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**THE POLITICAL ECONOMY OF RUSSIAN IMPACT IN THE BALKANS**

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**BALKANLARDA RUS ETKİSİNİN EKONOMİ POLİTİĞİ**

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## **Abstract**

This thesis seeks to analyze the Russian influence in the Balkans. It appears that Russian influence has increased in recent years due to global economic crisis and its effects in the Balkan countries. Despite some successes in 2000s, the neo-liberal transition resulted in the accentuation of the peripheral position of the Balkans, particularly post- Yugoslav countries. The economic difficulties due to crisis and relative decrease in the interest of Western core countries, caused an environment conducive to increasing Russian influence. The intense interest of Russian business expressed itself in the form of political pressure on post- Yugoslav countries, seeking to shape their domestic politics and foreign policies. The Russian business and state also used this opportunity to realize the aims of Russian foreign policy. This thesis argues that, the relations between the Russian Federation and post- Yugoslav countries under the liberal world economic order can be analyzed as an example of how economic relations and foreign policy can be combined. In this manner, Russia manifested a successful example of combination of economic relations into foreign policy.

## Özet

Bu tez, Balkanlardaki Rus etkisini analiz etmektedir. Ekonomik kriz ve bu krizin Balkan ülkelerindeki etkilerinden dolayı, son yıllarda, Rus etkisi bu ülkelerde artış göstermiştir. 2000'li yıllardaki bazı başarılarla rağmen, neo-liberal geçiş, Balkanların, özellikle de Yugoslavya sonrası çevre ülkelerin önem arz etmesine sebep olmuştur. Kriz nedeniyle yaşanan ekonomik zorluklar ve Batı merkez ülkelerinin ilgisinin göreceli olarak azalması, Rus etkisinin artmasına yardımcı olan bir ortam oluşturdu. Bu çerçevede, Rus iş adamlarının yoğun ilgisi politik alana taşarak Yugoslavya sonrası devletlerin iç ve dış politikaları üzerinde baskı oluşturmuştur. Rus iş dünyası ve Rus devleti bu çerçevedeki olanaklarını Rus dış politikasının amaçlarını gerçekleştirmek için kullanmıştır. Bu bağlamda, Rusya, ekonomik ilişkilerin dış politika ile bağdaşmasının başarılı bir örneğini ortaya çıkarmıştır. Bu çalışmada, liberal ekonomik dünya düzeni çerçevesinde Rusya Federasyonu ve Yugoslavya sonrası devletlerin ilişkileri üzerinden ekonomik ilişkilerin ve dış politikanın nasıl birleştirebileceğinin bir örneği olarak analiz edilebileceğini ileri sürmektedir.

*In memory of the innocent children of Bosnian War...*

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## List of Abbreviations

AG	Joint-Stock Company (Aktiengesellschaft)
BiH	Bosnia and Herzegovina
BSEC	Organization of the Black Sea Economic Cooperation
CBBH	Central Bank of Bosnia and Herzegovina
CBCG	Central Bank of Montenegro
CEE	Central and Eastern European Countries
CIS	Commonwealth of Independent States
D.O.O	Limited Liability Company
EBRO	European Bank for Reconstruction and Development
EC	European Commission
ECC	Council of the European Union
EIU	Economist Intelligence Unit
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign Direct Investment
FIPA	Foreign Investment Promotion Agency of Bosnia and Herzegovina
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GNI	Gross National Income
IMF	International Monetary Fund
KAP	Aluminum Plant Podgorica (Kombinat Aluminijuma Podgorica)
KFOR	Kosovo Force

MIPA	Montenegrin Investment Promotion Agency
MONSTAT	Statistics Office of Montenegro
NATO	North Atlantic Treaty Organization
NFDI	Net Foreign Direct Investment
NIS	Petroleum Industry of Serbia (Naftna Industrija Srbije)
OFA	Ohrid Framework Agreement
OSCE	Organization for Security and Co-operation in Europe
PARM	Pre-Accession Economic Programme of Macedonia
PPP	Purchasing Power Parity
RS	Republika Srpska
REISR	International Monetary Fund Regional Economic Issues Special Report
SAA	Stabilization and Association Agreement
SDSM	Social Democratic Union of Macedonia
SIEPA	Serbian Investment and Export Promotion Agency
SIJ	Slovenian Steel Group (Slovenska Industrija Jekla)
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSC	United Nations Security Council
USA	United States of America
USD	United States Dollars
USSR	Union of Soviet Socialist Republics
VMRO	Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity

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## **Introduction**

Conventional issues in politics are no longer the hardest tests contemporary nation states face. The evolution of politics and human being changed the challenges and problems as well. It also led to changes in expected outcomes and the relations between the countries. In this sense, the new politics has shaped new practices. Post-Yugoslav countries present a revealing example in this context. All were shaped by and came into existence against a background of old politics; but all experience a thorough transformation in all aspects after independence. Their accession into the international society as independent states brought about other concerns, as well. As they were born into a context of liberal economy, they had to adapt and regulate their system accordingly.

Under the existing liberal economic order, post-Yugoslav countries faced unbalanced economic relations and trade levels. In this context, great powers became influential in the relations as well as their economic outcomes. Consequently, powerful countries came to occupy the center and became the pioneers of the web of relations that guided the politics and economics. In other words, increasing volume of unbalanced trade created core and periphery countries as Wallerstein argued. Against this background, the independence of new nations brought about a re-design of the core- periphery relations between the regional countries and the great powers. Under the lead of core countries or the dominance of one side in the relations, a means for post-Yugoslav countries to get involved in international politics and the global economic system developed gradually. Their independence was the first element of re-design, but certainly not the last one, for every crisis that emerged in the political or the financial system caused a revision in the periphery. These changes are effected under the lead of core countries, along the lines of their political and economic benefit.

The dominant paradigms left their mark on world politics, culminating in a world order based on the core versus periphery paradigm. Different ideologies invented and experienced by

human beings brought about two noteworthy cases in political history: Yugoslavia and the Union of Soviet Socialist Republics. Their relations with each other and third countries were shaped by the then prevailing understanding of politics. In addition, they have left their economic and political mark in world politics. However, even though a cursory glance would suggest that these two countries/federations had similar government systems, in fact they were very different.

The effect of the liberal economic order on the world order affected Yugoslav and USSR economy and politics as well. It was difficult for Yugoslavia to accommodate the liberal economic system, given the prominence of central planning and the country's unique political system in shaping its society (Dahl, 1971, p. 64). The collapse of Yugoslavia and the USSR has, in turn, opened up new markets for free market economy. From that point onwards, the liberal economy and its supporting social structure were distributing resources to all individuals and groups in these countries (Cox, 1998, p. 138). The failure of these two countries led to painful births. The break up of Yugoslavia eventually produced seven different new countries<sup>1</sup> (including Kosovo<sup>2</sup>) to take part in a world order. The failure of USSR, in turn led to the emerging of fifteen different countries<sup>3</sup>. Even though Yugoslavia and USSR employed alternative systems to handle and attitudes towards liberal economy, the dominance of liberal economy eventually caused their economic failure, which, in turn caused their political failure. Consequently, their break up started a new era for politics and economy for them and the wider world. After break up, the initial re-design of post-Yugoslav countries brought a host of new countries and new policy-makers to the stage.

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<sup>1</sup> Post-Yugoslav countries: Bosnia and Herzegovina, Croatia, Kosovo, Macedonia (FYROM), Montenegro, Serbia, Slovenia.

<sup>2</sup> United Nations Security Council Resolution 1244

<sup>3</sup> Post-USSR countries: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

These countries' process of adaptation to international politics and international economic order took the form of new practices and policies on their part and on part of other countries. Despite the defining importance of the turmoil and changes the new states went through in their earliest days of experience, the Russian Federation soon emerged as a policy-changer and policy-maker in terms of influencing politics in these countries.

Crudely put, the Russian Federation has been the dominant actor in the region for centuries, even if under different regimes. Therefore, the evolution of the Russian Federation shaped itself, the region, its neighbors and world politics. The Russian Federation's influence on politics and economy affected countries' foreign policies and relations. Hitherto the Russian Federation or Russia, as one may be inclined to call, were always on the table as a game-changer or political actor in the region. The role of Russia as the heir to the one of the world's two superpowers certainly affected world politics and international relations. Its position in the United Nations or in the Balkans or in Commonwealth of Independent States changed the way of politics and policy implementations. The challenges presented by the contemporary world order played a role in shaping their foreign policies. On the one hand, the fundamentals of the liberal economy framed their policies and foreign policy practices. On the other hand, armed with enough economic power and the ability to convert it to political power, Russia shaped the region.

There are regions where core countries want to be dominant and act as a role model for others. The Balkans is perhaps the textbook example of such regions. Shared cultures, languages, history and economic relations perhaps paved the way for this state of affairs in the region. According to this argument, the heritage of the USSR made life easier for its heir, the Russian Federation, which made frequent reference to all these historical factors with a view to accomplishing their foreign policy objectives under, this time, a liberal economic order. The

prominence of the Russian Federation in world politics and the unbalanced relations between the Russian Federation and these countries made it possible for the Russian Federation –as a core country– to exert dominance over post-USSR and post-Yugoslav countries. The discourse based on culture, language and history served to legitimize the Russian Federation’s core country position. That is why, the Russian Federation’s foreign policy towards these countries remains a stable feature of its foreign relations and the wider international politics.

To be dominant in and a role model for the region was a part of USSR’s agenda, as well. In this perspective, the position the Russian Federation occupies with respect to these countries has been crucial for their domestic economy and their foreign policies. The geographical location of post-Yugoslav countries facilitated Russia’s trade with the European and Western markets. Yugoslavia’s dramatic and tragic break up led these countries to integration with world politics and international economy with the framework of liberal economy. Compared to their old systems, these countries are now in a state of transition, countries not only in terms of economics but also for politics. Their transition entails an abandonment of the principles of the old system, in exchange those of the new market economy, such as establishing market oriented economies and allowing private ownership of production activities. In this sense, the transition process of these countries entailed certain institutional changes (Roland, 2001, p. 30). The integration of these countries were important for core countries, for such integration into the system was important for their existence under the new world economic order, and for the running of the global economy.

The role of a core country reflects itself on politics and economy, as expected. The question of utilizing politics and power in the same context is among the essential ones in international political economy. The power-, political- and economic-relations are defined, shaped and re-shaped. The distribution of these relations’ advantages and disadvantages to countries has made

these relations all the more important. Especially, the relationship between economy and politics raised the question about the importance of Balkan countries. The ability to exert power through economy and politics defines the relations. On the other hand, the ability to translate economic power to political power under the relevant country's foreign policy has been a more crucial one in the international liberal economic order. The relationship between the post-Yugoslav countries and the Russian Federation are full of examples of this latter ability being applied over and over during these countries' development as new states and the building of their national economies.

The change the Russian Federation's foreign policy went through led to a revision of the importance attached to Balkan countries. The new dimensions of Russian foreign policy re-defined economic relations too. This study, in turn, analyzed the Russian Federation's interest in post-Yugoslav countries, from the international political economy perspective. The dissertation is structured as follows: the first chapter lays down the foundation for the main discussion and the broader perspective on Economic Liberalism in a Liberalism and Mercantilism perspective under the theoretical outlook of Realism. Then, post-Yugoslav countries' transition and the relevant developments are described with reference to the changes in the regulations and the market system, with a view to understanding how they developed the background for foreign investments and liberal economy. Building on these, the final chapter will discuss the pragmatic outlook of Russian foreign policy, the Russian perspective, with specific reference to Russia's foreign policy from a historical and contemporary perspective, with reference to economic figures and political events. The system to distribute the advantages or disadvantages, as well as its impact on the design of foreign policy is perhaps the essence of this study. Politics and economy, in this context, have defined how foreign policy is interwoven with economic relations.

## **Chapter 1**

### **Theoretical Framework**

#### **1.1 Liberalism**

Liberalism aims at an alternative view on competition and conflict between states. The roles of states and their relations have undoubtedly have an impact on world politics. Against this background, different policies were also developed and applied. In contrast to the realist paradigm, international institutions grew from the roots of liberalism. The importance of international institutions emerged from the idea of emphasizing cooperation between the states –a feature hitherto absent in realism. The growth of trade between independent states led them to establishing sustainable relations (Friedman, 2006, p. 401) Such an evolution is what makes Liberalism distinct from Realism, especially in terms of the position and importance of the state. As institutions, the state and human societies continuously change and adopt themselves to match the requirements of the world. The developments in life brought along an increase in freedom, democracy, level of tolerance and understanding, affecting all political systems, status and structures of the states. All of these improvements and changes affect the global framework and perceptions of the global order, as can be witnessed through the changing approaches to political and economic relations.

Liberalism's purported goal is to create an ideal, better world order and a better humankind. The means to achieve this goal is through the enlightenment of the humankind and a solid belief in progress. For this, the cooperation between nations is a must. Cooperation led the states to integrating their systems and furthering globalization. These developments directly affect trade relations between the states, and made them the main driving forces of state relations. For liberals, free markets are inherently good for the humankind. According to the adherents of the liberal paradigm, globalization and a more integrated world order would lead to a healthy, safer and

peaceful world (Glaser, 1994, p. 55). Such an ideal world is dependent on the states abilities to trade. In other words, states should be able to engage in free and open trade with other states. That is why the role of state raises certain concerns (Strange, 1996, p. 4). The obvious response of the liberal thinking to these concerns was to reduce the importance of the state to a minimum.

In such a paradigm, the state would maintain the legal framework, system and infrastructure that are coherent with the international economic system. In other words, the state should establish a framework for the market. In this context, the state should provide the market framework and basic needs of the people to enable them to live in states. There are certain basic needs that people cannot be deprived from, such as security. A national defense force that only protects those who pay for it is unthinkable. Hence, national defense as a service should be provided by the states and not by the free market. To be able to do so, the state should collect taxes. Furthermore, the operation of a sustainable market depends on some rules laid down by the governments, and enforced with the help of taxes collected. In this sense, taxes might be deemed a means to guarantee the existence of the state, and its ability to provide a market framework. (Ricardo, 1996) Any failure of the overall system or that of a state is not good for the free markets. The role of the state in a free market economy, however, might pose certain threats as the state might block trade or might employ protectionist policies to strengthen the domestic economy. On the other hand, if an oligopoly dominates the market, a collapse would be more likely, whereas in the lack of a monopoly the market will operate along long-standing lines, and the risk of collapse will fall. At the same time, where there is more than one player in the market, the tax income will be higher. Taxes occupy an important position for sustainable international free trade, for monetary regimes need stable monetary policies, not to mention the existence of states. For this reason, the state

should intervene when the market experiences problems or if there is a need for improvements and for providing necessary public goods and services.

The arguments regarding the free trade regimes spill over to the debate about the democratic political structure of states. Liberalism argues that politics and economic spheres should be separated in the state itself. The existence and the future of the market should be protected and be separated from the political interference or political instability because humankind is rational and human beings use this rationality in economic behaviors as well. This rationality leads to the maximization of utilities, or avoiding potential threats and costs. In this context, the main basis of liberalism lies in individual's equality and liberty.

As trade regimes developed and the level of global trade grew, human rights, property rights and the rule of law became side benefits of improved trade, or consequences of free trade relations (Friedman, 2006, p. 421). Common rules were developed to protect international or foreign investors' investments in target countries. As states established global capital markets and free trade systems, the situation and status of the humankind could not be ignored. The happiness and healthiness of humankind came as a consequence of better trade worldwide (Chua, 2004, p. 6). For this reason, the spreading of democracy and the extension of common economic benefits for the citizens and traders were essential. The standards and procedures of democratic state and the associated economic principles were the main sources of globalization and free trade. In other words, the common standards and procedures indeed laid down the road to global peace among economically integrated states.

Contrary to the stipulations of the realist theory, the common interests of states make the game a positive-sum one. Such a positive-sum game brought about by international economic relations is seen a major source of peace worldwide (Friedman, 2006). Shared interests and

international economic relations brought cooperation and less hostile relations, the liberals argued. Free trade relations increased understanding and tolerance between the states. It is often claimed that as free trade relations grow, the states will not engage in, and ultimately will be incapable of military conflict. Consequently, the budgets reserved for military spending would be spent in other areas. Continued primacy of the states as the regulators will help with free trade conflicts, the disputes and war will be at a minimum.

In this paradigm, the states are still the primary actors, but they are not the only ones. For free trade and liberal economy to run their course, the states' should be limited. For a shared democratic perspective and a common economic system to exist, the international relations should be free from anarchy. The anarchic states should be eliminated or pressured into compliance. To sustain this system and perspective, the sovereign states should create and join a supranational entity. The state is supposed to serve not only the national interests but also the global values recognized by all the states involved. Establishing the primacy of global values and a shared vision makes the supranational entity crucial (Rosamund, 2000).

On the other hand, under this paradigm, while the operation of the global system and its security are important, the existence of the state and its security are important as well. The state is not only responsible for domestic issues but also for the international system. Internal or external threats to states may have repercussions beyond the state itself, affecting the wider international economy and system. In the efforts to eliminate or pacify the threats from anarchic states or actors, democratization and free trade are the primary means. According to liberalism, democratic states are more stable and in their turn, guarantee peace and the international system. The main threat to the international system comes from non-democratic states or other organizations such as terrorist groups. The crux of the argument is that, the democracies do not fight each other. The way to

protect the system and to eliminate the threats runs through the democratization of states with the help or force of the supranational entity.

### **1.1.1 Economic Liberalism**

The increasing impact of globalization cannot be considered without reference to the liberal economy. Where there is overproduction, there should be also sub-ordinate markets for consumption. Industrialization is a term that is interconnected with idea of economic liberalism. Economic liberalism enables higher profits for the producers. To achieve higher profits, the system and the producers need some basic elements such as free trade. The free trade is not only a good match to the idea of liberalism but also it fits with the economic liberalism because free trade implies a lesser role for the state and requires a commitment to the core idea of liberalism: “*laissez-faire, laissez-passer*”. In this context, business cannot be hindered by politics, while it gets to enjoy from exports and imports.

Against the background of diminishing importance of the state, there still is an organizer that controls the market: the “*invisible hand*” as Adam Smith put it. The invisible hand appears where the government’s does not. Thus, the economy is controlled by the forces of the market. The invisible hand was expected to bring stability, economic wealth and peace to the society, without government control, for the idea was about converting labor to money effectively. When that core function operated better, the outcome would be better, too. If the government interferes in the economy, it would be for the interest of the government, rather than for the wealth of the people. Intervention by the state might damage the volume of trade because it might create trade barriers in order to protect its own industries. At the same time, the intervention by the state might lead to

excessive price for sub-par products. Open market or free markets might just be the solution. At the same time, the free market economy will lead to creating more money to flow to states.

The benefits of free trade are not limited to just economic ones, but also entail wider benefits for all aspects of human life. Liberalism with its economic and political terms pushed states to remove barriers. Globalization is one of the results of removing barriers. The shared economic system and getting to know each other subsequently increased the level of tolerance among nations. Moreover, they convened around a shared goal: to achieve more profits. People came together and cooperated cooperatively around this goal. According to the theory, it will not be wrong to say that trade brings stability to ordinary people's life by making it more likely to sustain peace. In this context, the reference to peace is not just about the lack of war. The creation of peace in society might bring individual peace to human beings as well. It should be underlined that free trade does not offer income equality for all citizens. It offers the potential to have a better life. It can be argued that there was no war during the "*Occupy Wall Street*" protests but there was no individual peace as well.

For liberal thinking, capital flowing through the markets is the essential element. The status of the state is limited and it has only a limited role of providing basic necessities for the market and human life (Munck, 2005, p. 62). Cooperatively this approach has created questions about the existence of the state or its declining importance. The limited role of the state also brings forward questions about the distribution of wealth. Liberalism's premise was based on the markets. The system was supposed to organize itself and everybody would have the chance to get equal outcomes without government intervention. But in practice, it was not so (Harvey, 2005. p. 2). Disparate and huge differences between different regions of the countries lead to important political debates. This is one of the consequences of this vision because it also shows that how liberalism, in international

political economy, serves the interests of the powerful. Such an outcome also suppresses minorities' chance of success, and creates questions about their existence. Indirectly, the system ignores political and social contexts of the states. Market and its economic actors come to the fore. Economic actors operate the system for a more liberal world order, democratic states and wealthier citizens. Actors try to establish common understanding and to make some rules for smooth capital flows. It is clear that the main actors, markets and the leading forces are established by human beings. The market as a fundamental element of the system has not, however, a naturally element of international political economy. Even though increasing the role of non-governmental organizations certainly makes an impact and trade organizations play their part, according to realism the state is considered as the central pillar of international political economy.

## **1.2 Realism**

The increasing in economic activities as a result of globalization rendered the connection between economics and politics under international relations more significant. The interconnected and globalized world tries to bring all countries under the same umbrella or system. In the contemporary world, an economic development occurring in a given country might have important repercussions all over the world. The 2008 economic crisis is a telling example. As the European Union and the United States were struggling with the economic crisis, all countries felt the impact of the crisis. Other examples could be seen in Balkan countries such as Macedonia, Montenegro and Kosovo which still use fixed exchange rates in order to sustain their economies in the face of fluctuations caused by the economic or political tensions of the world. In other words, with fixed or controlled exchange rates, countries are trying to protect their national economies from political tensions.

Globalization and the global economic system improved the relations between economy and politics and rendered them more interconnected. Harsh and deep fluctuations of exchange rates of the currencies have something to do with this interconnectedness argument. As noted above, the global economic system seeks standards in economic relations. Where the political system or the rule of law are under risk, international investments start to slow, with a due impact on exchange rates. Political tensions and discussions may affect one or more countries. The independence referendum held in the Catalonia autonomous region of Spain is a telling example as it was seen as a threat for all European Union members' economic wealth, not to mention those of non-EU countries which have important relationships with the European Union. Another example can be found in the Brexit decision of British people. It affects all EU and non-EU countries. One change in a given country undoubtedly affects all countries.

As any student who took the introduction to international relations course, would remember, human beings are characterized as greedy and selfish beings (Karpowicz and Julian 2017). According to realist theory, this understanding describes the relations between states as a competitive one. That competition is about enhancing and increasing state power and economic wealth in international relations and international political economy (Karpowicz and Julian 2017). As countries are governed by human beings, one would not be off-the-mark to think that every country wants to maximize its power. The desire for power is not only about competition between the countries but also is about power itself. Thus, the international politics and the world acquire a defining uncertainty given the complexities of interests of individual countries (Mearsheimer, 2001). Power is one shortcut to explain this uncertainty, for now one can simply refer to a group of powerful politicians or powerful countries in an effort to explain politics and the decisions taken

(Sleat, 2010, p. 451). Power also plays an important role in –mildly put– *advising* the weaker countries towards a specific direction.

It is often noted that the foundations for the nation-state were laid with the Peace of Westphalia. Westphalia provided the framework of nationalism and the nation state. Moreover, Westphalia established the paradigm of state-centric international relations. In this paradigm, politicians and countries are deemed entities acting on self-interest (Walker, 2010, p. 32). Armed with the defining characteristic of self-interest, the politicians and entities serve only their nations and their countries' interest. This understanding and the associated policies depict international relations as a struggle for power and autonomy. Thus, every country began to seek its own interests over others'. At the same time, state became the protector of the nation and its interests. These arguments could and often were used as the basis for resorting to military power. In other words, to use military power, one needs "us" as a group who share the same interests, and certain "others" who share different interests than "us", or sharing some common interests with "us", but for their own interest in any case. The primacy attached to seeking state's interests has changed the appearance of realism and its arguments regarding the world order, through different politics and economic developments.

It will be not wrong to claim that the main pillars of realism are the actors, the human nature and the connection between political power and economic power. Seeking national state interest led to an absence of cooperation, which realist thinkers like to call anarchy in international relations (Evans and Wilson, 1992, p. 330). The central aim of reaching political and economic power has made states and policy-makers important actors in international relations. Realism considers the world as an environment dominated by anarchy, for the absence of a dominant power in international relations creates space for states which seek their maximize their interests through

international relations. At the same time, the absence of cooperation and dominant power in the world order, regardless other states' situations or positions, makes it possible to draw maximum benefit from an anarchic ecosystem (Fischer, 1992). The main aim of the states is to shape world politics and the global economic system in order to serve their self-interest better. In this understanding, the advantages serve only the powerful states. These advantages can, in turn, be described as a zero-sum game. One state's gains occur only at the cost of others. Such an outlook affects everything, from the diplomatic relations to international economic relations.

Sustaining and gaining power over the others is a necessity on grounds of self-preservation. The state should always try and protect its motherland and national interest. That is why the state should always seek power in the domestic and international context (Karpowicz and Julian, 2017). At the time of Westphalia, the most effective and reliable power was human power which could be translated into military power when needed. Consequently, the national economies were shaped by the concerns power and security. The security concerns in an anarchic system brought about more attention on defense and national resources. The absence of cooperation and the consequences of anarchy rendered independence crucial in terms of maintaining defense and national resources (Morgenthau, 1993, p. 209). These concerns, however, may have costs in terms of state wealth, and even cause certain existential risks. To have an independent national economy, countries focus on having more land for agriculture, as well as income to feed the soldiers, and sustaining security of resources and the state economy. Under these circumstances, the only entity the state can rely on is the state itself. The state's capabilities assume primacy.

To consider the discussions on state wealth from an international political economy perspective; it can be observed that the colonialism-mercantilism was replaced by neo-colonialism in terms of expressing capabilities and power in the global arena. One can argue that all of these

terms are about protecting a certain group in the context of relations. For instance, colonialism is one group's domination over another in an overseas territory, employing economic and cultural means (Horvath, 1972, p. 46). On the other hand, mercantilism is about the benefit nations and states can derive from the accumulation of capital through unbalanced trade. In such unbalanced trade relations, the governments can ensure the protection of certain groups (Hettne, 1993, pp. 235-236). Neo-colonialism, which is considered a new form of colonialism, is about maintaining certain aspects and benefits of colonialism under a regime where the colonies have political independence (Nkrumah, 1965). These paradigms did much to define the characteristics of free trade, capital markets and open economies, for all of these domination-based activities are about trading with another country. The states' primary interests were formulated as the need to create a powerful state with the ability to convert its economic power to war-making capabilities or converting its human resources to military power for the protection of its motherland (Jervis, 1970). All these concerns led the countries to a quest for sustainable economies. The role of the economy, in this context, became the key to protect countries' economic power. In an environment where anarchy prevailed, economic abilities affected countries' abilities. The status of economy and its potential influenced the overall power and dominance of a state in its relations with the others.

Colonialism presented one method of strengthening economy. At the same time, it was a quick and dirty way of utilizing international politics or foreign policies. Colonialism was the exploitation of less developed or weaker countries' resources by the powerful ones (Shilliam, 2011). Moreover, an uneven trade structure or relationships based on exploitation eventually spilt over to exporting language and culture to colonies. The protection of the resources and these colonies was dependent on the will of the powerful country. In this context, powerful countries tried to supply more raw materials and human power to their own countries. These inputs helped

them expand their economic abilities and convert them to military or political power. This approach also allowed the powerful countries to avoid competition from less developed countries.

The imposition of one state's power on less developed or weaker countries, and the ability of using this power for the interest of the state enabled the states and their business communities to develop other forms of trade and relations between countries. That is how mercantilism stands in contrast to plain old colonialism: the participation of the business community and the involvement of state incentives shaped the relationships. Domestic economies benefited from state protection against foreign competition (Kegley, 2011). In such an arrangement, the state not only protects domestic trade with different means, but also seeks protection of its trade in the wider context of foreign trade relations. To maximize their political and military power, the states employ a number of distinct ways to find natural resources, capitals and markets. It should be underlined that the pursuit of being a powerful state and seeking national interest are crucial. The protection of the business community from the competition of foreign trade created a surplus in the economy, as protection has provided the community to act as a monopoly in domestic economy. In trade, precious natural resources such as gold or silver became important as they are directly convertible to the wealth or power of the state. A state that enjoys a foreign trade surplus and enough precious natural resources can increase its domestic and international economic capacity. Self-interest, a focus for the interests of the state, and power itself discouraged states from cooperation (Kegley, 2011). Such attitudes created a feedback loop whereby concerns about existence in a state of anarchy were exacerbated. The cooperation would be feasible and possible only in the face of need for cooperation. The anarchic environment was also the reason underlying the growth of unitary actors in international politics.

These power relations has created another paradigm of politics where dominant countries sought ever more power for their existence and protection. Thus, powerful states came to be seen as neo-imperial countries. These are the states which control and lead international politics and economy. At the same time, the stability of hegemonic powers has defined the stability of world order (Morgenthau, 1993). While powerful states hold on to their power, they also need to deal with international problems as the dominant state, for they simply are the ones with sufficient power to handle most problems. In addition, the dominant state enjoys the ability to convert its resources to military power or political power that is essential to influence other states and benefit from them through its interest.

The Cold War between the USSR and USA can be interpreted as one of its expressions. The competitors never trusted each other and tried, instead, to maximize their economic abilities and influence over the wider world, with their power. The competition was not only about relations with other countries but also about being the leader in every aspect of politics. In this context, both countries increased their military influence and political power. After the Cold War, international relations experienced a change and a new form of politics emerged. In the new era of politics, the relations between the Russian Federation and the USA had an influence on –post-Soviet and post-Yugoslav countries. Especially, the proxy tensions they had in different regions such as the Balkans changed appearance of realism and its argument in contemporary politics.

### **1.2.1 Mercantilism**

The developments in the human life, world politics and especially those in technology might have reduced the visibility of mercantilism but it was and still is one of main perspectives towards world politics. As was the case with other theories, the main actors involved are the states, and their

economic attitudes shape the world. In contrast to economic liberalism, mercantilism implies governments' intervention in trade. The intervention of the state is necessary to protect the interests of the state, the wealth of citizens, and the security of the motherland. The state should interfere in domestic economic relations and foreign trade activities. Against an anarchic world order, the state's intervention to provide direction to the economy is needed. To be able to do that, the state should meet certain requirements. As mentioned above, the government should be capable of converting its capacity in other areas, such as converting human power to military power or economic power to war-making power. In order to do that the state would need a strong economy. Yet, interdependence means that no country can be completely self-sufficient, and certain economic resources should be supplied from others. The strength and sufficiency of resources also define the power of the state. Therefore, the government should value and cherish every single resource it has. If it is necessary, the government should create trade barriers, make regulations or interfere in international trade and the domestic market.

While theories try to explain and describe the world order, discussions produce a number of sub-topics as well. Globalization, hegemony, and national economies are some of the terms employed in any debate on the International Political Economy (Crane and Amawi, 1997). The developing world order and the changes affecting human life also play a role in international relations. These new developments bring about new debates and new perspectives as well. As previously argued, the economic and survival concerns of states led them to quite another understanding of the world. Before global consensus or cooperation, states focused on developing of their own economy and increasing their abilities. Once globalization and a marked increase in economic relations occurred, the flow of people, new ideas, technological development, new needs and especially, the flow of capital across the states were shaped accordingly. The evolution of the

states and human life brings new perspectives in international relations, focusing on politics and economy. These terms, in turn, cannot be separated from each other in the contemporary world order.

Where states are interconnected, there exists a shared economic system. The economic developments in a country might affect politics and relations with other countries as discussed above. In an interconnected economic system, the international economy cannot be understood without reference to the state of domestic economies. The success of the domestic economy also defines relations with other states. The interconnected system also shapes the investments in other countries affecting domestic economic performance and the relations between the states. The success of economic development is important domestically as well as for the international economy system. The success is measured on the basis of integration into the international economic system. The management of the taxes, monetary policies and public policies are important for the success of the system. The investments made by one country in another require a secure system. The international economic crises such as 1929 or in 2008 had impacts on all over the world. One economic problem in a country affected all others countries. At the same time, they affected politics and relations. The effect of economic recessions on extreme politics cannot be ignored. The growing number of extremist parties or their accession into national parliaments are telling.

In this line of thinking, to be a strong and powerful state, one cannot depend on a cooperative outlook of international economy; the states should be competitive. Competitiveness arguments are related with the understanding of mercantilism accepting the greediness of human nature, and also understanding of state attitudes towards the international system and other states. According to this argument, where there is a zero sum game, there will be loser or there will be a

side who pays the cost of the winner. Approach to free trade between states considers the state's future profit and its advantages. If the state cannot keep up, there is always the risk to pay the cost. This bleak vision of human nature led to a comparable vision for the states as well. Mercantilism has appeared as one way of protecting oneself and existence in this system. In this system, it should be underlined that states should be self-sufficient to maintain their existence.

## **Conclusion**

This theoretical framework gives a broader yet simpler understanding about countries' contemporary foreign policies. Changes regarding the application of foreign policies shape the relations between countries from an economic perspective as well. Core and periphery relations are created by capital flows and international free trade. In this context, some countries came to be characterized by over-production, which gave them new options and choices regarding foreign policies. That is why, to find new, lasting, potential and sustainable markets for products became fundamental goals of new foreign policies under the liberal economic order. This perspective naturally did much to shape the relations between and the interests of states. It will not be wrong to say that mercantilism and economic liberalism changed their appearances under the new application of foreign policies and international political economy. The emerging of post-Yugoslav countries as a new and potential market in the liberal economy drew the attention of all over-production countries, which are also core countries of the liberal economic order. The relations between the Russian Federation and post-Yugoslav countries could be considered an example of changing forms of mercantilism and free trade. It will be not off-the-mark to claim that pragmatism of Russian foreign policy is a new form of mercantilism. While the Russian Federation protects its domestic economy with a number of instruments based on customs, such measures are combined

with efforts to create relations with other countries. On the other hand, intense interests of Russian business in the region could be considered as a new form of trade, for the businesses' goals are not to be blocked by the Russian Governments. To the contrary, the politicians expect some spill over effects into the political domain. This issue will be discussed in the following chapters.

Upon gaining independence, post-Yugoslav countries tried to adopt liberal economic order. But their efforts also considered Russia's perspective towards the region, particularly after the 2008 economic crisis since liberal order was challenged. Virtually everything had been transformed, and the relations of the countries were re-defined under the new conditions. That is why trade and economic relations became more important and reflected themselves on political attitudes. Establishing trade links and exporting more than importing have structured relations. The state of a country's economy and its economic capabilities started to draw attention in politics. Thus, the meaning of powerful or in the contemporary world order changed as well. Competitiveness in the trade relations under the peaceful system is what informs the core country status. The states, in turn, have started to express their interest with economic terms and sanctions. Rather than a resort to old-school Cold War tactics involving military force, economic relations while protecting domestic economy come the fore. Hence, the realist and liberal paradigms, with their reference to mercantilism and free trade, were re-designed in the light of the new challenges of the world.

## **Chapter 2**

### **Economic Development Processes in Post-Yugoslav Countries**

#### **2.1 Transition and Development of Post-Yugoslav Countries**

The system economic system of Yugoslavia was based on central planning with a touch of limited private ownership on production activities. Thus, the state and state owned enterprises were the main actors in economy. The dismemberment of Yugoslavia led the successor states to establishing their own national economies as per the diktat of world order. Setting up free market economies brought new terms and perspectives to their domestic economies. A revision of the regulatory framework, privatization, financial regulations, new monetary policies and the re-construction of financial and state institutions are but a few of the changes that followed.

The system Yugoslavia employed did not have any exact matches in the rest of world. The system functioned well into the 80s, only to lead to the dissolution of the country break up. The new countries that emerged from break up needed to integrate into the global economic system in order to survive. While some of them already had inherited substantial advantages from the Yugoslav economic order, some were not that lucky. On the other hand, their integration to the global economy was also important because global economic system, by definition, wanted to cover all countries under the 'global' and standard system. Furthermore, the geographic integration of these countries was also important. Not only their huge population but also their location was essential for regional trade. It should be underlined that the break up of Yugoslavia did also sever existing trade relations. Existing economic relations and trade links with neighboring countries and others were no more (Uvalic, 2012, p. 364). The economy of Yugoslavia depended not only on imports and the service sector but also had significant export trade income and industry. The dismemberment brought a host of changes in regulations and vision regarding the economic

systems employed in the region. The neighbors and the trade relations suffered from delays in integration and the difficulties of maintaining of trade relations (Uvalic, 2012, p. 364).

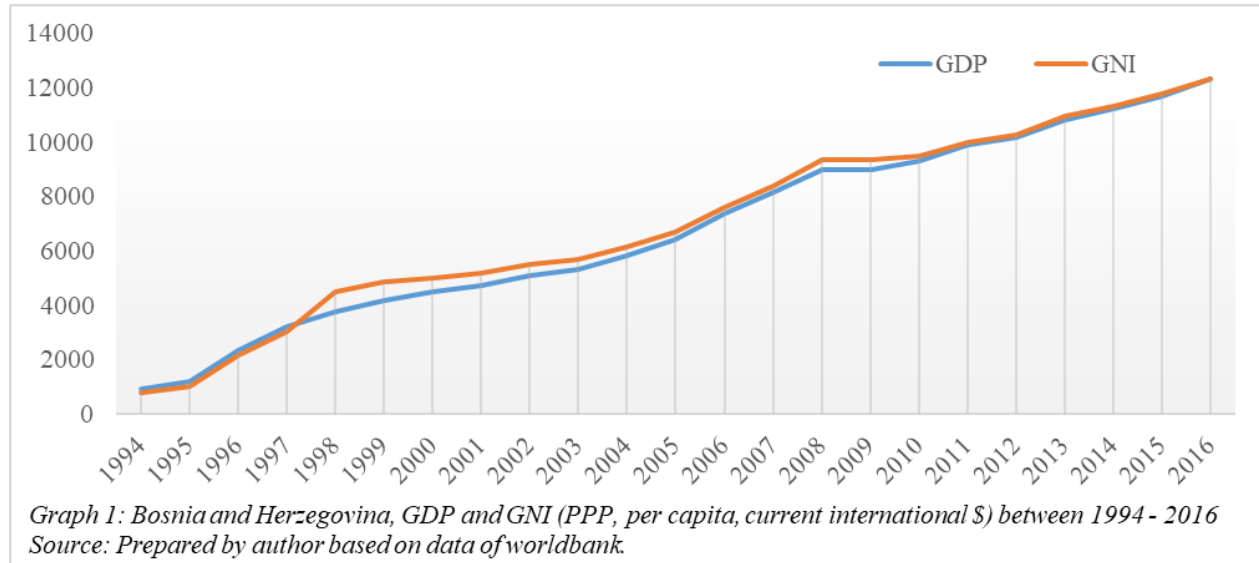
The absence of a strong industrial basis in some successor states, coupled with the disruption of industrial production systems, not to mention the absence or lack-of-integration of economic regulations led the region to rely on exports of goods and service sectors, which have only limited effect on the GDP growth of the countries involved. Export of goods and the service sector are natural elements of any functioning market, but the restriction of the economy to these activities alone, led to a recession in these countries. The political environment and economic recession changed the image of the region, and directly affected investment inflows to these countries.

One would recall from the previous chapter that global economy always seeks a number of minimum standards for investments and capital flows. Particularly, the investments by international fund management companies are governed by these standards. Given the unfavorable picture blocking investments into their stock markets, and the questions about such investments' benefit to the domestic economy, the conditions of countries brought certain struggles to them. Kekic (2005) argued that FDI trends in the Balkan region during early 2000s, the restoration of peace, basic security, efforts for economic recovery, and improvements in business environment attached importance on investments. Kekic (2005) also noted the pre-requisites and variables sought by the investors. The investors' decisions, in turn, are affected by the GDP of the countries, wages, ease of doing business and the potential of natural resources including human labor. Kekic (2005) suggests that investors also decide according to potential of privatization and geographical distance. Privatization remains a crucial part of the agenda of these countries because all of the post-Yugoslav countries shared the heritage of central planning economy and Yugoslav industry.

Especially, the countries which want to achieve prominence in the region in terms of economy and politics have presented themselves through the privatization of companies or buying stock of government companies. The next chapter will discuss these processes in detail; however a few concrete examples would not hurt here as well: the privatization of telecom companies in region countries or the privatization of energy companies or the management of energy resources have all occurred in this context. The instrumentalization of foreign policy clearly shows itself in privatization. To boot, privatization also offers one of the easiest ways for the countries to acquire assets in other countries they want to influence. While investors take risks and invest in targeted countries, acquiring already running and established companies might offer certain advantages. Acquiring state-owned enterprises provided quick returns for their investments. This is certainly not unknown to investors, when assessing the efforts needed and risks to be taken. On the other hand, geographically, these countries are neighbors of the EU and the post-Soviet world, and offered relatively cheap labor forces. This is another point investors take into account. Geographical proximity, coupled with market size, natural resources and trade routes of the region are all taken into account in determining investor interest. All of these advantages, however, come with the challenge of the politics and the policy frameworks. Investments by the foreigners are mainly about the business environment of target countries. Any conflicts and political instability in the region, on the other hand, reduce investments into the region (Brada, et al., 2006, pp. 649-680).

The political instability and the political risk posed obstacles to investment, and problems in terms of the for business environment in these countries. Estrin and Uvalic (2014) analyzed the situation in the region for the period 1990-1996. By 1996, post-Yugoslav countries received USD 3.4 billion worth of investments, accounting for 5.7 percent of all investments in 27 transition

economies (CIS, CEE, Baltics, Bulgaria, Romania)<sup>4</sup> Estrin and Uvalic (2014) also suggest that, after the Dayton Peace Agreement, investment flow improved and between 1998-2000, the share of investments in the region among all transition economies grew to 9.4 percent.



Improvements in the political environment designed by international elites improved international capital flows and changed the outlook towards the region. GDP<sup>5</sup> and GNI<sup>6</sup> of Bosnia-Herzegovina before and after the Dayton Accords<sup>7</sup> present a striking example (see. Graph 1). Ohrid Framework Agreement<sup>8</sup> can be another example reflecting the impact of political stability on economy (see. Graph 2). At the same time, Estrin and Uvalic (2014) refer to the differences between Croatia and Serbia; and claim that investors chose these countries because they had comparatively more democratic regimes and more stable political atmosphere. They improved their economic performances and it directly affected macroeconomic indicators. The investments and

<sup>4</sup> CIS: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan and Ukraine. (source: <http://www.cisstat.com/eng/cis.htm>)

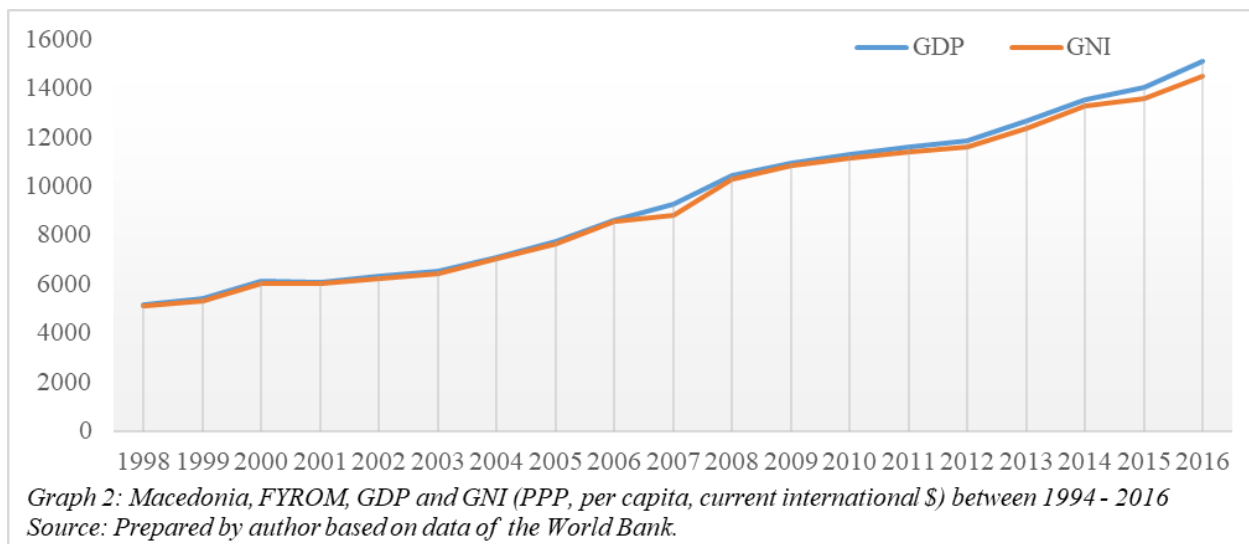
CEE & Baltics: Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania. (source: <https://stats.oecd.org>)

<sup>5</sup> GDP represents the total market value of all goods and services produced in a given time frame in a country. (Landerfeld, Seskin, Fraumeni, 2008)

<sup>6</sup> GNI is the value produced by all residents and any product taxes (excluding primary income and property income).

<sup>7</sup> Dayton Peace Agreement signed in 1995.

<sup>8</sup> Ohrid Framework Agreement signed in 2005.



macroeconomic improvements affected GDP growth and increased foreign trade volumes. Further improvements and decreasing political tensions can be compared to the domino effect. The implementation of liberal economic system in these countries by international economy elites, system-builders or implementers improved the business environment. Estrin and Uvalic (2014) underline that most of the enterprises and almost all of the finance sector were privatized during the transition period. These efforts accelerated the process of transition and created a system that suits the interests of international economy elites of the finance sector occupies a central place in terms of its effect on politics. For instance, during the era when the region had its own slow and old running train inherited from Yugoslavia, the new system's first suggestion had been to renovate all trains including the machinist and the road map, requiring a host of revisions in economic regulations, rules and renovation of financial services. Later on, international economy elites offer them to change the train and have the train that other liberal economy countries also have, translating into changes in the business environment with privatizations and acquisitions in the finance sector. From time to time, the region had its political problems such as the Kosovo conflict in 1999, and these had their influence on the investments. The problems were eventually handled

through a process presented by the European Union: the Stabilization and Association Process<sup>9</sup> (see. Table 1). The process includes the liberalization of the economy, improvement of trade relations, a role model for the financial system and regional cooperation. In this sense, it serves as yet another example of how international economy elites design or prepare targeted countries for integration. One might argue that similar agreements are signed with every EU candidate and EU member, and are important for political stability of the region and re-design of it through the EU vision.

*Table 1: Post- Yugoslavian Countries' Date of SAA Signature and Entry into Force (exc: Slovenia)*

	<b>BiH</b>	<b>Croatia</b>	<b>BiH</b>	<b>Montenegro</b>	<b>Macedonia</b>	<b>Serbia</b>	<b>Kosovo</b>
<b>SAA Signature</b>	16/06/2008	29/10/2001	16/06/2008	15/07/2007	9/4/2001	29/04/2008	27/10/2015
<b>Entry into Force</b>	1/6/2015	1/2/2005	1/6/2015	1/5/2010	1/4/2004	1/8/2013	1/4/2016

Source: Prepared by author based on Council of European Union

Transition to a market-based system led these countries to rely on export trade, service sector and privatization of state enterprises. The inflow of capital also shaped their economic systems in the form of acquisition of banks or the privatization of state-owned banks or financial institutions. The improvements in the banking and financial system adopted these countries to the international political economic system. In other words, these effort opened their economies to foreigners or the world business.

The gains of export oriented policies brought the countries in the region closer to their neighbors as well as some other trade partners. They helped the region to get discovered, and gave it a chance to change its image in the eyes of other countries and in the minds of potential investors. The importance of the banking sector should be underlined especially, for the transformation and adaptation of the banking system brought along an accelerated GDP growth, not to mention other

<sup>9</sup> The SAA composed the framework of relations between EU and Western Balkans including the post-Yugoslav countries and Albania. The agreement is about identifying the common political and economic objectives for regional cooperation under the context of EU. ([https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/saa\\_en](https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/saa_en))

opportunities such as the inflow of capital. Later on, a new and adapted banking system transformed the service sector by making credit available, not to mention certain other financial tools developed in the region. According to IMF, the adaptation of the countries in the region, with respect to their financial system in particular resulted in a GDP growth of 5% per year during 2000-2008, along with other improvements in income and life standards (REISR, 2015). To boot, these economic indicators should always be taken into consideration with reference to the state of the region in the aftermath of Yugoslavia's break up. As of today, break up six countries which would eventually adapt and consolidate their economics and politics emerged out of the ashes. In this context, one should not forget that even if nominal figures present a promising picture, it does not necessarily mean that everything in these countries go well.

The adaptation of these countries and their situation could be explained with reference to basic premises of foreign direct investments. Even though the investors nominally bought stocks of companies, either directly or on the exchanges, their investment behaviors were affected by certain factors. Important determinants of foreign direct investment include labor costs and related costs such as production costs (Bevan and Estrin, 2004). Wages and the cost of selling products affect the investors' decisions. Moreover, the availability of basic goods is also crucial for future production. The transformation and further processing of basic goods also affect the selling price. According to Hejazi and Pauli (2003), the potential of natural resources is important as well. Habib and Zurawicki (2002) brought another perspective to the decision process of the investors, claiming the operation of foreign companies or investors are crucial in and of themselves. They argue that foreign investors are affected by each other and by their investment behaviors. In this context, membership in international trade associations or engagement with investors and competitors in

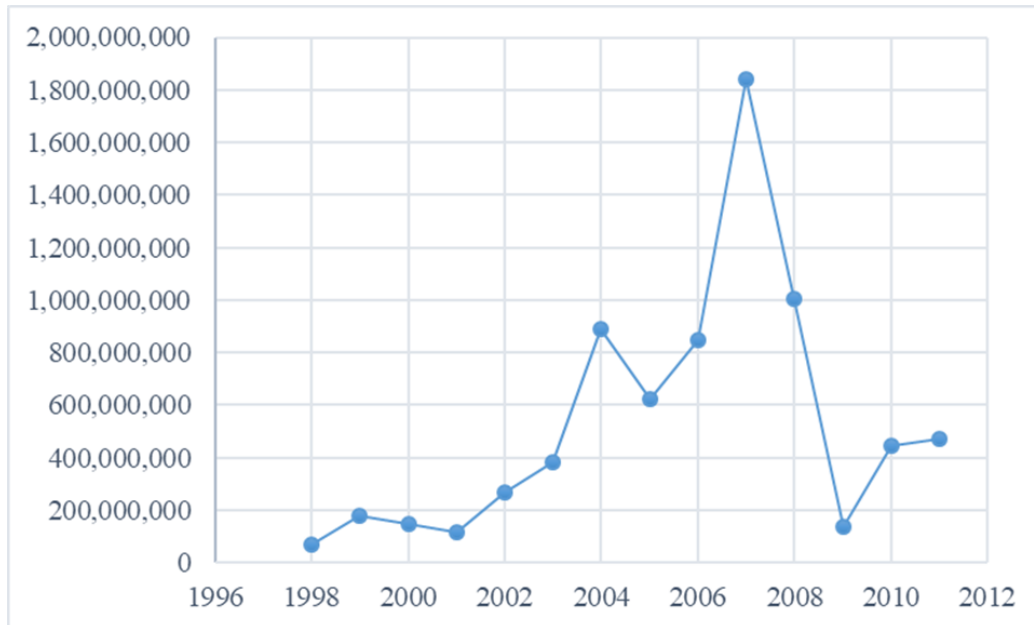
target countries provide new ideas to investors (Bevan and Estrin, 2004). Only when these ideas accumulate through the crucial transition period, the quantitative indicators start to make sense.

During the transition period of these countries, their domestic capital is shaped mainly by foreign direct investments. The foreign direct investments express themselves in two distinct ways: stock exchanges and physical investments. Both means enable the foreigner investors to take their profit from the targeted countries to their home countries. The changing hands of ownership through privatizations and the acquisition of companies result in GDP growth and market growth, all the while the opening of economies lead to more a fragile and suspicious state of affairs, especially after the global economic crisis. The economic crisis became reason of re-designing these economies. In the following chapters, each post-Yugoslav country's transition and privatization process will be discussed with reference to the changes in their regulations.

## **2.2 Bosnia and Herzegovina**

Among all post-Yugoslav countries, Bosnia and Herzegovina (BiH) is perhaps the one most ravaged by the tragic and bloody civil war until the peace finally came. The transition of BiH took a different route than other countries in the region, due to the international associations involved. The involvement of the UN and the OSCE changed the image of BiH's transition and integration, as the success of international association might serve as a model for other countries as well. The improvements achieved and the transition process changed the old system and established a new economic and political outlook instead. Accordingly, when the international economy had further changes in its modus operandi, the countries in the region followed the trends and made adjustments. Despite certain unwieldy arrangements introduced in the Dayton accords, making it rather difficult to govern the country, BiH controlled and managed its privatization process

successfully, and duly enhanced its business environment, GDP and FDI figures as well (see. Graph 1). In Bosnia and Herzegovina, FDI picked up pace during the 2003 – 2007 period (see. Graph 3).



*Graph 3: Bosnia and Herzegovina FDI net inflows (BoP, current \$) in billion USD between 1996 - 2012*

*Source: Prepared by author based on data of worldbank.*

After 2007, BiH changed its privatization strategy and focused on the sale of strategic state companies such as metal industry, aluminum companies and telecom companies, through direct share sales or through stock exchanges<sup>10</sup>. Accordingly, the privatization of telecom companies and natural resources were included in the list of privatization. The privatization of these resources and companies were effected not only in BiH proper, but also in Republika Srpska (RS), which had strong relations with Serbia and the Russian Federation. Until 2007, 67% of all state enterprises were privatized and most of the process was handled under the advise of Western groups (FIPA papers, 2007) (see. Table 2). Especially after 2007 with the new understanding of privatization, the central government aimed to cover a major part of its debts through privatization. In line with the

<sup>10</sup> Those companies are Energoinvest, UNIS and Aluminij dd. Hrvatski Telekom (BiH government originally owned 57% of the firm) and Bosanski Brod Oil.

new understanding, electric companies and some natural resources in RS such as the coal mines were added to the list as well (European Papers, 2007). In their occasional analyses, the European Commission expressed that these developments improved the business environment in the region. Entrance and adaptation of new companies in BiH changed the business environment and the way of doing business. The new outlook to doing business took the form of revised bankruptcy

*Table 2: Bosnia and Herzegovina, Privatized Companies Number and its share between 1999 - 2007.*

	<b>Total Number of Companies</b>	<b>Number of Privatized Companies</b>	<b>Share of Privatized Companies</b>
<b>FBiH</b>	1450	1035	71%
<b>RS</b>	1135	689	61%
<b>Total</b>	2585	1724	67%

Source: Prepared by author based on Foreign Investment Promotion Agency of Bosnia and Herzegovina procedures and financial system in the RS (European Papers, 2007). Indirectly, the domestic economy changed as well with developments regarding reforms and on the taxation of citizens and corporations. In 2008 and 2009, two distinct laws were passed in FBiH, regulating the taxation of citizens and corporations (EBRD, 2014). Even in the face of political tensions between BiH central government and autonomous regions; international economy elites tried to proceed with their orientation towards the international system with privatization and the acquisition of companies, not to mention and reforms compatible with the international monetary system. In other words, they adopted and improved capital flows in BiH. These developments would eventually serve as a way of instilling Russian influence in BiH. At the same time, they will give a chance to the Russian Federation in terms of strengthening its position in the BiH, as the economic relations between RS and the Russian Federation will also affect the relations between the Russian Federation and Bosnia and Herzegovina. Generally speaking, these economic developments might produce positive outcomes for the BiH, but close relations between the RS and the Russian Federation might also cause problems that will be discussed in the next chapter.

### **2.3 The Former Yugoslav Republic of Macedonia**

Even though the break up of Yugoslavia had taken different forms in specific post-Yugoslav countries, their adaptation and transition processes nonetheless exhibit certain similarities (such as institutional change, monetary policies etc.) if only because of the nature of the old system they shared. That is why the adaptation and transition processes in general, and privatization in particular exhibit a number of similarities. As a case comparable to that of BiH, Macedonia also aimed to change its business environment and aimed to achieve a high level of GDP growth in a short time frame. Yet, the immediate impact of independence was high inflation (Tamara, 2014, p. 71). That, in turn, led them to consider alternatives to sustain their economy. The Macedonian government pegged Macedonian Denar to Euro, a move helped much to stabilize the economic indicators since 1995. To ensure recovery and keep the country's economy on its feet, Macedonian government passed the law on the Transformation of Enterprises with Social Capital. With this law 1200 state enterprises were added to the list of privatization (PARM, 2005). Furthermore, Macedonian government made some changes on monetary policies as well but the ultimate aim of joining in the EU had an impact on monetary policies. This will shaped monetary policies according to European Union's Copenhagen criteria (Tamara, 2014, p. 71). Thus, Macedonia was able to achieve price stability, which is one of the fundamental requirements of a sustainable economy. To increase the capital inflow and foreign investments, Macedonian government adopted the Program of Entrepreneurship Development in 2008 (Macedonian Economic Programme, 2009, pp. 52–53). The improved rules to facilitate access to the market led to one of the fastest company registration processes in the whole world in 2008 (Macedonian Economic Programme, 2009, p. 97). The Macedonian government also reduced the bankruptcy rates among companies in 2008 (Macedonian Economic Programme, 2009, p. 97). The government tried to make doing business in Macedonia easier through registration process changes, company establishment procedures, and

changes in other applicable regulations. All these improvements led to the highest Foreign Direct Investments figure in the last 5 years (8.8% of GDP). It should be underlined that the largest capital inflow was in the energy sector (35% of all FDI in 2008). At the same time, Macedonian government introduced several laws about taxation that made the country known for the lowest tax rates in the region (Macedonian Economic Programme, 2009, p. 103). On the other hand, to make Macedonian market attractive for foreign investments, the pension law was also changed in 2008, increasing the retirement age (Bornarova et. al. 2013, p. 394)<sup>11</sup>. All these changes tried to create a market that would be competitive in the global economy order. Consequently, the transition process led to the liberalization of prices, better monetary policies under the established framework and goals, stabilized macro and micro economic indicators, and the privatization of state enterprises. The institutions which initiated the process of transition saw it to fruition (Roland, 2000, p. 98). Yet, as the Macedonian economy prepared for investments, Russian influence will still be limited due to political developments between these countries, as the subsequent chapter will discuss.

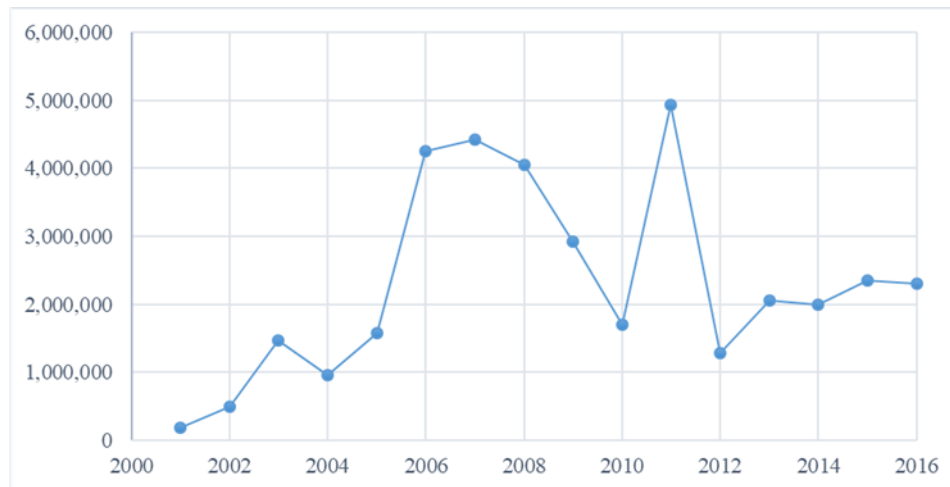
## **2.4 Serbia**

Like Macedonia, Serbia also faced high rates of inflation after independence. Foreign direct investments were vital for its economic survival. Once the political domain achieved some level of stability, the Serbian Parliament passed a law on FDI. The increasing level of FDI and its effect on GDP drew interest of Serbian politicians. The Law on Foreign Investments passed in 2002 increased the level of FDI as it made it possible for foreign investors to act like a Serbian company in Serbia (see. Graph 4) (Sabic, et. al. 2012, p. 74). Especially after 2001, changes in the economic

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<sup>11</sup> For men, it was increased from 60 to 63; for women, from 55 to 60.

structure provided a favorable climate for the private sector, which accounted for a major part of GDP in the country (Veselinovic and Miletic, 2011, p. 155). In line with the main trend of transition and development prevailing in the region, privatization became an important issue of debate in Serbia. In 2007, the government established the Privatization Agency<sup>12</sup> to handle the privatization of state enterprises. During the time frame 2007 – 2008, according to European Commission papers, a total of 440 state enterprises were privatized in Serbia. The number of privatized



Graph 4: Serbia, FDI net inflows (BoP, current \$) in billion USD between 2001 - 2016  
 Source: Prepared by author based on data of worldbank.

enterprises in Serbia from 2002 to 2008 reached 2,200. By the end of 2008, according to EC, there were 700 enterprises listed for sale. From telecom to energy sector, most enterprises were sold and ownership changed hands. The privatization process introduced by the government intended to privatize the biggest companies of Serbia as well.<sup>13</sup> However, the impact of 2008 economic crisis led to some failures in the privatization process such as that of the Belgrade Airport or JAT Airways<sup>14</sup>. Yugoslav Airlines provides a concrete example and reflection of economic developments of post-Yugoslav countries and Yugoslavia. Serbia inherited JAT from Yugoslavia.

<sup>12</sup> Official Gazette of the Republic of Serbia, the law on Privatization.

<sup>13</sup> Biggest companies were Telekom Srbije, Elektroprivreda Srbije, Galenika pharmaceuticals, JAT Technika, JAT Airways, Nikola Tesla Airport.

<sup>14</sup> JAT Airways founded as Yugoslav Airlines during late 40's.

According to the corporate history, the Yugoslav Airlines had its golden years between 1970 and 1980, which marked a great period for Yugoslav economy. After the break-up, the company was renamed JAT Airways in 2003. The Serbian government attempted to privatize company twice, in 2008 and 2011. There were bids from the Russian Federation<sup>15</sup>, Turkey<sup>16</sup> and Germany<sup>17</sup>. As Mladjan Dinkic<sup>18</sup> announced, the first attempt failed because of the 2008 economic crisis. In the second attempt, there were no bids. In 2013, 49% of JAT Airways was acquired by Etihad Airways<sup>19</sup> followed by a rebranding as Air Serbia. This is but one example of how the heritage of Yugoslavia was re-designed under the new liberal economy order.

On the other hand, some other strategic privatization cases completed included the sale of natural gas and oil suppliers of NIS to Russian investors. One should underline the fact that NIS accounted for 50% of all FDI received by Serbia in 2009 (Sabic, et. al. 2012, p. 75). Economic difficulties experienced by Western core countries caused Balkan countries to re-shape their economies according to new necessities. The re-shaping of economies presented an inevitable invitation for the Russian Federation, for relationship with Serbia would serve as a model for the rest of the region.

## **2.5 Montenegro**

One of the newest countries of the world, Montenegro provides the latest example of transition. Its adaptation, the way of establishing politics and managing economy shows how the transition process still play out similarly despite the changing times. In other words, one can argue that even

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<sup>15</sup> From Aeroflot.

<sup>16</sup> From Turkish Airlines.

<sup>17</sup> From Lufthansa.

<sup>18</sup> Former Minister of Economy and Regional Development (2007- 2011).

<sup>19</sup> Second biggest airline company of United Arab Emirates.

countries which gain their independence at different times may experience similar transition processes, to which they respond with similar means.

*Table 3: Montenegro, FDI table by quarters between 2006-2011 (million Euros)*

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>First Quarter</b>	91	177	185	104	131	129
<b>Second Quarter</b>	139	182	199	197	196	155
<b>Third Quarter</b>	127	136	157	425	159	127
<b>Fourth Quarter</b>	148	183	144	344	206	123
<b>Total</b>	505	678	685	1,070	692	534

*Source: Prepared by author based on MIPA*

Sharing same concerns and the underlying importance of international economy can be observed in the newest country of the region. Monetary, financial and fiscal reforms were introduced simultaneously in Montenegro (Luksic and Katnic, 2016, p. 695). Montenegro also benefited from the proceeds of privatization. The privatization covered a wide range of enterprises from the banking sector to the ports of the country. It should be evident by this point that the privatization and changing ownership of the finance and banking sector are kind of keys for the privatization process, as witnessed by the experience of all post-Yugoslav countries. In the same vein, the Montenegrin Parliament passed some laws about foreign investors: changes in the law of securities, banks, central bank regulations and a final change in the Foreign Investment Law.<sup>20</sup> The old system based on state or social ownership was changed with the new regulations and laws; the privatization and transformation (selling majority shares of the company in stock exchange) of the companies gained pace and became an inherent dynamic of the economy. In first half of 2008, Montenegro drew 384 million Euros in FDI (see. Table 3). Investments and the interest of investors had a crucial effect on establishing an independent Montenegro. In contrast to other countries discussed here, Montenegro saw real estate deals play an important role in the economy. The real

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<sup>20</sup> Art.5 allowed foreigners to establish, invest in and be part of business in Montenegro. Art. 12 allowed foreigners to invest through leasing, contracts, franchises or real estate purchases.

estate sales in Montenegro reached approximately 133 million Euros, accounting for 19.4 % of FDI in 2016 <sup>21</sup> (CBCG, 2016, p. 126). These economic activities helped the country to run itself independently. As was the case with the other countries, how the effects of privatization and foreign economic activities in domestic economy affect political decisions in the country, will be discussed in the following chapter.

## **2.6 Croatia**

While some countries exhibit certain similarities, membership in international political unions or economic associations alter and shape transition. Croatia provides one of example of it. like Slovenia it has joined in the European Union,. The country joined the club in 2013. Even though, it is a member of the European Union, the country had opted out of the monetary union based on Euro. Joining in the European Union also led to changes in the relations with the West and fellow members of the Union. The changes introduced in the institutional framework of Croatia, and the introduction of new laws achieved compatibility with European Union regulations and rules. One would not be off the mark to claim, save for the influence of the European Union membership, the situation of Croatia would have been rather similar to those of the other countries in the region (Bendekovic, 2000). EU not only provided an economic framework but also brought political stability to the country.

As one of the fundamental elements of the new liberal economy, privatization took place in the Croatian economy, too. The aims of liberal economies for the transition economies was to establish open market economy, enable private ownership which was limited under the central planning economy, re-structure the economy, and crucially sustain economic and political

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<sup>21</sup> All FDI received: Companies and Banks (25.5 %), Intercompany Debt (27.2 %), Real Estate (19.4%), Others (19.4%).

stabilization (Bendekovic, 2000, the emphasis added). Similarly, privatization process continued in Croatia on strategic sectors such as oil and telecommunication. Later on, railway companies and Croatia Airlines were privatized. On the industry side, aluminum and energy resources were privatized as well. The re-construction of the economy and important sectors were important for EU membership process. In this vein, all these economic activities led Croatia to adopt its economy to the international system under the EU framework. On the other hand, outcomes might seem profitable and beneficial for EU and Croatia itself because they paved the way for an improved business environment. Croatia's way on transition process and their adaptation to international monetary system stands out in the region easily because of the inter-connected terms', politics and economy, framework provided by the EU to Croatia, while other countries in the region tried to establish a system with different and unique frameworks.

## **2.7 Slovenia**

Slovenia is country that differs from other regional countries on monetary policies and its integration process. Among all post-Yugoslav countries, Slovenia was the first country which became a European Union member in 2004. Furthermore, it accepted Euro as its currency. As in the case with the other states produced by the break-up of Yugoslavia, Slovenia also acted on the basis of an urgent agenda, which included the creation of new state institutions, fiscal authority, central bank and border control. In this context the ultimate goal was to sustain macroeconomic stabilization and to complete economic transformation (Pleskovic and Sachs, 1994, p. 191).

Slovenia was one of the first to secede from Yugoslavia but also it was one of the first country which introduced its own currency; Slovene tolar (Pleskovic and Sachs, 1994, p. 191). It

should be remembered that those developments took place in an environment of political uncertainty. Slovenia established its first Privatization agency during the 1990s. The Privatization Agency and Development Fund's primary role was overseeing the privatization process. But it was also responsible for the sale and management of stocks of government enterprises.

Later on several reforms were passed by the Slovene Parliament as well. During 2008 and 2013, some regulations (on working day, role of the state in the network sector etc.) and reforms (licenses and regulatory affairs about start-ups etc.) applied to state owned assets and stocks. Government policies continued along with privatization. Until the end of 2015, twenty distinct state owned companies were privatized. As a member of the European Union, in 2014 the country had its parliament approve laws on energy, single telecom market and transport, as per the recommendations by the EU. The privatization of telecom and transportation systems took place under the framework EU.<sup>22</sup> Like Croatia, the transition process of Slovenia has been realized under the EU framework, which created a different political environment that will be discussed in subsequent chapters. As Slovene economy is mostly based on EU policies, the trade relations with the Russian Federation will be different from other countries in the region. The higher level of development in the Slovene economy also has its effect on the relations.

## **Conclusion**

All the countries that seceded from Yugoslavia underwent different transition processes. European Union members' transition periods exhibit marked differences compared to the other countries of the region. Their adaptation and integration constitute an important part of the European Union's

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<sup>22</sup> EC provided framework in 2004 that includes transportation, postal services, energy and communication. (EC Treaty, Article 16 and Article 86 (2))

regional politics. On the other hand, as members, their economic adaptation was crucial for the EU economy as well. Provided frameworks has spilt over to other countries that are not EU members. The countries which are not members of the club had different ways for transition period as can be seen in examples given in the previous pages. Despite the differences among all these countries, common points are the privatization and changing of capital ownership. In addition, the privatization provided advantages to these countries under the liberal economic order. One of the major problems of the region was political instability. Privatization provided a means to reduce government interventions and influence on privatized state-owned enterprises throughout related sectors. At the same time, privatizations provided revenue that affected GDP growth directly. Most importantly, privatization helped these countries to introduce themselves to international economy with promoting economic efficiency. In related vein, it led them to seek political stability. One should not forget that these countries suffered the failure of central planning economy. The decreasing effect of government on enterprises showed to these countries a way for integration to market economy. The promotion of privatization was a result of the belief in its benefits for reducing the unemployment rate, and bringing about efficient enterprises and income for countries' economy. Privatization brought radical structural changes on domestic practices about efficiency, management of human resources and country potential (Sheshinski and Lopez, 1999). On a macroeconomic level, privatization had a positive effect on financial system regulations, state deficits and debts. Furthermore, the performance of these enterprises and sectors increased as witnessed by global benchmarks (Guriev and Meggison, 2005).

The positive effects of privatization on the on macro and micro economics front are coupled with some negative ones as well. Privatization does not have a net positive effect on employees in the long run, because, with a view to achieving better in economic terms, non-state enterprises

mostly focus on profit maximization rather than social objectives and the status of employees (Filipovic, 2005). In this context, the contrast with the role of employees in central planning economies and their rights about their workplace and their position in politics is stark. In addition to this perspective, non-state enterprises do not have to be transparent as much as state enterprises do (with the exception of publicly held companies) Their functionality and management are only their own business (Lokyo, 2012). The non-transparent environment brings certain lobbying and bribery concerns along. The aim of maximizing profits led them to look for and use other opportunities at the political level.

Privatization was not just a fundamental of transition but it was a transition in and of itself (Estrin, 2002). Privatization led to the creation of a capital class in the sense purported by the liberal economy (Estrin, 2007). The impact of the capital class in the countries analyzed here, allowed them to apply pressure on the local governments for maximizing profits. Privatization could lead to the development of business communities, with a substantial impact on national economy (Guriev and Rachinsky, 2005, pp. 131- 150.). The concerns about a flight of foreign investors or a fall in their level of investment brought substantial pressure on policy-makers. Moreover, the new capital class did not only lead to a transformation of the economy but that of the society as well. The creation of a capital class during the transition period changed the social contract between the government and citizens, with subsequent changes in the political systems, borders and economic systems. The transition policies concerning the economy changed important decision makers affecting citizens' daily life. During the days of central planning economy, the employees were dealing with government managers or workplace representatives; the new system brought new capital owners who cared mostly about maximizing profits. From the micro perspective, the effect was the change of the social contract, and altered fundamentals of the decision making process. On

the other hand, it might be argued that increasing of job opportunities affected the life of ordinary citizens. Creation of jobs and improvements on daily life changed the appearance of the region. As a psychological argument, after satisfying basic needs of human being such as food, breathing and shelter, concerns about security of employment, security of property and social stability need to be satisfied (Maslow, 1943). It will not be wrong to claim that strategic and long-term investments in the countries in the region affect and shape the image of core countries.

The advantages and disadvantages of privatizations provided a space for foreign policy makers to realize their goals. Privatization was one of the easiest ways to gain influence in targeted countries' politics and economy with consideration of the ability to convert economic power to political power as the accumulation of capital in targeted countries let investor countries to increase their influence on policy-makers. Additionally, privatization offers a way for the instrumentalization of foreign policy. Its economic benefits to targeted country and investor country are coupled with its impact on a number of issues from working style of employees to policy-makers' mind. At the same time, the flow of money and investments in targeted countries gave an advantage to core countries in their quest to be culturally, politically and economically dominant in targeted countries. For example, the historical and religious ties between post-Yugoslav countries and the Russian Federation were further underlined with the new ties based on economic relations, eventually affecting the citizens' perspective regarding the investors. Furthermore, they enhanced the image of the investor countries in targeted countries. The role of the Russian Federation in privatization and strategic investments would certainly find its expression in the political arena as well. This perspective will be analyzed in the following chapter, with reference to the Russian foreign policy, towards the countries of the region.

## **Chapter 3**

### **Russian Foreign Policy and Balkans**

#### **3.1 Russian Foreign Policy towards the Balkans**

The Balkans had hitherto been an area that core countries want to influence. The political and economic situation of the Balkans led them to rely on outsider power and established their sovereignty and country with the help of great powers (Jelavich and Jelavich, 1965). The reliance on outsiders, when combined with some other reasons, made this geography a scene for the international powers test their strength and assertiveness. All factors such as cultural and historical ties or political intimacy play a role. In addition to these factors, the nations in the region desire to be independent, which only led to an increased level of interference by core countries. The nation or country which always want to be the influencer in the region, due to security, economic interest and protectionism concerns was Russia (Jelavich, 2006). Even though Russia had changed its political system or the global perspective, the Balkans always remain a foreign policy priority. The relations between the Russian Federation and Balkan countries continuously improved.

Every historical development, ruling system and world politics vision of the Russia had affected and shaped Balkan policies. For instance; during the presidency of Yeltsin, Russia tried to maintain the balance of power in the face of domestic pressures and political interventions in the Yugoslavia, for its own interests and political aims regarding the country (Headley, 2008). The political aim of Russia was to protect Orthodox creed in the region. That connection was prime with Serbia and Montenegro. A further interest was about underlining historical ties to enhance Russia presence in the region. Thus, the Balkans became a place to keep great power image of Russia in the region and for world politics. In addition to being a showcase for Russia's great power in the region, the Balkans also became place for Russia to maintain relations and develop political connections with the West (Bechev, 2017). The Balkans were the ground of keeping great power

image of Yeltsin's Russia while discussions and conflicts were going on with the West (Headley, 2008).

The break-up of Yugoslavia led the region and Russia to take different positions in terms of politics. As Yugoslavia struggled with domestic national movements and economic issues, Russia was also dealing with regional problems, domestic problems and economic problems. The break-up of Yugoslavia changed the situation for all great powers and interest seekers in the region. It was somehow opening of a new chapter in relations. The long-standing relations with the region in terms of a number of issues such as cultural, historical, religious or economic domains shaped the successor states' future relations with the Russian Federation. All of these understandings and experiences led the Russian Federation to seek their interests. The emergence of crisis and conflicts in new states brought about a re-evaluation of all relations. All of the answers increased political tension consequently made new states unstable and its citizens uncomfortable. After the failure of Soviet Union, Russia' interest in region changed with a new understanding as liberal economy practices came to the fore.

The Russian Federation's relations with the new countries were shaped by the break-up of Yugoslavia. At the same time, the dissolution of Soviet Union brought new political conditions that have effects on Russian foreign policy. New political conditions guiding the behavior of the Russian Federation do not leave room for error or another failure, as the country associates its image in the region with its national identity and pride (Aron and Jensen, 1995). Those instincts shaped the Russian foreign policy actions that based on geopolitical imperatives and assertiveness such as the need for the Russian Federation to remain a superpower in its neighborhood (Aron and Jensen, 1995). Nonetheless, the vision is that the Russian Federation should be a part of all

international activities as a great power and Russia should be hegemon in the politics, which means Russia must be one of the leading power of politics, military and economy for world and the region.

The historical approach of Moscow to Balkans is mainly based on a vision of security buffer zone for the motherland (Headley, 2008). This understanding made the region crucial for security reasons. The understanding of bipolarity approach made Russian foreign policy inflexible in terms of Russian interests shaped by seeking close relations with the nations. That attitude resulted with a “kto kogo” (who wins over who) approach. In other words, “for every winner there must be a loser” (Lo, 2003). This approach led the region to instability and an unsecure position. Russian intense interest in terms of security and who would win over who understanding has brought an attitude where “nobody wins without a fight.” Kosovo question might serve as a telling example of this outlook. Even though the Russian Federation has veto power in the UN Security Council and, used it not-so-sparingly for Kosovo case<sup>23</sup>, other measures were taken by the Western Powers in general and the US in particular. Kosovo showed that the concern and approach of Russia was primarily about seeking its own interests, the survival of the current state of affairs and protecting the regime, religion and its allies.

The approach of the Russian Federation to the region also affects another important player in the region: the European Union. The effects of the European Union and its spillover effect on democratization and stability of its member countries have an impact on the region countries. Consequently, it changes the geopolitical context. The means of its influence are memberships in the union as was the case with Croatia and Slovenia. These two post-Yugoslav countries became members of the union. The bipolar outlook changed the perception of these countries’ elites and pushed them to seeking more balance between great powers in terms of economic relations and

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<sup>23</sup> Russian Federation vetoed UNSCR 1244 which was about Kosovo’s independence.

politic relations. Thus, elites do not rely on only one great power. Even though they had intense relations with the European Union or the West, they also tried to establish and have good relations with the Russian Federation. The concrete example might be the membership application of countries in the region, to join the European Union. At the same time, their high trade level with the Russian Federation is other side of bipolar outlook. The bilateral relations of the countries in the region made the region a benchmark or testing area for foreign policy of the Russian Federation or the European Union, not to mention other core countries such as the USA.

The increase in the number of players in the region led the great powers to take other options as well. The membership of Croatia and Slovenia in the European Union, drove Russian foreign policy to the securitization of the economy and the instrumentalization of foreign policy. This understanding and approach shows itself in the Russian Federation's Foreign Affairs Ministry's Concept Whitepaper on foreign policy<sup>24</sup>. This document was published in 2013, against a background where the world was still dealing with the consequences of 2008 world financial crisis. On the other hand, the Russian Federation was dealing with sanctions<sup>25</sup> imposed by the West countries because of the annexation of the Crimean region of Ukraine.<sup>26</sup> According to politicians and Vladimir Putin, the world was experiencing a new transition period at that time. According to him, the global economic system and politics were being shaped by new drives. These drives decided and shaped the new economic systems, financial systems, collective security and

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<sup>24</sup> Concept of the Foreign Policy of the Russian Federation published in 2013.

<sup>25</sup> The initial sanctions imposed by USA during March 2014 included the freezing of Russian assets and travel bans. (The White House Executive Order, 2014). In April 2014, EU joined with travel bans for some Russian citizens. (ECC Factsheet, 2014). Similar sanctions were imposed by other countries as well, such as Australia, Japan and Canada.

<sup>26</sup> The annexation of the Crimean region by the Russian Federation caused sanctions by some countries and international organizations under the lead of USA and UK. The sanctions were imposed on Russian citizens and businessmen.

On the other hand, the Russian Federation also took some sanctions in response to Western sanctions such as the banning of travel of American individuals to the Russian Federation or a ban on food imported from the EU. (The Kremlin Decree, 2014)

development of world politics. The difficulties faced by the world and the Russian Federation were about another aspect of Russian foreign policy, the one basically about the failure of the economic systems dominating the West, and the problems of Western politics associated with such economic tools. This argument became one of the core arguments of the Russian Federation's interest towards to the region.

2008-world financial crisis showed how this vision tried to overcome the dominance of the European Union and Western economies in the region. The uncertainties and financial problems the European Union was coping at the time, opened a space for Russia to challenge the presence of the European Union on the economic front. The image of instability in the financial system and problems of European Union provided the Russian Federation the opportunity to present its system as smooth and promising ones. This understanding was often voiced by Russian officials. Sergei Lavrov, the Foreign Minister of Russia expressed that the 2008 economic crisis first hit EU, only to affect others including the Russian Federation afterwards, but that the economy of the Russian Federation rapidly recovered and helped EU with exporting goods as well.<sup>27</sup> Russian foreign policy imposed this outlook in the region. The preparations made to acquire Western banks and the resulting acquisitions were the results of this vision. In the coming pages of this text, the examples will be discussed in detail. The economic securitization got top priority in the foreign policy and was supported by the Russian governments and politicians. Russian government pushed and encouraged Russian business, capital and elites to have more companies and increase their appearances in especially the Balkans. This intense interest was one of the Russian government's primary aims for converting the region to an economic strategic hub with all countries included.

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<sup>27</sup> At the Association of European Business in the Russian Federation, Moscow, 13.09.2010

The interest of Russia was not only about economic drives but also about the geopolitical importance of the region.

On the other hand, the deceleration of the enlargement process and the slowing down of the EU's economic investments in the region gave another perspective to the Russian Federation foreign policy, for approaching the region in the manner of securitization of politics and economy. Russian economic actions prioritized geopolitics as the security of main export items were related with Russian business success and, indirectly, with Russian foreign policy success. At the same time, ensuring the security of economic interests was indirectly about shaking or unseating the Western domination in the economic sphere, imposed by western oriented organizations. The success of this strategy might lead the Russian Federation to gain or sustain an influencer image in the region, not to mention its potential service in facilitating the instrumentalization of foreign policy and protecting Russian economic interests against not only Western powers or European Union but also in the face of its domestic economic problems.

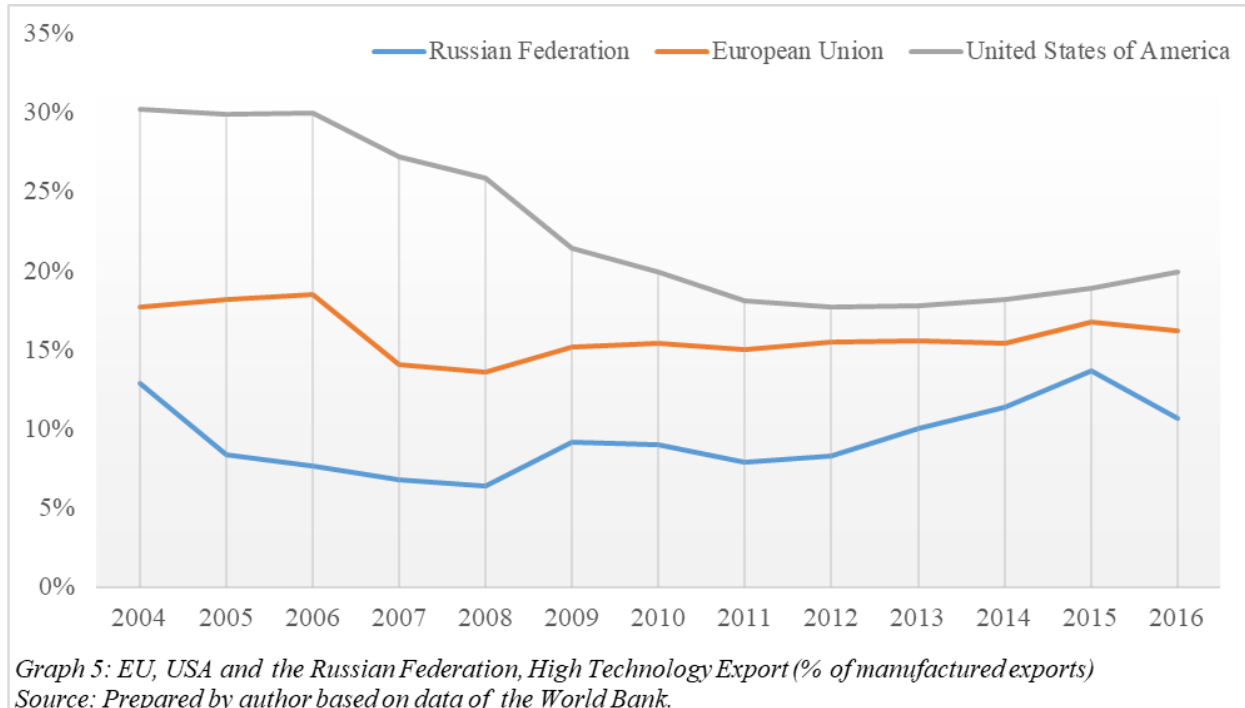
Even before the delivery of the document presenting the new concept of Russian foreign policy, Russian business and elites showed interest in the region. The effect of the economic crisis and officially announced policies provided a boost to investments and relations. Even though, the paper expresses the Russian Federation's aim to develop comprehensive pragmatic and equitable cooperation with the countries in the region, more than a few important points of note describe Russia as a competitive friend. The multi-polar position of those countries also rendered the region a global competitive arena of rivalry between the Russian Federation and the European Union or regional powers such as Turkey and Iran. This approach led the contenders to expanding their influence through different tools. In order to be a competitive friend, the Russian Federation must be an independent actor in the region. In other words, while the Russian Federation tries to destroy

or shake the dominance of Western economic position in the region; there should not be sponsors or vendors for the Russian Federation. This situation is described with the term ‘competitive friend’ as under this approach partners become competitors. In the region, every country can be an ally given the pragmatic understanding of the Russian Federation, but in practice they would be competitors as well because Russian foreign policy prioritized state interest and the wealth of citizens. According to the policies of the Russian Federation, the level of cooperation and competition changes under power relations (Trenin and Lo, 2005).

The importance of the region in terms of testing and increasing geopolitical influence made the region a crucial strategic stage to showcase Russian foreign policy and Russian great power image in world politics. Russian foreign policy approach to the region as an economic hub improved its importance. The population and potential of the region are other reasons why the perception of an economic hub is as crucial as it is. The region as an economic hub may evolve into a major route of transportation and infrastructure for the crucial export items of Russia: natural gas and oil. At the same time, geopolitical advantages of these countries can help Russian business to reach into European markets.

The importance of all these political concerns, coupled with the geopolitical significance of the Balkans changed the Russia’s perspective as well. That is why from time to time, Russia revised its approach towards the Balkans. 2008 was the turning year in the relations (Bechev 2017). The impact of the 2008 economic crisis, coupled with Kosovo’s independence declaration brought about a turning point and grounds for changing the fundamentals of foreign policy. As Europe and the West were dealing with the economic crisis and its problems, Kosovar independence declaration provided a great opportunity for Russia to show how they were committed to their promise to their allies. Besides, it was an opportunity for the Russian Federation to increase its

influence in the region through. The Kosovo case was used by Russia to show how Europeanization process works and how Russia's approach to problems benefits its allies.



In addition, the decreasing space occupied by the European Union had also affected the region, giving Russian Federation a chance to further improve its relations. 2009 brought the brunt of the economic crisis' consequences. At the same time, it gave a boost to Russia and its allies in terms of economic and political relations. The most telling case in this context was the trade relationship between Serbia and Russia. Among all post-Yugoslav countries, Serbia is the only one that can engage in exports to the Russian Federation, without tariff.<sup>28</sup> This privilege reinforced Russian position in Serbia and gave a boost to relations. The issue will be discussed further in following chapters. Efforts were made to apply this model with other countries as well.

<sup>28</sup> Except EU members according to Federal Custom Service of the Russian Federation. ([http://eng.customs.ru/index.php?option=com\\_content&view=article&id=78&Itemid=1853](http://eng.customs.ru/index.php?option=com_content&view=article&id=78&Itemid=1853))

There were few ways to implement this idea in the wider region. One was through the use of Russia's most important export items –natural gas and oil. Russia's lead and its ally's protected pipeline was the best choice in terms of achieving high technology exports (see. Graph 5). The South Stream Project led by Russia was designed and launched to reach Western Europe, all the while bringing a host of benefits to the countries in the region. The projected benefits meant that Russia would have the power to decide where they could lay the pipeline, and create jobs. In contrast to the failed Nabucco Project<sup>29</sup> supported by the European Union eventually cancelled due to problems with getting a reliable gas supplier and lack of funds. These developments made Russian Gazprom the market leader. Consequently, it made Europe dependent to Russian gas and other energy resources such as crude oil and solid fuels (see Table 4). According to EC, EU imports 53% of all the energy it consumes<sup>30</sup>. The Russian Federation's interest has continued with agreements made by Gazprom with Europe's largest energy suppliers such as ENI or Gaz de France.

Table 4: European Union (28), main origin of primary energy imports between 2005 - 2015 by share of exporter countries

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<i>Natural Gas</i>											
<b>Russia Federation</b>	34.6%	33.0%	32.1%	31.2%	27.6%	26.8%	28.3%	27.8%	32.4%	29.7%	29.4%
<b>Norway</b>	20.2%	21.7%	23.3%	23.7%	24.5%	22.9%	22.1%	24.9%	23.6%	25.0%	25.9%
<b>Algeria</b>	15.0%	13.6%	12.7%	12.3%	11.9%	11.7%	10.7%	10.8%	10.1%	9.7%	8.8%
<i>Crude Oil</i>											
<b>Russia Federation</b>	30.5%	31.2%	31.2%	29.8%	31.5%	32.4%	32.8%	31.8%	31.9%	28.9%	27.7%
<b>Norway</b>	15.6%	14.2%	13.8%	14.0%	14.2%	12.8%	11.7%	10.6%	11.1%	12.4%	11.4%
<b>Nigeria</b>	3.0%	3.3%	2.5%	3.7%	4.2%	3.9%	5.7%	7.7%	7.7%	8.7%	8.0%
<i>Solid Fuels</i>											
<b>Russia Federation</b>	20.2%	21.4%	21.5%	22.7%	26.2%	22.8%	22.9%	23.0%	25.9%	25.9%	25.8%
<b>Colombia</b>	10.0%	9.7%	11.0%	10.7%	15.2%	16.9%	20.7%	21.7%	19.6%	18.8%	21.3%
<b>United States of America</b>	6.5%	6.7%	7.9%	12.2%	11.8%	14.2%	15.7%	20.6%	19.5%	18.3%	14.0%

Source: Prepared by author based on EUROSTAT data. (Top three countries selected for each import item.).

The new foreign policy perspective took Russia to a higher position among investors in the energy investments sector. The monopoly position of Russia allowed it to force one-sided

<sup>29</sup> The project was backed by a consortium of six shareholders. Those are RWE (Germany), OMV (Austria), MOL (Hungary), Transgaz (Romania), Bulgarian Energy Holding (Bulgaria) and BOTAS (Turkey).

<sup>30</sup> Imports account for 90% of crude oil, 66% of natural gas, 42% of coal and other solid fuels, 40% of uranium and other nuclear fuels consumed by the EU. (<https://ec.europa.eu/energy/en/topics/imports-and-secure-supplies>).

negotiations and talks. Most importantly, the decisions regarding the cost and the route of pipeline were effectively made by the Russian government. The strategy applied to almost every country in the Balkan region where Russia aimed to secure and wanted to increase its influence. The Russian Federation controls and acquires networks and effects distribution in the region through Gazprom. Later on, these elements would be used for the translating economic influence to political power and pressure on governments. The ultimate aim is to make every Balkan country part of that policy before their potential membership in the European Union.

Russian investments in the region are not limited to the energy sector. Real estate and tourism also draw substantial Russian investments. Despite the ultimate effect of energy investments on GDP growth, real estate and tourism offers perhaps a quicker route to increasing GDP figures, and thus furthering economic growth. On the other hand, the intense interest open the region for small investors as well. It allows small investors to buy houses or small enterprises in targeted countries. Small investors' interest is most evident in Montenegro and some parts of Croatia where Russians can enjoy the Adriatic Sea. In this context, Montenegro and Croatia are placed well to convert Ruble investments to Euro. The advantage of converting investments to Western currency is most useful for other sectors such as retail and pharmaceuticals. These investments made in rubles, meaning that ruble investments are effectively used to generate Euro earnings. Thus, Russian businessmen are becoming able to convert their investments into Euro. These kind of investments appear all over post-Yugoslav EU member countries.

The Russian influence becomes more important day by day, due to money flow to the countries in the region, affecting their domestic economy against the background of economic crisis and sanctions by the West. The clearance of post-Yugoslav debts enabled money flow to these countries. It will be not wrong to underline that the Russian foreign policy evolved into a dominant

position in the domestic politics of these countries, in their local economies, directly affecting the local people. In this way, the policy may create strong and reliable foundations for further goals and for their future in the region. It can be argued that the uncertainties prevailing in the region in terms of membership to European Union or integration in the Western bloc such as joining NATO would always be subject to some say on part of the Russian Federation, on the grounds of protecting Russian investments. The problems suffered by the European Union; struggles on the economic front, the slowing process of enlargement, and emerging of secessionist politics<sup>31</sup> will always provide fertile grounds for bipolarity or multi polarity in the region, giving Russia the chance the Russian Federation to realize its foreign policy goals. Although the Russian Federation is struggling with almost the same set of economic problems due to sanctions; investments and interest remain very much in place. It can be argued that capital accumulation and economic abilities that can be converted to political pressure and power might have a crucial impact on the Balkan countries. Therefore, the Balkans might again evolve into an arena for Western powers to focus in terms of economic activities.

### **3.2 Instrumentalization of Russian Foreign Policy**

Yugoslavia never wanted to be the backyard of USSR and join to the wider union. Yugoslavia took its own measures on the economic front, with putting central planning on the backburner, with a view to enhancing self-management. Yugoslavia also tried to establish a third way, with reference to unity, industrialization and urbanization. Yugoslav success on the economic front brought them political power. On the other hand, the problems of their economic system led to failure. Even though the system was functioning reasonably until 80s, it led to an unbalanced distribution of

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<sup>31</sup> For example: Catalonia's Independence Referendum or Brexit.

industry among the countries comprising the union. Such discrepancies led to tensions among the members. The differences between the traditional partners and prospective partners in terms of investment levels are perhaps consequences of this heritage. The economic situation was not enough ready to facilitate a quick transition. This situation showed how energy investments and infrastructure investments play a role in domestic politics of these countries; for all countries need energy.

After the collapse of the Soviet Union, the Russian Federation has tried to lead post-Soviet countries in their quest for economic development, as a partner or as the core country. Those economic developments cannot be understood in isolation from the Soviet Union's economic perspective and strategies. Just like the post-Soviet countries, the Soviet Union itself wielded substantial influence on its neighbors such as the states in the northern Balkans. At the same time, the collapse of Yugoslavia made the region a gray zone in terms of international economy and international relations. The region became an arena where the EU could play a part, all the while the Russian Federation maintained its influence against the background of domestic economy breakdown and political tension (Mankoff, 2017). The ability of converting political power to economic power and vice-versa was re-invented in this context.

The failure of the Soviet Union brought a large number of independent nation states into existence. Those nations states were established in accordance with the interests of the great powers. The interference by the great powers pushed these countries to seeking strong alliances or balanced politics or relying on powerful countries. The Balkans seemed like a vulnerable area, open to meddling by great powers seeking to re-design the area along the lines of free market philosophy. The consequences of that re-design might be seen in three distinct areas: cultural, economic and geopolitical. These three dimensions, however, make sense only if analyzed in

conjunction. At the same time, those dimensions created meaning for Russia's international political economy outlook the Russian Federation in the region.

Three dimensions (cultural, economic and geopolitical) made the region a showcase for great powers influence, especially for the Russian Federation. The failure of Soviet Union led to a re-designing of the region with reference to periphery countries versus core countries. The great powers played important parts in drawing the borders in the region, where the great powers' influence at times led to decisions ignoring the three dimensions noted above. The shaping of the region according to the interests of great power and the opening of the area for interventions made the core countries' foreign policy fundamentals supreme over the domestic politics of the countries in the region. The establishment, existence and survival of these countries could not be considered without the support of a core country or a great power. However, a clash of interests naturally developed out of such a state of affairs, where the great powers and core countries in the Balkans began to showcase their strength and test their foreign policy. Such a clash might be seen easily in the policies of Russia and the United States. The Balkans were crucial for the United States' appearance in the region, with a view to sustaining alliances with NATO and extending economic aid. The policies of not only the United States and the Russian Federation, but also those of the European Union should be given consideration in order to understand the region.

The interventions and interference in the region created instability and led to further demands for foreign/outsider help (Jelavich and Jelavich, 1965, p. 26). Seeking foreign or outsider help can be seen easily in the daily politics and gives an idea about Russian foreign policy in the region. This habit easily can be observed in daily news in newspapers such as those concerning the dissention in the Macedonian Parliament, as Dimitar Bechev (2017) explaining the situation to Aljazeera newspaper referred to this habit of the Balkan countries. He argued that the Balkan

countries did not follow guidance provided by the European politicians, and gave less attention to democracy and rule of law. Hence, if there was such a crisis, Russian active foreign policy presented it as a fault of guidance provided by the EU or the West. The involvement of great powers in the region also caused them to refer to political opposition as the source of the problems. Those policies presented themselves in different areas of the Balkans such as in Macedonia. There was an attack on Talat Xhaferi<sup>32</sup> in the parliament during the meetings. After the mob attack, writing in Financial Times, Federica Mogherini<sup>33</sup> warned Macedonia about geopolitical confrontation with Russia and the manipulation to spark inter-ethnic strife between Albanian minorities and Macedonians.

Such developments can be explained with reference to psychological group formation. The case of mob attack basically explains how great powers' foreign policies regarding the region play out. The standard power theory refers to the control of resources, power, influence and psychological group formation. Associated with the theory are three-processes starting with psychological group formation on the basis of a shared social identity which can be seen in the determination of the borders in the region. The determination of borders by great powers allowed them to shape the subsequent groups as well. Shaping of the groups according to the interests of great powers created a way for influencing others through collective reality testing which found an expression in the example of the mob attack in the Macedonian parliament. The influence leads to persuasion, authority and coercion. These three terms explain how the foreign policies of great powers play out in the region. At the same time, this perception is one of the explanations relying on the outsider argument. The combination of these three terms will convert itself to power that

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<sup>32</sup> Talat Xhaferi is the speaker of the parliament and a member of the Albanian minority party.

<sup>33</sup> Federica Mogherini is the European Union's Foreign Policy Commissioner.

will occur with the struggle of one's will with those of others. This is one of the essential points in the play of great powers, as exertion will also provide a show of power to by watchers as well. It will easily help to power owners controlling resources as theory argues (Turner, 1985, pp. 77-122). Controlling of any resources in the region –political or economic–causes and maintains necessarily two sided relations for the region, with the core countries assuming primacy.

As Russia has certain interests in the Balkans, the power which brings a certain modicum of control plays an important role as the ability of leading people to certain actions (Turner, 2005, p.8). Control over others however need some assent, which is often called legitimacy. Legitimacy is based on the acceptance by the others (Turner, 2005, p. 13). Continued the involvement of and interventions by Russia led to domestic demand which led to the argument that interventions were not sophisticatedly happening in the region (Ruma, 2007, pp. 237-272). It can be also argued that those interventions or involvements were about keeping Balkan countries weak to the extent possible for the interests of the great power, to sustain a need on their part, for powerful friends. That means Balkan countries would not be challenged by the old empires with old dimensions, the main threat would come from international economy (Mazower, 2000, p. 127).

The power relations and controlling of resources in the region are related with economic relations, which express the new understanding of the Russian Federation, for the region. As argued above, the collapse of Yugoslavia and the Soviet Union led to a re-design of the region. The Balkans were re-designed as periphery countries for the core countries to dominate, against the background of the failure of central economic planning (Ruma, 2014, p. 297). The re-design the Balkans went through was a distinctive event for the Russian Federation, especially in terms of its influence on Russian foreign policy. The Russian Federation's interest towards the Balkans was based on the potential of the region and the economic opportunities it offers.

The failure of Yugoslavia and the Soviet Union were among the reasons depriving Russia of its influence in the region. The political issues Russia had to focus on the home front was another reason. This situation gave an opportunity to other great powers to increase their appearance and influence rather easily. Bosnia – Herzegovina is a telling case in this context. Russia was unable to get involved in and take a part in the management of the conflict while other great powers increased their influence (Headley, 2008). Subsequent decades saw Russian foreign policy establishment draw certain lessons. The attitude of Russia in the Bosnian conflict might be connected with concerns of Serbians (Rahr and Krause, 1995). It makes a concrete sense under the pro- Serbian policies of the Russian Federation. At the same time, the policy of acting without cooperation with other great powers and the pro-Serbian policies of Russia can be analyzed in terms of their image of world or regional leadership (Rahr and Krause, 1995). Rather than cooperation with regional countries, unilaterally seeking its own policies and interest were easily perceived and taken note of by other countries. For instance, Boris Johnson<sup>34</sup> claimed that Russia is undermining the Balkans through a number of efforts such as those in Montenegro. It might be argued that the economic and political developments in the Russian Federation has wider meaning and expresses itself in every aspect of its foreign policy towards the region. In the long-term the Russian Federation's interests in the Balkans are crucial and remain important for appearance, status and protection of economic interests. The perspective of Russia will be discussed in the subsequent chapters in terms of their impact on economic relations and its significance for the Russian Federation's foreign policy.

Not only the interest of great powers but also the fact of being neighbors of regional and world powers creates a certain image of the vulnerable area and underlines other problems in the region such as economic stagnation, unstable political order and problems of minorities in the

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<sup>34</sup> British Foreign Minister Boris Johnson speech in Montenegro on October, 2016

countries, and paves the way for a wide range of interference. As a Russian proverb puts it, “Get the right neighbors rather than the right house.” No country in the world gets the chance to choose their neighbors. Therefore, the stable relation becomes more essential not only for the region but also for the wider world. This understanding made strategic investment more meaningful. On the other hand, great power investments diversify in the region, with foreign direct investments to economy or with portfolio investments, as the problems of the region and perspectives do not always offer good prospects for past dilemmas (Mazower, 2000, p. 135). On a related note, the liberal economic order’s new regulations that came to be implemented in region through the changes in the finance sector and laws prepared the basis for diversification. Even though Russia had a multitude of investments, energy occupied the central axis as strategic investments. That is why Russians investments became all the more visible with privatization of natural resources or acquisition of industrial plants in the region. Those investments were related with the assertiveness of the Russian Federation at the cost of other core countries. Increasing of the Russian Federation’s economic visibility in the region would naturally spill over to the political arena through the development of a number of alliances. As the investments in the region continued, the Russian Federation chose mainly its own historical allies based on Orthodox cooperation like those with Serbia, Bulgaria, Montenegro and Republika Srpska, as destinations of such investments. The seeking of Orthodox alliances became a means to keep influence in the region after the break up of Yugoslavia. For many aspects of this situation, the break up of Yugoslavia and the Soviet Union played top priority in terms of politics, on a number of variables from the geo-strategic importance of the region to economic stability.

The failure of central planning could be seen as the start point of re-designing the region. Running on a separate track is the enlargement policy of the European Union, which began in the

Balkans in 1981 with the accession of Greece<sup>35</sup> and later on with those of Bulgaria<sup>36</sup>, Romania<sup>37</sup>, Croatia<sup>38</sup> and Slovenia<sup>39</sup>. All of these memberships can be perceived as threats towards the USSR and the Russian Federation. The changing of the bipolar world order and politics pushed post-Yugoslav countries to a re-design of their foreign policy priorities in terms of regional balance of power and seeking good relations with the regional allies such as the European Union or other countries that had historical or regional ties with these countries, such as Turkey, Iran or Germany. The developments concerning the new sources of politics shaped the Russian foreign policy assumptions about the region based on a vision referring to religious divides with contrast to Catholicism and Islam. Consequently, association with and dominance over the Orthodox majorities became a tool of indirect Russian influence (Bechev, 2017). The involvement of core countries in the post-Yugoslav region pushed Russia to furthering its intense interest in the region. Later on, seeking interests of core states in the region would certainly affected the political and economic relations with the political and economic alliances such as NATO or BSEC. The competition to maximize influence and seek maximum interest on those countries would pose another question for the region.

The increasing influence of Russia in the region de facto made Russia an interlocutor, as argued above. It is important that the re-design of the region has also caused a re-definition of the relations with the West. Russia's contribution at the times of crisis could help the West in a troubled region and the help became crucial in terms of finding solutions (The Russia Journal 2001). To be a part of solution does not mean that the Russian Federation would change its approach to the

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<sup>35</sup> Greece became a member of the European Union on 1 January 1981

<sup>36</sup> Bulgaria became a member of the European Union on 1 January 2007

<sup>37</sup> Romania became a member of the European Union on 1 January 2007

<sup>38</sup> Croatia became a member of the European Union on 1 July 2013

<sup>39</sup> Slovenia became a member of the European Union on 1 May 2004

region. In fact, Russia was pushing for its own interest in the crisis, by supporting Serbs or its other allies in the region during different incidents such as the Serbian referendum in Bosnia Herzegovina<sup>40</sup> and security cooperation with the Serbs<sup>41</sup> or increasing tensions in Kosovo<sup>42</sup> or anti-NATO/EU politics in Albania and Croatia, not to mention the Russian support for VMRO political party in Macedonia, designed as form of “information warfare” against NATO and the West (Phillips, 2017). Even though, Russia promoted the idea of international cooperation in the international arena; it was to “ensure precise agreements” and “guarantees for their enforcement” (Larina, 2001).

For the Russian Federation, the re-definition and re-design of the region started in early 2000s, with certain economic dimensions. It was obvious that the dissolution of Yugoslavia made the region weaker and prone to influence of outsiders, paving the way for political tensions and economic problems. The new challenge of the region was about how to reconcile the welfare of Yugoslavia with liberal economy under the competitive global capitalism (Mazower, 2000, p. 135). The transition and re-design period offered certain opportunities for the Russian Federation in terms of sustaining and increasing its influence in the region through substantial investments and trade with the argument of re-building and strengthening the war-ravaged economies (Mazower, 2000, p. 135). To boot, the countries in the region were ready for changes regarding their economic regulations, as argued above. It should be obvious that these relations were two sided but with the Russian Federation had a dominating position. Not only economic development but also geo-strategic importance played a role in shaping Russia’s foreign policy towards the region, because with the end of Cold War, the region found itself in the center of an expanding market, which

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<sup>40</sup> RS Independence Day referendum in 2016

<sup>41</sup> Signing contracts with Russian Federal Security Service for knowledge exchange and trainings.

<sup>42</sup> The train issue with the words “Kosovo is Serbia”.

offered major opportunities (Mazower, 2000, p. 135). Therefore, the Russian Federation sustained its unique and distinct relations with each country through investments such as the acquisition of Volksbank branches in the region<sup>43</sup>. As mentioned above, privatization and the acquisition of the elements of the financial system was crucial for the countries' transition and their re-designing processes. The acquisition of banks would shape their economic systems in line with the Russian Federation's interests. On the other hand, the changing of the financial system paved the way for instrumentalization of Russian foreign policy in the region. In line with Russian foreign policy perspectives and the changes in the financial systems Russian investments found a stable environment and came to play a strategic role in the region. It can be argued that the region was known as a weak, unstable and unpredictable one. Under these circumstances the risks assumed by Russian elites and businesses can only be explained in the light of Russian foreign policy.

Alongside all the conventional sources of Russia's political interest in and attitudes towards the region, there was another important factor which exacerbated the interest in the region: the geopolitical position of the Balkan countries. As argued above, this was mainly associated with the countries' position on the passageway to different markets. Considering all post-Yugoslav countries as an economic hub, the Russian capital can utilize them to reach out to Hungarian and Romanian markets to the north, Greek, Bulgarian and Albanian markets to the south, , and Italian

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<sup>43</sup> Russian Sberbank acquired 100 % of Volksbank International AG in 2012. (except the branches and operations in Romania.). It was the first major acquisition by Sberbank, out of CIS countries. With this acquisition Volksbank acquired the assets of Volksbank in BiH, Croatia, Czechia (the Czech Republic), Serbia and Slovenia.

and Austrian markets to the west. With access to these seven immediate neighbors, the Russian capital can reach to an audience of approximately 120 million people. When the former Yugoslav countries are also included, the size of the market grows to approximately 138 million people (excluding Kosovo), which is almost equal in size to the population of the Russian Federation (144 million) (see. Table 5). This figure might not make sense without reference to their wealth level, but such a market would nonetheless serve the ambitions of Russian politics and business in terms

*Table 5: Post- Yugoslavian countries and their neighbours' GDP, GDP ppp per capita and population data*

<b>Countries</b>	<b>GDP*</b>	<b>GDP ppp per capita **</b>	<b>Population</b>
<b>Albania</b>	11,864	11,865	2,876,101
<b>Austria</b>	390,8	50,644	8,747,358
<b>Bosnia and Herzegovina</b>	16,91	12,330	3,156,816
<b>Bulgaria</b>	53,238	19,508	7,127,822
<b>Croatia</b>	50,715	23,731	4,170,600
<b>Macedonia, FYROM</b>	10,9	15,121	2,081,206
<b>Greece</b>	192,681	26,525	10,746,740
<b>Hungary</b>	125,817	26,996	9,817,958
<b>Italy</b>	1,859,000	38,345	60,600,590
<b>Montenegro</b>	4,374	17,665	622,781
<b>Romania</b>	187,592	23,626	19,705,301
<b>Serbia</b>	38,3	14,725	7,057,412
<b>Slovenia</b>	44,709	33,421	2,064,845
	<b>Total: 2,529,990</b>	<b>Ave: 24.192</b>	<b>Total: 138,775,530</b>
<b>Russia Federation</b>	1,283,000	23,162	144,342,396

\* GDP current US \$ in billion / \*\* GDP ppp per capita current international \$

*Source: Prepared by authors based on Worldbank data.*

of reaching out to people wealthier than most Russians (see. Table 5). If these countries had been just one country in terms of trade, its GDP would reach approximately USD 2.530 trillion (see. Table 5). These points provide another explanation as to why Russian interest in the region is not only about politics but also about the economics in the region. Russian foreign policy towards regional conflicts or problems and the regional politics are based on seeking a position to serve Russia's wider interests (Headley, 2008).

The setting of the political scene and the development of unique relations with these countries allowed Russian companies to have a voice in the region. The hitherto prevalent armament sales to the region were then extended with ventures in the privatization of old communist state enterprises, raw material based industry, energy, infrastructure modernization and finance sectors, especially given the absence of high-tech exports and security concerns about the investments, giving Russian investors leverage in the politics of the region.

Privatization and seeking future profit led Russian businesses to choosing different sectors to invest in. Different economic opportunities offered by these countries and a new understanding to prevail in Russian foreign policy led to a classification of these countries as either traditional partners or prospective partners. The difference between the groups was derived from Russias historical world politics understanding. For instance, Bosnia and Herzegovina is an example of prospective partners. Russian interest and investments in BiH are mainly there because of Republika Srpska. Another example of prospective partner is Macedonia. On the other hand, there are traditional partners such as Serbia or Montenegro. Economic opportunities and the diversification of Russian business brought about two major branches of investments into traditional partners: corporate investments and individual investments, based on the volume of trade and priorities. As a traditional partner Serbia received more corporate investments, while Montenegro received more individual investments from the Russian Federation.

According to UNCTAD, among the countries in the region, Russia's best import and export alliance is the one with Serbia. It is not surprising to see the Russian Federation as a player and influencer in these countries. The regress of competition with Yugoslavia and the collapse of the Soviet Union affected the image and status of the region, re-emphasizing the influence and image of great powers affecting not only the region, but also Western politics. The improvement and

influence rebuilding process was not limited with the economy. Politics was an integral part of the whole perspective, as can be witnessed in the attitude of the Russian Federation for the case of Kosovo and BiH Dayton Peace Agreement. Those cases presented leverage for the Russian Federation to further its interests and legitimize their political moves. It was clear that Russian investments in and assistance to traditional and prospective partners were not only based on reconstruction or re-development of those countries. Eventually, the voice of political parties supported by Russia were raised against prospects which are not favorable to the Russian Federation.

As a rather traditional partner, Serbia was an optimal choice for Russian foreign policy in the region. Supporting Serbia and working with it as a traditional partner could help to sustain Russian influence in terms of its political and economic interests. In this context BiH offers a concrete example of this situation, as a prospective partner exerts control over part of Russia's traditional partner in its autonomous Republika Srpska region. Developments on political relations and especially increasing economic relations between the Russian Federation and the autonomous region Republika Srpska made it possible to realize the Russian Federation's aims in BiH. In other words, the traditional partners of the Russian Federation gave space to realize Russian foreign policy goals in the region. The importance of traditional partners and protecting them in the face of Western threats according to Russian understanding was essential. Improving relations between the traditional partners and the Russian Federation increased the influence of the Russian Federation in the region, and made some countries such as Serbia central players in the region. At the same time, there are efforts to diversify the leverage of Russia in the region. Even though, Serbia is a traditional ally, the competitive friend perspective also appears with the allies as well.

This point is also supported by the claim that Serbia does not envisage its future as a constant Russian ally (Antonenko, 2007).

*Table 6: Foreign Direct Investment data of Serbia, 2016*

Countries	Foreign Assets		Liabilities		Net FDI	
	Net Acquisition of Foreign Assets*	Share	Net Incurrence of Liabilities*	Share	Net FDI*	Share
<b>Austria</b>	13	6%	258	12%	-256	14%
<b>Croatia</b>	12	6%	-24	-1%	36	-2%
<b>Germany</b>	3	1%	166	8%	-164	9%
<b>Italy</b>	1	0%	-88	-4%	89	-5%
<b>Luxembourg</b>	-19	-9%	233	11%	-252	14%
<b>Netherlands</b>	-1	0%	276	13%	-277	15%
<b>Russia Federation</b>	21	10%	81	4%	-60	3%
<b>Switzerland</b>	0	0%	217	10%	-217	12%
<b>UK</b>	43	20%	46	2%	-3	0%
<b>Total</b>	219.4	100%	2,080	100%	-1861	100%

*\* in million EUR*

*Source: Prepared by author based on data of National Bank of Serbia*

As expected, in the liberal economy, the traditional relations between such allies spill over to economic relations. The ability of converting economic power to political power becomes meaningful under this perspective. Even though, Russian Foreign Direct Investments might be seen less compared to other investor countries, investment should be considered as strategic investments and opportunity for political leverage. Furthermore, it should be underlined that Net Foreign Direct Investment figures include both inward and outward direct investments, which include Foreign Assets and Liabilities. The dominance of the Russian Federation as a partner is also apparent in the trade balance between the Russian Federation and Serbia. Economic relations were not one-sided though. Relations provided income for the Russian Federation as well. Thereby, those distinctions provide a clear understanding of Russian political involvement in the region. As can be seen in the table 6, in terms of Foreign Assets investments, Russia ranks second in Serbia, after the United Kingdom. In other words, the definition of assets in economy offer a clear understanding of Russian

investments. According to the definition, assets are what companies own in a host country, such as buildings, plants or machinery. Thereby, it can be argued that the Russian Federation investments in Serbia are definitely not only limited to stock exchange transactions or the acquisition of state enterprises.

Intense and significant investments have brought political influence, too. Russians and Serbians actively expressed that their approach to international problems or events were indeed very close, as it can be witnessed on the newspapers. One of the concrete examples was offered by the latest referendum held in Bosnia and Herzegovina about the Republika Srpska's Independence Day. In the era after the economic crisis of 2008, the countries in the region began to actively seek Russian investments and capital. Additionally, even though the European Union and other countries of the West applied sanctions on the Russian Federation, Serbia kept their good relations with the Russian Federation, ignoring possible sanctions that could be imposed on them for doing so. One might argue that Russia was an inevitable choice in the face of global economic troubles. While Serbia's position was evolving into a more crucial one in terms of influencing Western Balkans and the European countries, the concerns about economic and political instability of the region showed itself in different economic areas, in the form of reliance on one great or regional power on matters such as ordinance sales. The efforts for modernizing and financing of Serbian army offer numerous examples of how economic relations influence domestic political decisions. For a while, the Serbian army was modernized and financed by the United States but *at the same time*, Serbia has been cooperating with Russia in shaping its new military vision (Calu, 2014, the emphasis added).

The shifts in politics found their expressions in the politicians' speech as well. Talking about the relations between Russia and Serbia, Tomislav Nikolic<sup>44</sup> said that while Serbia is strengthening its relations with Russia, they will not compromise their EU membership process. Additionally, he indicated that regional tensions such as the one regarding Kosovo's status or the tensions between Russia and European countries pushed them to seeking balance between these great powers. This perspective shows how Serbian politicians view their relations with core countries in terms of politics and economy.

As argued in the previous paragraphs, the efforts in the countries of the region, for establishing nation states were based on great powers' interests which changed over time with reference to security, economical reasons or zones of influence. The practice of establishing nation states or state governance was particularly comparable in all countries involved. From time to time, politics or specific practices have changed but nonetheless left their mark on world politics. When economy was an important tool, economical links were forthcoming. On the other hand, during the decades of Cold War or World Wars, political and security questions came to the forefront. The proliferation of Communist Party regimes or the Soviet dominance in the region was also a practice at the state level. Thus, Russian foreign policy perspective about the region might be analyzed and understood in terms of new state creations, which bring new problems and questions to the region. A range of issues from military measures to economic ones took a place on the table every time. The establishment of Kosovo was one of concrete disputes between the great powers, in terms of seeking their own interest. NATO maintained and established military bases in Kosovo, under the lead of the USA<sup>45</sup> without cooperation with other powers, and ignoring regional concerns and dynamics, disregarding the Russian Federation as a key player in the region, which saw the issue

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<sup>44</sup> Former President of Serbia between 2012-2017.

<sup>45</sup> Camp Bondsteel used as NATO headquarter for KFOR. Camp Monteith also used by NATO's KFOR.

as a paramount one concerning regional security, the security of its motherland, and the weakening of the countries in the region. One might argue that the Russian Federation and the countries in the region had a political heritage, which had an effect on the analysis of the developments, from the perspective of the officials of Russia or the countries involved. That also affected Russian state officials' perceptions about NATO's acts in Kosovo. This perception led the officials to producing military arguments regarding the security of the region. Kosovo provides certain hints about Russian foreign policy towards the region, through the employment of economic tools. Achieving dominance in the region and using economic tools efficiently complementary to the appearance of Orthodox solidarity between the Serbians and Russians. The investments in Montenegro, Bulgaria and Serbia economically surrounded Kosovo. Even the Russian Federation took measures and did not recognize their independence; they combined such political action with economic measures. Their level of influence and position were also important for the application of politics in the region. The appearance of Serbia in the region led to the manipulation of minority questions. Accordingly, it caused tensions with the international society and other states. For instance, remembering Russia's interest towards the Serbian railways, scheduled trains that had been running between Kosovo and Serbia created tensions. One train that ran to Kosovo with words on locomotives "Kosovo is Serbia" posed a major issue. Albania and Croatia, NATO allies, accused and decried Serbia for increasing tensions and hurting stability in the region. These tensions brought repercussions from a number of countries, but the reaction of Russia showed how they rely on traditional allies. Russian Foreign Ministry<sup>46</sup> accused Western powers with hypocrisy and claimed that this hypocrisy was directly affecting the stability of the region. He also added that under the NATO guidance the region was having problems because of border issues, leading to an increase

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<sup>46</sup> Sergey Lavrov 2004- Present.

in the potential of conflicts. Such tensions show how Kosovo is a concrete example of border issues experienced by these countries. Drawing borders in disregard of minorities pose questions in the region, making space available for political maneuvers. Tensions that rose from the train issue provided a clear understanding of the role of Russian investments in these countries. Strong relations between Serbia and the Russian Federation provided political power to Serbia as well. It was beneficial for the Russian Federation to diversity its policies in the region in the terms of Orthodox alliances and as their protector through the introduction of economic elements of support.

Another point of transformation of relations came with the economic crisis of 2008, which brought the Balkan countries and the Russian Federation even closer. Economic recession and difficulties caused unemployment and high exchange rates in the countries of the region. At the same time, the effect of the economic crisis decreased the level of foreign direct investments not only because of the economic situation of the Balkan countries, but also due to the investor countries' economic problems. As argued, the political stability of the region in the light of recent political developments influenced the thinking of business risk-takers. The result of the economic crisis led to of re-definition of the countries' priorities in terms of the interest of the Russian Federation. Even though, the countries in the region had substantial export/import relations with European Union, economic problems opened space for Russian business. Not yet, a part of the European Union, the Balkan countries have nonetheless were hit hard by the economic crisis of 2008, perhaps because of their high trade volume with the Union. The analysis by the EIU notes that the transition economies were the most affected countries. In 2009, these countries' GDP fell by 5.2%. The effect of the economic crisis continued in 2010 as well. By the end of 2010, these countries' economies shrank by 0.4%. Even as late as 2013, the average output of these countries had still yet to reach the pre-crisis levels (Petrillo, 2013). It will be not wrong to underline that the

instrumentalization of foreign policy became a priority for the Russian Federation with these opportunities, even though the Russian Federation itself suffered under the economic crisis and sanctions. The aim of instrumentalization of foreign policy exhibited itself during the 2009-2013 period, with intense interest of Russian business. Russian companies controlled business relations and created a hub for their own business towards Europe, especially in the energy trade sector.

Table 7: Post - Yugoslavian countries GDP Growth (annual %) between 2003 - 2016

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>BIH</b>	4.0%	6.1%	8.7%	5.3%	5.7%	5.5%	-2.9%	0.8%	0.9%	-0.8%	2.3%	1.1%	3.0%	3.0%
<b>Croatia</b>	5.5%	4.0%	4.1%	4.7%	5.1%	2.0%	-7.4%	-1.7%	-0.2%	-2.1%	-1.0%	-0.4%	2.2%	2.9%
<b>Macedonia, FYROM</b>	2.2%	4.6%	4.7%	5.1%	6.4%	5.4%	-0.3%	3.3%	2.3%	-0.4%	2.9%	3.6%	3.8%	2.4%
<b>Montenegro</b>	2.5%	4.4%	4.1%	8.5%	10.6%	3.4%	-5.7%	2.7%	3.2%	-2.7%	3.5%	1.7%	3.3%	2.9%
<b>Serbia</b>	4.4%	9.0%	5.5%	4.9%	5.8%	5.3%	-3.1%	0.5%	1.4%	-1.0%	2.5%	-1.8%	0.7%	2.7%
<b>Slovenia</b>	2.8%	4.3%	4.0%	5.6%	6.9%	3.3%	-7.8%	1.2%	0.6%	-2.6%	-1.1%	2.9%	2.2%	3.1%

Source: Prepared by author based on data of The World Bank.

In 2003, the acquisition of Beopetrol by Lukoil, brought regional leadership in the sector to the Russian Federation. The acquisition of 79.5% of Beopetrol made the Russian Federation the second biggest oil supplier not only in Serbia but also in the wider region. Later on, the acquisition of Beopetrol was followed by other energy investments such as Russian Gazprom's acquisition of more than half of NIS. At the same time, Gazprom and other energy companies continued investments on smaller companies downstream, and on countries' infrastructure, which kept the economies of Serbia and other countries in the region alive during and after the economic crisis. It can be argued that Serbia was affected substantially by the economic crisis of 2008, but it recovered rather quickly, following the performance of EU members and Montenegro which used Euro as its currency (see. Table 7). On the other hand, after the application of sanctions to the Russian Federation, only Serbia experienced a sharp fall in GDP growth (see. Table 7). One can witness the crucial part the Russian Federation's investments have played in Serbia and the wider region, in the suffering of the other traditional ally Montenegro's GDP, which fell after the sanctions (see. Table 7). Bosnia and Herzegovina too saw the pace of Russian investments fall; yet it might not be accurate to argue that investments in RS fell too (see. Table 7). Energy investments of Russia

continued with the establishment of South Stream Serbia AG for the South Stream Project. In South Stream Serbia AG, the Russian Federation took place as the majority shareholder of the company in partnership with Srbijagas. While energy investments help the economies of Serbia and the other countries in the region by creating jobs and money flows, Russian businesses took over approximately 600 branches of the energy companies involved, and consequentially came to control important refineries such as Pancevo, Novi Sad and Banatski Dvor. It is clear that those investments changed the appearance of Russia not only in Serbia but also in the wider Balkans. At the same time, Russia got a chance to manage and lead refineries just next to another great power –the European Union. On the other hand, the acquisition of energy companies helped Serbia to recover from the failures of its central planning economy, and to modernize its infrastructure. Energy investments were accompanied with other investments in other sectors, such as the modernization and re-building of Serbian railways and railways system and the sale of Russian locomotives to Serbian railways.

In the region, the investments in the energy sector were not limited to those in Serbia. Russia diversified its policies and investments in various countries of the region, with strategic energy and infrastructure investments. Those important investments led the Russia's return to the region through its traditional partner Serbia. In 2006, the Russian Federation basically started to increase its appearance and influence in the region with bilateral agreements such as the clearance of Serbia's debts to Russia from the Yugoslav era, in the exchange of rights for working in the energy sector of Serbia. These agreements became a model for post-Yugoslav states to recover their debt, to modernize their energy infrastructure, and to gain prominence in international society and global economy through the efforts of Russian interests. The Balkans Energy Summit held in Zagreb in 2007 was a specific result of the Serbian model. The Russian Federation signed to forgive debts

agreement in exchange of Russian investments in their countries. Russia's level of appearance and influence in the region increased with this agreement.

While considering the benefits of the Russian Federation, Serbia's gains were not only domestic but also regional. Investments made Serbia stronger, stable and an important player in the region. Bilateral relations produced certain results: Serbian construction companies were involved in the projects related with Sochi World Cup 2018. The growth of the relations brought a partnership agreement between the Russian Federation and Serbia –The Declaration of Strategic Partnership<sup>47</sup>– which contains infrastructure investments, construction investments, agricultural and chemical investments by Serbia in the Russian Federation. This agreement also stipulates more than 50 investment projects to be carried out by Russian businesses in Serbia. Despite all the economic difficulties worldwide, especially after the economic crisis of 2008, the Russian investment in the region has been keeping the countries' economies comparatively afloat. The traditional allies of Russia –Montenegro and Serbia–were certainly affected by the economic crisis of 2008, but they were not affected as much as the neighboring European Union members (see. Table 7). One can argue that the scale and status were not comparable with EU member states, but it should be underlined that Russian investments in these countries surely helped cushion the harsh consequences of economic crisis.

Increasing influence of Russia in the region was not surprising as the Balkans began to re-emerge in world politics on the laurels of the region's geo-political importance. The struggles the region faced were perhaps best summarized in a speech by the Russian President Boris Yeltsin noting that “ideological conflicts are being replaced by a struggle for sphere of influence in geopolitics.” The influence in the region found its own increasing path during the Putin era despite

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<sup>47</sup> The Declaration of Strategic Partnership signed in 2013.

the economic problems worldwide, given the prepared perspective of Russia in contrast to the mayhem experienced by other great powers. Historically, Russia has been an influencer and player in the region since the Czarist Russia. Its influence has increased especially after 2006 through trade relations with its traditional partners. The interest of the Russian businesses and the aim of rebuilding the powerful image of Russian politics in the region were, arguably, made prevalent in the Balkans Energy Summit held in Zagreb in 2007 (Smith, 2008). There, the president of the Russian Federation Vladimir Putin talked about the Balkan countries' involvement with the European Union as a matter of interest for Russian foreign policy, and he added that Russia is also developing its own relations with the countries in the region. While considering increasing Russian influence in the region, it should be remembered that Russian traditional foreign policy perspective regarding the region's politics is not a forgotten past, and any ally or competitor country should think of the relations between Yugoslavia and the USSR.

The geographical importance of the Balkans attracted Russian interest and the reliance on traditional partners in the region started to produce some results in 2012. The report of SIEPA approved this perceptiveness with its data; the Russian businesses started to operate in different sectors such as finance, foods, retail, real estate and pharmaceuticals. The diversification of Russian investments in Serbia made its influence only stronger (Petrillio, 2013). The Russian business became more visible in the country's economy. On a related note, it increased the influence of Russia in Serbia, and naturally on Serbia's domestic and foreign policy. The Russian Federation pursued its interest through long-term investments on infrastructure projects such as Belgrade-

Pancevo railway line and financial aid loans such as writing off Yugoslavia's debts, along with certain monetary assistance that reached around USD 1 million by 2012-2013, according to EIU.

*Table 8: The Russian Federation Foreign Direct Investments in BiH, Montenegro and Serbia. (million EUR)*

	<b>2013</b>	<b>2014</b>
<b>BiH</b>	799,231	701,156
<b>Montenegro</b>	136,359	122,633
<b>Serbia</b>	-69,830	206,197

*Source: Prepared by author based on data of NBS, MIPA and FIPA.*

The lion's share in these investments went to the traditional partner that Serbians were, covering both Serbia and the Republika Srpska, which is nominally a part of the prospective partner that BiH is. The South Stream project laid bare Russia's designs, as even though Russia had only limited influence and interest in Bosnia and Herzegovina, it pushed to add Republika Srpska in the South Stream Project, and signed a formal agreement in 2010. Russian influence was not limited with post-Yugoslav countries as well. The spill over to other countries that need economic integration and integration of energy systems to global energy order was all too prevalent. An example of this spill over effect can be found in Bulgaria. Russia and Bulgaria agreed on the completion of Belene Nuclear power plant project in 2010. It is clear that those investments and the clearing of debts gave a fresh breath to the economies of the countries in the region.

Russian infrastructure investments, debt clearance, energy investments and the acquisition of companies or taking part in the privatization process in the region made the Russian Federation a guarantor of political and economic stability. Those initiatives support the economies of the target countries, and spill over to creating new relations with other countries. The Russian Federation fostered a high level of trade relations with its traditional partner Montenegro (see. Table 9).

Alongside FDI, physical and individual investments also took place. According to the report of MONSTAT, a third of all companies in Montenegro were acquired by Russian investors.

*Table 9: Montenegro, total inflow of FDI by countries (%)*

	<b>2006-2016</b>
<b>Russia Federation</b>	19%
<b>Italy</b>	10%
<b>Austria</b>	9%
<b>Switzerland</b>	8%
<b>Cyprus</b>	7%
<b>Luxembourg</b>	6%
<b>Serbia</b>	6%
<b>Slovenia</b>	5%

*Source: Prepared by author based on data of MIPA*

The weakening of and the recession in the European markets has deeply affected the Balkans. The weakening economy and crisis in the region led the Russian Federation to gain power on state institutions, domestic policies and on foreign policies of the countries (Bechev, 2017). In doing so, the investments and privatizations played a crucial role; Russian investment kept the economies of countries such as Serbia and Montenegro alive. The investments in and re-shaping of Srbjiagas or owning a third of all companies in Montenegro are some examples of this state of affairs. The Russian interest can be seen in the big companies of Montenegro as well. KAP, one of the biggest Montenegrin companies, is remarkable as it accounts for 20 percent of Montenegro's GDP and 80 percent of all its exports. Russian interest in this company offers a concrete example in terms of the effect on the Montenegrin economy and the perception of Russian capital (Bechev 2017). At the same time, geographical location of Montenegro was another consideration of Russian capital. Montenegro is located on the shore of the Adriatic Sea. That is why Montenegro became a popular tourist destination for Russians. Thus, Russian business has showed itself in commercial real estate, residential properties, and the construction sector (see. Table 10). Those sectors has played a crucial role in GDP growth of Montenegro and in terms of domestic politics,

*Table 10: Sales of real estate in Montenegro to Russians (Amount, Share and Rank of Russians)*

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Russia Federation</b>	108,341*	97,653*	53,944*	41,038*
<b>Share of Russia Federation</b>	53,64%	53,95%	38,23%	30,84%
<b>Rank of Russia Federation</b>	1th	1th	3rd	2nd
<b>Total</b>	201,983	180,993	141,089	133,054

\* Million EUR

Source: Prepared by author based on data of MIPA

for creating jobs and increasing the level of welfare. Even a tiny and new country such as Montenegro can play an important role in the region not only for Russia, given its ability to hinder Russian influence. The increasing intense interest of Russians in Montenegro raised some concerns on part of the Montenegrin government. The sanctions imposed on Russia by the West was one way for them to show discomfort, which reflected itself in the amendment of the foreigners law<sup>48</sup> which is important for permanent residence status Russians seek in Montenegro's coastal towns. Additionally, joining NATO was also a result of the discomfort felt.<sup>49</sup> Montenegrin elites concern about the dominance of Russian interest among the companies are also noteworthy. These maneuvers created more challenging questions in terms of the political stability and the future of Russian investments. NATO's Eastern Europe expansion increased the level of concerns. Effectively, the Russian Federation and NATO started to blame each other with provoking and affecting the stability of the region. Also noteworthy are the Russian elites' and politicians' pressure on the Montenegrin parliament, as Montenegro joined NATO and became the NATO's militarization plan center for the Balkan region. Concerns of both sides grew, as the main argument under discussion in the Parliament was about joining NATO. Voting resulted with 46 votes for, out of a total of 81. Approximately, 51.7% of the Montenegrin Parliament voted in favor of joining NATO. While Montenegrin Parliament was ratifying NATO membership, pro- Russian politicians

<sup>48</sup> Official Gazette of Montenegro, No.56/14 dated December 24, 2014. (Art. 11-12, Art. 32-65, Art. 82-106).

<sup>49</sup> Montenegro was granted with Membership Action Plan in December 2009. A formal invitation was sent to Montenegro on December 2015. Montenegro joined NATO on June 5, 2017.

did not join the session and major protests were organized out of parliament during the voting.<sup>50</sup> The results of the vote and the country's accession to NATO were coupled with substantial reservation among the business community and the elites of Montenegro.

The possibility of negative effects on strong economic relations with Russian business and intense Russian interests concerned the Montenegrin business community. On the other hand, main concerns were about the investments in tourism and the real estate sector, which also affected the finance sector. These long-term investments created concerns for Russian businesses as well. Andrija Mandić<sup>51</sup> clearly stated that joining NATO would have consequences with financial sanctions and would affect Russian, Slav and Orthodox friendship that had prevailed through centuries. During the negotiations for joining NATO, major protests were organized in Podgorica, against NATO membership. The supporters of the West and NATO blamed the Russian Federation for organizing the protest. Milo Đukanović<sup>52</sup> who also had deals with Russian businesspeople Oleg Deripaska<sup>53</sup> for selling KAP, blamed the protesters as nationalists who were under the influence of Serbia and the Russian Federation. He also blamed Andrija Mandić, for leading the protests on behalf of the Russian Federation. After the protests, Montenegro faced a military coup attempt in 2016. Milo Đukanović blamed the pro-Russian group for organizing a coup attempt with the help of Russians. At the same time, those opposing Đukanović blamed him for cultivating and organizing the coup attempt himself. Along with these political developments, Đukanović left the position of prime ministry under pressure of Moscow, and declared the case as such to the media. This is a clear example of how Russian influence and investments interact with the political climate

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<sup>50</sup> The law ratified with forty-six votes in favor and zero against, due to the protest.

<sup>51</sup> President of New Serb Democracy Party member.

<sup>52</sup> Montenegrin President

<sup>53</sup> Russian businessman, and the owner of the second biggest Aluminum company of the world. (United Company of Rusal). United Company of Rusal is part of EN+ Group which is also the largest independent Russian power producer EuroSibEnergo.

of the region and it shows how economic power converted to political power. Strategy of instrumentalization of foreign policy and direct / indirect investments of Russians in Montenegro created certain questions about the stability and the future of the region. It should be underlined that according to IMF figures, the Russian Federation accounts for a substantial portion of foreign investments from Serbia to Montenegro. It might be strongly argued that the Russian elites, business and politics' intense interest in Montenegro affected domestic politics and made Russia the critical player in the region. Moving one step further leads to the contention that such involvement made the Russian Federation the decision -influencer if not the king maker in the domestic politics of these countries. Even though some unexpected and undesirable decisions made by politicians drew some criticisms, overall, this state of affairs improved Russia's role in domestic policies and foreign policy.

As a prospective partner, Bosnia and Herzegovina is actually a crucial player in the region, given the existence of Republika Srpska. The Russian perception regarding the region is based on religions; and in this context BiH is a key player delineating the influence of Islam religion in the post-Yugoslav space. The influence of Islam is the heritage of the Ottoman Empire, leading other countries to establishing links with reference to Islam and the Ottoman Empire. The image of Orthodox alliances in the region resembles the Islamic partnership between Turkey and Iran. The approach of Russia and this perspective made RS a crucial place. Investment in RS attained another meaning for the Russian Federation because the existence of the Orthodox creed was essential for the implementation of Russia's foreign policy aims. On the other hand, the absence of an agreement about customs and trade agreements between the Russian Federation and BiH strengthen the position of Republika Srpska's in terms of investments. Russia's positions towards these issues during the discussions on Dayton Peace Accords should be taken into account because the attitude

of Russians would spill over to other areas as well, such as economic relations. Various terms of Dayton Peace Accords might have improved the image of BiH for economic investments. The political stability of, and economic investments in the country might have produced difficulties for Russia in terms of protecting the Orthodox faith or maintaining its position as the protector. It can be argued that once signed and ratified, Dayton Peace Accords gave space to Russia for producing different resources for seeking their interest. On the other hand, Dayton Peace Accords allowed Russia to pose different political arguments for their existence in the region. The improved role of the Russian Federation and its protector status helped it to reclaim its own credibility in the region, *especially throughout RS* (Flores, 2016, the emphasis added). Similarly, in the other countries of the region, the Russian Federation sought opportunities and continued investments mainly on the energy sector. Consequently, Russian investments presented themselves in the energy sector with NIS, Zarubezhneft and Neftegazinkor.<sup>54</sup> Those companies' investments on modernizing power plants and developing old energy resources led them to being parts of the South Stream Project in 2012. Russian investment reached 760 million Euros in the third quarter of 2012. It is obvious that the majority of those investments took place in the Republika Srpska. Various officials, in turn, remarked that Russian investments and modernization of infrastructure saved many depressed settlements (Pivovarenko, 2014). The investments and the economic recovery strengthened Republika Srpska's position in terms of politics and economics towards FBiH. At the same time, these developments gave it a chance to act as an independent player in the wider region as well as the autonomous region. For instance, in 2015 Russian Gazprom directly signed a contract on gas supplies with Republika Srpska, that kept out the central government of Bosnia and Herzegovina. Petar Djokic<sup>55</sup> expressed in one his speeches in 2016 that in two years, bilateral foreign trade

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<sup>54</sup> Subsidiary of Zarubezhneft

<sup>55</sup> The Minister of Industry, Energy and Mining of Republika Srpska.

turnover between the Russian Federation and Republika Srpska grew by forty percent. Increasing relations between the Russian Federation and Republika Srpska were also reflected in political talks and interviews as well. Vladimir Blagojevic<sup>56</sup> mentioned to Balkaninsight newspaper in 2015 that how Russian investment reinforced and maintained the crucial position of Republika Srpska among the countries in the region. According to Blagojevic, Russian investments amounted to 360 million Euros in 2015. Thus, the trade between the Russian Federation and RS made the Russian Federation its third biggest commercial partner. Trade between RS and the Russian Federation were mainly about exporting of oil and natural gas of Russia and exporting of agricultural products of Republika Srpska. According to RS Chamber of Commerce, the chamber members perform 90% of all their exports, to Russia. Anton Skolov<sup>57</sup> expressed that the trade between RS and the Russian Federation was not one-sided. Referring to the sanctions imposed on Russia by the EU and the West, regarding the imports of foods, he indicated that sanctions affected the trade balance and all farmers in BiH.

On the other hand, bilateral relations with the Russian Federation had its consequences in the year of 2013, with the opening of RS Representative Office in the Russian Federation. High-level economic relations and the intense interest of the Russian Federation led to certain fruits in politics. Referendum held in BiH autonomous region Republika Srpska, for RS Independence Day, is an example of economic spillover. The attitudes of the Russian Federation and Serbia to this referendum were providing insights for how economic power was converted to political power. The furthering of Republika Srpska's position in BiH with the support of the Russian Federation had consequences in different areas of politics in Republika Srpska. Milorad Dodik<sup>58</sup> was one of

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<sup>56</sup> Spokesperson of Republika Srpska Chamber of Commerce.

<sup>57</sup> Third Secretary of Russian Embassy in Republika Srpska.

<sup>58</sup> Former Prime Minister of Republika Srpska between 1998-2001 and 2006-2010.

the leaders of and negotiators for Russian investments in Republika Srpska. He took part in the negotiations for the privatization of state enterprises and for other Russian investments decisions. Personally, Dodik is an important figure for Russian interests, especially for his opposition to the expansion of NATO as well as that of the Western influence in the region and in RS. In recent years, Dodik's attitude and political positions made him position an assurance for Russian interests and investments. Thus, he became a frequent visitor to Moscow and worked for lobbying for Russian investment in RS (European Western Balkans, 2017). On the other hand, the central government of Bosnia and Herzegovina also sought Russian investments in the country, whereas the Russian influence in RS was seen as a potential threat. Nonetheless, the two countries were able to reach to a settlement regarding the repayment of Yugoslavia's debt. Russian investments shaped the country in terms of politics. Dodik's important role, his hold on power and active attitude in seeking Russian investments in Republika Srpska reinforced and strengthened Russia's position.

Among post-Yugoslav countries, Macedonia presents another influence leverage country in terms of Russian Federation's foreign policy. Against the background of its opposition to the expansionist politics of NATO and the growth of Western influence in the region, Russia plays a crucial role in Macedonia. Great powers' role and their attitudes towards Macedonia and the situation in the region led to the development of a variety of policies. The status of Macedonia and the minorities in the region led to a kind of "information warfare" and showed itself in the latest crisis in the Macedonian Parliament. Information warfare launched with ethnic tensions, legacies of conflicts, myth of a Greater Serbia and ethnic Serbian audience were used for raising questions about the Western powers leading to further questions about the current borders. Such an information warfare was used for Dayton Peace Accords, the independence of Kosovo, and the

efforts to prevent any further expansion of NATO in the region (Wisniewski, 2017). With the question of Albania and the idea of Greater Serbia in the region made Macedonian politics unstable, the center of political tensions were related to minority issues. Similarly to the case with Bosnia and Herzegovina, Russian investments in Macedonia were not very prolific, but nonetheless entailed some investments in energy and infrastructure through energy companies such as Lukoil<sup>59</sup> or Gazprom or Zarubezhneft. At the same time, Russian interests continued with the participation of Macedonia in the South Stream Project<sup>60</sup>. The Russian Federation enjoyed the chance to diversify in Macedonia as well. The investments of Russians focused in the pharmaceutical sector and the tourism sector as well. Macedonia experienced sustained economic growth compared to the other countries in the region. Despite the Albanian conflict in 2001, Macedonia ultimately benefited from the implementation of the Ohrid Framework Agreement (OFA) which had an impact on the national elections in 2006. OFA provided essential reforms and strengthened economy. The debates in the year of 2006 were about increasing living standards and establishing a smooth functioning market economy. In this context, investments occupy a central place in domestic politics. Another example about the role of investments can be observed in the attack that happened in 2017 at Macedon Parliament, against Talat Xhaferi. After the national elections in December 2016, VMRO won 51 seats in the parliament, while the opposition party SDSM won 49. In 2016 elections, SDSM received votes from Albanian minorities as well. The ethnic issues of Macedonia and VMRO's extended stay in government raised questions about the future of Macedonian politics. In the absence of viable options for a political coalition, forming a

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<sup>59</sup> Lukoil operates more than 300 gas stations in Bosnia and Herzegovina (Petrol BH Oil Company, d.o.o), Serbia (Petrol Beograd, d.o.o), Croatia (Petrol Trgovina, d.o.o) and Slovenia (Petrol Maloprodaja Slovenija d.o.o) under its joint-venture company Petrol Lukoil d.o.o(51% owned by Slovenian Petrol, 49% owned by Russian Lukoil). In Macedonia, they are operating with name of Lukoil Macedonia since 2005.

<sup>60</sup> Macedonia joined in the South Stream Project in 2012.

government proved to be a major issue. This environment created atmosphere conducive for core countries to get involved in the domestic issues of Macedonia. The first reaction came from EU officials, who noted respect for the results of the elections. On the other hand, against a background of Macedonia's applications to join the EU and the NATO, the Russian Federation made well use of this domestic issue with the support of VMRO, against EU officials. Russian officials accused EU and the Western countries' officials for manipulating Macedonians' will during the elections, and declared their support for VMRO. Moreover, the Russian officials blamed Western powers for fomenting political instability. Even though before the elections in December 2016, the Russian officials expressed that counter-productive foreign influence should not have a part in elections, afterwards political tensions between VMRO and SDSM caused a mob attack in the Macedonian Parliament. It might not be wrong to argue that economic relations that improved during the rule of VMRO gave a space for the Russian Federation to interfere in domestic issues.

On the other hand, EU member states Croatia and Slovenia were the countries which benefited most from the Yugoslav economic system and the social welfare policies. Also, those countries stand at a position quite different compared to other post-Yugoslav countries. Their experience and functioning economy were among the grounds for strong ties between the West and these countries. The role of these countries, especially that of Slovenia gave the Russian Federation a channel to reach into the European market. Furthermore, it gave an opportunity to diversify its way into the European market.

The case of the Slovenian market and Slovenia as a nation gives it a distinctive status as a European Union member. Thus, Slovenia has opened another channel to Russia, for investing in some technological sectors such as metallurgy or engineering. Especially, after the economic crisis of 2008, Russian interest in the country increased, and the investments reached to 90.7 million

Euros as per the figures of Russian International Affairs Council. Russia's largest investment was in the metallurgical company of SIJ. Economic distress boosted relations. Additionally, while the economic crisis of 2008 had some consequences for 2009 as well, Russia and Slovenia started to cooperate on economic relations. During the four year period between 2009 and 2013, a total of 60 agreements were signed between the two. The Slovenian government was ready to sell some share of Adria Airways, Ljubljana airport, chemical company Aero, Telecom Slovenia and the Bank of Maribor. It should be underlined that the existence of different sectors in Slovenia actually gave Russian businesses to gain and develop expertise in various technologies. At the same time, Russia was given a means to reach towards and understand the enhanced Yugoslavian industry. The economic relations between Russia and Slovenia were not unilateral, however. Dmitry Medvedev<sup>61</sup> provided a clear vision of how relations between two countries worked in practice. He indicated that Slovenia's investments in the Russian Federation exceeded Russian investment in Slovenia (see. Table 11).

Table 11: Slovenia and the Russian Federation Investment to each other between 2007-2016

	2007			2008			2009			2010			2011			2012			2013			2014			2015			2016		
	Eur	%	R	Eur	%	R	Eur	%	R	Eur	%	R	Eur	%	R	Eur	%	R	Eur	%	R	Eur	%	R	Eur	%	R			
Slovenia to Russia	244	4,5	4	444	7,9	4	298	4,7	5	345	5,6	5	336	5,6	4	326	5,8	5	360	6,9	5	308	5,8	5	305	5,6	5	392	6,9	5
Russia to Slovenia	30	0,3	18	36	0,3	17	55	0,5	13	74	0,9	11	90	1,0	11	88	1,0	12	79,1	0,9	13	62,5	0,6	13	61,7	0,5	16	72,9	0,6	16

Eur: Million Eur / % : Share in FDI / R: Rank

Source: Prepared by authors based on data of Banka Slovenije

Even though Slovenia suffered during the global recession, its interest in the Russian market still prevailed in the form of certain investments. According to Russian International Affairs Council, in 2011, the investments of Slovenia in Russia reached 336.1 million Euros. Investments were mainly about the exportation of expertise in certain areas such as the pharmaceutical sector, the construction sector or the engineering sector. Slovene economy rapidly recovered after the

<sup>61</sup> Prime Minister of the Russian Federation (2012- Present)

economic crisis (see Table 7). The advantages of an export-based economy rather than an import-based one helped with rapid recovery. Karl Erjavec<sup>62</sup> stated that the Russian Federation and Slovenia wanted to achieve a trade balance of two billion Euros by the end of 2017.

In contrast to other countries, in Slovenia Russian investments were not mainly focused on the energy sector, but had an emphasis on pharmaceuticals, nuclear reactors and on some other engineering goods. Additionally, tourism maintained an important role in the relationship between the two countries. According to the Slovenian Statistics data, Russia generated 4% (sixth in the rank) of all incoming tourists in the year of 2016. Later on, the sanctions on the Russian Federation and the depreciation of the ruble affected relations. It was not surprising that the fall in the purchasing power affected every related country in some different sectors. Karl Erjavec reacted to the situation in his speech about the trade balance, where he indicated that they would like to return to the trade levels of 2007-2013. It can be argued that the economic difficulties of the Russian Federation were one of the reasons that led to falling Slovenian GDP after 2013. The problems of one of the biggest trading partners affected Slovenian domestic economy, as well.

Trade relations with the Russian Federation appeared in different areas of politics in Slovenia when compared to other countries in the region, due, in part, perhaps to the unique characteristics of population dynamics and ethnicity in Slovenia. At the same time, the fact that the country had joined the EU, coupled with the status of Slovenian economy and Slovenian export volumes shaped the relations. Erjavec expressed to the press that even though there were some sanctions and difficulties between the West and Russia, Slovenia would want to improve its ties with the Russian Federation. Slovenia remained a loyal economic and political partner of the Russian Federation (Pilko, 2016). During the visit of Dmitri Medvedev in 2015 to the Vršič chapel,

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<sup>62</sup> Slovenian Minister of Foreign Affairs since 2012.

Miro Cerar<sup>63</sup> stated that Slovenia wanted the EU to lift economic sanctions on Russia as the sanctions were affecting trade between the two countries, which has decreased by 40 percent consequently.

The role and policies of the Russian Federation exhibit differences not only for the countries in the region, but also for other European Union member countries, as well. The last case to analyze is that of Croatia which had less energy dependency among all countries in the region. Although for a long time Russian investments had only a small impact in the country and its GDP growth compared to other region countries such as Serbia, Russian capital flow could not reach high levels in Croatia economy mostly due to the unfavorable attitudes of the Croatian leaders, towards Russian investments. In contrast to the other countries in the region, the energy independence of Croatia kept its balance of trade with Russia limited. The failures of Russian energy investment projects led to a change of focus on part of Russian business community, to some other investments such as the sale of military equipment such as Mi-17sh helicopters. These trade relationships took place before Croatia's accession to EU, however. Limited investments of the Russian Federation in Croatia led to a similar picture for the Croatians, as well. The absence of major industrial investments by the Croatians, and the lack of a flow of expertise into the Russian Federation were one of the reasons limiting the relations. Unattractive and slow trade relations between the two countries created a non-desirable investment climate. Furthermore, it created barriers in the state level and society level. Russian and Croatian investments in the respective countries remained low and few investments took place, with some exceptions being registered in the shipbuilding industry. From 1993 to 2009, Croatian shipyards in city of Rijeka, Pula, Trogir, and Split built 41 vessels for Russian businesses. Those vessels were tankers, bulk carriers, chemical tankers, and floating

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<sup>63</sup> The Prime Minister of Slovenia since 2014.

docks. In September 2009, Croatia's Yadranski Brodogradnja and Russia's United Shipbuilding Corporation signed a new long-term cooperation agreement. Other agreements followed such as cooperation on economic and scientific-technical issues, along with the participation of Croatia in the South Stream Project.<sup>64</sup>

Limited and few Russian investments did not lead to an influence in politics and did not do much to ameliorate the problems caused by the Western sanctions imposed in 2013, followed by the accession of Croatia in the EU. Against this background even such limited opportunities became harder to utilize. The process of instrumentalization of Russian foreign policy was not realized as designed and implemented in other countries in the region, due to the inherently low level of trade between the two countries. In addition, Croatia's geographic position and limited access to the rest of the Balkan market and energy system had a role on reducing the trade balance between the countries; hence a characteristically different Russian policy towards Croatia.

Compared to the other European Union member analyzed here –Slovenia–, Croatia did not offer a ground for political space for Russian foreign policy. Even though Slovenia tried to develop bilateral relations with the Russian Federation and the European Union, the script played out very differently in Croatia. Low level of trade and the absence of trade agreements differentiated Croatia from other countries in the region. Lack of a strong economic position did not give a chance for the instrumentalization of Russian foreign policy. Croatia provides a concrete example of how Russian investments play an important role in the domestic economies of the countries in the region, and their foreign policy towards the Russian Federation and Western countries.

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<sup>64</sup> Croatia joined in the South Stream Project in 2010.

## **Conclusion**

Economic and political crisis that emerged in the former Yugoslavia brought about a re-definition of the relations that disguised countries positions and assigned new roles for them. Thus, for core countries, the creation of new ties became more crucial. The economic potential of the Balkans drew attention of core countries. In this perspective, some countries used their existing ties as a foundation to build new ones. The Russian Federation's utilization of its connections with other members of the Orthodox creed provides an example of that attitude. Their foreign policy perspectives towards the region, however, played out differently in different countries and in the face of different political developments. The opportunity of relying on crises and new situations were associated with the relying on outsider argument by the Russian Federation in the region. The Russian Federation adjusted its perspective towards the region according to the contemporary political requirements, leading to a restructuring of foreign policy perspectives. Where the old practices of politics were valid, they used it in that way emphasizing for instance the historical perspective to the region in terms of the buffer zone argument, but with reference to the new practices and understanding renewed importance of the Balkans in the economic context. Thus, the great power image of the Russian Federation was modified as a core country under the terms of the liberal economy.

The Balkans were not only on the agenda of the Russian Federation but also their importance cemented their place on the agendas of other core countries and political associations such as the USA or the EU. Thus, the Balkans became a ground for competition among core countries. In this manner, each core country and association sought to implement their future aims in the region such as the independence of Kosovo or the accession of Croatia and Slovenia into the EU. On the other hand, close relations between Serbia and the Russian Federation provide yet

another example. Those relations and other political events shaped the region and the relations with the countries in the region. Under the liberal economic order and the new Russian foreign policy, economy and economic relations became the prominent elements of the agenda. The Russian Federation's shortcomings in high technology pushed it to seeking other opportunities such as those offered by the energy sector. Thus, the Russian Federation became eligible to have a voice in the European market as well. It instrumentalized the Balkans against Western policies. The securitization of political and economic roles and interests of the Russian Federation led to the conversion of economic power to political power, called the instrumentalization of foreign policy.

Cases of countries provide explicit examples of how the basis of economy defined priority for Russian foreign policy. The opportunities which emerged out of the economic crisis of 2008 led to new practices, and further instrumentalization of the Russian foreign policy. The economic crisis of 2008 which developed in one core country affected all other core countries and periphery countries and their trade. Accordingly, foreign direct investments became harder to implement. Against this background the Russian Federation appeared on the stage. Russia's relations with each country defined the nature of the role the Russian Federation could play, as well as the parts belonging to Russian businessmen. The aim of converting economic power to political power was realized in different ways. Kosovo presents one example where its independence is not recognized by the Russian Federation. Thus, the Russian Federation adopted a certain economic strategy, surrounding Kosovo with intense Russian investments in its traditional allies Montenegro and Serbia, and prospective ally Macedonia. At the same time, Bulgaria, one outlet available to Kosovo to reach out, was the focus of substantial Russian investment as well. Consequently, the Russian Federation applied the practices of liberal economy. Comparatively, as the Russian Federation invested in Serbia, Montenegro, Bosnia and Herzegovina and Macedonia, the implementation of

the Russian Federation's foreign policies varied in these countries. Another distinct case can be found in Slovenia from where the Russian Federation imported more than their exports to Slovenia, and this situation created reliable trade links between the two countries. The final example is Croatia, which presents a clear explanation of economic power being converted to political power under the aegis of foreign policy. Limited trade relations between the two countries also limited the political relations. The absence of trade relations did not produce a spill over on political relations. All of these cases provide clear examples and explanations of how the Russian Federation's pragmatism works with economic tools.

## **Conclusion**

The lack of a functioning market and the pains of market integration after the break up of Yugoslavia led the successor states to consider their domestic economies under the terms of liberal economy. Thus, the associations between economy and politics became more vital for countries. Those terms described and shaped each other. Impairment of one term became the reason for another's issue. In the conditions of core and periphery distinction, it was difficult for every country to balance its power on politics and economy. Therefore, role of core countries came to the fore with reference to their economic capabilities. The case of the Balkans is effectively an ode to this perspective.

One of the quickest ways to bring in Foreign Direct Investment was privatization of state-owned enterprises. Privatization became a central axis of the re-designing of these countries' economies. The privatization of former Yugoslav industry and finance sector led the way in this context. At the same time, using economic tools through privatization was one of the ways for sustaining Russian influence in the post-Yugoslav sphere. On the other hand, privatizations of the finance sector provided a means to influence and at times exactly shape the economies in accordance with pragmatic goals of Russian foreign policy. Pragmatism and instrumentalization of Russian foreign policy benefited from this opportunity. Privatization and new investment opportunities provided the Russian Federation with the means to interfere in domestic issues through applying pressure on domestic politicians.

The economic difficulties experienced by core countries, coupled with the privatization and investment opportunities available, led to an evolution of the Russian Federation's role, into that of a core country for these periphery countries. The economic crisis of 2008 created new markets for Russian business associated with Russian influence in the region. Thus, political influence grew

as well. Even though core and periphery relations are characterized with the import of technological goods in exchange of low-order products, the new economic relations and the new world order has showed that not only technological goods but also importing strategic goods plays an important role in politics and economy. In other words, importing strategic goods led to an adjustment of political expectations. The Russian investments on strategic sectors in the region, satisfying basic needs of the people gave the Russian Federation the position of an important core player. Thus, the Russian Federation seems successful in combining economic power and political power.

It can be argued that technological developments or industrial outcomes of the Russian Federation in the world compared to highly industrialized countries of the West or East, are not at the same level. However, in the contemporary world order, high and developed technologies could be perceived as basic needs, should they help in satisfying basic human needs such as food, shelter, security, employment and stability in social life. These elements keep an important place in human life, and indirectly affect countries' success and wealth. Satisfaction of basic needs might lead to a focus on other contemporary needs such as high-technological goods. It will be not be erroneous to claim that the effects of the economic crisis of 2008 transformed the position of the Russian Federation for the Balkans, to that of a core state.

The privatization of energy sector, investments in other sectors and bilateral agreements on trade and debts helped to convince these countries to the influence of the Russian Federation. Those economic activities helped post-Yugoslav countries to survive and achieve progress in the new economic difficulties of the global economic system. This contribution by the Russian Federation created new jobs and gave a long-needed breathing space to Balkan countries' economies when they suffered from economic difficulties. Thus changed the image of the Russian Federation. At

the same time, this situation provided a reliable basis for the Russian Federation's influence on post-Yugoslav countries.

The outcomes of economic activities led to other outcomes in politics. Despite the effect of trade on the domestic economy of the Russian Federation, it provided an opportunity to realize new Russian foreign policy aims. One of the fundamental goals of Russian foreign policy that was accomplished with the opportunity provided was essentially the pragmatism of foreign policy. Pragmatism led to the employment of economic tools, leading to further instrumentalization in Russian foreign policy. As the heir of a grand empire, the Russian Federation used its historical ties in its foreign policy to further its economic goals. Those goals also found their way to securing Russia's influence and the position as a role model.

The economic and political crises gave the Russian Federation a chance to get involved and further its position in the Balkans. The effect of economic relations shaped the political influence of the Russian Federation as well. Thus, the Russian Federation increased and leveraged political abilities in the Balkans. It can be claimed that Russian foreign policy towards the Balkans changed to the pragmatism buttressed by economic relations.

The economic involvement of the Russian Federation in the difficult times experienced by these countries seems to spill over to the political area, observable in the influence and the weight of the Russian Federation in the region. Translating the disadvantages posed by the economic crisis of 2008 to actual advantages was one way for Russia to realize its foreign policy goals. In this manner, Russia manifested a successful example of combination of economic relations into foreign policy.

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