

Competing External Influences in South East Europe – Implications for Regional Consolidation

Predrag Jureković (Ed.)

Study Group Information



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“Regional Stability in South East Europe”**

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Foreword

Predrag Jureković

This volume is composed of articles from the 38th workshop of the Study Group “Regional Stability in South East Europe”. The workshop was conducted in Reichenau/Austria, from 16 to 19 May, 2019. Under the overarching title “Competing External Influences in South East Europe – Implications for Regional Consolidation” 43 experts from the South East European region and other parts of Europe, international organizations and major stake holder nations met under the umbrella of the PfP Consortium of Defense Academies and Security Studies Institutes and the Austrian Ministry of Defence, represented through its National Defence Academy and the Directorate General for Security Policy.

The articles in this volume generally deal with the question to what extent the still fragile intra-regional relations and unfinished processes of state-building in South East Europe are influenced by potential geopolitical competitions between influential international actors, such as the EU, the U.S., Turkey, China, Russia and the Gulf states. How do political decision makers and representatives of relevant civil society organizations in South East Europe perceive the policies of the different external actors? To what extent do the various international influences complement EU’s efforts for supporting consolidation processes in South East Europe and in which areas do they deviate from these goals?

In part I, the authors analyse the convergence and divergence of different geopolitical concepts vis-à-vis the region of South East Europe. This is followed by part II in which the external impact on politics, society and security in various South East European countries is highlighted. Part III is focused on the economic interests and policies of external actors towards this part of Europe. The joint recommendations of the Study Group workshop are summarized in part IV of this publication.

The editor would like to express his thanks to all authors who contributed papers to this volume of the Study Group Information. He is pleased to

present the valued readers the analyses and recommendations and would appreciate if this Study Group Information could contribute to generate positive ideas for supporting the still challenging processes of consolidating peace in South East Europe.

Special thanks go to Klara Krgović and Benedikt Hensellek, who supported this publication as facilitating editors.

Abstract

South East Europe, and in particular the semi-consolidated Western Balkans, has become a region of different geopolitical influences and interests. They can be recognized in the political, cultural, religious, economic and security area. The European Union (EU), which has made her mark on regional transition during the last twenty years, is not the only relevant international player in the field anymore. In addition to the “western” actors, the EU, U.S. and NATO, Russia, Turkey, China and the Gulf states seem to have reinforced their presence in South East Europe.

The latter actors vary regarding their interests and policies, which do not automatically need to pose a threat for western consolidation policies in South East Europe, but have to be closely monitored and evaluated. Russia is an exception amongst the non-western actors, in as much as her policies directed to South East Europe – at least in part – are obviously producing negative effects for the intra-state and intra-regional relations.

**PART I:
CONVERGENCE AND DIVERGENCE OF
GEOPOLITICAL CONCEPTS VIS-À-VIS
SOUTH EAST EUROPE**

Strategic Quest in Southeast Europe – Challenges of EU’s Self-Perception and Russian Geopolitical Ambitions

*Sandro Knezović*¹

Introduction

The wider international political arena is undergoing constant changes. There are different actors going through different trends and processes, having diverse impact on regional developments and their main subjects. This is especially so in a region like Southeast Europe, burdened with complicated post-conflict environment, that still seems to negatively affect internal and external attempts to democratically consolidate the region. More than twenty years of efforts of the transatlantic community have produced only limited progress in the region. In this regard, leaving a window of opportunity for other interested parties, not necessarily fond of the process of accession to transatlantic structures, to take their strategic positions and cement their influence in Southeast Europe. Difficulties in the transatlantic community itself, lack of consensus on a clear strategic approach towards the developments in this part of Europe, as well as inconsistencies and loopholes of ‘western policies’ have also significantly contributed to that.

The assertive strategic postures of various players are leaving a visible imprint on the security and economic landscape of wider Europe, narrowing down the capacity of the EU to exercise the self-proclaimed role of a normative power in regions like Southeast Europe. Not only the Russian activities during the last decade or so, but also increasing economic presence of China, negative developments in Turkey and growing influence of Arab states, as well as changing attitude of the U.S. towards the concept of cooperative security in the transatlantic community, have all affected the leverage and influence of the EU in a region like Southeast Europe.

¹ Dr. Sandro Knezović, Senior Research Associate at the Institute for Development and International Relations (IRMO), Zagreb, Croatia. An earlier version of this paper has been published at the IRMO Brief series.

There is an increasing number of analysts viewing stalled integration process in that region in the wider geopolitical context, especially – after the conflict in Ukraine – in the framework of Russia-West relations. Therefore, without an intention to underestimate the relevance of other aforementioned players, this paper will focus on this two main players and their role in Southeast Europe. The return of conventional warfare to the eastern flanks of Europe has obviously changed the security outlook of the continent and brought geopolitics back to the fore, especially in regions where the process of consolidation and democratic transition is yet not finished.² For this reason, this paper focuses mainly on Southeast European countries that are still in the process of accession to the EU and/or NATO.

The EU's Policies toward the Western Balkans – from Consolidation to Geostrategy

The post-conflict situation in Southeast Europe immediately arrested the attention of the transatlantic community. Both NATO and the EU (in particular the EU) have taken responsibility for the long-term stabilisation of the region and the gradual introduction of the process of democratic transition. Not only have NATO and the EU deployed both military and civilian missions to maintain peace on the ground, but they have invested greatly in democratic institution-building in the entire region. And most importantly, in the early 2000s, both of them created policy frameworks that opened a prospect for future membership of Southeast European countries. The conditionality mechanisms that were the most important element of the accession processes actually provided an opportunity to directly influence the democratic transition and shape the development of political systems. What is even more important, these processes served as an excellent medium for transmitting the values of the transatlantic community to newly-created states in Southeast Europe.

All of the above-described activity was intended to create a prospect for the countries of the region to become part of 'the West' upon fulfilment of the membership criteria. Actually, the EU and NATO had developed and

2 For details, please see Habova, Antonina Ivanova: Southeast Europe in the New Geostategic Context, IJASOS- International E-Journal of Advances in Social Sciences, Vol.II, Issue 4, April 2016.

started implementing plans to integrate post-socialist states – Southeast European included – when Russia was still struggling with its own problems and, therefore, *de facto* out of the picture. Regardless of the overall impression that geopolitics were of less importance at that time, it is obvious that these policies were changing the strategic map of Europe, not to speak about having impacts on the market and macroeconomics of ‘the post-socialist East’.³ If we add to this the consequences of the entire 5th wave of enlargement, it is obvious that ‘the West’ had gained much in the post-Cold War period.⁴

However, the institutional crises of the EU and the Eurozone (in particular, the Eurozone) have put a halt to the process of enlargement and even the current president of the European Commission (EC), Jean-Claude Juncker, spoke about a pause in that process back in 2014. This is coupled with the fact that the remaining candidate states represent ‘hard’ cases; some such states are characterised by significant democratic deficits, unresolved statutory or inter-ethnic issues whereas other states have the status of international protectorates.

Meanwhile, the conflict in Ukraine has changed the post-Cold War strategic set-up of Europe and brought conventional warfare and geopolitics back to the fore. The latter has become increasingly important in regions where the democratisation process has not been concluded and accession processes are still pending, leaving space for the growth of increasing Russian influence that threatens to subvert the strategic orientation of countries in the region. In an attempt to deal with this threat, the EU seems to have been forced, by way of minimum response, to create an environment in which there are indicators of the continuation of the enlargement process. The biggest recent achievement, even though not related exclusively to the process of the EU enlargement, is the resolution of the name dispute between Macedonia and Greece that resulted in the formulation of a new official

³ Macroeconomic details about relations between the region and the EU can be found at the following link – EU – Western Balkans Intertwined, Infographic, Official Web-page of the Council of Europe, 2019, <<https://www.consilium.europa.eu/en/infographics/western-balkans-economy/>>.

⁴ For details, see Gomart, Thomas: The EU and Russia: The Needed Balance Between Geopolitics and Regionalism, Institut Français des Relations Internationales (IFRI), 2006, <<https://www.ifri.org/sites/default/files/atoms/files/gomartwsanglais.pdf>>.

name of the country – North Macedonia – and unblocked its accession process to the transatlantic institutions. Accordingly, the accession treaty to NATO has been signed and the ratification process is underway that is expected to end by the end of 2019. Along that line, there are also expectations that North Macedonia could open the accession talks with the EU rather soon, but the final decision is yet to be made. Montenegro has joined NATO in 2017, but the EU accession negotiations are not showing the desired pace. Albania is also having high hopes related to the prospect of opening the accession talks with the EU, however, the recent public unrest and crisis of the government are not improving its chances. Serbia's progress is also slow and unsatisfactory and heavily burdened by stalled process of negotiations with Kosovo, that is yet to be fully recognised and officially endorsed as a potential candidate for membership. Hence, all cases mentioned here are showing very modest progress, however, there seems to be a determination by both the EU and the states in the region to, at least declaratively, proclaim the process 'alive and kicking'.

While this is potentially good news for all respective countries that aspire to join the club, there is an overwhelming impression that these are actually *ad hoc* defensive geopolitical measures that have little to do with a joint EU consolidated approach to remaining enlargement challenges. Instead of investing additional energy in creating an implementable comprehensive strategy for the most complicated remaining cases, the EU has been relying on the previous enlargement policy, seeing it as a principal transformational driver and failing to comprehend the rise of geopolitical forces at the expense of the legitimacy of its normative power concept in Southeast Europe. In other words, the normative power concept relies on strict implementation of conditionality and benchmarks for each step in the accession process, which is in contrast with geopolitical considerations and motives (basically to safeguard 'Western values' and interests in the region and to prevent the increase of influence of others), as well as with the necessity to show continued progress in improving the current state of preparedness of countries in the region.

On the other hand, any further prolongation of the existing enlargement stalemate will surely not be conducive to enhanced transitional progress by countries in Southeast Europe and will hence not yield long-term stability, especially in the new European security environment. Obviously, neither

the containment nor the unprincipled speed-up of accession would be a solution for long term consolidation of the region and geostrategic strengthening of the transatlantic community in it. A comprehensive and implementable strategy for the remaining complicated candidates, based on a realistic estimation of capacities and political compromise both in the EU and in the region, seems to be the only viable solution. If it really wants to maintain the role of normative power, the EU obviously has to rethink its most successful policy so far and put it in the framework of changing strategic posture of the Old Continent, at the same time maintaining its merit-based approach. The Berlin Process,⁵ initiated in 2014, obviously brought a new impetus to the process, especially due to the fact that it has been driven by EU's most powerful member, Germany. However, other than declarative awareness of necessity to bring a new dynamics into the process, it fell short of providing more in an environment burdened heavily by immigrant crisis and disintegrative trends like 'Brexit', as well as geostrategic challenges in the Eastern Neighbourhood and Middle East. Even the 2018 EC Strategy for the Western Balkans actually offered limited progress for the speed-up of the accession process, due to few important reasons. Its gradual approach to enlargement in this part of Europe is not only reflexive of limited political compromise within the EU itself on that issue and burdens of its strategic environment, but also of heavy load of transitional processes in the remaining candidate states.

While any further enlargement should be directly related to meeting demanding criteria, a question has arisen about realistic future scenarios for countries that will not be able to conduct necessary reforms in the medium-term. Obviously, given the fact that there are very difficult candidates in the region, a failure to meet the prescribed criteria for joining NATO and the EU (in particular the EU) should be regarded as a likely scenario, not to mention the adverse impact of enlargement fatigue on enthusiasm for reforms in the region. Furthermore, security implications and geostrategic consequences of such enlargement loopholes in Southeast Europe should certainly be anticipated.

⁵ All relevant information about the Berlin Process can be found at its official web-page, <<https://berlinprocess.info/>>.

Russia and Southeast Europe in a new European Strategic Environment

Russia has been investing much effort in returning to the global scene as one of the key actors. After the dissolution of the USSR and the hardships of Yeltsin's presidency, political elites in Moscow are doing their best to reset the post-Cold War strategic posture.⁶

While the post-Soviet space is considered a zone of almost exclusive Russian interest, regions such as Southeast Europe represent a very opportune playground for a geostrategic power-struggle with the West. The region consists of countries with unfinished transition processes and weak economies, which makes it vulnerable to penetration by outside economic and political influence. Also, it is placed at a very important geostrategic location; there is not only a trajectory, but also an increased narration about traditional bonds, common history and Slavic origin all of which 'provide the opportunity' for Russia to increase its efforts for engagement in Southeast Europe.⁷

There are different pragmatic reasons for a particular Russian interest in Southeast Europe, but the converse is also true. First of all, while the region is important for the transport of energy, it also has export markets for that product. On the other hand, the vast Russian market represents an attractive destination for agricultural products and raw materials from Southeast European economies that fail to reach the European market, while arbitrary loans from the Russian side represent very useful financial injections to troubled economies and political elites. Besides these principal economic interests, there are many others of less importance. However, they all have one thing in common – at least when we deal with the Russian view of Southeast Europe's strategic importance – they represent elements

⁶ An interesting interpretation of Russian post-Cold War revisionism is provided by Ivan Krastev in his text published in *Foreign Affairs – Krastev, Ivan: Russian Revisionism – Putin's Plan for Overturning the European Order*, *Foreign Affairs*, March 2014, <<https://www.foreignaffairs.com/articles/russia-fsu/2014-03-03/russian-revisionism>>.

⁷ A detailed analysis of Russian strategic interests in the region is offered by DMITAR BECHEV – BECHEV, *Understanding Russia's Influence in the Western Balkans*, *Strategic Analysis, Hybrid CoE*, <<https://www.Hybridcoe.fi/wp-content/uploads/2018/10/Strategic-Analysis-2018-9-Beshev-.pdf>>.

of an integrated endeavour to counter Western interests in the region. In this regard, the Kosovo conflict in 1999 was a turning point in the Kremlin's policy towards the region, where NATO's military intervention against its close partner – Serbia – was perceived as an obvious neglect of Russian interests in that part of Europe. In broader terms, the initiation of the EU and NATO enlargement processes that followed – while not being directly opposed by Russia in its early stage – came to be seen as a geopolitical loss in a region of particular interest.

Since these events – which overlapped with the beginning of president Putin's first term – Russia started reengaging economically in the region, slightly opening a manoeuvring space for extended political influence and increased strategic positioning. Relying heavily on its comparative advantages, such as history, culture, trade, energy and special relations – particularly with respect to certain countries that will be analysed in the forthcoming passage – it attempted to strengthen its influence and establish strategic long-term partnerships.

Russia's main partner in the region is Serbia. Close relations can be tracked for centuries, while the most important basis for partnership in the contemporary period has been Russia's support of Serbia's position on the Kosovo issue, especially its exercise of veto power in the UN Security Council relating to that matter. The two countries signed a declaration of strategic partnership in 2013, followed by a military cooperation agreement in 2014 that resulted in significant donations of military hardware. The former encompasses both different forms of cooperation in the field of security and coordination of positions in international institutions. Furthermore, Serbia obtained an observer status in the Collective Security Treaty Organisation (CSTO), a Russian-sponsored initiative, intended as a post-Soviet counterpart to NATO, and also refused to join the EU in imposing sanctions on Russia over its policies in Ukraine. All of the above raises important questions about Serbia's capacity to align itself in the appropriate manner with the Common Foreign and Security Policy (CFSP) of the EU, which has consequentially had an impact on the overall debate about Serbia's accession prospects. That concern has been fuelled by Russia's increasing share of investment in Serbia's strategic infrastructure, in particular in the field of energy and transport, and the erection of a Russian humanitarian camp in the south of the country – seen by many as a first

installation of Russian presence on the ground in Southeast Europe. However, there is an overwhelming feeling that the increased maturity of the country's accession stage will exert additional pressure onto Serbia to align with EU's policies or even reconsider its current declarative 'military neutrality'. It is difficult to estimate now, but the recent conclusion of an agreement with NATO that grants its staff a diplomatic status in Serbia, which sparked a great deal of criticism in Russia, may appear to be illustrative of the development in the period to come.

Russia is also trying to increase its influence over Bosnia and Herzegovina (BiH), in particular through its close connections with the Republika Srpska. Kremlin has for a long time been the supporter of that entity and of its leading politician, Milorad Dodik, who frequently threatens the stability of the state by his secessionist attitude. The annexation of Crimea was warmly welcomed by that entity's political elites and was immediately put in the political context of BiH. Obviously, Republika Srpska is an important channel for Russian influence over BiH, especially due to its ownership over the entity's main oil refinery. However, this is neither the only nor the most important tool for wielding influence. In this regard, Russia is a member of the Steering Board of the PIC (Peace Implementation Council), which is charged with providing political guidance to the highest international governing body in post-Dayton BiH, the High Representative and actually 'in the driving seat' of the country's consolidation process. The last, but certainly not the least important factor is membership in the UN Security Council, where Russia abstained from voting on extensions of EUFOR's mandate, arguing that the resolution on the peace support mission was placing excessive emphasis on the country's possible accession to the EU.

Montenegro has been economically dependent upon Russian investment for years, however it has made a politically clear choice in many regional/national issues (NATO accession, recognition of Kosovo's independence, sanctions against Russia). Still, the political spectrum there is much divided and the opposition was fiercely arguing against all of the aforementioned decisions. While NATO accession is achieved in 2017, the change of political elites in power burdened with numerous democratic deficits, expected for long, could ironically carry the aversion of the current EU accession path.

North Macedonia's ever-lasting transition stalemate and unresolved name issue with Greece produced an opportunity for Russia to increase its influence over the state, despite unquestioned public support for the EU and NATO bid. Democratic deficits of the former political elites and economic hardships that have burdened the country for a long period, with very limited accession perspectives to the Euro-Atlantic Club, forced the political elites to find alternative partners that can provide assistance to their preservation of power. This has forced the government not to side with EU's sanctions against Russia and to support the idea of a Russia – Turkey stream gas-pipeline project that actually competes with the idea to reduce the EU's dependency on Russian energy. Recent resolution of the name issue and all positive trends that followed seem to have averted these trends and increased expectations for the accession to transatlantic structures in the period to come.

Russian interests in the region are almost entirely opposite to those of the Albanians, which is visible from differing positions on Kosovo's independence, interethnic relations in North-Macedonia, unquestionable siding of Albania and Kosovo with western interests, and those of the US in particular, as well as overall Russian perception of an 'Albanian threat' to regional stability. Therefore, Russian influence seems to have remained very low in Albania and Kosovo.

Conclusions

Obviously, Russia has used the EU enlargement 'intermezzo' to return to the region. The trajectory should be viewed within the framework of strained relations between Russia and the West. Its policy profits from a realistic assessment of its limited options in the region. The transatlantic community undoubtedly holds greater resources – generous pre-accession funds, attractions of possible EU and NATO membership, trade balance and many others – and it is clear that Russia cannot offer comparable benefits. What it can do is profit from the inconsistency and loopholes of Western policies, relying very much on democratic deficits among regional political elites, economic hardship and dependence on its energy resources and investments. Pan-Slavic rhetoric and historical links serve as a catalyser to this increasingly assertive and relatively successful policy.

Hence, Russia's interest is to slow down – if not stop – the transition processes in the region that would lead to the accession of the remaining countries to EU and NATO (in particular to NATO). It seems that the impact on long-term consolidation in south-eastern Europe is of less importance for Russia. Even if the accession does happen, the impression prevails that it would not be considered as a substantial blow to Russia's interests by the Kremlin due to the fact that it would increase the number of EU and NATO members marked by significant Russian influence, which would dramatically decrease both the efficiency of decision-making in these organisations and their capacity to respond swiftly to emerging challenges. This would make the organisations – particularly the EU – weaker and increasingly vulnerable to Russian policies. In contrast to the EU, Russia may appear to be deficient in a long-term strategy for the region, but it is a strong tactical actor with the ability to take swift and flexible decisions. In the short-term, this is likely to make a difference to the efficiency of its performance in the region *vis-à-vis* that of the EU, unless the latter adequately rethinks its policies and takes a more proactive stance towards merit-based enlargement in Southeast Europe and finalisation of the European project.

There should be an increased awareness about the following – in periods of crisis, a pragmatic global power with significant democratic deficit and a clear top-down decision-making process seems to be more efficient than a liberal-democratic concept of shared sovereignty with bottom-up decision making and diverging national interests. The shift of the US geostrategic focus to other parts of the globe complicates the situation even further.⁸ Also, it is much easier to undermine the latter because it requires institutional infrastructure and time. Having an eye on the remaining accession candidates, it seems understandable that it is less challenging to establish states than to make them functional, especially in an increasingly turbulent geostrategic environment. This leads us to the conclusion that the enlargement process of the EU needs substantial rethinking and re-engagement if we seek to have functional liberal democracies in Southeast Europe.

⁸ For the details about the U.S. strategic pivot to Asia, please see Chow, Peter: *The U.S. Strategic Pivot to Asia and Cross-Strait Relations*, Palgrave, 2014.

Unmasking the Specter of Geopolitics in the Western Balkans

Florian C. Feyerabend

Introduction¹

A specter is haunting the Western Balkans, the specter of geopolitics. Once again, the region is at risk of becoming a geostrategic chessboard for external actors. Warnings are increasingly being voiced in Brussels and other Western capitals, as well as in the region itself. Russia, China, Turkey and the Gulf States are ramping up their political, economic and cultural influence in this enclave within the European Union – with a variety of resources, intentions and interests. In many cases, they are filling a gap that the United States has left because of its ongoing shift of geostrategic focus, and which the European community has so far failed to adequately address. The West, and here primarily the EU, is no longer unchallenged as the dominant force in the Western Balkans, nor is it any longer acting as a unified force, as the recent disagreements between Washington, Brussels, Paris and Berlin regarding the exchange-of-territory-debate between Serbia and Kosovo demonstrated. Furthermore, Brussels' enlargement policy based on conditionality seems to be reaching its limits as an instrument. As a result, a sober assessment of the current situation is urgently needed.

Geography and Geopolitics

Historically, the Balkans (or: South East Europe) due to its geographic position and composition has always been a crossroads. It was an area where different cultures, peoples and spheres of influence met and frequently collided. External actors used the region, its people and political elites to achieve their own interests, but at times the region, its people and political

¹ This Article has been updated from a version previously published as introduction to Konrad-Adenauer-Stiftung e.V.: The influence of external actors in the Western Balkans. A map of geopolitical players (May 2018) <https://www.kas.de/documents/252038/253252/7_dokument_dok_pdf_52333_2.pdf/e467ee3a-487f-0def-4303-2e87b755598f?version=1.0&t=1539647526531>.

elites also used external actors and the competition among external actors to advance their own agendas. Also today, one not only needs to be aware of the influence of external actors, but also of geopolitical blackmail in order to obtain concessions from the West.

Today, geography still plays a key role when trying to understand the geopolitical significance of the region. The Western Balkans are no longer European periphery but today constitute an enclave within the European Union. It is – next to the states of the Eastern Neighborhood – the last significant region in Europe where the job has not been finished, e.g. integration into EU and NATO has not been completed. Strongly correlated with this is the fact that the countries in the region are economically weak and democratically not consolidated. These factors taken together make the region so vulnerable to outside influences and increase the appetite of external actors who consider the region as an easy prey.

Euro-Atlantic and European Integration of the Western Balkans

One thing nevertheless is clear: the integration of the Western Balkans into Euro-Atlantic and European structures is already well advanced, with close ties and interdependencies. Apart from Serbia, which is nevertheless actively participating in the *Partnership for Peace* program, all states in the region are either aspiring to join NATO or are already members of the Alliance. A full 72% of the region's foreign trade is with EU states;² European countries are the main investors in the region; with the exception of Kosovo, the citizens of all countries enjoy visa-free travel to the EU; and the governments of all six non-EU Western Balkan countries are actively working towards membership of the European Union. The EU and Europe's heads of state and government have repeatedly reaffirmed the accession promises that they made in Thessaloniki in 2003.³

² European Council: Infographic - EU and Western Balkans intertwined (25 February 2019), <<https://www.consilium.europa.eu/en/infographics/western-balkans-economy/>>, accessed on 7 June 2019; and European Commission: European Union, Trade in goods with Western Balkans 6 (6 March 2019). <https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_western-balkans-6_en.pdf>, accessed on 7 June 2019, p. 8.

³ European Council: Sofia Declaration (17 May 2019). <https://www.consilium.europa.eu/media/34776/sofia-declaration_en.pdf>, accessed on 7 June 2019.

However, since the last accession – Croatia – in 2013, the goal of EU membership for the candidate countries has moved further away. Unfortunately, reforms in the Western Balkan states are progressing more slowly than expected, and the EU is also occupied with internal challenges such as populism and Euroscepticism, shaping the future of the monetary union, coping with the migration crisis and implementing Brexit. It seems to be suffering from a general sense of “enlargement fatigue”. The President of the European Commission, Jean-Claude Juncker, was simply stating the obvious when, at the beginning of his term of office, he announced there would be no more accessions until 2019.⁴ However, this was generally understood as a shift away from the policy of enlargement and as a manifestation of “enlargement fatigue”.

The EU’s approach to the region has been one of friendly indifference. These developments and statements have and will continue to have consequences. The EU’s reputation has suffered among the peoples of Southeast Europe. A representative survey recently carried out in the Western Balkans as part of the Balkan Barometer provides cause for concern. 26% of those surveyed no longer believe that their countries will ever join the EU and only 49% believe seeking EU membership is a positive step (Serbia ranking the lowest with 29%, Kosovo ranking the highest with 84%).⁵ The EU clearly has an image and credibility problem, and it has to take some of the blame. In this context, and in view of the unresolved economic and social problems facing the Balkan states, governments and society as a whole are turning their gaze eastwards to external actors such as Russia, China, Turkey and the Gulf States.

At least to some extent, Russia’s annexation of the Crimea in March 2014 and the migration crisis of summer 2015 restored the West’s interest in the Western Balkans in terms of foreign policy. This particularly found its expression in the recent NATO accession of Montenegro and the upcoming accession of North Macedonia, the Berlin Process, initiated by Chancellor

⁴ Juncker, Jean Claude: A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change (15 July 2014). <https://ec.europa.eu/commission/sites/beta-political/files/juncker-political-guidelines-speech_en.pdf>.

⁵ Regional Cooperation Council: Balkan Barometer 2018 | Public Opinion Survey (2018). <<https://www.rcc.int/seeds/results/2/balkan-public-barometer>>, accessed on 7 June 2019.

Angela Merkel in 2014, and the EU's *Strategy for the Western Balkans* in February 2018, which reaffirms a credible prospect of enlargement, underlines conditionality and indicated 2025 as a possible accession date for Serbia and Montenegro. In this way, the EU is keeping the prospect of accession alive and meeting the challenges posed by external actors by sending out important political signals. Also, the recent Franco-German Balkans Summit in Berlin on 29 April can be viewed in this light.

Germany's role: Values and Interests

German foreign and security policy is based on both values and interests and takes place within the European and Euro-Atlantic context.⁶ European security and peace and stability in the Western Balkans are strongly interrelated. Hence, developments in this enclave within the EU have direct and indirect implications and consequences, both positive and negative, for Germany and European security. Therefore the region is of high relevance to Germany. Also, based on the high reputation of Germany and Chancellor Angela Merkel personally, as well as the bilateral economic and trade relationships, Berlin has a significant shaping power in the region. The enlargement policy provides the main tool for the EU to incentive transformation processes. Core principle is the conditioning of financial aid and closer economic ties to alignment of with EU interests, norms and values. That is the "carrot". What is missing mostly so far is the "stick".

Ensuring security, political and social stability as well as democracy, economic prosperity and good governance are the tenants for Germany's and the EU's engagement in the Western Balkans. The argument is twofold: the rationale of security, and the normative approach. Any assessment of convergence or divergence of geopolitical concepts has to be measured against those.

⁶ Bundesregierung: Weißbuch zur Sicherheitspolitik und zur Zukunft der Bundeswehr (13 July 2016). <<https://www.bmvg.de/resource/blob/13708/015be272f8c0098f1537a491676bfc31/weissbuch2016-barrierefrei-data.pdf>>, accessed on 7 June 2019, p. 24 f.

Trump's America and the Western Balkans

Since the mid-1990s, the US has been guaranteeing stability in the Western Balkans, acting in close cooperation with its European allies. When Donald Trump was elected President, some politicians like then-president of the Republika Srpska (RS) Milorad Dodik had the hope and expectation that US foreign policy would change in their favor, since President Trump was considered to be interested in making deals with the Russian Federation. However, at first nothing changed, there was continuity in the policies on the ground. Trump was not really interested in the region. Montenegro joined NATO.

A changing moment was the appointment of John Bolton as US National Security Advisor in April 2018. With his appointment a rift between the European allies and the Americans occurred. Not because EU and NATO integration in the region were put in question, but because the integrity of borders was put in question. Bolton is a known critic of the EU and also Trump called the EU a foe, which led some observers to the conclusion that weakening the EU has become a national interest of the US under Trump.⁷ And meddling unilaterally in the Western Balkans could serve hence this purpose, and also allow for an opportunity of deal-making with Russia, which is what Trump allegedly seeks.

Little Ambiguity – the Antagonistic Role of Russia in the Region

However, the analysis of how Non-Western actors are increasing their influence and the factors involved is characterized by ambivalence and heterogeneity. From a Western perspective, the least ambiguous factor is classifying and evaluating the role and intentions of the Russian Federation.

Moscow is a traditional external player that has been involved in the Western Balkans since the 19th century and has developed historical relations with the states of the region. However, today Russia is unable to offer the Western Balkan states convincing alternatives to European and Euro-

⁷ European Stability Initiative: The Hypnotist - Aleksandar Vucic, John Bolton and the return of the past (25 April 2019). <<https://www.esiweb.org/pdf/ESI%20-%20The%20Hypnotist%20-%2025%20April%202019.pdf>>, accessed on 7 June 2019, p. 12

Atlantic integration. The material circumstances are also strikingly disproportionate to public perception and its political influence. Russia does not play a significant economic role in the Western Balkans: only 6.6% of foreign direct investment in the region comes from Russia and Russia's share of regional foreign trade is 3.5% for exports and 4.6% for imports.⁸ However, the region is dependent on Russia for its energy supply, though this dependence is waning. Also Russian presence in the banking sector as well as in real estate plays a role that should not be underestimated.

Viewed as a whole, Southeast Europe is only a sideshow in Moscow's strategic thinking, albeit one that should not be underestimated: Russia's foreign and security policy priorities are the so-called "near abroad" (ближнее зарубежье), the Middle East and relations with the United States (and the West as a whole). A core parameter of Moscow's world view is the adversarial vision of 'the West' (Zapad) and the desire to being recognized as a great power.⁹ Hence Russia regards the Western Balkans as an arena in which it can achieve significant effects with relatively few resources, predominantly through "soft" methods and intelligence. The strategic objective is to slow down or even prevent the region's integration into Euro-Atlantic institutions and tarnish the image of Western-style democracy in Southeastern Europe with the twofold aim of first: distracting, deflecting attention, weakening and dividing the Western community of states, as well as second: preventing any integration perspectives for sovereign post-Soviet states such Ukraine or Georgia.¹⁰

While the Kremlin is seeking to prevent "encirclement" (from the Russian perspective) in the "near abroad", along with the restoration of Russia's sphere of influence, and in the process taking advantage of alternative inte-

⁸ European Commission: European Union, Trade in goods with Western Balkans 6 (6 March 2019). <https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_western-balkans-6_en.pdf>, accessed on 7 June 2019, p. 8.

⁹ Facon, Isabelle: Russia's national security strategy and military doctrine and their implications for the EU (January 2017). <[http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/578016/EXPO_IDA\(2017\)578016_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/578016/EXPO_IDA(2017)578016_EN.pdf)>, accessed on 7 June 2019.

¹⁰ Stronski, Paul and Himes, Annie: Russia's Game in the Balkans (January 2019). <https://carnegieendowment.org/files/Stronski_Himes_Balkans_formatted.pdf>, accessed on 7 June 2019, p. 12.

gration models such as the Eurasian Union and the Collective Security Treaty Organization (CSTO), its policy in the Western Balkans is one of “disrupter” or “spoiler”. In the absence of a clear, long-term and constructive strategy, it is primarily destructive and focused on creating instability. With the skillful use of tactics, sometimes covert, sometimes open, Russia is seizing every opportunity to exploit the fragility of political systems and intergovernmental relations to its own advantage. It is achieving this by cultivating “pan-Slavic friendship among nations” and an Orthodox faith community, through symbolic politics, supporting certain (far right/hypernationalist) parties and political groups, and targeted PR via the Moscow-friendly media. In this way, it is blurring the boundaries to propaganda and disinformation. The failed coup in Montenegro on 16 October 2016 highlighted the fact that Russia does not shy away from diversionary tactics, conspiracy and sabotage – active measures. However, these forceful tactics can also backfire by alienating political elites in the region as well as by increasing the determination of the West to engage more in the Balkans.

A lot of Ambiguity – the Geo-Economic Clout of China in the Region

The interests of Russia and China are dissimilar and there is little convergence of geopolitical concepts towards the Western Balkans. As far as China is concerned, just a few years ago the “Middle Kingdom” was largely invisible and of little significance as a player in the Balkans. This only changed with the announcement and launch of the One Belt, One Road Initiative (OBOR), the ambitious international investment strategy presented to the public by President Xi Jinping in September 2013 that will create a new Silk Road between China and its European markets, and the 16+1 (CEEC) initiative (with the recent accession of Greece: 17+1) for cooperation with the countries of Central and Southeast Europe, which was launched in 2012. The Western Balkans play a key geostrategic role here, as the Chinese view the region as a gateway to the European Union market and as a land bridge between the Chinese-owned port of Piraeus/Greece and Central Europe. China is clearly predominantly guided by its economics interests. Against this backdrop, Beijing has begun to increase bilateral trade with the countries of the region and is investing in developing the transport and energy infrastructure and in certain strategic industries in the Western Balkans. At the 16+1 summit held in Budapest in November 2017, Beijing promised additional financial aid to the tune of

U.S. \$3 billion for investment and development projects in the region. As a result, there are few reservations about China in the Western Balkan states, which are some of the economically weakest countries in Europe and therefore dependent on what seem to be favorable financing opportunities and direct investment. In absolute terms and relative to other actors such as the EU, the volume of trade is still small, but there is a noteworthy trend: China's exports to Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia more than doubled already between 2004 and 2014, while imports increased more than sevenfold over the same period.

Europe and Germany take still an ambivalent, but increasingly critical view of China's role. Alternative financing options, significant investment in the economically weak Western Balkans and the implementation of infrastructure projects – albeit in clear competition with European players – seem to provide a vital impetus for economic modernization, competitiveness, economic growth and connectivity in the region. In addition, Beijing appears to be a “stabilizer” and hence an apparent ally of the EU, since China supports the states' integration into European structures, and its long-term investment in the region means that, unlike other external actors, it is not in its economic and strategic interests to destabilize the Balkans, a region that is often described as a “powder keg”. On the other hand, there are fears in Washington, Brussels and Berlin that China's economic engagement may not be as innocent as it initially appears, and that it may one day lead to the People's Republic exerting more political influence. There are still question marks hanging over China's long-term goals and intentions. The rationale of the EU is not only securing stability but also promoting democracy, market economy and good governance by the means of conditionality. China's economic practices, on the other hand, often fail to meet European standards, threaten to undermine EU conditionality and regulatory standards, and increase the region's overall susceptibility to corruption. The acceptance of Chinese loans for major infrastructure projects, mostly provided by the China Exim Bank, also threatens to create financial dependency and imbalance (“debt-trap”). In the long run, Beijing's growing economic power could also lead to an increase in political influence. The EU is already divided when it comes to China, and this provides it with yet another challenge.

The Former Hegemon – Turkey’s Resurgence in the Region

Turkey is a traditional external player in Southeast Europe, and over the last 20 years its foreign policy has rediscovered the Western Balkans. Until the Balkan Wars of 1912/1913, the “Sublime Porte” ruled the region for centuries. Under the name Rumelia, the region was an integral part of the Ottoman Empire. It was only after the end of the Cold War that Turkey once again became a serious player on the map of the Western Balkans with its support for the Bosniaks and later the Kosovo Albanians during the Balkan Wars of the late 20th century. When the AKP took power, Ankara’s focus shifted to its western neighbours in the course of the “zero problems with the neighbours” policy proclaimed by its former foreign policy mastermind Ahmet Davutoglu. Turkey’s involvement attracts a range of opinions. While Ankara – itself a NATO member and (still) a candidate for EU membership – officially still supports the Euro-Atlantic and European integration of the Western Balkan states, it is also pursuing an independent “neo-Ottoman” foreign policy with the aim of creating its own sphere of interest. In addition to economic activities, Ankara’s resources are mainly poured into trade, banking, construction, telecommunications and critical infrastructure (e.g. Prishtina/Priština, Skopje, Ohrid and Zagreb airports), with a primary focus on soft power and the cultural and religious ties that have grown over the centuries and that are now being systematically expanded.

While Moscow sees itself as a patron of pan-Slavism, Ankara has so far stressed its role as a protector of Muslims in the Balkans and has cultivated special relations with the predominantly Muslim states of Albania, Bosnia and Herzegovina and Kosovo, the Muslim communities in North Macedonia, Montenegro and Serbian Sandžak, and the ethnic political parties of Muslim communities. Ankara was long regarded as a model of Muslim democracy, development and government with ties to the West. However, the political developments in Turkey in the wake of the failed coup of July 2016 mean that Ankara’s democratic radiance has been largely extinguished. Now, in certain quarters, Turkey is joining Russia and China as an attractive model of authoritarian rule. Turkey has also expanded its diplomatic and economic activities in non-Muslim countries of the Western Balkans, as is underlined by its recent signing of a free trade agreement with Serbia. For many years, the West viewed Turkey as a stabilizing force, but

today in many respects it is the West's competitor in the Balkans, and its intentions are not always clear.

The new Players – the Gulf States

Taken all together, the Gulf States – primarily Saudi Arabia, the United Arab Emirates, Qatar and Kuwait – represent a relatively new player in the Western Balkans. Their involvement can be traced back to their support for Muslims (Bosniaks, Albanians) during the Yugoslav wars of the 1990s, when they helped their Muslim brethren by smuggling arms, sending volunteers to fight and supplying humanitarian aid. When the wars ended, many religious foundations became actively involved in constructing mosques, schools and spreading a Wahabi interpretation of Islam that was not part of the Balkan tradition. This also involved links to transnational Islamic terrorism, both to Al Qaeda and, more recently, the so-called Islamic state (IS). One consequence of this is that Kosovo and Bosnia and Herzegovina have one of the highest proportions of “foreign fighters” in Europe compared to their total population. Today, the influence of the Gulf States is no longer limited to the religious and cultural sphere. Arab countries are increasingly making economic investments, particularly in tourism, construction (e.g. Belgrade Waterfront), agriculture, aviation (Air Serbia) and military technology, and are also providing loans and generous development aid. This investment is not restricted to the Muslim countries of the Western Balkans. Like China, the Gulf States see the Western Balkans as a gateway to the EU market, and – also like China – the lack of transparency when it comes to trade and procurement with the Gulf States also increases the region's susceptibility to corruption. The promotion of radical Islamic ideas and support for jihadist networks on the part of non-state actors weakens the resilience of Muslim societies and poses a threat to the security of Europe, and hence Germany.

Conclusion

The situation is therefore quite differentiated: there are close ties and dependencies between all the Western Balkan states and Euro-Atlantic and European structures. In addition, trade and investment in the region is dominated by EU states. No external actor – Russia, China, Turkey, the Gulf States – can offer a real alternative to EU integration. However, in

parallel, external actors are gaining influence in this enclave within the European Union. Of course, not all their actions should be viewed as a risk to the countries' resilience or indeed as illegitimate. Nonetheless, as a general pattern a divergence of geopolitical concepts towards the Western Balkans can be observed. Hence, Germany and the EU and the West as a whole need to keep a close watch on the situation and to be proactive in addressing these challenges.

Russia's Ambivalence on Southeast Europe Strategy

Mikhail Polianskii

Introduction

With the revival of geopolitics in the XXI century, South East Europe is once again becoming a place for great powers rivalry. However, in comparison with the last two centuries, this time the number of competing powers is considerably bigger, and this makes the current situation more complicated and potentially more dangerous.

Having withdrawn from Southeast Europe at the end of the Cold War, Russia has been gradually re-establishing its presence in the region in the last twenty years. However, its stance is still more reactive than proactive, which makes cooperation with Russia rather unpredictable. Moscow views the situation in Southeast Europe through the context of Eastern Europe, since the longer the West is preoccupied with the Balkans the less resources Brussels and Washington have to advance their initiatives right in the underbelly of Russia.

The new Russian Foreign Policy Concept, published in November 2016, for the first time does not mention “Southeast Europe” or “the Balkans” specifically, and refers to the region as the “Euro-Atlantic space” instead.¹ This approach mirrors the fact that despite profound historic and cultural ties, South East Europe today occupies only the second-tier position in Russian foreign policy. The rationale behind this strategy is quite understandable: the gains from any possible forms of engagement with the regional players are quite hard to calculate, whereas the problems of the region are on display: demographic crisis, illegal migration, ethnic conflicts, an unpredictable economic situation, etc. As a result, Moscow has decided to single out individual entities like Serbian nationalists or Republika Srpska

¹ Foreign Policy Concept of the Russian Federation (approved by President of the Russian Federation Vladimir Putin on November 30, 2016) <http://www.mid.ru/foreign_policy/official_documents/-/asset_publisher/CptICk6BZ29/content/id/2542248>, accessed on 15.3.2019.

in Bosnia and Herzegovina to pursue “exclusive relations” instead of adopting an inclusive approach for the whole region. However, since the Balkans remain practically the only place in Europe where Russia’s overall perception is still predominantly positive, Kremlin is trying to capitalize on its presence in the region with minimum investments while wishing to reap the maximum benefits.

The primary aim of this paper is to analyse the geopolitical strategy of Russia in Southeast Europe and compare it with goals of global actors like the United States/NATO, the EU, Turkey/Arab states and China in the long term. As a result, this paper will produce certain conclusions highlighting where these actors’ strategies overlap, where they provide opportunities for cooperation, and where the visions of the aforementioned actors are at odds with each other.

Historical Background

Despite the numerous efforts made by Western NGOs and think-tanks to shift the narratives of Russia’s presence in the region,² Moscow’s historical foundation in the region remains solid. When one looks back at the twentieth century, despite some evident misunderstandings inherited from Tito-Stalin rivalry, the fates of Russia and Southeast Europe have been closely entwined throughout various hardships. In the 1920s, Russian architects were invited to build Belgrade; in the 1930s, almost half of the teaching staff at the Belgrade University were Russian immigrants; the 1940s were marked by a common fight against fascism. Moreover, Russia and former Yugoslavian countries have shared a painful experience of inter-ethnic conflict between their respective Christian and Muslim communities during the 1990s. Later on, in the 2000s Russia invested heavily in rebuilding Serbia’s destroyed industrial sector, while Moscow’s foreign policy supported Serbia in re-establishing itself in international organizations. In this way, even though Russia’s relations with Southeastern European countries are presently far from ideal, this shared historical experience provides for the current dialogue with a high level of solidarity and pragmatism, which in turn has created a framework for common projects.

² США отмечают "разрушительную роль" России на Балканах. Радио Свобода (2018) <<https://www.svoboda.org/a/29096073.html>>, accessed on 17.4.2019.

When one examines recent history, the evolution of Russia's stance in South East Europe can be discerned into **three** main stages.

The First Stage could be labelled as a "U-Turn" in Russia's position in the region. After the end of the Cold War, Moscow decided to follow the lead of the West in solving regional problems and South East Europe was no exception. In 1992, Russia recognized the independence of Slovenia (February 14) and Croatia (February 17) two months earlier than the United States did. Further, Moscow supported UN Security Council Resolution 757 and froze political, economic, academic and cultural relations with the Socialist Federal Republic of Yugoslavia. Three years later, Russia joined the West in developing a unified approach in the framework of the Contact Group on Bosnia and Herzegovina, which eventually led to the signing of the Dayton and Paris Peace Agreements. However, with the beginning of the full-scale NATO intervention in the Balkans, Moscow abandoned this strategy after the transatlantic Alliance bypassed the UN Security Council and launched a military attack. The decision to dispatch Russian paratroopers to Prishtina/Priština in summer 1999 was a symbolic move by the Kremlin to its American and European partners, and signaled the diverging strategic visions for Southeast Europe.

The Second Stage could be characterized as an attempt by Russia to find a middle ground with the West and build an equal partnership in the region on the basis of dialogue and compromise. At the beginning of the 2000s, Russia distanced itself from the political issues of the region with the exception of the UN-led process on Kosovo and the Contact Group on Bosnia and Herzegovina, and put a premium on developing economic ties with South East Europe. An energy giant LUKOIL acquired a controlling stake in the Petrotel Oil Refinery in Ploiești (Bulgaria) in 1998 and a controlling stake in Neftohim and the Burgas Oil Refinery in 1999. Today the company is present in the region with more than 13 subsidiaries and 350 gas stations.³ In 2006, Russia was one of the first countries to recognize the independence of Montenegro. President Putin said back then: "Montenegro is a telling example. But this is not all, there is also the Kosovo problem.

³ Deliso, Christopher, Analysis: LUKoil in the Balkans (June 2016) <<https://www.upi.com/Analysis-LUKoil-in-the-Balkans/57741025101874/>>, accessed on 15.4.2019.

Together, we need to understand and to decide for ourselves what to prioritize in resolving such problems”.⁴

Another important step for Russia in establishing itself in the region was marked in 2008, when the Government of Serbia and Gazprom signed an agreement allowing the Russian company to acquire 51% of the shares in Naftna Industrija Srbije (NIS).⁵ Moreover, Russian state-owned Sberbank purchased Volksbank International financial group in 2012, gaining presence in Slovenia, Croatia, Bosnia and Herzegovina, among others. It is managed by its subsidiary Sberbank AG with headquarters in Vienna.⁶ In May 2013 Russia and Serbia signed the Declaration on Strategic Partnership, a milestone agreement, which was preceded by an \$800 million Russian loan to Serbia in January of the same year.⁷ These actions enabled the Russian government to re-establish its once unrivalled economic presence in Southeast Europe and provide solid basis for further projects in the region.

However, after the recognition of Kosovo’s independence in 2008 and the accession of Croatia and Albania, respectively, to NATO in 2009,⁸ in addition to serious setback in the South Stream Project in 2013, Russian leadership finally got a wake-up call. Moscow realized that without substantial political backing, it would be impossible to ensure long-term economic interests in the region.

The current stance of Russia in Southeast Europe could be characterized as “soft confrontation” with the West. From the breakout of the Ukrainian conflict in 2014 and onwards, Brussels started to portray the Balkans as one of the potential strongholds for future Russian attacks in Europe. After

⁴ Путин признал независимость Черногории <https://www.gazeta.ru/politics/2006/06/13_kz_662652.shtml>, accessed on 7.4.2019.

⁵ Gazprom Leads Russian Oil and Gas Investments Abroad <<https://veles-capital.ru/en/company/media/04-05-2009>> , accessed on 13.4.2019.

⁶ Sberbank completes the acquisition of Volksbank International <<https://www.sberbank.at/press-releases/sberbank-completes-acquisition-volksbank-international>>, accessed on 13.4.2019.

⁷ Декларация о стратегическом партнёрстве между Российской Федерацией и Республикой Сербией <<http://kremlin.ru/supplement/1461>>, accessed on 3.4.2019

⁸ Without referendums, unlike in Slovenia and Hungary.

observing how European and American officials pressured local Balkan governments to change working conditions for Russian companies – notwithstanding the fact that Russian companies constitute the major source of tax revenues in those countries⁹ – the Kremlin decided to update its strategy in South East Europe. Following the events in Ukraine, Southeastern European countries followed the West’s lead regarding sanctions. Albania, Bulgaria, Croatia, Greece, Montenegro, Romania and Slovenia joined the EU and the US in implementing restrictive measures against Russia even though Macedonia, Serbia and Bosnia and Herzegovina refused to follow suit. Later on, the German government launched the so called Berlin Process, where Russia was accused of torpedoing EU activities in the Balkans. In the words of German officials, Moscow was “attaching great strategic importance to the Western Balkans and attempting to prevent the region’s further rapprochement with, or even accession to, the European Union”.¹⁰

As an immediate reaction to the failure of South Stream, Russia announced in February 2015 that it would build an alternative gas pipeline in the Black Sea through Turkey. In April of the same year, Greece, Serbia, Macedonia, Hungary and Turkey signed a declaration in Budapest on energy cooperation, thus confirming their participation in the new gas pipeline.¹¹ When the Sharena revolution broke out in Macedonia in May 2015, Foreign Minister Sergei Lavrov, in remarks to the Russian Parliament noted:

“the real motive is to put pressure on the Prime Minister [Gruevski] because of his refusal to join the sanctions against Russia. We know for certain that this pressure is also a result of his support for the South Stream project at the time when he counted on it to benefit Macedonia”.¹²

⁹ Jens Ben, The potential for growth through Chinese infrastructure investments in Central and South-Eastern Europe along the “Balkan Silk Road”, European Bank for Reconstruction and Development, Athens/London, 2017.

¹⁰ Merkel Concerned about Russian Influence in the Balkans <<http://www.spiegel.de/international/europe/germany-worried-about-russian-influence-in-the-balkans-a-1003427.html>>, accessed on 8.4.2019.

¹¹ Turkish Stream <<http://www.gazpromexport.ru/en/projects/>>, accessed on 13.4.2019

¹² Лавров: события в Македонии направляются извне, это очень тревожит, РИА-Новости <<https://ria.ru/20150520/1065507391.html>>, accessed on 1.4.2019.

With Montenegro's accession to NATO in December 2015 as well as Serbia's ratification of the Individual Partnership Action Plan (IPAP) with NATO, the situation became even more worrying for Moscow. In March 2018 after the "Skripal affair", Croatia, Macedonia, Montenegro, Romania, Albania and Greece expelled 10 Russian diplomats in total.¹³ These events have clearly demonstrated to Moscow that Russia's economic presence in the region, notwithstanding strong cultural or historical ties, cannot be sufficiently ensured without adequate political reinforcement.

Russia's Geopolitical Stance in Southeast Europe

The official Russian position in the region has been formulated by the Ministry of Foreign Affairs as follows:

"Russia is open to close cooperation with partners in South East Europe, both on a bilateral and multilateral basis. We are ready to become parties to EU projects in the region. We are certain that, working together, we can ensure healthy competition which will yield multiplicative positive results for social and economic development for the whole Balkan region."¹⁴

Taking into consideration this declared interest and growing acknowledgment of rising geopolitical rivalry in Southeast Europe, we should expect that Russian leadership will be ready to make use of its geopolitical toolkit in defending its interests – if not to increase its economic presence in the region, than in order not to lose what has been achieved in the last two decades. One of the biggest hopes of Moscow in this regard is the free trade area agreement with Serbia in the framework of the so called "Greater Eurasian Project". Serbia already has such bilateral agreements with Belarus and Kazakhstan and it intends to sign the trade deal with Russia in the framework of the multilateral accord with the EAEU.¹⁵ This might be more of a symbolic step for Belgrade – one in which Serbia could use as a lever-

¹³ Spy poisoning: Russian diplomats expelled across US and Europe. BBC (2018) <<https://www.bbc.com/news/world-us-canada-43545565>>, accessed on 11.3.2019.

¹⁴ Позиция России по конфликтам и проблемным зонам в Европе. МИД России <<http://www.mid.ru/pozicia-rossii-po-konfliktam-i-problemnym-zonam-v-evrope-situacia-na-balkanah-kosovskoe-uregulirovanie-kiprskoe-uregulirovanie-migracionnyj-krizis-i-dr.>>, accessed on 11.3.2019.

¹⁵ Serbia–EAEU: Integration Prospects in a Free Trade Area. RIAC (2018), <<https://russiancouncil.ru/en/activity/workingpapers/serbia-caeu-integration-prospects-in-a-free-trade-area/>>, accessed on 15.3.2019.

age against Brussels – but Russia is nonetheless very interested in entertaining any economic possibility that opens up in the region.

Conversely, despite strong sympathies in Russia towards the Balkans, there is no definite consensus among the elites on Russia's goals in Southeast Europe. One side of the Russian establishment supports the idea of more aggressive projection of interests by expanding military and energy infrastructure, by proving Russia's usefulness in settling entrenched political and ethnic conflicts and by promoting Russia's role as a global fighter against terrorism. On the other end of the political spectrum of Russia, however, there are plenty of those who are sceptical whether Russia should increase its influence in the Balkans based solely on the growing presence in the region. In their opinion, the wisest strategy would be to simply leave Southeast Europe in order not to get mired in the potential conflict there. The editor-in-chief of *Russia in Global Affairs Journal* Fyodor Lukyanov expressed his concern by saying: "I am afraid that something bad might happen soon in the Balkans. And for Russia it is important not to fall for the instinct to go and attempt to save someone there".¹⁶

Therefore, taking into account the regional complexity, the Kremlin acknowledges the fact that the geopolitical situation in the region cannot be described through the traditional Russia vs NATO paradigm or even by the Russia vs United States/EU paradigm alone. Indeed, in the unlikely scenario of military conflict, the main belligerent parties would be Russia and United States/NATO. In peaceful times, however, Russia has many more competitors like China, Turkey, the Arab states and others. One also has to keep in mind that the United Kingdom will undoubtedly attempt to re-establish itself economically in Southeast Europe after it leaves the European Union.

Russia's new pragmatic approach in the Balkans was quite evident during the process of North Macedonia's accession to NATO. Notwithstanding the generally negative perception of transatlantic Alliance expansion in Europe by the Kremlin, the reaction of Russian leadership was rather low-key when compared with reaction to similar NATO initiatives in Eastern Europe in the middle of 2000s. North Macedonia does not occupy a particu-

¹⁶ Лукьянов: Балканам не оставили плана "Б". Радио Вести (2018) <<http://radiovesti.ru/news/909983/>>, accessed on 17.4.2019.

larly strategic geographic position that could significantly alter the military balance in the region, nor does it have access to the sea, where Russia could potentially establish a naval presence. Macedonian politicians have rarely demonstrated any signs of good will to Moscow, notwithstanding the Kremlin's effort to utilize its political capital with the Greeks to solve their protracted name dispute. When addressing the Prespa Agreement, which cleared the way for Skopje to join NATO, Deputy Foreign Minister of Russia Alexander Grushko noted:

“Russia has always supported the process of a firm and lasting solution both for Skopje and Athens. But we couldn't help but notice the growing external influence being exerted through the imposition of artificial deadlines and conditions. However, Russia never has and never will attempt to pull strings in order to interfere in the domestic affairs of these two countries”.¹⁷

In addition to Russia's handling of the Macedonian name dispute, this demonstrates a cool-headed and pragmatic approach by Moscow toward the region. It also indicates that Russia will not pursue its anti-NATO policy in Southeastern Europe, in contrast to its strategy in Eastern Europe. On the other hand, Moscow will use its presence in the region in order to postpone the accession of the remaining Balkan countries to Euro-Atlantic institutions, and thus keep Brussels and Washington as far as possible from Russia's Western borders.

The European Union

When one critically examines the current geopolitical ambitions of Moscow and Brussels, it seems that there is no better place than the Balkans to kick-start the rapprochement between Russia and the EU. But due to numerous ideological contradictions in the minds of Russian and European politicians, old narratives used in entrenched conflicts in other parts of the globe re-emerge in the Southeast European context.

The “evil Russian factor” in the Balkans, that is being increasingly promoted in the European media, has extremely harmful potential for relations

¹⁷ Александр Грушко: Россия хочет видеть Балканы территорией безопасности Российская Газета (2018), <<https://rg.ru/2019/03/05/aleksandr-grushko-rossiia-hochet-videt-balkany-territoriej-bezopasnosti.html>>, accessed on 8.4.2019.

between Moscow and Brussels.¹⁸ After the breakout of the Ukrainian conflict as well as the so-called “Russiagate” scandal in the United States, European politicians are now seeing traces of Moscow’s influence everywhere in the region. While this hysteria has helped Russia a great deal to create an effect of “omnipresence” in the Balkans with almost no efforts on Moscow’s part, it still undermines Russian national interests in the region in the long term.

Russia does not see itself competing directly with the EU in South East Europe, whereas Brussels does see Moscow as a rival in the region since it does not want to tolerate Russian presence in the countries the EU wants to expand to. “If you want to accede to the EU, you have to decide whether you to be in the FTZ with Russia or with us; you either join us in sanctions against Moscow or you stay out of the EU” has been a recurring narrative in the negotiations with Southeast European countries.¹⁹ In these circumstances Russia has no choice but start thinking about its counter-strategy against the European Union if it wants to defend its economic interests there successfully.

When it comes to possible cooperation with Europe, one could argue that Moscow has been quite successful at positioning oneself as a defender of ethnic minorities in the region and promoting human rights in South East Europe. Russia has traditionally supported Christian Orthodox communities in the region, especially in Prishtina/Priština-Belgrade dispute. Russian energy projects also go hand in hand with Europe’s aspiration to improve the regional economic and ecological situation by replacing the local coal-based industry with more eco-friendly natural gas.²⁰ Finally, both Moscow and Brussels are equally concerned about the spread of radical Islam, drug-trafficking and cross-border crime which spiked after former ISIS fighters

¹⁸ Do the Western Balkans face a coming Russian storm? European Council on Foreign Relations <https://www.ecfr.eu/page/-/ECFR250_do_the_western_balkans_face_a_coming_russian_storm.pdf>, accessed on 1.4.2019.

¹⁹ Juncker plan for Balkans 2025 included a point where EU expressed its discontent with Serbia’s reluctance to join sanctions against Russia.

²⁰ Smith, Mark *Russian energy interests in the Balkans*. Defence Academy of the United Kingdom, Advanced Research and Assessment Group, 2008.

started to return to their home countries.²¹ All the aforementioned areas offer numerous possibilities for cooperation on a broader pragmatic basis even if political misunderstandings persist in other areas.

At the same time Russian leadership acknowledges the fact that the accession of Southeast European countries to Euro-Atlantic institutions is almost inevitable, which means that Moscow is bound to start negotiations with the EU regarding political as well as economic reassurances for its presence in the region. However, one of the major impediments in this process is Moscow's view that increasing US involvement will undermine Brussels' independence in the Balkan matters. Moscow considers the de facto interconnection between accession processes to EU and NATO to be harmful and dangerous in the long term. The large Serb community in Montenegro has been predominantly against NATO accession but the prospects of the EU accession mitigated the immediate political fallout.²² But what could be the long-term consequences of such a decision if Montenegro does not join the EU in the foreseeable future? After all, there is no official declaration that accession to the North Atlantic Treaty Organization increases one's chance for joining the EU. Or is there a connection after all? Why in this case, Mr. Juncker or Mr. Stoltenberg officially state that?

In sum, Russia does not regard the EU as a principal rival in the regional context, which gives the European Union the opportunity to mitigate the existing geopolitical rivalry in Europe instead of portraying the Balkans as a Russian stepping-stone in destabilizing the whole continent. However, if the EU continues to push the Balkan elites to make choices in the paradigm of "You're either with us or with them", Moscow will be forced to choose a different, and a more aggressive, stance towards Brussels.

²¹ Italy on Alert Over Jihadist Threat From Balkans. *Balkan Insight* <<https://balkaninsight.com/2015/03/06/italy-on-alert-over-jihadist-threat-from-balkans/>>, accessed on 8.4.2019.

²² Molchanov, Mikhail. "Russian-European relations in the Balkans and Black Sea region: Great Power identity and the idea of Europe." (2018): p. 679-680.

The United States

“We ignore this region at our own peril”, said the former Vice President of the United States John McCain in his article in the Washington Post, which he published in April 2017 after doing a tour of seven Balkan countries earlier that year.²³ The United States is indeed trying to find a new *modus operandi* for its presence in the region under the new administration. This is mirrored in U.S. President Donald Trump’s statement at the Three Seas Initiative Conference in Poland in July 2017, where he said: “the region has special significance to me personally since my wife Melania is from Slovenia”.²⁴

The current administration, however, realizes that American presence in the region could be utilized to solve various issues at once both in the regional context and beyond. South East Europe is important for the United States since it gives NATO new opportunities for extensive enlargement. It was made possible after the idea of the “Russian hybrid threat” took off, which became a very convenient instrument for coercing states of the region into joining transatlantic alliances. This region will also represent an additional bargaining chip in domestic American politics especially with the upcoming presidential elections in 2020.²⁵

Taking into consideration that the United States has twice used military force against Russia’s closest allies²⁶ in the region in the last twenty five years (in 1995 and 1999), the Kremlin’s perception of America’s presence in South East Europe has not been very positive, to say the least. The regional security architecture that emerged thanks to U.S. involvement in the Balkans in the 1990s has been extremely fragile due to the numerous frozen conflicts and unsolved political grievances. The political situation is

²³ The Balkans are heating up again — and Washington is nowhere to be seen. The Washington Post <https://www.washingtonpost.com/news/democracy-post/wp/2017/04/27/the-balkans-are-heating-up-again-and-washington-is-nowhere-to-be-seen/?noredirect=on&utm_term=.d6faac6992d0>, accessed on 3.4.2019.

²⁴ Remarks by President Trump at the Three Seas Initiative Summit. Whitehouse.gov. 06.07.2017. <<https://www.whitehouse.gov/the-pressoffice/2017/07/06/remarks-president-trump-three-seas-initiative-summit-july-6-2017>>, accessed on 1.4.2019.

²⁵ Ibid.

²⁶ Serbia and Republika Srpska.

becoming even more unpredictable, as new players like China, Turkey, Saudi Arabia are increasing their presence there.

Russia's assessment of the United States' current plans in the region could be summed up as follows: create additional leverage on Western European countries; consolidate the South Eastern flank of NATO; come up with an alternative to Turkey in Europe; and contain Russia and China.²⁷ There are also two tactical issues that have particular significance to the United States in the Balkans: countering the Russian "hybrid threat" and blocking cyber activities in South East Europe. Against this background, the U.S. government is expected to focus on the following tracks:

- Obstruction of Russia's energy activities in the region by developing alternative oil and gas infrastructure and stalling the Turkish Stream project;
- Anti-access and area denial to Russian military by decreasing number of "undecided" members towards NATO;
- Soft power projection, undermining Russian cultural and cultural attractiveness by promoting alternative historic narratives

In order to achieve these goals the United States will attempt to intensify the integration process of South East European countries into Euro-Atlantic structures, which will be implemented through pressuring local elites in candidate countries (e.g. Northern Macedonia). In the coming years, the U.S. is also most likely to intensify its activities in Serbia and Bosnia and Herzegovina where Washington is concerned about "pro-Kremlin" political forces, which insist on preserving historic narratives connected with Russia and pan-Slavism in general. The United States financed respective programs in the volume of \$800 million in order to exclude these forces from the regional political arena in the foreseeable future.²⁸ Against this background, media campaigns spreading news about

²⁷ США на Балканах: эволюция присутствия, приоритеты, перспективы <<https://russiancouncil.ru/activity/workingpapers/ssha-na-balkanakh-evolyutsiya-prisutstviya-prioritety-perspektivy/>>, accessed on 18.3.2019.

²⁸ Congressional Research Service Serbia: Background and U.S. Relations <<https://crsreports.congress.gov/product/pdf/R/R44955>>, accessed on 8.4.2019.

“Russian interference”, like the one in Montenegro, will be one of the primary instruments of American soft power in the region.²⁹

As far as the military aspect of Russian-American relations in the Balkans is concerned, we could argue that the United States could utilize the anti-access and area denial (A2/AD) strategy against Russian military forces, especially taking into consideration the increased Russian military presence in the Middle East which could potentially be used in the Balkans. Accordingly, the United States insisted on inviting Montenegro to join NATO as early as possible in order to deny Russian naval presence in the Adriatic Sea.³⁰ Further, American and Russian military industrial complexes are finding themselves competing for the markets in the Balkans. For instance, Serbia, which has implemented the Individual Partnership Action Plan with NATO for two years now, not only participates in joint military exercises with the United States military forces, but also procures American military equipment.³¹ At the same time, Belgrade has been a traditional customer of Russian MiG-29 fighter jets, Mi-35 and Mi-17 helicopters, T-72 tanks, and combat reconnaissance vehicles BRDM-2.³² Thus far, the United States has not expressed concerns about Russian military equipment in the Serbian army but Washington has been quite negative about the S-400 deal between Russia and Turkey;³³ this might also be a signal for Belgrade to reconsider its stance towards cooperation with Russia. And even though Serbia positions itself as a neutral country, it is still not clear how this status-quo will be influenced by its ongoing cooperation with NATO.

In regard to the energy sector, it should be noted that Exxon Mobile has been very active in trying to obtain rights for shelf development off the

²⁹ Bajrović R., Garčević V. & Kraemer R. *Hanging by a Thread: Russia's Strategy of Destabilization in Montenegro*, Foreign Policy Research Institute, (2018), <<https://www.fpri.org/wp-content/uploads/2018/07/kraemer-rfp5.pdf>>, accessed on 10.4.2019.

³⁰ Tromp, N. “Montenegro and NATO membership: An achievement and a risk?” (2017), p.14.

³¹ The first military drill “Double Eagle” took place in November 2017.

³² Bechev, Dimitar. “Russia’s Influence in Southeast Europe.” *Russian analytical digest* 6.226 (2018).

³³ US warns Turkey over Russian S-400 missile system deal <<https://www.bbc.com/news/world-us-canada-47809827>>, accessed on 11.4.2019.

cost of Cyprus, where considerable amounts of natural gas were discovered in 2018.³⁴ If this project proves to be successful, America could become a competitor for Russian energy projects in Southeast Europe, creating grounds for new competition in the region.

When it comes to possible cooperation, it must be emphasized that there are several windows of opportunity for common cooperation in fighting illegal migration, organized crime, and terrorism in the region. In 2016, the U.S.-State Department provided assistance to Serbian border control forces in the framework of the Program of Export Control.³⁵ This program envisaged new equipment, training assistance, and further measures to increase the efficiency of the Serbian border control forces. On the whole, this engagement in security affairs could prove very useful for Russian companies present in the region, as the uncertainty from the aforementioned threats will be significantly lower.

In sum, notwithstanding the U.S.-led NATO expansion in the region and Western attempts to diminish the importance of historic ties of Slavic peoples, Russia and the United States do not have directly contradicting national interests in the region. The American government acknowledges the presence of Russian interests in the region, which was indicated in the middle of the 1990s, when Moscow was invited to participate in peacekeeping missions and post-conflict regulation in Kosovo and Bosnia and Herzegovina. Moreover, since the United States' primary goal is to maximize its own influence, the Russian factor plays only a secondary role in the bigger regional perspective of Washington. Russia is also not interested in intensifying geopolitical rivalry with the United States in Southeast Europe since possible advantages from avoiding this clash in the regional context clearly outweigh bigger geopolitical drawbacks that might arise in case of further escalation between Moscow and Washington. Russia is therefore most likely to pursue an extremely cautious policy in the Balkans so as not to scare off its main partner and protégé Serbia which could be Moscow's diplomatic Trojan horse in the West and in NATO in particular.

³⁴ Turkey conducts largest naval exercise, Reuters (2019) <<https://www.reuters.com/article/us-turkey-security-drill/turkey-conducts-largest-naval-exercise-idUSKCN1QH26M>>, accessed on 14.3.2019.

³⁵ Serbia-U.S. Export Controls <<https://www.export.gov/article?id=Serbia-U-S-Export-Controls>>, accessed on 4.4.2019.

Turkey and Arab States

Russia and Turkey have fought numerous wars in the Balkans throughout history which were followed by an equal number of peace negotiations. Notwithstanding the recent turbulence in bilateral relations, Turkey has been a key partner for Russia in the Middle East and beyond. Generally, Russia sees Turkey's agenda in South East Europe as positive, since it shares many goals towards other key global players in the region. Firstly, Russian and Turkish interests align in promoting the Turkish Stream project in the Balkans, which in turn serve to counter the energy projects of the United States and other actors. Secondly, given Turkey's critical stance towards NATO's presence on Turkish territory, Moscow and Ankara could work together on potential containment of NATO military build-up in the region. Moreover, Russia and Turkey could also find common ground on influencing the European Union by capitalizing on the refugee issue, given Ankara's and Moscow's military and political presence in the Middle East.

However, taking into consideration Ankara's recent efforts to establish itself as a leader of the Muslim world, the Kremlin has become quite cautious about Turkey's increasing presence in South East Europe. Moreover, Turkey is actively lobbying for Bosnia and Herzegovina's accession to NATO, which is not particularly well received in Russia. Together with Saudi Arabia, Turkey financially supports Muslim communities in the region in order to advance a specific vision of Islam in these countries. At the same time, this suppresses the "pro-Serbian" Orthodox agenda in the region, which is fuelling frozen ethnic and religious conflicts.³⁶ Turkey and the Arab Emirates are also present in building critical infrastructure in the region, such as the Kosovo-Albania motorway,³⁷ which has been criticized by Moscow as dangerous.

The continuing Turkish presence in the region is a crucial asset for Russia, since Ankara allows Moscow to carry out projects which it would not be able to implement otherwise. After the South Stream project failure, Turkey was extremely cooperative in developing an alternative energy route in

³⁶ Shay S. *Islamic Terror and the Balkans*. Routledge, (2017). P. 231.

³⁷ Albania-Kosovo Highway Project <<https://balkaninsight.com/2014/04/23/albania-kosovo-highway-costs-soar-to-2-billion-euro/>>, accessed on 4.4.2019.

the region, despite a recent accident with the downing of a Russian fighter jet. Russia and Turkey could also position themselves as “suppliers of security” in the region and guarantors of stability due to their significant presence in the Middle East, which constitutes the major source of instability for Southeast Europe. Moreover, cooperating with Turkey could help Russia implement its complex and inclusive strategy of promoting cooperation with Muslim communities in the region, with which Ankara has strong and long-standing ties.

In sum, Turkey could be considered as one of the major partners of Russia with minimal conflict potential and significant historical experiences of cooperation in the region. Ankara and Moscow should focus on providing security and stability in the region, which will be backed by economic and energy projects in addition to a solid basis of cultural and sociocultural ties.

China

As a result of the declared Strategic Partnership between Moscow and Beijing, cooperation between Russia and China in South East Europe is of vital importance to the Kremlin. China gradually started to increase its economic presence in the region in the beginning of 2010, but it still lacks an understanding of the political situation on the ground, which is why it needs reliable partners to acquire necessary contacts and expertise in regard to South East Europe. Thus, the now famous One Belt One Road Initiative, apart from increasing the transit potential of the South East Europe, will also be aimed at expanding Chinese political influence in the region.

In recent years Chinese companies have invested large sums of money into the transport systems of Serbia and Montenegro.³⁸ In Greece, China obtained a controlling stake in the Port of Piraeus (51%), which caused serious concerns in the West.³⁹ In order to counter China’s increasing influence, the United States has been supporting Japanese soft power initiatives in the region. The Japanese Ministry of Foreign Affairs has created the post

³⁸ Serbia: China’s Open Door to the Balkans (2018) , <<https://thediplomat.com/2019/01/serbia-chinas-open-door-to-the-balkans/>>, accessed on 14.4.2019.

³⁹ Tonchev, Plamen. “China’s Road: into the Western Balkans.” EUISS Policy Brief (2017), p. 14.

of special Representative for the Western Balkans while Japanese companies have significantly increased their investments in energy, pharmaceutical industry and agricultural spheres of Serbia.⁴⁰

However, Russia is not necessarily looking for a complete alignment of its interests with China in the region, since, as it was mentioned earlier, the Kremlin does not have critical national interests in the region. This is why South East Europe is likely to become a bargaining chip in the greater geopolitical calculus of multilateral “Russia-West-China” competition. Depending on the specific sphere and situation, Moscow will be ready to go for Chinese initiatives or Western ones. However, today’s geopolitical situation is rather favourable for cooperation with China since it does not have a historic presence in the region, and Russia can be a provider for it. In turn, China could provide financial support for Moscow’s project in the region, not to mention the additional profits the Russian companies will get when the Silk Road Initiative reaches Southeast Europe. As long as the EU continues to portray the situation in the region through the lens of confrontation with Russia, instead of trying to counter growing Chinese economic dominance in the Balkans together with Moscow, the Kremlin will be more inclined to side with Beijing rather than attempt to seek rapprochement with Brussels.

Concluding Remarks

More often than not, the Balkan countries do not demonstrate any particular political loyalty to the Kremlin, choosing the West as their main partners, making Russian leadership more cool-headed in determining the region’s role in its geopolitical calculus. Moscow is most likely to include South East Europe in the framework of the Russia – West paradigm, or even Russia – West – China geopolitical paradigm, rather than try to develop an independent strategy towards the region. Russia’s economic interests will remain as the guiding principle of the Moscow’s agenda but with more political backing where necessary. The current, exclusive approach of dividing countries in the region into “friends and foes” under the pretext of

⁴⁰ Japanese PM Announces Western Balkans EU Initiative, <<https://emerging-europe.com/news/japanese-pm-announces-western-balkans-eu-initiative/>>, accessed on 15.3.2019.

“strategic partnership” relations, jeopardizes both Russian interests in the region as well its allies in the region, since it shrinks Russia’s possibilities for cooperation with other “non-strategic partners” and undermines political authority of “strategic ones” in the eyes of the West. Therefore, we can expect that Russia will replace this approach with a more comprehensive and inclusive strategy in the foreseeable future. With its hands untied, the Kremlin will choose whether to align its efforts with Western partners or Asian ones dependent on the specific situation. However, if the EU and the United States do not abandon their belligerent rhetoric of the “Russian hybrid threat” etc. in Southeast Europe, Moscow will be bound to choose Beijing and Ankara to implement its regional strategy and preserve its national interests.

**PART II:
EXTERNAL IMPACT ON POLITICS, SOCIETY
AND SECURITY IN SOUTH EAST EUROPE**

External Impact on Politics, Society and Security in South East Europe – a Perspective from Bosnia and Herzegovina

Denisa Sarajlić

Recent debates about external influences in South East Europe are based on an assumption that the declining role of the United States (U.S.) and a weaker role of the European Union (EU) have left a vacuum, which other foreign actors might try to fill in. This perception is further exacerbated by regional politicians who threaten to seek alternative partnerships with Russia, Turkey or China. However, this paper argues that there is not real vacuum – political or economic – that the EU remains the main political partner for Bosnia and Herzegovina (BiH), as well as the largest investor, main trading partner and the largest donor. The role and influence of Russia, Turkey, China and the Gulf States in BiH is growing, but it is still incomparable to the role and influence of the EU and its member states individually. None of the four external actors have a strategy towards South East Europe, although their policies are becoming somewhat more deliberate. This paper therefore examines the influence of each actor according to two criteria: how good or bad intentioned they are, and what is their capacity to destabilise BiH. The main suggestion is that the EU still has the biggest competitive advantage in the region both in terms of its political and economic role, and that it needs to engage more in order to make the most of the advantage it has, before the gap between the EU and other actors narrows down. In doing that, the EU may consider engaging more constructively with some of the actors, such as China in order to create a momentum for positive change through improvements in infrastructure and investments. At the same, the obvious caveat is that domestic actors continue to be a greater threat to stability of the region than external actors by themselves. The danger from external actors comes from their willingness or ability to mobilise domestic actors and use them as proxies against the EU and NATO, while some political elites might see opportunities to benefit from investments and infrastructure projects that are not bound by EU rules.

Russia

Five years ago Russian policies in the Balkans were an undefined, but looming threat, whereas now Russia has a deliberate policy which is delivered in different ways across the Balkans. But it is still short of a strategy. Russia has suffered a number of blows in the Balkans in the last couple of years – namely, the success of the Prespa Agreement, Montenegro’s NATO accession, and the likely failure of an attempt to change borders between Serbia and Kosovo. The lack of adequate support for the South Stream project can be seen as another loss in an attempt to expand Russia’s influence on a wider scale that would have included the Balkans.

With all that in mind, and given Russia’s modest economic influence in comparison to the EU, but also in comparison to Turkey and now China too, Russia will resort back to its soft power in order to play on the existing divisions and fears throughout the region.

As argued in some previous papers,¹ Russia primarily uses the Balkans as a terrain, as a playground for a larger game that it plays against the EU and NATO, and its goals in the Balkans are of secondary nature. Some call this region Russia’s battleground,² or as Federica Mogherini called it – the chessboard for the big power game.³ To that regard, Russia’s tactics are twofold – on one hand, to annoy and distract the EU – i.e. it is a game-spoiler; and on the other hand, to slow down the EU and NATO accession of Western Balkan countries by further destabilising the already weak states and democracies – i.e. keep them as far away as possible from its borders. It uses instruments like state-capture, boosting nationalist feelings and nationalist politicians, and exploiting the existing grievances and divisions inside the countries.

The question is whether Russia’s more deliberate policy makes it also more strategic and systematic – and ultimately, successful. I would argue not. In

¹ Denisa Sarajlić, contributions to the paper series of the Study Group “Regional Stability in SEE” 2018, and 2017.

² Galeotti, Mark. “Do the Western Balkans face a coming Russian storm?” – April 2018 – ECFR/250.

³ Ibid.

the battleground which Russia itself created against the EU, it has already suffered losses in two of its campaigns – first in Montenegro, then in Macedonia too. Its influence on Greece has significantly decreased too following Russia’s attempts to thwart the Prespa agreement. The failed attempt to divide Kosovo could also be added to this list of losses. That said – Russia is far from defeated, and to paraphrase a Balkan saying – one should fear more an animal that is already wounded. Now that Russia failed to replicate its successful attempt of influencing the U.S. elections in some European countries, it may turn more strongly to the remaining opportunities in the Western Balkans. For that, it may turn to other players that may be willing to play along – some more natural partners, like Turkey; and some less obvious, like Croatia. However, those partners have limited interest in playing the Russian game too far, each being a member of NATO.

As reported by the European Council on Foreign Relations and other think-tanks, the Balkans have become a responsibility of the secretary of the Russian Security Council, Nikolai Petrushev,⁴ who reports directly to Putin. It has been argued that for Russia’s policy toward the Western Balkans to become more deliberate, it had to have a focal point, and to be ‘personalised’. Since then, each country has witnessed examples of direct interference by Russia in its internal affairs. Another proof of Russia’s more deliberate approach is the fact that campaigns it initiated to destabilise different countries can all be attributed to another individual – Russian billionaire Konstanti Malofeev, who is claimed to be behind the attempts to destabilise Montenegro in 2016, and the visit of tens of Cossacks to Republika Srpska (RS) prior to the elections in BiH.⁵

Although less systematic, Russia’s approach in the region is more flexible than that of the EU, and that gives it some advantage – Mark Galeotti calls it an “ad hococracy”.⁶ The EU’s accession process as key instrument for dealing with all countries in the Balkans is famous for its rigidity, which sometimes leaves policy gaps which Russia opportunistically seizes against our countries and against the EU. The EU tries to compensate for the rigidity of the accession process through initiatives such as the British-German

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

initiative, the Berlin process, the connectivity agenda, and various thematic summits – but in spite good intentions, all of that has not been enough to draw Balkan leaders away from their nationalistic agenda. While the weak and unstable democracies are an impediment to the EU accession process, they are an opportunity for Russia, whose approach significantly relies on exploiting the internal weaknesses, fault lines, divisions, and instabilities in each Balkan country.

One of the weaknesses in Russia’s approach that could be taken advantage of by the West is the view of things mainly in terms of a ‘zero-sum game’. The application of that approach can be more or less successful, depending on the circumstances in each individual country. In countries in which divisions are more straight forward (e.g. Macedonia – for or against name change; Montenegro – for or against NATO), the tactic is more applicable, especially if a country is also an example of state-capture. In such circumstances, it is easier for Russia to play one side against the other, or to find partners in local elites who are ready to be their pawns. In Bosnia and Herzegovina, that game is somewhat more difficult to play as the interests are multi-layered and multi-dimensional.

Bosnian Serbs led by Milorad Dodik have been playing the card of historical and religious ties with Russia, building and sustaining an emotional narrative of mutual affinity and closeness. As I argued before, Dodik recognised that President Aleksandar Vučić tries to balance between the EU and Russia, whereas Dodik is free to play the Russian card as the risks are smaller for him.⁷ Bosniac leaders are not *apriori* against building ties with Russia, especially on the economic front. However, that aspect of the relationship between two countries has been limited to some projects in energy (mainly based in the RS), banking, and small quantities of agricultural exports to Russia. HDZ (*Hrvatska demokratska zajednica*/Croatian Democratic Union) has jumped on the wagon of Croatia’s ever-closer relations with Russia stemming from the fallout of Agrocort and Russia’s growing influence in Croatia through Sberbank, and its dependence on Russian gas. The Russo-Croatia partnership coincides with an ever closer relationship between Dodik and Cović, so more mutual support along those lines can be

⁷ Sarajlić, Denisa. “Cooperation and antagonism in post-Dayton triangle: Unlikely coalitions and dishonest partners”, Study Group Regional Stability in SEE, 2018.

expected in future. Russia's political influence continues to be concentrated in the RS, while HDZ is become more susceptible to it as well.

This is one area then where the limitations of the Dayton arrangements can play a constructive role as they prevent any side to take decisions which would put the country as a whole under stronger negative influence from Russia. In other words, a full-blown state-capture by Russia is unlikely without the consent of all three sides inside BiH.

That would then limit Russia's influence in BiH to building stronger ties with the RS in a number of areas:

- Political ties – mainly through Dodik and Putin's regular photo opportunities, especially as a form of election campaign. They met at least 6 or 7 times since 2010. Dodik no longer plays the Russian card as an alternative to EU and NATO – but in fact, as his first choice – especially at the expense of NATO. His complete refusal of further accession to NATO is now more a product of Russian than Serbian influence. Russia has provided advisors in drafting a very restrictive law on NGOs in the RS, resembling the treatment of NGOs by the Russian state.⁸ And that is only one of the ways in which the RS is looking into Russia in strengthening the semi-authoritarian government. Russia continues to support the RS in international venues, primarily in the UN Security Council by opposing policies of the Western countries during the annual report of the High Representative Valentin Inzko.
- Economic ties, but they are dubious. Investment projects concentrated the energy sector and they are still modest in comparison to other countries in the region (approximately 815 million Convertible Marks/KM in total). However, the Agency or Promotion of Investments of BiH and the auditors' office reported losses of around 55 million over the past 2-3 years by Zarubežnjeft.⁹ The question is where the difference in gains and losses goes, as it is seen by many as an exercise

⁸ Dümmel, Dr Karsten. Chapter on Bosnia and Herzegovina in "The influence of external actors in the Western Balkans", Konrad-Adenauer-Stiftung, 2018.

⁹ <<https://www.oslobodjenje.ba/vijesti/ekonomija-i-finansije/ruska-ulaganja-u-bih-kako-su-dospjela-u-minus-350844>>.

- in creative bookkeeping. Most of Russian promises of loans never realised, while it has been somewhat more successful in the banking sector through Sberbank that took over a significant share of the market through the purchase of Volksbank. Bosnian markets and Bosnian shoppers are turned to European markets and produce, and in spite of Russia's big promises of investments and trade, those ties will remain limited.
- Cultural ties – this includes fairly benign projects like academic exchanges, but also more robust like the building of an Orthodox Church in Banja Luka in the honour of Tsar Nikolai II, who supported Serbia during World War I. As argued by Dimitar Bechev,¹⁰ Russia's image as a counterweight to the West maintains its popularity among the Serb population in the RS, but the question is how far they can pursue a policy based on the positive image alone.
- Military ties – less open, and limited by the fact that defence is the responsibility of the state of BiH, but worrying nonetheless. Russia has continued to supply Republic Srpska with different weapons and small arms, which is becoming more of a concern following the recent legal changes in the RS allowing the formation of reserve police units. Dodik also announced joint military exercises with Serbia by RS units in the BiH Armed Forces, which would be against the BiH Law on Defence. Cooperation at the level of police forces, on the other hand, has been growing and Russia has provided training for police officers from the RS both in the RS and in Russia. Russia has provided the RS police forces anti-aircraft missiles and relevant training.¹¹

What can be expected of Russia:

- To continue to create trouble and attempt to create crises if and where opportunities arise. Russia's meddling in the US elections showed that even the big players are vulnerable to that kind of interference, so the

¹⁰ Bechev, Dimitar. "Understanding Russia's influence in the Western Balkans", Strategic Analysis, The European Centre of Excellence for Countering Hybrid Threats, September 2018.

¹¹ Stronski, Paul and Himes, Annie. "Russia's game in the Balkans", Carnegie Endowment for International Peace, February 06, 2019.

states which are less stable and less resilient could easily fall the victim to a similar campaign. On top of that, BiH is also divided along ethnic and political lines, which creates more opportunities for Russia to exploit those rifts and existing grievances, and especially fears between different ethnic groups.

- Continue to boost nationalists – as it did to a different degree in many other countries. BiH is more vulnerable to that due to the fact that nationalism is the dominant force in politics and society, and integral to the constitutional structure.
- Slow down NATO accession of BiH – the stakes are even higher now that BiH has been offered to activate the Membership Action Plan (MAP), and the pressure on the RS from Russia is stronger than before. Since he got elected into the BiH Presidency in October 2018, Dodik has put most of his political chips on delaying the MAP activation. There is some hope that a compromise solution was found by president Erdoğan during the BiH Presidencies' visit to Turkey, but Dodik has since denied such possibilities.
- Mark Galeotti argues that it is in Russia's interest to have more unstable states inside the EU in order to weaken it further politically and financially, and also in order to have more Russian allies inside the EU. This may seem logical, but after the Berlin Summit in May 2019, the European perspective of the Western Balkans seems even further away, so it would be hard to imagine this to be Russia's Balkan strategy towards the EU. It is more likely to continue to support domestic actors which delay or undermine the EU and the accession process. This will much depend on which side Vučić turns to eventually. Although Dodik plays the role of Russia's proxy in the Balkans, he still relies on Vučić's approval. Dodik's new position in the Presidency of BiH provides him with a formal platform for even closer cooperation with Vučić, which he used to its fullest by meeting Vučić in Belgrade almost on a weekly basis. If Vučić decides to balance his disappointment with the EU after the Berlin Summit by turning to Russia, that will certainly reflect even more strongly on Dodik's pro-Russia stance.

- Russia is likely to exploit and manipulate the media by creating fake news, spreading misinformation and creating narratives against the EU and NATO, especially in the RS. Government sponsored media in the RS have been particularly prone to distribute material created by the *Sputnik* news agency based in Belgrade.
- Linked to that is Russia's perceived advantage in fighting cyber wars against the EU, NATO and individual countries in the West. Russia has deployed similar tactics to exacerbate the crises in Macedonia, Serbia and Kosovo, and most likely in BiH too, without much awareness among the public.
- Support the police and paramilitary forces in the RS, such as "Srbska čast"¹² and Veterans of Republika Srpska through trainings in Serbia by Russian officers and through networks such as the Russian Advisory Committee of Organisations of Reserve Officers that includes many far-right groups.¹³ Some authors claim that individuals from this group have personal connections with the Russian military, and that they may be used in intimidating opponents.¹⁴
- It will try to fill any little void left by the EU and U.S. in the Balkans, and Bosnia in particular.

China

China has started to look more closely into BiH only recently, but since then its presence has been rapidly growing. Whether that presence is yet translating into influence is questionable, particularly since on the economic front BiH is still turned largely towards the EU, and the cultural and political links between the two countries are very weak. China also does not seem to have a clear strategy towards BiH itself, but its policy in this coun-

¹² <<https://zurnal.info/novost/20919/zasto-humanitarni-radnici-vjezbaju-gadanje-u-vojnomo-centru-u-nisu>>.

¹³ Stronski, Paul and Himes, Annie. "Russia's game in the Balkans", Carnegie Endowment for International Peace, February 06, 2019.

¹⁴ Dümmel, Dr Karsten. Chapter on Bosnia and Herzegovina in "The influence of external actors in the Western Balkans", Konrad-Adenauer-Stiftung, 2018.

try is more a reflection of its wider agenda to counter-balance the United States and to spread a different world view globally. Moreover, China's role in BiH is a product of a multidimensional game played among a number of big players.

China's role in BiH is often viewed from two opposing perspectives – either with great enthusiasm, or with great scepticism. Balance is hardly every struck, except for the governments in BiH in whom China seems to have found supporters across all political parties – and that in itself gives it a rather unique role and position. Denis Zvizdić, still acting Chairman of the BiH Council of Ministers, had six meetings with the Chinese Prime Minister Li Keqiang and other high-ranking officials in the period between 2015-2019, and his predecessor Vjekoslav Bevanda and his advisors were also frequent visitors in China. The previous Serb member of the BiH Presidency Mladen Ivanić was also very supportive of building relations with China, and so is the Government in the RS.

China's projects have been rolled out mainly within the framework of the Belt and Road Initiative, which is seen among the elites as a unique opportunity, mainly for infrastructure projects. The main projects so far are the Stanari thermal power plant in the RS, the thermal powerplant in Tuzla and Zenica, and a couple of highways (one in each entity). China's biggest shipping company COSCO recently opened offices in BiH.

Some advocates of the Belt and Road Initiative use the EU's perceived institutional weaknesses and burdensome procedures in order to support the vision of China in the region as a more robust and reliable partner.¹⁵ Their argument is exactly that which the EU fears most when it comes to China's role in the region – that Chinese projects are not bound by requirements that are otherwise placed by the EU in terms of transparency, competitiveness and concerns for the environment. The main case in point is the recent approval by the Parliament of FBiH of plans to build Block VII at the Thermal Power Plant in Tuzla through a Chinese loan of 722 million Euro and with Chinese companies – much to the EU's disbelief and disdain, although this initiative has been in pipeline for a number of

¹⁵ Mardell, Jakob. "China's Belt and Road Partners Aren't Fools", *Foreign Policy*. May 1, 2019.

years. In spite the EU's warning that the project would go against a number of commitments BiH already made towards the EU in the areas of energy policy, environmental protection and competitiveness, the FBiH Parliament gave the project the long-awaited go-ahead. The fact is that the lending terms by China are more favourable and easier to access than those of the World Bank (WB), or the EU through its projects. Some argue that this creates debt-dependency¹⁶ with the 14% of BiH total foreign debt being owned to China,¹⁷ but the question is how different that is from the dependency on loans from the WB, International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD), etc.

Some authors argue that the growing relationship between BiH and China will be at the expense of the country's relations with the EU. But that may not necessarily be true. It could also be argued that China seeks access to the Balkans only as it is *en-route* to Germany, which is the actual desired destination for future investments.¹⁸ Germany and other European countries have encouraged connections that would be built through the Silk Road initiative, while EBRD has sought convergence with the Chinese projects in the Balkans. In 2017, EBRD commissioned a report that examines the Belt and Road Initiative in the Western Balkans.¹⁹ Although the report warns against creating a debt dependency on China among the Western Balkan countries and a possible lack of transparency in implementing large-scale infrastructure projects, it nonetheless recommends that the EBRD takes a proactive approach to ensure that the standards are maintained and that "the maximum benefit can be drawn from China's ambitious project". The report recommends a win-win solution – combining the EBRD's regional know-how with the Chinese financial resources, with a view of transforming the Balkans. One such opportunity may be arising in the construction of a highway through BiH, where both the

¹⁶ Crosby, Allan. "Chinese Fireworks Seem to Ring in Creeping Balkan Influence", Radio Free Europe. March 30, 2019.

¹⁷ Munich Security Report 2019, "The Great Puzzle: Who Will Pick Up the Pieces?", Munich Security Conference 2019.

¹⁸ Karnitschnig, Matthew. "Beijing's Balkan Backdoor", Politico. July 13, 2017.

¹⁹ Report prepared by Dr Jens Bastian for the European Bank for Reconstruction and Development (with funding from the Central European Initiative), Athens / London, July 2017.

EBRD and China might be contributing through financing/building parts of the road on the southern route toward Croatia.

In 2018, a report published by the Vienna Institute for International Economic Studies (wiiw) said that Chinese investments could increase the GDP of BiH by 10%, and that “the investments would reduce transport times, diversify the region’s economic structure, improve inter-regional cooperation, and improve trade relations”²⁰ But such viewpoints do not seem convincing for the EU officials like Johannes Hahn, who is concerned about the long-term risks for the Western Balkan economies and thinks that “the safest and most effective way to deal with China is via the EU”.²¹ The 2019 Munich Security Conference report also issues a strong warning against the Chinese investments and loans in the Balkans, on the count of “debt-trap diplomacy”, lack of transparency and a risk of political influence further down the line.

Over the past five years, the BiH exports to China increased by 5 times, from being almost negligible to 38 million in 2017, while imports from China are the fifth largest after Germany, Italy, Serbia and Croatia, amounting to 991.29 million KM – double the amount that was imported in 2012.²² BiH and China have established a bilateral visa free regime, and the number of tourists from China almost doubled in 2018 compared to 2017 registering 52.556 visitors in the first 10 months only.

China’s presence in BiH is growing, but is not yet translating into political or economic influence on domestic or regional affairs relating to BiH. That is not to say that it will not in future. So far, China’s policy in BiH remains a by-product of its global strategy and it can be expected that China’s political positions on individual issues in BiH will not be driven so much by its investments or relations with BiH governments, but rather in response to the positions of the U.S., EU and Russia globally and regionally. BiH itself is a small player in this global game, and it seems there is a recognition on

²⁰ “Economic Policy Implications of the Belt and Road Initiative for CESEE and Austria”, wiiw Policy Note/Policy Report No. 23, June 2018.

²¹ Crosby, Allan. “Chinese Fireworks Seem to Ring in Creeping Balkan Influence”, Radio Free Europe. March 30, 2019.

²² Agency for Statistics of BiH, BiH Foreign Trade in Goods Statistics, January-November 2018.

the part of its authorities that this leaves them enough room to build friendly relations without a huge risk for the country's relations with the U.S. or EU. However, the EU's strong reaction following the FBiH Parliament's support for building Block VII in Tuzla sets some limits to playing this double-game.

Overall it can be said that China is strengthening its relations with BiH without intending to interfere in domestic affairs, at least to the extent to which it is not playing on ethnic divisions as Russia does. What is more, strengthening relations with China seems to enjoy the support of most political parties, which is seldom the case in BiH. That in itself may be a precondition for a joint approach in re-building BiH infrastructure that is in a very poor state and a factor in slow economic development. The question is whether China's help in building infrastructure in BiH can reap more benefits than create negative consequences further down the line. The answer to that question depends on one's perspective, but also on many more factors which may not be all known at the moment. The fact is that the European Union and China are two of the biggest traders in the world, and China is the EU's second-biggest trading partner behind the United States, while the EU is China's biggest trading partner.²³ China and Europe trade on average over 1 billion euros a day – so BiH total annual trade with China equals roughly half a day's trade between EU and China. When it comes to investments – Europe's three biggest economies received the largest share of Chinese FDI in 2018, with Britain coming first (4,2 billion euros) followed by Germany (2,1 billion euros) and France (1,6 billion euros).²⁴ Put into perspective, Chinese investments and trade relations with BiH might bring the necessary boost to the economy and infrastructure development that might bring with it some positive changes in society. However, concerns about the transparency of those projects may be justified given Bosnia's poor record in transparency and high levels of corruption. So, in an ideal world, some policy convergence between China and the EU's main players would be desirable that would welcome Chinese investments in BiH with some guarantees of transparency and competitiveness. Lastly, given the EU's poor record in implementing its strategy in BiH, the question is

²³ <<http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>>.

²⁴ <<https://www.reuters.com/article/us-eu-china-fdi/chinese-fdi-in-europe-drops-investment-screening-will-cut-it-more-survey-idUSKCN1QN1T6>>.

what other players are more desirable to fill the vacuum that is slowly being created due to the country's slow accession process – the choice between Russia and China make one think of which would be the lesser of 'two evils'.

Turkey

Not much has changed in relations between Turkey and BiH over the past year, especially since the political affairs in BiH have been dominated by the elections and their aftermath. Turkey may have played a modest role in BiH by supporting some smaller parties before the elections, but their main partner remains the SDA (*Stranka demokratske akcije*/Party of Democratic Action) and Bakir Izetbegović personally. Over the past few years, Turkey has been trying to use some of its leverage over Serbia to bring Dodik to the table and the recent visit to Turkey by two members of BiH Presidency Dodik and Šefik Džaferović was the first opportunity for Erdoğan to show that he has some clout over Serb politicians. In the immediate aftermath of the visit there was some speculation that some compromise over activating the MAP was reached, but Dodik has since then denied any such possibility. He remains strongly opposed to any approximation to NATO.

Turkey is among the top ten countries to which BiH exports products – however, exports to Turkey (251 million KM) are one third of exports to Austria (756 million KM) and less than one fifth of exports to Germany (1,3 billion KM).²⁵ Serbia remains Turkey's key trading partner in the region with the total trade exceeding 1 billion U.S. dollars in 2017.²⁶ Turkey is considered the largest trading partner for BiH, but from the group of 'all other partners' – so far below our main trading partners. During BiH Presidency's visit to Turkey in May 2019, presidents Dodik and President Recep Erdoğan signed a free trade agreement, which is said to be able to boost the trade exchange up to one billion Euros.²⁷

²⁵ Agency for Statistics of BiH, BiH Foreign Trade in Goods Statistics, January-November 2018.

²⁶ <<https://www.klix.ba/biznis/privreda/koliko-erdoganova-turska-stvarno-investira-u-bih/180509051>>.

²⁷ <<http://balkans.aljazeera.net/vijesti/erdogan-i-dodik-potpisali-revidirani-ugovor-o-slobodnoj-trgovini-izmedu-bih-i-turske>>.

Overall, Turkish investment to BiH are not even among the top ten being at the level of 398,5 million KM in the period 1997-2016, while the largest investments is coming from Austria (1,3 billion KM), followed by Croatia, Serbia and Slovenia. Turkish investments are 3% of total investments in BiH. In 2017, the largest investment in BiH came again from Austria with 187 million KM, while Turkish investments were in the negative range.²⁸ Turkey's current biggest investment project is the building of the motorway connecting Sarajevo and Belgrade, which is an important political project in which Turkey managed to strike a useful compromise by agreeing to two routes through BiH so that cities in both FBiH and RS would be included. However, Turkey's actual share in the investments to this project is still unclear, but Serbian and BiH companies are said to be involved in its construction. However, this is all condition to Turkey's own poor economic situation and financial uncertainties.

Turkey seems to compensate for its poor economic influence in BiH by strong rhetoric, which Erdoğan has sustained throughout 2018 and 2019. At this stage, it is clear that this rhetoric serves only one political party in BiH – SDA – while it does not seem to reap any benefit for Turkey's position in BiH or the region, while it is certainly no good for Bosnia.

The Gulf States

The Gulf States also do not have a strategy for the Balkans or BiH in particular, and even looking at the Gulf states as a bulk would be misleading. Each state has its independent policy towards each country, and they are not necessarily always consistent. The relations with individual Gulf states and BiH have been framed mainly through two perspectives – cultural/religious, and economic. The latter has become more prominent over the past few years, with a view that greater economic influence and presence of more Arab people in BiH would yield cultural influence too.

However, this is a matter of optics rather than figures. BiH has sought visa-free regime with most Gulf States in order to draw more investments and tourists. Direct and cheap flights have been established with Doha, Dubai,

²⁸ <<http://www.fipa.gov.ba/informacije/statistike/investicije/default.aspx?id=180&langTag=bs-BA>>.

Kuwait City, with seasonal direct flights from other countries too. This has resulted in a significant influx of Arab tourists to BiH compared to previous years, creating rifts within the public and politicians on the impact their presence may have on the society. This has been further exacerbated by Islamophobic tendencies, and conspiracy theories that try to portray the image of BiH as a nest of radical Islamism. However, the figures tell a different story. In 2018, the total number of tourists from the Gulf States was 91,000 or 9.5% of all tourists that have visited BiH. So, less than the total number that comes from Croatia alone (94,000). Most tourists come from Saudi Arabia and the UAE – around 30,000 each. For comparison – the number of tourists from the U.S. in 2018 was approximately 26,000; Germany 46,000; Austria 23,000; Italy 40,800, etc. So, it is a matter of optics rather than figures. Arab tourists are more visible than tourists from the region or Europe – and also, the differences in dressing style create a perception of much larger presence than the figures actually show. Also, most tourists from the Gulf States spend large part of their holiday concentrated in and around Sarajevo, again feeding the perception that they constitute a much larger presence.

Investments from the Gulf States are mainly in the area of real estate, tourism and services. Even though most citizens of the Gulf States do not have a right to buy property in BiH unless they have a business registered, this hurdle has been overcome by a massive opening of small businesses that are used only for the purpose of enabling people to buy property. So again, slightly thwarting the picture about the actual number of investments and companies. Investments from the Gulf States have been growing, but they are still far behind European countries with investments from Saudi Arabia totalling 39 million KM in 2018, investment from UAE 27 million KM, and Kuwait 24 million KM. The largest investments come from the countries much closer geographically: Austria 187 million KM, Croatia 102 million KM and Slovenia 101,7 million KM.²⁹ So the top three countries from the Gulf in total invest less than Austria itself.

The cultural influences have been somewhat overstated too. For now and there does not seem to be much evidence of cultural or religious influences

²⁹ <<http://www.fipa.gov.ba/informacije/statistike/investicije/default.aspx?id=180&langTag=bs-BA>>.

stemming from greater presence of people from the Gulf States, with the exception of a growing number of restaurants and hotels that do not serve alcohol (which are mainly funded by Arab investments in the first place).

The West – NATO, U.S. and EU

The EU's approach to BiH is primarily a part of its regional strategy and a result of a web of interconnectedness of relations throughout the region – Croatia's relation towards BiH, Serbia's relations towards BiH, relations between Vučić and Dodik, the future of relations between Kosovo and Serbia, etc. Direct and indirect messages sent to Serb leaders (Vučić and Dodik) from the Berlin Summit held at the end of April 2019 were perceived in BiH with both indignation and appreciation. Dodik was not invited to the Summit, which may have been a symbolic message to the current member of BiH Presidency, and the current Chairman of the Council of Ministers, Denis Zvizdić, went instead. Dodik sent a furious message to the organisers protesting this decision. At the same time, the main message of the Summit was that no border changes in Kosovo would be supported by European leaders, which set off loud criticisms by the most prominent allies of Vučić. This message was largely seen in BiH as a slap on the wrist to those who meant to play the dangerous game of exchange of territories once again. Within BiH, some welcome the position of Chancellor Angela Merkel and President Emmanuel Macron to draw some red lines and not to reward those that have been stirring emotions throughout the region. However, making the prospect of membership for Serbia by 2025 less certain, worries some that without this promise in sight, Serbia might seek stronger partnerships outside Europe, and become less interested in regional dialogue. However angry and visibly disappointed, Serbian leaders have not yet withdrawn their support for the country's EU accession, but it can be expected that they will play the card of the alternative partnerships even more now.

The EU's Western Balkan strategy can thus be seen as slowing down as France under Macron's leadership takes a more prominent role. Macron has drawn his own strategy for the Balkans, and it is still not clear what changes to the region and individual countries 'Macron strategy' will bring – but it is unlikely that the push for the region's accession will be sustained.

At the same time, divisions within the EU itself are becoming more apparent – with Mogherini opening the space for border exchanges on Kosovo regardless of the shockwaves such a dangerous project would have sent throughout the region – while Merkel and Macron clearly opposed it. Such mixed messages further undermine the EU in the eyes of domestic politicians who stand ready to exploit any little weakness they spot on the part of the EU.

The U.S. has for a while now taken the back seat in the international community's role in BiH. At the time when President Donald Trump was elected, it was considered good to remain out of the U.S. radar due to the unpredictability of Trump's policies and his leaning towards the right-wing groups throughout the world. Since then, the U.S. has been sending ambiguous messages to individual countries in the region. Vice-President Mike Pence reiterated the U.S. support to countries in the region and their aspirations to join the EU and NATO³⁰ – only to be contradicted by Trump himself a year later when he questioned the possibility of the U.S. acting through NATO to defend Montenegro as one of its members. This was indeed more of a reflection of Trump's stance on NATO than on Montenegro itself, but it nonetheless resonated strongly throughout the region. Dodik and his partners have been attempting to reach out to Trump's administration in order to remove sanction imposed on Dodik in the last days of the Obama administration, but without much success.

Although the U.S. remains committed to BiH evident through its support distributed through USAID and other agencies, the lack of policy is becoming more evident and creates a vacuum in international leadership in the country.

Conclusion

The EU's new strategy for the Western Balkans has not brought much change to BiH, and the U.S. declining interest in the country is creating a leadership vacuum. The fear is predominantly that this vacuum would be filled by Russia, China, Turkey, or even the Gulf States. But, as most fig-

³⁰ Adriatic Charter Summit in Montenegro, August 2017. <<https://www.whitehouse.gov/briefings-statements/2437/>>.

ures show, the presence of those countries, although growing, is still not even comparable to the trade, investments and general presence and influence of European countries in BiH. Even when combined, the presence of those countries does not compare to that of the EU alone. Russia, China and the Gulf states do not even have a strategy towards BiH, with Turkey seemingly having the most deliberate approach towards the country, but still of limited importance.

So far, the vacuum is not being filled by those states, especially not in the political sense. In my opinion the vacuum is not really a vacuum, since the EU has maintained strong presence in the region in spite its weakened role due to the internal challenges that it has faced. The opportunities created by the EU's weaker role in BiH are rather being filled by regional and domestic politicians who have been very entrepreneurial in coming up with their own ideas on the future of the region and of BiH in particular. The lack of clear vision for the region is being filled by visions of the exchanges of territories, of new withdrawing of borders created by domestic nationalist politicians. New tactics for undermining the state of BiH are openly being deployed by Dodik and the RS Government, mainly to overturn the reforms painfully put in place with the help and support of the international community over the past 20 years. Meanwhile, politicians from Serbia and Croatia continue to feed the secessionist aspirations of domestic politicians and emphasising the already deep political and social divisions.

The EU is and remains the main player in the country. It is the biggest donor with 3,2 billion euros provided between 1991 and 2013,³¹ and it has a range of other instruments through which it provides technical assistance, know-how and funding such as the Instrument for Pre-Accession Assistance (IPA), the European Instrument for Democracy & Human Rights (EIDHR), Instrument for Stability (IfS), and community programmes. Further investments are being provided through project designated through the 'Berlin process' and the South East Europe Transport Observatory (SEETO). A survey conducted by the Regional Cooperation Council shows that the population in all countries still view EU membership favourably, with 56% believing it could happen by 2030 and 50% think it would bring a

³¹ EU Delegation website, <<http://projects.europa.ba/About>>.

positive change.³² The regional average is somewhat skewed by the figures from BiH, due to the growing scepticism towards the EU in the RS. The EU has a lot to play in its favour, and its recent support to BiH authorities through FRONTEX to manage the influx of migrants has been seen as largely positive throughout the country.

But the EU itself seems to be falling victim to the zero-sum game which the other big players have bestowed upon it. So instead of digging its trenches, maybe the EU could consider engaging constructively with alternative players for the benefit of the Western Balkan countries, but also for its own sake. The EU appears to have exhausted its strategies and ideas, with the Balkan leaders somehow always managing to obscure EU attempts to bring them along the EU accession path or to bring some stability to the region. The Western Balkans, and BiH in particular is in a deadlock once again. The EU strategy and the money shovelled down on the region through the Berlin process have not yielded sufficient political results. Meanwhile the EU has lost one of its main partners in the region – the U.S.

As Dmatar Bechev puts it – the Balkans are a ‘low-hanging fruit’ for the EU compared to the challenges the EU faces in the Middle East, East Asia or ex-Soviet republics. And yet, the EU seems to constantly struggle with the Balkans. Turning the tide may not require a change in strategy – at least the EU has tried that and need to be given due credit. So, while the EU may remain faithful to its strategy, it might consider some changes in tactics:

- The perceived ‘vacuum’ is an opportunity created by newly diverging policies between the U.S. and EU – now tis political space is slowly being filled by other actors. The question is whether the EU can do anything to participate in those processes and to do some damage-control by engaging early on with other external actors and domestic actors.
- There is also the question of which external actors have the willingness and potential to destabilise the region and BiH in particular. So far, it seems that China does not have the willingness even though it may have the potential do destabilise the region. Turkey does not have the

³² Public Opinion Survey, Balkan Barometer 2018, Regional Cooperation Council, Year IV, no. 4.

willingness or the potential, while Russia has the willingness but not necessarily the potential. But having the willingness – and even intention – to destabilise the region, it is likely to resort to mobilising domestic actors who already oppose the EU and NATO integration of BiH.

- If fearing Russia more than China, then engage constructively with China in order to complement each other's infrastructural projects in the hope to bring some transparency and competitiveness in the process. China is going to invest in the region anyway, so why not try to use that momentum to break some of the political deadlocks and bring political players to the same table. Unlike Russia, China is not seeking to exploit social and ethnic divisions in BiH and that in itself is a useful opportunity.
- The same goes for Turkey. Erdoğan seems to have the ear of some of the key players in the region, and although Turkey's economic influence is not as big, its political influence might be the chip on the table which the EU might find useful.
- BiH and the region need to diversify, and the new players and their investments might provide opportunities for quick socio-economic changes that would take years through EU projects and investments. The EU should not necessarily try to stop that by asking BiH to make an 'either-or' choice. It should rather seek opportunities to use that positive momentum to demand some long-term reforms and political changes.
- There have been numerous criticisms of the EU's limited toolbox and its effectiveness. If the EU toolbox does not have anything new to offer to break the Balkan deadlock, why not combine with the toolbox of other players.
- Do not engage in countering the Russian rhetoric as that creates further resentment towards the EU among the Serb population. Do not attack Russia rhetorically if not necessary, and continue to engage the coun-

tries consistently through processes, projects, initiatives and more engagement generally.

- Work more on countering the Russian narratives by exposing their malign activity to the public, rather than attacking it. The population remains largely oblivious to the fact that Russia has been using a variety of its informal actors to undermine domestic processes and EU accession, support radical groups, etc. Those actions need to be exposed, otherwise they would be raised to myth-like heights.
- Counter fake-news again by exposing the outlets that spread them, and work more on transparency of the social media and fighting cyber-crimes.³³
- Expose the bad guys in the region, rather than engage with them. The Berlin Summit was the first such example, at least to some degree. Politicians who show semi-authoritarian tendencies should not be allowed to sit at the EU table – or at least, they should not be given a star-treatment by the EU, even if they are alleged to promote the EU agenda. Politicians like that cannot be reliable partners and may show their real face at some point further down the road – the EU should have learned that by now from previous accessions.
- Keep the EU perspective alive, but keep the red lines too. Although they may welcome investment from alternative partners, Balkan politicians will not turn so easily towards them. The EU is still everyone's best choice, but that choice needs to be real.
- Instead of another strategy for the Balkans and in addition to a strategy for countering the external actors in the Western Balkans, the EU also needs a strategy for dealing with the 'Vučić-Dodik axis' that serves at the main channel for malign influences coming primarily from Russia.

³³ Stronski, Paul and Himes, Annie. "Russia's game in the Balkans", Carnegie Endowment for International Peace, February 06, 2019.

The Prishtina/Priština-Belgrade Dialogue: External Impacts and Kosovo's Domestic Developments

Lulzim Peci

Introduction:

Twenty years after NATO's intervention, and eleven years after Kosovo's Declaration of Independence, the Kosovo-Serbia dispute continues to remain unresolved. This situation is a consequence of a lesson unlearned by international community and domestic actors, that peace and stability are necessary, but not sufficient conditions for the resolution of conflicts and disputes of this nature.

This dispute, as well as other cases in the Western Balkans, fits in the theoretical explanations of Benjamin Miller's "Theory of Regional Peace and War" introduced in his seminal book "States, Nations and Great Powers: The Sources of Regional War and Peace".¹ Miller argues that specific balance between states and nations in a given region determines the more intense, or hot war or warm peace outcomes, whereas the international system – the type of engagement of great powers in a given region – affects the cold outcomes, namely, whether the states of a given region will face a cold war or cold peace.² According to him, the "state-to-nation balance" and "state-to-nation imbalance"³ are the key underlying causes that affect

¹ Miller, Benjamin. *States, Nations, and the Great Powers: The Sources of Regional War and Peace*. Cambridge: Cambridge University Press, 2007.

² Miller defines "Hot War" as state of affairs of actual use of force aimed at destroying the military capabilities of adversaries; "Cold War" as a condition of negative peace – an absence of Hot War whilst hostilities may break out at any time; "Cold Peace" as a state of affairs that entails formal agreements and the maintenance of diplomatic relations among affected states, whereas war is possible but not in the short run; and, "Warm Peace" in two categories, "Normal Peace" as circumstances under which war is unlikely, but not unimaginable, and "High Level Peace" as a state of affairs in which the war is unthinkable (Ibid: 44).

³ "The state-to-nation balance refers to the degree of congruence between the division of the region into territorial states and the national aspirations and political identifications of the region's peoples", whereas the state-to-nation imbalance refers to the lack of congruence between state and state identifications" (Miller. 2007, p.2).

the war- or peace-proneness of a given region, which includes territories, boundaries, state-creation and state making, and the motivations for war – such as hypernationalist, pan-national, secessionist or revisionist ideologies. Thus, according to him, the state-to-nation matter is directly interlinked to the substantive features of states, namely, territorial integrity, state survival and independence.⁴

Against this background, Miller argues that liberal democracy is a unifying ideology for a certain state, and as a result stable liberal democracy poses a high degree of coherence and domestic legitimacy. According to him a region composed of liberal democracies (liberal compatibility) will lead in a status quo orientation of the regional states, but he considers it as a sufficient condition and not as a necessary one, since status quo states may become also non-democratic regimes like conservative monarchies.

Miller views the role of great powers in a given region in terms of competition, disengagement, hegemony and cooperation. He argues that competitive behavior of great powers within a given region is focused on mutual balancing, with the aim of minimizing the influence of other powers, or of preventing the rise of any rival as a hegemon within the region in which they have important interests. In this case, the alliances of great powers with small states in a given region have vital roles in pursuing their regional objectives. Under these circumstances, the rival great powers bid for the support of small states. Under the circumstances of disengagement, great powers are neither involved militarily, nor diplomatically, within the given region, and this situation occurs in cases when they have no substantive interests in the area. In the case of “affirmative” cooperation, great powers agree on common goals, and then they employ joint policy, diplomatic and military actions in the region in a coordinated manner. In contrast to cooperation, in the case of hegemony, a dominant great power exercises the major influence – in benign or coercive manner – on the behavior of the states and outcomes in the region.⁵

⁴ Benjamin Miller, “States, Nations and Great Powers: The Sources of Regional War and Peace” (2007), pp. 2-7.

⁵ Ibid, pp. 61-63.

The role of the EU and the U.S. over the last 10 years in the Western Balkans fits to the description of disengagement, whereas Russia is pursuing the role of the competitor and rival power,⁶ meanwhile the *raison d'être* of the Western Balkans countries continues to be dominated by nationalist-revisionist rhetoric. His “theatre,” influenced by largely disengaged “benign hegemonic great powers” and a “malign great power”, coupled with nationalist-revisionist discourse and the failure of liberal democracy in the countries of the region, provides a fertile ground for regional instability and conflicts. In this case, the current dispute between Kosovo and Serbia is a perfect example of this pattern of regional instability.

In this regard, one shall not forget the famous declaration, but unfulfilled prophecy of the then Chairman of European Troika, Mr. Jacques F. Poos, of May 1991 – “The hour of Europe has dawn”, given on the eve of the escalation of the armed conflict in Former Yugoslavia. The following developments in the region proved that disputes and conflicts could not be solved without unified and energetic involvement of the West.

The Road to Collapse of the Dialogue

One should note that since the marked engagement of Chancellor Merkel with her visit to Serbia on August 2011, there were no major initiatives and concerted efforts of the West to solve the Kosovo – Serbia dispute. Chancellor Merkel delivered very clear and unambiguous messages to Belgrade on ruling out any partition, or change of borders, and speeding up the process of Kosovo’s sovereignty on its entire territory, by underlining the necessity to abolish Serbia’s parallel structures in Kosovo’s North,⁷ which paved the way for achievement of the First Agreement on Normalization of Relations between Prishtina/Priština and Belgrade of April 2013, and of around 30 technical agreements. However, the majority of these agreements are not being fully implemented yet.

⁶ For further exploration see Dimitar Betchev “Rival Power: Russia in South East Europe”, Yale University Press, 2017.

⁷ For further exploration see: Helsinki Committee for Human Rights in Serbia: “Visit by Angela Merkel Subjects the Pro-European Option to A Test”, Bulletin No. 81, August 2011, <<https://www.helsinki.org.rs/doc/IB-No81.pdf>>.

Furthermore, since the end of the last year, the EU facilitated dialogue between Kosovo and Serbia has practically collapsed. The last High-Level Dialogue meeting hosted by the High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission, Ms. Federica Mogherini with President Hashim Thaçi of Kosovo and President Aleksandar Vučić of Serbia took place on November 18th, 2018.⁸ The failure of the current set-up of the Brussels facilitated dialogue has brought back the high level tensions between Kosovo and Serbia.

Nevertheless, this stalemate was preceded by the “coordinated” declarations of Thaçi and Vučić in the beginning of August 2018, in support of “border correction between Kosovo and Serbia – delineation between Serbs and Albanians”, which have shocked public opinion and politics in Kosovo and in the majority of Western capitals, and which were followed with immediate domestic and international reactions. The Prime-Minister of Kosovo, Ramush Haradinaj, and the majority of Kosovo’s political parties stated their strong opposition on any border changes, the German and British Government expressed their strong opposition, while the U.S. government opted for a “creative and flexible” solution.⁹

However, regardless of these reactions, Thaçi and Vučić did not withdraw from their intentions for changing the border between their respective countries, which they restated together at the Alpbach 2018 Forum (August 25th, 2018). Furthermore, these efforts for border change were supported by the High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission, Ms. Federica Mogherini,¹⁰ and the

⁸ EEAS Press Release: Federica Mogherini hosted a meeting of the High-Level Dialogue with President Thaçi of Kosovo and President Vučić of Serbia, Brussels, November 18th, 2018, <https://eeas.europa.eu/diplomatic-network/eu-facilitated-dialogue-belgrade-pristina-relations/53466/federica-mogherini-hosted-meeting-high-level-dialogue-president-tha%C3%A7i-kosovo-and-president_en>.

⁹ For an insightful account on these developments see: EWB Article: “Solving the issue of Kosovo: Is change of borders possible?”, August 9, 2018, <<https://europeanwesternbalkans.com/2018/08/09/solving-issue-kosovo-change-borders-possible/>>.

¹⁰ See for example: The Wall Street Journal, “U.S. and EU—but Not Germany— Support Land Swap in Balkans”, September 29, 2018, <<https://www.wsj.com/articles/u-s-and-eubut-not-germany-support-land-swap-in-balkans-1538226000>>.

EU Commissioner Johannes Hahn.¹¹ In addition, despite Thaçi's insistence after the meeting of November 10th, 2018, with President Putin in Paris, that Russia will support any peaceful agreement reached between Kosovo and Serbia,¹² the Kremlin's chief may quite easily not support a deal, including the one on the change of border. The rationale of such a policy of Russia is based on the aim of stalling Euro-Atlantic integrations in the region, as was already proved with the fierce opposition and covert actions of Russia in Montenegro and North Macedonia. In this vein, Kremlin is expected to hinder any deal that will shift Serbia closer to EU,¹³ because it wants Belgrade to play the role of its harbor for destabilizing and stimulating "frozen conflicts" in the Western Balkans.

In this regard, it is important to note that the accuracy of the borderline between Kosovo and Serbia cannot be contested, and therefore it does not enable anyone to correct it, given that the borders between federal units of former Yugoslavia were determined by cadastral borders of the municipalities which were in the two sides of the respective borders. It should be also taken into the consideration that, based on these well-defined borders, the Mission of NATO in Kosovo (KFOR) was established, and the Kumanovo Agreement of June 9th, 1999 was enforced, including the Land and Air Security Zone.

Furthermore, there is no doubt that the option of partition/change of borders will undo the results of Kosovar politics and of Western support over the last two decades, including the military intervention of NATO, and it will also pave the way for the partition of the country based on ethnic geopolitics, and, as such, it will mark the first case of the change of interstate borders according to this principle in the post-Cold War Europe. In this vein, the declaration of Mogherini "that means no ethnic divisions between countries should take place. Whichever solution is considered in the future,

¹¹ Radio Free Europe: "Hahn ne odbacuje razmjenu teritorija između Srbije i Kosova", September 4th, 2019, <<https://www.slobodnaevropa.org/a/intervju-johannes-hahn/29469850.html>>.

¹² Balkaninsight: "Kosovo President Hashim Thaci says the Russian leader told him in Paris that Moscow will support any peaceful agreement reached between Kosovo and Serbia". November 12, 2018, <<https://balkaninsight.com/2018/11/12/kosovo-s-thaci-putin-supports-an-agreement-between-kosovo-and-serbia-11-12-2018/>>.

¹³ The Guardian: "Putin gets puppy and hero's welcome on Serbia trip" January 17, 2019,

it should not lead to monoethnic states”¹⁴ in essence justifies the discourse on the territorial partition/exchange, because in any case of border changes, Kosovo and Serbia will remain multi-ethnic.

Regarding the popular support for this option in Kosovo, according to an opinion poll presented by the Prishtina/Priština based RIDEA Institute on February 2019 in Prishtina/Priština, the vast majority of respondents (84%) think that “North of Kosovo” (Zvečan, parts of Zubin Potok and Leposavić) should not join Serbia’, wherein 4% of Albanian and 41% of Serb respondents think that ‘North of Kosovo should join Serbia’ while 91% of Albanians and 10% of Serbs think that the North should not join Serbia’. 5% of Albanians and 49% of Serbs responded with ‘I have no idea which path to follow’¹⁵. This opinion poll shows opposition of the majority of Kosovo population on the option of partition of the country. On the other side, according to a study presented by Mitrovica North based NGO Aktiv, the option of border changes will result in a large scale migration of Serbs from Kosovo and Albanians from north of Kosovo and Preshevo Valley, and will end-up in the more ‘ethnically-clean’ territories. Therefore, it will endanger the rights of remaining non-majority communities in both countries, it will not bring peace, and it will set a dangerous precedent.¹⁶

The “Cold War” between Prishtina/Priština and Belgrade has intensified after the Moscow backed Belgrade’s campaign for withdrawals of Kosovo’s international recognition, and Kosovo’s unsuccessful bid to join INTERPOL on November 20th, 2018.¹⁷ A day after, in response to Belgrade

¹⁴ EWB, Mogherini: Solution for Serbia-Kosovo relations should not lead to monoethnic states, Dec. 11. 2018, <<https://europeanwesternbalkans.com/2018/12/11/mogherini-solution-serbia-kosovo-relations-not-lead-monoethnic-states/>>.

¹⁵ RIDEA Institute, “Vox Populli on the ‘Grand Finale’ between Kosovo and Serbia” February 2019, pp. 25-26, <<http://www.ridea-ks.org/uploads/Report%20in%20English.pdf>>.

¹⁶ NGO Aktiv: “Scenario: Territorial Exchange between Serbia and Kosovo and its Potential Impact on Serbian Communities South of Ibar” pp. 20-21, <<http://www.ngoaktiv.org/uploads/documents/scenario-territorial-exchange-between-serbia-and-kosovo-and-it-s-repercussions-for-serbs-south-of-the-ibar.pdf>>.

¹⁷ Radio Free Europe: “Kosova nuk arrin të anëtarësohet në INTERPOL”, November 20th, 2018, <<https://www.evropaelire.org/a/kosova-nuk-anetaresohet-ne-interpol/29610551.html>>.

actions, the Kosovo Government imposed a 100% tariff on the goods originating in Serbia and Bosnia and Herzegovina.¹⁸ The international reaction, including the reactions of European Union and the United States on this measure of Kosovo Government, were swift and bold, but so far they have not changed the position of Prishtina/Priština, which considers this act as necessary for protecting its sovereignty from the Russia backed Serbia's actions and Western's lack of firm will to change the behavior of Belgrade. In addition, the opposition and hesitation of key EU states, like France and Germany to grant visa liberalization to Kosovo's citizens, despite the EU Commission's positive opinion of July 18th, 2018,¹⁹ and the European Parliament's subsequent positive voting,²⁰ has generated a negative impact on Brussels' credibility in Kosovo, due to its lack of will to consider the country in the same footing with other states.

A new and living momentum for finalizing the Kosovo-Serbia dialogue has been created with the letters that the U.S. President Trump has send to Thaçi and Vučić on December 19th, 2018, urging them to capitalize on this unique opportunity for finding a solution for their dispute,²¹ as well as with the following letters of February 2019, highlighting the need for mutual recognition as a central element of any achieved agreement.²²

¹⁸ Radio Free Europe: "Kosova rrit taksën doganore për Serbinë dhe Bosnjën në 100 për qind" November 21, 2018, <<https://www.evropaelire.org/a/rritet-taksa-per-produktet-serbe-/29613129.html>>.

¹⁹ EEAS, Office in Kosovo, Press Release "Liberalizimi i vizave: Komisioni konfirmon se Kosova I përmbush të gjitha standardet e kërkuara", 18 July, 2018, <https://eeas.europa.eu/delegations/kosovo/48597/liberalizimi-i-vizave-komisioni-konfirmon-se-kosova-i-p%C3%ABrmbush-t%C3%AB-gjitha-standardet-e-k%C3%ABrkuara_sq>.

²⁰ Radio Free Europe: "Parlamenti Evropian votoi pro liberalizimit të vizave për Kosovën", <<https://www.evropaelire.org/a/parlamenti-evropian-voton-pro-liberalizimit-te-vizave-per-kosove-/29487744.html>>.

²¹ EWB: "Trump writes to Thaçi and Vučić, urges them to "capitalize on unique opportunity", December 19th, 2018, <<https://europeanwesternbalkans.com/2018/12/19/trump-writes-thaci-vucic-urges-capitalize-unique-opportunity/>>.

²² EWB: "Trump supports mutual recognition in new letters to Vučić and Thaçi, February 15, 2019, <<https://europeanwesternbalkans.com/2019/02/15/trump-supports-mutual-recognition-new-letter-vucic-thaci/>>.

But, President Vučić has conditioned continuation of the dialogue with the lifting of tariffs imposed by Kosovo's Government,²³ and President Hashim Thaçi has asked the Prime-Minister Haradinaj to take into the consideration the demands of international community on this matter.²⁴ Nonetheless, Haradinaj refused to take any steps in this direction, by claiming that through the imposition of trade tariffs on Serbia, he has saved territorial integrity of Kosovo.²⁵ Furthermore, he accused Mogherini for sidetracking the dialogue in the direction of territorial swap, which according to him constituted an "aggression" on Kosovo.²⁶ Furthermore, a number of high-ranking MP's of German Bundestag coming from Merkel's CDU/CSU parliamentary group accused Mogherini for pushing "dangerous plans for the exchange of territories (between Serbia and Kosovo)".²⁷

On the other side, on May 10th, 2019, the U.S. Deputy Assistant Secretary of State, Matthew Palmer, stated that Kosovo and Serbia should take as an example North Macedonia regarding the solution of its disputes, by adding that "luckily, the vision shared by U.S. and EU is the same as the vision of Western Balkans countries", and stressing the "negative influence of Russia in the region like the one with Prespa Agreement",²⁸ without clarifying if it should address identity issues, history and symbolism of ethnicities/states, enhanced local self-government for Serbian community, or the change of borders, as bases for the solution.

While the U.S. and EU's vision for the Western Balkans might be the same,

²³ Gazeta Express: "Po kërkojnë heqjen e taksës, por Vuçiq insiston se s'do të ketë marrëveshje Prishtinë – Beograd", 21 February 2019, <<https://www.gazetaexpress.com/lajme-po-kerkojne-heqjen-e-takses-por-vucic-insiston-se-s-do-te-kete-marreveshje-prishtine-beograd-628888/>>.

²⁴ Gazeta Blic: "Thaçi 'godet' Haradinajn, i kërkon heqjen e taksës, dhe lënien anash të tekeve e populizmit", January 19, 2019, <<https://gazetablic.com/thaci-godet-haradinajn-i-kerkon-heqjen-e-takses-dhe-lenien-anash-te-tekeve-e-populizmit/>>.

²⁵ Zeri: "E ndala ndarjen e Kosovës, nuk e kisha lehtë" May 3, 2019.

²⁶ Exit Albania: "PM Haradinaj: Mogherini is an enemy of Kosovo", February 13, 2019, <<https://exit.al/en/2019/02/13/pm-haradinaj-mogherini-is-an-enemy-to-kosovo/>>.

²⁷ EWB: "Tagesspiegel: Mogherini criticized by German MPs for being open to a land swap", April 20th, 2019, <<https://europeanwesternbalkans.com/2019/04/20/tagesspiegel-mogherini-criticized-german-mps-open-land-swap/>>.

²⁸ EWB: "Palmer: North Macedonia a good example for Belgrade and Pristina", May 10th, 2019.

it is obvious that Washington, Brussels, Berlin, Paris and London are not on the same page regarding the final solution of the Kosovo-Serbia dispute, in a situation in which Belgrade is seeking the support of Kremlin, while being aware that this support is actually keeping Serbia a hostage in achieving its European Union membership aspirations.

Kosovo-Serbia Dialogue: Quo Vadis?

In March 2019 Chancellor Angela Merkel and the French President Emmanuel Macron started their initiative in mediating the “restart and reset” of the dialogue between Prishtina/Priština and Belgrade. They organized a meeting with Western Balkans leaders that took place in Berlin on April 29th, 2019.

Nevertheless, the Conclusions by the co-chairs (Merkel and Macron) issued after this meeting, gave an impression that the meeting served much more as an attempt for Franco-German rapprochement on the open issues in the Western Balkans, rather than as a strong and concerted initiative to revive and complete the dialogue between Prishtina/Priština and Belgrade. The conclusions did not mention either the unacceptability of border changes between Kosovo and Serbia or their reciprocal recognition, as key and fundamental principles for achieving a final legally binding agreement.²⁹ Yet, by taking the role of “facilitating the facilitator”, Berlin and Paris have sidelined Mogherini from the facilitation of the dialogue, and most probably, after the Paris meeting of the French and German leaders with those of Kosovo and Serbia, will hand-over the facilitation of the dialogue to the new High Representative for Foreign Affairs and Security Policy/Vice-President of the European Commission.

In this vein, Germany and France should pay attention to the role and responsibility of the five EU non-recognizers of Kosovo for the current instability in the region, because in the case of their recognition of Kosovo,

²⁹ For further details see: Leaders’ Meeting On The Western Balkans, Conclusions by the co-chairs, Berlin, 29 April 2019, German Embassy in Prishtina, <<https://pristina.diplo.de/blob/2214304/1de3db4eb148910a3468de096e58d962/berlin-meeting---conclusions-by-the-co-chairs-data.pdf?fbclid=IwAR2RkXA5Q7wENF-acis5coAu0JXpvaFB8WCiBdEsNRtFduj7FMsrZG4fo2g>>.

the recognition by Serbia will become a “fait accompli”, and the Russian role in the region will become very limited, if it will remain existing altogether. After all, if Serbia will recognize Kosovo, in a situation in which even a single from the non-recognizers will hesitate to take the same decision, the region might end-up in quite an unpredictable situation. In this case, Prishtina/Priština will receive a definite message that it has not any perspective for EU membership, and this will pave the way for nationalist and, now marginal, Islamic forces to capture the political scene and society of Kosovo.

Recommendations:

- The planned Paris Meeting, which will be co-chaired by President Macron and Chancellor Merkel, should set the principles for a legally binding agreement between Kosovo and Serbia, including non-change of borders and reciprocal recognition.
- President Macron and Chancellor Merkel should work in partnership with the Administration of President Trump in order to specify modalities of involvement of the United States in the process of EU facilitated dialogue between Prishtina/Priština and Belgrade.
- The EU and U.S. should consider providing financial aid to Serbia and Kosovo for the implementation of a legally binding agreement and the development of their economies, infrastructure, health, education, as well as other sectors.
- EU should provide without delay a visa free regime within Schengen Zone to Kosovo citizens.
- EU should employ “smart sanctions” to the corrupted politicians in the Western Balkans, including travel ban and freezing of their financial assets, as a means of pressure for state de-capturing in the Western Balkans.

External Impact on Politics, Society and Security in South East Europe – The case of Serbia (*Speaking Notes*)

*Djordje Popović*¹

South East Europe was always a geopolitical playground of big powers. Today this is the case maybe more than ever, since the number of geopolitical powers in the world is bigger and their interests are conflicting in many ways. Countries of the region and especially Serbia are trying to play on many fields in its attempt to align its foreign policy with powers, which in many ways can determine their future. This so-called “four pillars based” foreign policy unfortunately brings only limited results, which in long term will be ineffective and unsustainable. Serbia will have to decide where its strategic partnership lies and who its main allies are.

Officially proclaimed strategic goals for the European integration should include the EU as the main strategic partner and the Serbian foreign policy should be harmonized with the Common Foreign and Security Policy of the European Union. Today the percentage of this harmonization is 54 %, which is insufficient by any criteria but especially by the criteria of the EU itself. The reason of such a poor harmonization rate is well known – Russia. Serbia will not join the EU sanctions against Russia, which is one of the main demands of the EU. Russia is currently Serbia’s main ally concerning the Kosovo issue, as well as energy supplier and in that way the situation will not change for a longer period of time. Although Russia cannot offer economic help and investments it created a very strong network of influence, which consists mainly of energy, loans, media and military equipment.

Serbia so far opened less than a half negotiating chapters in the accession talks with the EU (sixteen out of thirty five). The term “accession talks” is much more precise, because the word “negotiation” is in this case quite inadequate, since there are no negotiations at all. The candidate country needs to adopt the *aqui* completely and the only negotiations could be on

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the time, which is necessary for these standards to be adopted. This very slow opening of negotiating chapters (only four chapters every year in average) is explained by the lack of reforms in the already opened chapters, especially 23 and 24. Although the fact is that the reforms in these two chapters are lacking. There is no reason why the others are not opened, since the whole process can be stopped and blocked any time if the EU is unsatisfactory with the pace of reforms and on the other hands opening of chapters only enhance the necessary reforms in all fields. Having this situation it is quite clear that the year 2025, which was mentioned as the potential year of Serbian accession, will remain only a nice wish.

What is maybe more concerning is the fact that the influence of the European Union is weakening constantly in the whole Western Balkans region, not only in Serbia. The reason for that is the prolonged transition and accession, which is now entering the phase where it is highly questionable if it will ever end. The warmly welcomed EU Enlargement Strategy from last year will unfortunately remain only a dead letter. There are many reasons for this, but the main reason is the fact that the leading EU countries did not adopt this strategy as their own from the very beginning. In political comments the opinion has been expressed that there should be no enlargement before consolidation of the EU and its deepening. Public polls have been showing that EU citizens are against the enlargement. Moreover, the former *Spitzenkandidat* of the European Conservatives who was almost seen as the new President of the European Commission, Manfred Weber, clearly stated in his plan that there should be changes in the enlargement process and that there should be few stages until a candidate country becomes a full member. It will be also interesting to see whether the new European Commission will have a Commissioner in charge of enlargement.

This dilemma between the enlargement and consolidation is a fake one. During its history the European Union was constantly going through the process of deepening together with the process of its enlargement – which is maybe its most successful process. Strengthening the role of the European Parliament is one of the examples how the deepening of the EU could go parallel to its enlargement. The European Parliament, which was quite weak/ineffective body at the beginning, perceived only as a discussion arena was given with time more and more authorities and now it has a very strong role in the EU and almost no legal acts can be adopted without its

approval. In the same time the EU was enlarging without any problem. The same could be said with the deepening of the European Union in any other aspect.

The public perception fifteen years ago when countries of the Eastern and Central Europe became members of the EU was not much different to the one existing today. The citizens of Western Europe also regarded these countries as non-democratic. However, unlike today there was a progressive political leadership in Europe at the time that had the vision of united Europe and was ready to show solidarity with its neighbours. Such an attitude unfortunately does not exist today.

While the accession talks are not progressing we have the Berlin Process as the second best option to the enlargement. We have to be fair and say that this initiative started by German Chancellor Merkel was at the beginning very successful and was welcomed throughout the region. Unfortunately with time the chairmanship transferred from one EU country to the other, some quite uncertain of their role. They added different priorities to the agenda and we ended up with very few concrete results such as the Regional Youth Cooperation Office (RYCO) and the Western Balkans Transport Community. In order to be fair we must say that the Western Balkan countries managed to mess up even these two good things and the transport community is still not established and Serbia recently managed to block the RYCO Board meeting because it took place in Prishtina/Priština.

Here we come to the relations between Belgrade and Prishtina/Priština, which are almost the one and only issue of interest of the international community concerning these two societies today. Everything including the accession talks is blocked by the dialogue between Belgrade and Prishtina/Priština – or the lack of it to be more precise. We can now say that the idea of border change, which was promoted by Presidents Vučić and President Thaçi has been taken from the negotiating table. The idea was met with severe opposition on both sides, especially in Kosovo but also in Serbia among the opposition and Serbian Orthodox Church. This is also the issue where the external impact of the big powers in the region is huge.

One of the main reasons of the weak influence of the European Union in the region is the fact that Europe does not speak with one voice. If we look

at the Belgrade-Prishtina/Priština talks we can see that after the idea of border change was presented at the Alpbach Forum and supported to a certain point by the EU official Federica Mogherini and Johannes Hahn, there was a storm of refusal by many countries, especially Germany and almost all countries of the Western Balkans region. It was said that divisions along ethnic lines in the twenty first century are totally unacceptable and that such solutions would open a Pandora's box in the whole region and produce instability especially in North Macedonia and Bosnia and Herzegovina. On the other hand the official position of the United States, which regained attention to the region, was more open to this solution with US officials leaving space in their statements for any solutions, which would be accepted by both sides. In that way these negotiations became another issue, which burdens the transatlantic relations, especially those between United States and Germany. Russia remained strangely silent during all this fuss withholding the official support towards Serbia but also leaving open options for all possible agreements. In that way Russia through sharing similar position with the United States is leaving open space for a possible trade-off between Kosovo and Crimea. This actually means that Russia will follow any agreement Belgrade and Prishtina/Priština make if it can lead to analogy with the Crimea situation. And vice versa – there is no certainty that Russia will support this agreement even if Belgrade signs it, if it does not lead to a resolving of the Crimea issue in favourable way.

This plethora of intertwined positions and interests opened space for the radical actions such as introduction of hundred percent taxes on Serbian goods by the government of Kosovo, which is against not only CEFTA agreement, but also against the Stabilization and Association Agreement that Kosovo signed with the European Union. This action stopped any kind of talks and negotiations between Belgrade and Prishtina/Priština for an undefined period of time. The countries are now stuck in their positions – Serbia will not return to the table until the taxes are abolished and Kosovo will not abolish the taxes until Serbia recognizes it as an independent country. Any pressure to the Kosovo government by the European Union, its member states and United States remained insufficient. Furthermore, the Prime Minister of Kosovo Haradinaj could easily drop the call of the French President Macron and Chancellor Merkel to reconsider the taxes and at least suspend it to certain period of time. This not only led to the failure of the Berlin Summit, which took place on 29 April but also showed

in brightest light the present weakness of the European Union and its main powers. The next summit was scheduled for July in Paris without clear agenda and finally postponed. If the United States will not be invited there is great chance for another failure. This all clearly shows the importance of the transatlantic relations and moreover the need for the univocal approach. Whenever one voice could be heard from both sides of the Atlantic changes and compromises in the region were possible. Without it we are condemned to failure.

There is another big power which is not interfering at least officially into high politics in the region but which is very present and influential – China. Within its One Belt One Road initiative Chinese influence entered the region and especially Serbia. China became one of the most important economic partners if not the most important one. China's investments in Serbia are huge and what is more important unlike the investments from the European Union China does not demand the necessary preconditions to their investments which should be connected with the issues of democracy, especially rule of law. It is much easier to negotiate Chinese investments, which do not demand public tenders, environment studies and especially workers protection standards. By building the so-called “steel friendship” with Serbia, China became the most wanted partner.

And it is no wonder why other countries like China and to some extent Turkey and Arab countries became more favourable partners. The hesitation of some powers inevitably leads to the approach of others who would like to take their place. In such a world it is not always clear what some partnerships bring with them and what will the consequences of these alliances be. Once lost, the sphere of influence is regained only with great difficulty and time.

The risk of the Western Balkans remaining outside of the European Union is much higher than the risk of enlargement. If the European Union does not accept countries of the region soon, the enlargement process will be stuck for the next ten or twenty years because there will be no more support for the EU in the candidate countries. Also, there will be no agents of change in these countries left who are necessary for the reforms because the people are leaving and there is a huge possibility of almost complete loss of human capital. Not to mention that there is a vivid trend that the

longer the candidate countries wait for the accession the worse their internal situation becomes. If they are not admitted soon they will turn into Turkey with the authoritarian model of rule.

Therefore the European Union should present a clear plan for the region, which would be accepted by all member states. The hesitance so far only produced euro scepticism among the citizens, but also the elites. This vision should entail concrete steps, which would benefit the everyday life of the citizens – such as the visa liberalization for the citizens of Kosovo for example or opening of the cohesion funds for the candidate countries. And above all giving the candidate status to North Macedonia and Albania. Also the EU should engage in better communication of the enlargement process. The European leaders should inform their own citizens on the importance of the enlargement policy, which is maybe the most successful EU policy. And also greater involvement of the candidate countries in the programing and development of EU policies would increase local support towards the EU and create better ties among the European countries and nations.

Competing External Influences in South East Europe – Implications for Regional Consolidation: The case of Albania (*Speaking Notes*)

Alfonc Rakaj

Albania, like other countries in the region, has continually been on the receiving end of external influence from a multitude of sources. Following the fall of the communist regime in early 1990s, the country turned westward, paving the way for enhanced influence from the West, including, the United States, European Union and its member states. Despite the country's unambiguous strategic orientation towards the West, there is an increasing number of other non-western countries exerting influence in Albania. Chief among them is Turkey, which stands out as a potential malign influence.

Western Influence

Albanian citizens are among the most fervent supporters of the European Union in the region. Correspondingly, the country's governments have unambiguously made Euro-Atlantic integration a priority, at least in rhetoric. The country's political parties have also made EU integration a cornerstone of their public relations, because anything short of it would amount to political suicide. Similarly, a positive perception of the U.S. is equally strong. In a way, both represent the opposite of the harsh communist past, and an appealing alternative for the future.

The ongoing EU-U.S. sponsored justice reform, which seeks to revamp the country's justice system best encapsulates the dominant positive perception of the public towards them. Despite allowing them to penetrate deeply into the domestic state structures, as constitutional changes related to the reform enable technocrats from there to oversee the implementation. Yet, Albanians see their involvement in a positive light, and generally would not be against more involvement if it were to curb the power of the country's corrupt and often incompetent politicians.

However, relations with individual EU member states do not always reflect the overwhelming positive outlook and influence of the union. Among them, Germany, Austria, Italy and Greece are important foreign actors with influence. In terms of people to people contacts, Greece and Italy are unique among them due to the large Albanian diaspora living there, hence making them more accessible and better understood. However, the look perception of Greece and Italy differs greatly.

Italy is seen more as a benevolent power than Greece due to the more difficult history with the latter. Remaining unresolved issues related to the legacy of WWII, the undefined maritime border, and Greece prejudiced perception of Albania continue to hamper relations between them. In fact, Tirana's distrust toward Greece creates a vacuum for Turkey to exploit. Athena's decision not to join NATO's campaign in Yugoslavia, and its non-recognition of Kosovo fuel old perceptions that Greece remains uninterested in mending ties with Albania and Albanians in general. Nevertheless, bilateral relations are of a key importance for both countries but could benefit from an infusion of mutual trust and good will from both sides to reach their full potential.

Non-Western Influence

The influence of non-Western countries is often clouded by suspicion as to who is what and what their motives are. Arab countries have increased their presence and influence in the country in the last two decades through investment and exchanges. While relations with them often revolve around economic cooperation, the public at large views them less amicably due to their focus on exporting too much religion through non-governmental organizations and individual initiatives. Notably, when local politicians attend bilateral meetings with counterparts from Arab countries, PR receives less attention than a meeting with a western counterpart given that it is less appealing to their electorate. Curiously, rival Arab countries vouch for influence against each other, and Turkey, particularly on the topic of religion.

China's relations with Albania are historic, yet they have not been reflected in the level of trade and exchanges. In recent years however, China has become an increasingly important economic player through investments in strategic sectors such as aviation. Nevertheless, these investments have not

been as controversial as some other Chinese investments in the region. In the years to come, China will continue to increase its presence in the country. Nonetheless, it is important to note that Albania's close ties with the EU and U.S. have discouraged in the past certain investments because Beijing's view is that Tirana is politically and economically too dependent on Washington and Brussels who could leverage their influence against China.

The other commonly cited third party influencer, Russia exerts limited influence in Albania. This is demonstrated by the low level of trade and exchanges between the two countries. Albania's full compliance with EU foreign policy has further deteriorated these relations as it has joined its western partners in imposing sanctions on Moscow, following its invasion of Crimea. In the same vein, last year, Albania expelled two Russian diplomats, leading to Russia's immediate retaliation. Exchanges between them amount to little more than sporadic exchanges by respective foreign ministries on the status of Kosovo. Yet, there is a growing number of experts who have voiced concerns that this low expectation on Russia could embolden it to exploit this blind spot for propaganda purposes.

In terms of third parties influence in Albania, Turkey is rightfully allocated the most attention. Bilateral relations have been particularly strong since the fall of communism and cooperation spans on a wide range of issues from security to education. It's also an important source of FDI, and has a strong presence in key sectors, including mining, telecommunications and banking. While in real terms, Turkey remains a smaller economic partner than the EU or some of its member states such as Italy, it continues to exert influence beyond the political and economic spheres.

Albania's shared Ottoman past with Turkey has increasingly been exploited by Ankara as a justification for its influence. Its massive investment in reinstating Ottoman era monuments and mosques is seen as an extension of its neo-Ottoman foreign policy. An indication of this influence is Tirana's new mosque, the largest in the region upon its construction. Its foundation stone has been laid down by the presidents of two countries. Similar projects are increasingly seen as a tool through which Turkey tries to exert its influence in Albania through religion. Since the failed coup of 2016, Turkish influence has become even more evident than before as it tried to stretch its domestic politics abroad.

Following the coup, Ankara designated Fetullah Güllen, a cleric residing in U.S., and his organization which is called FETÖ (*Fethullahçı Terör Örgütü/* Gulenist Terror Network) by the Turkish government, as responsible for it. Mass purges took place as the regime tried to bring before justice collaborators, both at home and abroad. In regard to Tirana, Turkey has repeatedly requested the expulsion of individuals dubbed members of FETÖ. While Albania has not complied so far, the fear exists that this could change if business and political interests of Ankara's powerful local allies were threatened in the future. Turkey has also found alternative means to meddle by expanding the presence of Maarif Foundation, a government owned entity formed after the coup to counter FETÖ's educational presence in the Balkans. In Albania alone, the foundations has already purchase six educational institutions, including the University of New York Tirana, a locally respected higher education institution.

Facilitating Factors

Foreign influence in any given country is reflective of the local political, economic, social and cultural dynamics. While Albania does not suffer from a lack of clarity on its geostrategic orientation, its poor democratic culture, weak institutions, including the judiciary and high level of informality make it subject to malign influence. Unaccountable local elites could well exploit these weaknesses to facilitate the presence of foreign influences without fear of reprisal.

Plans to build an airport in Albania's southern city of Vlora and the establishment of the country's national flag-carrier through the assistance of Turkish Airlines have raised doubts about the economic soundness of these projects. While the first plan has been terminated indefinitely by the Turkish consortium, the public remains largely uninformed on its prospects. Such low level of transparency can be easily exploited, especially when all too powerful local leaders such as Albania's Prime Minister have a cozy personal relationship with the leader of a foreign influencer such as Turkey.

Challenging these facilitating factors alone, however, is not enough. Western partners, especially the EU need to eradicate the ambiguity over the regions hopes for integration with the Union. While trust and positive perceptions towards dominate in the country now, it is not a given this will be

the case in the future if the credibility of Brussels continues to falter. In this regard, it remains imperative that the EU and U.S. demonstrate through words and deeds that they are committed to the integration and democratization of the region. Opening negotiations talks with Albania and North Macedonia and granting Kosovo's well deserved visa free travel would provide a much needed infusion of trust and confidence in the future of the EU's relation with the region.

China's Influence in South East Europe

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Until recently European Union's main rival in South East Europe (SEE) was the Russian Federation. But, in the shadow of the West confrontation with Russia a new assertive geopolitical player has emerged. In the past six years the People's Republic of China became a leading country regarding infrastructure-related spending in South East Europe. Chinese influence is especially strong in the Western Balkans, where Chinese investment offers are welcomed by the countries desperate for any form of foreign financing.

China's rising political and economic influence in the Western Balkans is causing an alarm in the EU. The Chinese approach to the region is different from Russia's or the European Union: the goal is not to create political or economic instability or to demand fulfillment of political and economic standards needed for achieving membership in the EU. Instead, Beijing is offering political friendship through bilateral economic cooperation focused on improving neglected transport and energy infrastructure. For economically underdeveloped SEE/Western Balkans countries Chinese investment is more appealing than that of the EU funding. Rather than requiring fulfillment of stringent criteria and long procedures for approving infrastructure projects, Chinese investments are approved without strict compliance requirements and on the basis of fast decision-making. Also, in many cases they do not comply with the EU regulatory and environmental standards. Because of that Balkan political leaders are eager to accept Chinese loans and investments, not only to improve decaying infrastructure but also to promote themselves in their constituents. In this fashion China is buying political influence in the South East Europe capitals. This fact, and certainty that the EU membership candidate countries will not be joining the EU in the foreseeable future is diluting the Western Balkan countries resolve to accept and implement the European Union's policies and regulations.

The EU started to perceive China as a political and normative threat to the Union's influence in the region. European Commission's report about EU-

China relations published in March 2019 states that China is

“simultaneously a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance”.¹

Sources of the Chinese Conduct

There are different opinions regarding Chinese strategic goals in general. One school of thought states that Beijing’s goal in Europe and elsewhere is the creation of conditions for future Chinese global domination.² Despite gloomy predictions, China still does not have the political, economic, military and ideological capacity to take over the role of global hegemon from the United States.

The second opinion is that Chinese activities are not directed (at least not now) towards global domination, but towards removing the key challenge to the internal stability of China – uneven economic development between coastal and interior parts of the country. This means that economic development imperative is the pivotal task for the Chinese government. The Chinese government needs to generate adequate economic growth to guarantee development, social stability, and to make China a powerful and respected country again.³

Chinese history is marked by cycles of internal stability and disorder caused by a combination of the following factors: external threat, followed by internal political fragmentation and destabilization, and finally worsening economic inequality between coastal and interior parts of China.⁴ The Last circle was initiated in the moment of the forceful opening of China, made by the British Empire during the First Opium War (1839-1842). In the next

¹ EU-China – A strategic outlook, European Commission, High Representative of the Union for Foreign Affairs and Security Policy, Strasbourg, 12 March 2019, p. 1.

² See Smith, Jeff M., China’s Belt and Road Initiative: Strategic Implications and International Opposition, The Heritage Foundation Backgrounder No. 3331, 9 August 2018.

³ See Ploberger, Christian, One Belt, One Road – China’s new grand strategy, *Journal of Chinese Economic and Business Studies* 15(1), 2017, pp. 3-4.

⁴ See *The Geopolitics of China: A Great Power Enclosed*, Stratfor, 2012 <<https://worldview.stratfor.com/article/geopolitics-china-great-power-enclosed>>.

110 years, China has been on the verge of collapse, threatened by internal disorder and rebellion, political and economic pressure of European powers, civil war and two wars with Japan. During this period economic inequality between the coast and interior was increased: coastal regions were integrated into the global economy, but the development of the interior was neglected. Despite Communist victory in the Chinese civil war (1927-1949) which resulted in the political unification of China, the problem of economic inequality between the coast and interior was not resolved. After the catastrophic economic decision made by Mao Tse Tung in the '50s his successor Deng Xiao Ping was forced to open China to the West, hoping that following economic development will start to heal the coastal-interior economic split. Unfortunately, this did not happen.⁵

To ensure fast economic development China has developed a massive low-end manufacturing economy. Despite achieved economic growth, differences between the coast and interior were not resolved. Instead of shrinking, economic inequality between regions was increased in the '90s.⁶ Economic inequality is creating political tensions that have negative consequences on the central government's priorities.⁷ Consequences of the 2008 global economic crisis (slowing economic growth, coupled with demographic crisis) are forcing Beijing to implement a new economic model based on the high-value industries and strong domestic consumption.⁸ But, one of the main obstacles again is economic inequality between coast and interior which has been somewhat lessened (but not resolved) by increased industrialization of the inner regions since the mid-2000s. There is also another long-term danger: the rebalancing of economic growth in favor of the interior is based on the development of the labor-intensive industries,

⁵ For a historical overview of regional inequality issue see Françoise Lemoine, Grégoire Mayo, Sandra Poncet & Deniz Ünal, *The Geographic Pattern of China's Growth and Convergence within Industry*, CEPII Working paper No 2014-04, Paris 2014, pp. 4-9.

⁶ See Jr-Tsung Huang, Chun-Chien Kuo and An-Pang Kao, *The Inequality of Regional Economic Development in China between 1991 and 2001*, *Journal of Chinese Economic and Business Studies* 1(3), September 2001, pp. 273-285.

⁷ See *Bridging the Gap Between China's Central and Local Governments*, Stratfor, 9 March 2016 <<https://worldview.stratfor.com/article/bridging-gap-between-chinas-central-and-local-governments>>.

⁸ See Zhixing Zhang, *The End of Strategic Luxury for China*, Stratfor, 14 February 2019 <<https://worldview.stratfor.com/article/end-strategic-luxury-china-great-power-competition-us-trade-economy>>.

which forces coastal regions to build up a new specialization in high value-added industry and services. This opens the possibility for the future growth of regional economic inequality.

The Belt and Road Initiative (BRI),⁹ started by new Chinese leader Xi Jinping in 2013, is a mechanism for addressing China's mentioned social and economic problems.¹⁰ This initiative is focused on the massive infrastructure projects financed by China, with the goal of connecting Eurasia by land and sea; also, the BRI is intended to foster economic development of China's inland regions (which are located on proposed transport corridors), and to give outlet for its industrial sectors with excess capacity (steel and construction industry).¹¹ The BRI is primarily a Chinese project focused on strengthening the economic development of China, and expanding Chinese influence in Eurasia to achieve the mentioned goal. This means that China will emphasize her political and economic interests in collaborative partnerships with other countries and organizations. This is a framework for understanding Chinese policy towards the EU.

China and the EU

Currently, China strives to develop relations with the EU in which the Union will be treated as an economically depended partner. This is a consequence of the changed Chinese perception of the EU and its member states after the beginning of the global financial crisis in 2008.¹²

From the establishment of diplomatic relations between the Peoples Republic of China and the European Community in 1975 up to the 2008 China policy towards Europe has been based on a perception of Europe's growing role in the world because of the European integration process. In

⁹ The original name of the initiative ("One Belt, One Road") was changed in 2015 to make it sound more like an inclusive initiative rather than a strategy.

¹⁰ For an overview of the BRI see Mathews, John A., *China's Long Term Trade and Currency Goals: The Belt & Road Initiative*, *The Asia-Pacific Journal* 17(1), 2019, pp. 1-25.

¹¹ See Jie Yu, *The belt and road initiative: domestic interests, bureaucratic politics and the EU-China relations*, *Asia Europe Journal* 16(1), 2018, pp. 225-226.

¹² See Zhimin, Chien, *Europe as a Global Player: A View from China*, *Perspectives* 20(2), 2012, pp. 7-30.

the Chinese views, European economic integration resulted in the creation of an economic superpower on par with the United States. For Beijing the EU had become China's largest trading partner and a key source of foreign investment and technology, so the Union became economically crucial for China's economic modernization efforts. In Chinese view, the EU became a comprehensive strategic partner, capable of developing:¹³

- All-dimensional cooperation (in the economic, scientific, technological, political and cultural fields).
- Stable and long-term cooperation capable of transcending the differences in ideology and social systems of both sides.
- Equal and mutually beneficial cooperation between both sides, with the goal of defining a common ground on the major issues.

With the development of economic relations, Beijing started to believe that the EU has constantly strengthened its capacity to act in international affairs. This was visible in the perceived convergence of key foreign policy issues (multilateral international order, peaceful resolution of conflict, the central role of the UN in international relationships, sustainable development), and possibility that the EU can fulfill the role of a partner in Chinese resistance to the hegemonic behavior of the United States. Despite occasional problems and setbacks, Chinese perceptions of the EU were consistently favorable and optimistic. Regardless of problems in the process of European integration, the EU was perceived as an emerging global power (a constructive and normative power in international society) and an example of regional political and economic integration (with emphasis on possible applicability of European experience on China).¹⁴ But after the global economic crisis in 2008 and the Euro crisis in 2009 Chinese optimistic view of the EU started to change. In Beijing's perception, the European economy is characterized by a considerable and long-lasting deterioration, a slow recovery, a high unemployment rate, a series of social problems and an outstanding sovereign debt crisis. The cause of this change in perception

¹³ See Zhimin, 2012, p.18

¹⁴ See Liqin, Zhu, Chinese perceptions of the EU and the China–Europe relationship. In: David Shambaugh, Eberhard Sandschneider and Zhou Hong (eds.), *China–Europe Relations: Perceptions, Policies and Prospects*, Routledge, New York 2007, pp. 148-173.

is the structural problems of an economic union without a unified monetary policy.¹⁵

Also, a European partial financial dependence on China created during the process of rescuing Euro created a situation of symmetrical economic relationship between the two sides, the first time after the establishment of mutual relations. In the international relations, the EU did not show any interest to get involved in the global power struggles between China and the US or to be involved in resolving major geopolitical challenges in Eurasia. Chinese conclusion was that the EU's ability to become normative power capable of projecting its values, visions and ideals in the world is fading.¹⁶ European Union's inability to form an internal consensus in its policy towards China (which, in Chinese perception, prevented the EU from developing a more fruitful partnership) gave again emphasis to increased cooperation with the EU Member States.¹⁷ In this new approach, the Chinese side is targeting clusters of individual Member States in different European geographical regions.¹⁸ In the EU this was perceived as a divide-and-rule strategy, but China is rejecting such accusations.¹⁹

For China, the EU is still an important strategic partner. Current Chinese goals in relationship with the EU are:

¹⁵ See Chang, Vincent K.L. and Pieke, Frank N., Europe's engagement with China: shifting Chinese views of the EU and the EU-China relationship, *Asia Europe Journal* 16(4), 2018, p. 320.

¹⁶ See Chang and Pieke, 2018, pp. 321-322.

¹⁷ See Zhimin, 2012, pp. 11-12.

¹⁸ Targeted are Central and Eastern Europe (16+1 initiative), Southern Europe (to connect the maritime and overland BRI routes), Nordic region (development and security of the Northern Sea Route) and Western Europe (access to the high-tech industry, financial centers, and its high-end consumer markets). See Chang and Pieke, 2018, pp.323-324.

¹⁹ In Chinese view the fact that individual EU member states are pursuing different foreign policies is a European problem and not a fault of the Chinese side. Source of the problem is ineffective decision-making mechanisms and governance structure of the EU, together with the politic, economic, structural and social differences that continue to exist between the Member States. Such a situation is making the EU China policy inefficient and forcing China to increase cooperation with the member states. See Chang and Pieke, 2018, pp. 324-325.

1. Free access to the European Single Market.
2. A secure destination for its investments and a willing partner for China's growing acquisition of overseas assets.
3. A meaningful diplomatic alternative to its increasingly difficult relationship between China and the U.S.

China is today in a stronger position towards the EU. In such circumstances, Beijing is reassessing the value of its partnerships with the EU and its member states. Using the economic dimension of the mutual relationship (the EU is still focused on the economic terms of the relations, with a goal of creating opportunities for accessing the vast Chinese market)²⁰ China is in a position to further develop a mutual relationship on its terms, rather than on those of the EU. Such intention puts a strong emphasis on practicing the “divide and rule” strategy in its dealings with the EU Member States, especially Central and Eastern European countries, to create a strong pro-China lobby inside the EU.

Those efforts are visible in Chinese employment of three strategies towards member states for achieving influence in the EU:²¹

1. **Specific reciprocity approach.** This strategy represents a mix of incentives (offered rewards for accepting policies preferred by China) and threats (threatened sanctions if Chinese demands are not met). This strategy is used in situations when Chinese leadership wants to achieve particular results at any cost. A recent example of this strategy is the Chinese-Italian economic Memorandum of Understanding (MoU) signed on March 23, 2019. Even though MoU is not a legally binding contract, China wanted to sign it with one of the key European economies in the moment of increasing resistance to the growth of Beijing's influence in the EU. Chinese-Italian MoU not only undermines the EU's ability to negotiate as a united economic area and to put a common pressure on China but also weakens the EU-China 2020 Strategic Agenda for Cooperation.²² The Italian side

²⁰ Only 5.5 percent of total EU exports go to China.

²¹ See Reilly, James, China's economic statecraft in Europe, *Asia Europe Journal* 15(2), 2017, pp. 173-185.

²² The Strategic Agenda defines conditions and guarantees that the EU should get from China, such as rule of law, fair trade and economic competition, and investments. By

wanted to improve economic relations with China with to obtain more market access for Italian companies and products in China and more Chinese investments in Italy under the BRI framework. In the Rome view, those measures could help in reviving struggling Italian economy which fell into recession at the end of 2018.²³

Also, signed MoU opened the door for Chinese investments in the Italian ports, giving an opportunity for using Italy's geographic position in the middle of the Mediterranean Sea to accelerate China's trade with Western and Southern/South East Europe and North Africa.

2. Positive reciprocity strategy. This strategy is used in cases when China wants to influence policy decisions of multiple actors over issues of considerable significance for both sides. Instead of "carrot and stick" approach, emphasis is on the mutually beneficial economic interactions with target countries. An example of this strategy is (so far unsuccessful) Chinese attempts to achieve market economy status in the EU. Despite emphasis on the benefits of increased Chinese investments if Chinese request is accepted, EU members and institutions are still resisting anxious about China's deepening economic influence in Europe.

3. Strategic engagement. This strategy is based on expanding established economic ties with targeted countries or certain regions, to change the behavior of the target states and improve bilateral political relations. Chinese used this approach in 2010, offering Greece a dozen commercial deals in shipping, construction and tourism, opening the door for future Chinese investments including a lease of the Piraeus port.²⁴ A more recent example of a strategic engagement approach is the Chinese cooperation framework with the countries of Central and Eastern Europe, known as the "16 + 1" platform (now, with Greece accession, "17+1"). Using this initiative China

signing economic agreement Italy clearly stated a preference for bilateral economic cooperation with China without limits imposed by the EU.

²³ See Casarini, Nicola, Rome-Beijing: Changing the Game Italy's Embrace of China's Connectivity Project, Implications for the EU and the US, Istituto Affari Internazionali Papers 19/05, March 2019.

²⁴ In 2010 the Chinese shipping company Cosco leased for 35 years half of the port of Piraeus for 500 million Euros. The port was quickly modernized, and on March 2016 the Greek government agreed to sell a 67 percent stake in Piraeus Port Authority (PPA) to Cosco at 368.5 million Euros.

seeks to take advantage of the region's economic development potential and its geostrategic position that could play an important role in the BRI. The fact that the "17+1" cooperation framework represents the initiative of an external power to influence only a part of the EU members (without the participation of the founding members) in Brussels is seen as a way to create divisions between the European Union member states.

Importance of South East Europe

China sees SEE as a part of the EU periphery, which needs to be gradually penetrated with the goal of achieving access to the developed center of Europe. Such strategy requires establishing control of the main shipping ports and transport corridors as entry points for the Chinese products.

The Western Balkans is of special importance for creating a network of infrastructural connections in the BRI. In the Chinese view the region is a lynchpin for connecting Central Europe and the Mediterranean with wider Eurasia. Chinese investments in the region are trying simultaneously to achieve two goals: to create an entry point in the European market and to project its soft power and acquire allies among new EU members and membership candidates (and even to promote its political model in the region).

From a Chinese point of view there are few significant advantages in the Western Balkans:

1. The Western Balkans are still perceived as a region with underdeveloped democratic procedures and transparency in decision-making processes in comparison with the EU Member States. This is an advantage for the Chinese side which prefers investments based on the governmental agreements achieved during the political negotiations, instead of free tenders.
2. In making decisions on investments in the Western Balkan countries, China does not consider its democratization as an essential criterion. This opens doors for Chinese investments in states that had been deprived of the EU financial support due to the violation of the democratic principles (for example, in Macedonia and Republika Srpska in Bosnia and Herzegovina).

3. Chinese investments are not bound by EU standards and regulations in the field of financial sustainability of infrastructure projects.

Many of the projects lack transparency and public debate on procurement procedures. Despite some immediate positive economic impacts, loans made by Beijing are opening possibility of financial instability by creating large debt obligations. Balkan countries that probably lack the institutional capacity to implement signed financial agreements are particularly vulnerable.²⁵ An example in Montenegro illustrates this danger. The China Road and Bridge Corporation is building the Bar-Boljare highway with a EUR 809 million loan from Chinese Exim Bank. IMF assessment states that in 2019 the cost of project will raise Montenegro's debt to 78% of GDP instead of its decline to 59% of GDP.²⁶

According to the IMF, China is financing at least EUR 6.2 billion in railway, energy and road construction projects in the Western Balkans. With decreasing access to EU funding, economically underdeveloped Balkan states are more willing to accept Chinese investments free of burdensome EU requirements and oversight.

Change of China's BRI Strategy

Recently two challenges are forcing China to make changes in her BRI strategy. The first challenge is growing resistance to the BRI infrastructure projects managed under Chinese rules. The BRI funded projects are usually carried by Chinese companies, generally closed to local or international companies and frequently lacking a transparent decision-making process. Also, China usually provides loans rather than investments which can result in a debt trap and loss of sovereign control for recipients of loans.²⁷ The

²⁵ In 2018 Montenegro owed 40% of its debt to China, North Macedonia 20%, Bosnia and Herzegovina 14%, and Serbia 12%.

²⁶ See Keegan Elmer, *Is China's investment in infrastructure projects driving Western Balkan nations into debt?*, South China Morning Post, 22 May 2018 <<https://www.scmp.com/news/china/diplomacy-defence/article/2147293/chinas-investment-infrastructure-projects-driving>>.

²⁷ This is visible in Chinese investment in Sri Lanka port Hambantota. In December 2017 Sri Lanka government unable to repay U.S.\$ 8 billion investments from China was forced to turn operational control of a loss-making port Hambantota to a Chinese-

second challenge is the growing uncertainty regarding China's capability to provide financing for BRI projects in the future.

During last few years the BRI has ignited resistance and triggered pushback in some states in Asia and Africa. For example, in Malaysia are canceled two China-financed projects (U.S.\$ 20 billion worth East Coast Rail Link and two gas pipeline projects worth U.S.\$ 2,3 billion); in Myanmar are scaled back plans for a Chinese-backed Kyauk Pyu deepwater port on its western coast (initial U.S.\$ 7,3 billion prices to the U.S.\$ 1,3 billion).

The EU is also considering an appropriate response to the BRI and China's growing influence in Europe. A concern about a way of implementation of Chinese investments in infrastructure projects is mounting: in European views, the BRI is focused only on Chinese goals, and as such undermines transparency in public procurement and the EU social requirements, labor and/or human rights and environmental standards. Two important steps recently made by the EU are signaling an end to China's unrestrained access to the EU market if the Chinese side continues to refuse to reciprocate by liberalizing its market.

First is the new Euro-Asian Connectivity strategy published in September 2018. The new strategy, which is still in the preparation phase, intends to promote cooperation between the EU and selected Eurasian regions on regional infrastructure projects, including financing, interoperability with European policies and networks (for example, with the Trans-European Transport Network Policy) and logistics. Funding details are still under consideration²⁸ but with the new initiative the EU is sending a signal to its neighborhood in which is presenting cooperation with the Union as an alternative option to the Chinese BRI offers. This is visible in three core ideas of the new strategy: comprehensiveness (it covers energy, transport

dominated joint venture. Port Hambantota was leased to China for 99 years, and in a meantime, Sri Lanka's debt to China is increased to U.S.\$ 13 billion due to the high-interest rates on its existing loans.

²⁸ Under consideration is a 60 billion euro fund, with a final goal to raise more than 300 billion Euros in the next budget (2021 to 2027). This is still an open issue; at this moment proposed budget is not high enough to provide necessary funds, so the EU will be forced to ask for additional financial resources from the private sector and national, international and multilateral financial institutions.

and digital networks), sustainability (projects need to be economically, fiscally, environmentally and socially sustainable) and transparency and rules-based (based on European values and principles).

Second is the adoption of the new EU framework for foreign direct investment screening, which has entered into force on 10 April 2019.²⁹ Key feature of the new framework is setting minimum requirements for national screening mechanisms to enhance cooperation and information-sharing between the European Commission and Member States on specific foreign direct investments proposals which could affect security of the Member States or the whole EU.

The second challenge, a question about China's capability to finance BRI projects in the future, has been more pronounced during last two years. Series of events – the start of a trade war with the US, an economic slowdown in China and growing criticism from nations receiving BRI loans – is opening criticism even in Chinese business and academic communities about proper use of Chinese economic resources.

At the start of the BRI in 2013 China foreign exchange reserves were approaching the amount of US\$ 4 trillion, which was enough for financing BRI projects. But, in the last six years China's economic slowdown started a capital flight which resulted in lowering Chinese foreign exchange reserves for more than US\$ 1 trillion. The beginning of a trade war with Washington and uncertainty about future China-US commercial relations will significantly reduce Chinese exports to the US and, probably to a lesser extent, to other developed markets.

Mentioned factors are pointing to the disappearance of China's current-account surplus. In 2018 China's current-account surplus was just 0.4% of GDP. According to IMF predictions, in 2019 China will probably run its first annual current-account deficit since 1993.³⁰ This will force China to

²⁹ See: EU foreign investment screening regulation enters into force, European Commission – Press release IP/19/2088, Brussels, 10 April 2019 <http://europa.eu/rapid/press-release_IP-19-2088_en.htm>.

³⁰ The big flip: China may soon run its first annual current-account deficit in decades, *The Economist*, 18 March 2019.

focus the use of foreign exchange reserves to defend its currency and maintain investor's confidence in China's macroeconomic stability. Rising pension costs also represent a burden for the Chinese economy. The next step will be an emphasis on the austerity economic measures, caused by declining fiscal revenue growth and Beijing's 2018 decision to cut taxes to stimulate declining economic growth. All this points to the conclusion that Chinese political leadership, because of declining economic resources, needs to review its external commitments including the BRI.

Despite some prognosis that mounting Chinese economic problem will spell end of the BRI, this will not happen. The BRI has become an important initiative for cultivating export markets (including the EU) and absorbing Chinese surplus labor and industrial capacities. Finally, Beijing sees the BRI as a strategic long-term global influence operation.

In recalibrating the BRI Beijing is implementing three strategies:

1. Involvement of the third-party countries and organizations. Recently China is trying to involve its rivals in joint infrastructure projects with the goal of lessening growing resistance to the BRI. For example, China has discussed with Japan possible joint projects in the BRI, and similar overtures were made to India.³¹ In Europe, China is attempting to discuss with Germany joint infrastructure projects in Central and Eastern Europe.³² Attempt to open BRI to the third-party investments reflects Chinese acknowledgment that domestic funding alone cannot ensure future financing of infrastructure projects without growing financial risk to its banks and companies. This also opens another dilemma for Beijing: risk of loss of control over financing BRI projects. Despite significant efforts, China still did not achieve any breakthrough in attempts to involve its key geopolitical rivals in joint BRI projects.

³¹ Dipanjan Roy Chaudhury, Beijing tries to woo India after BRI summit snub, *The Economic Times*, April 27 2019.

³² China Changes Gears on the Belt and Road Initiative, *Stratfor* 26 April 2019 <<https://worldview.stratfor.com/article/china-changes-gears-belt-and-road-initiative>>.

2. Future Chinese investments will be more oriented towards long term Chinese direct participation as managers and stakeholders in running projects. Instead of providing loans, China is trying to secure long term economic concessions and purchase of the propriety/infrastructure. For example, Chinese company China Merchants Holding which constructed the new port and industrial complex in Djibouti also as a stakeholder is jointly managing those projects in a consortium with Djiboutian port authorities. Similar arrangements are proposed for new railway projects in Ethiopia and Kenya (Chinese companies would be also tasked with railway operations and maintenance for a period to ten years after construction is completed).

3. A growing emphasis on the development of scientific cooperation in the BRI framework. China is trying to build the Alliance of International Science Organizations, a BRI science cooperation network led by Beijing. Eastern European countries, occupied with problems of insufficient financial support for scientific research and development projects and persistent brain drain, are more than willing to accept a promise of investments in infrastructure and research. For example, in Bulgaria China is financing an energy-efficient “smart city” project near the Sofia, worth between 1,2 to 1,5 billion euros.³³

Opinions about Chinese investments in scientific research are divided. The optimistic view states that the host countries are hoping to gain scientifically and economic benefits from cooperation with China. The pessimistic view states that this unequal partnership will result in a debt trap and force them to give China economic valuable scientific results.³⁴

Case of Croatia

Mentioned trends are visible in Chinese investment offers to Croatia. Proposed Chinese projects in Croatia are connected with the development of the part of the BRI maritime component (Maritime Silk Road) in Europe. The key for the establishment of the western end of Maritime Silk Road is

³³ The Sofia smart city project gets Chinese funding, China Daily, 28 March 2019.

³⁴ Ehsan Masood, All roads lead to China: How China is redrawing the map of world science, Nature Vol. 569. 2 May 2019, pp, 20-23.

linking together Adriatic ports in Italy (Ravenna, Venice, Trieste), Slovenia (Koper) and Croatia (Rijeka, Zadar, Ploče) in a “multi-port gateway” together with the improvement of transportation networks in the hinterland. Ownership of those ports would enable efficient use of the North Adriatic maritime transport route which is still the shortest way to reach inland regions of the European continent from East Asia. This means that North Adriatic ports are geographically more usable than Piraeus port as the main Mediterranean gateway for Chinese goods.

The port of Rijeka represents a transit point not only for neighboring countries but also a potential entry point for the Adriatic-Baltic Sea corridor. With the modernization of the port and railway connection towards Zagreb and Budapest the goods from the port can reach Austria and Germany in a short period. Croatian authorities are offering a 50-year concession for this port, and two Chinese companies (consortium Ningbo Port and China Road and Bridge Company) expressed interest in obtaining a concession for the construction and management of the new deep-water container terminal in the port.

The port of Zadar cargo terminal is now under control of the Chinese company Luxury Real Estate which became the owner of a 75 percent stake, acquiring a 25-years concession for the port. It is expected that in the next few years the port of Zadar will get part of the Chinese traffic and cargo that are now sent in the port of Koper in Slovenia.

The port of Ploče situated on the southern part of Croatia’s Adriatic coast is the main entry point for Bosnia and Herzegovina. Up to now, only Chinese investment was a 30 million euros contract for the supply and installation of equipment for a new bulk cargo terminal signed with the Chinese company CNBM International Engineering in 2014. Last year the Chinese company COSCO announced that it intends to build a freight container terminal in the port of Ploče, as an import-export destination for Bosnia and Herzegovina market.³⁵

³⁵ China’s COSCO Shipping Wants to Use Ploče Port, HINA, 25 September 2018 <<https://www.total-croatia-news.com/business/31261-china-s-cosco-shipping-wants-to-use-ploce-port>>.

Chinese companies are also interested in the modernization of the Croatian railway network. One of the greatest obstacles for the development of the Croatian port facilities is single-track railways with insufficient transport capacity. The Croatian government intends to attract foreign investment for rail infrastructure modernization in the amount of 3 billion Euros by 2030. In case of the Rijeka-Zagreb railway Croatian government is considering a concession deal with the China Road and Bridge Corporation, but such contract would close the possibility of using EU structural fund financing.

The Chinese companies also want to invest in the development of railway connections to other Croatian ports (Zadar, Šibenik and Split), with the aim to develop and manage rail corridors to these port.³⁶ For the Chinese side this opens the possibility of linking railway modernization in Croatia and Bosnia and Herzegovina. The Chinese company Luxury Real Estate expressed also its readiness to invest in the renovation and modernization of Unska railway, the shortest railway connection between mainland and coastal parts of Croatia which partially passes through the territory of Bosnia and Herzegovina. This initiative has been supported by the Croatian Chamber of Economy.³⁷ China's COSCO Shipping Dragon Maritime Company has recently opened its branch office in Bosnia and Herzegovina's capital Sarajevo.³⁸ One of the COSCO stated goals is a modernization of Sarajevo-Ploče railway, together with the construction of freight container terminals in Sarajevo and Ploče. If this project is successful COSCO would probably consider modernization of Sarajevo-Osijek-Budapest railway on the international transport corridor Vc.

³⁶ This was stated in a Memorandum signed between Croatian railway operator HŽ Infrastruktura and China Railway Eryuan Engineering Group. See: HŽI potpisao dva memoranduma s vodećim kineskim tvrtkama (HŽI signed two Memorandums with leading Chinese companies), HŽ Infrastruktura, 12 April 2019 <<http://www.hzinfra.hr/?p=17810>>.

³⁷ Unska pruga ojačala bi luku u Gaženici (Unska railway would strengthen Port of Galzenica), Poslovni dnevnik, 4 September 2018 <<http://www.poslovni.hr/hrvatska/unska-pruga-ojacala-bi-luku-u-gazenici-344570>>.

³⁸ China's biggest shipping Company to start its business in BiH, Sarajevo Times, 26 September 2018. <<https://www.sarajevotimes.com/chinas-biggest-shipping-company-to-start-its-business-in-bih/>>.

Another possible investment in Croatian transport infrastructure could be linked with Chinese growing interest for development of the Danube region as a waterway linking the Mediterranean Sea and the existing inland river transport network in Europe and the Black Sea.³⁹ Under consideration is the project of building a waterway from Thessaloniki via Axios River in Greece, crossing through North Macedonia, connecting with the Morava River in Serbia and ending on the Danube River.⁴⁰ Part of such project would be modernization of the Croatian and Serbian inland ports on the Danube River which would demand the increase of river ports' capacities. Such possibility is visible in the Chinese interest for investing in Osijek river port and constructing a cargo and logistics center at Osijek Airport.⁴¹

In all stated cases the Chinese side expressed interest in taking long-term concessions or direct equity investments instead of direct lending to the Croatian government.

The Chinese interest for scientific cooperation in the BRI framework is visible in exploring the possibility for cooperation with Brodarski institut in Zagreb. Brodarski Institut is Croatia's research institute specialized for developing shipbuilding projects, maritime control engineering, acoustics research and development of renewable energy sources. During a recent visit a delegation of the China Shipbuilding Industry Corporation expressed interest for cooperation, but without specifics. Representatives of the Institute stated interest for a joint venture cooperation instead of a Chinese takeover of Brodarski institut and its accumulated knowledge and expertise.⁴²

³⁹ See Long Jing, China's Engagement in the Danube Sub-Region: Opportunities and Challenges, *China Quarterly of International Strategic Studies* 3(4), 2017, pp. 535-550.

⁴⁰ Stavros Tzimas, Chinese interests could make plan to link Danube and Aegean a reality, *Kathimerini English Edition*, 28 August, 2017 <<http://www.ekathimerini.com/221159/article/ekathimerini/business/chinese-interests-could-make-plan-to-link-danube-and-aegean-a-reality>>.

⁴¹ Chinese company sees further investment in Croatia, *HINA* 11 June 2019 <<https://www.thedubrovniktimes.com/news/croatia/item/6827-chinese-company-sees-further-investment-in-croatia>>.

⁴² Marija Brnić, S Kinezima želimo projektnu suradnju, a ne njihov vlasnički ulazak u Institut (We want to establish project cooperation with the Chinese, not their ownership of the Institute), *Poslovni dnevnik*, 15 May 2019

Possible Chinese investment in Croatia is eased by the fact that the current government (like its predecessors) is desperate for attracting foreign investment. Foreign investment in Croatia is being held back by a poor business climate caused by a lack of major reforms. In such conditions Croatian authorities are showing a willingness to grant the Chinese side generous conditions for investment, which is visible in statements made by the Croatian Minister for Infrastructure, Oleg Butković, about the possibility of accepting Chinese proposals for long-term concessions.⁴³

Croatia also lacks a regulatory framework and screening mechanisms for foreign direct investment. There are only a few regulatory restrictions for preventing foreign investment entry in the Croatia economic activities, which are limited in their scope.⁴⁴

Finally, Croatia has a relatively big and strong but inefficient public administration marked by over-politicization, low competence, red tape and internal bureaucratic resistance to modernization.⁴⁵ The consequences of such situation are weak strategic planning and policymaking, costly and ineffective public services and politically motivated recruitments in the civil service at all levels of government.

All mentioned is giving Chinese side opportunity to get an advantage over Croatia during negotiations about modalities of investment, strongly promote Chinese economic interests and build its political influence in the host country. Such possibility is visible in Chinese political clout created in Greece: in 2016 Greek government (together with Hungary) has blocked a

<<http://www.poslovnih.hr/hrvatska/s-kinezima-zelimo-projekt-nu-suradnju-a-ne-njihov-vlasnicki-ulazak-u-institut-353234>>.

⁴³ Grgas Gordana, Evo u čemu je opasnost koncesije na 50 godina za željeznički projekt koji žele i Kinezi (What's the danger of a 50-year concession for a railway project that China wants), Jutarnji list, 27 April 2019 <<https://novac.jutarnji.hr/aktualno/evo-u-cemu-je-opasnost-koncesije-na-50-godina-za-zeljeznicki-projekt-koji-zele-i-kinezi/8791454/>>.

⁴⁴ See OECD Investment Policy Reviews: Croatia, 2019, OECD Publishing, 18. June, 2019, pp. 85-86.

⁴⁵ See: - Ivan Koprić, Public Administration Reform in Croatia: Slow Modernization during Europeanization of Resilient Bureaucracy, Administration issues No. 5, 2019, pp. 7-26.- Ivan Koprić, Public administration characteristics and performance in EU28: Croatia, Publications Office of the European Union, Luxembourg 2018.

strongly worded EU Council declaration on Chinese militarization in the South China Sea, and in 2017 again blocked an EU condemnation of China's human rights record at the United Nations.

Conclusion

The issue of the China's influence in SEE and the Western Balkans is directly connected with recent changes in the relations between the EU and China. Chinese perception of the EU has been changed between 2008 and 2012 as a consequence of the Euro zone crisis and the Union's inability to overcome political and economic differences between the Member States. China has lowered its expectations of the EU as a growing power and of importance of the collaboration with the EU. China still would benefit from the development of economic relations with Europe, giving strategic importance of the economic development for resolving key internal security challenge to China (coastal-interior economic split).

In new circumstances instead of treating the EU as an equal strategic partner, China is attempting to develop an unequal economic relationship with a goal of achieving full Chinese access to the EU market, simultaneously limiting the Union access to the Chinese market. China is looking to use created influence not only in negotiations on economic issues but also in the negotiations with the EU on sensitive political issues important for China (status of human rights in China, EU arms embargo on China, South China Sea, future of Taiwan). In such strategy Beijing is focusing its attempts to foster influence on the EU Member States, using the BRI as one of the mechanisms for gaining their support. The Czech Republic, Hungary and Greece are often mentioned as countries where China's influence is said to be visible. Implementation of this strategy is visible in the SEE and the Western Balkans, where China intends to establish a transportation infrastructure network to bolster its exports to Europe. A most recent example is Chinese investment offers made to Croatia. Such a strategy has increased China's economic and political influence in Central and Eastern Europe.⁴⁶

⁴⁶ See Pepermans, Astrid, China's 16+1 and Belt and Road Initiative in Central and Eastern Europe: economic and political influence at a cheap price, *Journal of Contemporary Central and Eastern Europe* 26 (2-3), 2018, pp.181-203.

Despite the growth of Chinese investments, Western Balkans countries remain economically dependent on the EU. The EU accounts for more than 70% of overall direct investment, much more than China's 11%. The main reason for success of Chinese advances in the Western Balkans is disillusionment of the Western Balkans countries with Brussels policy towards region. Without clear prospects of the EU membership,, candidate countries are looking for possible alternative sources of financing their economic modernization. This is an opportunity for China to increase its economic and political influence in the Western Balkans.

**PART III:
ECONOMIC INTERESTS AND POLICIES OF
EXTERNAL ACTORS VIS-À-VIS SOUTH EAST
EUROPE**

Economic Development, Infrastructure Projects, Foreign Trade and Investment in the Western Balkans

Mario Holzner

Economic Outlook

Except for North Macedonia, economic growth in 2018 was fairly robust, at least by post-crisis standards. Most economies in the Western Balkans recorded real GDP growth rates of around 4%. However, global growth trends point south. Major slowdowns are expected for China and Germany. Particularly, the latter is the most important market for products from Central, East and Southeast Europe (CESEE). Global monetary policy remains (and will remain) extraordinarily loose, which might help to avoid economic stagnation or even recession. Nevertheless, the outlook for 2019 and the years thereafter implies for CESEE an adjustment to life in the slow lane as the external resilience will be severely tested. This is also true for the Western Balkans. Although, it has to be mentioned that the Western Balkans will be less exposed to a global growth slowdown due to their lower trade openness (Figure 1), compared to other CESEE economies.

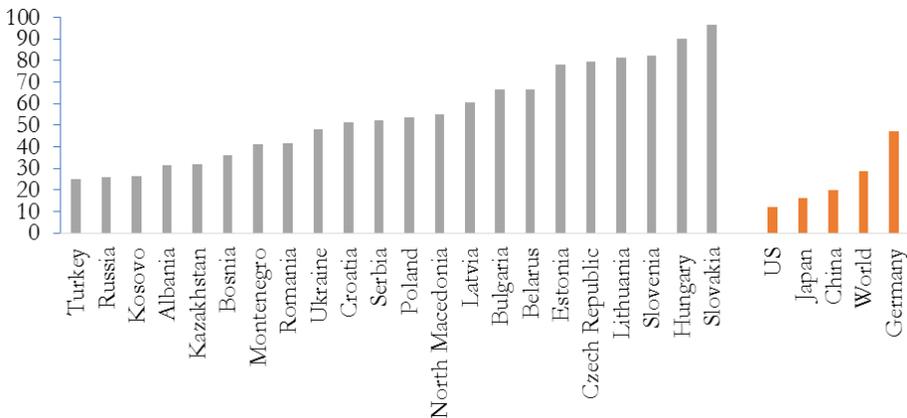


Figure 1: Exports of goods and services, % of GDP, 2017; (Source: World Bank)

Economic growth in the Western Balkans in 2019-2021 is expected to slow down to below 3%. Kosovo and Albania might experience higher rates as these two countries have a trade openness that is extremely low, even for Western Balkan standards.

After decades of (mass-)emigration from CESEE to Western Europe, the demographic change is leading to labour shortages and related wage increases in a number of economies of the wider region. The later symptoms are not yet felt heavily in the Western Balkans as unemployment rates are quite high, still. However, a massive further drop in working age population is expected for the next decades, posing a serious challenge for economy and society.

EU and Chinese Infrastructure Projects

An important policy measure for the medium and long run economic development in the Western Balkans is the investment in infrastructure. This is particularly important for a region that has traditionally been disadvantaged due to its peripheral geographic position in Europe. Infrastructure investment is supported by various European agents such as the EU, single donor countries as well as other international financial organisations. European support funds are blended in the Western Balkans Investment Framework (WBIF). Since 2009, European support of about 1 billion Euro in grants and 5.4 billion Euro in loans has triggered overall infrastructure investment of 18.2 billion Euro. The difference is stemming from external and own contributions of the Western Balkan governments. Unsurprisingly, the biggest countries in the region – Serbia and Bosnia and Herzegovina – are the main targets of the funding activities of WBIF (Figure 2). However, an even more substantial part of the funds is earmarked for common Western Balkan (WB) activities.

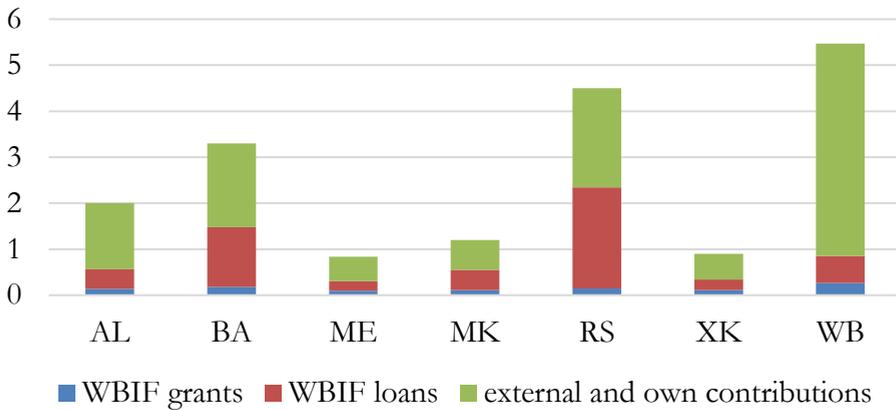


Figure 2: WBIF supported infrastructure investment projects, by financing source, in EUR billion, since 2009 (Source: WBIF, as of 16 March 2019).

A substantial part of WBIF projects are in implementation, tendering and preparation. Depending on the country, between about 5% and 30% of the projects have been completed so far. Investment volume wise, WBIF support for transport infrastructure is dominating by far and attracting most grants. This is followed by energy projects, social and environment projects. Only little funds were directed to private sector development (PSD) and digital infrastructure (Figure 3).

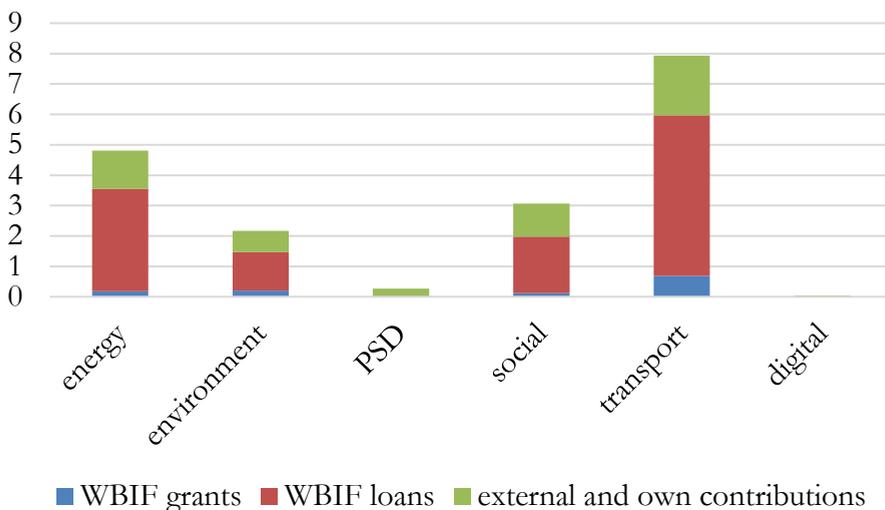


Figure 3: WBIF supported infrastructure investment projects, by sector and financing source, in EUR billion, since 2009 (Source: WBIF, as of 16 March 2019).

In terms of project numbers, there is an almost equal number of investments in transport, energy and environment. This hints at the high costs related to the transport infrastructure investments in road and rail networks in the Western Balkans.

The other big player in terms of infrastructure construction projects in the Western Balkans is China. The country actively promotes government to government contracts including Chinese banks' financing of Chinese construction companies, which are employing Chinese engineers, workers and construction materials. Since 2010, Chinese construction loans have reached an investment volume of 8,7 billion euros. However, the realisation is not always guaranteed. Thus, several of the announced projects might never be realised at all. Nevertheless, a number of big projects are being implemented, such as for instance the Chinese rehabilitation of the Serbian railway tracks connecting Belgrade with the Hungarian border in the north (by China Railway Engineering and China Communications Construction companies) or the construction of the first Montenegrin motorway (by China Communications Construction).

Even more than in the case of WBIF infrastructure investment, Chinese activities focus on Serbia and Bosnia and Herzegovina (Figure 4). Given its size Montenegro receives a lot of Chinese attention, too. In Macedonia only little funds are projected and Albania and Kosovo have not attracted any Chinese construction project so far. Also, Kosovo is unlikely to receive any loans given that China does not recognise the sovereignty of Kosovo.

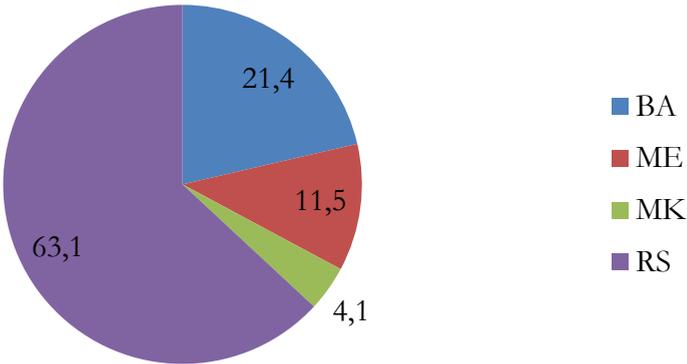


Figure 4: Chinese firms' major construction contracts in the Western Balkans, by country, in % of total, in 2005-2018 (Source: China Global Investment Tracker).

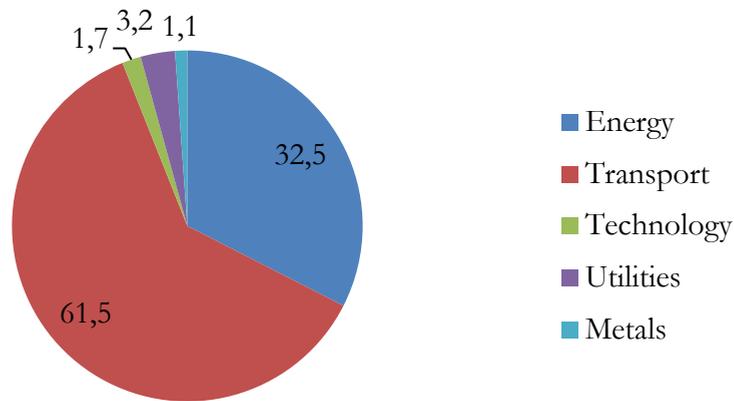


Figure 5: Chinese firms' major construction contracts in the Western Balkans, by sector, in % of total, in 2005-2018 (Source: China Global Investment Tracker).

Similarly to the WBIF activities, Chinese construction loans overwhelmingly finance transport projects (Figure 5). About a third of the loans are earmarked for energy projects. The remaining few percent of the loans sum is dedicated to other sectors such as utilities. Particularly Chinese energy projects are criticised due to their focus on the construction of polluting coal fired power plants. A further point of criticism is that the Chinese projects, as compared to the European, have no grant component but are loans only. Thus, they contribute completely to the Western Balkan countries' general government as well as external debt.

External Actors' Foreign Trade Relations

While in terms of foreign support for infrastructure investment Europe and China are both strong competitors in the region, in trade the EU is the only game in town. This is particularly true for the Western Balkan economies' goods export markets. Here, the EU is clearly dominating with export shares of around 70% (Figure 6). Only in Kosovo and Montenegro these shares are below 50% as regional trade is very important in these cases. Other potential export markets such as the United States of America, China, Russia, Turkey or the Gulf states are almost irrelevant, despite their attempts at gaining political influence in the Western Balkans.

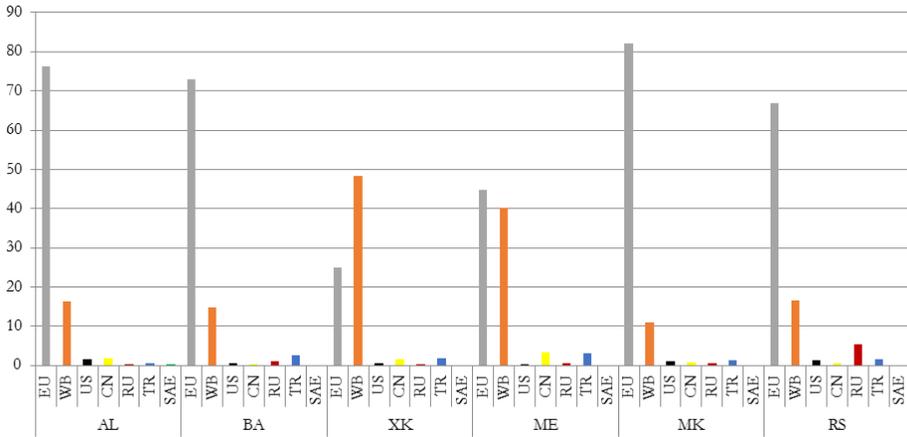


Figure 6: Goods exports in % of total, by trade partners, 2018 (Note: WB are the Western Balkan partner countries and SAE refers to the sum of Saudi Arabia and the United Arab Emirates; Data for Kosovo from 2017. Source: wiiw Annual Database).

The situation is quite similar in terms of imports. However, the EU dominance is somewhat weaker. The EU's share as a source country of Western Balkan imports is at about 40% - 60% (Figure 7). In almost all the countries of the region China achieves an import market share of close to 10%. This is also true for Turkey in the cases of Albania and Kosovo and for Russia in the case of Serbia. The United States and the Gulf states are irrelevant as source countries of imports in the Western Balkans.

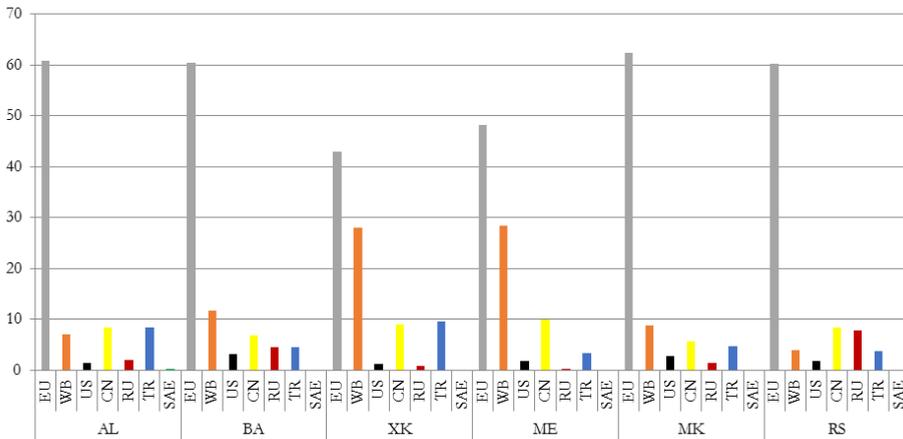


Figure 7: Goods imports in % of total, by trade partners, 2018 (Note: WB are the Western Balkan partner countries and SAE refers to the sum of Saudi Arabia and the United Arab Emirates; Data for Kosovo from 2017. Source: wiiw Annual Database).

External Actors' Foreign Direct Investment Relations

Given the dominance of the EU in the region's trade flows it is not surprising that also in terms for foreign direct investment (FDI), the EU is clearly dominating other potential source countries of economic influence. Many FDI projects are directly linked with the creation of export capacities. EU's share in the local FDI stock is ranging between about 40% in Kosovo and some 80% in Serbia (Figure 8). FDI from the region itself is only relevant for Bosnia and Herzegovina, where it makes around 15%. There is some increased presence of Turkish FDI in Albania, Kosovo and Macedonia and of Russian FDI in Montenegro, Serbia and Bosnia and Herzegovina. However, their shares in total FDI stock are typically around or clearly below 10%. Interestingly, the Gulf states have a sizable FDI presence in Montenegro only, where they have a share of about 8% in the total stock of FDI.

Nevertheless, it needs to be mentioned that FDI data by investment partners does not always reflect the true origin of investment funds. Often, investment vehicles in another country are used for tax purposes. Thus, it is well known from anecdotal evidence that a lot of U.S. (and Russian) investment in CESEE is channelled via e.g. the Netherlands and Cyprus and other tax havens.

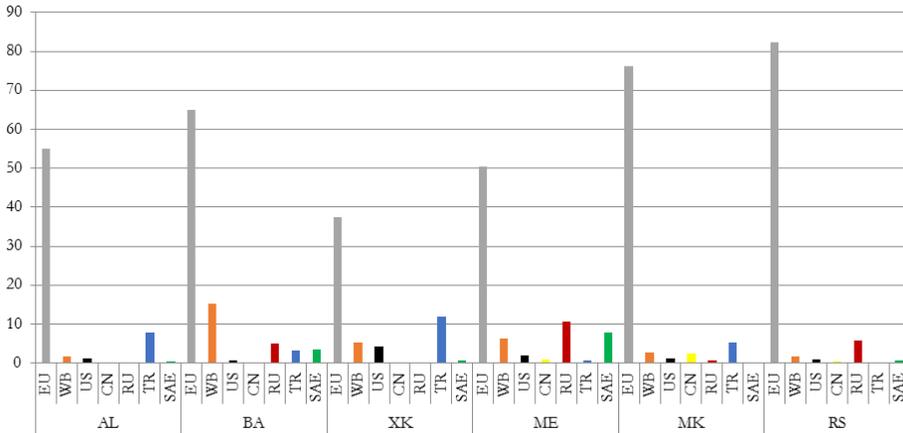


Figure 8: Inward FDI stocks in % of total, by investment partners, 2018 (Note: WB are the Western Balkan partner countries and SAE refers to the sum of Saudi Arabia and the United Arab Emirates; Data for BA, ME and MK from 2017; Data for RS from 2015. Source: wiw Annual Database).

It is also important to mention that there is a distinct difference between the infrastructure construction projects discussed earlier and FDI. The former typically does not involve foreign ownership but only financial support (mostly via loans) for the building of e.g. crucial transport or energy projects owned by local (public) companies. By contrast, FDI involves foreign controlling ownership in a business. A large part of FDI is invested in the local banking, insurance, retail and manufacturing sectors.

Conclusions and Policy Recommendations

To sum up, the current global economic cycle has reached the peak and is now entering a lower growth path. The economies from the Western Balkans will be less affected by the global growth slowdown, as they have lower levels of trade openness than their peers in other parts of Central, East and Southeast Europe. After decades of (mass) emigration a demographic change has set in. The region is expected to face the challenge of a falling working age population. Over the medium to long run this will have serious consequences on the labour markets.

Both, in order to react to the weakening short run business cycle as well as to the medium to long run challenges of a region that was throughout its history at the economic and geographic periphery of Europe it is important to inter alia invest in infrastructure and to attract foreign direct investment in productive export capacities. Only as a part of the global value chains will it be possible to increase incomes to levels closer to the most productive areas in Western Europe. While a lack of trade openness might be shielding from a global growth slowdown in the short run it also prevents long run productivity growth via specialisation.

Currently, infrastructure investment is supported both by Europe via the Western Balkans Investment Framework as well as China in the framework of the Belt and Road Initiative. While the EU is also offering some grants, it is mostly loans that support investment in e.g. transport and energy infrastructure. In the case of Chinese support it is in loans only. The improvements in infrastructure as well as the gradual rapprochement within the region as well as the EU accession process are increasingly improving the business climate for investment in productive capacities.

In terms of FDI the EU is the only game in town despite some increased presence of Turkish and Russian investors in certain countries of the region. Consequently, the Western Balkans are mostly trading goods with the EU (as well as with each other). Only little is traded with foreign powers seeking influence in the region, yet. Nevertheless, in terms of the region's imports China, and in some cases also Russia and Turkey, have some (non-negligible) smaller shares in total imports as source countries.

At the moment it appears that China is mostly seeking to export excess capacities to the region via their construction projects as well as cheap import goods. However, many of the infrastructure construction projects are being criticised due to their lack of EU compatible environmental standards as well as due to the non-transparent contract award process and the debt creating financing scheme. Also, these activities are seen as a possible steppingstone to gain more political influence in the region.

In order to respond to competition from foreign powers, the EU should open its structural funds to the (potential) candidate countries from the Western Balkans, especially for infrastructure investment. This could have

the potential to increase EU support for the region relative to its GDP substantially, while at the same time causing only very little additional costs to the EU budget given the (economically) small size of the Western Balkan economies.

Given the strong euroisation in the Western Balkans and the fact that several economies of the region have either unilaterally adopted the euro or run a fixed exchange rate regime vis a vis the euro, an accession to the euro area (even if only as second class members, e.g. without voting rights) would not cause a lot of economic disruptions but on the contrary have the potential to massively reduce the interest rates in the region and thereby facilitate much needed investment in productive capacities.

**PART IV:
POLICY RECOMMENDATIONS**

Policy Recommendations¹

“Regional Stability in South East Europe” Study Group

Summary of Recommendations

- *EU and U.S. government:* Accentuate your strategic alliance in SEE (South East Europe)/the WB (Western Balkans) stronger.
- *EU:* Include the U.S. in the relevant EU driven formats for the WB (Belgrade-Prishtina/Priština dialogue, “Berlin-Process”).
- *EU and U.S. government:* Offer financial aid to Kosovo and Serbia for a legally binding agreement on normalization in order to support their economies, health and educational sector.
- *EU and WB governments:* Establish monitoring mechanisms to review the legal, economic and environmental compatibility of external investments and loans with the “*aquis communautaire*”.
- *EU and U.S. government:* Offer adequate funding possibilities to WB states for strategic infrastructure projects to avoid suspect Chinese investments.
- *EU and U.S. government:* Pro-actively use public diplomacy tools for communicating investments and donations in the WB.
- *EU:* Maintain the office of the Commissioner for Enlargement as an important element of a credible integration policy towards the WB.
- *EU:* Provide a visa free regime to Kosovo citizens without delay.
- *EU:* Impose “smart sanctions” to corrupt politicians in the WB.
- *EU and WB:* Revitalize an active role of the “Energy Community”.
- *WB governments:* Diversify your FDIs (Foreign Direct Investment) and energy supply sources.

¹ These policy recommendations reflect the findings of the 38th RSSEE workshop on “Competing External Influences in South East Europe – Implications for Regional Consolidation”, convened by the PFP Consortium Study Group “Regional Stability in Southeast Europe” in Reichenau, Austria, 16-19 May 2019. They were prepared by Predrag Jureković (Austrian National Defence Academy) on the basis of proposals submitted by the workshop participants. Valuable support in proofreading and layouting came from Klara Krgović and Maya Hadar (Austrian National Defence Academy).

- *WB governments:* Implement strict guidelines for asset management in strategic sectors.

Situation Analysis

Compared to the EU, the U.S. and Turkey, both Russia and China have significantly increased their commitment in Southeast Europe (SEE) and in particular in the Western Balkans (WB) in recent years. The **EU** – still by far the biggest external player in the region and the only one with an appealing and implementable accession concept and a vision called “Thessaloniki promise”, has visibly and noticeably reduced its political and economic commitment over the last few years, in the end due to serious inner frictions and profound enlargement fatigue. The **U.S.**, not only since President Trump came into power, has stated frequently that Washington sees the future of the region as first and foremost the EU’s responsibility (“primarily the EU’s backyard”). Consequently, U.S. influence in the region has been waning, but has definitely not disappeared completely.

Notwithstanding its political frictions with the U.S. and the EU, **Turkey** for the time being is still a supporter of SEE/the WB for being integrated into the NATO and EU. The regional power on the Bosphorus has always been seen as a culturally, religiously – and to a lesser extent – economically interested actor in the region, though much less powerful and attractive to those countries without significant Islamic communities. Turkey’s political and in particular economic decline under President Recep Erdoğan has contributed partly to a loss of image in Southeastern Europe, above all in the WB. However, for nationalist and conservative circles in the Islamic communities of the WB Erdoğan’s authoritarian political style provides a certain attraction and signals Neo-Ottoman ambitions.

External economic, financial and other investments in the WB have not been a malign process per se – in principle, large investment, long-term loans, refurbishments of weak enterprises, modernization of the energy sector and large infrastructure projects can help the economic upswing and the prosperity of the region.

The Russian and Chinese involvement comprises multiple dimensions, including large investments, loans, purchases of enterprises and shares, commitment in the energy sector (fossil fuels), large infrastructure projects (harbours, airports, bridges, motorways), military cooperation (e.g. equipment) and even joint diplomatic activities. It seems though that Russia and China have entered the strategic competition for political and economic influence with only partly overlapping motives. While Russia seeks to preserve and increase its great power status also in Southeastern Europe, China is seen as a rising power in the region keen to be recognized and respected for the first time as a major global player in an area where it has not played a significant role before.

While China seems to use mainly traditional economic and financial instruments for its purposes (economic espionage not excluded), especially, where the EU has left vacuums of commitment, **Russia** cannot deny that it has frequently tried to make use also of intelligence and even dubious, not to say sinister instruments and tools to undermine the EU and NATO as politically unpleasant competitors if not strategic enemies in a region which is generally not of primary importance for Moscow. Examples of this have been the involvement of Russian intelligence officers in an attempted coup in Montenegro (2016), Moscow's political support for Serbian nationalists in the region and the hostile attitude of Russian officials against the compromise solution that was reached by Skopje and Athens to their long-running name dispute. The latter will enable North Macedonia's accession to NATO in the near future. Russia seems to pursue a politically hostile strategy against the West in general through its Balkan commitment. The prospects for narrowing the gaps between the West and Russia in regard to their policies towards SEE/the WB primarily depend on achieving substantial progress in terminating the Ukraine conflict and on Russia's reintegration as a constructive member of the international community. However, such a positive development is not likely to happen in the near future.

Unlike Russia, **China** officially emphasizes its policy of non-interference in the affairs of other countries, although it has not been clear if it does not force conditions on its partners which could be designed to create long-term political dependencies. This applies e.g. to large loans that are directed towards small-scale economies like Montenegro. In SEE China is perceived very positively due to its large flexibility in financing infrastructure projects.

These investments, on the other hand, are suspiciously observed by the EU Commission in Brussels which assumes the decline of legal and ecologic standards in their SEE candidate countries and incompatibility with EU guided transport and energy programmes in which the WB is planned to be integrated.

The number of citizens from **Gulf countries** who visit the WB countries, in particular Bosnia and Herzegovina, as tourists and buy property has significantly increased in recent years. Concerning this trend perceptions are ambivalent. While Arab investments are mainly welcomed in the region, even in countries with a non-Muslim majority population like Serbia, worries exist related to possible negative long-term impacts on the cultural and religious identity of WB Muslims that in their great majority follow tolerant interpretations of Islam and accept the co-existence with non-Muslims.

Policy Recommendations

For the EU and U.S. regarding their cooperation in SEE/the WB

- *U.S. gov.:* Reconsider the extent of your political commitment in the WB, resuming at least the former respective strategic involvement of your country to secure a peaceful, multi-ethnic, stable and prosperous development in the region, given that the U.S. played a key role in ending the various Balkan wars, contributing vastly to the post-war settlements still in place.
- *EU and U.S. gov.:* Accentuate your strategic alliance to support the consolidation process in SEE and make it more visible to the regional as well as other external actors.
- *EU and U.S. gov.:* More strategic cooperation between the western actors is needed to better coordinate consolidation policies. This should include sharing of intelligence findings about the influences of Russia, China and some Islamic states in SEE.
- *EU:* To this end consider including the U.S. in the various EU chaired or EU driven formats and processes linked to SEE/the WB – including

the Belgrade-Prishtina/Priština dialogue and the “Berlin Process” –, at least, for the beginning, as observers.

- *EU*: In this context, recognize that at critical points of maldevelopments in some of the WB countries, the U.S. has demonstrated, by issuing unequivocal, forceful political statements (e.g. in the case of the Republika Srpska), how to keep access candidates on the track towards sustainable peace they have agreed to.
- *EU and U.S.*: Offer adequate loans and funding possibilities to WB countries for strategic infrastructure projects, in order to mitigate potential negative effects of growing Chinese investments in the WB. This can be done via the “Berlin Process” or similar programmes, or by giving the WB access to low interest rates for loans similar to those for EU member states.
- *EU and U.S.*: Consider providing financial aid to Kosovo and Serbia for the implementation of a legally binding agreement on normalization and the development of their economies, infrastructure, health, education, as well as other sectors.

For the EU regarding the influence of China, Russia and Turkey in SEE/the WB

- The region of SEE/the WB needs substantial FDIs in order to catch up economically with regard to the more developed parts of Europe. Thus, do not take a negative stance from the start with respect to Chinese investments in SEE/the WB. Moreover, your member countries themselves are interested to make economic deals with this rising Asian power.
- However, these investments in the EU and SEE/the WB coming from China and other external actors must be transparent and compatible with the standards defined in the *aquis communautaire* and with Union’s long-term strategic interests. For that reason, establish monitoring mechanisms to review the legal, economic and environmental compatibility of Chinese and other external investments and loans to the EU and SEE countries.

- Encourage the dialogue with the Russian Federation and find depoliticized economic points of interest convergence in the region with the Russian state and non-state actors to promote predictability and mutual trust in the Balkans on the premise that the dialogue can only progress if Russia stops its hostile activities in Eastern Ukraine and de-occupies Crimea.
- Encourage the continuation of the effective implementation of the bilateral EU-Turkey Agreement on migration.

For the EU regarding its role in SEE/the WB

- In general, remain strongly present in the region by keeping the enlargement perspective alive and certain for the WB countries. This will ensure further democratic development, consolidation and economic progress. In addition, it will safeguard security and stability and foster the rule of law in these countries
- The new composition and structure of the EU Commission must include the position of the Commissioner for Enlargement in order to ensure that the enlargement policy remains alive and serves as one of the key policies of the EU.
- Provide without delay a visa free regime within the Schengen Zone to Kosovo citizens.
- Impose “smart sanctions” to corrupt politicians in the WB, including travel bans and freezing of their financial assets, as a means of pressure for state de-capturing in the WB.
- Use diplomatic formats to set the principles for a legally binding agreement between Belgrade and Prishtina/Priština.
- In order to respond to competition from foreign powers, open your structural funds to the formal and potential candidate countries from the WB, especially for infrastructure investment. This could increase

your support for the region in relation to its GDP substantially, while at the same time causing only very little additional costs to the EU budget given the (economically) small size of the WB economies.

- Put more efforts in adequately communicating the investments into and donations to the WB countries and thus contribute to changing the perception the SEE citizens have of the EU – and in general Western – integration processes. Accordingly, the pro-active use of public diplomacy tools is necessary.
- Instead of criticizing the SEE countries for accepting Chinese, Turkish and, above all, Russian commitment and investment in strategic relevant areas:
- Rather assist the potential access candidates of the WB by monitoring, checking and advising, when such commitments are planned, in particular with regard to the EU *acquis communautaire*, EU norms and EU standards, but also when it comes to sensitive areas in politics and security.
- In general, avoid creating political and investment vacuums in the WB states, which might encourage and facilitate not in each and every case benign external investment and assistance.

For SEE/the WB countries regarding external influences

- When it comes to certain large powers which as external players seek to become involved in a country's economy in the larger sense, in areas of strategic importance to the country itself, to the EU and to the West in general, WB countries should be highly vigilant.
- When you are about to conclude strategic investment and assistance agreements with certain external powers, seek advice from the EU Commission regarding the compatibility of such commitments with EU's *acquis communautaire* and standards.

- The EU should actively prevent the transformation of the WBs and SEE into a depository for “unwelcome” migrants by strongly encouraging adherence to the EU-Turkey Agreement on migration and promoting burden sharing in the field of illegal migration.
- FDI is very much needed for the sustainable economic development of the WB states. In order to ensure that economic growth does not hinder but strengthen the democratic process, include clauses in your FDI policy that safeguard and reinforce your sovereign right to determine your political future irrespective of your economic relations.
- To enhance the cooperation in the field of energy supply, focus on the “Energy Community”, this should revitalize its role in the Balkans in close cooperation with the EU, in particular by supporting the harmonization of the respective national regulatory setups.
- In general, try to diversify your FDIs and energy supply sources as much as possible.
- Separate the management of state-owned firms from political parties.
- Cancel market-distorting energy subsidies.
- Implement strict guidelines for asset management in strategic sectors.
- Introduce mandatory cost-benefit assessment of large infrastructure projects.

For the EU and the Western Balkan countries

- Given the strong “euroisation” in the WB and the fact that several economies of the region have either unilaterally adopted the euro or run a fixed exchange rate regime vis à vis the euro, an accession to the euro area (even if only as second class members, e.g. without voting rights) would not cause a lot of economic disruptions but on the contrary have the potential to massively reduce the interest rates in the region and thereby facilitate much needed investment.

List of Abbreviations

BiH	<i>Bosna i Hercegovina</i> /Bosnia and Herzegovina
CEEC	Central and Eastern European Countries
CESEE	Central, East and Southeast Europe
CFSP	Common Foreign and Security Policy
COSCO	China Ocean Shipping Company
CSTO	Collective Security Treaty Organisation
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
EIDHR	European Instrument for Democracy & Human Rights
EU	European Union
EUFOR	European Union Force Bosnia and Herzegovina
EUR	Euro
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign Direct Investment
FETÖ	<i>Fetullahçı Terör Örgütü</i> /Gülenist Terror Network
FRONTEX	European Border and Coast Guard Agency
GDP	Gross Domestic Product
HDZ	<i>Hrvatska demokratska zajednica</i> / Croatian Democratic Community
IS	Instrument for Stability
IMF	International Monetary Fund
INTERPOL	The International Criminal Police Organization
IPA	Instrument for Pre-Accession Assistance
IPAP	Individual Partnership Action Plan
IS	Islamic State
KFOR	Mission of NATO in Kosovo
KM	Bosnia and Herzegovina convertible Mark
MAP	Membership Action Plan
MoU	Chinese-Italian economic Memorandum of Understanding
NATO	North Atlantic Treaty Organization
NGOs	Non-Governmental Organisations
OBOR	One Belt, One Road Initiative
PIC	Peace Implementation Council
PSD	Private Sector Development
RIDEA	Research Institute of Development and European Affairs

RS	Republika Srpska
RYCO	Regional Youth Cooperation Office
SDA	<i>Stranka demokratske akcije</i> /Party of Democratic Action
SEETO	South East Europe Transport Observatory
SSE	South East Europe
UAE	United Arab Emirates
UN	United Nations
UNSC	United Nations Space Command
U.S.	United States of America
USAID	United States Agency for International Development
WB	World Bank
WB	Western Balkan(s)
WBIF	Western Balkans Investment Framework
Wiiw	<i>Wiener Institut für Internationale Wirtschaftsvergleiche</i> / The Vienna Institute for International Economic Studies
WWII	Second World War

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Has South East Europe become the arena of competing geopolitical influences and what could this mean for the already difficult process of consolidating the fragile and partly still hostile relations in this region?

Based on this key question, the EU's and U.S.' policies towards South East Europe are compared with the external influence from China, Russia, Turkey and the Gulf states. The convergence and divergence of different geopolitical concepts vis-à-vis this part of Europe is analysed in depth. Furthermore, the external impact on politics, economy, society and security in various South East European countries is highlighted.

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