

# *Russia in the Western Balkans: Montenegro, Macedonia and Serbia* \_\_\_\_\_

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***Erlis HOXHA***

PHD CANDIDATE, EUROPEAN UNIVERSITY OF TIRANA  
erlishoxha@gmail.com

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***Resina PLLAHA***

LUARASI UNIVERSITY  
resina.pllaha@luarasi-univ.edu

## **Abstract**

*The eurozone crisis has produced an increasing influence of Eastern countries in the Balkan region. Indeed, the Western Balkans has been subject to growing Russian attention, particularly in the economic dimension. The present paper assessed Russian impact in Montenegro, Macedonia and Serbia. Considering the data from these three countries the strongest economic influence has been found for Serbia, a country which has close proximity to Russia not only in economic terms but also political stance, religion etc. Conversely the Russian influence in Macedonia and Montenegro has been mainly economic, while the latest has more recently taken a few steps back from Russia towards a pro-European approach. It might be claimed that the lack of vision and the uncertainty of European Union decisions in relation to the Balkans, would promote a pro-Eastern influence not only from Russia but also other countries such as Turkey and China. Nonetheless at the moment such influence seems to be mainly economic and less political.*

***Keywords:*** *Russia, Western Balkans, economic influence*

## **Introduction**

During the last decade the Western Balkans has been subject to growing Russian attention. In an effort to improve and highlight its' approach in this region, Russia has been trying to build its' impact within 'the gaps' created by EU's lack of a clear

expansion strategy and openness to new memberships. Moreover the lack of good governance, high levels of corruption, or poor economy in the Balkan countries have all contributed to growing Russian influence. Indeed Russian investments in the region have increased by more than 3 billion euros Russian influence as part of the overall economy in the Western Balkans has decreased only after the imposition of international sanctions after the annexation of Crimea in 2014 (Conley et al., 2016).

Nonetheless, Russian investments are concentrated in a small number of strategic sectors, such as banking, energy, and real estate. Moreover, it could be stated that several Balkan countries including Serbia, Montenegro, Macedonia and Bosnia and Herzegovina are dependent on economic exchanges with Russia. Consequently, governments of these Balkan countries have become sufficiently sensitive to pressures on strategic decisions that relate not only to diversification and liberalization of the energy market, but also the Russian sanctions and the expansion of NATO and the EU (Conley et al., 2016).

Analysis of the Russian foreign policy regarding Balkan countries intends to interpret and explain how Russia's foreign policy approaches directly to the Balkans in relation to the role and attitudes of the European Union. Russia's role is considered very important in terms of both economic and political impact. To summarize the present article aims to emphasize the ever-increasing role of Russia in the Balkans by considering economic and political influences in these countries.

## **Russian influence in the Western Balkans**

In 1990, due to the political collapse of the Soviet Union, a new consensus was crystallized, based on building of an entirely 'new' foreign policy of the Russian Federation. According to Aron (2013), Russia not only is one of the largest nuclear superpowers, but also a superpower in other international aspects such as economic policies, military and geopolitical policies. This fact is quite apparent thanks to the concepts of foreign policy put forward by President Putin in February 2013. Along the same lines it is claimed that the ability of Western countries to dominate all world and political economies is constantly decreasing. Examples include Balkan countries, EU countries, Kosovo and Russia. In the 2000s Europe was seen as a model guide, but this can be hardly claimed nowadays. Discussions on the growing Russian political and economic power in the Balkans are becoming more prominent and one of the main elements of this discussion is the Eurozone crisis dating back to 2008. It is clear that all Balkan states are closely related economically to European Union countries, and for this reason, the financial sector is very closely related to what is happening inside the EU (World Bank, 2012).

In 2008-2009, economic intelligence units pointed out that all Western Balkan economies in transition including Montenegro, Serbia, Croatia, Kosovo, Macedonia and Albania suffered shaky economies. In 2009, real GDP declined by 5.2%, which led to an extension of the review until 2010, with the GDP average declining by 0.4%, as the largest economy in the region experienced a significant decline in GDP production. So, as far as average output in the region is concerned, it is still far below the initial levels of the crisis. (EUI, 2012).

On the other hand, EU countries have negatively impacted local economies, which has led to the reduction of foreign direct investment and export demand. While EU's policies in the region were previously appreciated, nowadays they are not very widely supported as the EU is exporting the crisis to the now-troubled states. (ECFR, 2013).

Whenever a shock or financial turmoil occurs, the first effect is related to the growing uncertainty which is exactly what happened with the eurozone financial crisis. Of course, in this context Russia did not remain silent but rather started openly challenging these states by initially trying to emerge as a credible power through its economic and political representation in Western Balkan countries (Casier, 2011). In the recent years, Moscow has encouraged all Russian companies to invest in Europe by trying to turn this region into one of the geostrategic centers and one of the preferential entry points into the Western economic zone.

Obviously, these interests of Russia in the Western Balkans are not only economic, but primarily geopolitical interests. This essentially means adopting a foreign policy driven by the winner-loser dichotomy as explained in Bobo Lo's book. (Lo, 2002). In all cases where there is a winner, there should be a loser on the other hand, zero-zero equations have been crucial in shaping Russia's approaches to the Balkan countries as one of the key regions in terms of its' projection influence. In this context, two of the geopolitical strategic powers, the EU and Russia, have challenged each other in the Balkans; indeed the European Union has always pursued its interests in the region through multidimensional policies and instruments aiming towards cooperation and mutual interest (CESS, 2008). Conversely the multipolar Russian approach, refers to the Western Balkans as an arena of Moscow's powerful nature crash in its policies. For Moscow, the most strategic region is the Balkans region, currently considering its role as one of the largest gas and oil supply countries in European Union countries (Foreign Policy of the Russian Federation, 2013)

As far as cooperation and competition reports are concerned, this is dependent on certain areas of interest as well as on the wider constellation of power (Trenin, 2007).

But the EU and Russia are not the only actors who have ambitions and are trying to extend their influence in the Western Balkans. China and Turkey, on the other

hand, are acting as key players exert their pressure on development in the region, though “excluded” from European Union projects. Russia does not want a strong clash with these two rivals and wants to avoid the risk of strengthening economic policies to the Western Balkans (Blank, 2013; Mitrova, 2014). Other dimensions include the concepts of security from a different perspective of Moscow towards the Balkans, while making a reassessment of economic actions such as energy and infrastructure. Meanwhile, Russia’s security issues and economic tasks in the Balkan countries have been conceived as one of the top priority issues in geopolitics. The economics of these countries reflects the interpretations of an external policy that is focused, among other things, on the benefits of economic co-operation, imposed on all the global processes (Center for the Study of Democracy, 2018).

### *Russian impact in Montenegro*

Russia’s approach to Montenegro might be described as a constantly changing curve, as opposed to Montenegro’s foreign policy course. As soon as the Montenegrin government expects its ambition to get closer to the European Union and NATO, Moscow’s aggressiveness and pressure are noted through its economic and political mechanisms (Marovic, 2016).

Russia’s Foreign Direct Investments in Montenegro represent the first aspect of Russian influence on the economy and the Montenegrin foreign policy. They FDI account for roughly one third of the country’s gross domestic product, where Russia is the largest single investor in Montenegro with \$ 1.27 billion in investment (Tomovic, 2016). We can mention here one of the most important investments in the country “Podgorica Aluminum Plant” which was known for strong ties with President Putin. This aluminum factory, contributed to the economy by about 15% of Montenegro’s GDP. Also according to Montenegro’s official data in 2016, one-third of all foreign companies in the Montenegrin state register were owned by Russian nationals (Tomovic, 2016). The influence of Russian corporations on the Montenegrin economy will be extended to the point of making the Montenegrin economy dependent on Russian investors. Practically this impact will extend to the country’s foreign policy as well (Center for Democratic Studies, 2018).

Tourism is a vital sector for the Montenegrin economy and serves as a very important generator that directly affects economic growth. Tourism based on figures represents about one-fifth of Montenegro’s Gross Domestic Product, and over 54% of exports; Also Montenegro’s annual revenues from tourism account for 850 million euros (Center for Democratic Studies, 2018). Another significant aspect of Russian influence in this strategic sector for Montenegro is that at least ¼ of these revenues from tourism come from Russian tourists. The figure has increased between years 2005 and 2016; e.g., the number of Russian

Tourists in Montenegro has increased steadily, from 60,000 in 2005 to 316,000 in 2016. The fluctuating political climate did not seem to influence this dimension. Following the worsening political relations of the Montenegrins with Russia, and its rapprochement with the European Union and NATO, the Russian media's tendency has been to remove Russian tourists from Montenegro, despite the fact that many of these tourists have purchased property and have invested in this country (Montenegro Ministry of Tourism & Sustainable Development, 2016).

Over the last 10 years, Russians have invested in Montenegro a total of about 8.1 billion euros. Since 2006, Russia has been consistently among the three leading investors in the country, between Norway and Italy. Other major investors in this period including Austria, Switzerland, Cyprus, the Netherlands, Serbia, Slovenia, the United Kingdom, Hungary, and the United Arab Emirates (Montenegro Ministry of Tourism & Sustainable Development, 2016).

Between 2007 and 2016, an important part of the FDI inflow in Montenegro came from countries known differently as 'fiscal heaven' (Tomovic, 2016). It should be said that one of Russia's largest investments in Montenegro for the purchase of the Podgorica-based aluminum plant came from a company registered in Cyprus. Russia through its investments has contributed as far as possible and has shown its strength in the Montenegrin economy. On the other hand, it is seen that the investments remain low and very little variable in compared to that of EU member states. It is clear that Russian role in the Montenegrin economy has decreased considerably in recent years, from 29.4% of total revenues in 2006 to around 5.5% in 2015, mainly as a result of the withdrawal of Moscow from Podgorica, Aluminum Factory (KAP), one of the largest companies in the country, proves this. Of course, Russia's distancing is obviously and unequivocally linked to Montenegro's aspirations to become an EU member. Therefore, despite the powerful influence of Russia in this country, it seems there was no success in changing the Pro European course of Montenegro (Center for Democratic Studies, 2018).

### *Russian impact in Macedonia*

Despite the pro-Russian approach of former Prime Minister Gruevski, who had a clear ambition to strengthen Macedonia's economic ties with the Russia (especially Russian gas), this country's influence in Macedonia is not very meaningful (Stojkovska, 2012). Given the necessity of Russian gas for the Macedonian economy, it is clear why former Prime Minister Gruevski considered Russian alliance as a necessity to invest as a reliable regional partner for them by providing favorable terms for Macedonia and at the same time becoming a transit point for Russian gas in the Balkan region and beyond. But this line did not work out well since Russia choose Turkish over Macedonian gas pipeline. Apart from the oil and gas

sector, it must be noted that the trade relationship between Russia and Macedonia has been growing at remarkable levels. Examples include Macedonian agricultural exports to Russia, particularly after the decision of banning agricultural goods from the EU due to the sanctions imposed on it by European Union countries (Stojkovska, 2012).

In this context, Russia created space for other producers outside the European Union, such as Macedonia, for yet another reason, which was political, as Macedonia refused to join the sanctions imposed by the EU and the United States. This decision was rated very favorably by Russia. Russian businesses have invested mostly in finding space through a direct network, investing in personal relations with the Prime Minister of Macedonia by creating preferential relations, among them we can mention “LUKOIL” one of the largest Russian companies operating in Macedonia (Stefanova, 2016). Another example is the gambling business where their owner is a Russian citizen, businessman Sergei Samsonenko, who is one of the wealthiest individuals in Macedonia, built strong ties with the Gruevski Government and its district, including powerful Macedonian businessmen as co-owner of Iskra MM company, Cvetan Pandeleski, and Orce Kamchev. And yet, Macedonia in general terms, with Russia the trade turnover ratio has not been more than 400 million euro a year, and is currently somewhere at 100 million euro. Moreover, Russian direct investment in Macedonia is only 27 million euro (in 2015), too low if we compare these figures with the direct investments of Australia, for example, which amount to 500 million Euro (Center for the Study of Democracy, 2018; Retman, 2017).

### *Russian impact in Serbia*

Unlike Macedonia and Montenegro, with Serbia, Russia has a very close political and strategic relationship which is not comparable to any other Western Balkan countries. The cooperation between the two countries is rooted in the past but also extends to the last decade with Russia’s political approach to the newest Balkan state of Kosovo. The Russians’ stance in Serbia’s favor and clearly against the declaration of Kosovo’s independence has boosted the relationship between the two countries. Of course, Serbia is proud of its political partnership with Russia, and its attitude against Kosovo is used as a strong card in Brussels and with other countries that are still undecided about Kosovo recognition (Polterman, 2014).

Relations between Serbia and Russia can also be interpreted through historical ties, but in the last ten years along with political co-operation, they are intensified especially in the economic sphere, which has culminated with several important agreements between the two countries. As far as Russia is concerned, it is determined to increase economic co-operation with Serbia in some key sectors of

the Serbian economy, both in the gas and oil field, in road and rail infrastructure and in the banking sector (Energy Community, 2017).

The 2008 energy agreement between Gazprom and Serbia's largest company - Naftna Industrija Srbije (NIS) has produced significant effects on the Serbian economy (Energy Community, 2014). Large firms owned by Russian citizens are closely linked to Serbia, which controls revenues of approximately 5 billion euros, or 13 percent of the total income generated by the domestic economy. Another dimension of the influence of Russian companies is the dependence of local Serbian companies on imports of Russian raw materials such as gas, where Gazprom and Lukoil dominate the oil and fuel markets (Energy Community, 2017).

It is worth emphasizing that Serbia in this sector is almost completely dependent on Russia's natural gas imports. Not only that, but close ties between politically linked local intermediaries prevent diversification of supply and liberalization of the domestic market (Center for the Study of Democracy, 2018).

It is clear that all this influence of Russia in Serbia is not incidental; on the contrary, it has enforced its political ties and its economic presence in Serbia using the pro-Russian, pan-Slav tradition, and pan-orthodox attitudes through influences all-round Serbia, where it has left important economic and political traces (Center for the Study of Democracy, 2018).

## Conclusions

The eurozone crisis and steps back as regards the enlargement of the European Union have reinvigorated great uncertainties in all Western Balkan countries relative to the credibility of the great European project. On the other hand, it is obvious that Russia's attempt is trying to take all the advantages of the difficulties that Brussels is producing in terms of its internal and external currents. It is understandable that this scenario of Russia will be larger if Brussels is ambiguous in relation to its obligations to member countries, but mostly to aspirant-member countries such as the Balkans (Balfur & Stratulat, 2011). Otherwise, Brussels and European Union policies should be more proactive in order to avoid the West Balkans turning into a free economic and political zone for Russia, which continues to be ambitious in this geopolitical region. Any delays would create new opportunities and opportunities for non-Western countries like Russia, China and Turkey, ready to "fill" the vacancy left by Brussels (Judah, 2012).

In terms of Russian influence in the Balkans is still unclear whether this approach and this geopolitical and economic vision of Russia in the Western Balkans would be translated into power and influence in the political aspect, mainly in other countries such as Kosovo, in addition to its indisputable influence

in Serbia, Montenegro, and in Macedonia, where, despite the above indicators, they have affirmed their pro-European approach to their agenda. In this context, European politicians must begin to promote in a highly active way the expansion of EU influence in Balkan countries, as the risks remain persistent, leaving the Western Balkans in a difficult position. The lack of vision and the uncertainty of the Brussels decisions in relation to the Balkans would put at risk any achievement in the region, particularly the consolidation of new democracies.

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