



SPECIAL REPORT

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ABOUT THE REPORT

This report examines Serbia's rocky road to reform from January 2001, when the 18-party Democratic Opposition of Serbia (DOS) took power, until the beginning of 2002, when it remained in power but had lost active participation of Yugoslav president Vojislav Kostunica's party. The report was prepared before the European Union-brokered agreement between Serbia and Montenegro and before the Yugoslav Army arrest of a Serbian deputy prime minister. The report is based on a series of public and private discussions at meetings of the Institute's Balkans Working Group over the previous six months as well as on several visits to Serbia. Contributors to the discussions included prominent Yugoslav and Serbian officials as well as a dozen U.S.-based analysts and commentators. None of them is responsible for this report, which was prepared by Vladimir Matic under the direction of Balkans Initiative director Daniel Serwer.

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The views expressed in this report do not necessarily reflect those of the United States Institute of Peace, which does not advocate specific policies.

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Serbia Still at the Crossroads

Briefly . . .

- Serbia today represents an opportunity more than a problem: democratization coupled with economic recovery would allow resolution of remaining issues throughout the Balkans.
- Since January 2001, a lot has been achieved, especially in economic reform, but political and institutional changes are just beginning and many of the major reform challenges Serbia faces remain unmet.
- The competition between Yugoslav president Kostunica and Serbian prime minister Djindjic reflects a deep division over the direction of reform, the concept of the state, and Serbia's past and future.
- In an established democracy, rivalry between a more principled, nationalist pole and a more pragmatic, reformist pole might provide balance and check political extremism; but in a fledgling democracy with an autocratic legacy, it has hindered the democratic transition.
- The Yugoslav Federation is largely nonfunctional but nevertheless inhibits reform; the Serbian Republic is the de facto governing authority and engine for reform in Serbia, but the political struggle within DOS is a serious distraction.
- Major obstacles to reform reside in the police, army, state security services, the Montenegrin participants in the federation government, and other former pillars of the Milosevic regime's power.
- Further progress in Serbia requires clarification of the status of the Yugoslav Federation, political calm in Kosovo, an effort to rid the Yugoslav and Serbian state organs of those responsible for past abuses and war crimes, and cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).
- The transition to democracy in Serbia will take time. Occasional setbacks are inevitable. Powersharing will inevitably give way to competition at the polls between forces led by Kostunica and Djindjic.
- The international community should refrain from taking political sides but should continue to push for reform. Using economic and other incentives, the United States and the European Union can contribute to the acceleration of social, political, and economic transformation in Serbia.

Introduction

In October 2000, after Slobodan Milosevic was forced to acknowledge electoral defeat, the feeling of relief and euphoria in Belgrade was so overwhelming that little attention was paid to the legacy he left behind. In those early heady days, it seemed to many inevitable that the pillars of support that had sustained the old regime—from the police and intelligence services to the banks, courts, and the state-controlled media—would crumble.

Now, some 16 months later, it is apparent that only limited sectors have undergone profound change. Economic reform, for which Serbia was well-prepared by the work of the economists' organization known as G-17, has been particularly rapid. Starting from a difficult position, the new authorities at both the federation and Serbian Republic levels have aggressively pursued macroeconomic stabilization, economic liberalization, fiscal and banking reform, enterprise restructuring, and rescheduling of external debt. While there have been some struggles within the DOS over economic reform, which may be hindered in the future by political tensions, progress has so far been rapid.

In many other key areas, Yugoslavia and Serbia today still find themselves at the crossroads. The judiciary, police, and military remain largely as they were under Milosevic. Media are far freer, but tend to follow old habits and align with political parties and groups of the DOS, which exploit the media in ways that resemble those of the Milosevic regime. The lack of a system for distributing frequencies to electronic media has so far hampered "independent" television and radio outlets from reaching wider audiences. Corruption is still a major issue. Control of some major economic assets remains in the hands of those who gained their position with the assistance of Milosevic. Within DOS there is a struggle for control over large state-owned companies, whose boards provide well-paid sinecures and whose privatization promises further benefits. Despite the unearthing of bodies of murdered Albanians from Kosovo at many sites in Serbia by a Serbian Interior Ministry determined to confront the past, many Serbs continue to ignore what was done in their name in Kosovo, Bosnia, and Croatia and regard themselves as the major—even the only—victims of the Balkan wars of the 1990s. Resistance to transfer of indictees to the Hague Tribunal remains strong. The prevailing political culture does not favor substantial reforms but rather conservative and nationalist positions and policy.

"DOS Minus One"

Post-Milosevic Yugoslavia and Serbia are governed by coalitions born out of necessity and not based on close ideological and political views. They often lack a common strategy for dealing even with everyday problems. They came to power in October 2000 in the federation and in January 2001 in Serbia with the tacit collaboration of the security forces, which abandoned Milosevic during the October 5 demonstrations.

On the federal level, Yugoslav president Vojislav Kostunica has formed two successive governments with DOS and the Montenegrin Socialist People's Party (SNP), Milosevic's former coalition partner and a die-hard opponent of transfer of indictees to The Hague. This is the only partner possible since the pro-democracy forces in Montenegro boycotted the September 2000 elections and are therefore not represented in the Yugoslav parliament.

DOS itself, which governs the Serbian Republic, was formed in the summer of 2000 by the 18 political parties belonging to the democratic opposition. They ranged from nationalist to anti-nationalist, from conservative to liberal, from pragmatic to principled. Their shared political conviction was the need to remove Milosevic. From the beginning, DOS has been plagued by differences regarding major issues and conflicting visions of the future of Serbia and its place in the world. For almost a year now there has been one crisis after another. DOS managed to survive them all, though not unharmed.

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The first serious clash within DOS occurred in March 2001 over cooperation with the ICTY and what to do with Milosevic. The leaders of DOS managed to reach an agreement that resulted in the first extradition, that of a Bosnian Serb. DOS agreed in principle to hand over to ICTY all indicted non-Yugoslav citizens (in practice Bosnian Serbs) and to submit to the federal parliament a draft law on cooperation with the tribunal. DOS also agreed to establish the Commission for Truth and Reconciliation. Kostunica later followed up on this proposal, appointing 17 members to the commission and tasking it “to truthfully reconstruct events,” though anti-nationalist members of the commission resigned in protest of its composition and mandate.

Then on March 31, the Serbian government ordered Milosevic arrested. This corresponded with a deadline imposed by the U.S. Congress, which threatened to withdraw assistance if Belgrade failed to cooperate with the Hague Tribunal. A two day stake-out at Milosevic’s home in the wealthy Dedinje neighborhood of Belgrade ensued before Milosevic was taken. President Kostunica opposed the arrest of Milosevic and did little to hide his disapproval.

None of the parties in the DOS coalition were yet ready for elections, nor do they seem to be even now. Although relations between Kostunica’s Democratic Party of Serbia (DSS) and the other 17 members of DOS have continued to deteriorate, their marriage of convenience remains vital to its members’ political viability. The smaller parties can survive only as part of a coalition because there is a required minimum 5 percent of the vote for representation in the Serbian parliament. While Kostunica personally enjoys high popularity, his party, the DSS, lacks the organization to carry out a successful campaign. Djindjic’s Democratic Party (DS) is generally regarded as having the stronger electoral machine, but he has been less popular in the polls than Kostunica, with high negative evaluations from a significant percentage of the population.

Under pressure from other DOS leaders, Kostunica and Djindjic reached an understanding in early May to stop bickering and to keep the coalition together, but they were unable to pass an effective law on cooperation with the tribunal, despite promises to President George Bush, or to agree on what to do with Milosevic. The Yugoslav federal government instead issued a decree establishing rules for cooperation with ICTY and for extradition of those indicted, including Milosevic. On June 27, 2001 Kostunica declared that the decree could not be implemented before being reviewed by the Federal Constitutional Court. The next day, the court—consisting of five judges appointed by Milosevic—ordered all actions based on the decree stopped.

At an emergency meeting of DOS that same evening, a decision to implement the decree without any delay was adopted unanimously by the representatives of the 17 DOS parties present; Kostunica’s DSS did not send a representative. Influencing the decision was U.S. and European pressure on the eve of an international donors conference for Yugoslavia. Thus “DOS minus one” took responsibility for cooperation with the Hague Tribunal, and the government of Serbia transferred Milosevic on June 28.

This decision further deepened the rift between Djindjic and Kostunica almost to the breaking point. Still the DOS coalition at least formally continued to exist, while DSS pressed for a reshuffle in the Serbian government that would replace interior minister Dusan Mihajlovic and minister of justice Vladan Batic. The two ministers had been champions of Milosevic’s transfer, and their ministries controlled the police and associated security services.

In August the situation within DOS worsened. A former member of the Serbian State Security services, Momir Grailovic, was murdered just hours after meeting with Kostunica’s advisers. Press leaks suggested that Gavrilovic had been providing the president’s staff with evidence of corruption and connections to organized crime by high-level officials in Djindjic’s Serbian government, maybe even, the allegations hinted, Djindjic himself. This turned out not to be the case, and Gavrilovic’s own criminal involvement quickly became public. Djindjic and his Democratic Party came out of the Gavrilovic affair strengthened, and the cohesion of DOS minus one was forged.

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DOS minus one was tested in December in voting on a draft labor reform law opposed by DSS. This led to the resignation of the DSS speaker of the Serbian parliament. Formally DSS remains part of DOS though its representatives have pulled out of the Serbian government and have formed their own "clubs of representatives" in the Serbian and the federal parliaments, but have left open the possibility of their attending DOS meetings.

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Conflicting Visions

Increasingly separated from the rest of DOS, DSS controls the Yugoslav Federation and portrays itself as the defender of national interests and the state (Yugoslav and Serbian) against international (primarily American) pressure, while at the same time claiming to share democratic values, in particular the rule of law, with Europe. At the same time, Djindjic has consolidated the coalition of his DS with the smaller parties as well as DOS minus one control over the Serbian government and parliament. DOS minus one portrays itself as reform-minded, prepared to meet international obligations, and concerned primarily with moving Serbia forward towards Europe. As deputy prime minister Zarko Korac has put it, DOS minus one advocates "substantial changes and speedier accession of Serbia in the European Union. . . . All 17 parties in DOS are for decisive reform steps." In interviews with the magazine *NIN* in October 2001, Kostunica and Djindjic offered their assessments of DOS's first year in power and further elaborated on their positions (*NIN* no. 2649, October 4, 2001).

For Kostunica, October 5, 2000 represents the moment Serbia achieved freedom, when real democratic institutions could begin to be established. He emphasizes "the issue of the state," defining it as the establishment of a legal state and preservation of the Yugoslav Federation. Explaining the slow pace of reforms, Kostunica says that they cannot be implemented in a vacuum, but only through the legal institutions of the state. Attempts to introduce fundamental changes must not be allowed to put the state in jeopardy. The state institutions consist of real people who cannot be replaced overnight. Continuity is necessary especially in the military and the police, Kostunica argues. He expresses his disagreement with those who consider "that we have already become part of a wider world, that borders have disappeared, that we have to adjust to those rules in force in the world disregarding our state framework." Kostunica criticizes reformers who disregard Serbia's unique history and inherited problems.

By contrast, Djindjic portrays October 5, 2000 as a historic moment when national consensus was reached that the way out of Serbia's crisis is to join democratic Europe. The legacy of total isolation of the country and the mind-set of the nation will have to be changed. Milosevic was a "product of the Serbian society," according to Djindjic, and "our responsibility is larger for making it possible for him to do what he did, than his for doing it. That means that if we want substantial changes, we have to change ourselves." The prime minister thought more could have been done after October 5 were it not for differences within DOS about removal of the Yugoslav army chief of staff, Nebojsa Pavkovic, and former state security chief, Rade Markovic. Djindjic is critical of his own performance in dealing with the abuse and criminal behavior of the former regime and with reform of the judicial system. Djindjic defines his party as a "symbol of efficiency, speed, and finding solutions for new problems without too much theory." He says he is tired of preaching about morality, culture, and the Slav world and that he believes in western ethics based on responsibility. He warns about the dangers of populism in Serbia.

In an established democracy such different positions could have provided a good balance and kept political extremism of any kind in check; but in a fledgling one being built by a society with a strong autocratic legacy, they have created a political quagmire that slows reform and preserves major elements of the Milosevic regime.

Cooperation with ICTY Virtually Frozen

Cooperation with the Hague Tribunal has been the major sticking point. Serbian politics are still conducted in an atmosphere that reflects the legacy of radical nationalism and isolation, a large element of which is distrust of anything foreign. The ICTY is viewed as a basically anti-Serbian institution. International community pressure in spring 2001 pushed public opinion towards favoring the extradition of Milosevic, but this shift was based on expectations that extradition would be richly rewarded with financial assistance. While the majority of Serbs polled last June believed that Milosevic should be tried for abuse of power and corruption, only 2 percent thought that he was responsible for war crimes.

During that same month two topics were featured on almost all prime-time TV news broadcasts and on all the front pages: what to do with Milosevic, and the discovery of mass graves containing bodies transported from Kosovo to sites around Serbia. Little connection was made between the two issues, as if the excavated bodies had nothing to do with Milosevic's policies and crimes committed under his rule.

After the conflict that erupted within DOS following Milosevic's extradition to the Hague at the end of June, DOS agreed to a moratorium on extraditions for three months. This was tacitly extended for the rest of the past year. Cooperation with the tribunal is an issue in Serbia primarily because of the U.S. Congress, which is again threatening to cut off assistance. This has led to hints from Djindjic that further transfers may be imminent. Domestically in Serbia, 29 trials for crimes against humanity are underway in military courts, and one in a civilian court. But more than two and a half years after Yugoslav Army (VJ) forces withdrew from Kosovo, not a single trial has been concluded or sentence handed down, nor is the public kept informed about the issue. Left to their own devices, Kostunica would defend the Yugoslav Army, and Mihajlovic would defend the police and security forces. The compromises struck in October 2000 between DOS leaders and security forces to ensure a peaceful transfer of power may haunt the new authorities for a long time.

Those in DOS who oppose ICTY argue that it will relieve Serbia of the burden of addressing responsibility for past crimes and hamper establishment of the rule of law. They suggest that ownership of the process is as important as the judicial procedure. Those who support ICTY, who remain a minority in Serbia and in DOS, hope that the Milosevic trial will expose his policy and strategies, result in more readiness to explore the events of the past 12 years, and force Serbia to face the responsibility for those who were acting "in the name of the Serbian nation."

Where Does Serbia End?

DOS inherited from Milosevic a non-functional federation, a fictional Yugoslavia, which had in fact ceased to exist a year or two before Milosevic fell. Kostunica himself had described the federation as a facade. Montenegro has established virtual independence, maintains its own monetary system and customs, operates a largely separate economy, and sends representatives abroad. The only functional federation institution is the VJ, which remains stationed in Montenegro, but Podgorica does not contribute to the federal budget so even the army is financed mainly by Serbia.

While DOS has maintained unity in federation talks with Montenegrin leaders, shifting the leadership burden to Kostunica and his advisers, behind the scenes the DOS parties have little in common beyond opposition to Montenegrin independence. Some feel it would be better to resolve the issue quickly, even if independence were the outcome, so that Serbia can move ahead with reforms, including the rewriting of the Milosevic-era constitution. Voters in Serbia increasingly see the stalemate as preventing faster consolidation of their own republic's reforms. Only 55 percent of Serbs support the

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continuity of the federation, down from 67 percent in March 2001. At the same time, support for independence in Montenegro has been declining, under strong pressure from both the European Union and the United States. EU foreign policy chief Javier Solana has been anxiously pressing for "a democratic Montenegro within a democratic Yugoslavia," if only as a temporary measure, with a final decision postponed for several years.

DOS has not attempted to formulate a common position and strategy for negotiating Kosovo's final status, though all the parties would agree that Kosovo should remain part of Yugoslavia. If the issue of Kosovo final status is raised under current circumstances, the DOS party leaders would be compelled to compete with patriotism, as they did when reacting to the Albanian extremist attacks in southern Serbia last spring. The prevalent mind-set of the general public has in the past and would again reward the nationalists, which would thus limit room for negotiations. While some would argue that the unresolved issue of Kosovo stands in the way of accelerating Serbia's approach to Europe, a premature push to reach a final settlement could set back democratization in Belgrade.

Developments in Kosovo following the November 2001 elections there may lead to some improvements. Participation of the Kosovo Serbs in the United Nations-sponsored political process was an important first step. Over time it may change the perspectives for a solution of Kosovo's status, provided the Kosovo Serbs begin to feel secure and some displaced people begin to return home. Serb participation in Kosovo governance will also gradually diminish the influence of the radical elements on both sides and may help make the issue less politically charged within Serbian domestic politics as well.

With respect to Bosnia-Herzegovina, Belgrade has taken crucial steps: recognition of Bosnia as a sovereign state and establishment of full diplomatic relations as well as expanded economic cooperation. Yugoslavia has announced that it will ratify the Dayton agreements and that it will open a consulate in Banja Luka. Bosnia has remained an issue because of continuing personnel and financial arrangements between the Yugoslav Army and security services and Banja Luka's military and state security services, despite repeated announcements that these ties have been broken. Belgrade has also tried to suggest that if Kosovo or Montenegro were to become independent, then Republika Srpska (RS) would necessarily also be entitled to move in that direction. This implied threat sits badly with an international community that has invested heavily in preventing partition of Bosnia and that continues to protect Republika Srpska with NATO troops even though the RS has not fulfilled its obligation to allow refugees and displaced people to return home.

Most of the problems relating to the status of Vojvodina and its autonomy within Serbia seem to be on the way to resolution. At the end of January the Serbian parliament started debating a law drafted by the government of Vojvodina and approved by the Serbian government. It was adopted at the beginning of February, though DSS representatives did not support it. It is a comprehensive law dealing with 26 areas of government and it transfers some 300 "responsibilities" back to Vojvodina.

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Economic Reform: Pain but No Gain

When it was formed in February 2001, the Serbian government was overwhelmed with the disastrous state of the economy that the former regime had managed to conceal from the public. Foreign donations of \$400 million during the last three months of 2000 and a further \$900 million in 2001 for energy supplies, pensions, and social programs provided enough for bare survival but did not change the fundamental situation.

Considerable progress has been made in creating a legal framework for a functional market economy, earning the praise of the International Monetary Fund and the World Bank, but the process took twice as long as anticipated. Most important was adoption

of laws on privatization, creation of a new tax system, and enactment of the controversial Law on Labor, which allowed for the process of restructuring and privatization to begin.

The government also restructured Serbia's banking system. Eighteen smaller banks and four major state banks with 8,500 employees were closed. Combined they had an accumulated private debt of \$1.6 billion amassed during the Milosevic era through shady deals and manipulation. A government guaranty was issued for deposits in these banks. This bold initial step significantly reduced the debts of several large state-owned companies and saved them from bankruptcy so they may be restructured and/or privatized. This is intended to create conditions that will attract foreign investment by next summer.

Social conditions in the meanwhile remain precarious. Industrial production in 2001 was lower than in 2000 and 4 percent lower than the 1996–98 average. Last summer, the Serbian government confronted unhappy workers in Kragujevac, Serbia's industrial heartland, after the largest factory there was effectively closed. At the time, the Kragujevac region was operating at only 4 percent of its former industrial capacity. Unemployment is estimated to be at 40–50 percent. Additionally, half of those currently employed do not actually work and will be let to go once privatization gets underway. Purchasing power has been reduced by half. Some 700,000 refugees and displaced people still remain in Serbia.

It is generally assumed that economic dislocation, poverty, and social unrest will hurt those who have advocated economic reform, in particular Djindjic. While this may be true, it is notable that some of the strongest and most forthright advocates of economic reform are also among the most popular public figures in Serbia: Yugoslav deputy prime minister Labus and central bank governor Dinkic in particular. They, along with other more intellectual figures like Civic Alliance leader and Yugoslav foreign minister Svilanovic, may emerge as a third force in Serbian politics, in addition to the more conservative group around Kostunica and the more reformist group around Djindjic. It remains to be seen, however, whether they can convert personal popularity into votes in a Serbia still suffering enormous economic hardship.

Law and Order: A Long Way to Go

In addition to basic economic laws, the most important legislation passed so far has dealt with reform of the court system, with the goal of transformation of the entire judicial system and establishment of an independent judiciary. In November, Serbian minister of justice Batic replaced 187 judges. Remaining on the agenda of parliament are penal code amendments, court fees, and laws on criminal procedure, police, anti-corruption, and tobacco. The impact on judicial performance has been limited so far, however, due to the enormity of the task and squabbles within DOS. The judicial system remains unreliable, prone to political pressures and manipulation, and far from being citizen-oriented.

Political patronage, cronyism, and corruption have been a way of life in Serbia, and under Milosevic a symbiotic relationship was established between the government and organized crime. Social values were further corrupted by decades of communist rule. President Kostunica—who is generally regarded as personally uncorrupted—has often drawn attention to the problem of corruption, but the federation government he heads has done little to attack it. The new authorities at the Serbian Republic level at first seemed unable or unwilling to address this enormous problem head-on. But the prime minister and his finance minister, among others, have now raised the priority of fighting corruption and promised to root out organized crime.

Last summer a Serbian law was adopted introducing a one-time tax on extra profit gained and property acquired by use of special privileges from 1989 until the summer 2001. It targeted war-profiteers, organized crime, and the former regime's cronies and

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front companies. This controversial law, while generating income for the budget and addressing the fiscal aspect of the problem, at the same time absolved the enriched collaborators of the former regime of criminal charges and legalized their acquired positions. Critics called the plan a buy-out, but the government accepted this as a short-cut towards economic reconstruction and political reconciliation.

The Serbian government claims that it has achieved some results by adopting regulations to stamp out crime and corruption in customs. The Interior Ministry has made 30 arrests for corruption, and Serbia has joined the Stability Pact's Anti-corruption Initiative. The problems of corruption and criminality remain one of the most serious challenges in the ongoing process of political, social, and economic reform.

After October 5, 2000, the police and state security apparatus were left intact for a full five months, in part out of a combination of fear and gratitude for their restraint during the events leading to Milosevic's fall. But the chief reason the police and intelligence apparatus were left alone was the lack of agreement in DOS on how to deal with this most powerful former pillar of the Milosevic regime. After the Serbian government was finally installed in February 2001, some top police officials were replaced, allowing for the "professional core" of the institutions to be preserved along with the mentality forged under the previous regime. One of the most damaging consequences of the initial hesitation to conduct sweeping personnel changes is that ample time was provided to destroy evidence of crimes committed in the past, including dozens of unsolved political assassinations and links with organized crime.

More than a year after the change, the security structure remains essentially unreformed and may potentially even present a threat to the government. The demonstrations and disruption of traffic in mid-November by the Serbian Interior Ministry's "Red Berets," known for their special operations in the Croatia, Bosnia, and Kosovo conflicts, illustrates this risk. Members of this special operations unit showed that their loyalty is not to the democratic government and the people they supposedly serve. They consider themselves the ultimate arbiters of what is right and how they should behave. The immediate cause of the mutiny was the arrest of two Bosnian Serbs wanted by the ICTY. The Red Berets were unhappy to have unwittingly participated in this operation and requested the resignation of the minister of interior, Dusan Mihajlovic. They wanted no further arrests to be made and their members not to be used in such operations. Djindjic rejected Mihajlovic's offer to resign. But he also held a long talk with the Red Berets in their barracks in an allegedly conciliatory tone. Later he fired the director of state security and his deputy and appointed his own chief of the cabinet to the position of the deputy interior minister. It remains unclear whether the Red Berets are under their control.

In November the independent newspaper *Reporter* published a list of 345 police who were allegedly suspects or potential witnesses in The Hague. Mihajlovic vowed that while he is minister, no member of the police force would be transferred to The Hague. Djindjic reiterated this position, saying that "we owe at least a minimum of gratitude to these people who risked their lives wearing blue uniforms" (in Kosovo). This statement was received with confidence by members of the force, since their former commander in Kosovo, police general Sreten Lukic, was appointed by Djindjic as director of public security in the Serbian Police.

The Army: Chief of Staff Puts on the Brakes

After October 2000 there was a groundswell of support for reform of the VJ, including cashiering Milosevic's proteges. Fourteen VJ generals retired, and several VJ commanders serving in Montenegro were replaced at the request of Montenegrin president Milo Djukanovic. Another 35 generals retired in the next few months.

Reform then ground to a halt under VJ chief of staff General Nebojsa Pavkovic, former commander of the Third Army, which was active in Kosovo during the NATO/Yugoslav

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war. As soon as it became clear that Pavkovic would be kept in place, the impetus for reform evaporated. He has since managed to monopolize decisions on retirement, promotions, and appointments. At the end of December 2001, some 21 generals were retired. Among them were five assistants and advisers to the minister of defense, who learned about the retirements from the media. One of the generals forced to resign had been promoted by the federal government only a few days before his forced resignation. Throughout 2001, very little was done to restructure the army. President Kostunica defended the snail's pace of military reform in a speech on October 9, 2001, saying "conditions for a substantial reform of VJ have not been created."

Pavkovic's fate has now become a political issue, with Kostunica championing his retention, and Djindjic and other elements of DOS demanding that he be replaced. Although he has publicly emphasized the "constitutional" role of the army as a state and non-partisan institution, Pavkovic has become openly involved in politics. He actively campaigned for Milosevic in the September 2000 elections. Last spring he engaged in a power struggle with deputy prime minister of Serbia Nebojsa Covic, firing a general who had cooperated with Covic and contributed to better working relations with NATO troops in southern Serbia. Pavkovic also got into a public dispute with interior minister Mihajlovic over revelations about army and police units in Kosovo in 1998–99. Repeated requests to President Kostunica by the Serbian government to replace Pavkovic have been ignored, which greatly enhanced his power. By February 2002 a campaign by the youth wing of the liberal Civic Alliance party had gathered more than 35,000 signatures on a petition calling for Pavkovic's removal. NATO has made it clear that Serbian membership in Partnership for Peace (PfP) cannot happen while Pavkovic is still chief of staff.

President Kostunica has refused to accept Pavkovic's resignation and wants to see the relationship between Serbia and Montenegro sorted out before a decision on PfP membership, which has been recommended in a study prepared by the Ministry of Defense. A law on civilian control over the VJ, including military spending, is being drafted, but Pavkovic warned in a December speech that it is "inappropriate that any other institution in this state or any political party . . . interfere with personnel policy [in the VJ]."

Conclusions and Policy Options

Serbian citizens chose the path to reform in October 2000, but many are still hesitant and not quite ready to pay the price for building a new democratic society and an efficient economy, the prerequisites for joining Europe. Blocking that path are many obstacles, including the unreformed army, police, state security services, and some other pillars of the former regime's power structure. The core of the apparatus built by Milosevic remains mostly intact. The limited personnel changes that have taken place in the police and intelligence services have merely scratched the surface, and in the VJ not even that minimal degree of change has happened yet.

The new authorities seem to have developed a certain dependency on these structures. Kostunica looks to the army and Djindjic looks to the police and state security services for support against the other. This is a major source of political friction in the government and tension in society that perpetuates instability and feeds scandals. There is a gnawing sense that little has changed.

Democratic transition in Serbia is an historic process. There are no instant solutions, and occasional setbacks are inevitable. Transformation of Serbian society depends on the outcome of the competition within DOS, not just between personalities but also over conflicting concepts of the nation and its role in the region, Europe, and the world. Intertwined in that struggle are relations with Montenegro, Bosnia-Herzegovina, and Kosovo, as well as major issues in Serbia like regional autonomy, state-church relations,

As soon as it became clear that Pavkovic would be kept in place, the impetus for reform evaporated.

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Only continued assistance and massive foreign private investments could lead to recovery. This provides the international community with an opportunity to remain involved and to continue supporting true, far-reaching reform.

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the position of ethnic minorities, and the role of the army. During this long process, power-sharing may be the only viable solution and attempts to shift the balance abruptly could lead to a new crisis.

Though it seems that no member of DOS wants elections any time soon, the pre-election campaign has been going on for months, and every major issue that arises is dealt with in that context. In the past few months Kostunica has lost a great deal of his popularity, but he remains in sync with the nation as an embodiment of traditional values. Djindjic holds most of the levers of power, and he uses them to push for reform. It remains to be seen if the voters will reward or punish him for that. The state of the economy may be the most decisive factor in determining his fate, and with it the direction Serbia will take in the next several years. The problems are of such a character and magnitude that only continued assistance and massive foreign private investments could lead to recovery. This provides the international community with an opportunity to remain involved and to continue supporting true, far-reaching reform.

Though U.S. interest in the Balkans has declined, the region's stability remains a cause for concern. Instability would damage NATO and delay withdrawal of U.S. troops from the Balkans. It could also lead to failed states that would be havens for organized crime and terrorism. Continuing progress on political and economic reform in Serbia is crucial to the region as a whole.

- The international community should not take sides regarding political personalities in Serbia and Montenegro but rather should focus on encouraging concrete reforms, using economic levers and aid as means to accelerate this process and ensure establishment of the rule of law, including cooperation with ICTY.
- Preservation of the Yugoslav Federation, which the European Union and United States have made a priority, should not be allowed to set back the cause of political and economic reform in either Serbia or Montenegro or to strengthen anti-reform forces. Montenegro ultimately should be allowed to make its own choice on its relationship with Serbia.
- The EU should encourage a thorough-going reform of the public administration in Serbia, including the judiciary, police, and state security service. This should include removal of those in leadership positions during the Milosevic era, retirement of those whose skills are insufficient to meet the needs of a modern state, and a sharp reduction in numbers of officials. Serbia also needs a legal process (lustration) that will remove those who were responsible for abuses during the Milosevic regime.
- The United States should focus its economic assistance on conflict prevention and ethnic reconciliation in sensitive areas like southern Serbia and northern Montenegro.
- Lack of meaningful reform of the VJ is a strong argument against expanding military-to-military cooperation, but programs focused on civilian control of military forces should continue. It is also important that the VJ see clearly the benefits of Partnership for Peace even if it will have to undergo further reform before reaping them.
- Enhancing Serbia's capacity to contribute to the international effort against international terrorism and transnational crime should be pursued through training and technical assistance along with direct contacts between the FBI and other government agencies with their Serbian counterparts. However, care must be taken not to strengthen the hand of those who abused power during the Milosevic era.
- Kosovo's status cannot be put off forever; it will eventually be decided on the basis of negotiations between Belgrade and Pristina. Safety and security for Serbs in Kosovo will hasten the day that such negotiations can be successful. In the meanwhile, the UN authorities in Kosovo need to build viable institutions there and initiate economic cooperation between Belgrade and Pristina.

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