

POLICY RECOMMENDATIONS

Study Group Regional Stability in South East Europe (SG RSSEE)

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

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Executive Summary of Recommendations¹:

- *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 “acquis 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.
- *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 engagement 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 engagement 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 Erdogan 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 Erdogan’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, engagement 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 engagement, **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 engagement. 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.

Summary of Recommendations

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

- *U.S. gov.:* Reconsider the extent of your political engagement 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 engagement and investment in strategic relevant areas.
- Rather assist the potential access candidates of the WB by monitoring, checking and advising, when such engagements 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 engagements with EU's *acquis communautaire* and standards.
- Foreign Direct Investment 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.



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).