

REPUBLIKA SRPSKA IN THE
POST-KOSOVO ERA:

Collateral Damage and Transformation

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Executive Summary

Repercussions from Kosovo continue to shake Republika Srpska (RS), and may prove a catalyst for further transformation and reform. The war's collateral damage included severance of trade ties with the Federal Republic of Yugoslavia (FRY); a dramatic rise in unemployment; a sharp drop in production and state revenues; and a tide of Serbian refugees from FRY into RS.

Despite this the security situation, which looked dangerous at the beginning of April, did not deteriorate out of control, and the government in Banja Luka was able to stabilise its position and survive. The government itself deserves credit for keeping its head throughout the crisis. The international community, especially OHR and the US government, did good work behind the scenes keeping the ruling Sloga coalition together. And a generally well-judged and low-key response by SFOR managed to strike a balance between preserving security and not provoking incidents by its own actions.

As Republika Srpska enters the post-Kosovo era it faces a crossroads, both economically and politically. RS now can move forward towards an integrated European future as part of BiH. Or it can move backwards, towards economic, social and political misery.

The international community has to seize this chance to orient RS towards the right choice, but it also has to work out how to get better results on minority returns. As things stand, RS Prime Minister Milorad Dodik knows he will receive foreign support whatever he does, because he keeps RS politically and economically at a distance from FRY, and this keeps Bosnia out of the headlines at a time when there is enough trouble elsewhere in the Balkans. How to back Dodik's sensible economic policies while still making progress with the rest of the Dayton agenda?

Reasoning behind the current policy runs: "if Dodik can successfully promote self-sustaining economic growth, he will be able to operate with more authority and effectiveness throughout RS. The resulting economic growth will increase his domestic popularity at the expense of the ultra-nationalist parties. This will enable Dodik to take tougher decisions to implement returns". The disadvantage of this policy is that it undermines the status of return as an issue at the very top of the agenda. Two alternative policies are available but both carry risks.

The first alternative is to suggest to the Banja Luka government that political support from the international community (keeping Sloga in power) will in future depend not only on its sensible management of the economy but also on progress in other areas of the DPA. The difficulty with this idea is that no politician of any stature in RS stands up for minority returns. If Dodik is not trying hard enough, it is still difficult to see who will try harder.

The second alternative is to use aid conditionality. Here the threat is not to remove Dodik himself, but to cut off his vital supplies of foreign subsidy unless more minorities start to return home to RS. This will be effective only if the truth is that the Banja Luka government is not doing enough simply because it knows it does not have to. But if the truth is that the Banja Luka government is not powerful enough to enforce its will against hostile mayors who are barons in their own fief, then all that will happen is that the RS economy will collapse, and the resulting chaos would be hard to control. Western governments, anxious not to have Bosnia back on their TV screens, are not anxious to take the risk.

So, if the alternatives to the prevalent policy are unappetising, then securing modest prosperity for RS seems to be the only way forward. The current state of the economy gives an opportunity to promote political and economic reintegration with the remainder of Bosnia and Herzegovina and with the wider world. This is an objective worth securing for its own sake.

The report concludes with suggestions for measures to promote prosperity in RS and its integration into the economy of BiH.

Sarajevo, 5 July 1999



REPUBLIKA SRPSKA IN THE POST-KOSOVO ERA:

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I. INTRODUCTION

Republika Srpska or Sumska

ICG report 62 of 6 April 1999 reported how the political situation in Republika Srpska (RS) had been destabilised by three crises: the Arbitration Decision on Brcko, the dismissal of RS President Nikola Poplasen by the High Representative, and the NATO bombing of the Federal Republic of Yugoslavia (FRY) over Kosovo.¹

The two earlier crises remain unresolved: Poplasen still occupies the President's office in Banski Dvor, while to this day Milorad Dodik operates as a caretaker Premier, a position that appears to have won the temporary tacit approval of a deeply divided Serbian Democratic Party (SDS). Discussions on Brcko continue, with no end in sight.

As for the third crisis, repercussions from Kosovo continue to shake Republika Srpska (RS), and may prove a catalyst for further transformation and reform. Although no fighting occurred west of the Drina river, the more than two months of NATO air-strikes did affect Bosnia and Herzegovina (BiH), particularly RS. The war's collateral damage included: the near-total severance of all trade ties with the Federal Republic of Yugoslavia (FRY); a dramatic rise in unemployment; a sharp drop in production and state revenues; and a tide of Serbian refugees from FRY into RS. Other hidden collateral damage may occur when radicalised Bosnian Serb paramilitaries return from the front in Kosovo.

As Republika Srpska enters the post-Kosovo era it faces a crossroads, both economically and politically. The war's damage to FRY exposed RS' economic weaknesses and dependency. The RS now has a clear choice. It can move forward towards an integrated European future as part of BiH. Or it can move backwards, towards the economic, social and political misery of Milosevic's FRY, which earned RS the nickname "Republika Sumska" (Forested Republic).²

¹ ICG Balkans Report N° 62, *Republika Srpska - Poplasen, Brcko and Kosovo: Three Crises and Out?*, 6 April 1999.

² When used in this context, *sumska* means an area populated by uneducated, uncivilized, backward country people: hicks.

II. THE ONGOING RS POLITICAL CRISIS: BUSINESS AS USUAL

A. Sloga vs. the Ultra-Nationalists

As the war waged inside neighbouring FRY, and more discreetly in the RS, the RS political parties attempted to find a resolution to the ongoing political crisis. Since Poplasen-Brcko in early March, and the NATO bombing at the end of March, the RS government had remained frozen. The SRS/SDS coalition proved unable to nominate a candidate for Prime Minister who could win support from a majority of Assembly delegates, form a government, or enjoy the approval of the international community. With Nikola Poplasen still occupying the President's office, if not the job, and Vice President Mirko Sarovic unwilling formally to replace him and nominate a candidate (for only the President has the authority to do this), the RS government continued to function with Dodik as caretaker Prime Minister.

During this time the RS withdrew from the central institutions of BiH, and proved unable to resolve its own internal political stalemate by choosing a new government. Throughout April the RS political parties met with each other in attempts to form a workable coalition around an acceptable prime ministerial candidate, who could replace Dodik. Throughout this process, a Damocletian sword of OHR disapproval hung over them, as expressed by SPRS member Momir Malic: "if we make one mistake during the selection of a new member, the High Representative will introduce a protectorate in the RS".³

The battle lines were drawn between the ultra-nationalist SRS and SDS parties on the one hand, and the old "Sloga" coalition (SNSD, SNS, and SPRS) in informal alliance with the Bosniac-Croat Coalition for Unified Democratic BiH (KCDBiH). The SDS/SRS compromise candidate was Mladen Ivanic, a moderate nationalist economics professor from Banja Luka University with no current party affiliation, who continually down-played his political ambitions, and said he would take the job only if he felt he could be effective.⁴

B. The SPRS as Power-Broker

The Sloga coalition had been in danger of collapsing due to SPRS hesitations whether to stay in the coalition or line up behind Ivanic in a 'government of Serb unity'. Throughout April the SPRS remained the key to Sloga's survival⁵, and the OHR, the US government and others lobbied them intensively not to defect. Without SPRS support Dodik would fall, but he remained the only prime ministerial candidate in whom the Americans, in particular, had any faith.

Similarly, without SPRS support, the SRS and SDS coalition would prove unable to form a government. The SPRS had broken with Belgrade some months before, removing Milosevic's picture from its office walls.⁶ This caused animosity with Belgrade's main ally, the SRS, rendering any potential coalition unstable from the start. The SPRS' tendency to waver and change direction numerous times on the

³ "Politika duvanja", *Reporter*, 21 April 1999 p.32.

⁴ ICG *op.cit.* p.7. See this report also for the strengths of the various parties in the Assembly.

⁵ "Politika duvanja", *Reporter*, 21 April 1999, p.32.

⁶ "Ulkusna kriza", *Reporter*, 5 May 1999, p.29.

same issue frustrated and angered both camps. Throughout the April discussions the SPRS played an important, if unpredictable role.

Initially the SPRS angered Dodik when it told him it would not support Ivanic's candidacy, and then SPRS party official Dusko Bajic told the SRS the following day that it still supported Ivanic. This vacillation was frustrating for Dodik: a press report even suggested he had concluded that the SPRS must be destroyed as a political party if the RS government was to function properly.⁷ For his part, the SRS/SDS almost-candidate Ivanic also lost faith in the SPRS, which demanded that he publicly declare his candidacy before the party gave him its official support. Mistrustful of SPRS intentions, Ivanic refused to publicly declare himself until the SPRS officially supported his candidacy. This caused a stalemate between Ivanic and the SPRS. A prominent SDS official said: "we will believe the Socialists only when they raise their hand for Ivanic at the Assembly session. Immediately after that we will seek a recess so that we can review the TV footage and assure ourselves we are not dreaming".⁸ As April drew to a close the impending second special session of the Assembly loomed as an appropriate time to strike a deal on a new government.

C. Poplasen's Convenient Ulcer Crisis

Heading towards the second special session on 23 April, it appeared a deal had been struck between the SRS, SDS, and SPRS. Under the terms of the deal, Poplasen would resign and officially transfer power to Vice President Mirko Sarovic, who as the new President would then officially nominate Mladen Ivanic as Prime Minister. Ivanic would then receive support from the SRS/SDS/SPRS coalition. In what may be the first public sign of a split within the SPRS, six of the SPRS Assembly delegates backed out of the deal at the last minute. The Office of the High Representative was so certain of the SPRS that it did not implement an earlier decision suspending five SRS deputies in the Assembly. In any event, some in the SPRS did not think a vote for Ivanic would have passed, as Dodik appeared to control at least 50% of the delegates.⁹

On the first day of the new Assembly session, Poplasen was seized by a severe ulcer attack and taken to the hospital, a development diagnosed by angry and hostile SDS officials as "an unexpected improvement in Poplasen's health".¹⁰ Because of his health problems, Poplasen conveniently forgot to sign his official resignation document, leaving the government still in crisis, with no nominee to form a new government. At the end of the surprisingly brief Assembly session, the delegates could agree only on a resolution demonstrating the degree to which the presidential crisis paralysed the RS government: "the Assembly needs to de-block the institution of president of the Republic right away and choose a new government".¹¹ Following this session, the government remained under Dodik's control.

D. The Battle of the Budget: The SRS/SDS Coalition Splits

Following the second extraordinary session of the Assembly, all eyes turned to the major task ahead: the 21-22 May donors' conference in Brussels. The international community worried that nationalist passions raised by the war would lead to Dodik's

⁷ "Politika duvanja", *Reporter*, 21 April 1999, p.32.

⁸ *Ibid.*

⁹ "Ulkusna kriza", *Reporter*, 5 May 1999, p.29.

¹⁰ *Ibid.*

¹¹ *Ibid.*

fall and replacement with an SRS-sanctioned ultra-nationalist, who would neither cooperate with the internationals nor respect the DPA. Meeting with the RS Vice-President Sarovic, High Representative Carlos Westendorp urged delaying a resolution of the political crisis until the NATO bombing stopped, stating "decisions taken in tense and difficult moments are not the best decisions".¹² It was best that RS concentrate on preparing for the donors' conference. In order for the RS to qualify for donor aid, the government had to pass the national law on unified customs tariffs, and a budget acceptable to the donor community.¹³ The need for uniform customs tariffs had been the key to bringing the RS back to participate in BiH central institutions.

On 20 April the Serb member of the BiH collective Presidency, Zivko Radisic, attended his first meeting of the Presidency of BiH since the Brcko-Poplasen crisis, where, together with Croat and Bosniac representatives, he officially signed the new uniform decree on customs tariffs.¹⁴ Although hailed by the international community as a return to participation in central organs by the RS, the move violated a 7 March resolution of the RS Assembly, which prohibited participation in the central organs. It would also lead to later friction between the SPRS, Radisic's own party, and the SRS.¹⁵

The initial RS government budget proposal had been for 636 million KM, which was then lowered to 551 million KM¹⁶ and then, after IMF pressure, to 521 million KM.¹⁷ Even this budget proved too much for state finances to bear: given the poor state of the war-devastated RS economy, and the consequent drop in state revenues, Dodik's government was unable to pass a balanced budget without substantial foreign assistance. And foreign aid was forthcoming, \$10 million (19m KM) from USAID alone for direct support of the RS budget.¹⁸

On 18 May at the beginning of the RS Assembly's third special session, Assembly President Petar Djokic "warned the delegates to respect the agreement from Brcko", whereby the only topics of discussion at the third special session would be the budget and the customs law.¹⁹ Because there was still no agreement on a new government, representatives of the RS political parties met in Brcko before the third special session, where they agreed to deal only with the budget and the customs law. Djokic, Dodik and the international community feared the SRS would ignore these two important issues in favour of a fruitless and heated debate over the Brcko arbitration award, participation in the central institutions, and the formation of a new government. The SRS and SDS rightly feared that adoption of a new budget would strengthen Dodik's hold on power and allow him to operate for another year without turning to the Assembly for fiscal authorisation.²⁰ With the SRS facing a threat from the High Representative to ban the party, the third special session began.²¹

This third special session proved volatile. The SRS charged that the Dodik budget was "traitorous," and that it "had no chance of being realised". They complained that only 14% of the budget was to be spent on the army, while the corresponding figure

¹² "Vestendorp razgovarao s Sarovicem", *Dnevni Avaz*, 29 April 1999, p.4.

¹³ "Usvajanje budžeta uslov za odlazak na donatorsku konferenciju", *Politika*, 19 May 1999, p.14.

¹⁴ "Citava BiH uvodi carinske tarife", *Dnevni Avaz*, 21 April 1999, p.2.

¹⁵ "Ista prica, isto odostajanje", *Dnevne nezavisne novine*, 4 June 1999, p.4.

¹⁶ "Vlada RS usvojila prijedlog budžeta", *Dnevni Avaz*, 14 May 1999, p.4.

¹⁷ "Usvajanje budžeta uslov za odlazak na donatorsku konferenciju", *Politika*, 19 May 1999, p.14.

¹⁸ "US helps Bosnia Serbs bridge budget gap", *Reuters World Report*, 9 June 1999. "USAID podebljava budžet RS", *Dnevni Avaz*, 11 May 1999, p.5.

¹⁹ "Usvajanje budžeta uslov za odlazak na donatorsku konferenciju", *Politika*, 19 May 1999, p.14.

²⁰ "Budžet osnovna prepreka", *Dnevni Avaz*, 10 May 1999, p.9.

²¹ "Intervju – Vestendorp", *Dnevni Avaz*, 7 May 1999, p.5.

in the Federation was 40%.²² Angered by the budget, the SRS walked out, leaving the other parties to pass the budget without them. This was not the first time the SRS had walked out of an RSNA session, but this time the walkout marked a split with the SDS, and allowed the SDS - which had previously criticised Poplasen and the SRS for losing Brcko - to show quiet support for Dodik's government. It suggested that the SRS was becoming isolated within RS political life and losing strength throughout RS.²³

The SRS walkout from the third special session also highlighted a potential split within the SDS' two main factions, the "Western" SDS and the "Krajisnik" SDS. The more moderate Western SDS appears to be more concerned with the day to day functioning of government and economic progress. The Krajisnik SDS, centred mainly in eastern RS, appears more concerned with strengthening the position of the Pale leadership, especially Radovan Karadzic's old ally Momcilo Krajisnik. The third session marked the ascendancy, however temporary, of the more co-operative Western wing in the SDS.²⁴ This may have given the SDS a genuine opportunity to recapture some of the power it so nostalgically misses. As the situation stands today, the SDS need only reach agreement with Dodik to re-join the government.²⁵ Their current price appears to be five ministerial posts.²⁶

Recent events suggest that the SRS faces a decline in its mass support from its peak at the beginning of NATO bombing in FRY. Bosnian Serbs increasingly perceive the SRS as lacking an economic or political platform, and being more interested in orders from Belgrade than in the fate of Bosnia's Serbs. Both the SDS and Dodik's SNSD effectively placed blame for the 'loss' of Brcko on the SRS and Poplasen. Although the SNSD is profiting a little from the loss of SRS popularity, the SDS is best placed to gain the most. And Dodik is using the time to place SNSD loyalists in key government posts. Nonetheless, because the situation in RS is still perceived as volatile, fears of a strong SRS and SDS led the OSCE to delay until April 2000 the scheduled 1999 elections.²⁷

E. Brcko and the Continued Stalemate

The Brcko arbitration award created a condominium in Brcko between the Federation and RS, a decision bitterly resented in RS.²⁸ At its 3-4 June session, the RS Assembly continued to press for revision of the Brcko arbitration award, hoping to achieve a more favourable outcome either through modifying the annexes, or increased co-operation with the Federation.²⁹ Although the SRS hopes to link RS participation in the central BiH organs to a revised Brcko arbitration decision,³⁰ pronouncements by international officials indicate the Brcko decision will not be revised.

Yet the RS stalemate still continues: Milorad Dodik remains in his role as caretaker Prime Minister, and Nikola Poplasen still occupies physically the President's office in Banski Dvor, even though Dodik cut off all funding. Poplasen's efforts to remain in

²² "Radikali napustili zasjedanje", *Dnevni Avaz*, 19 May 1999, p.4.

²³ "Da li je razlaz oko budzeta uvod u raspad 'bratske' SDS-SRS koalicije", *Nezavisne novine*, 26 May 1999, p.4.

²⁴ Ibid.

²⁵ "SDS sama odlucuje hocu li u vlast", *Nezavisne novine*, 6 June 1999.

²⁶ "Ulkusna kriza", *Reporter*, 5 May 1999, p.30.

²⁷ "Intervju - Robert Barry", *Reporter*, 2 June 1999, p.31.

²⁸ ICG, *op. cit.*, passim.

²⁹ "Milorad Dodik: RS ce osnovati ministarstvo za Brcko", *Dnevni Avaz*, 7 April 1999, p.7.

³⁰ "Ista prica, isto odstajanje", *Dnevne nezavisne novine*, 6 June 1999, p.4.

office by reaching an accommodation with Westendorp have failed, and Poplasen appears resigned to his own eventual departure. In the absence of a functioning President, the SDS has tacitly acquiesced to Dodik's continued presence as Prime Minister, particularly given his ability to attract foreign donor money. Most importantly, Dodik's government now has a budget for another year. Given Dodik's proven ability to block the selection of an alternative candidate, this means his mandate has been extended until such time as Poplasen steps aside in favour of a new President. So too, Dodik now has the opportunity to form an alliance between Sloga and the Krajina wing of the SDS, giving official blessing to his caretaker status. This would also ensure that the SPRS alone no longer has the power to bring down Sloga through defection.

It was in the interest of the international community that the RS government stalemate should continue, at least until the end of the NATO action against FRY. Fearful that nationalist passions caused by the war would lead to the formation of an ultra-nationalist SRS-SDS-based government, the OHR actively discouraged the formation of a new government after the Brcko-Poplasen crisis.³¹ But the logjam is breaking. In a 25 June interview with Srpski Radio, Dodik indicated talks are under way between Sloga and SDS to create a coalition backing him as Prime Minister, and that the price for this support will be some ministerial seats for the SDS. He also stated that "some people in the SPRS...will have to answer inside the party and the coalition".³² With the end of hostilities, and the breakdown of the SRS-SDS coalition, Dodik may soon be ready to form a government uniting Sloga and the SDS, which would allow the moderates in the SDS to start growing away from the dead-end politics of obstructionism. He will only do this, of course, if his international backers are prepared to see the SDS return to government: they too have been active in recent events.

III. THE INTERNATIONAL COMMUNITY GETS IT RIGHT

A. Violence Threatens but Fails to Spread

As noted above, intensive behind-the-scenes lobbying from international actors such as the High Representative, OSCE and the US embassy was a perhaps decisive factor in persuading the Socialist Party to remain in the Sloga coalition and preserve the Dodik government in power. The military wing of the international presence also had a role to play during the NATO bombing of the neighbouring country.

During the course of the NATO air strikes against FRY, a series of events occurred which, taken collectively, represented efforts by the Belgrade government to draw RS into the conflict.

In clear opposition to Belgrade's wishes, at the beginning of the Kosovo crisis Dodik immediately declared that "Bosnian Serbs will remain neutral...our military and police forces will not participate".³³ In contrast to Dodik's stance, some Serb officials waged a verbal war with NATO. Zivko Radisic from his high but powerless position in the BiH presidency declared the NATO bombing an "attack on the whole Serbian people and its dignity".³⁴ He then sent a letter to the UN Security Council, requesting it take

³¹ "Intervju – Vestendorp", *Dnevni Avaz*, 6 May 1999, p.2.

³² "Dolaskom Poplasena RS je izgubila 500 miliona DM", *Oslobodjenje*, 26 June 1999.

³³ *NIN*, 25 March 1999.

³⁴ *NIN*, 1 April 1999.

action to halt the bombing.³⁵ Nikola Poplasen referred to the bombardment as “criminal aggression” and an “act of brutal injustice”,³⁶ and claimed “SFOR...has been transformed into an occupying army...and the international organisations into protectors and occupiers”.³⁷ Some of the more extreme elements in RS called for the establishment of internal border controls between RS and the Federation, and the deployment of the RS Army (VRS) along the border with the Federation.³⁸ Angered by the bombings and whipped up by Republika Srpska Radio-Television (SRT) and the SRS, mobs in Banja Luka and Bijeljina attacked the offices of Western embassies and international organisations. Some sensed the situation rapidly spinning out of control.³⁹

SRT broadcast one-sided reports throughout the Kosovo crisis, in many instances directly transmitting Radio Television Serbia (RTS) broadcasts without editing. In addition, it served up a steady diet of patriotic films about Serbia during the First and Second World Wars, as well as intense Serbian cultural programming. Eventually the High Representative sent a letter to SRT, demanding it adhere to journalistic principles of unbiased reporting.⁴⁰ The inflammatory effect of the Serbian media led the Independent Media Commission to temporarily shut down operation of the privately owned television station Kanal “S”.⁴¹ This shut-down was tacitly supported by RS Minister of Information, Rajko Vasic.⁴² Although lasting only six days, the closure sent a strong message to SRT and other offending media outlets, causing them to moderate their programming content.⁴³

RS Defence Minister Manojlo Milovanovic turned up the heat on NATO by claiming SFOR troops occupying the “Kula” building near Zvornik were jamming telecommunication signals across the Drina river inside Serbia. NATO was alleged to have breached BiH sovereignty by using the Tuzla and Sarajevo air fields to support the attack on FRY, and over-flying BiH air-space en route to attack Serbia, with as many as 75 flights on May 1 alone. And numerous NATO aircraft were claimed to have crashed in RS. So too, the VRS claimed an increase in the number of SFOR troops stationed in BiH, and Milovanovic speculated publicly that they might be used to invade FRY.⁴⁴ Nonetheless, VRS never contemplated seriously military action against SFOR. At the beginning of the crisis, the chief of the VRS General Staff General Momir Talic, gave RS government leaders a gloomy analysis of military action against SFOR: “a classic war would last two to three days, and a guerrilla [war] would be possible for a maximum of half a month”. And in the end, SFOR would win.⁴⁵

Aside from the political and media war, real shots rang out inside BiH during the NATO bombing. In the early days of the conflict two US Air Force F-15s on combat air patrol intercepted three FRY MiG-29s near Ugljevik in north eastern BiH, and shot down two. Another incident occurred in the Serb-controlled Sarajevo suburb of Lukavica, near the Sarajevo airport, in which unknown assailants shot and wounded

³⁵ “Nato za udare koristi teritoriju BiH”, *Dnevni Avaz*, 6 May 1999, p.2.

³⁶ “Pravedna borba protiv svetskih varvara”, *Blic*, 6 April 1999, p.2. “Poplasenova lojalnost Milosevicu”, *Dnevni Avaz*, 8 April 1999, p.9.

³⁷ “Poplasen: Srbija se bori za opstanak svih Srba”, *Politika*, 19 May 1999, p.14.

³⁸ “Rasprava o NATO udarima pretvorila se u rasisticko vrijedanje Bosnjaka”, *Dnevni Avaz*, 13 April 1999, p.5.

³⁹ ICG, *op. cit.*, p.8.

⁴⁰ *NIN*, 1 April 1999.

⁴¹ “Medjunarodna komisija za medije zabranila program Kanala ‘S’”, *Dnevni Avaz*, 15 April 1999.

⁴² “Intervju, Ministar Informisanja RS Vasic Rajko”, *Dnevne Nezavisne Novine*, 5 June 1999.

⁴³ “Kanal S ponovo radi”, *Politika*, 18 May 1999.

⁴⁴ “Veliki nesporazu s SFOR-om”, *Reporter*, 12 May 1999, pp.25-27.

⁴⁵ “SFOR protiv VRS”, *Reporter*, 21 April 1999, p.4.

SFOR personnel. On 26 May unknown assailants attacked SFOR housing near Zvornik with rocket-propelled grenades. Shortly thereafter, Yugoslav army (VJ) forces crossed the border into eastern RS and captured six SFOR soldiers. The VJ interrogated the soldiers and released them the next day. Several SFOR helicopters flying over RS came under attack from small arms fire and the occasional rocket-launched grenade.

SFOR's problem was how to react to a deteriorating and dangerous situation without provoking further incidents by its own response. SFOR soldiers occupied several important VRS bases at the beginning of the bombing. SFOR increased its overall troop presence in eastern RS along the border with FRY, and engaged in a series of controversial actions, such as placing road blocks on the Bijeljina-Banja Luka main highway, and arresting three men for weapons smuggling on the Vlasenica-Milici road.⁴⁶ SFOR also surrounded the Pale home of ultra-nationalist SDS politician Momcilo Krajsnik with armoured personnel carriers and soldiers. On 3 April in a highly publicised incident, SFOR troops demolished a section of the Belgrade-Bar rail line near the eastern RS town of Strpci, to prevent the passage of supplies and troops from Serbia to Montenegro via rail. While demolishing the rail line, SFOR troops killed a man.⁴⁷ SFOR troops seized the VRS radar facility at Sokolac, believed to be passing information eastwards about NATO aircraft as they flew over BiH en route to FRY.⁴⁸

The beleaguered Belgrade government had much to gain by embroiling RS and BiH in the Kosovo crisis. They could strengthen the ultra-nationalist elements within RS at the expense of Sloga, so removing all hope of progress in implementation of the DPA. By linking RS to Kosovo they could press for a regional resolution of the Kosovo crisis, whereby FRY would gain RS, in exchange for which Kosovo would gain autonomy. Another possible outcome would have been a military uprising against SFOR which would divert NATO resources and world attention away from the bombing campaign.

B. Buying Peace: The Stick and the Carrot

But the situation in RS did not escalate. There was neither an armed uprising nor an attempt at secession, both of which looked possible at the beginning of April. Level-headed leadership from the Banja Luka government, intensive pressure from the international community, and a generally well-judged response from SFOR can all share credit for an outcome that has proven to be in the best interests of the people of RS.

The international community successfully moderated RS behaviour through a combination of threats and rewards. SFOR held an important trump card: the bridges over the Drina river, connecting RS to FRY. Fearful that SFOR might destroy these bridges in retaliation for some extremist act, the RS government sought assurances from the SFOR commander in BiH, US General Montgomery Meigs. On 7 April General Meigs assured the RS government that SFOR would protect the bridges over the Drina, as long as they were not used for military purposes.⁴⁹ The underlying threat to RS was plain: if Serb behaviour rendered the security situation inside BiH

⁴⁶ "Ostalo je naprezanje", *Reporter*, 28 March 1999, p.30.

⁴⁷ Local reporting stated that SFOR exchanged fire with RS railway guards and published and broadcast interviews with the dead man's relatives. SFOR were briefing privately that VJ troops were involved in the firefight. See "SFOR ubio cuvara i minirao prugu", *Blic*, 4 April 1999, p.10.

⁴⁸ "Veliki nesporazum s SFOR-om", *Reporter*, 12 May 1999, p.25.

⁴⁹ "Uslov da NATO sacuva mostove na Drini", *Dnevni Avaz*, 8 April 1999, p.8.

unstable, SFOR would sever RS physically from FRY. Given the high level of economic co-dependency between FRY and RS, this threat amounted to an economic death sentence for RS. Suspicions that RS was supplying FRY with petroleum products from its Bosanski Brod and Modrica refineries also led NATO to threaten to block all oil imports to RS. This threat took on real meaning when Croatia shut off all oil supplies to RS. The oil flow was reopened only after the direct intervention of the High Representative.⁵⁰

In addition to the stick - threats of bridge demolition and a cut-off of oil supplies - the international community successfully sought to influence RS officials with the carrot of international aid. Throughout the Kosovo crisis a stream of international officials visited Banja Luka and promised substantial sums of foreign aid to RS in return for good behaviour. At a meeting on 26 April with the President of the RS Assembly Petar Djokic, OHR Deputy High Representative Jacques Klein and General Meigs stated the willingness of USAID and the IMF to support RS financially.⁵¹ The same day the World Bank's Director for BiH Rory O'Sullivan met with Dodik and announced five new World Bank projects in RS and continued World Bank support for Dodik's government. The new projects brought the total of World Bank aid to RS in 1999 to 110 million Convertible Marks (KM).⁵²

As RS revenues dropped - due to the economic crisis caused by the dramatic decrease in trade with FRY - Dodik's government struggled to balance a new budget in time for the donors' conference. To shore up Dodik, the OHR appealed to international donors to support the RS budget. As already noted, USAID promised the RS government \$10 million (19m KM) in direct financial aid to fill the gap in the budget,⁵³ and encouraging noises were made about the forthcoming donors' conference. In return the international donor community made it clear to the RS government and Assembly that economic and financial aid depended on Dodik remaining in power.⁵⁴ In an attempt to support Dodik's moderating influence, IMF representative Ansell announced the Fund would work in an "extraordinary manner" in RS, due to that region's particular political sensibilities.⁵⁵

Between the DPA and the May 1999 donors' conference, donors had allocated approximately 960 million KM in aid for RS, of which only one third had been spent. At the May conference, the RS received nearly \$400 million (760m KM) in additional funding, approximately 35% of the total donors' conference aid package.⁵⁶ This figure was higher than the 20-25 per cent the Croat-Muslim Federation had hoped the RS would get. International community donor aid probably saved the Dodik government from collapse and prevented the war from spreading from FRY to RS. Potential Prime Ministerial candidate Mladen Ivanic confirmed as much when he stated: "the international community practically is helping maintain social peace in RS, by helping the government".⁵⁷ The carrot and stick approach succeeded: RS remained at peace. And Dodik's popularity grew during the course of the NATO bombing, as he "saved the RS from internal destruction and from being pulled into a fight with SFOR and NATO".⁵⁸

⁵⁰ "Nafta", *Reporter*, 5 May 1999, p.26.

⁵¹ "RS ce dobiti finansijsku pomoc", *Dnevni Avaz*, 27 April 1999, p.2.

⁵² "Pet novih projekata – podrška RS-u", *Dnevni Avaz*, 27 April 1999, p.5.

⁵³ "US helps Bosnia Serbs bridge budget gap", *Reuters World Report*, 9 June 1999. "USAID podebljava budzet RS", *Dnevni Avaz*, 11 May 1999, p.5.

⁵⁴ "Pomoc uslovljena izborom Dodika!?", *Dnevni Avaz*, 17 May 1999, p.5.

⁵⁵ "MMF ce nastaviti saradnju sa RS", *Dnevni Avaz*, 17 May 1999, p.6.

⁵⁶ "Da li je razlaz oko budzeta uvod u raspad 'bratske' SDS-SRS koalicije", *Nezavisne novine*, 26 May 1999, p.4.

⁵⁷ "Kupovanje mira", *Reporter*, 26 May 1999, p.34.

⁵⁸ "Velibor Rajcevic", *Reporter*, 16 June 1999, p.43.

IV. COLLATERAL DAMAGE: THE ECONOMY AND REFUGEES

A. Bombs in FRY Hit Jobs in RS

Although no bombs fell on the RS and almost no one was killed, the collateral damage from across the Drina was significant. Before the war most of RS' trade was with FRY. 43% of all imports came from FRY, while 75% of all exports went into FRY.⁵⁹ The World Bank stated that approximately 52% of all RS companies worked with FRY, to which they sold the majority of their goods.⁶⁰ The RS metal industry sold 60% of its goods in FRY; the wood industry 50%; the textile industry 40%.⁶¹ The RS Assistant Minister of Trade Milenko Krajisnik succinctly stated: "our problem is that for years the economy of RS was almost organically connected with the Yugoslav [economy]."⁶² An example is the electric distribution system. Before the NATO bombing, the RS received approximately 25% of its electrical energy from FRY.⁶³ When the bombing started, these supplies became intermittent, as FRY had insufficient power for its own needs. The precarious RS power grid and its dependency on FRY forced it to turn towards the Federation to purchase electricity.⁶⁴

The NATO bombing of FRY severed this "organic" linkage by destroying many of the factories, which had purchased raw materials and finished parts from RS companies. It also destroyed many factories that produced consumer goods sold in the RS. The war-time shut-down of the FRY payment bureau (SDK) made it nearly impossible to complete legal import/export business transactions, shutting off markets for RS-produced consumer goods and raw materials. The destruction of roads and bridges, as well as the almost complete lack of fuel made transport difficult, if not impossible. Trade with FRY collapsed.

After the bombing started, the largest employers in RS, Cajevec, Incel, Famos, and Energoinvest laid off most of their workers and shut down or greatly reduced production. According to the RS Chamber of Economy, 3,808 people lost their jobs in the Banja Luka area lumber industry alone, while another 3,000 people lost their jobs in the textile industry.⁶⁵ In Bijeljina the Orao and Panafleks companies sent most of their workers home and shut down all production.⁶⁶ In Modrica the director of the oil refinery, which prior to the war had sold over 50% of its goods to FRY, announced he would have all his workers take their annual one month vacations, as the FRY owed Modrica more than 3 million DM.⁶⁷ Prevented by SFOR from exporting to FRY, the refinery lost most of its market.⁶⁸ In the Doboj-Bosanski Brod region, Hemoprodukt, Trudbenik, Modrica Masinstvo, Mebos Samac, and other companies lost their main markets. The UNIS company essentially shut down 20 of its 24 production facilities.⁶⁹ The eastern parts of RS were similarly hard hit.⁷⁰

⁵⁹ OHR figures, see "Svijet prikuplja pomoc Dodikovojoj vladi", *Dnevni Avaz*, 14 May 1999, p.10.

⁶⁰ "Svjetska banka: RS na koljenima", *Dnevni Avaz*, 4 May 1999, p.10.

⁶¹ *NIN*, 6 May 1999.

⁶² "Privredni kolaps", *Reporter*, 5 May 1999, p.26. This close association and use of a common currency may have had the side effect of lowering the RS' foreign currency reserves from 800 to 300 million DM. See "Druga linija", *Reporter*, 21 April 1999, p.33.

⁶³ "Distribucija mraka", *Reporter*, 2 June 1999, p.29.

⁶⁴ "Semberija i Krajina pred redukcijom struje", *Dnevni Avaz*, 9 April 1999, p.4.

⁶⁵ "Privredni kolaps", *Reporter*, 5 May 1999, p.24.

⁶⁶ "Privreda pred kolapsom", *Oslobodjenje*, p.7.

⁶⁷ "Rafinerija ulja u Modrici", *Dnevni Avaz*, 11 May 1999, p.2.

⁶⁸ "Uvoz nafte u RS samo preko 3 firme", *Politika*, 14 May 1999.

⁶⁹ "Redukcija struje, nedostatak lijekova i privredni slom u RS", *Dnevni Avaz*, 5 May 1999, p.9.

⁷⁰ "Privreda na rubu egzistencije, Glas srpski", 4 June 1999, p.7.

According to the RS Assistant Minister for Foreign Trade, Gojko Milinkovic, by mid-May over 35,000 people had lost their jobs due to the bombing.⁷¹ Other estimates placed the number at 40,000 to 50,000.⁷²

B. Arizona as a Microcosm for the RS

The notorious "Arizona" market place on the inter-entity boundary line in the Ravne/Brcko municipality provides a micro-economic insight into how the war affected the RS economy.⁷³ RS businesses had used a loophole in RS customs laws, which allowed duty-free import of goods manufactured in FRY. RS traders used this provision to import goods into BiH from third countries via FRY, claiming the goods originated in FRY. The result was the Arizona market, which boasted the lowest prices in all BiH, due to the large quantities of goods imported free of duty. Bus companies organised shopping tours to Arizona for economical consumers throughout BiH.⁷⁴

When the bombing started, goods manufactured in or transiting FRY became scarce. With increased scarcity came higher prices. Soon the prices on Arizona market reached levels nearly equal to those in the surrounding areas of the Federation. With the price incentive removed, consumers stopped visiting Arizona. By the end of the first month of bombing, almost half the shops on the Arizona market had closed for economic reasons.

The rise in prices and the drop in business activities on the Arizona market appear to be reflected throughout the RS. According to the RS Statistical Institute, during April a basket of consumer goods rose in cost from 350 DM to 365.58 DM, a rise of 4.7%.⁷⁵ In contrast, wages remained largely the same, hovering around the 200 DM per month level.⁷⁶ By June the cost of a basket of consumer goods may have reached as high as 500 DM.⁷⁷

Given the difficulty of accurate statistical collection in BiH, the overall cost of the war to the RS economy may never be known. However, one statistic is telling: during the first four months of 1999, RS exports to FRY fell from 133 million DM to 33 DM.⁷⁸

C. Refugees from FRY

The NATO bombing sent a flood of refugees across the border into BiH. Unlike the large numbers of Albanian Kosovar refugees flooding into Albania and Macedonia, these were largely Serbs fleeing the draft and war-time destruction, as well as Sandzak Moslems fleeing the possibility of Serb mistreatment, and some Kosovo Albanians. While all of the Sandzak Muslims and Kosovo Albanians seem to have gone to the Federation, the FRY Serbs came to both the RS and the Federation.

⁷¹ "Intervju – Gojko Milinkovic", *Dnevni Avaz*, 18 May 1999, p.5.

⁷² "Interview with Dzuradj Baujac", *Politika*, 14 May 1999.

⁷³ In early April at the beginning of the NATO bombing, ICG interviewed merchants and customers at the Arizona market, and revisited the market again in early May.

⁷⁴ The implementation of the new law on unified customs tariffs, which went into effect on 15 May 1999, should exert a permanent similar depressive influence on the Arizona market, by making the prices of imported goods uniform throughout BiH.

⁷⁵ "Pola korpe za placu", *Dnevni Avaz*, 21 May 1999, p.7. OHR figures for the same period are 5%. See *OHR Economic Task Force Newsletter*, Vol. 2., Issue 5, p.2.

⁷⁶ *OHR Economic Task Force Newsletter*, Vol. 2, Issue 5, p.2.

⁷⁷ "Privredni kolaps", *Reporter*, 5 May 1999, p.25.

⁷⁸ "Bosnia Serb Jan-April exports to Yugoslavia plunge", *Reuters World Report*, 28 May 1999.

Although exact numbers are difficult to tell, UNHCR estimate the number of FRY refugees in RS at between 20,000 and 25,000. This number includes large numbers of young men dodging the draft, as well as whole families.⁷⁹ So too, a large number of Gypsies (Roma) left the Novi Sad area in Vojvodina and set up a makeshift camp around the bus station in Banja Luka.⁸⁰ The effect of these refugees on the RS economy is difficult to estimate. Already beset with social and economic difficulties, the RS will be hard put to cope, should these people decide to stay following the cessation of hostilities. And their presence complicates the already-difficult problem of returning displaced people elsewhere in BiH to their homes in RS.

V. WHITHER REPUBLIKA SRPSKA?

A. New Markets

In the post-Kosovo era RS faces major choices and difficulties. First and foremost is the economy. Because of the damage done to the FRY industrial base by the NATO bombing, the RS is "forced to forget those [Yugoslav] connections and build new ones".⁸¹ During the 3 June session of the Assembly, at which the SRS attempted to make political hay over Brcko, the mayor of Brcko Sinisa Kisić deviated from nationalist issues and spoke about what was really on the minds of serious politicians: economic development.⁸² It has become obvious to all except the most hardened nationalists that the RS must reorient its economy away from FRY and towards other markets, especially the Federation, the European Union, and Croatia. The RS Minister of Trade Nikola Kragulj said that the war "points to the necessity of an orientation on strengthening co-operation with the Federation".⁸³

Throughout June calls were heard throughout the RS for finding new markets. The head of the RS Alliance of Trade Unions admitted that the heavy reliance on FRY industry had placed the RS "in a sort of dead end",⁸⁴ and the RS Chamber of Economy called for finding new markets.⁸⁵ The Dodik government appears to have taken this task to heart, and is seriously searching for new markets for RS goods. At a well-publicised meeting in Sarajevo on 22 June, Dodik took some of the initial steps to establishing better economic relations with the Federation, by agreeing to the transformation of the Chamber of Economy of BiH into the Foreign Trade Chamber of BiH.⁸⁶ He called for the governments of RS and the Federation to be concerned "with protecting the market of BiH, and not of FRY or Croatia or some third party".⁸⁷ In light of these actions, some recent Dodik statements about a unified market between RS and FRY have to be viewed as political rhetoric for internal RS consumption.

In transforming post-socialist societies, economics and politics are intertwined. Because the SRS' ultra-nationalistic program never included economic proposals, it is losing ground, especially in light of the economic destruction wrought by the NATO bombing of FRY. Dodik's record as a successful economic reformer in pre-war Laktasi, as well as his well publicised ability to attract foreign donor aid, have left him

⁷⁹ "UN-Bosnia", *AP US & World*, 21 April 1999.

⁸⁰ ICG analysts visited the camp on 4 June 1999.

⁸¹ "Privredni kolaps", *Reporter*, 5 May 1999, p.26.

⁸² "Ista prica, isto odstojanje", *Dnevne nezavisne novine*, 6 June 1999, p.4.

⁸³ "Carine tjeraju RS u Federaciju", *Reporter*, 9 June 1999, p.4.

⁸⁴ "Privredni kolaps", *Reporter*, 5 May 1999, p.26.

⁸⁵ "Brze iznalaziti rjesenja", *Glas Srpski*, 4 June 1999, p.7.

⁸⁶ "Dodik je za jedinstveno trziste u BiH", *Dnevni Avaz*, 23 June 1999, p.6.

⁸⁷ *Kako do zajednickog trzista*, 23 June 1999, p.4.

in the economic driver's seat. And because politics and economics are so inter-dependent, he is also driving the politics of RS.

B. Brcko and Poplasen

Poplasen remains in his Banski Dvor office, and the SRS continues to use Brcko as a nationalist rallying point. Repeated attempts by the RS Assembly to contest both the Brcko decision and the dismissal of Poplasen have ended in failure. Poplasen's role is now mainly rhetorical and symbolic, and seems likely to remain so until either he steps down or until new elections are held.

C. Compliance with Dayton: Refugee Return and War Criminals

One major sore spot for the international community is the continued lack of compliance with Annex 7 of the DPA, which guarantees the right of every person to return to his place of pre-war residence. In spite of large scale international funding of Dodik's government, minority returns remain insignificant. The international community has had to choose between supporting Dodik at any cost and letting someone else come to power. The calculation in Western chanceries (especially Washington) that there is no acceptable alternative to Dodik sends him a clear message that he will not forfeit foreign support even if progress on return remains slow. This gives him little incentive to force returns upon local authorities and a populace either hostile or indifferent. Dodik's internal position can only suffer by promoting unpopular returns – but he knows his external position is secure. He himself appears to hold a pragmatic, rather than an ideological position. In such circumstances his inactivity is understandable if not excusable. So the prospects for progress with Annex 7 are still not encouraging. An exactly similar reasoning explains why the Dodik government will not move against the numerous indicted war criminals still at large on RS territory.

VI. CONCLUSION AND RECOMMENDATIONS: AT THE CROSSROADS

The Kosovo crisis has strengthened Dodik's government, and he is now in a position to remain in power until the next elections. For now the challenge from the extreme right has been beaten off. But the RS economy has suffered. Unemployment, the new wave of refugees and other social issues all have potential to feed unrest. Having emerged from the Kosovo crisis without an uprising or a secession movement, the RS now stands at a crossroads. It can either move forward by opening up economically to the Federation and the outside world, or it can return to the failed politics of nationalism which have gradually impoverished all the Serb lands.

The international community has to seize this chance to orient RS towards the right choice, but it also has to work out how to get better results out of Dodik on minority returns. As things stand, Dodik knows he will receive foreign support whatever he does, because he keeps RS politically at a distance from FRY, and this keeps Bosnia out of the headlines at a time when there is enough trouble elsewhere in the Balkans. How to back Dodik's sensible economic policies while still making progress with the rest of the Dayton agenda?

The optimistic option is the policy of 'Let Dodik Grow Strong', currently the preferred policy of the international community. This reasoning runs: "If Dodik can successfully promote self-sustaining economic growth, he will be able to operate with more authority and effectiveness throughout RS. His ability to wean RS from the FRY economy in favour of markets in the European Union, Croatia, Slovenia, and North America will further weaken ties with FRY. The resulting economic growth will increase his domestic popularity at the expense of the ultra-nationalist parties. This will enable Dodik to take tougher decisions to implement Annex 7".

The advantage of this policy is that it is fairly safe and easy to understand. Passage of time is allotted a key role in bringing about a change of circumstances favourable to return. The disadvantages are that the more time passes, the less likely refugees are to want to return (having settled elsewhere), and that the policy undermines the international community's stated emphasis on return as an issue at the very top of the agenda. Two alternative policies are available but both carry risks.

The first alternative is to drop the policy of 'Dodik at Any Price' and suggest to the Banja Luka government that international support depends not only on its sensible management of the economy but also on progress in other areas of the DPA. The difficulty with this idea is that no politician of any stature in RS stands up for minority returns. If Dodik is not trying hard enough, it is still difficult to see who will try harder. The only advantage of this policy would be to send Dodik a message that he is not indispensable, as a means of getting him to try harder. And the problem with that is that it amounts to nothing more than a bluff: Dodik will see through it easily.

The second alternative is to use the powerful weapon of aid conditionality. Here the threat is not to remove Dodik himself, but to cut off his vital supplies of foreign subsidy unless more minorities start to return home in RS. Now this will certainly be effective if the truth is that the Banja Luka government is not doing enough simply because it knows it does not have to. But if the truth is that the Banja Luka government is not powerful enough to enforce its will against hostile mayors who are barons in their own fief, then all that will happen is that the RS economy will collapse, and the resulting chaos would be hard to control. Western governments, anxious not to have Bosnia back on their TV screens, are not anxious to take the risk.

So, if the alternatives to the prevalent policy are unappetising, then securing modest prosperity for RS seems to be the only way forward. The current state of the economy gives an opportunity to promote political and economic reintegration with the remainder of Bosnia and Herzegovina and with the wider world. Whatever the merits of the 'Let Dodik Grow Strong' policy, this seems an objective worth securing for its own sake.

Among measures which could promote a return to growth in RS are:

- Aid policymakers should be (and already are) thinking of ways to promote economic integration. Consolidation of a national electricity grid and the development of Bosnia-wide marketing of products are policies which might be easier to promote now than before;
- Remove all barriers to inter-entity trade. In spite of the unified customs tariffs, numerous serious barriers to inter-entity trade still exist. In the Federation, for example, the so-called "prelevmani" still exist, only under a new name. Tax barriers and extra paperwork requirements hamper and undermine efforts to increase trade. Because of these efforts, it is still less expensive to import Hungarian Coca-Cola into RS than to buy domestically produced Coca-Cola from Sarajevo. Private businessmen are well aware of these barriers and can advise

government and the OHR on their removal: a cross-entity board of private business should be created, including foreign businesses with experience in BiH, and consulted on the removal of barriers to trade.

- Promote RS products abroad. The private business board can help to devise strategies to find new markets for RS goods, and to convert existing RS production (now oriented towards the specific needs of FRY) to make goods demanded abroad.
- Promote trade ties with the Federation and Croatia. This will involve familiar attempts to put pressure on governments in Zagreb and Sarajevo, but the new Stability Pact ought to provide a context in which that pressure can be more effective.
- Use this period of extreme economic shock to push the Dodik government to undertake significant free-market reforms – this seems to be Dodik's ambition anyway. Success will make RS more efficient and competitive, will create new jobs, raise tax revenues, and start to alleviate numerous social problems. Economic reforms in RS will force the Federation to reform its economy or lose economically to a more prosperous RS.