

COMPETING INTERESTS OF THE EUROPEAN UNION AND RUSSIA IN THE WESTERN BALKAN COUNTRIES WITH A COMPREHENSIVE ANALYSIS OF ECONOMIC LEVERAGE

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ABSTRACT

This article aims to use the economic mechanisms to analyse the influence of the European Union (EU) and Russia in the Western Balkan countries (WBC). A comprehensive analysis is carried out in the sense of economic indicators examination (trade, foreign direct investments, energy market analysis). Results indicate that the dominant EU influence in the WBC, induced by the strong economic impact, has been weakened due to the EU's procrastination surrounding the enlargement strategy, thus leaving plenty of room for rapid consolidation of pro-Russian tendencies and aggravation of the geopolitical component. Data were calculated on the basis of relevant statistical databases and surveys.

Keywords: geopolitics, European Union, Russia, Western Balkans, energy, trade, investments

INTERESSI CONTRASTANTI DELL'UNIONE EUROPEA E DELLA RUSSIA NEI PAESI DEI BALCANI OCCIDENTALI CON UN'ANALISI COMPLESSIVA DELLA LEVA ECONOMICA

SINTESI

Questo articolo mira a utilizzare i meccanismi economici per analizzare l'influenza dell'Unione Europea (UE) e della Russia nei paesi dei Balcani occidentali (WBC). L'analisi completa viene condotta attraverso l'esame degli indicatori economici (commercio, investimenti diretti esteri, analisi del mercato energetico). I risultati indicano che l'influenza dominante dell'UE nel WBC, indotta dal forte impatto economico, è stata indebolita a causa della procrastinazione dell'UE che circonda la strategia di allargamento, lasciando così molto spazio per un rapido consolidamento delle tendenze filo-russe e l'aggravamento della componente geopolitica. I dati sono stati calcolati sulla base di banche dati statistiche e indagini pertinenti.

Parole chiave: geopolitica, Unione Europea, Russia, Balcani occidentali, energia, commercio, investimenti

INTRODUCTION

The results of the Ukrainian crisis and the Russian annexation of Crimea significantly strengthened the geopolitical attitude and tendencies of Russia, particularly in its relations with the European Union (EU) (Smith Stegen, 2011; Haukkala, 2015; Forsberg & Haukkala, 2016; Romanova, 2016; Freire, 2020). This issue escalated, especially with the recent large-scale Russian invasion and war in Ukraine (February 2022). In recent years, it has been shown that the vulnerable region of the Western Balkan countries (Albania, Bosnia and Herzegovina, Montenegro, Serbia, North Macedonia, Kosovo*) has become an inspiring and suitable polygon for EU-Russia geopolitical competition. This is particularly emphasized since the EU made the decision to slow down the integration process. At the same time, Russia took this opportunity to increase its influence in some of the Western Balkan countries (hereinafter referred to as the WBC), striving to undermine EU objectives in the WBC (Wesslau & Wilson, 2016; Panagiotou, 2021). The presence of both actors in the WBC is seen through the pretty intertwined influences of several mechanisms: economic dependence and economic benefits, cultural and historical ties, social perception and media influence, etc. (Zorić, 2017; Stojarová, 2020). With the newest geopolitical challenges and the Russo-Ukrainian war, this intertwined influence tends to be much more pronounced.

Consequently, this paper aims to analyse and present the geopolitical influence of the EU and Russia in the WBC region within the context of their geopolitical competition, particularly focusing on the effective impact of economic leverage and energy geopolitics. Moreover, a special emphasis in the paper is given to the reflection of the Ukrainian crisis (which resulted in war) on the situation in WBC in recent years, since it turns out that this period of time coincides with the stalemate in WBC's EU integration process. Both the EU and Russia invest in the WBC, but the analysis performed in this work shows that there is a significant gap between the facts and perceptions when concerning the economic benefits of the WBC. Moreover, some authors claim that Russia cannot impose real economic and military strength on the region, and, thus, it applies alternative soft tools-based tactics (Stronski & Himes, 2019). It certainly seems that Russia is strongly present in this region, which is an important transit route for Russia's gas, but on the other hand, being an ideationally important part of the Slavic and Orthodox world. Consequently, the fragile WBC region perceives a permanent geopolitical risk, possible ethnic conflict, economic and political instability, and poor governance (Zorić, 2017; Panagiotou, 2021). In particular, it is necessary to observe that Russia has differentiated its policy toward the countries in

the region. There is a strong influence towards Serbia, keeping it far from NATO, similarly as in Bosnia, through the influence of Serbia and Bosnian Serbs. Although Montenegro is a NATO member, Russia tends to use political influence in the Montenegrin divided society to control political situation and, as a result, to discredit its status in NATO. The fact that Serbia does not recognize Kosovo opens up other sources of tension and geopolitical games in the region. The EU needs to reinforce its determination on enlargement, given that inactivity and hesitance have obviously led to fatigue and Euroscepticism.

This paper answers a general research question on how the energy geopolitics between the EU and Russia, as well as the Ukrainian crisis, influenced WBC and its EU integration. More specifically, has the WBC region become a hostage of EU-Russia geopolitical relations and to what extent? It seems that the aggravation of relations between the EU and Russia and the war in Ukraine affected particular countries in the observed region and certainly slowed down EU integration process. The next question that arises is whether the impact of economic benefits on the WBC can compete with the geopolitical interests. Has the hesitancy of the EU integration caused democratic backsliding and, consequently, a further slowdown in the EU accession process, which is then used by Russia to activate nationalism in some countries in the Western Balkan region?

The methodology of the research is based on primary and secondary sources. Namely, as a primary source, statistical databases (Eurostat, UN Comtrade) are used for selection, processing, and analysis of the data, while the previous research results presented in the relevant literature, as a secondary source, are considered to additionally substantiate the appropriate conclusions that correspond with the analysed data. This research methodology has been applied through three layers. The first segment of this work concerns observations and analysis of the geopolitical and liberal components between the EU and Russia, pointing out the enormous growth of the geopolitical component in their relations, which consequently led first to serious tensions and then to the war in Ukraine. The second segment examines the phenomenon of increased geopolitical tensions that spill over to the global scene, and consequently affected the countries in the immediate vicinity, such as the WBC. In the third layer, the extensive study and analysis of the data (economic impact indicators including the impact of energy trade), show a strong influence of both the EU and Russia on the WBC. Particularly interesting are the cases of Serbia, Bosnia and Herzegovina, and Montenegro, so these are consequently considered in more detail.

Therefore, the paper will provide answers to the specified research questions by using the presented

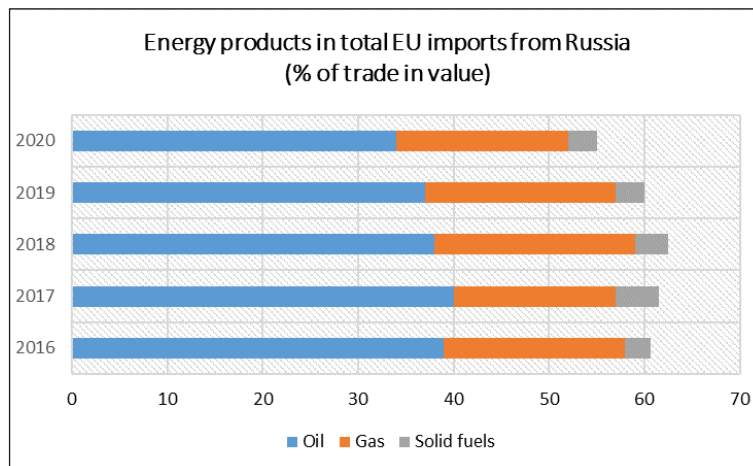


Chart 1: EU energy trade with Russia (Source: Author's calculations based on Eurostat database).

methodology. In that sense, the paper is structured as follows. Section 2 introduces the theoretical framework for EU-Russia relations and their competing goals. Section 3 discusses the confronting economic and geopolitical influence of the EU and Russia. Based on the statistical data, it also brings an analysis and comparison of economic influence in the WBC region. The discussion on the achieved impacts and its efficiency, together with the conclusions, are given in Section 4.

EU-RUSSIA RELATIONS: BETWEEN GEOPOLITICAL AND LIBERAL TENDENCIES

EU-Russia relations are characterized by several socio-cultural and historical ties, intensive economic cooperation, particularly in the field of energy trade, and consequently, pretty intertwined geostrategic interests (Le Billon, 2004; Boyd-Barrett, 2017; Haukкала, 2018). In this relationship, the EU has been commonly seen as a community with shared values, such as democracy, the rule of law, human rights, and liberal trade agreements. The Russian attitude is seen through the emphasized national interests and self-perception of a superpower that dates back to early history, as evidenced by the current war in Ukraine.

The relations between the EU and Russia are significantly shaped by two different paradigms, namely the liberal and the realist. These two concepts belong to the general theory of international relations where the realist approach concerns the domain of high politics, putting in the limelight the self-interests and issues crucial for the state's survival and security, while the liberal approach focuses on the domain of low politics, with a focus on mutually beneficial socio-economic cooperation. Russia primarily follows

the realist paradigm, where geopolitical positioning motivates using oil and gas as 'weapons' toward the dominance of the international geopolitical scene as a primary objective.

Liberal component in EU-Russia relations

The liberal approach in describing EU-Russia relations strongly emphasizes the great extent of the economic interdependence between the two actors. Russia is a very important trade partner for the EU, being the main supplier of energy resources and the third-largest trading partner in general. Certainly, the energy issue dominates in the EU-Russia relationship. The EU is highly dependent on the imports of gas and oil, which are of high importance for its economy. The EU imports 53% of the energy that it consumes, including almost 90% of its crude oil, 66% of its natural gas, and 42% of its solid fuels (Eurostat, 2020). Obviously, the EU has been using its economic potential to provide the necessary energy resources through cooperation with Russia, being the main EU supplier covering approximately 40% of the gas, 33% of the crude oil, and 29% of the solid fuels (Siddi, 2019). The share of energy products in total EU imports from Russia is given in Chart 1 for the period 2016–2020 (calculated based on the Eurostat database). For instance, observe that Russia provides one-third of the EU's gas imports (close to 40% in 2016 and 2017), which is about 60% of Russia's total gas exports (Casier, 2020). Due to the high energy interdependence between the EU and Russia on energy, energy security is of the highest importance for both the EU and Russia; the EU needs to secure the energy supply while Russia needs to secure energy distribution to the EU.

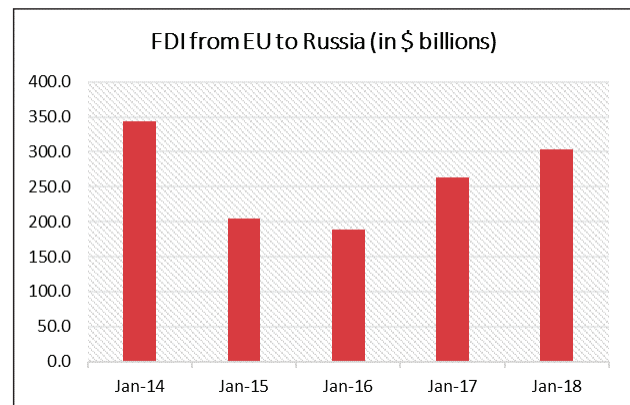
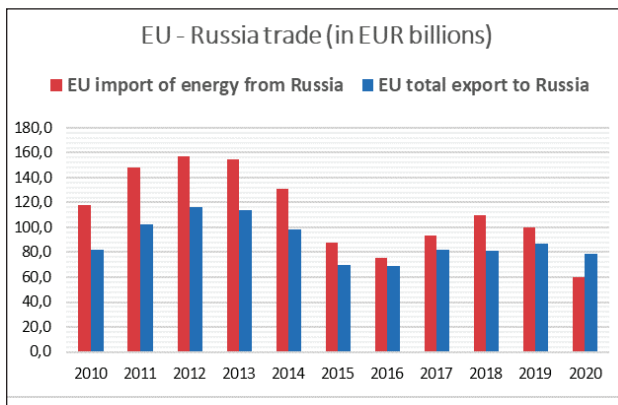


Chart 2: a) EU import of energy from Russia versus EU total export to Russia (Source: Author's calculations based on Eurostat database); b) Accumulated FDI flows from EU to Russia (Source: Central Bank of Russia).

Great parts of the gas pipelines to the EU and Turkey run through Ukraine. However, these pipelines are old and require significant investment to maintain the infrastructure or to build new pipelines through Ukraine. Russia has been working on alternative projects such as Nord Stream 2 (to double the capacity of the existing Nord Stream) and Turkish Stream (Vihma & Wigell, 2016; Siddi, 2019). However, the finalization of the North Stream 2 project has been halted due to the current war in Ukraine.

Russia has also significant benefits from its economic trade with the EU. In the last few decades, Russia's economic power has been significantly raised through energy exports to the EU, strengthening Russia's confidence as a global power. Russia also imports other goods from the EU (food, machinery and vehicles, manufactured products, etc.). The comparison of the EU's imports of energy from Russia and the EU's exports of other goods from the EU to Russia is shown in Chart 2a (calculated based on the Eurostat database). Energy imports certainly dominate, but the EU's exports of other goods are quite significant as well. When observing the Foreign Direct Investment (FDI) in Russia, the EU participates with nearly 75% of the total FDI stocks (Casier, 2020). Chart 2b presents the accumulated FDI flows according to the directional principle from the EU to Russia from 2014 to 2018.

From the presented analysis, it can be concluded that the liberal component of EU-Russia relations is certainly influential, with an emphasis on the strong interdependence in the field of energy. Furthermore, we may observe that this liberal component when expressed in the total trade amounts cannot be considered even approximately constant since it is subject to significant variations as a consequence of the geopolitical component's influence. Due to the strained geopolitical attitudes between the EU and Russia starting from the 2014 and Ukrainian crisis

and EU sanctions imposed on Russia, the liberal component recorded a significant decline with almost halved trade in 2015 and 2016 (Chart 2a). Certainly, the year 2022 will bring a drastic change regarding the liberal component. Therefore, both geopolitical and liberal approaches need to be considered in understanding the EU-Russia relations, as well as their reflection on the current global situation.

Geopolitical component in EU-Russia relations

As the economic power of Russia has been increased over the years based on energy exports primarily to the EU, the Russian geopolitical component has also significantly increased, becoming the main strength of Russian foreign policy (Smith Stegen, 2011; Romanova, 2016). Russia has been using energy resources as the main tool in developing a concept of energy geopolitics with the aim of strengthening its position as a dominant global player. At the same time, such a concept is exploited to guide its political relations with the EU. Hence, Russia has turned its energy politics toward the realist/geopolitical approach, using energy as the means of showing power (Donnelly, 2008; Smith Stegen, 2011; Kleinschmidt, 2019; Wilson, 2019). The geopolitical approach of Russia is also motivated by the perception that the EU's main foreign policy, which is often in compliance with US directives, can endanger its national interests. The concept of energy superpower became a driving force of Russian foreign politics and it was used to convince its neighbouring countries (Azerbaijan, Turkmenistan, Kazakhstan, and Uzbekistan) to direct energy transit through Russian territory and make many countries dependent on its energy supply.

From the EU perspective, the liberal component of energy relations has also been affected by the growing geopolitical component over time. The EU

was faced with its weaknesses, perceiving Russian energy dependence as a potential threat that needs to be mitigated by unanimous actions. At the same time, Russia continues and enhances its partnership with China, since China opens the possibility to make losses in the Russian economy. Moreover, Russia and China signed a thirty-year contract for gas supply. On the other hand, it is interesting that the EU adopted a strategy toward China just recently in 2019, in the sense of observing China as an economic competitor, systemic rival, and strategic partner (Bermann, 2021). Earlier, the European Commission was more focused on providing fair competition between EU companies than dealing with the unfair competition between EU and Chinese companies.

When considering the dependence on energy resources, it can be emphasized that there are differences between the member states, and thus, with the variety of interests and needs, it is difficult to create an efficient EU foreign policy (Siddi, 2017). Moreover, the EU countries in the neighbourhood of Russia and Turkey have different perceptions compared with Western countries (Siddi, 2017; Siddi, 2019, 3). In general, the EU has been trying to diversify its energy imports, with a particular focus on the regions of the Middle East, Central Asia, and North Africa. For the EU, it was highly important to set up pipelines across the Caspian Sea and to create an opportunity to use the energy resources in Central Asia, Kazakhstan, and Turkmenistan. On the other hand, Russia has been protecting its interests and has acted against such ideas, even asking for support from Iran. An alternative supply route from Saudi Arabia to Mediterranean countries has been foreseen through the territory of Syria, but the civil war in Syria prevented such an opportunity (Vihma & Wigell, 2016).

Russia has taken countermeasures by launching the Nord Stream 2 and Southern Stream projects. Moreover, Russia's interest in the previously mentioned regions rich in energy resources (including the Middle East and energy-rich regions in Africa) is for those regions to remain unstable. In parallel, the EU plan for diversification of supply routes raised concerns in Russia, which also strives to provide alternatives for gas exports, open new energy markets, and foster long-term contracts with China. These intertwined interests between the EU and Russia have greatly increased the geopolitical component of their relations (Romanova, 2016; Wilson, 2019).

Therefore, the liberal component of EU-Russia relations has acquired a tone of economic nationalism. Moreover, the Ukrainian crisis in 2014 has increased geopolitical competition between the EU and Russia beyond the energy issue, opening broader political confrontations. The Maidan movement

in winter 2013–2014 came with the aspirations of Ukrainian political elites toward closer integration with the EU and a strong distrust of Russia. As a consequence, the regime in Ukraine was changed. Ukraine strongly turned toward the EU, which was a breaking point for Russian actions: the annexation of Crimea and the conflicts in the Donbas region. Hence, Russia was keen on not letting Ukraine become closer with the western EU countries and perceived the Ukrainian crisis as a threat to its sovereignty. The EU also raised security concerns for its members in the neighbourhood of Ukraine and increased NATO activities in this region. In large, the Ukrainian issues brought intensive tensions between Russia and the EU, with an emphasized perception of mutual threat, which culminated in the war in February 2022.

After the outbreak of the Ukrainian crisis, EU-Russia relations have been burdened by the EU sanctions imposed on Russia in 2014 (Casier, 2016; Boyd-Barrett, 2017; Siddi, 2019; Casier, 2020), with just the minimum level of cooperation that significantly affects trade, especially in 2015 and 2016 (Chart 2a). The Russian economy was affected by sanctions, recording a 1.5% drop in GDP in 2015 (Vihma & Wigell, 2016). Thus, Russia needed to find alternatives for collaboration and to increase its domestic production. Regarding gas supply, as mentioned earlier, Russia signed a thirty-year contract with China, assuming two supply routes with a capacity of close to 70 bcm per year (Romanova, 2016). The latest occurrences, including the war in Ukraine, provoked the newest sanctions imposed by the EU on Russia in 2022, being significantly more severe and with outcomes that will certainly complicate their further relations.

As a conclusion of this part, we can say that Russia's self-confidence has been strengthened after the Ukrainian crisis and annexation of Crimea. Russia is pretty determined in its aspiration to act as a strong geopolitical player, emphasizing the hard power context. Russia particularly uses energy and military power to keep its neighbours as close as possible. Consequently, countries such as Ukraine, Armenia and Georgia are subject of high tensions between the EU and Russia. The EU, on its side, fosters a soft approach to geopolitics (soft power), based on common values, norms, and multilateralism principles (Vihma & Wigell, 2016; Nitoiu & Sus, 2019). Moreover, the EU fosters the concept of 'circles of friends' by imposing its economic power (Dembińska & Smith, 2021, 250). The opposing interests of the EU and Russia have created opportunities for geopolitical games in vulnerable regions, and geopolitical tensions between the EU and Russia have been overflowing through the WBC in recent years.

CONFRONTING ECONOMIC INFLUENCE OF THE EU AND RUSSIA IN THE WBC

The EU has shown certain hesitancy and lack of harmonized determination toward the accession of WBC, especially since 2014, when the president of the European Commission, Jean-Claude Juncker, stated that there will be no enlargement in the next five years (Zorić, 2017; Smith et al., 2021). The overall perception of the slowdown trend of the EU enlargement has influenced the rise of Euroscepticism in the WBC. In recent years, the EU has been focused on internal challenges, such as the economic crisis, Brexit, the refugee crisis, etc., leaving plenty of room for Russia to impose its geopolitical influence and involvement in the WBC region. Another problem is the lack of internal sense of reforms within the WBC, which implies insufficient adaptation of rules and norms to the behaviour and informal practices in the WBC and thus ineffective implementation (Rant et al., 2020). EU accession is still the main political objective of the WBC, but there are other competing interests in the region, both in the political and economic context. In particular, Russia has taken the opportunity to increase its influence in some parts of the WBC, making the situation more complicated.

Certainly, Russia has a great interest in the Balkans, which is part of a traditional and cultural strategy to support 'fraternal' Slavic, particularly Orthodox nations (Samokhvalov, 2019). However, Russia's attitudes regarding the situation in the WBC are often influenced by the relations and competition with Western Europe. Moreover, Russia's interests in WBC increase only when the EU intensifies its actions in the region. Hence, Russia cares about its image as a great power and seeks any room left to be 'part of the game' (Samokhvalov, 2019; Secrieru, 2019; Panagiotou, 2021). This is especially emphasized after the outbreak of the Ukrainian crisis, when Russia strengthened its geopolitical attitude, striving to impose its involvement in other regions. Moreover, in the last decade, Russia has invested significant resources in the WBC, including energy policy, but it has also explored even more relevant soft tools of influence, such as cultural, historical, and religious ties and elements, as well as shaping public opinion through the media. In the current circumstances, it can be expected that Russia will need support from friendly-oriented countries such as Serbia, which may strengthen the ties with the countries in the WBC.

It is important to emphasize that for Russia, a huge influence in the Balkans has a twofold significance. On the one hand, this region has a historically significant and geostrategic location:

it has access to the Mediterranean Sea, it is close to the Middle East, and most importantly, it is not yet integrated into the EU, although it is partly involved in NATO. Therefore, one of the goals is certainly to prevent EU and NATO enlargement. Thus, Russia has a great motivation to keep the geopolitical game in the Balkans open. One of the most powerful alternative tools that Russia utilizes in this region is religion, through the influence of the Orthodox Church. For instance, regarding the EU-Russia rivalry in Serbia, we have an atypical situation where the political elites formally proclaim the strategy for EU integration while the Church strongly proclaims traditional norms and values represented by Russia. As a consequence, Serbia has not followed EU sanctions against Russia, although it is an EU candidate country.

During this period of intensive EU-Russia geopolitical rivalry, the WBC expected to be faster integrated and accepted in the EU. However, French President Emmanuel Macron frequently repeated the statement that the EU needs the reform before further enlargement. As a consequence of such politics, the EU imposed requirements on the candidate countries that were not asked by the previous candidates (Petrovic & Tzifakis, 2021, 158). Although there was a perception among several EU officials that the WBC could become a new chessboard for geopolitical games, the EU did not provide enough support for WBC integration and did not act in a way to observe the WBC as its vital geopolitical interest (Petrovic & Tzifakis, 2021, 160).

Consequently, the EU leaves significant space for Russia to politically and culturally influence this part of the WBC and to be very actively present in the region, since the EU's foreign policy toward Russian influence in the region is very passive. Moreover, the EU's attitude towards the WBC caused democratic backsliding. Namely, it has been shown that the average level of democracy in the region decreased by 9% (Gafuri & Muftuler-Bac, 2021, 267). Although the EU has a great economic impact and investments in the WBC, the effects on the improvement of the democracy level seem to be not satisfactory. Obviously, the priority of the EU was the support for maintaining stability and a conflict-free situation in the WBC instead of strengthening the mechanism for sustainable democracy (Gafuri & Muftuler-Bac, 2021, 268), which empowered the autocratic leadership in this region. In fact, the EU itself has been facing global democratic backsliding, including right-wing populism. To sum up, all of the mentioned arguments, made the WBC region pretty vulnerable to the third-factor influence, especially the influence of Russia.

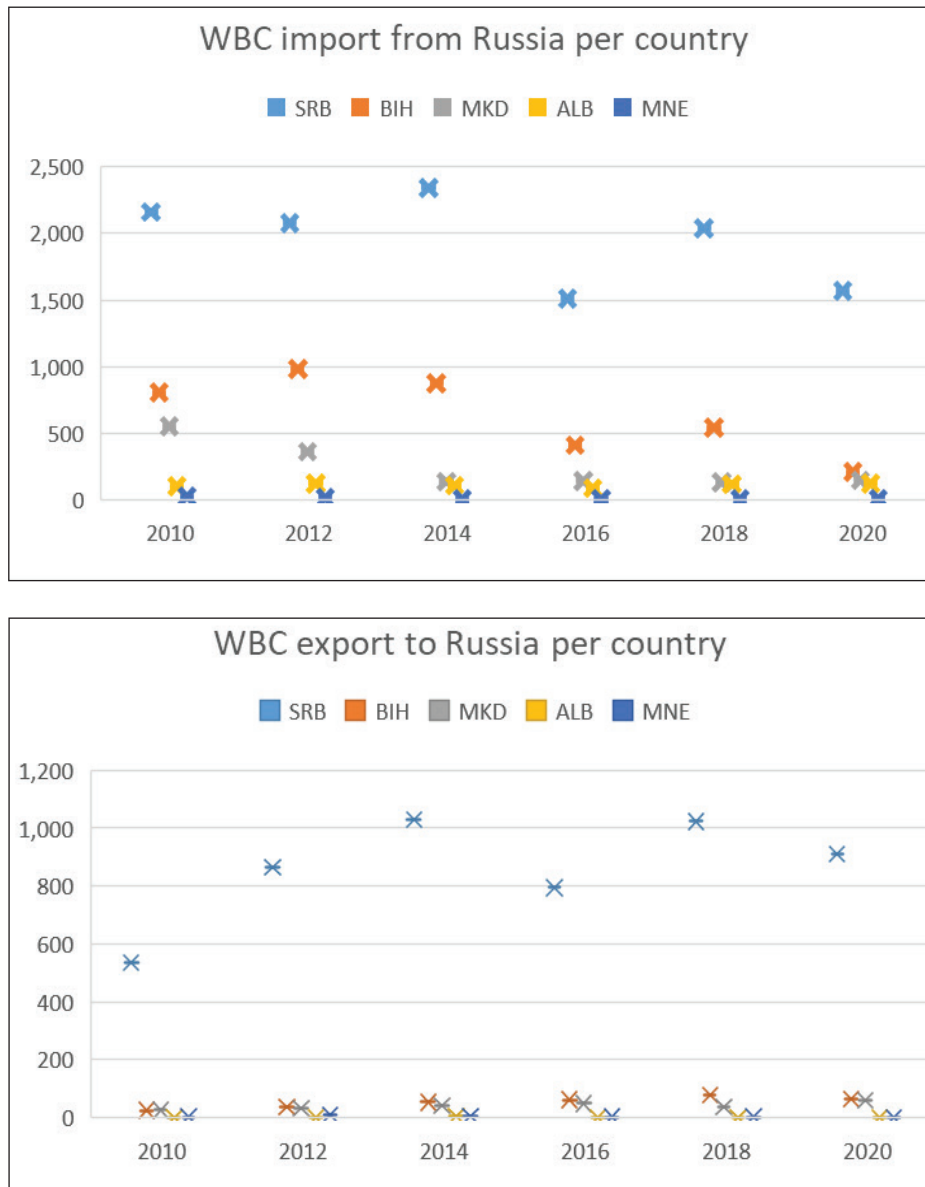


Chart 3: WBC import and export from Russia (in \$ millions) (Source: Data selected from UN Comtrade).

Analysis of economic indicators of the EU and Russia in the WBC

In the sequel, the analysis will be done to examine whether the EU is sufficiently economically present in the WBC or whether it leaves plenty of room for Russia to achieve political impact through economic influence.

In order to provide a broader picture, we will observe all WBC countries. In that sense, it is important to emphasize that the countries of the Western Balkans have different statuses related to their accession to the EU: Montenegro has opened

all 33 screened negotiating chapters, of which three have been provisionally closed; Serbia is also in the negotiation process with 18 out of 35 negotiating chapters opened (two of which have been provisionally closed); Bosnia is a potential candidate country. North Macedonia and Albania gained candidate status, while Kosovo is a potential candidate.

With the aim of analysing and comparing the economic indicators of the EU's and Russia's influence in the WBC, we have first considered the amounts of imports and exports from and to the EU and Russia, respectively. Chart 3 provides the trade data between WBC and Russia, while Chart

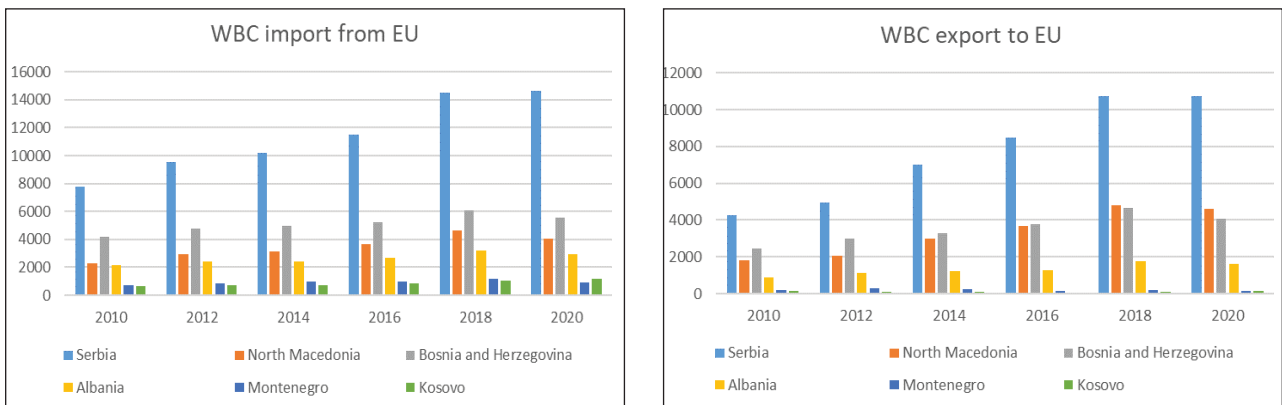


Chart 4: WBC import and export from EU (in EUR millions) (Source: Data selected from Eurostat database).

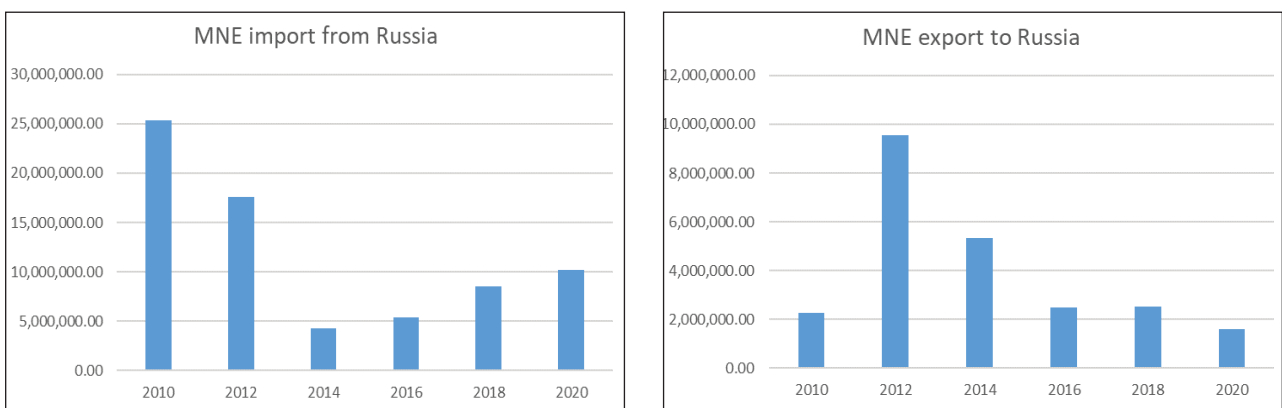


Chart 5: Trade between Montenegro and Russia (in \$ millions) (Source: Author's calculations based on UN Comtrade database).

4 provides the trade data between WBC and EU, expressed per country. It can be observed that among WBC, Serbia has the highest trade amounts with both the EU and Russia. Particularly, Russia is one of the important export partners for Serbia, because Serbia signed a trade agreement with Russia in 2000 (as a part of the Federal Republic of Yugoslavia). Additionally, in 2019 Serbia signed a favourable free-trade agreement with Eurasian Economic Union (EAEU), thus increasing the economic trade with Russia and especially providing Serbia large export to Russia. According to this free-trade agreement, Serbia exports 95.5% of domestic products without custom duties. Hence, Russia opens the trade space to Serbia within its economic capabilities. Certainly, Serbia has a stable and long-term trade partnership with Russia (Petrović, 2020; Stanojević, 2020). Despite the significant efforts of Russia for strengthening traditional collaboration with Serbia, the main export partners for Serbia, in 2019 for instance, were Germany (12% of share), then Italy (10% of share),

Bosnia and Herzegovina (7% of share), Romania (6% of share), and on the fifth place Russia with 5% of share (Statista).

In Chart 3, we also may observe a significant drop in WBC imports from Russia per country, particularly in 2016 that comes along with the weaker economic situation in Russia and sanctions. Trade between the WBC and EU, when observed per country, has been constantly growing since 2010 (Chart 4).

Let us separately observe trade between Montenegro and Russia (Chart 5). Montenegro is the smallest in the WBC, with the highest potential for EU integration. We should note that since 2014, as a result of Montenegro's adoption of EU sanctions against Russia, both imports and exports have been significantly lower than in previous years.

The comparisons between the EU and Russia regarding trade with WBC in the period from 2010 to 2020 are illustrated in Charts 6 and 7.

It can be concluded that the EU represents a dominant and vital trade partner for the WBC.

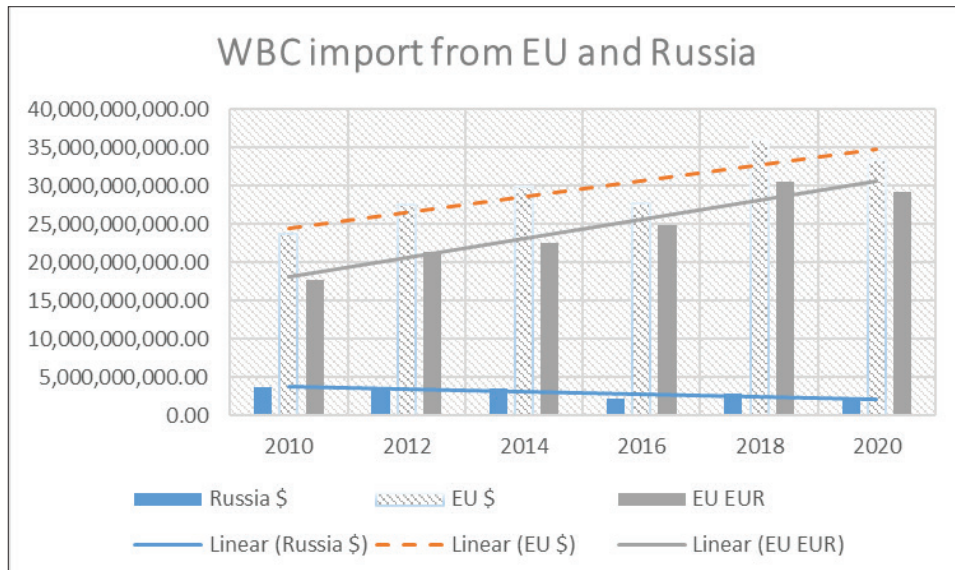


Chart 6: Total WBC import from EU and Russia (Source: Author's calculations based on UN Comtrade database).

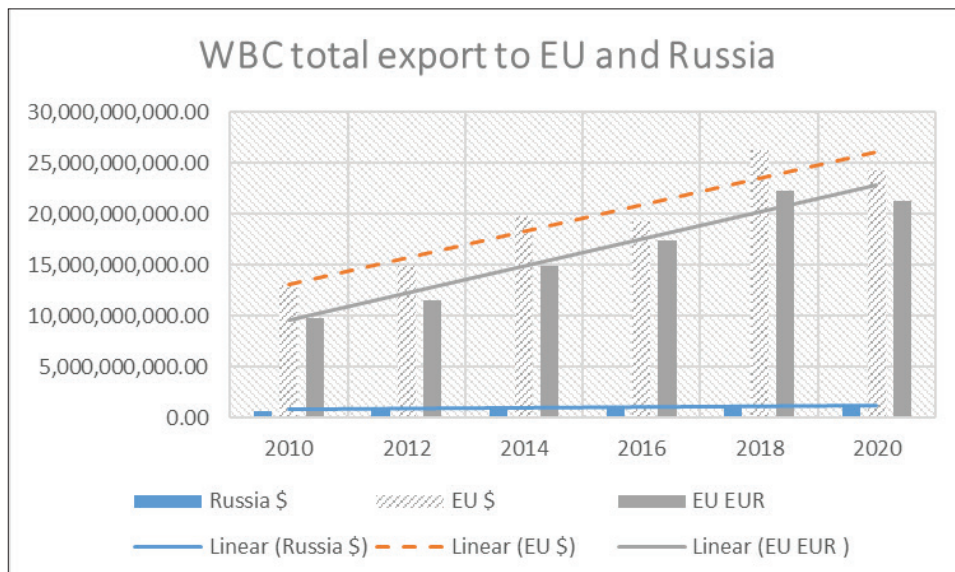


Chart 7: Total WBC export to EU and Russia (Source: Author's calculations based on UN Comtrade database).

Moreover, we can observe the constantly growing trend of both imports and exports from and to the EU, which has tended to double since 2010. The WBC imports from Russia are significantly lower, with an even declining trend from 2010 to 2020. Moreover, the EU's share of total imports and exports with the WBC among all other trade partners is dominant with an average of approximately 70% participation when considering total imports of WBC, and approximately 80% participation

in total exports from the WBC to other countries (UN Comtrade). Note that the stronger economic relations between the EU and individual WBC have been fostered through Stabilisation and Association Agreements. The trade amounts may significantly vary among the countries, which also depends on the size of a country.

Furthermore, when observing FDI in the WBC, FDI from the EU has once again dominated Russian investments over the last decade. The EU

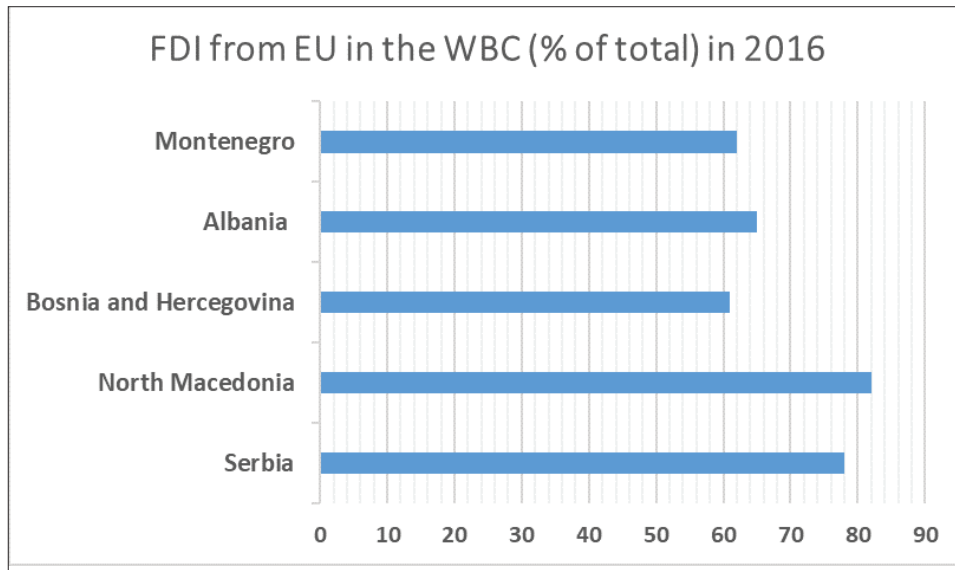


Chart 8: FDI from EU in 2016 (Source: Author's calculations based on Eurostat database).

represents the main source of FDI, leaving Russia's FDI far lower than the total amounts from the EU member states, especially in the case of Serbia and North Macedonia. For instance, FDI from the EU to the WBC in 2016 is shown as a percentage of total FDI in Chart 8. It is obvious that the majority of FDI comes from the EU. Observe that when analysing Russia's FDI, it can happen that a certain part of FDI is hidden in domestic investments by companies established in host countries. However, this is an interesting issue that requires deeper analysis.

If we additionally observe Serbia and Montenegro (Chart 9), we can see that the Russian FDI in Montenegro is much more pronounced than in Serbia (in comparison with the EU, particularly in the period 2010-2015). Namely, by 2015, Russia had pretty large investments in Montenegro, being among the largest foreign investors, with more than 30% of Russian-owned companies. Russian involvement was also significant in the sectors of real estate and tourism, as one of the main economic sectors in Montenegro. EU investments in Montenegro are mainly focused on the sectors of energy, telecommunications, and banking.

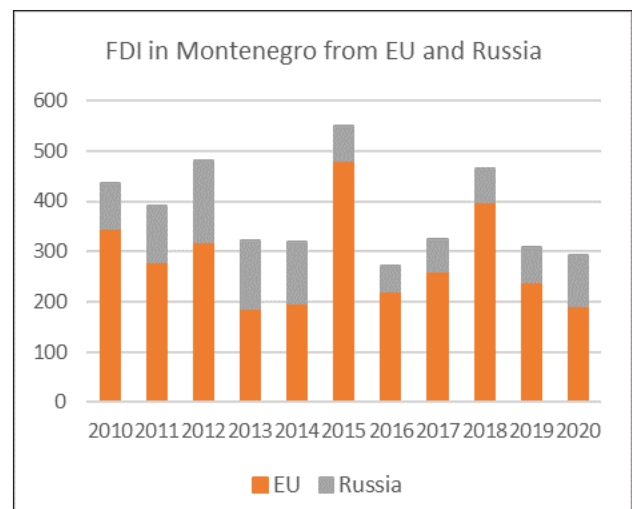
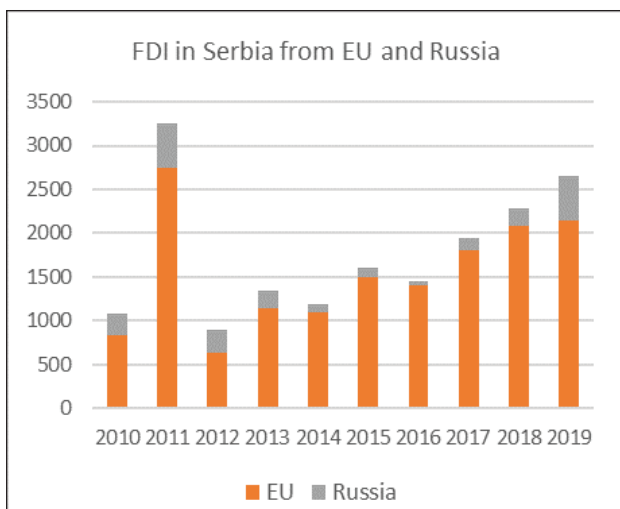


Chart 9: Comparing FDI in Serbia and Montenegro from EU and Russia in EUR million (Source: National bank of Serbia and Central bank of Montenegro).

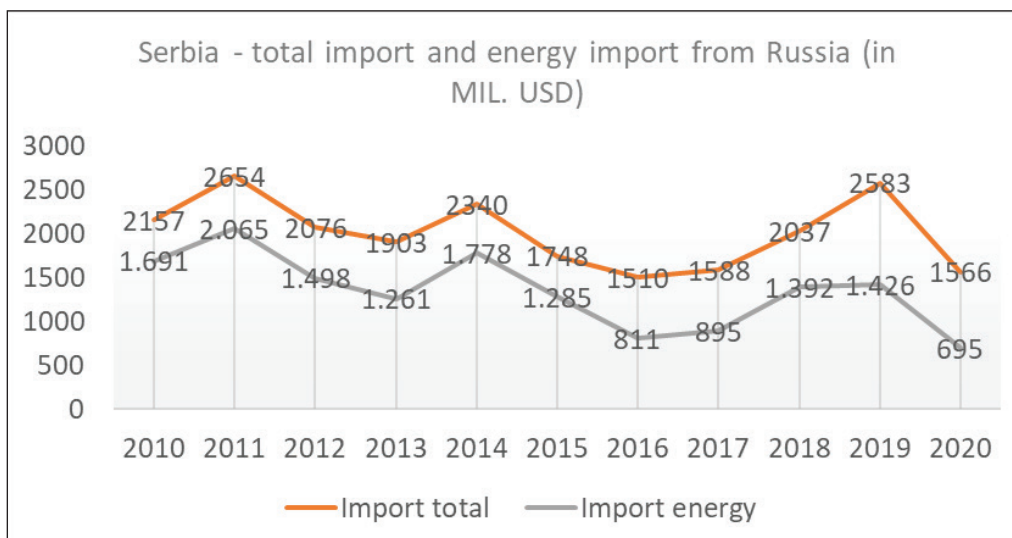


Chart 10: Serbian import: energy versus total import from Russia (Source: Author's calculation based on UN Comtrade database).

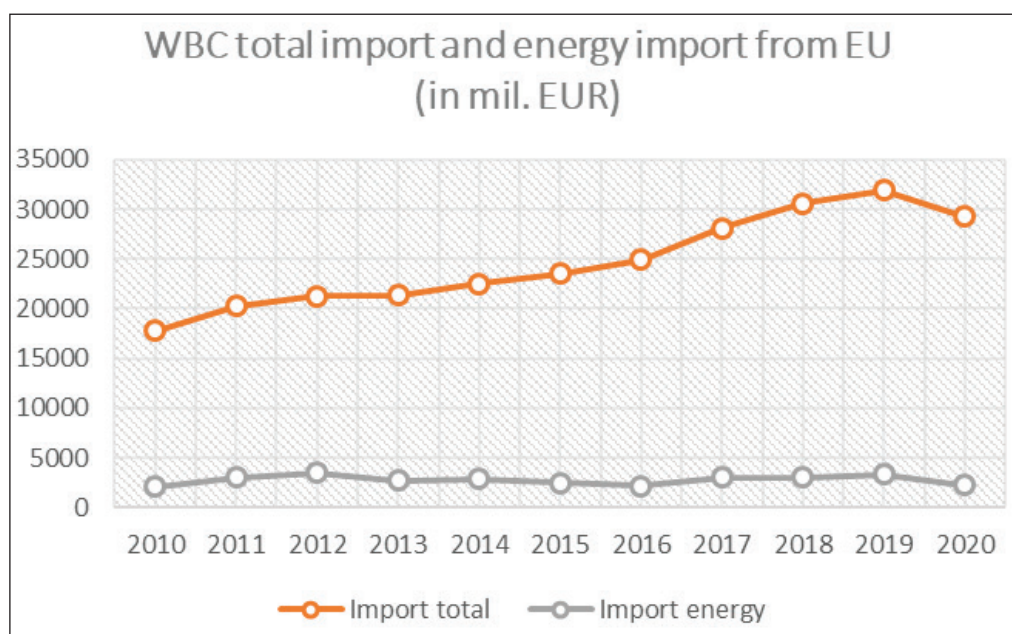


Chart 11: WBC energy import comparing to total import from EU (Source: Author's calculations based on Eurostat database).

Surprisingly, despite much closer relations between Serbia and Russia, Russian FDI in Serbia seems to be far below the EU's investments. However, it has also been rapidly increased from 2016 to 2019. Additionally, Russian investment has intensified recently in Bosnia and Herzegovina as well, particularly in the Republika Srpska entity (Tepavčević, 2015; Vlček & Jirušek, 2019). Apart from Russia, the WBC is more open to other foreign investments,

for instance from China, which has been pretty active in this region. Although there is an intention to increase the influence of both Russia and China in the WBC region, in the economic sense, China is dominantly focused on the infrastructure, which is important for the economic development of the region, and at this moment, there is no overlap in the areas of interest between Russia and China in the WBC region.

Influence in the energy sector

In the WBC region, Russia plays an important role in the energy sector regarding oil and gas supply and investments. Therefore, energy is the main economic tool for Russia to impose its influence even in the Western Balkan region (Stronski & Himes, 2019). In particular, when it comes to Serbia, Bosnia and Herzegovina, and North Macedonia, Russia's supply of natural gas covers more than 80% of the demand. The supply route of natural gas to Serbia goes via a gas pipeline through Ukraine and Hungary. As shown in Chart 10, Serbia's energy imports represent a dominant part of the total imports from Russia.

Besides the pipelines, leading Russian state companies like Gazprom and Zarubezhneft have been pretty involved in the WBC energy market, especially in Serbia and Bosnia and Herzegovina, benefiting from privatisation in the region and gaining significant stakes in the energy sectors. For instance, Gazprom Neft gets control over a stake in Naftna Industrija Srbije (NIS), the oil and gas company (Stronski & Himes, 2019). The Russian state oil company, Zarubezhneft, has been significantly active in Bosnia and Herzegovina, mainly through its presence in the Bosnian-Serb entity, the Republika Srpska. Back in 2007, Zarubezhneft took over Brod Oil Refinery and Modriča motor oil plant, and local retailer Nestro Petrol. The investments were approximately \$60 million since 2016 (Stronski & Himes, 2019), but the refineries continue to operate, which is important for the employees and also very important for Russia and its presence in the WBC. The Russian oil company has a monopoly in this area and exclusive rights to extract oil and gas in the Republika Srpska entity (Turčalo, 2020).

Montenegro is not dependent on Russian energy; it is not even connected to the Russian transmission network, as well as Kosovo and Albania. WBC energy imports from the EU, on the other hand, can be considered low in comparison to total imports from the EU (Chart 11). Thus, the security of energy supply is of utmost importance not only for the EU but also for the WBC. In order to decrease energy dependence from Russia and to secure the energy supply for South Europe, there is an urgent need for the development of trans-European energy networks through the realization of major supply projects such as the Trans-Anatolian Natural Gas Pipeline, the Trans Adriatic Pipeline, and Turkish Stream (Turčalo, 2020). The Trans-Anatolian Natural Gas Pipeline could be of the utmost importance for Albania. This stream should be connected to the Trans Adriatic pipeline, to transport gas from Azerbaijan through Greece, Albania, and the Adriatic Sea to Italy. In this scenario, Albania may act as an energy

hub with a strategically important position in the European energy market.

Based on the previous analyses, we can conclude that Russia's economic influence and leverage in WBC is overshadowed by that of the EU, except partially in the energy sector. Most of the WBC has neglected relations with Russia regarding both the economic and energy trade. Even among the strongest Russian allies, Serbia, Montenegro, and the Republika Srpska entity, the economic influence is far below that of the EU, which manages to assure its economic predominance. On the other hand, despite the mentioned facts and low share of economic leverage, Russia succeeds in being present in the region, at least partially and locally, through the energy sector, tourism, and real estate. Moreover, the perception of Russia's presence is much higher than what can be evidenced from the analytical data. That means that the EU, with its somewhat inert enlargement politics, leaves too much room for Russia, while Russia, with its sharp geopolitical determination, uses even minimal opportunities with maximal utilization.

DISCUSSION AND CONCLUSION

The first part of this section will briefly answer the research questions, and then more elaboration and explanation will be given through the discussion. In the paper, it has been shown that increased geopolitical tensions between the EU and Russia regarding the Ukrainian crisis (escalating to war) have consequently led to intensified geopolitical games that have significantly affected the WBC, especially when considering the slowing down of the EU integration process and democracy backsliding. The direct EU-Russia relationship and their growing geopolitical tensions, which spilled over on a global level, have significantly led to other crises and caused a number of problems in the EU, e.g., the problems with Syria and the refugee crisis. Such a situation has certainly influenced the attitude that led the EU to hesitancy towards further enlargement until internal problems are resolved. Economic cooperation has been considered in this paper as a particularly important indicator of influence, interactions, and greater geopolitical interest. The presented analyses targeting different aspects of trade and investment from the EU and Russia in the WBC, substantiated by carefully selected and processed statistical data, have shown that while the EU has been widely economically present, the evident hesitation regarding the enlargement strategy has left room for economic cooperation between the WBC and Russia, thus increasing Russia's presence and its geopolitical influence. Obviously, plenty of room has been left

for Russia to impose its influence on the WBC, with a particular emphasis on Serbia, Montenegro, and Bosnia and Herzegovina. Hence, the geopolitical component is becoming dominant and has achieved a decisive influence in the geostrategic struggle over the WBC.

Therefore, in the WBC, there is a situation where 'other options' become increasingly considered. Democratic backsliding with reawakened nationalism has caused the highest level of instability in the last fifteen years. It is important to note that this nationalism masks the economic benefits that WBC receives from the EU. Obviously, the EU, with its soft power, has certain shortcomings in geostrategic games with Russia as hard power, and in order to have successful coordination of political influence, the EU needs to pay much more attention to the WBC as a part of its own geopolitical context. Namely, being a geographical and political part of Europe, EU stability significantly depends on the stability of the WBC, especially given the fact that the deepening problems in the WBC make the EU constantly involved in possible conflicts. Obviously, the EU should have followed the examples of Romania and Bulgaria also in the case of WBC. At the time when Bulgaria and Romania entered the EU, their economies, rule of law, and many other parameters were not in line with the EU standards. However, by integrating Romania and Bulgaria, the EU has ensured significant stability in the region and avoided the possibility of political games and conflicts through third-party external influence. Of course, it created other problems for the EU

and made the EU more hesitant about further enlargement. On the other hand, when considered from the geopolitical point of view, especially in light of the Ukrainian case, we can say that their membership provided much more positive effects in the sense of political stability and economic development. Namely, the economies of these countries have grown significantly, and they are now ahead of all the WBC economies. The countries can adopt standards faster and easier as EU members, being more controlled and with positive interaction with other member states. In other words, there are no 'other options', but fast progress within the EU community.

For future research, it would be very interesting and important to extend the entire context to include the impact of the US with respect to EU-Russia relations that consequently affect the situation in the WBC. Indeed, the passive role of the US from 2016 until 2020 additionally helped Russia's position. Thus, greater US engagement is needed. Based on the public announcements, the new US administration currently takes a more active role in geopolitical events in the WBC, which will hopefully affect all aspects of problems considered in this work, including the intensification of EU integration. Furthermore, the EU needs to make a detailed plan for the intensive integration of the WBC in its official policy framework. Fast actions by the EU and the USA in the WBC are required because of the very complex situation in Ukraine and possible further reflections and escalations in the WBC.

KONKURENČNI INTERESI EVROPSKE UNIJE IN RUSIJE V DRŽAVAH ZAHODNEGA BALKANA S CELOVITO ANALIZO GOSPODARSKEGA VZVODA

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POVZETEK

Namen pričujočega prispevka je preko ekonomskih mehanizmov analizirati vpliv Evropske unije in Rusije v državah Zahodnega Balkana. Celovita analiza zajema preučevanje ekonomskih kazalnikov, kot so trgovina, neposredne tuje naložbe in analiza energetskega trga. V raziskavi je posebna pozornost namenjena refleksiji situacije v Ukrajini na države Zahodnega Balkana v zadnjem desetletju. Zanimivo je, da to časovno obdobje sovпада z zastojem v integracijskem procesu v državah Zahodnega Balkana. Posledično je krhka regija Zahodnega Balkana postala predmet geopolitične konkurence med Evropsko unijo in Rusijo, kar dodatno povečuje geopolitično tveganje v Evropi. Situacija je dodatno zapletena zaradi različnih geopolitičnih orientacij v regiji, ob upoštevanju, da so nekatere države članice NATO, druge pa so precej podvržene ruskemu vplivu. Rezultati analize ekonomskih podatkov kažejo, da je prevladujoč vpliv Evropske unije v državah Zahodnega Balkana, ki ga povzroča močan gospodarski vpliv, oslabel kot posledica odlašanja Evropske unije s strategijo širitve, kar pušča veliko prostora za hitro konsolidacijo proruskih tendenc in zaostrovanje geopolitične komponente. Raziskava je potekala skozi tri plasti. Prva plast se nanaša na variacije geopolitičnih in liberalnih komponent v odnosih med Evropsko unijo in Rusijo. Druga se osredotoča na geopolitično komponento, ki vpliva na regijo Zahodnega Balkana. V tretji plasti raziskave so analize podkrepljene z eksperimentalnimi rezultati.

Ključne besede: geopolitika, Evropska Unija, Rusija, Zahodni Balkan, energija, trgovina, investicije

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