrain nationalist passions, including by urging the media to avoid inflammatory rhetoric.
12. Provide increased security for Serbia's human rights activists and for national minorities in Vojvodina, Sandzak and Kosovo.
13. Prevent radical right-wing forces from attempting ethnic cleansing in southern Serbia, Sandzak or Vojvodina.

Belgrade/Brussels, 26 March 2004

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SERBIA'S U-TURN

I. INTRODUCTION

Since the 28 December 2003 Serbian parliamentary elections, the international community has asked with increasing urgency in which direction does Serbia intend to go: towards Brussels or Belarus? Election results, the composition of the new coalition government and the reaction of that government to the March 2004 violence in Kosovo are beginning to provide troubling answers.

When then Premier-designate Vojislav Kostunica presented his program to the parliament on 2 March 2004, he stated that Serbia had no alternative to Europe, echoing earlier speeches by the vice president of his DSS party, Dragan Marsicanin, and by Crown Prince Alexander Karadjordjevic on the occasion of the 200th anniversary of Serbian independence (15 February 2004). These statements aimed to reassure the international community, which had expressed concern about the strong extreme right showing in the parliamentary elections.

On 14 February 2004, however, a different vision of Serbia's future was on display in Belgrade's cavernous trade union building at a Serbian independence ceremony sponsored by the right-wing organisation Dveri -- affiliated with the Orthodox Church -- and with army participation. Bishop Atanasije Jevtic was greeted with hearty applause as he raged against the West, thundering that Europe, which had come to the Balkans in tanks in 1914, 1941, and 1999, brought the world gas chambers and communism, and was treating the Serbs like Kurds and Iraqis. Serbia, he said, had fought for 200 years to free itself from Europe and was looking to the east for its future.[1] The historian Rados Ljusic presented a vision of Serbia united with Bosnia and Herzegovina and Montenegro in one common state "as God had commanded".[2]

What should have been a magnificent official 200th anniversary celebration of the First Serbian Uprising at the historical site, Orasac in central Serbia, was marred by disputes over who should speak and what should be said. Even more importantly, there were arguments over who had the right to be represented and exactly what should be celebrated. Had Karadjordje Petrovic, the leader of the 1804 Serbian Uprising, been present, he would have found that Serbia lacked a president, a government, a budget and clear borders. Serbia still operates with a constitution written by Slobodan Milosevic, its republic institutions are largely dysfunctional, and it is a reluctant member of an artificially constructed union with Montenegro. Many of that union's institutions have yet to be formed, and though it is a guarantor of billions of U.S. dollars of foreign debt, it does not have its own bank account. Serbian businessmen joke that the internal customs barriers between the two member republics are tighter than with neighbouring countries.

Serbia's economy is in dire straits. In 2003 GDP grew by just 1.5 per cent, far short of the planned 4 per cent, while manufacturing dropped by 4 per cent. The trade deficit topped U.S.$4 billion, and the current account deficit is U.S.$1.8 billion. In 2003 government expenditures topped U.S.$3.5 billion, nearly 15 per cent more than budgeted. Although the government received unexpectedly high revenue from the one-off privatisation of the two largest tobacco factories, most of these profits were used to pay pensions and salaries, and little is available for investment. In 2004 Serbia will have to pay the first instalment (approximately U.S.$470 million) of its

[1] "Duhovna akademija", povodom stogodisnjice Prvog srpskog ustanka, Radio B92, 14 February 2004.

[2] "Dva veka za nauk", *Vecernje novosti*, 15 February 2004.

US$13.8 billion in foreign debt.[3] The influential G17 economic think tank -- whose members include Deputy Premier Miroljub Labus, Finance Minister Mladjan Dinkic and Central Bank Governor Radovan Jelasic -- has stated that manufacturing will continue to fall in 2004, and GDP growth will probably be negative.[4] The outgoing parliament failed to adopt a budget for 2004, and the new parliament completed the task only on 24 March. Unemployment is high and expected to grow. The Ministry for Labour and Social Issues places it at 30 per cent without factoring in under-employment.[5]

The strong showing by the nationalist right in the December parliamentary elections, as well as the subsequent creation of a minority government dependent upon support of Milosevic's Socialist Party of Serbia (SPS) has caused significant concern in Europe and the U.S. So too have the burnings of mosques in Belgrade and Nis in revenge for the 17 to 19 March 2004 ethnic cleansing by Albanians of Serbs from the Kosovo enclaves. The apparent rise in nationalist hooliganism with subsequent attacks on minorities also gives cause for concern.

The parliamentary elections came after nearly two years without substantial reform legislation. For many, the election results and subsequent Faustian bargain with the SPS seemed to revive the apparition of Milosevic and his policies. Domestic politics will make it difficult for Serbia's new government to live up to its pro-European rhetoric.

II. KOSOVO FRUSTRATIONS[6]

The recent wave of shocking anti-Serb violence and ethnic cleansing in Kosovo, in which Albanian extremists damaged or destroyed over 300 Serb homes and more than 30 Orthodox churches and monasteries, provoked strong reactions in Serbia. Some TV stations had nearly round-the-clock live coverage of events, while others pre-empted programming or continually interrupted their regular shows. Newspaper headlines screamed "war", and average Serbs watched their countrymen flee for their lives while UNMIK and NATO appeared powerless to intervene. Television stations invited ultra-right-wing commentators on the air who had been largely marginalised since Milosevic's ouster. They wasted no time vilifying Serbia's human rights activists such as Natasa Kandic, Biljana Kovacevic-Vuco and Sonja Biserko as anti-Serbian, pro-Albanian stooges of the West.

On the night of 17 March 2004, demonstrators in Belgrade gathered in front of the government building to hear fiery speeches by pop singer Ceca (widow of the paramilitary and criminal leader Zeljko "Arkan" Raznatovic) and Kristijan Golubovic, a close associate of Arkan's who was recently released from jail in Greece. The demonstrators burned the city's seventeenth-century Bajraklija mosque, emulating the actions of hooligans in Nis, who, earlier in the evening had destroyed the Islam-Agina mosque, built in 1720. A police cordon stood passively by in the capital and watched as a relatively small group did its work. The only person who attempted to stop the arson was Serbian Orthodox Bishop Amfilohije Radovic, whose pleas for non-violence went unheeded. Groups of football fans and other angry Serbs roamed the streets, throwing stones, attacking foreign embassies, and destroying a storefront that belonged to an Albanian owner. A number of similar incidents occurred in the ethnically mixed province of Vojvodina.

There appears to be confusion about the orders of the police guarding the Bajraklija mosque. They were evidently instructed by Interior Minister Jocic not to

[3] See comments by National Bank Governor Radovan Jelasic, "Central Bank governor sees no quick debt deal", Vesti B92, 2 March 2004.
[4] See "Bilten broj 46-47 - Procene i prognoze", 19 March 2004. http://www.g17institut.co.yu/Default.aspx.
[5] ICG interview with Ministry for Labour and Social Issues.

[6] This report concentrates on domestic Serbia politics and looks at the March 2004 events in Kosovo in that context. ICG will shortly publish a separate report on those events and their implications for the future of Kosovo and international policies in the wider region.

use deadly force,[7] though the Federal Minister for Minority Issues and Human Rights, Rasim Ljajic, had made a personal plea to Jocic and BIA (state security) to protect the mosque.[8] Gendarmerie head Goran "Gurij" Radosavljevic stated that police had not intervened for fear of causing casualties.[9] In sharp contrast, police guarding the U.S. Embassy fought a two-hour pitched battle against a much larger group of demonstrators, resulting in injuries to both sides.

The Serbian government quickly realised that it had given itself a black eye by permitting the mosques to burn. It also sensed that renewed street demonstrations could easily spin out of control, lead to mob violence, further harm Serbia's international reputation and bargaining position, strengthen extremists, and possibly cause the government to fall. To forestall these possibilities, it took charge of the street demonstrations, setting the starting point and routes. Kostunica, Labus and Patriarch Pavle participated in marches, as did tens of thousands of ordinary citizens. All expressed outrage at the ethnic cleansing, while calling on their fellow citizens to maintain dignity and not damage Serbia's reputation. These actions seem at least temporarily to have calmed a dangerous situation. Authorities also arrested ten people for destroying the Nis mosque.

The government has used the crisis in Kosovo to unify public opinion and extend its authority in several vital spheres. Using the transparent excuse that state-controlled Radio-Television Serbia (RTS) had done a poor job covering the first day of violence in Kosovo, the government sacked RTS director Aleksandar Crkvenjakov and replaced him with Milosevic's former Minister of Information, the right-wing columnist Aleksandar Tijanic. All members of the governing board of RTS collectively tendered resignations in protest. The government also sacked the head of the Belgrade police force, as well as the head of the precinct responsible for the mosque. Both were appointed by the Djindjic government, and the mosque burning may have been an excuse to remove individuals with suspect political loyalty.

Ethnic minorities understandably feel nervous in the wake of these attacks. Many were the target of Serb rage under Milosevic. Hungarians, Croats, Muslims and Albanians still harbour memories of attacks, discrimination and, in the cases of the Croats and Sandzak Muslims, open ethnic cleansing.[10] The spiritual leader of the Sandzak Muslim community, Mufti Muamar Efendi Zukorlic, stated that he considered the mosque burnings to be "a cry of warning for the survival of Bosnjaks and all members of Islam on this territory".[11] ICG interviews with Albanians in the Presevo Valley indicated that the atmosphere was tense, as many feared that enraged Serbs might engage in ethnic cleansing in revenge for events in Kosovo. Interviews with Muslims from the Sandzak indicated similar fears. Ethnic minorities in the highly diverse Vojvodina province also fear that frustrated Serbs may take revenge on the nearest group at hand. A number of Roma have already been attacked. The tensions and fear are real, and the dangers should not be minimised.

The ethnic cleansing in Kosovo has swung Serbian politics further towards the right. What would otherwise be a somewhat unstable right-wing nationalist government now finds itself strengthened by a sense of national unity regarding Kosovo. To understand how this will affect Serbia's foreign and domestic policies requires study of the 28 December elections and the formation of the Kostunica government.

[7] "Jocic: Policija se odvikla za poslednje tri godine", Vesti B92, 18 March 2004.
[8] "Ljajic: Ponizen sam i demantovan", Vesti B92, 18 March 2004.
[9] Radio B92, 18 March 2004.

[10] Under Milosevic there was also a policy of silent ethnic cleansing aimed at Vojvodina's Hungarian minority.
[11] "Zukorlić: paljenje džamija u Srbiji nije običan napad", Vesti B92, 23 March 2004.

III. ELECTION FALLOUT

A. THE EMPIRE STRIKES BACK

The results of the 28 December 2003 elections raised the spectre of a return to a darker era. They have implications for the future of the union of Serbia and Montenegro, the ability or desire of a Serbian government and parliament to undertake new reforms, Serbia's international relations, and Kosovo's final status.

The government called the elections on 12 November 2003 after it became apparent that it had lost its parliamentary majority, could no longer hold the remnants of the DOS (Democratic Opposition of Serbia) coalition together, and would be unable to pass a budget for 2004. It was also under intense pressure from the tabloid press and political opposition over a series of domestic corruption and privatisation scandals, unsolved murders with political implications, the EU sugar scandal,[12] and allegations of links between leading politicians and prominent organised crime figures. Additional pressure came from the imploding economy that resulted in increased social tensions.

Voters demonstrated their dissatisfaction with the government and its policies by giving the Serbian Radical Party (SRS) of Hague-indictee Vojislav Seselj 28 per cent and 82 seats, making it the single largest party in the 250-seat republic parliament. Vojislav Kostunica's Democratic Party of Serbia took second place with 18 per cent and 53 seats. The incumbent Democratic Party (DS) of the late Premier Zoran Djindjic was third with 12.6 per cent and 37 seats. The technocratic G17+ party received 11.7 per cent and 34 seats. The coalition of Vuk Draskovic's Serbian Movement of Renewal (SPO) and Velimir Ilic's New Serbia (NS) won 7.5 per cent and 22 seats, as did Slobodan Milosevic's Socialist Party of Serbia (SPS). No other parties passed the 5 per cent threshold.[13]

The results were not unexpected. An election for president one month previously, on 16 November, had been declared invalid due to lack of the legally required 50 per cent voter turnout. The government's candidate, Dragoljub Micunovic, had received 35 per cent (893,906 votes), as against the 46 per cent (1,166,896 votes) of SRS candidate Tomislav Nikolic.[14] It was obvious there was massive dissatisfaction with the government, and the radical right would return to parliament in force. More importantly, 61 per cent had voted for right-wing or nationalist candidates.

It is a mistake to assume that all parties that were not Milosevic-era nationalists are democratic. Serbian political parties should be divided into three categories: wartime nationalists, right-wing populists, and reformers. The wartime nationalists took part in government under Milosevic, fully support the policies of that era, and are want to turn back the clock. This category includes the SRS and SPS. The conservative populists are also quite right wing, and nationalist, but are opposed to Milosevic the man. They do, however, use much of his anti-western vocabulary and agree with many of his actions during the 1990s, particularly on national issues. For the most part, they see little urgency or need for sweeping reforms and regard Serbia and themselves as the victims of a misguided or evil international community. Their stance on European integration is often ambiguous, and their rank and file tend to sympathise with many positions of the wartime nationalists. This category includes the DSS and the SPO/NS coalition. The reformers are generally pro-Western, and see eventual EU membership as in Serbia's best interest. G17+ and DS are in this category.

Of the 250 parliamentary seats, 104 belong to the two parties most closely associated with the excesses of the Milosevic era, the SRS and SPS. Both are nationalist, chauvinistic, strongly anti-Western and anti-reform and were heavily compromised under Milosevic. The conservative populists (Kostunica's DSS and the SPO/NS coalition) maintain a highly ambiguous, sometimes negative, attitude towards reform and European integration, with a nationalist orientation. They frequently use populist rhetoric

[12] In April 2003 the EU revoked certain agricultural-specific trade privileges it had extended to Serbia and Montenegro. Several politically-connected companies inside the country had imported sugar in large quantities and then re-exported it to the EU, labelled as of Serbia and Montenegro origin. This took advantage of the EU trade preferences. In spite of repeated warnings from Brussels, officials did not stop this practice. The EU has yet to restore the trade privileges. See ICG Balkans Report N°145, *Serbian Reform Stalls Again*, 17 July 2003.

[13] www.rik.parlament.sr.gov.yu.

[14] Ibid.

laced with anti-Western overtones. Only 71 parliamentary seats are held by parties that have maintained a clear and continuous pro-reform stance over the last three years.

B. THE SRS AND SPS: WARTIME NATIONALISTS

SRS. Vojislav Seselj's party was the standard-bearer for radical Serbian nationalism throughout the 1990s, and its policies and ideology remain largely unchanged even though its leader sits in The Hague, awaiting trial for war crimes. Throughout much of the 1990s, Seselj acted as Milosevic's stalking horse, taking extremist positions Milosevic was unable to advocate publicly for fear of alienating his core SPS voters. Milosevic also used Seselj's virulent nationalism to scare Serbian voters towards the SPS and other parties he could control. Although Milosevic and Seselj fell out on several occasions -- primarily over Bosnia -- Seselj's privileged position and usefulness to the government was best seen in the unusual access he had to Milosevic's media, particularly Radio Television Serbia (RTS).

The SRS espoused a violent expansionist policy that argued Serbia should incorporate all of Bosnia and Herzegovina and large swathes of Croatia, along the Karlovac-Karlobag-Virovitica-Ogulin line. According to the ICTY indictment against Seselj, the SRS controlled paramilitary groups that were active in Croatia, Bosnia and Kosovo[15] and were closely connected to, financed and armed by Serbian State Security (DB).[16] Seselj was permitted to go on state television during peak viewing hours to recruit volunteers. In 1993 he stated on live television that Muslims would be slaughtered with rusty spoons.

In 1998 the SRS entered into coalition with Milosevic's SPS. It received the ministry of information, and Seselj became vice president. That government passed draconian laws restricting freedom of the press and the universities and launched military offensives against Kosovo's Albanians. Immediately prior to the 1999 NATO bombing, Seselj went on RTS to say of Kosovo, "if NATO attacks, the Serbs will suffer heavily, but there won't be any more Albanians".[17]

The SRS has a richly deserved reputation for violence, starting with its leader. In 1990 Seselj attacked a man with a baseball bat. In 1992 he pointed a pistol at students, taxi drivers and teachers who were demonstrating.[18] The same year an SRS deputy knocked an SPO deputy unconscious in the parliament, and twice during 1993 the SRS engaged in fights with parliamentary security. In 1997 Seselj's bodyguards beat up the renowned human rights lawyer Nikola Barovic in a television studio that belonged to a Milosevic crony. Since Milosevic's fall, its antics have continued, including throwing water over Natasa Micic, the speaker of the parliament, during a televised session; disrupting parliamentary sessions by refusing to respect rules of order; and shouting down opposing speakers. On one memorable occasion in 2001, the SRS created such a disruption that Seselj had to be physically carried out by parliamentary security. When he left for The Hague in February 2003, one month prior to the assassination, he publicly warned Djindjic that he would be killed.[19]

With Seselj gone, the SRS -- under the leadership of party vice president Tomislav Nikolic -- has maintained its policies and behaviour. During the campaigns prior to the November and December 2003 elections, Nikolic made a number of statements that demonstrated the SRS has yet to moderate its positions even slightly. In November 2003 he declared live on the Novi Sad Apollo TV station that he would oppose diplomatic relations with Croatia until the Serbian border was settled along the Karlovac-Karlobag-Virovitica-Ogulin line, and that he was ready for the return of Serbian police and army to Kosovo, even if it meant armed confrontation.[20] On live television in December 2003, he said he was not sorry that the journalist Slavko Curuvija had been assassinated in 1999 (probably under orders from Milosevic's DB).[21] Opinion polls indicate that Nikolic is the front-runner in the presidential election now scheduled for 4 April 2004.

[15] "Radikali ne odustaju od koncepta Velike Srbije", B92, 26 November 2003.
[16] "U trouglu drzavne sile", Helsinski odbor za ljudska prava, 2000.
[17] Radio Television Serbia, 2 February 1999.
[18] "Srpska radikalna stranka", http://www.xs4all/~freeserbia/politics/srs.html
[19] Radio Television Serbia, 19 December 2002.
[20] "Radikali ne odustaju", B92, op cit.
[21] TV B92, *Vesti*, 21 December 2003.

SPS. The other wartime party, Milosevic's Socialists, lost ground in this election, falling from 37 seats and 13.67 per cent of the vote in December 2000 to 22 seats and 8 per cent. The SPS is the descendant of the League of Communists of Serbia, which Milosevic renamed before the first multi-party election in 1990. The party then consisted primarily of true-believing socialists/communists. With Milosevic at its helm, it became more nationalist and provided many of the cadres for his civilian administration. Many members became part of the new economic elite under Milosevic. Although the SPS publicly proclaimed a less virulent brand of nationalism than the SRS, it entered into coalition with the SRS in 1998. It has always supported Milosevic and his policies, and, unlike the HDZ in neighbouring Croatia, has made little effort to distance itself from the legacy of the war or extreme nationalism.

The mid-March 2004 ethnic cleansing in Kosovo appeared ready-made for the SRS, and many feared that the party would reactivate its paramilitary formations and attack minorities in Vojvodina, Sandzak and southern Serbia. However, Nikolic called for forbearance and calm and condemned the burning of the mosques. These remarks indicate that the SRS may be positioning itself more towards the centre in an effort to increase its appeal in the upcoming presidential and municipal elections and anticipated new parliamentary elections. Yet there are already indications that the party has used the Kosovo unrest to move closer to the government and legitimise some of its paramilitary security units. This was seen in their offer to help the government protect foreign embassies, government buildings, and other structures of national importance. It appears that the SRS is attempting to define itself as a party that opposes corruption, protects the interests of all Serbian citizens and the nation, and fights for law and order.

C. RIGHT-WING POPULISTS: DSS, SPO AND NS

DSS. The DSS originated as a splinter group from the DS in 1992, when Kostunica and Dragoljub Micunovic split with Zoran Djindjic. Kostunica formed the DSS and Micunovic eventually formed the much smaller Democratic Centre party. The DSS has sometimes seemed obsessed by legal pedantry and more interested in arguing arcane academic points than making political changes. Kostunica himself refused to take part in the actual events of 5 October 2000 that overthrew Milosevic and was heavily criticised for a meeting with him the next day about which he refused to disclose details. When Kostunica was President of Yugoslavia (October 2000-December 2002) he and his advisers consistently obstructed the DOS coalition from purging the government apparatus -- the army and DB in particular -- of Milosevic supporters. The DSS also opposed efforts to reform the judiciary and labour laws and actively obstructed cooperation with the ICTY.

On 12 March 2003, less than twelve hours after Djindjic's assassination, Kostunica called for a "concentration" government that would include representatives of the SRS and the SPS. Immediately following the 28 December 2003 elections, he again called for such a government. Indeed, the DSS has repeatedly been willing to enter into coalition with the worst elements of the Milosevic regime, while continuing with an ambiguous anti-Western message. It has not attracted economic or administrative experts to its ranks and is therefore often willing to let other parties -- such as G17+ -- hold key economic and administrative posts.

It is expected that the DSS will attempt to pursue criminal investigations that could resolve a number of the high profile corruption scandals and murders under the Milosevic and Djindjic governments. Some of these investigations are expected to target former high-ranking government officials or DS party members, as well as DS party financiers. Such a cleanup is essential if Serbia is to have a successful economic and political transition. One unintended result, however, could be a worsening of relations between DSS and DS, which could make problematic any future entry of DS into the government. It appears that the DSS will also devote much effort to restructuring constitutional and judicial arrangements, a reform that Serbia's largely dysfunctional institutions sorely need.

SPO. Vuk Draskovic's novel *The Knife* and the associated film fired nationalist passions throughout Serbia in the late 1980s. During the early 1990s he also became known for his public rallies and demonstrations and rabble-rousing speeches delivered in epic decasyllabic verse. His positions were virulently nationalistic, as were some of his writings. He identified his party closely with World War II Serbian nationalist hero Draza Mihajlovic, who led the Cetnik movement against the communists and Nazis. In 1991 Draskovic fielded a

paramilitary unit in Croatia, but later distanced himself. From the very beginning, he had a high profile in the anti-Milosevic resistance. Nonetheless, he entered into coalition with Milosevic and the SPS in 1999. His SPO also controlled the Belgrade mayor's office and other city administrative functions during this time, which earned it a reputation for corruption.

Draskovic fell out with Milosevic and left the government on 28 April 1999 during the NATO bombing. He was twice the unsuccessful target of what appear to have been state-sanctioned assassination attempts, one of which killed his brother-in-law, Veselin Boskovic. Draskovic refused to join DOS and back Kostunica in the September 2000 presidential elections, and the SPO did not win any seats in the December 2000 parliamentary elections. Although he has moderated his views, the SPO platform contains significant populist right-wing rhetoric. The party could conceivably go into coalition with any other if the price were right. Draskovic has spoken in favour of cooperation with the ICTY, even though his party rank and file are largely opposed, and recent coalition negotiations have demonstrated that he does not always control his party.

NS. Velimir Ilic was a former member of the SPO who broke with Draskovic in 1997 to form the New Serbia party. Similar to the SPO, the NS is essentially personality-based, with one key difference: it is organised primarily along geographical lines and enjoys little popularity outside of Cacak, Ilic's home town. He has made anti-Semitic statements, and his party is associated with such proponents of fascism in Serbia as Dimitrije Ljotic, the World War II black-shirt leader.[22] In 2000 Ilic took part in the overthrow of Milosevic and became well known for the long column of vehicles (including a bulldozer) that he led from Cacak, through police roadblocks, to Belgrade. He and Draskovic take a similar approach based on populist rhetoric. The NS could theoretically enter a coalition with any other party. Ilic has been vague about the ICTY, but justified "moderate" cooperation on the grounds of Serbia's need for international assistance.[23]

[22] "Obnova konzervativne ideje", *Ljudska prava u tranziciji, Srbija 2001*, Helsinski odbor za ljudska prava u Srbiji.
[23] "Kapitalac", *Kurir*, 24 February 2003.

IV. HOW DID IT HAPPEN?

The return to influence, if not formally to power, of the Milosevic-era parties underscores how scant and fragile Serbia's reforms are. Responsibility for the resurgence of the radical right must be placed primarily on DOS politicians, but also on some of the international community's counterproductive policies. Neither the Yugoslav Federal government nor the Serbian Republic government ever even attempted a clean break with the Milosevic era. They were unwittingly aided in this by the international community, especially the EU and U.S. That past has now returned to haunt Serbia and its neighbours.

A. NO ONE TO BLAME BUT THEMSELVES

The majority of DOS member parties had accepted -- and still accept today -- Milosevic's lie that Serbia's problems were caused by the combination of international sanctions, NATO bombing and various wars. They added a fourth cause to this list: Milosevic the man. They reasoned that once they removed Milosevic, nothing would stand in the way of Serbia's development and success. Many liked the old system and felt it needed only minor changes. Others opted for a more formalistic, go slow approach. Only a small handful of DOS politicians -- Djindjic among them -- realised the need for rapid and urgent structural reforms.

This faulty reasoning was strengthened by the logic behind the September 2000 elections, in which the eighteen-party DOS coalition united around one issue only, removing Milosevic from power. The vote against Milosevic cannot be interpreted as a mandate for reform or for Kostunica per se. The electorate and DOS parties disagreed among themselves on just about everything else. Although DOS offered a reform platform, it was created by the then non-governmental group G17, and was not taken seriously by all coalition members.

Immediately after the elections, the differences emerged into the open on key questions of protecting the Milosevic legacy. Among the most notorious cases, Rade Markovic, the head of Milosevic's dreaded DB, remained in his job for four months, while Nebojsa Pavkovic, the chief of the general staff (subsequently indicted by the ICTY for war crimes) remained in office for another two years. These were the visible surface disputes. Behind the scenes,

battles raged for patronage, power, control over state assets and companies, and personnel appointments. In many instances the clear winners were members of the Milosevic-era economic elite who had operated under the patronage of the DB. The other clear winners were Milosevic-era bureaucrats, functionaries and security services.

After overthrowing Milosevic, many DOS politicians compromised themselves in the public eye through their association with the old economic and criminal elite. The Belgrade print media thrived on scandals such as the unresolved murders of Bosko Buha and Momir Gavrilovic, the fraudulent election of National Bank Governor Kori Udovicki, arms sales to Iraq, the politicisation of arrests under Operation Sabre, relations between Vice President Cedomir Jovanovic and the Zemun and Surcin mafia groups, and the hasty return of money to Bogoljub Karic. Many of the Milosevic-era economic elite evaded criminal charges by allying with and financing a DOS faction. In some instances DOS politicians appear to have succumbed to the lure of easy money, consorted with individuals closely associated with organised crime and Milosevic-era "business", and permitted them to enjoy special privileges.[24] Yet other politicians appeared either incompetent or to be protecting criminals. Scandals involving money laundering, crony privatisation, unsolved politically related murders, and organised crime links to the government worsened the DOS image.

DOS politicians were half-hearted about passing reforms and concentrated on staying in power. Because the Serbian politicians failed to go after the personnel and policies of the old regime, its partisans were able to exploit differences within DOS and block such efforts at economic and social transition as were undertaken. After the Secret Police special forces unit (Red Berets) revolted in November 2001, little new reform legislation was passed, due in large part to opposition within compromised or right-wing elements within DOS. So bad was this obstruction that Foreign Minister Goran Svilanovic called 2002 a "lost year",[25] for reform. If anything, 2003 was worse, as elements associated with state security gunned down Djindjic.

Although DOS carried out several macro-level financial reforms that pleased the IMF and World Bank, the politicians never actually got around to restructuring the economy. In many respects it is nearly as difficult to operate a business today as under Milosevic. Lack of change combined with corruption to drive off foreign investors. Public dissatisfaction increased as the standard of living declined, workers lost jobs, farmers went unpaid for their produce, factories shut down or operated at a fraction of capacity, and suspicious privatisations occurred. The EU sugar re-export scandal caused Serbia to lose its special trade privileges in 2003, had a wide ripple effect throughout the agricultural sector, and worsened relations with the EU. The government response -- sweeping the affair under the rug -- heightened perceptions that DOS politicians put personal financial gain ahead of national wellbeing. Many Serbs now equate transition with corruption and organised crime and want no part of it.

Another issue created additional popular dissatisfaction with the government: The Hague Tribunal. In addition to being required to cooperate under the 1995 Dayton Peace Accords, to which it was a signatory, Yugoslavia (and Serbia and Montenegro as the successor state) was readmitted to several international organisations on condition of such cooperation. These included the UN, OSCE and Council of Europe. In spite of this, due to Milosevic-era propaganda and the large number of Serbs indicted because they carried out Milosevic's policies, most Serbs feel that the Tribunal is anti-Serb.

Beginning with the Milosevic transfer in 2001, many leading DOS politicians, notably Kostunica, dug in their heals and opposed The Hague, playing off public attitudes to create a political atmosphere in which those who wished to cooperate were considered traitors. Kostunica and others, both within DOS and on the radical nationalist right, worked actively to obstruct cooperation, through the media, federal and republic parliaments, and allies in the security services.[26] Nationalist politicians used this issue to weaken DOS, Djindjic and the DS, and discredit the reformers.

DOS politicians could have changed attitudes by educating the public about the Tribunal and using it to clean house swiftly of Milosevic-era stalwarts.

[24] See ICG Report, *Serbian Reform Stalls Again*, op. cit.

[25] A phrase first used by Svilanovic in an interview with *Reporter*, "Zastoj nije morao da nam se dogodi", 19 November 2002. See also ICG Balkans Report N°141, *Serbia After Djindjic*, 18 March 2003.

[26] See ICG Balkans Report N°126, *Belgrade's Lagging Reform: Cause For International Concern*, 7 March 2002.

Instead, many adopted the Milosevic-era logic that The Hague was biased. When cooperation did occur, DOS justified it negatively, by claiming it was necessary for re-integration into the international community and Serbia was obligated. At no point did Serbia's politicians ever attempt to discuss the usefulness of the Tribunal as a tool that would enable the country to create discontinuity with the old regime. As a result, every new arrest and transfer brought increased public anger, on which some DOS parties attempted to capitalise at the expense of the government.

The outpouring of national sympathy following the Djindjic assassination created a brief respite for the government but by the end of April 2003, it was evident that DOS no longer had a parliamentary majority that would enable it to pass reform legislation. DOS politicians had thoroughly discredited themselves and the reform process in the eyes of much of the electorate. As a result, much of the vote for the SRS can be interpreted not so much as support for the Radicals and their policies, but rather as backlash against venal and corrupt politicians and The Hague Tribunal.

B. INTERNATIONAL MISCALCULATIONS

Nevertheless, Serbia's politicians are not entirely to blame for the election defeat. They often operated in response to heavy pressure from the U.S. and the EU, whose policies sometimes were counterproductive for DOS and Serbia. The international community made four significant policy mistakes.

The first mistake was in prioritising the maintenance of Serbia and Montenegro in a common state.[27] This effort at maintaining the borders of Milosevic's rump Yugoslavia began in 2001 and consumed much time and energy of international bureaucrats and diplomats. One reason frequently given in favour of the plan was that it would be easier for Serbia and Montenegro to enter the EU together than separately. It appeared, however, that the main motivation for the EU and the U.S. was to delay dealing with the question of Kosovo final status, about which there was not yet consensus in Brussels, much less in Washington, but which was certain to be raised if Montenegro gained independence.[28] The effect of strong outside pressure to stay together forced the Djindjic government to devote considerable political capital to satisfying the EU, at a time when it should have been using its energies to dismantle the old regime structures. This gave the old guard time to regroup. The implausible nature of the state arrangements -- few of which are functioning -- diminished the credibility of Serbia's reform politicians and also reduced EU credibility in the eyes of many.

The second U.S. and EU mistake was the calculation that the "carrot" of Euro-Atlantic integration alone would motivate Serbia's politicians to make difficult political decisions about reforming the economy, security services, state and society. The reasoning was that by holding out the reward of speedy progress towards the Council of Europe (CoE), NATO's Partnership for Peace (PFP), and the EU, Serbia's politicians and population would gladly accept the reforms that were essential to such a process. In implementing this policy, both Washington and Brussels failed to realise that a significant number of the politicians, as well as their constituents, are sceptical about what is involved and wish to integrate with the world on their own terms. Many Serbs are bitter at the West and see themselves as victims of the past decade. Of the six political parties in Serbia's 250-seat parliament, only G17+ (with 34 seats) and the Democratic Party (DS, with 37 Seats) appear unequivocally committed to Euro-Atlantic integration. Reliance on the "carrot" alone has proven unreliable, and future policies towards Serbia will have to use additional methods to encourage reforms.

The third mistake was the failure of the EU and the U.S. to pursue a consistent policy on cooperation with The Hague Tribunal. Rooting out the Milosevic cancer is key to constructing a viable reform process in Serbia, and the Tribunal is an important tool. The U.S. Congress consistently passed legislation requiring the State Department to undertake an annual certification of Serbia and Montenegro in relation to several issues, including cooperation with the Tribunal.[29] These conditions remain in current U.S. law. Should Belgrade fail to comply, U.S. assistance would be jeopardised. The fact that Serbia is cooperating at all with the Tribunal is largely due to these congressional conditions. Each year as the

[27] See ICG Balkans Report N°129, *Still Buying Time: Montenegro, Serbia And The European Union*, 7 May 2002.

[28] ICG interviews with EU and U.S. officials in Brussels and Washington.

[29] See ICG Report, *Belgrade's Lagging Reform*, op. cit.

deadline for cooperation (31 March) approaches, Serbia engages in a flurry of arrests and transfers, hoping to meet the deadline for certification and avert the threatened aid cut-off. The effectiveness of this conditionality policy is shown by the number of defendants in The Hague.

In spite of the proven effectiveness of conditionality, however, the U.S. Embassy in Belgrade has consistently downplayed the importance of Hague cooperation, and the State Department has lobbied Congress and tried to dissuade NGOs from supporting renewed conditionality language. The U.S. Embassy has continued to support a prominent anti-Hague journalist who receives financial support from a U.S. government subcontractor. U.S. efforts to undermine the International Criminal Court (ICC) further weakened domestic resolve to cooperate, as it made Washington appear to have a double standard on international justice. All together, this behaviour has sent an ambiguous signal to Belgrade authorities about how seriously they should take the Tribunal.

Although the U.S. policy of conditionality has proven effective, the EU has never followed suit. It does require cooperation with the ICTY as part of its association process, and Serbia's compliance is subject to an annual European Commission review. But the EU and its member states have yet to tie Serbia's compliance with the ICTY firmly to continued aid assistance, in whole or in part. Serbian authorities believe they have received indications from some EU member states that they sympathise with Belgrade on the war crimes issue. While the EU has repeatedly made it clear that it expects ICTY cooperation if Serbia is to get a favourable feasibility study leading to a Stabilisation and Association Agreement, this has been undermined both by the mixed messages from some member states and by the fact that the Commission office in Belgrade has concentrated much more on Serbia-Montenegro structures. The result has been another ambiguous message to Belgrade about cooperation that the nationalists, both within and outside DOS, exploit fully.

The fourth mistake was the tendency to treat Serbia as just another Eastern European post-communist country in transition. The EU, U.S. and international financial institutions failed to recognise that Serbia needed to make not one but two fundamental changes. The first was a unique transition from the criminalised wartime Milosevic regime's structures to normal state structures. This meant primarily decriminalising the security services and making them answerable to civilian control, while dealing with the wartime legacy of problematic structures of control in other institutions such as the judiciary and media.[30] The second change needed was and is the classic economic one. Until Serbia decriminalises and brings its security services under control, however, they will block that second transition. They have also reduced and limited Serbia's capacity to absorb assistance and implement reform. Nonetheless, since October 2000 donors consistently treated Serbia as though the first transition was not necessary. Even after the Red Beret revolt in November 2001, they kept repeating the mantra that Serbia was reforming rapidly, while failing to admit that few new reforms were actually being passed.[31] Ironically, donors engaged in spending practices that allowed Serbia to free up funds to oppose international community security policies in the Balkans, particularly Kosovo, where in 2003 Serbia diverted over €125 million to finance illegal parallel institutions.[32]

It is striking that there is no single point of contact for the international community in Serbia. Progress has been made in Macedonia, where successive EU Special Representatives have played an important coordinating role that keeps all international actors, including NATO and the U.S., to the same line. By contrast, the political situation in Albania has noticeably deteriorated since the downsizing of the OSCE presence there at the end of 2002, with the EU not yet able to take over the lead role in representing the international community politically. In Serbia, the recently departed U.S. Ambassador, William Montgomery, was certainly the strongest voice in the diplomatic community but he was not the voice of the international community.

Given that the new U.S. Ambassador, Michael Polt, is expected to take a less prominent role than his predecessor, at least initially, it would make sense for the EU to appoint a Special Representative to Belgrade to provide greater political direction than the European Commission delegation can give and help ensure that the international community does not send mixed messages.[33]

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[30] See ICG Balkans Briefing, *Fighting To Control Yugoslavia's Military*, 15 July 2002.
[31] See ICG Report, *Serbia After Djindjic*, 18 March 2003.
[32] ICG interview with senior Serbian official.
[33] Special Representatives may become much more common if the draft EU Constitution is eventually ratified but the EU already has a number of such officials, including as noted, in

V. FORMING A GOVERNMENT

Even though the SRS emerged as the single largest political party in the December election, none of the "democratic" parties with the exception of DSS wished to ally openly with it for fear this would discredit them with their core democratically-oriented voters. Since it seemed impossible for the SRS to form a government, the logical outcome appeared to be a coalition among the parties of the "democratic" bloc, DSS, DS, G17+ and the SPO/NS coalition. Because Serbia had no president, and the acting president was the speaker of the now disbanded parliament, it was unclear how anyone would be given a mandate to form a government. Until the new parliament constituted itself and elected a speaker who could fulfil the role of acting president, Kostunica took upon himself and the DSS the responsibility to form a coalition.

He began on 3 January 2004 with his call for a "concentration" government of all parties, including the SRS and SPS. The rationale was vague, and the other members of the "democratic" bloc immediately dismissed it as non-viable and a return to the Milosevic era.

The DSS then stated that it would attempt to form a coalition of the four "democratic" parties, but indicated that its preference was for a minority government with DS support but without DS participation. Outwardly the DS appeared split, but willing to give this support, hoping in return that DS vice president and defence minister Boris Tadic would retain his post in the federal government, where he had made progress in reforming the army and defence ministry. G17+ expressed its preference for a majority government with the DS, and stated that it would enter a minority government only if it had DS support.

Throughout early January, DSS officials maintained a high level of rhetoric and seemed to seek opportunities to attack the DS and its record. These attacks reached a new low on 15 January when Dragan Jocic (now minister of the interior) stated that the DSS would have to build a *cordon sanitaire* around the DS, due to its allegedly corrupt activities. This caused the DS to announce that it would only participate in a majority government with the DSS and would not support a minority government. The DS, for its part, was engaged in a serious internal power struggle that weakened its ability to negotiate decisively with the DSS.

As the impasse solidified, the Serbian parliament held its inaugural session on 27 January, the day of Serbia's patron Saint Sava. Prior to the session, the parties were discussing the possibility of new parliamentary elections. The inaugural session was boisterous, and all 82 SRS deputies wore t-shirts bearing the photograph of Vojislav Seselj. The parliament voted for a speaker, who would also be acting president of Serbia until new presidential elections were held. The DSS nominated its vice president, Dragan Marsicanin, but had failed to do its homework to ensure that he had sufficient votes to win. The DSS, G17+, and SPO/NS all voted for Marsicanin. All 82 Radicals voted for their own candidate, while the SPS abstained. To the surprise of the DSS, the DS also abstained, in protest over the DSS public attacks, and neither candidate received sufficient votes to meet the required majority of 50 per cent plus one.

Faced with the increasing possibility of new parliamentary elections, which no one except the SRS wanted, the DSS made more open overtures towards the SPS. The deal that was eventually struck ensured SPS support for the election of Marsicanin as speaker[34] and for a minority government of the DSS, G17+, SPO and NS. This government officially received parliamentary approval on 3 March 2004.

Macedonia, but also in such regions as the Middle East and the African Great Lakes. They are equipped with a variety of mandates.

[34] Marsicanin subsequently resigned as speaker to become minister of the economy. His replacement as speaker is Predrag Markovic of G17+.

VI. TRENDS

Few in Serbia believe the new government will have a long lifespan. Most foresee new parliamentary elections by year's end. Nonetheless, this government may last far longer than anyone expects. The events in Kosovo appear to have strengthened its nationalist credentials, and it is usually the case that when there is a perceived threat to the nation, voter support for a government typically increases. The new government will devote most of its energies to domestic priorities, which may be at odds with international community priorities. Already it has shown that it will attempt to operate through consensus, which may mean finding the lowest common denominator in meeting its own priorities, and this would of necessity be based on the populist anti-Western ideas of 71 per cent of the parliamentary deputies.

The choice of domestic priorities will no doubt lead to friction with the EU and U.S. in the short term, and could possibly jeopardise their funding to Serbia, should they prove serious about aid conditionality. So, too, there is a real possibility of losing support from the international financial institutions. A choice to turn a mostly blind eye to international concerns could also delay EU and U.S. efforts to move Serbia forward in the process of Euro-Atlantic integration.

For many in the new coalition government the highest priorities will be the laudable ones of undoing the legacy of corruption -- for which, however, they selectively blame primarily the Djindjic government -- and creating a legal framework for the development of state institutions. This includes at least a partial attempt to begin the decriminalising the state structures, particularly the security services. Whether this will translate into a concerted effort remains to be seen. Initial positive signs include the lame-duck federal parliament's passage on 5 March 2004 of legislation needed to comply with Council of Europe requirements. But this was not yet the action of the new federal parliament, which like the Serbian Republic body also has a heavy SRS element that reflects the December 2003 election results.[35]

At this stage, the new government appears to be placing more emphasis on creating discontinuity with the DOS government than with Milosevic's. Clear attempts are underway to demonise the Djindjic government and minimise its achievements. In some respects a political lynch atmosphere is being created in the media against former high-ranking Djindjic officials. Certain DSS and former Milosevic associates are even making public statements that appear designed to encourage the assassination of former officials.[36] The two highest profile targets to date have been former Djindjic confidante Vladimir "Beba" Popovic and former vice-president Cedomir Jovanovic. In an effort to discredit the previous government, the Djindjic assassination is being downplayed, or characterised as just deserts for having consorted too closely with criminals. A key witness in the case was mysteriously gunned down in early March, and the police have yet to indicate that they take this killing seriously.

Other efforts at discontinuity appear to be grounded in law and institutions. On 25 February the parliament voted to invalidate the change the DOS government made at the helm of the National Bank in July 2003. The DOS-appointed but previously ignored Anti-Corruption Council appears to be taking on new significance and has raised questions about a number of privatisations, including the high-profile acquisition by U.S. Steel of the Sartid factory in Smederevo. On 4 March the parliament voted to open a commission of inquiry into suspect sales of electricity. In a pre-inaugural speech, Prime minister Kostunica also promised that the sugar affair would be resolved and those responsible punished.

Whether or not the government takes the fight against corruption seriously will be seen in the resolution of six key cases. The first two are closely connected to state security: the assassination of journalist Slavko Curuvija and the two assassination attempts against SPO leader Vuk Draskovic. The third and fourth are the assassinations of Defence Minister Pavle Bulatovic and of state security employee Momir Gavrilovic.[37] In all of these cases the motive and triggermen seem to be known but the interior ministry appears to have obstructed investigations or withheld information, leaving the

[35] The Serbian delegation to the federal parliament consists of 30 deputies from the SRS, twenty from DSS, thirteen from DS, twelve from G17+, and eight each from SPO and NS.

[36] A series of threatening articles appeared in the newspapers *Kurir* and *Balkan* in late February and early March 2004 targeting Popovic.

[37] The Curuvija murder occurred in 1999 during the NATO bombing. There were two attempts against Draskovic, the first in 1999, the second in 2000. The Bulatovic murder took place in 2000. The Gavrilovic assassination occurred in 2001.

impression that the murders were state-sanctioned. The fifth and perhaps most important for Serbia's relations with the EU is the sugar affair. Finally, the trial of Djindjic's assassins will certainly be a litmus test for Serbia's politics and judiciary. Again, these matters appear to have been stalled or covered up by elements within the interior ministry, the DOS government, and members of the economic elite, some of whom appeared to have cooperated with organised crime. Should these six cases move forward, it will be a signal that Belgrade is attempting to undertake the first and most difficult transition, that of decriminalisation, in an even handed manner.

Serbia's economic elite complicates any effort to create discontinuity with the two previous governments. This was seen most clearly on 28 January 2004, when a gala inaugural ceremony was held for the Belgrade chapter of the Association of Industrialists and Entrepreneurs of Serbia and Montenegro (UIP). Membership in UIP reads like a who's who of Serbia's economic elite, and many Milosevic-era figures who had kept a low profile under DOS were prominent. Some UIP members were linked not only to the Milosevic regime, but also to DOS, and play a key role in financing a number of Serbia's main political parties. For better or for worse, their influence was clearly felt in the negotiations that led to the formation of the coalition government. Certainly some will use their financial largesse to maintain sources of income or acquire new assets and revenue streams. Already some appear to have taken advantage of the absence of functioning state institutions and a caretaker republic government, as well as the financial needs of some of the smaller political parties. To the credit of the DS, much of its internal power struggle and house cleaning centred on the role that potentially compromised financiers played in government policy.

The DSS has pledged that the government will concentrate on passing a new constitution. The problem with the current Milosevic constitution is that it is overly centralised, for example reserving most revenue collection and disbursement to the central government. Previously the municipal governments throughout Serbia and the government of the Vojvodina province had played a larger role in these matters. The constitution also gives tremendous authority to the president of the republic, a post that could soon be held by the SRS leader, Nikolic.

To pass a constitution with the necessary two-thirds parliamentary majority, the DSS will have to expend considerable political energy and capital and will need to assure the cooperation of the ultra-nationalist right. The process could tie up the parliament for months and will almost certainly mean at least an informal alliance with the SRS. This could give that party significant leverage also over other legislation. The SRS and SPS are satisfied with the current constitution and would favour a new one only if it increased centralisation. The DSS, too, favours increased centralisation, while NS and SPO will probably go along with whichever parliamentary faction appears able to offer them most. Both G17+ and DS seem to favour decentralisation. In short, even if a new constitution is passed, the victory may prove pyrrhic, and the new document little better than the old.

Prior to formation of the government, the parliament passed new legislation reforming Serbia's electoral law. A key feature was a lower bar for a party's entry into parliament, from 5 per cent to 3 per cent. This gives ethnic minorities, such as the Hungarians and Sandzak Muslims, a greater chance. In another widely hailed step, the parliament abolished the requirement for a 50 per cent voter turnout in a valid presidential election.

The new government has made a break from the old DOS government, in that responsibility for the functioning of ministries is to be apportioned on a party basis. Should a particular ministry fail to function, the public will be able to hold a specific party responsible, something lacking under DOS, where members of each party held functions in each ministry. The downside of this can be the choice of who gets which ministry. G17+ has been given responsibility for the Ministries of Finance, Health, Agriculture, and the National Bank, which should reassure foreign and domestic investors alike. On the other hand, the appointment of the colourful and sometimes profane Mayor of Cacak, Velimir Ilic, as minister of capital investment sends a conflicting signal and should cause donors to closely track investment controlled or supervised by this ministry.

The economy is sputtering, and domestic analysts and politicians agree that 2004 will be a very difficult year. ICG interviews and anecdotal evidence in the first two months of 2004 indicate that the previous year's downward trends may be continuing. Thirteen years without a proper agricultural policy combined with fallout from the EU sugar scandal have left the

agricultural sector in shambles, and manufacturing probably will not regain the levels of 2002. In contrast to 2003, Serbia can probably not count on substantial revenues from privatisation, as most of the profitable firms have been sold. Donor aid appears to be diminishing, and foreign investment remains scarce, especially for "green field" projects. Given the high 2003 trade deficit and the lack of a balanced budget, the country could face a debt crisis in 2004.

The World Bank released on 24 February 2004 a list of ten laws that it and other donors[38] had singled out as most important for economic reforms. The donors called for the parliament to adopt all ten within its first month. In some instances, release of donor assistance depends on the implementation of these laws, all of which are ready for passage. Ominously, the World Bank noted that the then-current draft budget -- one of the ten -- was "no longer consistent" with the understanding reached with the IMF.[39] The newly adopted budget, however, does appear to reflect rigid fiscal discipline, and finance minister Dinkic has begun discussions with the World Bank and IMF about its acceptability. Should these institutions fail to give their approval, some donor assistance could be curtailed.

To its credit, the government has, as noted, given some of the most vital economic portfolios to the G17+ technocrats. Deputy Prime Minister Miroljub Labus has indicated that the government will follow an aggressive policy to stimulate the economy, including tax cuts and a value-added tax, while Finance Minister Mladan Dinkic has announced specific details of an ambitious and far reaching plan that, if approved by government and parliament, could pave the way for an eventual economic turnaround. Kostunica has indicated that the government will follow policies to ensure monetary stability and economic growth. The big question is whether the parliament will find the time to vote on reforms instead of devoting all its energy to the constitution.

A major concern is the role of the SPS and its ability to influence policy, particularly on the ICTY. While the DSS has asserted that the SPS made no demands in return for support, SPS officials subsequently stated on television that their backing was indeed contingent on certain issues, including the Tribunal. Foreign minister and Civic Alliance of Serbia (GSS) chief Goran Svilanovic stated openly that the SPS had demanded that all arrests and transfers to The Hague cease. He also listed other SPS requirements, including forgiveness of unpaid telephone bills and seats for party members on boards of directors of state-owned companies.

The fallout from the imploding economy is expected to put pressure on any government to hold early elections. Presidential elections will be called on 6 April 2004, probably for late May or early June, and the government will probably combine these with municipal elections in order to save money. It is expected that economic dissatisfaction will only grow in the interim, which could give a boost to the SRS. Frustration over Kosovo will probably translate into stronger support for whichever candidate appears most able to protect Serbian interests there. As noted, Nikolic of the SRS is the clear favourite to win the presidency, with no serious challenger on the horizon, and his party is expected to make a strong showing throughout the country at the municipal level. Kostunica has made it clear that he will not run, and Boris Tadic, who will be the democratic candidate, appears to stand little chance.

A. IMPLICATIONS OF KOSOVO

The two most troubling questions for the international community remain Belgrade's policies towards Kosovo and The Hague Tribunal. In spite of recent events in Kosovo, it is unlikely that Serbia's overall strategy or goals for the province will change. These remained relatively constant under Milosevic and Djindjic, and Kostunica appears to be following a similar policy. The recent unrest has helped advance Serbian goals. Kostunica stated in his pre-inaugural speech that "cantonisation" and "partition" are his favoured solutions for Kosovo. This is consistent with the policies pursued by the Serbian government and its Coordination Centre for Kosovo and Metohija since 2001. It involves continuation of Serbian efforts to strengthen parallel structures inside Kosovo in preparation for a territorial solution that would at the least involve full autonomy for the Serbs in Kosovo and could, in the preferred version, split of the parts of Kosovo in which most Serbs live and

[38] The other donors include IMF, UNDP, EBRD, USAID, OSCE, and GTZ.
[39] See World Bank press release, 24 February 2004, "The list of laws important for the continuation of the reforms".

attach them to Serbia. These are concepts that the international community has yet to confront head on.[40]

Belgrade officials have worked vigorously towards this goal yet have been loath to mention it publicly for fear of upsetting the voters and giving their political opponents ammunition. The mid-March effort at ethnic cleansing in Kosovo has increased public support inside Serbia for a solution based on territorial autonomy for Serbs.[41] As a result, the government now has the domestic political cover it needs to propose a territorially based political solution publicly as the best way to guarantee security to Kosovo Serbs. Though it is still using the milder code words "cantonisation" and "decentralisation", the explosive events in Kosvo have enabled it for the first time to begin to focus international attention on the idea of partition. Pushing for a territorial solution favours the interests of right-wing elements in the security apparatus, the intelligentsia, and the Serbs in the north of Kosovo above the interests of Kosovo Serbs who live in the enclaves further south, whose position would likely become more difficult in the event of any partition.

The real test of the government's position on Kosovo will be seen in the technical discussions between Pristina and Belgrade, as well as in ongoing relations with UNMIK. How this will play out in the aftermath of the clashes is still unclear. Yet, given Serbian outrage at UNMIK chief Harri Holkeri's 21 March remarks in which he minimised Serb losses, and referred to the more than 30 Serbian Orthodox churches and monasteries destroyed as "a few", it is unlikely that Belgrade will engage in constructive dialogue until he departs.

There are still hard-line elements within both the army and the intelligence agencies that will continue to place pressure on the government to avoid a political solution. Following the 17 to 19 March events, a number of politicians across the political spectrum, including Ilic, Draskovic and Nikolic, have advocated the return of Serbia's security forces to the province, albeit as part of KFOR and have advocated using force against the Albanians to restore order.

There have also been several public statements that Serbia and Montenegro must urgently join NATO's Partnership For Peace (PFP). The most notable of these was an official announcement following the emergency session of the Supreme Council of Defence on 18 March.[42] On the basis of this, it appears that at least some in leadership circles feel that Serbia's best chance of returning its security forces to Kosovo -- particularly under a KFOR umbrella -- would be in the context of PFP. Yet a precondition for membership in PFP is cooperation with The Hague Tribunal, something that the new government has yet to face up to.

During January and February 2004, the Belgrade tabloid press and the electronic media ran a series of stories that gave the public the impression the Tribunal was losing international support and might soon fade away. These articles played up the resignation of Richard May, the presiding judge in the Milosevic case.[43] In his pre-inaugural speech, Kostunica avoided firm commitments either way on the Tribunal, simply stating that cooperation must be two-way, and that Serbia would do more to support indictees already in The Hague.

Statements by other senior DSS officials, such as party vice president Dragan Marsicanin, have been more revealing. On 5 March, he said that the government does not recognise indictments based on the principle of command responsibility, no further indictees will be transferred to the Tribunal, and domestic courts should try those indicted by the ICTY.[44] Marsicanin's statement reflects widespread views throughout the government and country. There is little political will inside the government, with the exception of G17+, for cooperation with the Tribunal. Since late December 2003 there has been little contact between the Tribunal and the government. The international community should not expect that much will be done to arrest or transfer indictees.

Should international pressure over the Tribunal result in restricted donor assistance, it could cause a significant split between G17+ and Vuk Draskovic on the one hand, and the DSS on the other, that could

[40] See ICG Balkans Report N°131, *UNMIK's Kosovo Albatross: Tackling Division In Mitrovica*, 3 June 2002.
[41] "Poslaničke grupe podržale inicijativu o kantonizaciji Kosova", Vesti B92, 23 March 2004.
[42] Vesti B92, 18 March 2004.
[43] Judge May, who is seriously ill, announced on 18 February 2004 that he was resigning from the Tribunal, effective 31 May 2004.
[44] It is the almost near-unanimous opinion of Serbian and international legal experts that the Serbian court system is too compromised to carry out credible war crimes trials, and that new legislation must be passed to harmonise Serbia's jurisprudence with international standards.

either bring down the government or force a restructuring. Thinking inside the DSS seems to be, however, that the ICTY issue will not be enough for the EU to cut off aid, and that Serbia can do without U.S. assistance, much of which is targeted towards democracy building.[45] Yet, Kosovo probably remains the most neuralgic issue. Should leading security and political circles decide that PFP membership is necessary to secure Serbia's position there and effect partition, Belgrade could rapidly and unexpectedly shift its policy on the Tribunal and arrest and transfer its higher profile indictees.

[45] See "Serbia Can Survive Without U.S. Aid", Institute for War and Peace Reporting (IWPR) Balkans Crisis Report N°481, 19 February 2004.

VII. CONCLUSION

The Serbian government is showing two faces to the world. One is the old, ugly face of right-wing anti-Western populism espoused by the DSS. The other is the face of moderate, pro-reform pro-European technocrats espoused by G17+. Many inside Serbia and the international community hold out hope that eventually DSS and DS will reconcile and create a restructured majority government. That would remove the threat posed by the SPS's influence on the present coalition. Given the level of antagonism between the two parties, however, such an alliance is far from certain. DSS efforts to investigate economic and criminal scandals associated with DS members will contribute to tensions and make any reconciliation difficult. Even should it occur, experience suggests the DS would be unable to moderate the DSS extensively.

The Kostunica government appears set to follow an ambitious economic reform program but it also will probably pursue policies aimed at satisfying domestic right-wing and populist constituencies, particularly in regard to The Hague Tribunal and Kosovo. It is unlikely to moderate the latter policies unless the donor community applies concentrated financial and diplomatic pressure. There is also the troubling probability that after May 2004, Tomislav Nikolic will be Serbia's president, with broad constitutional powers, and his (and Seselj's) extreme right SRS party will control the majority of the country's municipal governments.

Pretending that Serbia is cooperating with The Hague Tribunal when it is not is no longer a viable policy, particularly given the progress on this issue in neighbouring Croatia. Likewise, if the government fails to back decisively the economic reforms it has announced, donors should no longer pretend that things are moving forward.

Pro-reform and pro-Western politicians inside Serbia have been seriously discredited, in part by the prolonged international pretence that change was occurring when it was all too obvious on the ground that deadlock and stagnation dominated. If they are to regain credibility, the U.S., the EU and Western institutions will have to stop pretending, and evaluate progress objectively, on the basis of real actions and reforms, not wishful political thinking. To do otherwise would further damage Serbia's weakened progressive elements.

Belgrade/Brussels, 26 March 2004

APPENDIX A

MAP OF SERBIA

APPENDIX B

GLOSSARY OF NAMES, ACRONYMS AND USEFUL TERMS

DB	Serbian State Security
DS	Democratic Party (formerly led by Zoran Djindjic; now led by Boris Tadic)
DSS	Democratic Party of Serbia (led by Vojislav Kostunica)
DOS	Democratic Opposition of Serbia (former governing coalition)
EBRD	European Bank for Reconstruction and Development
EU	European Union
G17+	Political party led by Miroljub Labus
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German development agency)
GSS	Civic Alliance of Serbia (political party led by Goran Svilanovic)
HDZ	Croatian Democratic Community (political party in Croatia and Bosnia)
ICTY	International Criminal Tribunal for Former Yugoslavia
IMF	International Monetary Fund
KFOR	NATO-led peace-keeping mission in Kosovo
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
NS	New Serbia (political party led by Velimir Ilic)
OSCE	Organisation for Security and Cooperation in Europe
PFP	NATO's Partnership for Peace
RTS	Radio Television Serbia
SCG	Serbia and Montenegro
SFOR	NATO-led peace-keeping mission in Bosnia and Herzegovina
SPO	Serbian Renewal Movement (political party led by Vuk Draskovic)
SPS	Socialist Party of Serbia (political party formerly led by Slobodan Milosevic)
SRS	Serbian Radical Party (political party led by Vojislav Seselj and Tomislav Nikolic)
UN	United Nations
UNDP	United Nations Development Program
UIP	Association of Industrialists and Entrepreneurs of Serbia and Montenegro
U.S.	United States
USAID	United States Agency for International Development

APPENDIX C

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 90 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers. ICG also publishes *CrisisWatch*, a 12-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.crisisweb.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are in Brussels, with advocacy offices in Washington DC, New York, London and Moscow. The organisation currently operates thirteen field offices (in Amman, Belgrade, Bogotá, Cairo, Freetown, Islamabad, Jakarta, Kathmandu, Nairobi, Osh, Pristina, Sarajevo and Tbilisi) with analysts working in over 40 crisis-affected countries and territories across four continents. In Africa, those countries include Burundi, Rwanda, the Democratic Republic of the Congo, Sierra Leone, Liberia, Guinea, Ethiopia, Eritrea, Somalia, Sudan, Uganda and Zimbabwe; in Asia, Indonesia, Myanmar, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Pakistan, Afghanistan, Kashmir and Nepal; in Europe, Albania, Bosnia, Georgia, Kosovo, Macedonia, Moldova, Montenegro and Serbia; in the Middle East, the whole region from North Africa to Iran; and in Latin America, Colombia.

ICG raises funds from governments, charitable foundations, companies and individual donors. The following governmental departments and agencies currently provide funding: the Australian Agency for International Development, the Austrian Federal Ministry of Foreign Affairs, the Canadian Department of Foreign Affairs and International Trade, the Canadian International Development Agency, the Dutch Ministry of Foreign Affairs, the Finnish Ministry of Foreign Affairs, the French Ministry of Foreign Affairs, the German Foreign Office, the Irish Department of Foreign Affairs, the Japanese International Cooperation Agency, the Luxembourgian Ministry of Foreign Affairs, the New Zealand Agency for International Development, the Republic of China Ministry of Foreign Affairs (Taiwan), the Royal Danish Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the Swedish Ministry for Foreign Affairs, the Swiss Federal Department of Foreign Affairs, the Turkish Ministry of Foreign Affairs, the United Kingdom Foreign and Commonwealth Office, the United Kingdom Department for International Development, the U.S. Agency for International Development.

Foundation and private sector donors include Atlantic Philanthropies, Carnegie Corporation of New York, Ford Foundation, Bill & Melinda Gates Foundation, William & Flora Hewlett Foundation, Henry Luce Foundation Inc., John D. & Catherine T. MacArthur Foundation, John Merck Fund, Charles Stewart Mott Foundation, Open Society Institute, Ploughshares Fund, Sigrid Rausing Trust, Sasakawa Peace Foundation, Sarlo Foundation of the Jewish Community Endowment Fund, the United States Institute of Peace and the Fundação Oriente.

March 2004

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* The Algeria project was transferred from the Africa Program to the Middle East & North Africa Program in January 2002.

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