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by Hrach Gregorian
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Prepared for the Canadian Defence & Foreign Affairs Institute
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www.cdfai.org

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ISBN: 978-0-9737870-1-6

► Executive Summary

Over the past decade politics in Serbia has moved away from ethnic nationalism and in the direction of an open, market oriented democracy. President Boris Tadic is as pro-western as the current Serbian political landscape is likely to permit. The progressive Democratic Party (DS) led coalition government has strengthened civic society, stepped up cooperation with The Hague to bring accused Serbian war criminals to justice and undertaken reforms across the board to comply with requirements of coveted EU membership. Serbia has become a more responsible player in regional affairs and has boosted political and economic relations with her neighbours; as a result, the security situation in the region is relatively stable. The issue of Kosovo independence will be difficult to resolve. President Tadic must show his pro-western stance is delivering economic benefits to Serbia, most visibly through EU accession, before he can begin to disgorge Kosovo

Serbia's relations with Canada are positive and improving: trade between the two countries has been increasing, as has Canadian investment in the region; a number of agreements have been signed between Ottawa and Belgrade that have better cemented relations; and military-to-military cooperation programs have been launched. Serbia's economy has weathered the global economic crisis relatively well and there is restructuring underway towards greater exports and production of tradable goods. Her abundant natural resources, particularly in mining, including precious metals, have attracted interest and investment by Canadian companies. The energy sector requires upgrading, as does infrastructure in most industries. Doing business in Serbia can be complicated. Companies are well advised to work with experts in the local ways of doing business.





“The Serbs...have...two pillars of fire that define their national attitude and historical predicament...The first (and shorter) pillar is the *medieval monasteries*, safe-boxes of art and magic, most powerfully symbolized by Grachanitsa [monastery], due to its proximity to the other (and taller) pillar: *Kosovo Polje*, the ‘Field of Black Birds,’ where Turks delivered the final defeat to the Serbs on June 28, 1389, leaving their bodies for carrion birds to devour.”

Robert Kaplan, *Balkan Ghosts*¹

Penetrating the climate of contemporary Serbia requires as much psychological insight as it does a careful parsing of its political economy. As has been the case throughout much of her history, Serbia stands Janus-like, a tearful eye transfixed on a past of almost mythic victimhood, and a wary gaze trained on a future of wrenching transition; one face to the east, and less demanding friends like Russia, China, and Iran, and the other to the west and the promise of riches attending EU accession, but freighted with a host of political, juridical and human rights conditions.



¹ New York: Vintage Books, 1994, p. 35.



POLITICAL SCENE

On the surface, politics in Serbia is moving along the same trajectory as other modernizing states in the former Yugoslavia and the Balkan Peninsula generally. A legitimate, albeit imperfect, turn to democracy occurred with the ouster, in October 2000, of ultranationalist strongman Slobodan Milosevic. Thereafter, an anti-Milosevic coalition assumed the mantle of power, initially under the leadership of Zoran Dinic of the Democratic Party (DS), and after his assassination in 2003, under Prime Minister Vojislav Kostunica of the Democratic Party of Serbia (DSS). Dinic's successor as DS leader, Boris Tadic, was elected President by popular vote in June 2004. Tadic will be termed out of office after elections are held in 2013. In fact, Tadic's highly influential role in Serbian politics derives from his leadership of the DS, not the presidency. Executive power in the Republic of Serbia formally resides in the office of the Prime Minister, who is selected by the National Assembly, a unicameral legislative body consisting of 250 members elected to four-year terms in accordance with party lists.² As with most matters political in Serbia, a distinction must be drawn between structure and function, and in this case it is the DS leader far more than the PM that wields real power

January 2007 elections precipitated by Montenegro's departure from the Federal Republic of Yugoslavia (FRY) saw the more progressive parties, including the DS, the DSS and G17, outpolling the ultranationalist Serbian Radical Party (SRS) and the Socialist Party of Serbia (SPS), founded by Milosevic. Another coalition government lasted barely over a year, when Kosovo's unilateral declaration of independence in February 2008 led to bitter recriminations, and a political crisis resulting in the resignation of the Kostunica government. Elections in spring 2008 ushered in a DS-led coalition that captured 102 of 250 seats in the National Assembly. The elections marked the first time in almost a decade that one party controlled the presidency, held the premiership and commanded a working majority in the parliament. As illustrated in the following chart, the election was a watershed in Serbian politics, marking the continuing ascendancy of centrist parties and further marginalization of hard line nationalists.

May 11, 2008 Serbian national election results³

Serbian Political Parties	Percentage of vote	Seats in Parliament
For a European Serbia - (ZES) DS, G-17, SPO, LSV, SDP	38.7%	102
Radicals (SRS)	29.1%	78
Democratic Party of Serbia (DSS)	11.3%	30

² See Articles 98-109, *Constitution of the Republic of Serbia* (adopted September 30, 2006, entered into force November 8, 2006), http://www.wipo.int/wipolex/en/text.jsp?file_id=191258, accessed October 2, 2011. See also U.S. Central Intelligence Agency, *The World Factbook, Serbia*, <https://www.cia.gov/library/publications/the-world-factbook/geos/ri.html>, accessed October 25, 2011.

³ U.S. Department of State, Bureau of European and Eurasian Affairs, Background Note: Serbia, <http://www.state.gov/r/pa/ei/bgn/5388.htm>, accessed October 5, 2011.



Socialists (SPS), (PUPS), (JS)	7.9%	20
Liberal Democratic Party (LDP)	5.2%	13
Hungarians (MK)	1.8%	4
Bosniaks Coalition	0.8%	2
Albanian Coalition	0.5%	1
Others--Below Threshold	4.7%	
Total	100%	250

Domestic and Regional Political Situation

The DS-led government, headed by Prime Minister Mirko Cvetkovic, has moved haltingly toward closer relations with the west, improved conditions for civic society in Serbia, and stepped up cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), most recently with the capture and transfer to the ICTY in May 2011 of indicted war criminal Ratko Mladic.⁴ In late 2009, the EU eliminated visa requirements for Serbians, and in October 2011 the European Commission recommended that Serbia become an official European Union (EU) candidate country.⁵ Regional ties were boosted in 2010, first with passage by the Serbian parliament of a resolution condemning the 1995 Srebrenica massacre of Bosniaks by Serb forces, then by President Tadic's visit to Croatia, where he honoured the dead in Vukovar, the site of mass killings by Serbian troops in 1991.⁶

Improvements on the economic front included agreements on joint investments by some 100 Serbian and Croatian businesspeople who met in Zagreb in November 2010, and the founding, earlier in the year, of a joint Railway Company of Croatia, Serbia, and Slovenia.⁷ Macroeconomic stability, privatization, and the growth of a market economy have been hallmarks of progress.⁸ Still, corruption remains a source of significant alarm. A recently formed Anti-Corruption Agency began work in earnest on January 2010, with a mandate to monitor conflict-of-interest, political party funding, money laundering and other forms of corruption. Its effectiveness has yet to be demonstrated.

⁴ For full background, see U.N. International Criminal Tribunal for the former Yugoslavia, <http://www.icty.org/sid/10669>, accessed October 6, 2011.

⁵ *Radio Free Europe/Radio Liberty*, http://www.rferl.org/content/serbia_montenegro_set_to_take_step_toward_eu_membership/24357313.html, accessed October 15, 2011.

⁶ *Freedom House Country Report, Serbia* (2011), http://www.rferl.org/content/serbia_montenegro_set_to_take_step_toward_eu_membership/24357313.html, accessed October 13, 2011.

⁷ Nenad Pejic, "The Balkans Look To 2011 With Cautious Optimism," *Radio Free Europe/Radio Liberty*, December 14, 2010, http://www.rferl.org/content/commentary_balkans_look_to_2011_with_cautious_optimism/2247941.html, accessed October 13, 2011.

⁸ See Daniel P. Serwer, "Serbia: Current Issues and Future Directions," United States Institute of Peace, September 2006, <http://www.usip.org/publications/serbia-current-issues-and-future-direction>, accessed September 17, 2011.



Ethnic minorities are generally well treated, although underrepresented, in the public sector. Key pockets of ethnic concentration include Vojvodina in the north, home to almost 300,000 Hungarians, the Sandzak region along the border with Montenegro, where close to 150,000 Bozniaks (Muslim Slavs) and ethnic Muslims reside, and the Presevo Valley in the south, which has been a flashpoint historically, with the majority Albanian population complaining about high unemployment, language rights and underdevelopment. For its part, the Serbian government worries about the region's proximity to Kosovo and irredentist claims by some members of the Albanian community.⁹ There is also concern voiced by Belgrade about radical Islamist and criminal elements in the Sandzak, commonly termed the "Green Transversal," where trafficking in weapons, drugs, people and other illicit activities takes place.¹⁰ As is the case throughout the region, discrimination against the Romany community is prevalent.¹¹

Foreign Affairs

Two countervailing objectives constitute the main pillars of Belgrade's foreign policy, integration into the EU and opposition to Kosovo independence. The latter has drawn backing from powerful friends like Russia and China, who have a vested interest in dampening secessionist impulses, but it has also received tacit support from many other nations through non-recognition of Pristina's assertion of sovereignty. Serbia continues to maintain a wary eye on the status of the Serbian population in North Kosovo and other pockets of co-ethnics throughout her former province. There is also concern about the status of the Serbian Orthodox Church and other holy sites. And not inconsequential are outstanding issues regarding property rights. President Tadic made note of the property question in his address to the UN General Assembly when he noted, "Thousands of outstanding private claims remain pending, making hostages of those internally displaced in 1999."¹² Tadic did not make explicit what many commentators characterize as the real prize in Kosovo, her mineral riches, as exemplified in mines such as the Stari Trg, with its "glittering veins of lead, zinc, cadmium, gold and silver...The sprawling [British built] Trepca mining complex, the most valuable piece of real estate in the Balkans, is worth at least \$5 billion."¹³ It has been sought after by modern conquerors dating back to the Second World War.

The Stari Trg mine alone produces hundreds of tons of concentrated lead and zinc, and well over 100,000 tons of pure lead, zinc, cadmium, silver and gold.¹⁴ As the map below illustrates, Kosovo is dotted with mines that have the potential to yield substantial returns, but much will have to be invested in upgrading a largely dilapidated infrastructure for their operations to become financially viable.¹⁵ It is not unlikely that Belgrade has determined EU accession to be a

⁹ Beata Huszaka, "The Presevo Valley of Southern Serbia alongside Kosovo: The Case for Decentralization and Minority Protection," *Center for European Policy Studies*, No. 120, January 2007, pp. 1-10, <http://aei.pitt.edu/11714/1/1428.pdf>, accessed October 14, 2011.

¹⁰ Steven Oluic, "Serbia's Sandzak – A Radical Islamic Space?" *IREX Research Report*, n.d., <http://www.irex.org/sites/default/files/oluic.pdf>, accessed October 15, 2011.

¹¹ *Freedom House*, op. cit.

¹² See statement of September 23, 2011, *UN News Centre*, <http://www.un.org/apps/news/story.asp?NewsID=39742&Cr=serbia&Cr1=> accessed October 27, 2011.

¹³ Chris Hedges, "Stari Tng Journal; Below It All in Kosovo, A War's Glittering Prize," *New York Times*, July 8, 1998, <http://www.nytimes.com/1998/07/08/world/stari-tng-journal-below-it-all-in-kosovo-a-war-s-glittering-prize.html?pagewanted=all&src=pm>, accessed October 23, 2011.

¹⁴ *Ibid.*

¹⁵ For map see <http://enrin.grida.no/htmls/kosovo/SoE/mining.htm>, accessed October 23, 2011



more valuable commodity than the potential benefits to be derived from these mines, given the impossible odds of retaking all of Kosovo by force, and the expense of making many of these complexes profitable. Still, influential parties among the country's elite may hold out hope for both EU membership and a piece of the Kosovo pie, particularly in the mineral rich Serb-dominated northern region. And Serbian mothers will not forget that Kosovo was the region of the former Yugoslavia where their sons gave their lives to protect Serbia's patrimony, where – to continue with the Serbian narrative – Serbs were uprooted from their ancestral homeland, and where graveyards, churches and other holy places were desecrated. Kosovo resulted in destruction of key elements of Serbia's infrastructure by NATO, which after almost three months of bombing turned Serbia's oil refineries, chemical plants, bridges and other transportation and communication assets into rubble.¹⁶



In light of all this, it was especially disappointing for Belgrade, when in July 2010 the International Court of Justice (ICJ) determined that Kosovo's declaration of independence was

¹⁶ The war in Kosovo has been the source of passionate debate among commentators. For the more conventional view, see Tim Judah, *Kosovo: War and Revenge*, New Haven: Yale University Press, 2000. For a highly critical analysis of the West's and NATO action, see Noam Chomsky, "A Review of NATO's War over Kosovo," *Z Magazine*, April-May, 2001, <http://www.chomsky.info/articles/200005--.htm>, accessed October 23, 2011.



not in violation of international law. Thereafter, it was the regime's apparent hope that by turning over high profile suspects to the ICTY it could finesse the issue of non-recognition of Kosovo and slip past EU gatekeepers. German Chancellor Angela Merkel dashed such hopes, most pointedly in remarks made in Belgrade in August 2011, when she linked EU membership with Serbia's "relations towards neighbouring countries." In no uncertain terms, Merkel called for tangible results in EU-mediated negotiations between Belgrade and Pristina, insisting on the free movement of the EU's rule of law mission (EULEX) throughout all of Kosovo and demanding an end to parallel Serbian administrative structures in northern Kosovo.

The German Chancellor's message was delivered against a backdrop of violence at border crossings in North Kosovo where Serb border guards attached to the Kosovo police were displaced by Albanian Kosovo special forces, partly due to a trade dispute between Belgrade and Pristina, but also to extend Kosovo's control over her entire territory. Enraged residents of the Serb enclave burned a border station and fired on police, resulting in many injuries and one fatality. As of this writing, the NATO-led Kosovo Force (KFOR) was guarding the border crossings.¹⁷ It should be noted that Serbia continues to be a part of NATO's Partnership for Peace (PFP) program, although she has not expressed an interest in becoming a full NATO member.

On one level this incident was interpreted as a sign of deep-seated ethnic hostility that, left to simmer, could lead to a dangerous escalation of ethnic violence.¹⁸ On another, it was viewed as business as usual in the region, ironically a case of unusual comity between oil smugglers on both sides of the border anxious to stave off any effort at customs control in order to preserve a lucrative oil-smuggling enterprise netting as much as \$100 million (USD) annually. According to the senior most EU prosecutor in Kosovo, Johannes van Vreeswijk, this case had less to do with ethnicity than with making money. "If the Serbs and Albanians can make money from crime, they will do a joint venture," opined Mr. van Vreeswijk. "This is just a fight over a fence because they are losing their illegal profits," he continued. "They shout about politics, but this is really about crime in a lawless territory."¹⁹ Arguably, the border incident was emblematic of both fear of isolation and abandonment by the 50,000 Serbs north of the Ibar (Iber) River, and the extent of criminal activity that thrives in the region. To some, it also illustrates Serbia's lack of authority over North Kosovo, particularly criminal syndicates, many of whom have strong allies in Belgrade's ruling circles.²⁰

¹⁷ Katarina Subasic, "Merkel sets Kosovo conditions for Serbia EU candidacy," *Agence France-Presse*, August 23, 2011, http://www.google.com/hostednews/afp/article/ALeqM5hZkoDbJOA8nqybueUGIQXpelKpAw?docId=CNG.7109dd0e08ad5a7e68ee758ca10ce74b.6f1http://www.rferl.org/content/serbia_kosovo_tadic_eu_merkel/24308650.html, accessed September 29, 2011.

¹⁸ Marko Prelec, "North Kosovo Meltdown," *International Crisis Group*, September 6, 2011, <http://www.crisisgroup.org/en/regions/europe/balkans/kosovo/north-kosovo-meltdown.aspx>, accessed September 30, 2011.

¹⁹ Doreen Carvajal, "In Balkans, Smuggling Forges a rare Unity," *New York Times*, October 24, 2011, <http://www.nytimes.com/2011/10/24/world/europe/in-balkans-smuggling-forges-a-rare-unity.html?ref=europe>, accessed October 27, 2011. For the original treatment of the so-called "greed versus creed" thesis, see Paul Collier, "Doing Well Out of War," World Bank, April 10, 1999, <http://siteresources.worldbank.org/INTKNOWLEDGEFORCHANGE/Resources/491519-1199818447826/28137.pdf>, accessed October 28, 2011. See also Cynthia Arnson and I. William Zartman (eds.), *Rethinking the Economics of War: The Intersection of Need, Creed, and Greed*, Washington, D.C.: Woodrow Wilson Press, 2005.

²⁰ Linda Karadaku and Ivana Jovanovic, "Who Is In Control of Kosovo's North?" *Eurasia Review*, October 19, 2011, <http://www.eurasiareview.com/19102011-who-is-control-of-kosovos-north/>, accessed October 27, 2011.



The Serbian regime's other regional challenge is in Bosnia-Herzegovina's (BH) Serbian sub-national entity, Republika Srpska (RS), where, despite continuous warnings from western security and financial benefactors that basically keep the artificial political entity afloat,²¹ ethnic nationalists and conflict entrepreneurs continue to stoke the fires of confessional division.²² The recent reelection of ultranationalist Milorad Dodik as president of the RS is especially troubling in light of Dodik's repeated calls for RS succession from BH. In July 2011, Serbian President Tadic paid an official visit to Sarajevo, pointedly expressing to leaders of all political entities Belgrade's interest in political and economic cooperation and support for the Federation's EU bid. The visit to Sarajevo, as opposed to only the RS capital of Banja Luka, where Tadic had made almost all his previous visits, was seen by some observers as signaling a change from supporting to reining in Dodik, and further rapprochement with BH. This would be in line with conditions set by western powers for Serbia's Euro-Atlantic integration.²³ Still, RS-Serbian relations remain close through a Special Parallel Relations Agreement and the connected Protocol on Cooperation. Overall, Serbia's interactions with her neighbours are good and improving, with high level meetings taking place on a regular basis, and various agreements being signed to increase trade, improve police and customs collaboration, and enhance defence cooperation.

Relations with Canada

Serbia's relations with North America have also been improving. Despite the Kosovo War and the NATO bombing campaign, and strong support for Kosovo independence from major capitals like Washington and Ottawa, the Serbian leadership, particularly in President Tadic, is eager to expand economic relations and sees value in gaining leverage by cooperating with power centers on both sides of the Atlantic. In Canada, in particular, there is a growing population of Serbs who are helping to increase bilateral exchange in business, education, culture and communication.²⁴

Trade between Canada and Serbia has been on a steady uptick in recent years. Canadian investment in the region passed the half billion mark four years ago and has been increasing steadily. In June 2010, Canadian engineering company SNC-Lavalin was awarded an engineering, procurement and construction contract by Rudarsko - Topioncarski Basen Bor Grupa (RTB-Bor) for the modernization of its existing copper smelting complex in Eastern Serbia. The contract is worth approximately CDN\$215 million.²⁵ Additional investments have been made in real estate and construction, agriculture, energy and mining (see below for further

²¹ Unemployment in BH stands at over 40 percent, although BH is doing somewhat better than the rest of the Federation.

²² For an exhaustive overview of the challenges in Bosnia-Herzegovina, see Patrice C. McMahon and Jon Western, "The Death of Dayton: How to Stop Bosnia From Falling Apart," *Foreign Affairs*, September/October, 2009.

²³ Bedrana Kaletovic, "Serbia's Tadic in Sarajevo," *SE European Times*, July 7, 2011, http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2011/07/07/feature-01, accessed October 29, 2011.

²⁴ According to *Multicultural Canada*, "A reasonable estimate of the number of Serbs in Canada is from 100,000 to 125,000," <http://multiculturalcanada.ca/Encyclopedia/A-Z/s3>, accessed October 15, 2011.

²⁵ See "SNC-Lavalin Awarded Copper Smelter Modernization Project in Serbia," January 18, 2011, http://www.snc-lavalin.com/investors.php?lang=en&id=1301&action=press_release_details&paging=1&start=26, accessed October 16, 2011. Information for this section was taken from Government of Canada, "Canada-Serbia Relations," http://www.canadainternational.gc.ca/serbia-serbie/bilateral_relations_bilaterales/canada_serbia-serbie.aspx?lang=eng&menu_id=36&view=d, accessed October 15 2011.



discussion of energy and mining). In 2010, Canadian exports to Serbia were at CDN\$8,506,011 and imports were CDN\$12,837,221.

Bilateral agreements have been signed between Ottawa and Belgrade on a range of issues from air transport to human rights. A sign of increasingly cordial relations was the visit to Belgrade in 2010 of the Speaker of the House of Commons and a delegation of MPs who met with President Tadic, PM Cvetkovic and other senior officials. More high-level exchanges are planned. In the security sector, improved relations date back to 2004 when Canada invited Serb military personnel to participate in the Military Cooperation Programme (MTCP) administered by the Department of National Defence (DND). The program provides training in peacekeeping and foreign language instruction. Beginning in 2008, and every year since, Canada and the Netherlands have sponsored a series of defence seminars in Serbia featuring regional Civil–Military Cooperation (CIMIC). The author of this paper served as a facilitator in one of these seminars, held in Belgrade in the fall of 2010. These programs are extremely important, not so much for the content of the curriculum, but for the opportunity they provide for cross-cultural communication, mutual understanding, trust building, and the development of long-term personal and professional relationships.

CURRENT ECONOMIC SITUATION

Macroeconomic Trends

Despite the overall downturn in the global economy, and the crisis in the Eurozone, the Serbian economy showed signs of slow recovery in 2010, and is projected to grow by 2.0 percent in 2011. Particularly challenging for Belgrade's economic planners and industry partners has been a transition from consumption-led to more export-driven growth. Partially as a result, unemployment has been high, estimated at 17.2 percent at the end of 2010 (see data box below), and as high as 22.9 percent as of April 2011.²⁶ Inflation is also high by European standards. High government spending, including increases in pensions and public sector salaries, combined with decreasing tax revenue has made it difficult to cut budget deficits in line with IMF loan conditions.²⁷ Nevertheless, according to the World Bank, growth rates of approximately 5 percent may be expected over the medium term; exports and investments will need to drive such growth.

Privatization of state owned companies has been steady since the beginning of the process in 2002. By the end of 2009, over 2,300 companies had been privatized. Still, due to global and regional economic shocks, and the unattractiveness of many remaining companies, privatization has slowed down substantially. Anticipated privatization of companies in the pharmaceutical, telecommunication, utility and airline industries have hit snags. As of 2009, the number of registered companies reached 113,000, up from the previous year's figure of 106,000. Approximately 225,000 entrepreneurs were on the books of the Serbian Business Registry Agency. Registering a business has become much faster, less cumbersome and not as costly. Nevertheless, Red tape and arcane laws hamper the launch of new enterprises. Laws and institutions designed to raise business practices up to international standards are in place or in the offing, but the system does not function as well as it could due to technical and personnel

²⁶ World Bank – *Serbia Partnership Program Snapshot*, August 2011, p. 2, http://siteresources.worldbank.org/INTSERBIA/Resources/SerbiaSnapshot_Sep2011FINAL.pdf, accessed October 15, 2011.

²⁷ See Steven Woehrel, "Serbia: Current Issues and U.S. Policy," *Congressional Research Service*, June 16, 2011, p. 3.



issues, and inconsistent implementation of the laws. These factors, combined with corruption, make for a somewhat less than stable business environment and slow down foreign investment.²⁸

The highly respected Belgrade-based *Foundation for the Advancement of Economics* (FREN) summarizes economic trends as follows:²⁹

- Economic recovery continued in 2011, and there is a restructuring towards greater exports and production of tradable goods. The real appreciation of the dinar, the national currency, is beginning to cause a decrease in the price competitiveness of the economy.
- The labour market is soft, although unemployment has slowed. Real wages declined by 2.3% on an annual basis due to high inflation.
- With regards to balance of payments and foreign trade, the First Quarter of 2011 saw a deficit of €839.5mn, or 11.6% of GDP, up by 10.5% from the same quarter a year ago. Growth in exports continued to accelerate, but there was a deficit of 10.7% due to a low ratio of exports to imports. Substantial capital inflows into the country's coffers led to an increase in foreign currency reserves and an appreciation of the dinar.
- Most of the capital that entered the country was in the form of foreign investment in government securities and, therefore, short-term in character. "On the other hand, the repayment of a substantial amount of liabilities by the banking sector, as well as the repayment of long-term liabilities by the economy, although adversely impacting the financial account, led to a drop in the Serbian economy's foreign debt."
- Inflation reached 6.7% through the Second Quarter of 2011, surpassing the National Bank of Serbia's (NBS) target band for the year. The dinar appreciated 8% nominally and 10% in real terms.
- The fiscal deficit in May 2011 was 3.5% of quarterly GDP: "if this trend continues to the end of the year, the planned deficit in 2011 can be achieved, with certain risks; respecting fiscal rules would ensure the stabilization of the public debt below the prescribed limit of 45% of GDP."
- The NBS adjusted its reference interest rate upwards since the beginning of 2011; the growth in bank lending to the economy and population slowed; repurchase (repo) stocks are increasing to raise short term capital; and the percentage of non-performing loans continued to grow.
- Activity on the Belgrade Stock Exchange increased, but it was reduced in the market for frozen foreign currency (FFCD) bonds. The value of the Belgrade Stock Exchange indices grew, as did the yields on FFCD bonds of all maturities.

²⁸ "Serbia 2010 Progress Report," *European Commission*, Commission Staff Working Document, Brussels, November 9, 2011, pp. 23-27.

²⁹ Data and most of the language is taken directly from FREN's *Quarterly Monitor of Economic Trends and Policies in Serbia (QM)*, Issue 24, Belgrade, July 2011, http://www.fren.org.rs/attachments/095_QM24engleski_impressumisadrzaj.pdf, accessed October 16, 2011.



Gross Economic Data³⁰

GDP (purchasing power parity): \$80.65 billion (2010 est.)
GDP (official exchange rate): \$38.92 billion (2009 est.)
GDP - real growth rate: 1.8% (2010 est.)
GDP - per capita: \$11,000 (2010 est.)
GDP - composition by sector: agriculture: 13%; industry: 22.6%; services: 64.5% (2009 est.)
Labor force: 3.25 million (October 2009 est.)
Labor force - by occupation: agriculture: 23.9%; industry: 20.5%; services: 55.6% (Oct 2009)
Unemployment rate: 17.2% (2010 est.); 16.6% (2009 est.)
Population below poverty line: 7.9% (2008 est.)
Distribution of family income - Gini index: 26 (2008 est.)
Investment (gross fixed): 25.9% of GDP (2009 est.)
Budget: revenues: \$16.47 billion; expenditures: \$18.48 billion (2010 est.)
Public debt: 37.8% of GDP (2010 est.)
Inflation rate (consumer prices): 4.9% (2010 est.)
Central bank discount rate: 9.92% (31 December 2009)
Commercial bank prime lending rate: 11.78% (31 December 2009)
Stock of narrow money: \$3.554 billion (31 December 2010 est.)
Stock of broad money: \$18.69 billion (31 December 2010 est.)
Stock of domestic credit: \$18.88 billion (31 December 2010 est.)
Market value of publicly traded shares: \$11.52 billion (31 December 2009)
Agriculture - products: wheat, maize, sugar beets, sunflower, raspberries, beef, pork, milk
Industries: base metals, furniture, food processing, machinery, chemicals, sugar, tires, clothes, pharmaceuticals
Industrial production growth rate: 1.3% (2007 est.)
Electricity - production: 36 billion kWh (2009)
Electricity - consumption: 33.4 billion kWh (2009)
Electricity - exports: 1.5 billion kWh (2009 est.)
Electricity - imports: 121 million kWh (2009)
Oil - production: 12,170 bbl/day (2009 est.)
Oil - consumption: 90,000 bbl/day NA bbl/day
Oil - exports: 5,045 bbl/day (2008)
Oil - imports: 72,570 bbl/day (2008 est.)
Oil - proved reserves: 77.5 million bbl (1 January 2010 est.)
Natural gas - production: 230 million cu m (2008 est.)
Natural gas - consumption: 2.61 billion cu m (2008 est.)
Natural gas - exports: 0 cu m (2008 est.)
Natural gas - imports: 2.4 billion cu m (2008 est.)
Natural gas - proved reserves: 48.14 billion cu m (1 January 2010 est.)

³⁰ All calculations are in US Dollars. Adapted from *2011 World Fact Book of the United States Central Intelligence Agency*. See http://www.theodora.com/wfbcurrent/serbia/serbia_economy.html, for immediate source, accessed October 15, 2011.



Current account balance: -\$1.046 billion (2010 est.)
Exports: \$9.372 billion (2010 est.)
Exports - commodities: iron and steel, clothes, wheat, fruit and vegetables, non-ferrous metals
Exports - partners: Bosnia and Herzegovina 13.12%, Italy 10.96%, Germany 9.9%, Serbia and Montenegro 7%, Austria 5.4%, Slovenia 5.38%, Macedonia 5.26%, Russia 4.39%, Hungary 4.36% (2009)
Imports: \$15.78 billion (2010 est.)
Imports - partners: Germany 11.79%, Italy 9.36%, Hungary 6.71%, Slovenia 6.52%, Austria 4.79% (2009)
Reserves of foreign exchange and gold: \$16.4 billion (31 December 2010 est.)
Debt - external: \$32.31 billion (31 December 2010 est.)
Stock of direct foreign investment - at home: \$23.52 billion (31 December 2009 est.)
Stock of direct foreign investment - abroad: \$NA
Exchange rates: Serbian dinars (RSD) per USD - 79.979 (2010)

Trends in Mining and Energy

Serbia's production of minerals is far more significant regionally than it is globally. Copper, iron, steel, and refined petroleum products form the bulk of production in this sector. Lignite constitutes over 98 percent of coal reserves. The state owned ELEKTROPRIVREDA SRBIJE (EPS) manages the generation and distribution of electricity, lignite production and processing, and hydropower generation. EPS is involved in most elements of mining and other energy production. Lignite is mined in opencast pits located in the Kolubara and Kostolac basins in the central and eastern regions of the country respectively. Due to high moisture and ash content, and low net calorific value, almost all lignite is routed to thermal power plants.³¹ Local resources notwithstanding, Serbia has been running substantial deficits in the energy sector due to the cost of importing crude petroleum and gas products and services. Crude petroleum and natural gas is imported from Russia. According to Serbian government projections, the country's supply of coal will last 55 years, and oil and gas just 20 years. Critically, over the past decade the capacity of power plants has decreased steadily, 77 percent by one count, due to lack of repairs and deferred maintenance of an aging infrastructure.³²

Mineral production is mostly in private hands, however the Serbian government is the sole owner of the country's only copper producer, Rudarsko Topionicki Bazen Bor (RTB Bor). It also controls all lignite production and holds a 49 percent share of Naftna Industrija a.d., producers of natural gas and crude, and refined petroleum. Serbia has been unsuccessful in attracting foreign buyers for RTB Bor. Empire Mining Corporation and Euromax Resources Ltd., of Canada own copper exploration licenses in Serbia, but little activity has been reported. In 2010,

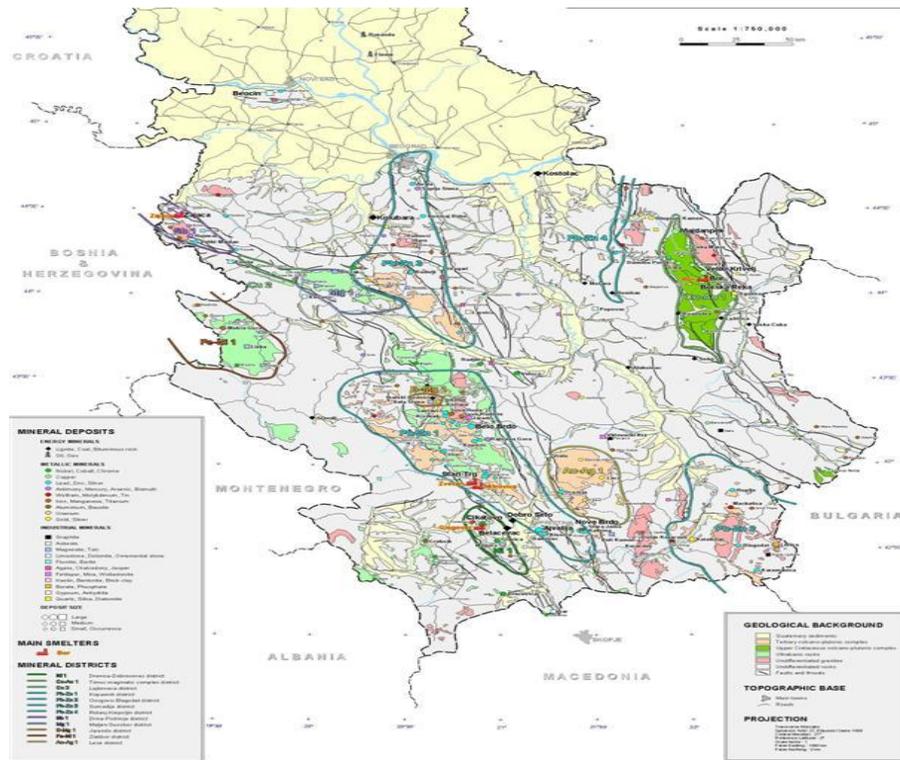
³¹ The European Association for Coal and Lignite (EURACOAL), <http://www.euracoal.org/pages/home.php?idpage=1>, accessed October 29, 2011; "The Serbian Mining Industry," University of Belgrade Faculty of Mining and Geology, 18th Annual Meeting, Belgrade, Serbia, June 23-27, 2007, <http://www.mineprofs.org/info/industry/SOMP-07-General-Bozo.pdf>, accessed October 29, 2011. For a more general overviews of the mines, minerals and energy, see *Serbia Energy Magazine*, <http://www.serbia-energy.com/>, accessed October 29, 2011. See also, Mark Brininstool, "The Mineral Industry of Serbia," U.S. Department of the Interior, U.S. Geological Survey, February 2011, <http://minerals.usgs.gov/minerals/pubs/country/2009/myb3-2009-rb.pdf>, accessed October 29, 2011.

³² Government of Serbia, "Facts About Serbia: Energy and Mining, n.d., <http://www.arhiva.serbia.gov.rs/cms/view.php?id=1018>, accessed October 30, 2011.



Dundee Precious Metals, Inc. of Toronto declared its intention to sell its copper exploration licenses in Serbia to Rodeo Capital of Vancouver and Queensland Minerals Ltd. of Australia (in July 2010 Rodeo was acquired by Dundee Plemeniti Metali D.o.o. in a reverse merger transaction).³³ Iron and steel production by US Steel Serbia d.o.o., the country's only producer of pig iron and crude steel fluctuates significantly based on market demand, which of late has been low.³⁴

Precious metals, particularly gold and silver, are present in deposits in eastern Serbia. According to Serbian government sources, "gold grades as high as 5 g/t can occur in the high-sulphidation type ores at Bor [in the east, site of one of the largest copper mines in Europe] ... Average gold grades in the porphyry copper at Majdanpek and Borska Reka are 0.6 and 0.3 g/t respectively."³⁵ Kopaonik district, Belo Brdo, Ajvalija, and especially the Radan Mountain district are described as "most promising for precious metals." In 2011, British firm Orogen Gold reported progress on its plans to reopen access to two shallow gold mines in Deli Jovan in east Serbia. US-based Freeport-McMoRan Copper and Gold Ltd. intends to search for copper, gold and silver at depths of over 2 kilometers with RTB Bor, again in eastern Serbia.³⁶ (See map of mineral and mining deposits below.)³⁷



³³ *Bloomberg Business Week*, <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=60507398>, accessed October 30, 2011.

³⁴ *Ibid.*, Brininstool, USGS.

³⁵ J. Monthel, P. Vadala, J.M. Leistel, and F. Cottars, with the collaboration of M. Llic., A. Strumberger, R. Tosovic, and A. Stepanovic, "Mineral deposits and mining of Serbia: Compilation map and GIS database," Republic of Serbia, Ministry of Mining and Energy, March 2002, p. 41.

³⁶ *Op. cit.*, *Serbia Energy Magazine*.

³⁷ *Ibid.*



According to a leading source of energy news, Serbia's needs cut across the entire energy spectrum (see box below). The same source notes: "Because of very inefficient use of energy there are great investment opportunities for energy efficiency improvement in all energy subsectors and in the whole energy chain."³⁸

Mining

- Reconstruction and modernization of the Lead-Zinc Mines, especially near the village of Lece, in Medveda;
- Development of the open pit Veliki Krivelj, RTB Bor (based on established copper ore reserves); and
- Reconstruction and modernization of Strmosten (underground coal mine near Montenegro) for exploitation of remaining coal reserves (2,200,000 t).

Electricity

- HPP Bajina Basta (revitalization of four units and construction of fifth unit);
- TPP Nikola Tesla A1 and A2 units revitalization;
- TPP Kolubara B (2X350 MW) or TPP Nikola Tesla Unit B3 construction; and
- Small Hydroelectric Power Plants construction.

Oil and Gas

- Main Gas Pipeline Nis-Dimitrovgrad;
- Oil products pipeline Pancevo-Nis;
- Underground Gas Storage Banatski Dvor; and
- Oil refineries modernization.

RISKS AND OPPORTUNITIES

Political engagement with Serbia is no longer as fraught with uncertainty as it once was, although it is rendered extremely delicate by the dynamics of the situation in Kosovo. The author's direct experience in the region, and interviews with subject matter experts in the scholarly, defence and intelligence communities, led to a number of observations and recommendations. Elections scheduled in April 2012 serve as a good focal point for discussion. The current regime, and most particularly President Boris Tadic, is as pro-western as we are likely to see in the foreseeable future. Tadic's slim margin of victory in the last election is a cautionary tale that should disabuse outside observers of any illusions about the arc of popular opinion in Serbia. Recent economic shocks place additional strains on progressive, market-oriented segments, of Serbia's ruling class. To maintain a strong position in the 2012 elections,

³⁸ *Ibid.*, *Serbia Energy Magazine*.



Tadic and company must deliver tangible results to justify their western leanings. The big prize, of course, is EU accession. As goes progress on this front, so may go the political fate of the current regime.

Although one might appreciate frustrations in Ottawa, or Bonn, or Washington, it does little good to make public pronouncements, especially in Belgrade, linking Serbia's recognition of Kosovo independence with EU membership. Tadic is walking a dangerous tightrope on the issue of Kosovo. His position does not appear to be strengthened by foreign rebukes, whether delivered by the German and French Foreign Ministers or the US Secretary of State. Given that Kosovo is such a psychological and political hot button for Serbs, a patient, gradualist approach to its independence, as opposed to a Roman coliseum model, would appear to be the wisest, most diplomatic course of action. Friends in Pristina will not like hearing this, but they must ask themselves whether it is better to negotiate with the current government in Belgrade, which holds out some hope of compromise, or see the return of pan-Slavic ultranationalists whose vision of a "Greater Serbia" will move the country decisively away from a middle ground.

The maturing of Serbia's political culture in the past decade is demonstrable. Employment, food and fuel prices, education, and economic development are of far greater concern to the average citizen than ethnic and confessional exclusionism. There has even been a split on the right, with the splintering of the Radical Party and the rise to significant power of the breakaway Progressive Party (SNS), headed by the pragmatic, pro-EU, Tomislav Nikolic. Still, Serbia is less than a generation away from being the scourge of Europe, it continues to suffer from physical and psychological scars left by war and NATO bombing, it has friends to the east that would like nothing more than to draw it more firmly into their sphere of influence, and if we have learned anything, it is that memories die hard in this corner of the world. Nothing, then, can be taken for granted and everything that can be done should be done to keep her on the path to a normal future both economically and politically. This is important for her people, for the maintenance of peace and security in the region, and, symbolically, for the future of a multi-ethnic, unified Europe. One can only shudder at the thought of potential knock on effects of a step backward, particularly in highly unstable Bosnia.

As complex as the politics of Serbia can be, they are still more easily fathomable than her opaque economy. As with other Balkan countries, there is a formal economy, with all the laws, regulations, institutions and practices attending such a system. But there is also an informal economy that in many sectors, and outside of urban centres, affects people's lives equally powerfully. Patron client relationships in Serbia operate much in the same fashion as in other traditional societies, with resource distribution networks that parallel those of the formal economy. What this can mean in practice is laws are not enforced or are enforced unevenly, institutions with laudable mandates to enhance transparency and accountability fail to function as they are intended – and not only because they are under-resourced – and business practices do not meet international standards. A cynic might contend the practice of graft here is simply not as sophisticated as in more advanced economies. Say what you will, this does not always make for a stable or predictable business environment, although efforts to comply with EU regulations have seen significant improvements in some sectors, and progress is being made under the watchful eye of Brussels. The presence of a large informal economy does mean, however, aggregate data on production, income, employment, privatization, government procurement, and such, are not always reliable.

Serbia offers promising investment opportunities, particularly in primary commodities,



especially in mining and minerals. Abundant natural resources, including large forest reserves, should also be attractive to investors. A highly skilled workforce in these industries and low labor costs add to the attractiveness of the economic climate. To date, growth has relied too heavily on domestic demand and non-tradable segments of the economy, so efforts to help expand her export sector can be undertaken under highly favourable terms. Her infrastructural needs are almost limitless, whether in energy, transportation, manufacturing, or information technology. Technical, managerial, and public administration all need upgrading for her economy to become competitive in the global marketplace. Red tape and government inefficiency are not the only impediments to doing business. Corruption notwithstanding, Serbia has a long and rich legal tradition and a complex array of laws that can befuddle outsiders. Investors would be well advised, then, to cultivate partnerships with a growing class of younger technocrats in Serbia who both understand modern business practices, and how to successfully navigate the country's political, administrative, financial and legal landscape. There are a good number of expatriates as well, particularly in Canada, who have the requisite skills and networks of contacts in government and industry to expedite formation of commercial relations and to accelerate the process of business development.

► About the Author

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Gregorian's op-ed pieces have appeared in US and Canadian newspapers. He has made presentations before professional societies, academic institutions, government agencies, and on television and radio. Gregorian earned his M.A. and Ph.D. degrees at Brandeis University, and his B.A. at Boston University.



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