

AUTONOMY, DEPENDENCY, SECURITY: THE MONTENEGRIN DILEMMA

**The ESI Montenegro Project has been supported
by the United States Institute of Peace**

ESI Report

4 August 2000

Podgorica and Berlin

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EXECUTIVE SUMMARY

Since the Montenegrin government distanced itself from the president of the Federal Republic of Yugoslavia, Slobodan Milosevic, during last year's Kosovo war, Montenegro has found itself in the international spotlight. Montenegrin politicians have been courted by the West. The United States and the European Union have offered rapid and substantial financial aid – more than 300 million German marks in 1999 and 2000 – to cushion the economic effects of the conflict and the country's international isolation. NATO officials have repeated ominous but ambiguous warnings to Milosevic not to intervene. Despite this, however, little is known about how Montenegrin society really functions.

Although sensitive to domestic and international pressure not to take any step that might precipitate armed conflict, Podgorica is already, in practice, behaving as if Montenegro is a fully autonomous entity. It answers to no central institution and ignores the Yugoslav government and parliament. It has established its own economic structures, and introduced the German mark as its official currency. Its profile in international affairs rivals that of most sovereign states in the region. The split with Serbia came about more as a result of Milosevic's refusal to countenance political opposition, than of a Montenegrin desire to leave the federation. During the past two years, however, Montenegro has set about building the institutions required for an autonomous existence. The Montenegrin government's cautious public line on independence reflects the genuine divisions of opinion in Montenegro. With large risks associated with a formal independence declaration, Montenegro as well as its international allies may prefer to maintain its ambiguous constitutional status for some time.

Since 1998, Montenegrin political life has been polarised between two powerful blocs, reflecting the sharp differences of opinion in society between pro-autonomy and pro-Belgrade viewpoints. On the one side, Montenegrin President Milo Djukanovic and his DPS party have inherited the apparatus of control built during the communist era, and have used this political infrastructure to counter attempts at destabilisation by the Belgrade regime. On the other side, former President Momir Bulatovic's SNP has continued to represent sympathy for remaining part of the Federal Republic of Yugoslavia in Montenegro, and still commands significant support.

Tensions between Montenegro and Serbia peaked during the Kosovo war, but have declined since then. With one exception, the assassination of President Djukanovic's national security advisor Goran Zujic, there has been no Montenegrin equivalent to the spate of murders of leading politicians and underground figures taking place in Serbia in recent months. Nevertheless, the risk of civil conflict cannot be discounted. While for the time being no side appears to have an interest in provoking large-scale hostilities, a series of provocations by the Yugoslav Army could lead to violent reactions by Montenegrin security forces and spill out of control.

The prospect of winning power through elections is an important restraining influence on the pro-Yugoslav opposition in Montenegro. All polls since 1997 have demonstrated that substantive issues can be decided peacefully at the ballot box. A moderate wing of the SNP has until now accepted the democratic rules and participated actively in the Montenegrin parliament. There is a risk that, in its haste to strengthen political opponents to Milosevic, the West might try to exclude the Montenegrin opposition from effective participation in the political system, and would thereby remove important positive political incentives.

Descriptions of the Montenegrin government in Western media as "reformist" have tended to mask the depth of Montenegro's economic crisis. Dependent for decades on large external subsidies, the Montenegrin economy has barely begun the process of transition from socialism. It is dominated by

vast, unprofitable public enterprises in heavy industries like aluminium, which operate through unsustainable public subsidies and price controls. Despite the Montenegrin government's public commitment to change, the Montenegrin state has little institutional capacity to undertake a complex process of reform, and the Montenegrin leadership has few incentives to do so. In the current political environment, it seems unlikely that it will attempt any substantial economic reform. At the same time, maintaining the status quo is not sustainable. Montenegro's Western allies have to give careful thought to the real impact of their economic assistance. To avoid the prospect of unsuccessfully bankrolling a weak state, budgetary support needs to be complemented by measures to build Montenegro's institutional capacity. This will require a much more sophisticated understanding of the political economy – something that can only be gained by a stronger presence on the ground, including by international financial institutions.

The main thrust of Western policy – supporting Djukanovic in his effort to move Montenegro away from Milosevic's increasingly destructive influence, while also discouraging outright independence – is reasonable and necessary. There is no reason why Montenegro's current ambiguous status cannot remain in place for some time.

It may also be counter-productive for NATO to make any concrete public undertakings concerning Montenegro's security. For the time being, the Serbian public and the Yugoslav Army (VJ) do not perceive Montenegro as an enemy, and Milosevic would find it difficult to generate support for a forcible intervention. An explicit security guarantee, however, may create too much of an identity between NATO and the Djukanovic government, allowing Milosevic to present an intervention into Montenegro as the protection of the Federal Republic of Yugoslavia against the Western alliance. This is not to say that NATO members should not use all channels, including Russia, to give clear warnings that direct interventions would trigger a determined response. It would be appropriate for NATO to maintain its current, deliberately ambiguous policy, leaving Milosevic uncertain as to what kind of reaction to expect.

Djukanovic will face a difficult dilemma concerning the September elections. To refuse to allow them to take place in Montenegro would be a provocative step, tantamount to a declaration of independence. It may be more pragmatic for the Montenegrin government to allow them to go ahead, while not putting up its own candidates. Western policy-makers should avoid the temptation to try to use Djukanovic's personal standing as a weapon against Milosevic in the federal elections in September. There is little prospect that Djukanovic could successfully challenge Milosevic on his home ground, and any attempt to do so might upset the delicate political balance within Montenegro.

The implication is that Western policy *in Montenegro* should be primarily policy *for Montenegro*, rather than part of an international campaign to unseat Milosevic. If the international community focuses on the needs of Montenegrin society in the coming years, the imperatives are to preserve a functioning democratic system where elections continue to matter, and to set about the Herculean task of economic transition.

Podgorica and Berlin, 4 August 2000

AUTONOMY, DEPENDENCY, SECURITY: THE MONTENEGRIN DILEMMA

I. INTRODUCTION

Ever since the Kosovo war, when the Montenegrin government successfully distanced itself from the president of the Federal Republic of Yugoslavia, Slobodan Milosevic, Montenegro has found itself the centre of international attention. The image of Montenegro hosting tens of thousands of Kosovo Albanian refugees, driven from their homes by Serb and Yugoslav forces, fundamentally transformed the international standing of the smaller of the two constituent parts of the Federal Republic of Yugoslavia. Senior Montenegrin politicians have been courted by Western leaders. The United States and the European Union have offered rapid and substantial financial assistance to cushion the economic effects of the conflict and Yugoslavia's international isolation. NATO officials have watched the situation anxiously, uttering ominous but ambiguous warnings to Milosevic not to intervene.

Since the end of the Kosovo war, the Montenegrin government has set about detaching itself from the few remaining institutions of the Yugoslav federation. Although it has been sensitive to domestic and international pressure not to risk precipitating a conflict through a formal declaration of independence, Montenegro is already, in practice, a fully autonomous entity. It is answerable to no central institution and ignores the Yugoslav government and parliament. It has established its own economic structures, and introduced the German Mark as its official currency. Its profile in international affairs rivals that of most sovereign states in the region.

For all that Montenegro has captured world attention in the past year, little is known about its internal dynamics. This paper is an introduction to the current political, economic, constitutional and security situation in Montenegro. It begins by analysing the nature of Montenegrin **democracy**, from the collapse of the republic's League of Communists in the late 1980s through to the split with Belgrade and the recent municipal elections. It examines how Montenegrin President Milo Djukanovic was able to lead the political establishment in Montenegro away from Milosevic's influence, how he managed to win control of the ruling party's apparatus, and how this party coup has resulted in a remarkably robust democratic process.

The paper then considers Montenegro's history of economic **dependency**. Descriptions of the Montenegrin government in the Western press as "reformist" and "pro-Western" have tended to mask the depth of Montenegro's economic crisis. Dependent for decades on large external subsidies, the Montenegrin economy has barely begun the process of transition from socialism. It is dominated by vast, unprofitable public enterprises in heavy industries like aluminium, which operate through unsustainable public subsidies and uneconomic price controls. Despite President Djukanovic's public commitment to change, the Montenegrin state has little institutional capacity to undertake a complex process of reform, and the Montenegrin leadership has few incentives to do so.

The paper also examines the development of Montenegrin **autonomy** within the Federal Republic of Yugoslavia. The split with Serbia came about more as a result of Milosevic's refusal to countenance political opposition, than of the desire of Montenegrins to leave the federation. However, during the past two years, Montenegro has set about building the institutions required for an autonomous existence. The federal balance seems to have been damaged beyond repair by recent actions of Milosevic. However, with strong risks associated with declaring full independence, Montenegro may prefer to maintain its ambiguous constitutional status for some time.

The last part of the paper examines the **security** situation. Tensions between Montenegro and Serbia peaked during the Kosovo war, but have declined since then. There is a danger of a military build-up

on Montenegrin territory by pro-independence and pro-Belgrade forces, and the risk of civil conflict cannot be discounted. However, despite occasional security incidents, the situation remains calm. The paper examines the strategic interests of the main players, and concludes by setting out some of the main **dilemmas** facing international policy makers in designing their policies towards Montenegro.

II. DEMOCRACY

A. One party democracy: 1989 – 1997

From 1990 to 1997, Montenegro was a good example of what has been called “illiberal democracy”: a political system that went from socialism to formal democracy without major changes either in its ruling elite or the way in which political power was exercised. Montenegro was propelled into the post-communist era not through the ballot box, but through a coup within the communist party in 1988-9, the so-called “anti-bureaucratic revolution”. Following street protests orchestrated by Milosevic’s Committee for the Protection of Kosovo Serbs and Montenegrins, the former communist leadership of Montenegro were forced from office, to be replaced by a younger group of party leaders. Many of today’s principal political players in Podgorica, in government and in opposition, participated in and benefited from this generational change in the communist system. As in much of the rest of the former Yugoslavia, the collapse of communism left behind a political system with regular, technically fair elections, but where public institutions and economic enterprises continued to be controlled through the old system of political patronage.

For eight years, the Montenegrin communists, renamed in April 1991 the Democratic Party of Socialists (DPS), retained tight political, economic and social control, confirmed in power by regular electoral victories. There were some divisions among the new team, particularly over relations with Belgrade, and a more reform-oriented and ultimately anti-Milosevic wing resigned from government in the first half of 1990. Momir Bulatovic and Milo Djukanovic both remained loyalists and, after the first multi-party elections in December 1990, became president and prime minister respectively.

In 1992, following the collapse of the Socialist Federal Republic of Yugoslavia and the outbreak of war, the DPS agreed to the formation of a new Federal Republic of Yugoslavia, made up of the two remaining republics, Montenegro and Serbia. The DPS achieved absolute majorities in parliamentary elections in Montenegro in 1992 and 1996, as well as victories in federal parliamentary elections twice in 1992 and in 1996. Bulatovic was twice elected Montenegrin president. Compared to the turbulent political life in Belgrade at the time, this was a period of political stability for Montenegro. Part of the reason for that stability, however, was the reluctance of the Bulatovic-Djukanovic regime to tackle the reform of Montenegro’s political or economic system. Political life in this period was dominated by the wars in Croatia and Bosnia and Herzegovina (Bosnia). Caught by the international sanctions imposed on Serbia, the government devoted much of its energy to developing the alternative, semi-legal or illegal supply networks that kept some level of economic activity alive during its period of isolation.

While the Bulatovic-Djukanovic leadership maintained their loyalty to Milosevic throughout this period, there were occasional episodes that hinted at a difference of approach between Podgorica and Belgrade. In October 1991, Bulatovic supported the Carrington Plan for a settlement of the Yugoslav conflicts, but backed down after Belgrade forced a referendum to be held on the issue.¹ In 1993, when Milosevic moved to dismiss the then federal president, Dobrica Cosic, and the then prime minister, Milan Panic, Montenegrin deputies in the federal parliament initially supported them, but eventually gave in to pressure from Belgrade. Despite these differences, the Montenegrin leadership allowed

¹ Silber & Little, *The Death of Yugoslavia*, London: Penguin, 1996 (revised edition), pp. 191-196. The Carrington Plan, which proposed “an asymmetric federation”, is not dissimilar to the “Platform” proposed by the Djukanovic government in 1999 (see below).

Milosevic to set policy in the new Federal Republic of Yugoslavia, and continued to do so until Milosevic was challenged by his own population on the streets of Belgrade in late 1996.

B. The break with Belgrade

In 1997, Djukanovic led the Montenegrin government in a decisive break with the Belgrade regime, taking with him the greater part of the communist political establishment. Over the past ten years, other challengers to Milosevic from among the Belgrade political elite or the Serb communities in Croatia and Bosnia, such as Milan Panic, Dobrica Cosic and Milan Babic,² were easily outmanoeuvred, and lacking a solid base of popular support, they quickly disappeared from view. Understanding how Djukanovic succeeded in carving out and defending an independent political space is key to understanding the current dynamics of Montenegrin politics.

In the former Yugoslavia, the republics enjoyed a high degree of decentralised control over their political and economic affairs. Within each republic, public institutions and all of the major economic actors were controlled by the republican League of Communists through a tight web of political patronage, often referred to as the “nomenklatura”. After the creation of the new Federal Republic of Yugoslavia, Milosevic, whose power base was in Serbia, put few efforts into real centralisation of power on the level of the Serbian-Montenegrin federation, instead controlling events in Montenegro through his loyal partners in the Montenegrin political elite. When Djukanovic persuaded the political establishment to transfer its loyalty away from Belgrade, he inherited a fully formed system of political and economic control that gave him the capacity to resist both internal challenges from his political opposition, and pressure from Belgrade.

The split between Djukanovic and Milosevic took place against a background of 11 weeks of mass demonstrations in Serbia, which in February 1997 forced Milosevic to acknowledge opposition victories in local elections which had taken place in Serbia on 3 and 17 November 1996. While most sanctions were lifted in the wake of the Dayton Peace Agreement in Bosnia, an “outer wall” remained in place, precluding Yugoslavia from access to international financial support and hampering economic recovery. The weakness of the Serbian and Montenegrin economies was readily apparent through chronic hyperinflation, high unemployment and low salaries. A Montenegrin magazine article in March 1997 summed up the insecurity of the time, noting that: “The beginning of the year brings rising fears for the future of the economic life of the country.”³ The growing pressure on the political class to deliver some relief from the economic hardship, together with increasing inter-elite conflict over diminishing resources,⁴ created a political opportunity that Djukanovic was to exploit.

In February 1997, Djukanovic stated in an interview with the independent Belgrade weekly *Vreme* that:

“It would be completely wrong politically for Slobodan Milosevic to remain in any place in the political life of Yugoslavia. ... Milosevic is a man of obsolete political ideas, lacking the ability to form a strategic vision of the problems this country is facing, surrounded by unsuitable individuals who are following the time-tested method of many authoritarian regimes.”⁵

This break with his former mentor was at first greeted with confusion and a degree of scepticism. The independent Montenegrin weekly *Monitor* wrote that: “Only politically naïve persons can think that

² Former Yugoslav prime minister, former Yugoslav president, and former Croatian Serb leader.

³ *Monitor*, “Nemoc pred Milosevicem”, 14 March 1997.

⁴ *IWPR Balkan Crisis Report*, “Currency Wars”, 6 August 1999.

⁵ *Vreme*, interview with Milo Djukanovic, 22 February 1997.

the whole thing is not agreed at the highest level.”⁶ After a month of silence, Bulatovic, who was both Montenegrin president and DPS party president, threw his lot in with the pro-Belgrade forces at a meeting of the main committee of the DPS on 24 March 1997, calling a vote on the future direction of the party. His pro-Belgrade line was confirmed by 68 votes to 7, with 22 abstentions.⁷ Djukanovic resigned his position as vice president of the party. For a moment it appeared that, once again, a challenger to Milosevic had overestimated his strength.

Within a few weeks, however, Djukanovic was able to capture control over the party, building a coalition of powerful establishment interests. Within his initially small group of supporters, two individuals stood out: Vukasin Maras, chief of the secret service, who had long been based in Belgrade, and Svetozar Marovic, president of the parliament and a DPS vice president. Given Marovic’s reputation for being “pro-Yugoslav”, or even “pro-Serb”, his support helped to convince some wavering DPS members that the issue at stake was not Montenegro’s place in the Yugoslav federation, but rather the risks of remaining tied to Milosevic’s ever-narrowing circle of power. The initial group of supporters also included Filip Vujanovic and Mihailo Banjevic, the then minister of interior and the then director of the Montenegrin pension fund respectively. Others doubters were subsequently won over, including the third DPS vice president, Milica Pejanovic-Djurisic. Djukanovic was further strengthened when the municipal party committees in Niksic, his hometown, and in Cetinje, the old Montenegrin capital and a traditional bastion of Montenegrin national feeling, proposed his re-election as party vice president.⁸

In July 1997, the main board of the DPS selected Djukanovic as its candidate for the presidential election. Two thirds of the main board’s members supported him, along with almost the whole government, with only one minister remaining loyal to Bulatovic. Bulatovic was replaced as party president by Pejanovic-Djurisic. Having relied on Belgrade, he now found himself cut off from the Montenegrin political establishment, and was eventually forced to create his own party, the Socialist People’s Party (SNP).⁹ Djukanovic’s core supporters were eventually well rewarded for their gamble. Banjevic is now director of Montenegro’s biggest enterprise, the aluminium plant in Podgorica, Pejanovic-Djurisic was appointed president of the managing board of Montenegrin Telecom, Vujanovic became prime minister, and Maras minister of interior.

Once in control of the DPS, Djukanovic went on to win the support of the public. Again he displayed considerable talent as a coalition builder, reaching out to opposition parties and minorities through a “Contract on minimal principles for the development of democratic infrastructure in Montenegro”, which envisaged a multi-party working group to draft a new electoral law. He fought the 1997 presidential election on a platform that stressed a pro-Western orientation, free market reform, the rule of law and minority rights. While distancing himself from Belgrade, his slogan “Never alone, always its own” (*nikad sami, uvijek svoj*) implicitly acknowledged Montenegro’s continuing place in Yugoslavia, and was reinforced by the opening words of his programme: “For Montenegro, for Yugoslavia, for democracy”.

The elections were dramatic, with Montenegrin voters offered a choice between two very different programmes. After narrowly losing the first round of votes, Djukanovic managed to defeat Bulatovic in the second round run-off by the slimmest of margins, capturing 50.8 per cent of the vote (5,488

⁶ *Monitor*, “Kako nadživjeti gazdu”, 28 February 1997.

⁷ Dragoljub Vukovic, “Od slavljenskog vatrometa do pepela jedinstva”, in Zeljko Ivanovic (ed.), *Sto dana koji su promijenili Crnu Goru*, (Podgorica: *Vijesti*, 1997), p. 15.

⁸ *Ibid.*, p. 17.

⁹ Initially, both Djukanovic and Bulatovic claimed to represent the DPS. After a dispute over the name in the constitutional courts of Montenegro and the Federal Republic of Yugoslavia, Bulatovic’s faction of the DPS renamed itself the Socialist People’s Party (SNP) in March 1998.

votes more than Bulatovic). Voter turnout in the second round was 73 per cent.¹⁰ Bulatovic took three to six times more votes than Djukanovic in the northern municipalities of Andrijevisa, Pluzine and Pljevlja, and a significant majority in most other northern municipalities. He won two thirds of the votes in the coastal municipality of Herceg Novi, and was slightly ahead in the urban centres of Podgorica and Budva. Djukanovic received an outright majority in only 8 of the 21 municipalities, ending slightly ahead in his hometown of Niksic and the coastal town of Kotor, and with larger victories in the port of Bar, in coastal Tivat and in Muslim-dominated Plav. Significantly, the most important Djukanovic strongholds were the Muslim-dominated northern municipality of Rozaje (92 per cent), the Albanian-dominated Ulcinj (85 per cent) and Cetinje (84 per cent).¹¹

Bulatovic protested the election result, accusing Djukanovic of malpractice. Bulatovic's supporters walked out of the parliament in late December 1997, announcing: "We will return to the parliament when conditions change so that it works in accordance with the constitution and laws".¹² For a period the contest moved onto the streets, when on 14 January 1998, on the eve of Djukanovic's inauguration, Bulatovic supporters attempted to take over the government building. This action failed, mainly because the police, apparently contrary to Bulatovic's expectations, stood by Djukanovic, and the Yugoslav Army (VJ) refused to become involved.¹³

In retrospect, it is significant that relatively few people followed Bulatovic's call to protest on the streets. Bulatovic hoped for more than 100,000 people in a mass show of strength, but there were rarely more than 10,000 at any given rally, and at the decisive event on 14 January 1998, there were even fewer. Some of the demonstrators supporting Bulatovic were heavily armed, suggesting an orchestrated event of the type used to challenge Republika Srpska President Biljana Plavsic in Banja Luka a few months earlier, in September 1997. In the end, although Bulatovic could attract nearly half the voting population at elections, he did not succeed in mobilising more than a few thousand to challenge the democratic system and take to the streets. To date, this has been the only attempt by any political force in Montenegro to overthrow the democratic process by the use of force. Following the parliamentary elections in 1998, Bulatovic's Montenegrin supporters did return to the parliament and have remained active participants ever since.¹⁴

C. The political contest: 1998 – 2000

As a result of the 1997 elections, Montenegrin society suddenly found itself in a political environment extremely unusual in the former Yugoslavia: two almost equally powerful blocs competing for political power on the basis of very different political programmes. What had not been achieved in Serbia, despite the dramatic mobilisation of the public on the streets of Belgrade, had come about in Montenegro as a result of an elite struggle. Elections mattered, real issues of power were decided at the ballot box, and the prospect of peaceful political change became real. Whereas the number of people participating in elections in Serbia declined substantially, to the point that the 1997 presidential elections were invalid for insufficient turn-out, participation in Montenegrin elections has remained high, reaching 79 per cent in the most recent municipal polls. Whereas real political opposition in Serbia could only express itself on the streets, the Montenegrin parliament became a forum for heated debates on issues of substance.

¹⁰ Commission on Security and Cooperation in Europe, "Presidential Elections in Montenegro", February 1998.

¹¹ Centar za slobodne izbore i demokratiju (CESID), Centar za demokratiju i ljudska prava (CEDEM), *Oko izbora* 3, p. 37, CESID: Belgrade, 1998.

¹² *Monitor*, "Pravo ulice", 2 January 1998.

¹³ *Monitor*, "Kako je propao puc", 23 January 1998.

¹⁴ An analysis of the parliamentary sessions from 1 August to 31 October 1999 reveals that SNP speakers took the floor more than any other party: CEDEM, *Tranzicija u Crnoj Gori. Legislativa, Mediji, Privatizacija*, Nr. 3 (August – October 1999), p. 8, Podgorica: 1999.

Table 1: Parliamentary elections of May 1998¹⁵

Party / coalition	Votes	%	Seats	%
"For a better life" (DPS, SDP, NS)	170,080	49.5	42	53.8
SNP - Socialist People's Party	123,957	36.1	29	37.2
LS CG - Liberal Alliance of Montenegro	21,612	6.3	5	6.4
DS CG – Democratic Alliance in Montenegro	5,425	1.5	1	1.2
DUA – Democratic Union of Albanians	3,529	1.0	1	1.2

Since 1998, Montenegrin political life has been largely polarised between two powerful blocs, reflecting the sharp differences of opinion in Montenegrin society between pro-autonomy and pro-Belgrade viewpoints. On the one side, Djukanovic has retained control of the DPS party apparatus, and has used its political infrastructure to move Montenegro progressively towards autonomy from Belgrade. On the other side, Bulatovic's SNP has continued to represent widespread sympathy for remaining part of the Federal Republic of Yugoslavia in Montenegro, and still commands a significant body of popular support.

For the May 1998 parliamentary elections, Djukanovic's DPS entered into a coalition called "For a better life" (DZB) with the Social Democratic Party (SDP) and the People's Party (NS). This coalition achieved a considerably more comfortable victory than had Djukanovic, obtaining 49.5 per cent of the vote to the SNP's 36.1 per cent, giving it 42 out of 78 seats in the parliament.

Municipal elections in Podgorica and Herceg Novi on 11 June 2000, on the other hand, brought some modest successes for Bulatovic's SNP. In Herceg Novi, which has the largest Serb population in Montenegro, a coalition with two other pro-Yugoslav parties, the SNS and the SRS, gained two extra seats to win outright control of the municipality.¹⁶ In Podgorica, one of the most popular SNP leaders, Predrag Bulatovic, stood for mayor, leading a coalition with the cumbersome name of "Yugoslavia – Momir Bulatovic (Predrag Bulatovic)". He lost to the DZB coalition, which gained one extra seat over its 1998 result, allowing it to rule alone in the capital. However, the consolidation of the pro-Yugoslav bloc benefited the SNP, allowing it to preserve all but one of its seats despite a swing of 3.6 percentage points against it.¹⁷ The SNP thereby confirmed its position as a serious political force throughout the republic.

The governing DZB coalition encompasses a wide range of viewpoints on many of the most pressing issues in Montenegrin society. The SDP is often critical of DPS economic policy and has pressed for an early referendum on the independence issue. The NS appeals to declared ethnic Serbs among Montenegro's population, while opposing the Belgrade regime. There have been regular disputes within the coalition, most notably on the question of a referendum on independence, and concerning privatisation.

Since 1998, Bulatovic's SNP has begun to establish a clearer political profile of its own. Its platform is based on two major claims: first, that the ruling coalition has betrayed the Serb nation by allying itself with Western powers hostile to Serbia, and second, that Montenegro's economic interests are

¹⁵ Vladimir Goati, *Izbori u SRJ od 1990. do 1998. Volja gradjana ili izborna manipulacija*, p. 303, CESID, Belgrade.

¹⁶ The "Yugoslavia" coalition took 49.7 per cent of the vote in Herceg Novi, up from a combined 45 per cent for the SNP, SNS and SRS in 1998. DZB's vote remained firm, increasing slightly from 37.8 per cent in 1998 to 38.6 per cent in 2000. For 1998 results, see the special supplement to *Pobjeda*; for 2000 results, *Monitor*, 16 June 2000.

¹⁷ The "Yugoslavia" coalition took 39.6 per cent of the vote in Podgorica, down from a combined 43.2 per cent for the SNP, SNS and SRS in 1998.

best served within the Yugoslav federation. By virtue of the second claim, the party presents itself as representing the best interests of Montenegro, rather than merely toeing the Milosevic line. However, at the same time as the party has sought to develop a specifically Montenegrin identity, a difference in perspective has been observed between the party members who are based in Belgrade and active at the federal level, and those based in Montenegro who participate in its daily political affairs. Foremost among the first group is Momir Bulatovic himself, the SNP president and federal prime minister, who consistently supports Milosevic. Among the latter is Predrag Bulatovic (no relation to Momir), an SNP vice president and leader of the SNP group in the Montenegrin parliament, who is more open to participation in Montenegrin political life and to dialogue with the SNP's opponents.

As compared to Momir Bulatovic's faction, the moderates within the SNP are more committed to respecting the political process in Montenegro. Shortly before the NATO bombardment in 1999, when Djukanovic suggested that the Montenegrin government would not permit the territory of Montenegro to be used in a conflict, Momir Bulatovic met the VJ Second Army leadership and announced that the decision of the republican government would not be respected.¹⁸ By contrast, the SNP representatives in the Montenegrin parliament voted together with the government in support of a resolution on the maintenance of civil order.¹⁹ More recently, after Milosevic forced changes to the federal constitution through the federal parliament in early July 2000, Momir Bulatovic at a meeting in Andrijevisa claimed:

“[The present Montenegrin leadership] has not been elected by our people, but imposed from abroad... They are entitled to accept personal humiliation, but they have no right to humiliate Montenegro or its people. They have no right to incite fratricidal conflicts in Montenegro or create new rifts by turning Montenegro against Serbia and by distancing themselves from Belgrade in the interest of close ties with Tirana and Zagreb.”²⁰

At the same time, Predrag Bulatovic called for a dialogue between the SNP and the DPS: “Since at issue is politics, and not mathematics, it is necessary to accept the divergent nature of the political currents, or else it is Montenegro and its citizens that will bear the consequences... The SNP and the DPS bear the greatest responsibility. They must sit down at the same table and discuss all the elements of the crisis, with the aim of contributing to its resolution.”²¹

The only significant political actor between the two larger players is the Liberal Alliance of Montenegro (LSCG), a radically pro-independence party. Before the split in the DPS, the LSCG – at the time in coalition with the People's Party²² – was the main opposition force in Montenegro, consistently opposed to Milosevic. It campaigns on a platform of public morals, accusing the government of corruption and abuse of power. The LSCG is strongest in the former capital Cetinje, a traditional centre of pro-Montenegrin sentiment.²³ However, its support declined in the recent municipal elections.²⁴ Its deputies no longer hold the balance of power in Podgorica and Herceg Novi

¹⁸ *IWPR Balkan Crisis Report*, “The Army Takes Sides in Montenegro”, 12 March 1999.

¹⁹ *IWPR Balkan Crisis Report*, “Making Concessions and Buying Time”, 1 May 1999.

²⁰ *Politika*, cited in VIP News Report, Nr. 1812, 14 July 2000.

²¹ VIP News Report, Nr. 1811, 13 July 2000.

²² Under the name of "People's Unity" (*Narodna Sloga*) the Liberal Alliance and the People's Party won 19 out of 71 seats in the 1996 parliamentary elections (see Commission on Security and Cooperation in Europe, "Presidential Elections in Montenegro", Washington, February 1998).

²³ It was indicative that in the 1998 municipal elections, the pro-independence LSCG did particularly well in Cetinje, winning 38.9 per cent of the vote, while the pro-Belgrade SNP won only 10 per cent: *Pobjeda* special supplement.

²⁴ In Herceg Novi, by forcing local elections, it enabled the pro-Yugoslav SNP bloc to take power. In the 1998 municipal elections, the LSCG won 7.5 per cent of the vote in Podgorica, and in 2000 it won 7.6 per cent, taking four seats each time; in Herceg Novi it took 7.6 per cent of the vote in both elections, winning three seats in 1998, but only two in 2000: *supra.*, note 16.

and the party is now excluded from local government altogether. In recent weeks, in frustration at its poor electoral showing, the LCSG has been boycotting the parliament.

D. The ethnic dimension

In 1991, more than 20 per cent of the Montenegrin population were Muslim Slavs (Bosniacs) or Albanians, and another 9 per cent considered themselves Serbs, ethnically distinct from Montenegrins (61 per cent). However, despite the potency of ethnic conflict in neighbouring Bosnia and Kosovo, Montenegro has largely escaped the kind of extreme and violent polarisation of the ethnic groups that has occurred in so much of the former Yugoslavia. Minorities participate actively in elections and fill key positions in Montenegrin society. Ever since 1997, the support of Muslims and Albanians has been decisive for the election victories of the DPS, and the Djukanovic government includes members of ethnic minorities in senior positions. In turn, Montenegro's willingness to accept tens of thousands of Kosovo Albanian, Serb and Roma refugees at the height of the Kosovo conflict in 1999 has brought considerable credit to the government.

Table 2. Ethnic breakdown of selected municipalities in Montenegro²⁵

Municipality	Total Population	M'negrin %	Serb %	Muslim %	Albanian %	Croat %
Podgorica	152,025	72.2	7.7	5.0	8.4	0.4
Niksic	74,706	88.2	5.7	2.0	0.1	0.2
Cetinje	20,307	93.0	2.6	0.5	0.2	0.2
Bijelo Polje	55,268	49.2	7.6	41.6	0.1	0.1
Pljevlja	39,593	55.3	24.2	17.6	0.03	0.02
Berane	38,953	59.0	7.3	30.2	0.1	0.1
Plav	19,305	18.2	1.4	58.0	20.9	0.02
Rozaje	22,976	6.6	0.7	87.0	3.9	0.03
Herceg Novi	27,593	40.8	30.9	1.2	0.3	2.3
Kotor	22,410	55.2	14.1	0.9	0.3	7.2
Bar	37,321	50.9	9.8	13.8	12.4	0.5
Ulcinj	24,217	12.4	1.7	4.8	72.1	0.2
Montenegro	615,035	61.9	9.3	14.6	6.6	1.0

The largest ethnic minority group is that of Muslim Slavs, some of whom describe themselves as Bosniacs, identifying with their fellow Muslims in Bosnia. With 15 per cent of the population, their numbers are particularly significant in the north-east of the republic, in and around towns such as Plav, Rozaje, Bijelo Polje and Berane, where they form a local majority in certain areas. Ethnic Albanians total 7 per cent of the population, and are concentrated in areas bordering Albania. There is a significant Albanian minority in the southern coastal areas, forming a local majority in Ulcinj, in the northern municipality of Plav, and in Podgorica, which includes a mainly Albanian-inhabited district. The small ethnic Croat population is concentrated in the Boka Kotorska region close to the Croatian border, and in the small municipality of Tivat where Croats make up 23.1 per cent of the population.

In the 1991 census, 9.3 per cent of the population in the republic of Montenegro identified themselves as Serbs, with the highest concentration being 31 per cent in Herceg Novi. The ethnic boundary between Serbs and Montenegrins has always been rather fluid, with some arguing that the Montenegrin nation is a branch of the broader Serb family. Because some Montenegrins regard

²⁵ The figures in this table are based on figures for the 1991 census, *Statisticki Godisnjak Republike Crne Gore*, p. 250, Podgorica, 1999. Data are given for a selection of the larger municipalities.

themselves as both Montenegrin and Serb at the same time, the census figures are not necessarily reliable. The strong showing of the pro-Yugoslav parties in Herceg Novi is influenced by the high percentage of ethnic Serbs, already 30.9 per cent in 1991, and boosted in recent years by Serb refugees, some of whom have been granted the vote.

In Ulcinj, which is overwhelmingly inhabited by ethnic Albanians, power is shared by two specifically ethnic Albanian parties, the Democratic Alliance in Montenegro and the Democratic Union of Albanians. Among the Muslim Slav population, the Party of Democratic Action (SDA) and the International Democratic Union in Montenegro are ethnically based parties, the former sharing its name with the main Bosniac party in Bosnia. Election results show that the minority political parties do not attract the automatic support of the minority group they purport to represent. Although there is some correlation between ethnicity and voter behaviour, the population is not generally mobilised along ethnic lines, and the support base of the governing coalition crosses ethnic lines. Even the opposition SNP, which does not have an electoral base among the minority groups, has been cautious in playing the minority card, apart from occasional use of anti-minority rhetoric by party members close to Momir Bulatovic.

Table 3. Ethnic profile and 1998 municipal elections results in selected Northern municipalities²⁶

Municipality	Total population	Percentage of population		Percentage of vote in 1998 municipal election		
		Mont./Serb	Muslim/Alb	DZB	SNP	Minority parties
Kolasin	11,120	97.5	0.3	37.1	54.5	-
Mojkovac	10,830	97.7	0.4	42.9	47.7	-
Andrijevisa	6,696	97.7	0.5	22.9	64.9	-
Pljevlja	39,593	79.6	17.6	39.1	50.5	0.7
Berane	38,953	66.3	30.3	46.8	43.9	1.7
Bijelo Polje	55,268	56.8	41.6	52.0	37.4	3.1
Plav	19,305	19.7	78.9	46.1	21.1	28.6
Rozaje	22,976	7.4	90.9	72.2	6.9	5.6

* In Rozaje, the DPS and the SDP stood separately; in Plav, the SDP stood separately from DZB. In each case, the combined vote is given here.

The northern areas of the republic exhibit the highest degree of communal tension. They were incorporated into Montenegro only in 1912, when the Sandzak region was wrested from Turkish control and divided between Serbia and Montenegro. According to a study by the Ministry of Justice, the northern area, comprising 36 per cent of the Montenegrin population, contributes only 26 per cent of the economic output, at 64 per cent of the republican average. It accounts for 44 per cent of total unemployment.²⁷

In the north, support for the pro-Belgrade SNP is high. Analysis of the correlation between ethnic profile and the 1998 local election results in the northern municipalities suggests that support for the pro-Belgrade SNP is stronger among ethnic Montenegrins and Serbs in areas adjacent to a large Muslim population, than in more ethnically homogenous areas. Six of the seven SNP-controlled municipalities are located in the north, and in other municipalities such as Berane and Bijelo Polje, a

²⁶ Figures for the ethnic make-up of municipalities are based on the 1991 census, *supra* note 25, p. 250; figures for the 1998 municipal elections are from the *Pobjeda* special supplement.

²⁷ Ministry of Justice/Expert team, *Reform of local self-government in Montenegro*, Podgorica, 2000.

high percentage of Montenegrins and Serbs have supported the SNP. On the other hand, the majority of Muslims and Albanians have voted for Djukanovic's DZB, in preference to the ethnically based parties. Only in Plav did minority parties gain a significant share of the Muslim vote, but still less than the DZB. As a result, in the municipalities controlled by the DZB in the north, or by its constituent parts where it did not run as a coalition, it is dependent on the vote of the Muslims. Without solid support from the Muslim population, the DZB would not control any municipalities in the north of Montenegro, making it dependent on Muslims for its political base.

III. DEPENDENCY

A. The legacy

Within a period of less than three years, Montenegro has moved from being closely integrated with Serbia and economically isolated from the rest of the world, to being isolated within the Federal Republic of Yugoslavia and extremely dependent on outside economic support. This dramatic reversal in fortunes can best be explained by examining the structural dependency of the Montenegrin economy, inherited from the communist era and before. Internally dependent on public subsidies to keep alive inefficient heavy industries, and externally dependent on financial transfers to compensate for its inability to generate local investment capital or to attract foreign investment, the Montenegrin economy in its present shape cannot survive without generous external support. With the situation aggravated by the collapse of the Yugoslav economic space, the Montenegrin establishment faced a choice between radical and painful economic reform, or seeking new patrons in the West. It has opted for the latter strategy.

Dependence on external transfers for essential investment has been a constant feature of Montenegro's economic history, only briefly interrupted by the international isolation of the Federal Republic of Yugoslavia since 1992. Poorly equipped by its mountainous geography for agriculture, the development of Montenegro has been largely based on exploiting its mineral wealth. During the communist period, Montenegro used funds from other Yugoslav republics to try to develop heavy industry. Montenegro was one of the largest beneficiaries of the Federal Fund for the Accelerated Development of the Underdeveloped Republics and Provinces (FADURK), which provided generous, low-interest loans.²⁸ Its most important infrastructure projects, such as the railway between Belgrade and the Montenegrin port of Bar, completed in 1976, were financed in this way, allowing Montenegro to become integrated into the Yugoslav market. As in the rest of Yugoslavia, investment decisions with FADURK funds were made through a complex process of bureaucratic and political bargaining, which tended to produce economically irrational outcomes.

During the 1970s and 1980s, Montenegro also incurred a growing foreign debt. The World Bank in particular lent large sums of money to the republic, for road-building, power-transmission and agricultural projects. Between 1976 and 1980, Montenegro benefited from World Bank industrial credit projects to "help finance the foreign exchange cost of imported equipment for investments in medium and small-size industrial projects" and to "pursue the Yugoslavs' efforts to reduce regional economic imbalance through the development of a modern, efficient and competitive industrial base for the economy".²⁹ In 1978 and 1980, the Montenegrin *Investiciona Banka Titograd* (today *Montenegrobank*, the most important bank in the republic) twice obtained loans of US\$20 million to "address the problem of unemployment". A World Bank Regional Development Project in 1984, worth US\$40 million, represented "virtually all of Montenegro's investment programme for

²⁸ Montenegro received 13.1 per cent of total FADURK loans in 1966-1970, 11.4 per cent in 1971-1975, 10.8 per cent in 1976-1980, and 9.9 per cent in 1981-1985. See Sabrina Ramet, *Balkan Babel: The Disintegration of Yugoslavia from the Death of Tito to Ethnic War*, p. 157, Harper Collins, 1996.

²⁹ Summary of past World Bank funded projects in Montenegro: www.seecon.org.

agriculture and forestry for the five year period 1984-88".³⁰ As Yugoslav economy slipped into recession in the early 1980s, of all the Yugoslav republics, Montenegro had the largest foreign debt as a percentage of its GDP.³¹

Neither the communist development policies nor the international credits succeeded in promoting self-sustaining growth. The development policies of the last decades left Montenegro with an industrial structure dominated by a small number of chronically unprofitable heavy industries. In all major economic categories, from per capita social product to labour productivity, Montenegro fell behind the other republics of Yugoslavia. By the end of the 1980s, the total losses of enterprises in Montenegro were greater than its net enterprise savings. In 1989, unemployment stood at 23 per cent, and the average income was insufficient to support a basic standard of living.³² Regional disparities within Montenegro were also pronounced, with higher rates of poverty in the north.

Since 1998, large amounts of Western budgetary support have been made available to stabilise the economic and political situation in Montenegro, and to 'make up' for the drain on the economy resulting from the Kosovo war and the Serbian trade embargo. USAID allocated US\$55 million in 1999 and 2000 to support government payments to pensioners and imports of electricity and medical supplies, as well as an additional US\$12.2 million in food aid. The European Union has also provided significant sums in budgetary support, including 20 million Euro in May 2000, and has commenced several large infrastructure projects. Further projects are planned under the auspices of the Stability Pact. This adds up to one of the highest per capita aid efforts in the region.

Given the structural dependency of the Montenegrin economy on external capital inflows, international aid, no matter how generous, may achieve nothing more than slowing the economic decline. Western aid is not simply making up for contingent shortfalls in public revenue caused by the current political situation. Instead, it is subsidising a system on the verge of collapse. If aid is to make any lasting contribution to economic transition, it must be targeted much more directly at the nature and causes of Montenegro's chronic dependency. This will require a sophisticated understanding of Montenegro's political economy, and the incentives facing the main political and economic actors. As one Montenegrin economist pointed out: "No foreign assistance and no Stability Pact will help Montenegrin citizens, unless deep and radical changes occur in Montenegrin society and economy."³³

B. Economic decline

The heart of Djukanovic's political pledge to the electorate is to lift Montenegro out of the economic decline which has afflicted Yugoslavia in the past two decades – as the name of the ruling coalition puts it, "to live better". So far, however, the economic trend is still downwards, with most economic indicators now looking 50 per cent worse than a decade ago.³⁴ The obstacles to turning that trend around come both from deep structural problems in the economy, and the institutional inadequacies of the Montenegrin state.

The problems of the formal economy are a reflection of poor investment decisions in previous decades. According to data provided by the payments bureau, of approximately 10,000 business enterprises registered at the end of 1998, 3,500 companies, employing 44,000 workers, accrued losses in excess of 2.5 billion Yugoslav dinars. These firms survive because of direct and indirect government subsidies. Against that loss, the 2,600 profitable enterprises, employing some 50,000

³⁰ *Ibid.*

³¹ Harold Lydall, *Yugoslavia in Crisis*, Oxford, Clarendon Press, 1989, p. 190-1.

³² Ramet, *supra* note 28, p. 145.

³³ *Stability Pact Watch*, no. 13, "Montenegro tomorrow – a sovereign state but of what sort?", 13 July 2000.

³⁴ *Montenegro Economic Trends (Monet)*, Institute for Strategic Studies and Prognoses (ISSP, Podgorica) and Centre for European Policy Studies (CEPS, Brussels), May 2000, p. 8.

workers, produced profits of only 518 million dinars. Nearly a third of registered companies (3,660) officially showed almost no financial movements. Fifteen large state-owned enterprises are responsible for 80 per cent of the losses, including the flagships of the former socialist economy such as *Elektroprivreda Crne Gore* (the national electricity company), *Aluminium Kombinat Podgorica* (KAP, the aluminium factory), the shipping company *Jugooceanija* in Kotor, and *Obod* in Cetinje (a producer of household goods).³⁵

Official unemployment figures only hint at the scale of Montenegro's economic problems: out of a population of 655,000 in 1999, there were 115,000 officially employed and 75,000 officially unemployed, yielding an unemployment rate of 39 per cent.³⁶ However, according to the Association of Independent Trade Unions, in December 1999 8,978 people were on paid leave, and at least 18,490 workers had not received their salaries for more than three months (and in some cases for up to 40 months).³⁷

There are no domestic sources for the investment capital needed to turn around the fortunes of Montenegrin enterprise. While major infrastructure assets are steadily deteriorating, a mere six per cent of the projected 1999 government budget went towards capital expenditure. The banking system is anaemic. The capital and reserves of the nine major Montenegrin banks totalled only US\$66 million at the end of 1997. Some observers have suggested that this may have declined to as little as US\$10 million at the end of 1999.³⁸ The unprofitability of Montenegrin business in the past decade has thus been compounded by the "more or less total lack of financial inter-mediation services" which has "forestalled any serious restructuring".³⁹

The economic crisis is reflected in the official Montenegrin government budget. Growing liabilities coincide with a diminishing ability to collect revenue. The Montenegrin health and pension funds run large deficits each year. The ratio of pensioners to workers has increased alarmingly from 53 per cent in 1991 to 72 per cent in 1999,⁴⁰ and 55 per cent of the population receive some form of financial support from the state. Social contributions collected from employers in 1999 are estimated to have amounted to between six and seven million German marks, while households receive 110 million German marks per year in pensions and other social benefits. The state provides subsidised energy and basic foodstuffs to consumers. As one observer put it: "Without strong international financing the government will have great difficulties to cover budgetary expenditures with fully legal resources alone."⁴¹ Since 1998 expenditures for subsidies have increased, representing at present 15 per cent of total government expenditure. This is an extremely large share, even compared to other transition economies.⁴²

At the same time, revenue collection is steadily diminishing. In the first five months of 2000, only 26.5 per cent of the planned revenues had been collected, as against the anticipated 40 per cent, suggesting that the legal tax base is shrinking.⁴³ This has been the trend over the past few years. Between 1997 and 2000, budget revenue as a percentage of GDP decreased by an alarming 15 percentage points.⁴⁴ Enterprises are experiencing increasing difficulties in paying their contributions

³⁵ *Pobjeda*, "Dobit petostruko manja od gubitka", 24 March 1999.

³⁶ CEPS and ISSP estimate the number of those working in unrecorded sectors as 84,000, and arrive at an unemployment figure of 27.3 per cent.

³⁷ These figures cover only 16 out of 21 municipalities. Savez samostalnih sindikata Crne Gore, *Neki pokazatelji privredjivanja i standarda zaposlenih u Crnoj Gori*, Podgorica, February 2000.

³⁸ USAID Report, *Montenegro Economic Assessment*, 10 December 1999.

³⁹ *Ibid.*, p. 16.

⁴⁰ *Monet*, p. 12.

⁴¹ *Ibid.*, p. 29.

⁴² *Monet*, p. 29.

⁴³ *Ibid.*, p. 27.

⁴⁴ *Ibid.*, p. 28.

to the pension and health funds. As early as 1998, one report noted that: "The level of spending of 1998 is not sustainable in the future in terms of overall fiscal burden."⁴⁵

The dire state of public finances is in part a result of the large informal economy. USAID estimates that up to 50 per cent of GDP is generated in the "grey" or "black" economy, starving the state of revenue. The willingness of the Montenegrin government to tackle this problem is in some doubt. During the war and the period of international sanctions, the government itself was involved in organising alternative means of access to goods and revenue, often through illegal avenues. One visible sign of these activities is the droves of cigarette sellers on the streets, and the lucrative smuggling of cigarettes across the Adriatic by Italian organised crime syndicates. In 1999, to the embarrassment of the government, the then Montenegrin foreign minister became implicated by an Italian government investigation of cigarette smuggling, and was forced to resign. Another sign is the large number of expensive cars on the streets, widely known to be stolen from Western European countries. Income from the registration of "imported" cars reached more than 22 per cent of total government revenues in 1998. As one report dryly commented: "It is clear that when some order will be brought into car 'imports', registration taxes will decline further."⁴⁶ Recently, co-operation between Montenegro and Italian authorities has improved, leading to several arrests of Italian suspects in Montenegro.

The other face of Montenegro's economic problems is therefore a weak and partially criminalised state. The immediate dependence of the Montenegrin government on revenues from black market activity makes the problem extremely difficult to address. The minister of social welfare, Predrag Drecun, has gone on record saying that Montenegro would collapse without "transit taxes" from smugglers: "What else can we do? The government must have money to avoid anarchy."⁴⁷ The state does not have the institutional capacity to tackle the problem of illegal economic activity in all its vast scale. There is no effective tax administration or financial police, and the government has only recently begun to establish an independent customs administration from scratch. In the short term, there seems little prospect that economic activity can be brought within the rule of law. However, unless the Montenegrin state develops the institutional capacity to address this issue, its ability to provide essential public services will continue to decline.

C. Public property and privatisation

During the past decade, there has been little opportunity to set about reforming the Montenegrin economy, and the process of economic transition has barely begun. There have been various laws on privatisation (in 1992, 1996 and again in 1999), a number of schemes for the reorganisation of public enterprise management, a few sales of companies to private investors, and even the occasional success in attracting foreign investment. Nonetheless, the essential features of the former socialist system remain firmly in place, with no incentives for owners or managers to restructure loss-making companies, substantial public subsidies, both open and hidden, and an emerging private sector which, rather than contributing to a healthy economy, tends to be parasitic on loss-making public enterprises.

The combination of the socialist legacy and the superficial restructuring of recent years has resulted in a complex web of cross ownership and mutual control, linking politics and economics through numerous, non-transparent mechanisms. Much of the public sector is owned by a number of large, independent and unaccountable public funds. Under earlier privatisation laws, the ownership of 347 public companies, with a total book value of 5.1 billion German marks, was transferred to three public funds: the Development Fund, the Pension Fund and the Employment Fund. The three state funds now control the greater part of public sector economic activity, managing public property, owning

⁴⁵ CEPS Working Document 142, "Notes on the Economy of Montenegro", March 2000.

⁴⁶ *Monet*, p. 27.

⁴⁷ *The New York Times*, "The Next trouble spot in the Balkans: Montenegro", 2 November 1998.

banks and paying out social benefits. They operate with enormous deficits, accumulating their losses over the years. They are majority owners of the largest company in the country, the aluminium factory KAP. KAP is in turn a joint owner of Podgorica Bank, together with the state. *Montenegrobank* (formerly the development bank), the largest in the republic, is owned by a number of the largest public enterprises. These interlocking ownership structures tend to torpedo attempts at reform. Instead of overhauling loss-making enterprises, the managers use this elaborate network of political influence to lobby for even larger public subsidies.

The dominant position of the funds in the Montenegrin political economy tends to impede reform of corporate governance, removing any incentives for managers to reorient loss-making enterprises. While enterprise managers typically complain in the Montenegrin press that “the funds are bad owners”, the Development Fund admits that it cannot control or even monitor the performance of company managers. While companies are obliged to report periodically to the Development Fund, this process has been beset by “a host of difficulties and problems”, while board members of the Development Fund pay little attention to the results. Although there is a serious lack of information on the activities of the major enterprises, the Development Fund complains in its annual report for 1999 that attempts to remedy this have not been fully supported by the state institutions, “either because of their lack of interest or their lack of understanding”.⁴⁸

Examining the economic roles of key members of the political elite also reveals the lack of division between politics and economics. Political patronage determines appointments to all of the key economic positions, and nearly every politician is also active in the economic sphere. For example, Svetozar Marovic, parliamentary speaker and powerful DPS vice president, is also president of the managing board of *Budvanska Riviera*, which controls some 20 hotels in Budva. The director of *Budvanska Riviera*, Ivo Armenko, was minister of tourism in Djukanovic’s third government. Milica Pejanovic-Djurisic, vice president of DPS and a key supporter of Djukanovic during his struggle with Bulatovic, is now president of the managing board of Montenegrin Telecom. Her husband, who had been dismissed as director of Montenegrin Airlines shortly before the Djukanovic-Bulatovic split, was re-appointed shortly afterwards. Veselin Vukotic, the vice president of the privatisation council, is reportedly also president of the managing board of *Morsko Dobro*, a company said to “own the Montenegrin coast”, generating revenue from licences and contracts. Bozidar Gazivoda, formerly minister of finance and vice governor of the Bank of Yugoslavia, is now president of the new Monetary Council, and was recently appointed director of the largest bank, *Montenegrobank*. The director of Montenegro Telecom, Jusuf Fetahovic, was a minister in Djukanovic’s first government. The president of the managing board of the Montenegrin post office, Miodrag Gomilanic, was minister of industry in all three Djukanovic governments, and is also president of the managing board of a wood-processing factory, *Gorni Ibar*, in Rozaje. The directors of the state funds, which in turn own many of the public enterprises, also have a political background. Dusko Lalicevic, director of the Pension Fund, was minister of trade and minister of justice, while the president of the board of the Fund, Miodrag Vukovic, is also president of the DPS main board and constitutional advisor to Djukanovic. The director of the Employment Fund, Branimir Bojanic, was minister of labour and social affairs under Djukanovic. The same pattern is repeated at municipal level, where mayors and key party figures are often the directors of local firms.

Taking a closer look at the most important enterprise in Montenegro, the aluminium company, KAP, further reveals the problem of corporate governance. Aluminium has long been Montenegro’s dominant industry, accounting for more than 70 per cent of exports in 1999. KAP is the republic’s largest company, with some 4,000 workers.⁴⁹ It is also the biggest customer of a whole range of Montenegrin businesses, placing it at the head of a production chain. According to information provided by its director, the company pays approximately US\$1 million per month to the Montenegrin bauxite mines for raw materials. It is the largest customer of the Montenegrin railway, and one of the

⁴⁸ Fond za razvoj (Development Fund), Annual Report 1999.

⁴⁹ *Pobjeda*, 19 September 1999.

largest of the port of Bar. It pays more than US\$1 million per month to *Jugopetrol*, and is by far the biggest customer of the electricity utility, *Elektroprivreda Crne Gore*.⁵⁰

Given this dominant position, it is not surprising to find that there are no hard budget constraints on the company, which despite chronic unprofitability is able to survive and even expand through huge indirect state subsidies. In 1999, KAP had a deficit of US\$12.5 million.⁵¹ During the first half of 2000, it increased its US\$17.5 million debt to the electricity utility, *Elektroprivreda Crne Gore*, by a further US\$8.1 million,⁵² even though electricity prices are heavily subsidised. KAP is able to continue its operations through a process of constant bureaucratic bargaining over subsidies on key inputs, and the postponement of payment arrears. The prices which determine the production costs of aluminium are all set by the government, including the price of the domestic coal which goes to produce electricity, the price of the electricity (about a third of which is imported), and prices for rail transport and port services in Bar. The director of the electricity company, Slobodan Dakic, noted in March 2000 that his company makes “huge losses” due to the cheap energy price set by the government.

The economic problems of the aluminium company have not ceased with the grant in October 1998 of a management contract to a foreign company. In the Montenegrin parliament and press, this management contract was highly controversial, particularly after the foreign company later appointed the leader of the government’s negotiating team, Mihajlo Banjevic, as general manager of KAP. The contract grants the foreign company a guaranteed fee of US\$1 million per year to run the company, or one per cent of the value of output if this is higher. This provides an incentive to increase output without regard to profitability, increasing the drain on the public purse by consuming yet more subsidised electricity and other inputs. Not surprisingly, there has been a steady increase in production in the past two years, growing from 80,000 tonnes of aluminium in 1999 to a projected 100,000 tonnes in 2000. From a total of US\$90 million in 1999, export revenues had already reached US\$67.5 million in the first half of 2000.⁵³

The aluminium company also has various commercial relationships with private companies that provide expensive services to the loss-making state company.⁵⁴ These companies are able to generate profits out of KAP’s revenue stream, while leaving the state to bear its losses – a process of privatising profits and socialising losses familiar from other unreformed transition economies.⁵⁵

Against this background, it will be extremely difficult for the government of Prime Minister Vujanovic to follow through with its undertakings to reform and privatise the public sector. So far, progress on privatisation has been limited. By the end of 1999, some 113 companies had been privatised,⁵⁶ with a total share value of 73 million German marks. For the past two years, the Montenegrin government has been preparing a mass voucher privatisation programme, which should begin by the end 2000 with the sale of 242 enterprises.⁵⁷ Under this plan, majority packages in 19 key enterprises are to be reserved for foreign investors. However, in the current uncertain political environment, only a very

⁵⁰ *Pobjeda*, 19 September 1999.

⁵¹ *Pobjeda*, 9 July 2000.

⁵² *Vijesti*, 17 June 2000.

⁵³ *Pobjeda*, 9 July 2000.

⁵⁴ “Government members and their relatives conduct private companies having business arrangements with state companies”: Medojevic, *supra* note 33.

⁵⁵ An interesting comparison is with Bulgaria under the neo-socialist government of Zhan Videnov. The World Bank broke off negotiations in part because of the refusal of the authorities to increase unreasonably low energy prices. Production of aluminium for export continued to increase, and a number of private companies close to the political elite made large profits in niche markets, trading with the loss-making state giants. In 1996, this pyramid of debt came tumbling down, leading to the collapse of the Videnov government.

⁵⁶ Fond za razvoj, Annual Report 1999, p. 21.

⁵⁷ *Vijesti*, 21 April 2000.

limited number of Montenegrin enterprises are likely to be attractive to foreign investors. Resistance from the political and economic elite to any schemes that threaten their dominant position can also be expected. Although the government recently adopted privatisation plans for all of the utility sectors (including electricity, telecommunications, water and municipal services),⁵⁸ the managers of some of the largest companies in Montenegro – the Port of Bar, Telecom, Railways, *Jugopetrol*, *Elektroprivreda* – have already demanded that theirs should be the last firms to be privatised.⁵⁹

As the World Bank noted in a recent study of privatisation efforts around the world: “Many governments have announced plans to sell state-owned enterprises and to improve the performance of firms that remain in government hands, but only a few developing countries have made measurable progress.”⁶⁰ Divestiture and reform of state-owned enterprises cannot succeed without a strong bureaucracy, and must incorporate strategies of introducing more competition, reducing or eliminating hidden subsidies, reducing public credits and reforming the financial sector. In Montenegro, few of these conditions are even close to being met, and the government’s commitment to establishing a deregulated, free-market economy is not yet established.⁶¹

IV. AUTONOMY

For much of its history, Montenegro has enjoyed an ambiguous position within the international order, caught between powerful empires but never fully incorporated within them. Its strategic importance has allowed it to enjoy an extraordinary degree of autonomy in its internal affairs, increasingly supported by a flow of aid from its international patrons. A prominent historian of south-eastern Europe described Montenegro in the second half of the last century in the following terms:

“[Montenegrin King Nicholas I] inherited a principality that had won a remarkable position in international relations, one that was entirely incommensurate with its small size and extreme poverty. We have seen how Russia was willing to send large subsidies, which were the main support of the central administration... The exact status of Montenegro in relation to the Ottoman Empire remained murky. The Porte continued to claim that the region was an integral part of the Ottoman Empire, but it was unable to collect taxes or a tribute. The Ottoman government was certainly not able to influence internal administration, and by this time it was clear that the European powers would not allow the area to be subdued by military means.”⁶²

A century later, Montenegro appears to have come full circle. Still legally a part of the decaying Yugoslav federation, in practice it is fully independent of any central institutions. Its ambiguous status is actively fostered by the international community, which wishes simultaneously to use Montenegro as a political weapon against the outcast Belgrade regime, and to discourage it from taking any definitive steps towards independence for fear of precipitating an open conflict. The Montenegrin government skilfully leverages its strategic position to secure generous international budgetary support, cushioning Montenegro against the worst effects of a rapidly deteriorating economic situation.

⁵⁸ *Monet*, p. 3.

⁵⁹ *Pobjeda*, 26 March 2000.

⁶⁰ World Bank Policy Research Report, *Bureaucrats in Business – the economics and politics of government ownership*, p. 2.

⁶¹ *Frankfurter Allgemeine Zeitung*, “Montenegro strebt offene und deregulierte Wirtschaftsordnung an”, 15 November 1999.

⁶² Barbara Jelavic, *History of the Balkans, Eighteenth and Nineteenth Centuries*, Cambridge University Press 1997 (1983), p. 254

This chapter examines how Montenegro has arrived at its current position of ambiguous autonomy. It explores how the institutions of the Federal Republic of Yugoslavia have fallen victim to Milosevic's refusal to countenance political opposition, and the steps taken by the Montenegrin regime in response. It also looks at the policies of the international community, as it treads a thin line between promoting political opposition to Milosevic and avoiding confrontation.

A. A dissolving federation

The Federal Republic of Yugoslavia, constructed from the two republics that remained after the dissolution of the old Yugoslavia in 1992, has never been a strong entity. Milosevic has treated the constitutional structures in a cavalier fashion, manipulating the institutions of Serbia and the federation as it suited his political needs. The federation was viable so long as the Montenegrin government was willing to remain under Milosevic's influence. However, from 1997 when Djukanovic began to chart an independent political course, Milosevic could no longer control the federal institutions in the way he desired. He therefore began progressively to dismantle them, much in the way he had first weakened and then destroyed the institutions of the former Socialist Federal Republic of Yugoslavia in the late 1980s and early 1990s. The separation of the two republics came about more as a result of Milosevic's refusal to countenance political opposition, than of Montenegro's desire to leave the federation.

From the outset, power relations, rather than constitutionality dictated the balance between the federation and republican institutions. The Milosevic circle in Serbia was determined to remain the dominant force, and constitutional safeguards were not permitted to stand in the way. A blatant illustration of this occurred in 1992, in the early months of the new Federal Republic of Yugoslavia, during a period of electoral rivalry between Milosevic as president of Serbia and the more politically moderate Milan Panic, then federal prime minister. On a day when Panic was out of Belgrade, Milosevic ordered Serbian police to seize control of the federal ministry of interior, locking the minister out of his office. As there was no force on the federal level able to oppose the 40,000 republican paramilitary police at Milosevic's disposal, the incident was a crude demonstration of where real power was located.⁶³

In 1997, when Milosevic had completed the two terms as Serbian president permitted under the constitution, he engineered his election by the federal parliament as president of the Federal Republic of Yugoslavia. To ensure his dominant position, he quickly moved to exclude the Montenegrin government from meaningful participation in federal institutions. In April 1998, Milosevic appointed Djukanovic's political rival, Bulatovic, as federal prime minister. Bulatovic has operated ever since as a puppet of the Serbian regime. Although there are still ethnic Montenegrins loyal to Belgrade in the foreign service and other executive positions, the federal government does not represent the interests of the smaller republic.

The federal parliament has suffered a similar fate. Under the original FRY constitution, the upper house of the parliament was a Chamber of Republics, where the two republics appointed 20 deputies each. In May 1998, following Montenegrin elections, new deputies to the Chamber of Republics nominated by the governing DZB coalition were rejected by Belgrade, and not permitted to take their seats in parliament. Although the method of appointing Montenegrin deputies should have been for Montenegrin law to determine, the federal Constitutional Court, under strong political influence, ruled that the selection process was unconstitutional. (Previously, in a similar case concerning the Serbian deputies, the Court had declined to decide the case, transferring it to the Serbian Constitutional Court.) Montenegro's quota of deputies in the federal parliament therefore remained filled with Milosevic loyalists, with no connection to the current government.

⁶³ Robert Thomas, *Serbia under Milosevic*, London 1999, p. 124.

Since then, the Montenegrin government has refused to recognise federal laws. The anti-terrorism bill announced by the federal government in June 2000 is a good illustration of the state of affairs. The proposed law sets down lengthy gaol terms for those “endangering the constitutional order or territorial integrity of the Federal Republic of Yugoslavia or its member republics”.⁶⁴ In response Montenegrin Prime Minister Vujanovic declared that the law “will have absolutely no application in Montenegro”.⁶⁵

Constitutional developments in recent weeks have confirmed the end of any meaningful electoral or parliamentary process at the federal level. On 6 July 2000, Milosevic forced a series of changes to the FRY constitution through the federal parliament. The amendments formalise the exclusion of the Montenegrin government from the federal political process. The president of the republic is now directly elected, making it unlikely that a Montenegrin could ever occupy the position. (The changes also clear the way for Milosevic to stand for at least one more four-year term as president.) Both houses of parliament are also to be directly elected, rather than the Upper House being appointed by the republican parliaments. The response of the government in Podgorica, rejecting both the constitutional changes and any future decisions of the federal parliament, was consistent with the position it has taken for the past two years.⁶⁶

The other major attack by Milosevic on the integrity of the federation has been the assertion of direct personal control over the Yugoslav Army (VJ). The VJ is the only major federal institution that still operates on the territory of Montenegro. However, the Montenegrin government is now excluded from participating in decision-making concerning its activities. Djukanovic has not attended meetings of the federal Security Council (normally composed of the federal president and the presidents of the two republics) since December 1998. During the war in Kosovo in 1999, the Montenegrin government refused to recognise the state of emergency declared by Belgrade, and did not support VJ activities in any way. Senior officers in the VJ refer to Milosevic as “Supreme Commander”, and the VJ’s Chief-of-Staff has stressed that the VJ receives its orders directly from the federal president.⁶⁷

As a result, the central institutions of the Federal Republic of Yugoslavia have ceased to function, and the federation, never more than a flimsy constitutional structure, has collapsed altogether. The circumstances are remarkably similar to those described by the European Union’s Arbitration Committee in December 1991 concerning the collapse of the old Yugoslavia. The Badinter Committee concluded that:

“The composition and workings of the essential organs of the Federation, be they the Federal Presidency, the Federal Council, the Council of the Republics and the Provinces, the Federal Executive Council, the Constitutional Court or the Federal Army, no longer meet the criteria of participation and representation inherent in a federal state.”⁶⁸

The Committee’s conclusion that the old Yugoslavia was “in the process of dissolution” made the use of force by the then Yugoslav People’s Army (JNA) on the territory of the other republics illegal under international law, and paved the way for the republics to apply for recognition as independent states.

B. Affirming autonomy

In August 1999, in the wake of the Kosovo war, the Montenegrin government proposed its own solution to the constitutional problem in the form of a “Platform”, offering a new basis for relations

⁶⁴ *V.I.P. Daily News Report*, no. 1800, 28 June 2000.

⁶⁵ *V.I.P. Daily News Report*, no. 1799, 27 June 2000.

⁶⁶ *IWPR Balkan Crisis Report*, 12 July 2000.

⁶⁷ Cited in *Montenegro Watch*, no. 16, 24 April 2000. See also *Vijesti*, 12 May 2000.

⁶⁸ EC Arbitration Committee, Opinion No. 1, (1992) 3 *European Journal of International Law* (1992), pp. 182-5.

between Montenegro and Serbia. The document proposes a confederation, within which two sovereign states would agree to co-operate in a limited number of fields. "Montenegro and Serbia will be independent of each other, separate in matters pertaining to their state and national sovereignty, and achievement of their interests."⁶⁹ The federal union would retain competence only for defence and security, foreign policy, the basis of the economic system, and scientific and technical development. However, even in these areas, its authority would be limited. For example, in defence, "The president of the member state ... will command the military units on the territory of his member state.... Commanders of the armies and the commander of the navy will be appointed by the president of the member state to which the command relates." In foreign policy, "Member states will have full independence to carry out foreign affairs within their constitutional capacities."

There was no official response from Belgrade to the Platform, although the recent constitutional amendments make its position perfectly clear. With no real prospect of reaching an amicable solution in the current environment, the Montenegrin government has set about distancing itself from Milosevic and his destructive style of governance, and creating the institutions necessary for it to become fully autonomous.

The most critical period for Montenegrin autonomy was the war in Kosovo and the NATO bombing campaign in 1999. The Montenegrin government declared itself neutral in the conflict, rejecting Milosevic's aggressive nationalism before its own electorate, and positioning itself strategically close to the NATO member states. Montenegro gave sanctuary to tens of thousands of Kosovo Albanian refugees fleeing VJ operations, deservedly winning the praise of international observers. Although Montenegrin neutrality had little military consequence, other than to direct the bulk of NATO bombing away from Montenegrin territory, it was a step of enormous political significance. It placed Montenegro firmly in the Western camp, and marked the point beyond which a rapprochement with Milosevic became extremely unlikely.

Montenegro has also taken a number of decisive and perhaps irreversible steps towards separating its economy from Serbia. Budgetary exchanges between the federal and the Montenegrin budgets dwindled in the summer of 1998, and had ceased by the end of 1998.⁷⁰ In spring 1999, Montenegro stopped requiring foreigners who entered its territory to obtain an FRY visa. In August, Montenegro began collecting customs duties at its external borders, while Serbia erected customs posts on its border with Montenegro. On 2 November 1999, Montenegro introduced the German Mark into circulation as a parallel official currency, taking the republic out of the Yugoslav monetary system. Shortly afterwards, electronic transactions between the republics through the payments bureaux were terminated. On 2 February 2000, Serbia banned the trade of food and agricultural produce with Montenegro,⁷¹ and on 6 March extended the trade blockade to all goods except aluminium and steel.⁷²

The introduction of the German mark was intended to shield Montenegro against the chronic inflation that has plagued the Federal Republic of Yugoslavia during the past decade, protecting it from Belgrade's irresponsible monetary policies. In July 1999, the federal Constitutional Court stripped the Council of the National Bank of Yugoslavia (NBJ), in which Montenegrins were represented, of any authority over the federal Central Bank.⁷³ The leading Montenegrin officials were removed from

⁶⁹ *The Basis for Defining the New Relationship between Montenegro and Serbia* (script obtained from the Montenegrin Foreign Ministry), p. 3.

⁷⁰ UN Office for the Co-ordination of Humanitarian Affairs, Study Series on Humanitarian Vulnerability in Montenegro, Number 2: The Humanitarian Impact of Serbian Trade Restrictions against Montenegro, Podgorica, June 2000.

⁷¹ *Montena Fax* (Montenegrin news agency), 12 February 2000.

⁷² *Vijesti*, 6 and 7 March 2000.

⁷³ "Odluka o ocjenjivanju ustavnosti odredaba cl. 11, 12, 13, 14, 15. i Clana 17. Zakona o narodnoj banci Jugoslavije", Belgrade: *Sluzbeni List SRJ*, 30 July 1999.

office, leaving Montenegro with no influence over currency matters.⁷⁴ In response, the Montenegrin government established a “Monetary Council of the National Bank of Montenegro”, entrusting it with monetary and foreign currency policy.⁷⁵ Inflation dropped from 23.2 per cent in December 1999 to 4.6 per cent in January 2000, and had declined to 1.5 per cent by May.⁷⁶ Prices in Montenegro had always been somewhat higher than those in Serbia, due both to higher wages and fewer price-controlled goods. However, without the price controls, Montenegro is free of the shortages which plague Serbia.

Montenegro has also set about creating its own foreign service as rapidly as possible. Despite its lack of sovereignty, Montenegro has established trade and diplomatic representation of some kind in Washington, Brussels, London, Rome, Ljubljana, Sarajevo and Berlin.⁷⁷ Leading Montenegrin politicians have used the opportunity created by the Kosovo war and the continuing tensions to develop a high international profile, meeting frequently with Western leaders and making themselves accessible to foreign journalists. In June 2000, Montenegrin Foreign Minister Branko Lukovac attended a session of the UN Security Council as a guest of the Slovene delegation, at which the Yugoslav representative was refused permission to make an address. Lukovac asserted that the Federal Republic of Yugoslavia has no right to represent Montenegro or its interests.⁷⁸

Although the Montenegrin government is well advanced in creating the institutions required for an autonomous existence, it is taking a cautious approach towards its ultimate constitutional status. The Montenegrin public remains sharply divided on the question of independence, and this division has been reflected in parliamentary debates. One recent opinion poll found that 35 per cent of respondents were in favour of outright independence, while another 20 per cent favoured a redefinition of the federation along the lines of the Platform. Support for continuing the current federal arrangements has fallen from 39 per cent in May 1999 to 25 per cent in recent times.⁷⁹ Nonetheless, the latest municipal elections suggest that the government would not be guaranteed of a majority on the question, and have made it unlikely that it will yield to calls for an early referendum. Recent statements of the government confirm its cautious approach. Prime Minister Vujanovic has said that a referendum would only be called when it is clear that there is no future in a common state with Serbia, and when those in favour of retaining the federation are able to accept a referendum in peace.⁸⁰ Djukanovic affirmed some days later that the referendum would be delayed in order to avoid internal conflict over this “explosive” issue, and due to “international policy in the Balkans”, so as to avoid the risk of destabilising the region. He expressed the view that there was no hurry to make a final decision on status.⁸¹

C. Montenegro and the international community

For the time being, the policy of Western states is to encourage Montenegro to maintain its ambiguous autonomy. On the one hand, the international community is concerned to make sure that the Djukanovic government survives against both internal opposition and destabilisation from Belgrade. Against the threat of military intervention from Belgrade, NATO has given various ambiguous warnings to Milosevic, although it has stopped short of the explicit security guarantee that Montenegro

⁷⁴ The mandates of the Montenegrin vice governor as well as the two Montenegrin assistant governors were simply not prolonged. Interview with vice governor Dakic (National Bank of Montenegro), 31 March 2000.

⁷⁵ “Odluka o preuzimanju određenih ovlasćenja Narodne Banke Jugoslavije radi zaštite ekonomskih interesa Republike Crne Gore”, *Sluzbeni List RCG*, nos. 41/99 and 43/99.

⁷⁶ *Monet*, plus *Vijesti*, 17 June 2000.

⁷⁷ Interview with Ivan Saveljic, advisor to the Minister of Foreign Affairs, 4 April 2000.

⁷⁸ *Vijesti*, 24 June 2000.

⁷⁹ Opinion polls carried out by the Damar agency, published in *Javno Mnjenje Crne Gore u 2000*, , CEDEM, report no. 2, April 2000.

⁸⁰ *Vijesti*, 17 June 2000.

⁸¹ *Vijesti*, 19 June 2000.

has sought. Wesley Clark, then Supreme Commander of NATO forces in Europe, stated on 20 February 2000 that: "It is clear that there is a build-up of Serb capabilities that could threaten Djukanovic and we will be watching this very closely."⁸² A month later he stressed that: "NATO will do or not do the things it needs to do or not do as it sees it at the time... Mr. Milosevic should be very aware about NATO's capability."⁸³

On the other hand, considerable international pressure has been placed on the Djukanovic government to prevent it from taking any overt step towards independence, which might provoke an open confrontation. Still hoping that the days of the Milosevic regime are numbered, the international community prefers to defer the question of Montenegro's ultimate constitutional status until a more favourable political climate appears. Western leaders have informed Djukanovic that their willingness to support his government depends upon him resisting pressure for a referendum on independence. On 13 July, in the wake of the recent constitutional amendments, US Secretary of State Madeleine Albright is reported to have telephoned Djukanovic, offering the president an additional US\$16.5 million in financial aid, but making it clear to him that this was given in appreciation for his moderate policies.⁸⁴

The international community has also moved to minimise any financial incentive for a declaration of independence. As only sovereign states have access to credits from international financial institutions, the United States and the European Union have hurried to identify alternative sources of funding for Montenegro. Together, they have allocated at least 350 million German marks to Montenegro for 1999 and 2000. By comparison, government expenditures in 1999 amounted to just over 300 million German marks,⁸⁵ while Montenegro's share of the foreign debt of former Yugoslavia, held mostly by banks, is estimated at US\$500 million.⁸⁶

The international community appears willing to tolerate an ambiguous international legal status for Montenegro for as long as political circumstances require. Given its dependence on international support, and the continued divisions on this issue among the Montenegrin population, there is every reason for the Montenegrin government to prefer ambiguity to a final resolution of its status. A declaration of independence would not only carry immediate security risks. It might also, if successful, lead to Montenegro losing its privileged position in the international spotlight. The situation is therefore reminiscent of Montenegro's position in the 19th century: a coincidence of interests leading to a preference for far-reaching autonomy and clientelism over outright sovereignty.

In all the circumstances, given the continuing danger of conflict, there are strong reasons for allowing the final status of Montenegro and the Federal Republic of Yugoslavia to wait for a resolution of the political situation in Belgrade, however long that might take. In the meantime, there is still much that can be done in helping to build the institutions that Montenegro will need to manage its economic transition and development, irrespective of its ultimate constitutional status.

V. SECURITY

A. Balance of forces

As relations between Podgorica and Belgrade have become more strained, the risk of a forcible intervention by Milosevic or internal conflict within Montenegro has been the subject of much

⁸² Reuters, "Montenegro 'Very Tense' NATO's Clark Says", 21 February 2000.

⁸³ *Montenegro Watch* (Open Society Institute), no. 14, 21 March, referring to Radio Free Europe Newline, 14 March 2000.

⁸⁴ *IWPR Balkan Crisis Report*, 14 July 2000.

⁸⁵ Monet report, p. 32.

⁸⁶ USAID, Montenegro Economic Assessment, p. 13, December 1999.

discussion. During the NATO bombing campaign, there were a number of potentially serious stand-offs between the VJ and the Montenegrin police, the most dangerous of which occurred near the Montenegrin-Croatian border at Debeli Brijeg and in Cetinje. For a period of time, VJ troops adopted an aggressive posture in Montenegrin territory, conducting house-to-house searches and threatening political allies of Djukanovic. However, an outright clash was avoided, and, in subsequent months, the VJ demobilised and tension decreased significantly.

Since then, there have been only sporadic security incidents. On the night of 8-9 December 1999, the VJ seized the civilian part of Podgorica airport, after Montenegro had declared it to be Montenegrin government property and had started to build hangars for police helicopters. The airport was, however, restored to the civilian authorities, and now functions normally. Tivat airport was closed by the federal flight control office for three days in mid-February 2000, in a move said to be in response to the operation of unidentified aircraft in the area. On 24 February, a VJ checkpoint was established on the Albanian border at Bozaj, after Montenegro opened a border crossing without consulting the federal authorities. On 7 March, a grenade exploded at the police station in Bijelo Polje at the same time as two off-duty members of the VJ 7th battalion were driving past. A police investigation came to the conclusion that the grenade was not thrown by the soldiers, who were released. On 9 March, an aircraft carrying President Djukanovic, returning home from talks in Sarajevo, was denied landing permission in Podgorica, and was obliged to divert to Tivat for unexplained "security reasons".

Breaking two months of calm, the presidential adviser on national security, Goran Zugic, was murdered on 31 May in Podgorica. Although the murder appeared to bear the hallmarks of the spate of political murders in Belgrade, it may also have been a purely local matter. Fear was again heightened by the shooting of leading Serbian opposition figure Vuk Draskovic in the Montenegrin coastal town of Budva on 15 June. The suspects indicted by the Montenegrin police are from Serbia. In neither case has the author of the crimes been established, but suspicions pointing at Belgrade were widely voiced.⁸⁷

In perhaps the most dramatic move to protect its autonomy, Montenegro is in the process of establishing a large and well-armed force of special police, building on republican institutions inherited from the socialist period. In an interview with an Italian newspaper, the commander of the special police force claimed that policemen number "more than 10,000" and that the special police forces receive training for six to seven hours a day and receive "technical assistance from abroad".⁸⁸ One source close to the interior ministry informed ESI that there are between 1,100 and 1,500 special police, and confirmed that the total manpower of the police (regular police, special police, reservists) is between 10,000 and 15,000. Some police units are reported to have helicopters and other sophisticated equipment, and they have a highly visible presence at checkpoints throughout the republic. Such a force represents a considerable drain on the tiny Montenegrin budget. Officially, in the first four months of this year, the government spent 19.5 German marks million on "public order and safety affairs".⁸⁹

Set against the Montenegrin police, there are thought to be some 7,000 VJ troops presently stationed in Montenegro, which could be increased to up to 40,000 men in the event of mobilisation. Many of them are conscripts, and their readiness to fight against Montenegrins is in some doubt. Particular attention has been focused on the 7th Battalion of the VJ military police. Labelled a "paramilitary force loyal to Belgrade" by media and the Montenegrin government, the 7th Battalion numbers an estimated 1,100 men, including local supporters of the SNP. It is seen as a potential tool for carrying out a military coup or provoking a civil conflict. In March 2000, Djukanovic described the 7th Battalion as "in fact a

⁸⁷ See *Monitor*, 9 June "Beogradska sacekusa' u Podgorici", and 23 June, 2000, "Meta: Draskovic". See also *IWPR Balkan Crisis Report*, "Vuk in trouble", 20 June, 2000.

⁸⁸ *Il Borghese*, 9 January 2000, cited in *Montenegro Watch* Nr. 9 (Open Society Institute), 11 January 2000.

⁸⁹ *Monet*, Table: "Budget along functional classification", p. 33.

paramilitary unit... They are devoted to Mr Milosevic. Over 50 per cent of them have criminal records. They are not being retained to protect the country, but to overthrow the government.”⁹⁰

However, over the past few months the 7th Battalion has largely kept to itself. Local government officials in DZB-run Bijelo Polje, where there are 7th Battalion barracks, informed ESI that members of the Battalion can be seen about the town, that most of them are local, and that there are few problems. An incident in Berane in June 2000, when troops of the 7th Battalion blocked the town centre following the arrest of two of their number by Montenegrin police for brawling, was resolved without violence.

A number of senior VJ personnel have made menacing statements at moments of heightened political tension. In May 2000, General Milorad Obradovic, the commander of the 2nd Army (based in Montenegro), issued an order warning that the VJ would act decisively against “separatist, certain opposition and other enemy forces” which together with foreign enemies were seeking to destroy Yugoslavia.⁹¹ Large-scale manoeuvres by the 2nd Army took place in June 2000, although the VJ insisted that they were regular exercises.⁹²

Most of the information in the international media about the risk of conflict has come from the Montenegrin government and from statements by leading figures of the Serbian establishment. The Serbian government has every interest in appearing to hold the key to war and peace in the region. Likewise, the Montenegrin leadership may perceive an advantage in maintaining a sense of impending threat among Western policy-makers, as a way of attracting unconditional international financial support. In this regard, it may not be entirely coincidental that Montenegrin officials were giving a series of alarmist interviews to the international press in March 2000, just before the Stability Pact funding conference, often contrasting with much less alarmist statements given to local media.

B. Incentives for escalation

Another way of assessing the risk of conflict in Montenegro is to examine the strategic interests of the main players. Speculation as to how a conflict might begin usually focuses on one or more of three possible scenarios. First, Milosevic may begin another war in order to distract attention from his domestic problems. Second, Milosevic may be tempted to intervene militarily in Montenegro if the Djukanovic regime becomes a serious threat to his power base in Belgrade. Third, a referendum on Montenegrin independence, prompted by rising Montenegrin nationalism, may lead to civil war between pro-Serb and pro-independence groups. Alternatively, Milosevic may force Djukanovic’s hand on the constitutional question, provoking a civil war.

These scenarios can be linked together in various combinations. For example, some analysts would see the main threat to Montenegro as follows: Milosevic, to divert attention from his domestic problems, seeks to trigger a war by playing on internal divisions in Montenegro. He unleashes a media campaign against the Podogica regime and its supporters and provokes local incidents of violence. Unwilling to risk an overt military intervention, he instead pushes Djukanovic towards a referendum, while offering covert military assistance to his political opponents. A sequence of events along these lines preceded each of the previous outbreaks of violence in the former Yugoslavia and is thought by many to be a *modus operandi* of Milosevic in responding to internal political pressure.

Given Milosevic’s history of catching his opponents unaware, speculation as to his motivations is unlikely to be reliable. However, based on what we can know of his strategic interests, it seems unlikely that he would attempt to resolve his political problems in Serbia by provoking a conflict in

⁹⁰ *The New York Times*, “Montenegrin Says Belgrade Is Using Its Army to Oust Him”, 28 March 2000.

⁹¹ *Monitor*, 2 June 2000.

⁹² *Vijesti*, 24 June 2000.

Montenegro. A coup against Djukanovic in Podgorica would seem to be a risky operation, offering few rewards. Milosevic could not be sure of the support of the Serbian public, and would face strong opposition from parts of the Montenegrin establishment. There has been little sign that the Serbian media has been saturating the public with the kind of negative propaganda, which preceded the wars in Croatia and Bosnia. In his widely quoted speech at the 4th Party Congress of the SPS on 17 February 2000, which marked the beginning of a campaign of intimidation of the opposition and independent media in Serbia, Milosevic made no substantial reference to Montenegro.⁹³

Nor could Milosevic be sure of the support of the VJ. The VJ as an institution has never been a solid bastion of support for Milosevic, who prefers to rely on interior ministry special troops. Throughout the wars of the past ten years, the VJ has been a somewhat unpredictable player, and its willingness to support an operation against a traditional ally cannot be taken for granted. The 7th Battalion, at its current estimated strength of 1,100 men in Montenegro, is not sufficient to carry out a coup on its own with the degree of certainty required, given the likelihood of strong resistance from the Montenegrin special police.

A military coup, even if successful, would seem to offer few benefits. It would leave Milosevic seeking to re-establish an authoritarian regime in the face of resistance from much of the population, with the likelihood of stoking opposition in Belgrade. There is also the risk of a military response from NATO. If Milosevic needs a crisis to distract attention from his domestic problems, he has no shortage of material. The unresolved status of Kosovo and the continuing violence against Kosovo Serbs seem to offer more fertile ground than a coup in Montenegro.

There is also little evidence that the Djukanovic regime in Podgorica is a sufficiently serious political threat to Milosevic to provoke a military response. There is limited co-operation between the Montenegrin government and the opposition in Belgrade. As Djukanovic himself put it: "Montenegro has no ambition to democratise Serbia and Montenegro cannot democratise Serbia. Serbia must democratise through the means of its own democratic potential".⁹⁴ This has been affirmed by other members of the governing coalition. One leading SDP member asserted that: "The Serbian opposition should start the democratisation of Serbia by itself. We will democratise Montenegro."⁹⁵

At a recent meeting in Sveti Stefan, shortly after the July amendments to the federal constitution, certain Belgrade opposition figures are reported to have tried to persuade Djukanovic to stand against Milosevic as a united opposition candidate in the forthcoming elections to the federal presidency. For his part, however, Djukanovic made it clear that he and the Montenegrin government intend to boycott the elections altogether.⁹⁶

On the Montenegrin side, there does not seem to be any reason to force Milosevic's hand by taking a definitive step towards independence. The ruling coalition is still divided on the question. While the People's Party (NS) prefers to remain within the federation, the Social Democrats (SDP) see a referendum as the only solution to the current constitutional crisis. Djukanovic's DPS is balancing between these poles, reflecting the ambivalence of the Montenegrin population as a whole. Because Montenegrin autonomy is already well established, there are few concrete benefits to be gained from a declaration of independence. As discussed above, Montenegro's current close relationship with the West may be best preserved by retaining its ambiguous constitutional status for as long as possible.

Paradoxically, the Serbian government may be the only party with an interest in seeing the constitutional issue resolved. As a leading member of Milosevic's SPS party noted recently: "We can

⁹³ *Politika*, "Najhrabriji narod na svetu", Milosevic speech, 18 February 2000.

⁹⁴ *Calm before the storm*, International Crisis Group Report, p. 7, 1999.

⁹⁵ *IWPR Balkan Crisis Report*, 17 September 1999.

⁹⁶ *IWPR Balkan Crisis Report*, 14 July 2000.

hardly wait for the Montenegrin people to decide.”⁹⁷ For his part, however, Djukanovic is aware of the dangers of responding to provocations from Belgrade. In March this year, he commented on the referendum question in the following terms:

“As with last year, also this year we will not do this. Milosevic would use our nervousness as an excuse for intensifying the crisis.”⁹⁸

The recent federal constitutional amendments have confirmed the collapse of the federal institutions created in 1992. However, they have not changed the underlying strategic logic of the situation. A recent conclusion in Jane’s Intelligence Review continues to apply:

“Milosevic keeps the crisis in Montenegro looming, but will only escalate it if he sees definite gains from such a decision, not just for the sake of subduing the smaller republic or out of vanity to remove Djukanovic... The real threats for Milosevic can only come from within Serbia.”⁹⁹

VI. DILEMMAS FOR INTERNATIONAL POLICY IN MONTENEGRO

The objectives of international policy in Montenegro are explained in a report on the Western Balkans issued in March 2000 by the European Union’s high representative for foreign policy, Javier Solana, and the external affairs commissioner, Chris Patten. It stated:

“While our overall objective remains the fullest possible integration of the countries of the region into the political and economic mainstream of Europe, short-term measures remain crucial in preventing an escalation of violence and securing the basis of further progress... With regard to Montenegro, the Union aims at supporting democratic and economic reforms by Djukanovic, while discouraging moves towards independence. While a serious crisis has so far been avoided, the political/security situation remains tense against a background of continued efforts at destabilisation from Belgrade... The survival of a reformist government in Montenegro in the coming months will depend in part on effective and timely assistance by the international community.”¹⁰⁰

The conclusions of the European Union Lisbon summit in March reflected the thinking in this report:

“The European Council supports Montenegro’s efforts to achieve democratic reform and economic prosperity. The European Council underlines the urgent need for substantial assistance to Montenegro in order to ensure the survival of democratic government and to avoid another serious crisis in the region.”¹⁰¹

The United States appears to be pursuing the same dual objectives in Montenegro. The bulk of assistance is in the form of direct budget support, and additional resources are allocated to support economic reform and democratic institutions. The priorities were spelt out in the announcement of a new aid package in January 2000: “The bulk of USAID funds are directed at stabilising the economy

⁹⁷ Ivica Dacic, quoted in Reuters, “Vote tests strength of Montenegrin Charge”, 8 June 2000.

⁹⁸ *Der Standard* (Austrian daily), 20 March 2000.

⁹⁹ “Europe, The Balkans braces for another showdown”, *Jane’s Intelligence Review*, 012/004, p. 3, (www.janes.com), 1 April 2000.

¹⁰⁰ Report on the Western Balkans presented to the European Council meeting in Lisbon in March 2000.

¹⁰¹ Presidency Conclusions of the Lisbon European Council Meeting, Section III: Western Balkans, Paragraph 52, 23-24 March 2000.

and the government of Montenegro through budget support, structured to ensure declining dependence on foreign assistance.”¹⁰²

However, the analysis in this paper suggests that there is little prospect of a “declining dependence on foreign assistance” in the foreseeable future. Montenegro faces a complex series of interlocking problems, and remains in a precarious situation. In addition to the political issues dominating the headlines, its economic situation is dire, and international budgetary support alone will do little more than slow the decline. While the parliamentary process is surprisingly robust, the Montenegrin state itself is too weak to undertake effective reform. This leaves the international community with a number of difficult dilemmas as to the right mix and sequencing of policy in Montenegro.

A. The democratic process

The electoral process in Montenegro is functioning remarkably well, given the traumatic events in the region over the past year. All electoral contests until now, including the most recent municipal elections in June 2000, showed that the electoral contest is real, and that issues of power can be decided peacefully through the ballot box. The government continues to have a solid base of support, particularly in the capital Podgorica, but lacks a majority in the coastal town of Herceg Novi and in other parts of the republic. As a result, the democratic process forces the government to be accountable to its electorate, offering a guarantee of responsible political behaviour.

This electoral restraint has already proved critical in a number of areas. First, the electorate has not been mobilised along ethnic lines, and the ruling coalition depends upon the support of ethnic minorities. Divisive ethnic rhetoric has not played a major role in Montenegrin politics, and the republic has avoided the bitter ethnic conflicts that have torn apart much of the rest of the former Yugoslavia. This is an important demonstration of how democracy can create incentives for moderation, helping to stabilise a divided society. Second, Djukanovic’s cautious public line on independence reflects the genuine divisions of opinion in Montenegro. Djukanovic’s political survival depends upon him maintaining the middle ground on this divisive issue. His current policy of distancing Montenegro from Milosevic’s authoritarian style of governance, while keeping the options open on its ultimate constitutional status, is a reasonable and democratic response to an extremely difficult problem.

The prospect of winning power legitimately through elections is also an important restraining influence on the political opposition. Bulatovic’s one attempt in January 1998 to challenge the democratic system through the use of force was not successful, and has not been repeated. Since the 1998 parliamentary elections, opposition parties have participated actively in the Montenegrin parliament, which holds genuine, substantive debates on the difficult dilemmas facing Montenegro. If the divisions in Montenegrin society are not to lead to civil conflict, it is essential that they continue to be resolved within the political process. In this way, debate within the appropriate political organs replaces conflict on the streets.

The prospect of winning elections is also an important incentive to opponents of the present government not to take to the streets or undermine the republic’s democratic institutions. There are indications that a moderate wing of the SNP is emerging, and may seek to challenge the government for the middle ground of Montenegrin politics. Its public statements suggest that, unlike SNP leader, Momir Bulatovic, it does not automatically support the authoritarian political style of the Belgrade regime. It is more willing to engage in political dialogue with the government on the larger issues. The more real the democratic process, the more likely it is that a more moderate opposition will continue to develop.

¹⁰² USAID press release, 31 January 2000.

The implication of this is that supporting a competitive political system is the best way of promoting constructive political behaviour in Montenegro. It is important that the international community promotes the democratic process, and not just the individual democrat. As one of the Montenegrin government's most outspoken critics, Nebojsa Medojevic, a member of the Group of 17 independent economists, put it:

“The West’s insistence on promoting personalities rather than institutions also hinders Montenegro from choosing the right path. The West plays favourites, and I recognise that I am one of them, even though I am not in power. The danger comes when the West, while promoting the rhetoric of democracy and capitalism, backs power in Montenegro even when it embarks on actions that do not promote democracy or market economies.”¹⁰³

There is a risk that, in its haste to strengthen political opponents to Milosevic, the West might try to exclude the Montenegrin opposition from effective participation in the political system, and would thereby remove any positive political incentives. This is arguably what occurred in Banja Luka in Republika Srpska, when, in its eagerness to support Milorad Dodik, a relative moderate and clear opponent of Milosevic and hard-line Bosnian Serbs, the international community intervened in the democratic process to the point of undermining it. The result has been that as Dodik has largely failed to deliver his many promises, the democratic institutions have suffered a decline in legitimacy, and the opposition, feeling unfairly excluded from the political process, has increasingly turned to Belgrade to challenge the constitutional structures.

B. Foreign aid and economic reform

Montenegro's economic problems are serious. The economy is dominated by a handful of heavy industries that have little prospect of surviving in a free market and, dependent on various kinds of subsidies, are an enormous drain on the public purse. The government has made little progress on privatisation, or in reorienting the economy towards new business opportunities. As a result, the republic is facing a severe budgetary crisis, exacerbated by the size of the informal economy.

Although Djukanovic has promised to alleviate the economic crisis, his capacity to carry out reform is extremely limited. The non-transparent nature of the Montenegrin economy creates opportunities for corruption and mismanagement, whereby private companies take a share of the revenue streams of unprofitable public enterprises, leaving the losses to be borne by the state. The economy is run by a tight web of political patronage and cross-ownership, which generates strong vested interests in the status quo. The government depends upon this elite for political support, and does not have the authority or the independent institutions required to push through changes in the face of resistance.

Economic transition would be extremely painful for Montenegro, as it has been for other transition economies in the region. Montenegro has few attractive prospects for foreign investors, and a genuine process of privatisation would lead to many unprofitable businesses being shut down. The short-term impact on the public would be harsh, with unemployment rising at a time when the government would have difficulty in maintaining an effective social safety net. Almost without exception, progressive governments in south-eastern Europe, which have dared to undertake radical economic reform, have lost power in the next elections.

In the current uncertain political environment in Montenegro, it seems unlikely that Djukanovic will attempt any substantial economic reform. At the same time, maintaining the status quo is not sustainable in the medium term.

¹⁰³ Nebojsa Medojevic, “Transition to what: oligarchy or democracy”, unpublished manuscript.

Against this background, Montenegro's Western allies will need to give careful thought to the real impact of their economic assistance programmes. Montenegro is highly dependent on external aid, and Western support therefore offers the potential political benefit of influence over the Montenegrin government. Its economic impact, however, is likely to be limited unless more attention is given to the nature of the economic system Montenegro inherited from the past. Without careful planning of assistance strategies, the West may simply replace the old intra-Yugoslav economic subsidies, which had such a distorting effect on Montenegrin development, with new foreign subsidies. Direct budgetary support, which allows the government to meet its social obligations, may relieve the pressure for reform of unprofitable and unsustainable industries. If so, Western aid merely becomes the prop for an unreformed socialist system, unlikely to arrest the process of economic decline for very long.

This is not to suggest that the solution to Montenegro's economic crisis is to expose it immediately to the full financial effects of its structural inadequacies. Further economic decline would only weaken the state and its capacity to address the problems. There are, however, real dilemmas for the sequencing of reform in Montenegro. There may be a good argument for waiting for a more favourable political climate, before embarking on any large-scale structural reform in the economy. However, in the meantime, the international community should begin to develop and strengthen the state institutions required to carry out reforms. To avoid the prospect of bankrolling a weak state for the indefinite future, Western budgetary support needs to be complemented by measures to build up Montenegro's institutional capacity. This will require a much more sophisticated understanding of the political economy – something that can only be gained through a stronger presence on the ground.

C. Autonomy and security

As discussed above, the main thrust of Western policy – supporting Djukanovic in his effort to move Montenegro away from Milosevic's increasingly destructive influence, while at the same time discouraging outright independence – is reasonable and necessary. International aid has been designed to minimise any financial incentives for an early declaration of independence. There is no reason why the current ambiguous constitutional status of Montenegro cannot remain in place for quite some time.

There are, however, certain dangers, which the main Western actors must be careful to avoid. One of the factors which has made the threat of conflict recede in recent months has been Djukanovic's decision not to join forces with the Serbian opposition in an overt campaign against Milosevic. Djukanovic is not at present a player in the political struggles going on in Belgrade. So long as this is the case, it is difficult to see how Milosevic would have any strategic interest in a forcible intervention into Montenegrin politics. Western policy-makers should therefore avoid the temptation to try to use Djukanovic's personal standing as a weapon against Milosevic in the federal elections in September. There is little prospect that Djukanovic could successfully challenge Milosevic on his home ground, and any attempt to do so might upset the delicate political balance within Montenegro.

Djukanovic will face a difficult dilemma concerning the September elections. To refuse to allow them to be organised on Montenegrin territory would be a provocative step, tantamount to a declaration of independence. It may be more pragmatic for the Montenegrin government to allow them to go ahead, while not putting up its own candidates.

If, as this paper suggests, there is for the time being a strategic balance which leads all sides to prefer the status quo to open conflict, it may also be counter-productive for NATO to make any concrete undertakings concerning Montenegro's security. For the time being, the Serbian public and the VJ do not perceive Montenegro as an enemy, and Milosevic would find it difficult to generate support for a forcible intervention. An explicit security guarantee, however, may create too much of an identity between NATO and the Djukanovic government, allowing Milosevic to present an intervention into Montenegro as the protection of the Federal Republic of Yugoslavia against the Western alliance.

It would therefore be appropriate for NATO to maintain its current, deliberately ambiguous policy, warning Milosevic not to contemplate direct intervention, but leaving him uncertain as what kind of reaction to expect. This is less likely to have a distorting effect on the current strategic balance.

The implication is that Western policy *in Montenegro* should be primarily policy *for Montenegro*, rather than part of an international campaign to unseat Milosevic. If the international community focuses on the needs of Montenegrin society in the coming years, the imperatives are to preserve a functioning democratic system where elections continue to matter, and to set about the Herculean task of economic transition.

About the European Stability Initiative

The European Stability Initiative is a think tank focusing on south-eastern Europe and registered as a non-profit association in Berlin. ESI staff are committed to providing policy makers free of charge with timely, high-quality analysis of political, social and economic developments in the region.

Since September 1999, ESI has published five major reports and eight background papers. All publications are available on the ESI web page. Presently ESI employs one person in the Berlin head office, two analysts for the ESI Bosnia project and two analysts for the ESI Montenegro project.

Despite modest resources, ESI has established itself in less than a year as "a think tank changing international policy on Bosnia" (The Financial Times), "one of the most significant think tanks in the region" (OSCE Head of Mission Robert Barry), "the people on the Balkan circuit with the clearest view of what needs to be done" (former Finnish president Martti Ahtisaari). In recent months ESI has been invited to present its ideas to representatives of Steering Board countries, the EU ambassadors in Sarajevo, the World Bank Bosnia team, the EU High Representative for Foreign Policy, EU Commissioners and numerous foreign ministries.

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