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The European Union Dilemma: Russia's and China's Increasing Influence in the Western Balkans *(Case study: Serbia and Montenegro)*

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Introduction

This paper discusses the growing influence and transformative power of Beijing and Moscow in the Western Balkans (WB), particularly as regards Serbia and Montenegro, and its implications for the European Union (EU). It draws upon both primary and secondary sources and narratives currently dominating public discourse in Serbia and Montenegro.

A country's "soft power" rests primarily on three resources: its culture, its political values, and its foreign policies,¹ but it cannot exist on its own. A discussion of China's or Russia's soft power in the WB is inseparable from discussions of their economic or military strength. Joseph Nye argues that successful states need both hard and soft power – the ability to coerce others as well as the ability to shape the long-term attitudes and preferences of foreign audiences.² Thus, soft power is only one component of power – and rarely sufficient by itself.

Taking that as a departing point, the paper focuses on the main tools – economic, political, and cultural – which Russia and China use to establish themselves as viable and/or even preferable alternatives to the EU.

Pervasive elements of neopatrimonialism, state capture and corruption in the WB have hindered their progress towards the EU.³ Often corrupt, regional political elites have little to fear by way of scrutiny from China or Russia in comparison with the treatment that they would likely receive at the hands of the EU.

Although Beijing and Moscow promote development and governance models which are in stark contrast with the EU's concept of reforms, they are functionally closer to the region's political elites.

As Nye argues, proof of soft power lies not only in available resources, but also in the ability of soft power-implementing states to change the behavior of targeted states by encouraging them to develop preferences that align with their own.⁴ In the cases of Serbia and Montenegro, business models and policy nurtured through cooperation with Moscow and Beijing reinforce their political and economic impact. This paper will discuss Russia and China's impact in various sectors before finally assessing whether the EU is still a key external actor in the WB.

Russia – an old player with new strength

Russia's political, cultural and economic presence in the region has become remarkable strong in the last twenty years. This work focuses on three main avenues⁵ Moscow uses to advance its goals: 1) Economic undertakings, particularly in Serbia's energy sector; 2) Culture and tradition; 3) Russian friendly or Russian owned regional media.

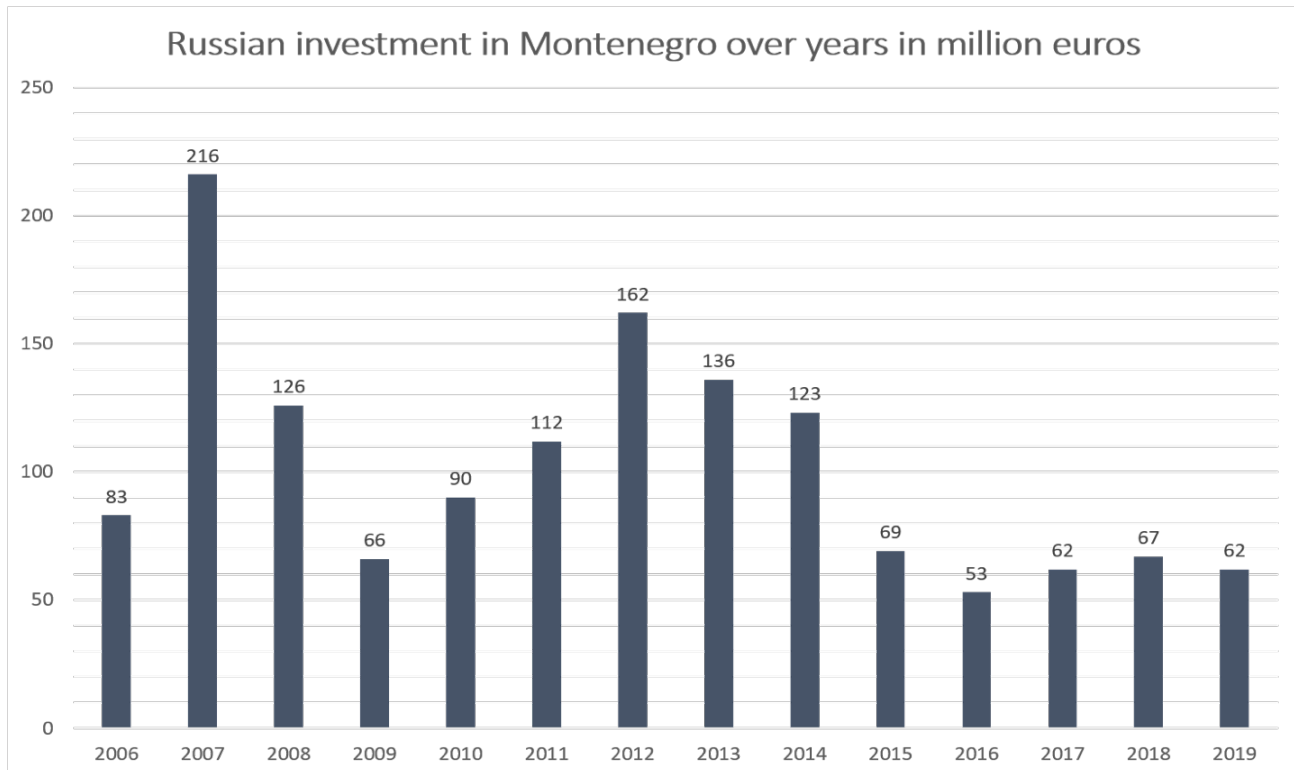
Projects in the energy sectors and privatizations

In nearly all Balkan countries, economic links with Moscow spanning the investment, energy, and tourism sectors provide avenues for Russia's advances.

Serbia is the most important market for Gazprom's⁶ sales in the WB, accounting for some 2.7 billion cubic meters worth of gas consumption in 2017. Since 2000 Serbia has received \$20 billion in investments from Lukoil and Gazprom. Gazprom signed an agreement to purchase 51 percent of Naftna Industrija Srbije (NIS) shares at a cost of EUR 400 million. During President Vladimir Putin's visit to Belgrade in 2019, an agreement was signed to expand the capacity of another underground gas storage facility in Belgrade to 750 million cubic meters.⁷

So far, Russia invested around \$1.4 billion in expanding Serbia's gas infrastructure in order to enable Serbia to run the 'Balkans Stream' – a branch of the Turkish Stream gas pipeline project which Serbia had joined in 2019. The 403-kilometer-long gas pipeline from the Bulgarian border to Hungary was completed in January 2021.⁸

Russia is also one of Montenegro's biggest foreign investors. According to the national statistical company MONSTAT, of the 4,200-plus foreign-owned companies operating in Montenegro in 2015, more than 30 percent were Russian-owned.⁹ The Russian Central Bank confirms that accumulated Russian investments in Montenegro in 2016 exceeded \$1.3 billion, thereby comprising 28 percent of all foreign investment in the country.¹⁰ As Figure 1 shows, Russian investments in Montenegro remain high. In fact, they increased considerably in 2020, with RF becoming again the largest investor (\$118 million) in Montenegro.¹¹



(Figure 1: Russian investments in Montenegro 2010-2020; Source: Atlantic Council of Montenegro via Central Bank of Montenegro)

Russia has invested immensely in Montenegro’s real estate, business, and tourism sectors.¹² Although Montenegro is neither reliant on Russian energy investments nor connected to Russian gas pipeline networks, in September 2016, the Russian Gas company, Novatek, a partner with the Italian Eni, signed a 30-year concession for oil and gas contract with the Montenegrin Government.¹³

Culture, tradition, and religion as force multipliers

One of Russia’s key assets in the Balkans is its ability to win over the hearts and minds of Orthodox peoples, as the majority of Orthodox Christians in Eastern Europe look to Russia as the “guardian of their identity” and the power that can counter the West.¹⁴ For Russia, the Balkans hold significant historic, cultural, and religious connections — shared ties that are actively propagated, and at times exaggerated, by Russian public diplomacy efforts and media narratives.¹⁵ RF develops narratives to “Russify” the social sphere, reinforce a Russia-friendly public imagination, and promote a set of values that can be described as “Orthodox conservatism” or “strategic conservatism” as a means of reaching out to Europe’s right-wing and populist groups.

In both states, the Kremlin enjoys support from numerous local actors including members of ruling parties, and – perhaps most importantly – the Serbian Orthodox Church (SOC), its strongest ally. The Church has been instrumental for Russia’s spreading of anti-Western narratives.¹⁶ The largest Orthodox church in the Balkans, St. Sava Basilica in Belgrade, dubbed “the new Hagia Sophia,” was

built with Russia's help.¹⁷ Gazprom Neft provided EUR 4 million to finance the Basilica's interior restoration.¹⁸

Symbols representing brotherhood with Russia can, therefore, be found habitually throughout public places. For example, in 2014, Belgrade inaugurated a monument to Nicholas II, the last Russian Tsar; the monument was consecrated by the Russian Patriarch Kirill.¹⁹ Podgorica, the capital of Montenegro, features the 'Moscow Bridge,'²⁰ a gift from the city of Moscow in 2008. Such symbolical gestures, popularized by local media and politicians, are meant to reinforce the "hundreds-years-long" brotherhood between the two nations.

There are many Russian cultural institutions in the region, including the Ruskiy Mir Center in Belgrade,²¹ the Center of Slavic Culture in Belgrade,²² and the Russian Center for Science and Culture in Belgrade (Rossotrudnichestvo).²³ Pro-Russian armed groups also proliferate freely in Serbia including the biker gang Serbian Night Wolves, and the paramilitary groups the Balkans Cossack Army and Serbian Honor.²⁴ Russian and Serbian far right groups also organized a youth paramilitary training camp in Serbia in 2018.²⁵

Russian oligarchs with close ties to the ROC are actively involved in promoting Russia's agenda in the region. The most prominent amongst them is Konstantin Malofeev, not only the founder of Russia's largest Orthodox charity organization,²⁶ which has a budget of \$40 million, but also the owner of Tsargrad TV.

Media – Russian or local?

Research by the Center for Euro-Atlantic Studies (CEAS) mapped 109 Moscow-backed media outlets active in Serbia.²⁷ Sputnik Serbia is, by far, the most prominent Russian media outlet operating locally in the region. For example, when the Serbian Government was considering purchasing 1.8 million Pfizer vaccines from the United States, multiple narratives from Sputnik Serbia claiming that the American manufacturer was corrupt and "incomplete," while the Russian vaccine was superior, were broadcast throughout Serbia and Montenegro.²⁸

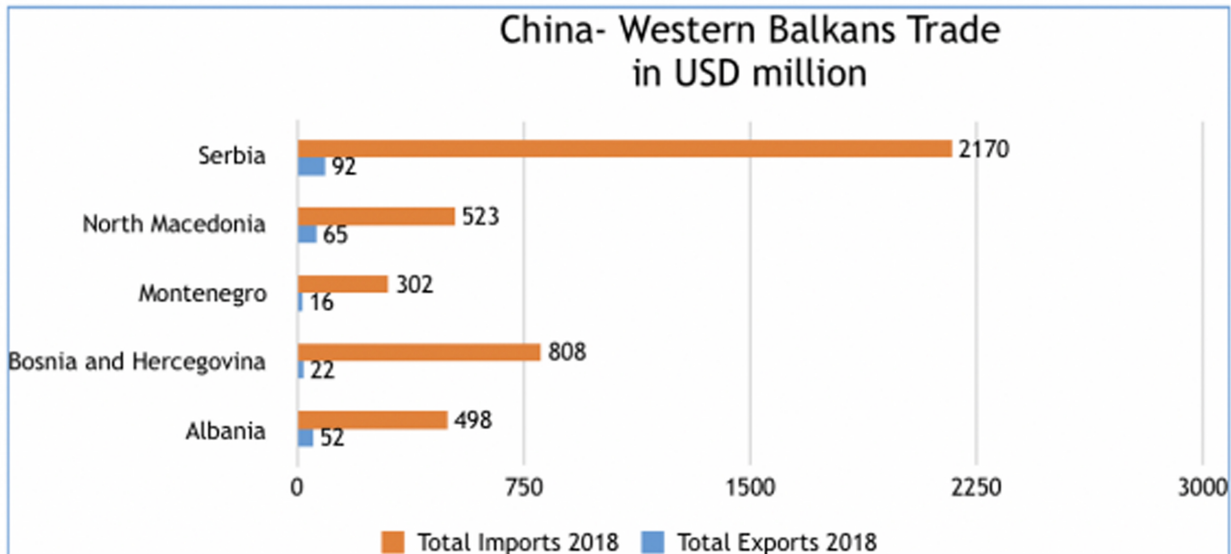
China – a new player in the backyard

China's interaction with the WB is regularly described by local media, and amplified by regional officials, as non-conflictual and constructive, and offering opportunities for regional economic growth.

Apart from Kosovo, whose independence Beijing does not recognize, all the WB countries have signed bilateral agreements with China on the Belt and Road Initiative (BRI).

On one hand, China's trade with WB countries accounts for only 4.3 percent of its trade with the Central European Initiative's (CEI) countries, while the WB's trade with China (\$4.5 billion in 2018) accounts for only 5.5 percent of the region's overall trade (\$81 billion), with almost half of that comprising Sino-Serbian trade (Figure 2). On the other, China offers loans for state-run

infrastructural development, heavy industry projects, and non-renewable energy (mostly coal-fired power plants). Much of China’s developmental lending is conducted through two policy banks: the Export-Import (EXIM) Bank and the Bank of China. When issuing these loans, Beijing rarely considers the capacity of the nations in question to pay back their debts,²⁹ nor is loan forgiveness an option for the time being.



(Figure 2: China-Western Balkans Trade; Source: UN COM Trade)

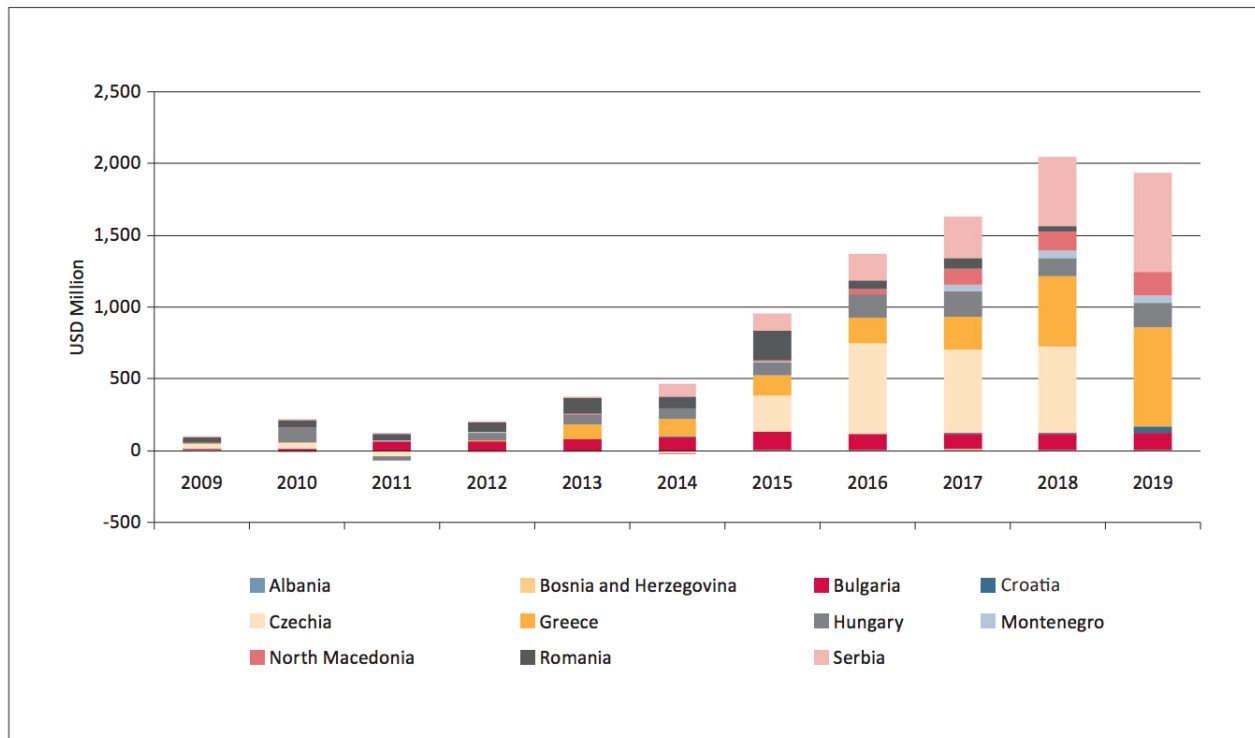
Because political and economic under-development has caused most investors to steer clear of Serbia and Montenegro,³⁰ the BRI has enabled China to use the WB as a stepping-stone to decrease its own economic reliance on Western power and gain access to European markets,³¹ as well as economically balance against the West.³²

Chinese economic footprint grows every year

Serbia:

Approximately 70 percent of Chinese investments in the WB are in Serbia.³³ According to a report issued by the Serbian National Bank, from 2010 through 2019, Beijing invested more than \$1.9 billion in Serbia (Figure 3). In addition, while the total value of China’s loans to Serbia amount to around \$1.4 billion, the Serbian Government plans to borrow an additional \$3.3 billion from China in 2021.³⁴

Chinese Foreign Direct Investment Stocks (USD Million)



(Figure 3: The Center for the Study of Democracy; policy brief 97, January 2021; China-Western Balkans FDI; Source: National Central Banks)

China is also financing regional highway projects in order to facilitate the transportation of Chinese goods from the Greek port of Piraeus³⁵ to EU markets.³⁶ Meanwhile, Huawei has worked with the Serbian government to build ‘safe’ and ‘smart’ cities in the guise of combatting crime.³⁷ In several of those same cities, there have also been sustained police exercises between Serbian and Chinese police,³⁸ and joint policing has expanded beyond popular tourist destinations to include locations with economic and strategic significance to China.³⁹ Recently, the Serbian government even changed its narrative on joint policing exercises by citing ‘counter-terrorism’ as being the main motivation.⁴⁰

Chinese companies have also played significant roles in propping up Serbian firms and industries that have been on the verge of collapse. The most noted examples are the Hesteel Group’s acquisition of the defunct Smederevo steel mill in 2016⁴¹ and the takeover of the mining and smelting firm RTB Bor by Zijin Mining.⁴² Chinese companies have also undertaken projects such as the construction of a tire factory in Zrenjanin and the construction of an industrial park in Belgrade.⁴³

Montenegro:

Montenegro took its first \$47.7 million loan⁴⁴ from China’s EXIM Bank back in 2010 in order to begin rebuilding its trading fleet. Since that time, EXIM Bank has issued a \$944 million loan to fund the construction of a highway from the port of Bar to the Serbian Border. Presently, China holds

more than 25 percent of Montenegro's public debt – around \$4.5 billion in early 2021.⁴⁵ A World Bank report⁴⁶ predicts that Montenegro's debt could rise to 94.3 percent by the end of 2021.

According to the Montenegrin Central Bank's data, in 2020, China climbed to second place among countries investing in Montenegro, with investments over \$71 million. Chinese FDI has become a source of serious public speculation given the sudden rise of investment. In 2020 alone, China invested 10 times more than in the period from 2010 to 2019.⁴⁷

Economy needs force multipliers (culture, media campaigns, and 'medical diplomacy')

China exerts its soft power in WB countries via Confucius Institutes, cultural centers, the media, and, currently, 'medical diplomacy.'⁴⁸

There are seven Confucius Institutes in the Balkans⁴⁹ – two in Serbia and one in Montenegro. Presently, China is building a cultural center at the location of its former embassy in Belgrade.⁵⁰ The strategic significance of the Belgrade location, the site of the mistaken NATO bombing in 1999, cannot be missed, serving to remind a NATO-weary population about one of NATO's most infamous blunders.

Chinese companies form partnerships with Serbia's state-owned media outlets to disseminate sympathetic coverage of China's foreign and domestic policies while omitting critical viewpoints, particularly about any negative effects of China's behavior in the region.⁵¹

At the onset of the COVID-19 pandemic, when the EU effectively cut WB out of its vaccination regime,⁵² Serbia and Montenegro turned to China for medical aid. On January 17, 2021, the Chinese government began its medical diplomacy with a million doses of the Sinopharm vaccine sent to Serbia,⁵³ followed by an additional half-million doses two weeks later.⁵⁴ As the first batch of doses arrived in Belgrade, Serbian President Vučić praised China whilst kissing the Chinese flag.⁵⁵

Public perception of China and Russia

Unsurprisingly perhaps, a survey conducted in November 2020 by the Belgrade Centre for Security Policy (BCSP) found that 75 percent of Serbian citizens believe that China provided the greatest amount of assistance to Serbia during the early part of the pandemic. Recently, 90 percent of interviewed Serbians believe that China's influence in Serbia is positive – a 30 percent increase since 2017.⁵⁶ China ranks as the second-most popular country in Serbia with 16 percent of the population's support.

The same survey finds that 40 percent of Serbia's citizens consider Russia to be Serbia's biggest ally, and 72 percent of them view Russia's influence as positive (a 13 percent increase since 2017).

While EU membership is officially recognized as one of Serbia's top priorities, only 46 percent of citizens support membership, whereas 51 percent oppose it.

In Montenegro, the situation is slightly different. According to the 2018 survey conducted by USAID, the National Endowment for Democracy (NED), and the National Democratic Institute (NDI) in four Western Balkan countries,⁵⁷ Russia is viewed favorably by 45 percent of Montenegrins, whereas China and the EU are viewed favorably by 41 percent and 40 percent, respectively. Interestingly, many Montenegrin citizens believe that Russia's military is superior to NATO's (47 percent vs. 37 percent).

Power of "persuasion" and its lasting impact

Accompanying Chinese and Russian inroads and positive public perceptions is the fact that both Serbia and Montenegro have slowed down their reforms in six ways that can be directly connected to these bilateral relationships.

Corruption: In both Serbia and Montenegro, many projects involving Russia or China have been sources of controversy, including high-level corruption cases covered in secrecy and illegal schemes with partners from those two countries.⁵⁸

Financial dependency: Both states are now more dependent on Chinese loans, rendering them unable to negotiate better business deals with China in the future. Montenegro is in an especially difficult situation. Although Xinhua calls it the road to success,⁵⁹ the highway project, sharply criticized by the International Monetary Fund,⁶⁰ haunts Montenegro, which has recently asked the EC for assistance in paying off the loan.⁶¹

Evasion of domestic legislation: Chinese infrastructure projects are often exempt from national laws and do not meet EU standards in the field of public procurement, environmental standards, or competition. In Montenegro, the Chinese construction firms working on highways have been exempt from nearly all taxes and duties related to the importation of construction materials.⁶²

Environmental degradation: The region's generally low environmental and work standards have meant that China is placing itself in the position of doing business in countries where it is unlikely to receive the level of scrutiny for its practices as would otherwise be the case in the EU.⁶³ In addition, Chinese undertakings in the region often result in increased industrial pollution.⁶⁴

Secrecy: Most Chinese projects are veiled in secrecy and not available for public scrutiny. Montenegro's Central Bank declared any information about Chinese FDI confidential in 2018, 2019, and 2020. Presently, there are no official figures available about the volume and worth of the medical aid that China has provided to Serbia, as they are labeled 'state secrets.'⁶⁵

Foreign policy: Serbia has become Russia's and China's strongest ally in the Balkans, opening up a gateway for their further incursions into the WB. For example, even though, as an EU candidate country, Serbia has to abide by the EU's common foreign and security policy, with regards to Ukraine, Belgrade has opted to "remain neutral"⁶⁶ and not follow Brussels' decision to impose sanctions on the Kremlin. Additionally, the Serbian government has given political support to

Moscow several times by voting against UN resolutions concerning Russia's occupation of Crimea.⁶⁷ In the face of EU concerns, Belgrade has also joined a group of 50 states that signed the so-called "second letter" backing Beijing's policy toward Xinjiang's Uighur population.⁶⁸ At the same time, Serbia needs Russia and China's support in its decades-long dispute over Kosovo's international status⁶⁹.

Montenegro's case is more complex. Despite some disagreements with Russia – in 2014, Montenegro imposed sanctions against Russia for its incursions into the Crimea⁷⁰ while in 2016 there was an (alleged) Russia-backed coup attempt against the government⁷¹ – there seems to be a thaw. The strongest coalition partner in the current Montenegrin government, the pro-Russian Democratic Front, has called for the lifting of sanctions on multiple occasions, with the new Prime Minister Zdravko Krivokapić describing the measures imposed previously as "absurd".⁷² With regard to the situation in Xinjiang, Podgorica has stayed neutral.⁷³

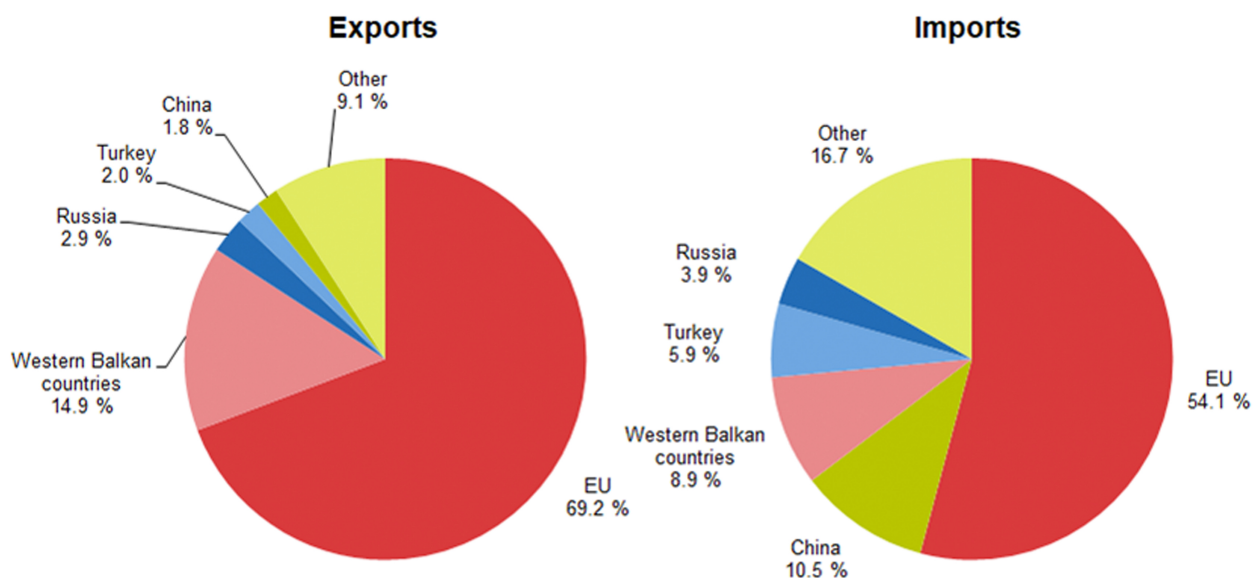
Is the European Union Still a Game Changer?

The EU has been the key external actor in the WB since the EU-WB summit in Thessaloniki in 2003.⁷⁴ The agenda⁷⁵ subsequently offered the EU membership perspective to Serbia and Montenegro and created the framework for future cooperation between the two actors.

Apart from being a key political partner, the EU is still the region's most important investor. EU member states have invested 12.7 billion euros in the WB between 2014 and 2018 while the EU accounts for almost 70 percent of total regional trade.⁷⁶

Western Balkan Countries trade with main partners, 2020

(%)



(Figure 4: Trade between EU and the Western Balkans; Source: Eurostat)

FDI in the WB from the EU reached 2 billion euros in 2019.⁷⁷ In Montenegro's case, the EU is not only the country's most important trading partner; it is also the country's largest provider of the financial assistance.⁷⁸

The EU has also recently adopted a comprehensive economic and investment plan worth nine billion euros⁷⁹ to spur the long-term economic recovery of the WB.

Prospects of EU membership remain Brussels' strongest soft power tool – Montenegro began negotiating for EU membership in December 2011,⁸⁰ and Serbia in June 2013.⁸¹ These countries then embarked on the ambitious process of democratic transformation, including adjusting to various EU regulations specifically in response to this incentive.

But now, with the reforms seemingly backsliding, the EU has responded with concern. Serbia's slowed reforms have caused the EU to not allow Serbia to make further progress toward membership for almost two years,⁸² citing lack of political will⁸³ as well as the rising influence of Beijing and Moscow. At the same time, 26 European Parliamentarians sent a letter to the European Council complaining about the “impending environmental damage” by Chinese companies and China's “growing influence” in Serbia.⁸⁴

Leaders of the EU, including EU President Donald Tusk and German Chancellor Angela Merkel have often voiced their concerns about the growing influence of Russia in the region.⁸⁵

Policy Conclusions

Factors contributing to the current decline of EU soft power include:

- 1) Brussels seems to lack an effective policy for countering Chinese or Russian transactionalism. Chinese investment offers are attractive precisely because they generally lack pre-conditions and circumvent the IPA (EU) legal framework.⁸⁶
- 2) The EU has neglected Europe's South-East corner as Brussels has been pursuing internal consolidation.
- 3) The prospect for EU membership has become a long shot. After the rough experience of the last waves of EU enlargement and current issues with some new members, old EU members have grown increasingly cautious and demanding. As Brussels experiences “enlargement fatigue,” EU candidates from the WB experience “reform fatigue.”
- 4) As corruption in the WB persists and rule of law and democratic standards continue to backslide, the abilities of China and Russia to flex their muscles in the region continue to grow.

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