



THE CHALLENGE OF FREEDOM IN THE SOUTHEASTERN EUROPE

Adam Balcer, Spasimir Domaradzki, Marta Szpala



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The report is the outcome of the conference “The freedom challenge in Southeastern Europe - the implications for Poland” - a joint project developed by Ideas Lab - The Presidential Expert programme of the Chancellery of the President of the Republic of Poland and the Centre for Eastern Studies.

INTRODUCTION

Over the past few decades substantial progress has been achieved in the democratisation and modernisation of the countries of Southeastern Europe. The formal democratic institutions were introduced, a liberalisation of trade resulted in the reintegration of the region into the global economy and some of them successfully applied to join the EU and NATO. But the transformation process is far from over and this became more evident with the outbreak of the global crisis and the changing international environment.

The countries in the region, despite all the internal differences and various degrees of integration with the EU and NATO share common challenges. The mere fact of applying for accession to the EU or even EU membership has not yet resulted in the full consolidation of democratic systems in those countries. Moreover their economies are catching up more slowly than many had hoped. These problems are to some extent connected with the crisis within the EU, which undermined the principle of solidarity and enhanced the focus on national interests. This makes the EU less interested in integration and enlargement as an engine for democratisation and economic modernisation. The whole region became, as Dimitar Bechev put it, “the periphery of the periphery”, far away from the core of EU integration and the interest of Brussels. This term refers not only to the Western Balkans countries but also to other countries in the region including those which despite being EU members have no influence on its policy although their prosperity and prospects are highly dependent on it. These negative trends affected standards of democracy and the market economy. In the past years the achievements of the political and economic transformation have been rolled back and the quality of governance has declined in many countries. To avoid a further deterioration of the situation in the region the new impulse for institutional transformation and a change of the development model are needed.

A post transformation grey zone emerged in the region with the political system swinging between soft authoritarianism and powerless democracy. The weak rule of law and endemic corruption are also among the biggest challenges. The apathetic civil societies and media controlled by political elite do not perform watchdog functions over the action of the states. Although widespread dissatisfaction and disappointment in some countries led to massive protest only in Slovenia and Greece, they caused a change of the political elite. But even in these two cases the new parties were based on populist sentiments and did not bring a new wave of reform. The polarisation of society, the monopolisation of

power and also using nationalist sentiments are the common practices which the political elite uses to stay in power and influence the quality of democracy. Moreover the ruling parties use their position to weaken the institutional system of checks and balance to consolidate their control over the society.

Democratic institutions have proven particularly vulnerable in the face of a deep economic crisis. The governments in the region have strengthened their influence on the media which have become dependent on advertising revenue from administration and public companies. A huge public sector combined with high unemployment is a powerful tool for building party-political patronage and clientelist dependencies. That makes the alternation of power even less possible and what is more important deprives citizens of the ability to hold their political leaders accountable for their actions. These tendencies contributed to decreasing trust in liberal democracy in whole region. The weak prospect of economic growth and thus the development of a strong private sector leave little hope for a change in the relations between the political elites and societies.

The economic prospects of Southeast Europe are dependent on the situation of the euro zone and the rest of the EU as main trade partner and source of FDI. The global crisis which affected the EU undermined the development model of the region based on the influx of FDI, loans and remittances. In times of crisis, it became more evident that the lack of an investor friendly environment, proper infrastructure, a state-dominated economy and an oligarchic political system were the main obstacles for quick economic growth. Economic hardship did not bring about a new wave of reform in order to make region more competitive. On the contrary, in many countries the achievements of the transformation were reversed. Instead of privatisation the state has played a more important role in the economy and politicians have gained more influence on a once independent institution of free market. The poor societies in the region oppose any austerity programmes and the governing elite prefer to buy time by increasing the national debt.

Nor is there any drive for reform coming from outside. The EU used to be considered as the best anchor to support democratic transformation in the region and the accession process and put pressure on the local elite to carry out reforms, but in the long run the everyday custom proved to be more important than adopted laws and procedures. Lack of proper implementation hampered democratic consolidation but the EU preoccupied with internal problems and has not monitored the situation in the region. Moreover at present the EU has

no instrument to subordinate the political elite in those countries, which are already EU members. In turn, for the governments of those states outside the EU, the prospects of accession are not tangible enough to convince them to follow the rules of democracy.

The fragile democracies in the region left in limbo are more vulnerable to the influence of other international players like Russia, China or Turkey. In this perspective especially, the growing engagement of Russia in Southeast Europe, which has been observed since the beginning of the Ukrainian crisis, is worrisome. Russia approaches this part of Europe as an arena of proxy geopolitical rivalry with the West and its activity there undermines the transformative agenda of the EU in two aspects. First of all the way Russia is building influence in the region enhance the shortcomings of the Southeast Europe countries – clientelism, corruption and state capture. Secondly by promoting a vision of the successful and prosperous “illiberal democratic system” of Russia and underlining the failures and problems of EU members challenges the necessity of implementing reform required by Brussels. In the long time perspective for the countries in the region there is no other solution but the EU, but in the immediate future Russia’s activity can hamper the EU’s efforts to transform and stabilise the region.

In these circumstances Poland’s greater involvement in support of the reform process in Southeastern Europe could be mutually beneficial. Poland, aspiring to become one of the key players in the EU, by enhanced cooperation with the region would strengthen its position within the EU. The successful transformation of those countries is one of key challenges not only for Poland but also for its partners in the V4 as it guarantees security and stability in their neighbourhood. Moreover the good examples from this region can be used in the policy towards its Eastern partners to convince them to implement reform. What is more, the international position of Poland depends on the success of the EU as a global player. Thus completing the transformation will be proof of the EU’s ability to stabilise and influence the situation in its own backyard and thus its international position vis-a-vis the USA or Russia.

Promoting the Polish example of a successful transformation could enhance support for the reform and EU accession because EU members in the region do not perceive their membership as a success story which has brought economic prosperity and high democratic standards. Poland can serve as proof that EU membership provides significant, tangible benefits although they are not automatic. The exchange of Polish know-how can in many cases be more useful

as its transformation pattern is similar. Thus Poland can provide a practical solution for the concrete problems. Poland's positive experience can also support further enlargement within the EU as the country became an important political and economic player due to its membership. The more vocal support for enlargement policy should not mean a withdrawal from the strict criteria for membership but rather more visible benefits for introducing – and what is even more important – implementing the reforms. As current experience shows, the EU is important in setting the reform agenda but quality of implementation depends on the ability of society to control the government. Thus more support for creating a vibrant civil society and independent media is of crucial importance.

This report is the outcome of a discussion held during the conference “The Freedom Challenge in Southeastern Europe – Implications for Poland”. This joint event was developed by the Centre for Eastern Studies and Ideas Lab – the President's Expert Programme at the Chancellery of the President of the Republic of Poland. The aim of the conference was to exchange opinions about the transformation of the countries in the region and Poland with experts from the Southeastern Europe and representatives of the Polish administration, academia and think tanks. The chapters of the report reflect the main three subjects debated during the conference. In the first chapter Spasimir Domaradzki assesses the rule of law and its influence on the consolidation of democracy in the region. In the second chapter Marta Szpala focuses on economic development in Southeastern Europe and its links with the state of democracy. The third chapter is written by Adam Balcer and analyses the key instruments Russia is using to build influence in this region and assesses its leverage.

MAIN POINTS

1. Regardless of the level of interaction with the EU, the countries from South-eastern Europe present a very similar level of rule of law and human rights protection. The prevailing perception of political life in the region recognises the corrupt nature of politicians, directly linked with organised crime groups and oligarchs, and focused only on complete control of the economy. The wave of protests that has been making its way through the countries of the region since 2012 exemplifies the popular frustration and dissatisfaction with the political elites and existing economic and social reality.
2. In order to secure a future smooth enlargement towards the Western Balkans, the EU should emphasise the explicit rule of law and human rights criteria that should constitute a sine qua non condition for membership. The 2007 and 2013 EU members should be targeted with substantial support for civil society and constructive criticism towards the political elites, pressure should be applied in favour of the introduction of genuine self-government, and there should be periodical changes in the political elites and a reform of the judiciary.
3. The transformation brought about a reintegration of Southeastern countries into the global economy and an improvement in living standards. But fast economic growth to 2008 led to the false impression that they would quickly catch up with the rest of the European Union without the need for reform. The global economic crisis exposed the weakness of the growth model which was being pursued by many countries in the region based on FDI and loans with a lack of productive investment. In consequence of this the process of catching-up with the advanced economies is slower in Southeastern Europe. Unless a new wave of reforms to enhance the competitiveness of local economies is introduced, the region risks stagnation in the long-term.
4. The deteriorating economic situation caused by the global crisis has had wider consequences for the quality of democracy. The high unemployment, underdeveloped private sector, the huge influence of the political elite on the economy enhance clientelism, corruption and state capture. At the same time civil society and the independent media have been significantly weakened. Current situation make the political elites less keen on implementing reforms as they prefer to resort to undemocratic methods to hold on to power.

5. The Balkans are a region where Russia possesses its strongest leverage globally, excluding the post-Soviet space. Its position is based on a common cultural heritage (religion, language), history, economics and geopolitics. Simultaneously, the Balkans occupy an important place in the Russian historical memory and its foreign policy.
6. The Balkans could become the next natural area of Russia's "proxy war" with the West, besides the Baltic Sea. The region is the soft underbelly of Europe. Russia wields substantial potential for destabilisation there. The primary target of the Kremlin's influence in the Balkans is Republika Srpska in Bosnia, and then Serbia, Greece and Bulgaria.
7. Nevertheless, the importance of Russia in the region should not be overestimated. Moscow is capable of making life harder for the EU, for example by slowing down the process of the region's European integration, but it stands no chance of becoming a credible alternative to the EU and to reverse the membership aspirations of the countries of the former Yugoslavia. Moscow also has limited capabilities to persuade Greece to block decisions coming from Brussels which are unfavourable for Russia. At the end of the day, the position of Brussels – read: Berlin – is decisive.

I. RULE OF LAW AND HUMAN RIGHTS IN SOUTHEASTERN EUROPE¹

The last quarter of a century can be described as a demographic plague that went through the Balkan peninsula. Indeed, the western part of the Balkans traditionally constitutes source of labour force for the Western economies and the wars in the former Yugoslavia brought about large migration and refugee movements.² However, as T. Lukic admits after the International Labour Organization, the contemporary waves of emigration out of the region are not only related to the war, conflict and human rights violations – it is a consequence of the deteriorating economic situation and the lack of labour matching the skills of people with middle and higher qualifications.³

The situation is even more alarming in the countries that did not experience war after the fall of Communism. In comparison to 1991 Bulgaria and Romania have lost over 11% of their populations. The figures, are comparable only with the situation in Bosnia where the war killed 100,000 people and a substantial outflow of refugees led to similar in percentage contracting of the population. In comparison, in Croatia which also suffered military activity on its territory, the decrease in population was only 7.2%. In Serbia the fall is 8.3%.⁴ According to the Bulgarian National Statistics Institute, in the decade between 2001-2011 the population of the country contracted by 564,000. One third of the cases (174,000) were a result of emigration. The citizens of the Balkan states still apply for asylum in the EU. Asylum applications have grown to roughly 70,000 applications per year since visa requirements were abolished.⁵ According to *The Economist* the explanation lies in the tiredness of waiting for living standards to improve.

¹ This part of the report is dedicated mainly to the countries of Bulgaria, Romania, Serbia, Croatia, Bosnia and Herzegovina, Greece, discussed during the seminar organized in the Chancellery of the Polish President in November 2014. However, most of the generalizations and remarks were trying to take into consideration also the situation in the remainder of the countries from the region.

² T. Lukic, R. Stojsavljevic, B. Durdev, I. Nad, B. Dercan, Depopulation in the Western Balkan Countries, *European Journal of Geography*, volume 3, issue 2, p. 18, http://www.eurogeographyjournal.eu/articles/Lukic,%20Stojsavljevic%20et%20al,%20Depopulation_FINAL.pdf

³ *Ibid.*

⁴ *Ibid.*, p. 10.

⁵ Quitting Dreams, chasing Dreams, *The Economist*, 21.03.2015, pp. 23-24.

Table 1. Census result on the Balkan Peninsula

Country	Population in 1991 in thousand	Population in 2011 in thousand	Change
Bulgaria	8,487	7,928	-13,23%
BiH	4,377	3,791*	-13,37%
Croatia	4,784	4,456	-6,86%
Greece	10,259	10,816	5,42%
Romania	22,810	20,121	-11,79%
Serbia (without Kosovo)	7,822	7,259	-7,21%

* In BiH census was conducted in 2013

The global wave of social protests has not spared the Balkans. Since the emergence of the global economic crisis virtually every country from the region has faced social protests. From Greece to Romania and from Bulgaria to Bosnia and Herzegovina popular dissatisfaction emerged with varied intensity. Although it was an expression of the economic impoverishment, all the protests were united by the shared perception of political elite's overt arrogance that no longer cares for the wreckage of decency in shaping political reality.

The prevailing perception of political life in the Balkans recognises the corrupt nature of politicians, directly linked with organised crime groups and oligarchs, and focused only on complete control of the economy. Its main pillars constitute corruption, nepotism, a dysfunctional judicial system, a shattered economy and exposure to external pressure. Politicians treat their fellow citizens merely as a source of legitimisation for the consumption of power and the consolidation of politics, economics and organised crime.

1. The rule of law in the Balkans

Despite their regional and cultural proximity and the political similarities of the countries from the region, international rating agencies do not consider them as a homogeneous community. The regional members of the EU are considered part of Western Europe and those that are not, as part of Eastern Europe and Central Asia. Greece and Croatia are the only countries from the

region which are “full-fledged”⁶ EU members. However, the EU still expresses concerns about the track record of the establishment of the solid rule of law in Croatia and the radical tendencies that are on the rise in Greece. Bulgaria and Romania, despite being members of the EU, are still subject to the mechanism for cooperation and verification (MCV), which constitutes a unique tool of the EU’s internal tutoring. The remainder of countries are either candidates for membership or potential candidates for membership.

According to the Transparency International Corruption Perception Index 2014, the Balkan EU member states are the most corrupt from the 28 countries of the union. The last five places are taken by Croatia, Bulgaria, Greece, Italy, with Romania dead last. However, it is in Romania that the largest number of high ranked politicians are jailed for corruption. The remaining countries from the region are classified as “Eastern Europe and Central Asia” and in this group they lead the ranking, being placed among the top ten countries. Albania and Kosovo remain the most corrupt countries in the region, ranked in joint 110 place. Also the Rule of Law index qualifies the countries from the region in different regional groups. What seems to be apparent is that despite those artificial divisions, the countries of the region represent a similar level of respect for the rule of law. Importantly, neither EU nor NATO membership secures a higher score, also in this ranking. Hence, many of the countries from the Western Balkans (Macedonia, Croatia, Bosnia and Herzegovina) scored higher than Bulgaria. Despite the necessary efforts to convince the European Commission of its determination to meet the political requirements, Serbia was poorly assessed and the country was classified as being the worst of the former Yugoslav republics and ten places behind Bulgaria. Albania is the country with the weakest Rule of Law record in the region.

Bulgaria and Romania are still subject to the MCV. Although the efficiency of this tool should not be overestimated, it constitutes an important indicator for the pace of the judicial reforms in the two countries. The most recent reports published in January this year showed visible differences in the attitude of the authorities in Bucharest and Sofia towards the need to introduce substantial changes.

⁶ In terms that no special tools like the Mechanism for Cooperation and Verification are imposed on them.

Table 2. Corruption and the rule of law in Southeastern Europe

Country	Transparency International CPI Score	Transparency International CPI Rank (175 countries)	Rule of Law Index (99 countries)
Albania	33	110	63
BiH	39	80	39
Bulgaria	43	69	44
Croatia	48	61	36
Greece	43	69	32
Kosovo	33	11	n/a
Macedonia	45	64	34
Montenegro	42	76	n/a
Romania	43	69	33
Serbia	41	78	54

According to the report on Romania, “the country has made continued progress in many areas since the previous MCV reports, showing signs of sustainability”.⁷ The EC emphasised the stress laid on the direct dependence between the growing confidence in the judiciary (and in particular the fight against corruption and the growing professionalism) and the willingness to defend the judiciary’s independence.⁸ The reasons for such a positive opinion from the EC include a new penal code entering into force in February 2014, and the activity of the National Anti-Corruption Directorate (DNA). Since its establishment in 2005 the Directorate has conducted over 4,700 cases, with 90% of them ending in convictions.⁹ Essentially, their activities led to the imprisonment of over a dozen of ex-ministers including a prime minister.¹⁰ The

⁷ Report on Progress under the Co-operation and Verification Mechanism in Romania, European Commission Fact Sheet, 28.1.2015, http://europa.eu/rapid/press-release_MEMO-15-3824_en.htm

⁸ *Ibid.*

⁹ T. Dąbrowski, Postępy w walce z korupcją, <http://www.osw.waw.pl/pl/publikacje/analizy/2014-08-20/rumunia-postepy-w-walce-z-korupcja>

¹⁰ Pravitelstvo zad reshetkite, <http://www.vesti.bg/sviat/balkani/rumyniia-pravitelstvo-zad-reshetkite-6031748>

efficiency of the DNA did not remain unnoticed, since it proved to be independent from the changes on the Romanian political scene.

On the other hand concerns remain as to whether the fight against corruption will embrace all levels of government. Romania also provides plenty of examples of parties' attempts to resist change through legislative and administrative measures. Furthermore, the inconsistency of some of the court judgments remains noticeable as well as the reluctance of parliament to accommodate some of the court judgments, including the Supreme Court.

The European Commission's report on Bulgaria indicated that all necessary reforms had been abandoned. Seven years after the implementation of the mechanism, the report states that "in a number of areas problems have been acknowledged and solutions are starting to be identified."¹¹ The new government's judicial system reform strategy and the anti-corruption strategy are to be implemented in practice. However, they are already a subject to fierce criticism. The reform of the judicial system, including the much maligned Supreme Judicial Council, became the subject of a trade-off among all the parties in parliament and its quality was encapsulated by one of Bulgaria's electronic media outlets thus: "the parliament adopted the judicial strategy in a castrated version."¹²

The adopted anti-corruption strategy stubbornly rejects the suggestion that an institution needs to be established which would be independent, well equipped in prosecuting and investigative tools, and able to introduce qualitative changes in the fight against corruption. Instead, the adopted strategy provides for the amalgamation of the existing institutions with an anti-corruption profile in a single entity that will supervise the wealth of the members of the public administration, politicians, and members of the judiciary. On the other hand repressive competences will be granted to a special unit that will be composed of the institutions currently possessing the relevant competences. The strategy also sets out the post of deputy prime minister for the fight against corruption

¹¹ Report on Progress under the Co-operation and Verification Mechanism in Bulgaria, European Commission Fact Sheet, Brussels, 28.01.2015, http://europa.eu/rapid/press-release_MEMO-15-3825_en.htm

¹² P. Paunova, Deputatite odobriha sadebnata strategiya v skopen variant, <http://www.mediapool.bg/deputatite-odobriha-sadebnata-strategiya-v-skopen-variant-news229605.html>

and regular tests of the integrity and loyalty of employees.¹³ As Mikhail Ekimdzhev stressed, “Apparently, far reaching trade-offs were being made, since [the authorities] abandoned the ideas to introduce changes in the constitution, withdrew from the ideas of radical reforms in the judiciary and prosecution authorities, rejected also the idea of external control of the prosecution.”¹⁴

Although it joined the EU as late as in 2013 Croatia, unlike Bulgaria and Romania, was not subject to the Mechanism for Cooperation and Verification. Already in 2010 the country introduced a comprehensive judicial reform strategy that was highly evaluated by the Council of Europe.¹⁵ On one hand the country proved it was capable of fighting corruption and sentencing high profile members of pharmaceutical companies and banks. The most spectacular case affirming the state’s determination to fight corruption was the sentencing of former Prime Minister Ivo Sanader. However, despite these achievements, arguments are being raised concerning the arbitrary dismissals of defence evidence and other procedural violations.¹⁶ On the other hand, allegations concerning the involvement of HDZ party leadership in money laundering, organised crime, drug smuggling, and war profiteering threaten the image of the political leaders of the country.¹⁷

According to the European Commission 2014 Serbia Progress Report, Belgrade still faces considerable challenges regarding the independence, impartiality, accountability, effectiveness and accessibility of its justice system. It is astonishing that the EC recommendations replicate the expectations towards Bulgaria to adopt clear rules for the appointment of Court Presidents, the implementation of merit based recruitment and the implementation of mechanisms for the equal and fair distribution of cases. Furthermore, there is an urgent

¹³ Strategiyata za borba s koruptsiyata predvizda suzdavaneto na edinen organ za proverka na imushtestvoto, <http://www.government.bg/cgi-bin/e-cms/vis/vis.pl?s=001&p=0212&n=3469&g=>

¹⁴ Strategiyata za borba s koruptsiyata e murtvorodena, *Kapital*, 19.04.2015, http://www.capital.bg/politika_i_ikonomika/bulgaria/2015/04/19/2515822_strategiiata_za_borba_s_korupciiata_e_murtvorodena/

¹⁵ Judicial Reform Strategy, http://www.coe.int/t/dghl/cooperation/Cepej/profiles/Croatia_July_2011_en.pdf

¹⁶ J.-S. Mongrenier, Croatia’s accession and the rule of law, <http://www.euractiv.com/en/large-member/croatia-accession-weaken-eu-comm-analysis-529000>

¹⁷ N. Srdoc, Croatia: ‘Criminal Enterprise HDZ’ Takes Over Presidency -- Organized Crime and the Rise of Nationalism, http://www.huffingtonpost.com/natasha-srdoc/croatia-criminal-enterprise-hdz-takes-over-presidency_b_6682516.html

need to tackle the significant backlog of cases.¹⁸ Actually, in comparison to its EU neighbour to the east, Serbia seems much more reliable with approximately 2,000 people put on trial for corruption, 150 indictments and more than 90 sentences in the period 2008-2010.¹⁹ However, final convictions for high-level corruption remain rare. On the anti-corruption path Serbia faces the same challenges as Bulgaria in terms of its hesitance to appropriately equip the Anti-Corruption Agency and the Anti-Corruption Council with sufficient resources and appropriate leverage.²⁰

Among the countries from the region, the one that probably most acutely experiences a lack of political will to move from rhetoric to actively fighting corruption and organised crime is Bosnia and Herzegovina. The independence and impartiality of the judiciary is virtually a fiction and political interference is not decreasing.²¹ Although Bosnian parliamentarians have some of the highest salaries in Europe, their main source of income is public procurement. Tenders are always pre-determined. In a 2012 UNDP survey, only 39.7% of Bosnian citizens reported they had trust in the Bosnian judicial system.²² The European Commission report spots significant shortcomings in the areas of judicial office holders' accountability and professionalism. The country also lacks appropriate regulations to deal with conflicts of interest. Modest progress was made in reducing the backlog of cases.²³

The complicated and overloaded administrative structure of Bosnia and Herzegovina bears direct impact on the ability to challenge corruption. Overlapping competences and a lack of appropriate coordination obstruct the efficient control of non-transparent accumulation of wealth. Remarkably, although some of the key pieces of legislation fail to comply with international standards, the necessary legal framework is largely in place. Effective investigation and convictions in high profile cases are what is really missing.²⁴

¹⁸ Serbia 2014 Progress report, Commission Staff working documents, http://ec.europa.eu/enlargement/pdf/key_documents/2014/20140108-serbia-progress-report_en.pdf, pp. 11-12.

¹⁹ Primordial Resistance to Liberal Values, Human Rights in Serbia in 2013, Helsinki Committee for Human Rights in Serbia, p. 27.

²⁰ Serbia 2014 Progress report, *op. cit.*, p. 12.

²¹ Bosnia and Herzegovina 2014 Progress report, p. 12.

²² J. Hronesova, Bosnia, voting for the Devil you know, <http://www.balkaninsight.com/en/blog/bosnia-voting-for-the-devil-you-know-1>

²³ Bosnia and Herzegovina 2014 Progress report, p. 13.

²⁴ *Ibid.*, p. 16.

According to the EU's expectations, apart from Greece, all of the Balkan states discussed had to face the necessity of adjusting the situation following the fall of Communism to the rule of law. The fact remains, that despite the promising changes in Romania and to a certain extent in Croatia, the region has unsatisfactory judicial standards. The problems related to the appointment of judges and prosecutors, the assignment of cases or the implementation of judicial rulings are merely the tip of the iceberg that reveals how compromised the whole judicial system is. The MCV reports also provide public opinion polls revealing the growing awareness of Bulgarian and Romanian citizens concerning the mechanisms and their importance for their countries. However, these polls overlook the fact, that the desperate citizens of these countries still treat the EU as the lifeline that can force their own political elites to behave in accordance with European standards. The same attitude can be noticed in Slovenia. Although the Croats are much more equivocal in their trust towards the EU, they do not trust their national institutions more than the rest of the Balkan EU members. Remarkably, the Greeks remain the only country where the disastrous economic situation does not allow society to remain without opinion and where the trust in national government and parliament reaches the EU's lowest results. Despite Greeks negatively associating the EU with the austerity measures, respondents proved to trust the EU twice as much as their own main political institutions.

Chart 1. Eurobarometer. Trust towards the EU

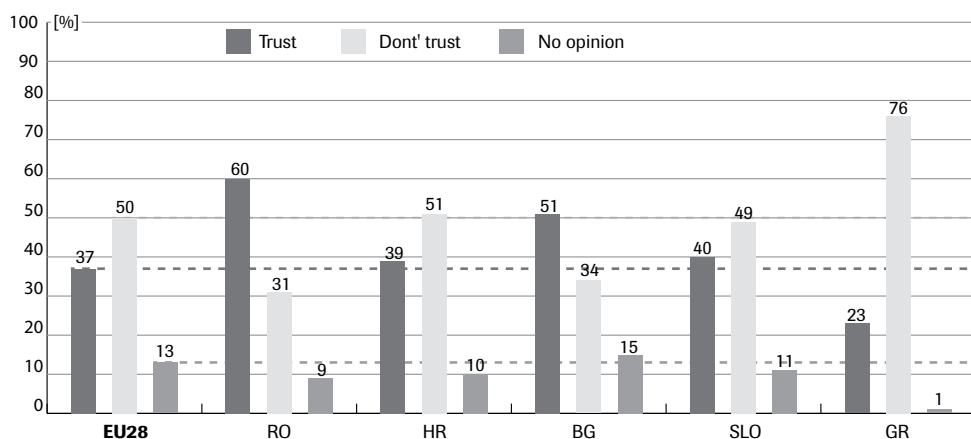


Chart 2. Eurobarometer. Trust towards the National Parliament

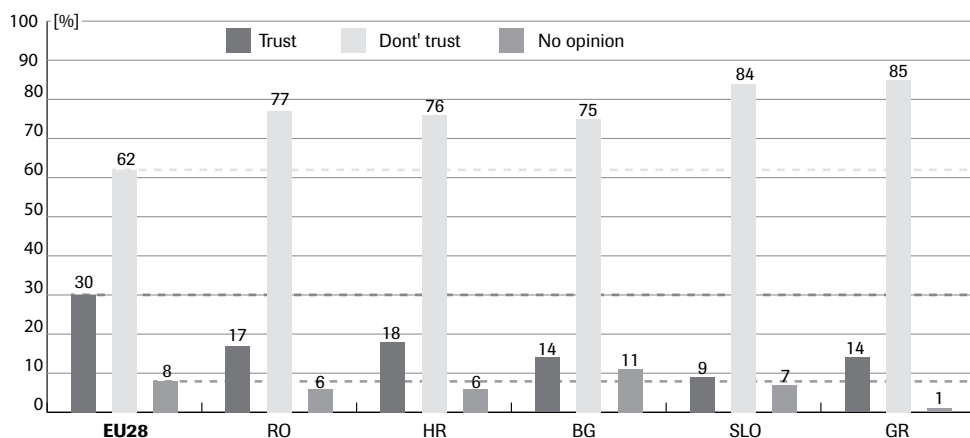
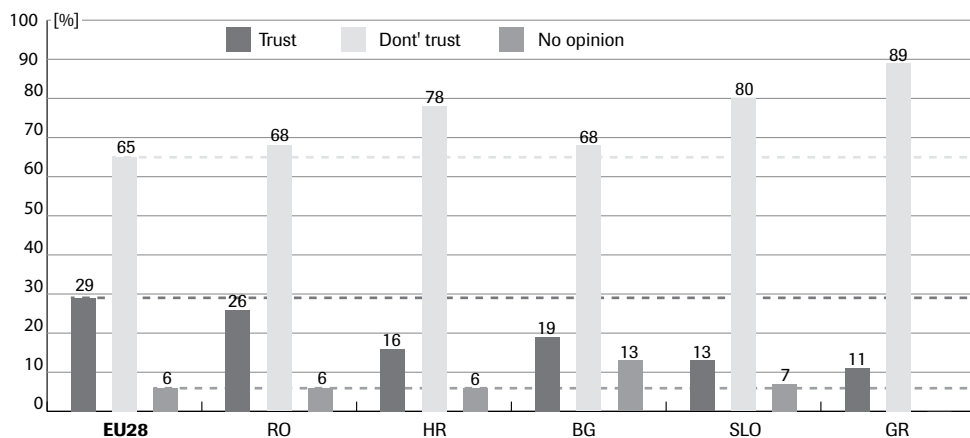


Chart 3. Eurobarometer. Trust towards the National Government



Source: http://ec.europa.eu/public_opinion/archives/e

The attempts to introduce reforms in the judicial systems of Serbia, Bosnia and Bulgaria are inept. The Serbian Helsinki Committee on Human Rights statement seems most accurate and symptomatic for all the countries mentioned: “Although strongly critical about the implementation of the judicial reform while in opposition, the incumbent regime has done little to compensate the negative effects since it came to power.”²⁵ The problems are not in the absence of an appropriate legal framework (although in many cases it can be substantially

²⁵ Primordial Resistance to Liberal Values, *op. cit.*, p. 27.

improved), but in the conscious political sabotage conducted by national, regional or local political elites.

It seems obvious that any reform requires appropriate strategic planning. However, the preparation of strategy itself became a tool in the political negotiations with the EU. The Serbian example of 91 sector and 14 multi-sector strategies of varying quality and frequent overlaps with no assessment of their impact on the national budget reveals the substitutive nature of strategies to mark activity, instead of genuinely introducing changes.

2. Organized crime

Organised crime remains one of the main challenges for all the states in the region. Its roots can be seen in a number of separate but overlapping events. The secret services of the Communist states used drug trafficking as a tool in the ideological struggle against the West. The end of communism and the dismantlement of the secret services ended their political influence, but not their links. The abdication of the state from performing its basic functions opened new opportunities to provide security based on forced tribute, thus establishing the roots of the organised crime.

The wars in the former Yugoslavia and the UN embargo provided new opportunities for the rapid accumulation of wealth and enhanced cooperation among newly established organised crime groups. The wars also produced the paramilitary organisations that became famous for their atrocities. After the conflicts they became the pillars of the criminal underground often closely related to the government. Slowly but surely, from a marginal group organised crime became an indispensable part of daily life.

As they grew in power, those people quickly obtained the necessary political umbrella that allowed them to become recognised as entrepreneurs. It became extremely difficult to distinguish between a criminal and a businessman. The traces of organised crime in the Balkans extend beyond the borders of the individual states. The links between the members of the former Communist political elites, their *protégés* and the officially recognised political leaders have far reaching consequences for the level of trust people have in the political system and for the growing popular cynicism.

According to the European Commission reports, Bosnia and Herzegovina, Serbia, Macedonia, and Kosovo remain countries of origin, transit and destination

for the trafficking of human beings for the purpose of labour, sexual exploitation, begging, and forced marriages. Kosovo is also associated with the black market in human organs. Therefore, organised crime remains a serious concern.²⁶

3. Freedom of the press

One of the key indicators of a well-functioning democracy is a free press. While performing their entertainment, educational and information functions, they also play the crucial role of watchdogs, monitoring and securing the balance between the competences of the authorities and the interests of society and individuals. In order to perform these functions efficiently, the press must be independent and professional.

Table 3. Media freedom on the Balkans

	Freedom House Rank 2014	Freedom House Rank 2015	Reporters Without Frontiers 2014
Albania	98	97	85
BiH	103	50	66
Bulgaria	78	75	100
Croatia	83	40	65
Greece	92	107	99
Kosovo	98	97	80
Macedonia	122	125	123
Montenegro	78	78	n/a
Romania	84	84	45
Serbia	74	80	54

According to the Freedom House Press Freedom Ranking, all the countries from the region are recognised as partly free.²⁷ Despite the large discrepan-

²⁶ Bosnia and Herzegovina 2014 Progress report, p. 16.

²⁷ <https://freedomhouse.org/report/freedom-press-2014/press-freedom-rankings#.VT-615MncYR>

cies of the quality of media freedom in the region, certain regularities can be observed. The question of the transparency of media ownership remains an issue in most of the countries from the region. The intimidation of journalists is prevalent and examples of arrested, persecuted, beaten or questioned journalists can be found in all the countries from the region without exception. Death threats and attacks on private property also occur.

Furthermore, the lack of transparency regarding media ownership and the apparent bias of media coverage result in respect for them decreasing. Particular journalists and media are associated with biased political agendas, thus depriving themselves the role of watchdog and becoming solely tools of propaganda.

The Bulgarian Helsinki Report for 2014 and the EU 2014 report on Serbia provided alarming examples of self-censorship, strong economic and political dependence of the press and a lack of the basic ethical rules of journalism.²⁸ In Bulgaria, their unclear ownership structure and biased reporting became even more apparent during the banking crisis that emerged after the bankruptcy of KTB bank. In Bosnia intimidation and threat against journalists and editors, and the polarisation of the media along political and ethnic lines intensified prior to the October general elections and during the protests in February 2014. In Greece, the economic crisis has borne specific impact also on freedom of the press. On one hand, journalists are victims of physical attacks by members of Golden Dawn. On the other, within the government's austerity measures, the state broadcaster was closed down.²⁹ However, the new government plans to revive it.

Generally, a very dangerous and negative trend can be observed in the Balkans. Once old or incumbent political elites obtain a grip on power, they immediately remodel the media environment in the country. The 2015 Freedom House report identifies the negative trend in the Western Balkans where the Serbian authorities curbed the reporting of floods, and in Macedonia several opposition outlets were closed down and the journalist Tomislav Kezarovski was still in detention. In Montenegro Milo Dukanovic decided to confront the

²⁸ BHC Annual Report on the State of Human Rights in Bulgaria in 2014: Suppression of the Human Rights of the Most Vulnerable Continues, <http://www.bghelsinki.org/en/news/press/single/bhc-annual-report-state-human-rights-bulgaria-2014-suppression-human-rights-most-vulnerable-continues/>; Serbia 2014 Progress report, *op. cit.*

²⁹ World press freedom index 2014, <https://rsf.org/index2014/en-index2014.php>

main newspapers in the country upon returning to power.³⁰ Events in Bulgaria can be added to that picture since on the one hand there is a dangerous concentration of media in the hands of one owner who is an active politician directly linked to the previous government and, on the other, the recent conduct of the authorities in their judicially approved seizure of media equipment reveals the level of active involvement of the media in the internal political struggle.³¹

Another dangerous tool for the manipulation of the press was most vividly exposed in the EC annual report on Bosnia and concerns their financing by the government through the excessive advertisement of public companies run by political parties. This money often follows political party affiliations and influence editorial policies.³² Similar trends have been observed in Serbia, Bulgaria and Romania.³³

The list of violations must also include the actions of various administrative bodies (such as the Bulgarian Financial Oversight Commission), which through extensive and creative actions constitute a legal stick to beat the media with.³⁴ Journalists are also often under pressure to reveal their sources. Furthermore, regulatory bodies like the Bosnian Communication Regulatory Agency, the Bulgarian Council for Electronic Media and public broadcasters require political, financial and institutional independence.

4. Human Rights and the protection of minorities

An overview of judgments and violations of the European Court of Human Rights constitutes a litmus test concerning the relations between the state and the individual. According to ECHR statistics the Balkan states encounter the strongest difficulties in securing the right to fair trial and length of proceedings (Croatia, Bulgaria, Greece, Romania, Serbia and Macedonia), and the right

³⁰ Freedom of the Press 2015, Freedom House, p. 9, https://freedomhouse.org/sites/default/files/FreedomofthePress_2015_FINAL.pdf

³¹ The case concerns the events of April 29, 2015 when a bailiff supported by massive Police presence entered the premises of TV7 and seized the equipment necessary for broadcasting, arguing that it was purchased by a loan from KTB bank, which was *de facto* nationalised after it was declared insolvent.

³² Bosnia and Herzegovina 2014 Progress report, *op. cit.*, p. 17.

³³ For Romania see L. Rusch, Media Freedom in Romania, Konrad Adenauer Stiftung, 31.03.2015, <http://www.kas.de/wf/en/71.13620/>; for Serbia Serbia 2014 Progress report 2014, *op. cit.* for Bulgaria, *Pravata na choveka v Bulgariya* 2014, Bulgarian Helsinki Committee Report 2014, pp. 35-43, http://www.bghelsinki.org/media/uploads/annual_reports/annual_bhc_report_2014_issn-2367-6930_bg.pdf

³⁴ *Pravata na choveka v Bulgariya*, *op. cit.*, pp. 35-43.

to liberty and security (Bulgaria, Romania, Macedonia and Greece). The protection of property also remains a significant challenge. The fact that Bulgaria, Romania and Greece are among the countries with the highest numbers of judgments concerning inhumane and degrading treatment should also be a source of grave concern. Only Russia, Turkey and Ukraine outrank them in this issue.³⁵

Virtually every country of the region has a **Roma minority**, particularly in the central, eastern and southern parts of the peninsula. However, regardless of their levels of concentration, Roma are subject to mistreatment on virtually the whole Balkans. The marginalisation and stigmatisation of this particular community is also visible in the number of cases of inhumane and degrading treatment and the violation of the right to liberty and security submitted to the ECHR. Despite the existence of numerous programmes for the integration of this community – including those financed by international donors – no tangible improvement can be noticed in their political, economic or social position. Instead, numerous cases of mob violence and open confrontations involving Roma took place in Romania, Bulgaria and Greece. The 2014 flooding in Bosnia and Herzegovina and Serbia disproportionately affected the Roma communities limiting their access to health services and social housing.³⁶ Romania and Bulgaria are also criticised for the living conditions of the Roma community. In Romania another acute problem is the forced eviction of Roma.³⁷ In Croatia many Roma children are still attending segregated classes.³⁸ Roma are also particularly vulnerable to electoral fraud orchestrated by political parties. Roma are also among the groups from the Balkans that most often apply for asylum in EAA countries.

Furthermore, societal discrimination **against lesbian, gay, bisexual transgender and intersexual** (LGBTI) people and those with HIV/AIDS remain problems. The US State Department Human Rights reports for 2013 explicitly recognized this problem in Romania, Bulgaria, Serbia, Bosnia and Herzegovina, and Croatia. Although in 2014 Belgrade the Pride Parade took place and Croatia adopted civil partnership legislation³⁹, the problem is still acute.

³⁵ ECHR, Overview 1959-2014, p. 8, http://www.echr.coe.int/Documents/Overview_19592014_ENG.pdf

³⁶ The State of the World's Human Rights, Amnesty International Report 2014/15, p. 81, 321.

³⁷ *Ibid.*, p. 303.

³⁸ *Ibid.*, p. 122.

³⁹ Balkans: Lagging Rights Protections, <http://www.hrw.org/news/2015/01/29/balkans-lagging-rights-protections>

In Greece the hate crimes rate against these groups was observed to have increased in 2014.⁴⁰ Furthermore, anti-Semitism remain a problem in Romania and Croatia. Human trafficking remains a challenge for all the countries of the former Yugoslavia.⁴¹

The Balkan peninsula also faces an increased influx of illegal migrants from Syria, Afghanistan, Iraq and other MENA countries. Only for the period 2013-2014 over 18,000 asylum applications were submitted in Bulgaria. However, these figures do not embrace the whole stream of illegal migrants crossing the Bulgarian and Greek borders and making their way towards the West. The Balkans constitute a significant channel for illegal immigration. The **immigrants** themselves are subject to push backs on the borders, poor conditions in the refugee centres and random acts of xenophobia. These problems are particularly acute in Bulgaria, Greece and Serbia. In Bulgaria the domestic law requiring new pupils to pass an exam in the Bulgarian language brought only 98 out of 520 registered refugee children to school in September 2014.⁴² The Greek authorities promptly closed the case of an alleged push back of a boat with illegal immigrants, which allegedly caused the death of 27 refugees near the island of Farmakonisi.⁴³

5. Post war challenges

The countries of the former Yugoslavia still face significant challenges after the wars, such as re-possession of occupancy rights, missing persons, and discrimination on the grounds of ethnicity.⁴⁴ Most of the necessary regional international agreements are in place. In February 2013 a war crimes protocol was signed between Bosnia and Herzegovina, Serbia, Croatia, and Montenegro. However, it has not to date led to new prosecutions or convictions.⁴⁵ There is also limited progress in prosecuting war crimes in national courts.⁴⁶ According to Amnesty International, impunity for war crimes of sexual violence remains rampant. The estimated number of rape victims during the war in Bosnia alone was as high as

⁴⁰ The State of the World's Human Rights, *op. cit.* p. 164.

⁴¹ Country Reports on Human Rights Practices for 2013, U.S. Department of State, <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>

⁴² The State of the World's Human Rights, p. 88.

⁴³ *Ibid.*, p. 164.

⁴⁴ Bosnia and Herzegovina 2014 Progress report, *op. cit.* p. 16.

⁴⁵ Balkans: Lagging Rights Protections, *op. cit.*

⁴⁶ *Ibid.*

50,000 and for the last decade less than 100 cases had gone to court.⁴⁷ The question of reparations for the families of the missing is still to be addressed in Bosnia and Herzegovina. Furthermore, the existence of de facto segregated schools under the principle of “two schools under one roof” and the continuing failure of the country to implement the *Sejdic-Finci* and *Zornic v. BiH* rulings of the ECHR reveal the gravity of the ethnic issue in present-day Bosnia.

6. Conclusions

The status quo on the Balkan peninsula does not support the argument that EU membership entails a substantially higher level of the rule of law and human rights protection. The example of Bulgaria in particular reveals the fact that, while being a member of the EU, the country is able to substantially deteriorate its theoretically basic political values. Despite the EU mechanisms for supervision and close cooperation with the national authorities, the legitimisation of the local political elites seems to play a more important role, and once they join the EU, they became part of the European mainstream. The need for internal reforms was thus replaced by a reaffirmation of the existing status quo and the adjustment of the national political pathologies to the European legal and political discourse.

However, Romania provides much more positive arguments. From a country with severe internal difficulties and an unstable political system in which political opponents were ready to employ all possible means to discredit their adversaries in clashes, the country became a producer of a recognisable track record of internal improvement in the areas of the rule of law and freedom of the press. Despite noticeable attempts of politicians to sabotage the process, the introduction of efficient internal institutions with cadres unrelated to the political connections can serve as a good example for the other countries from the region.

The determination of the national political elites to impose the necessary reforms remains crucial. In most of the countries the desire to improve the quality of the rule of law and human rights is rather externally imposed than internally apprehended. The EU expects that in Bulgaria the reforms will be conducted by a government directly tied to the most acute pathologies of the last quarter of a century and this is symptomatic of the wider picture.

⁴⁷ The State of the World's Human Rights, *op. cit.* p. 81.

In Serbia, the former Euro sceptic leaders are today the strongest protagonists of European integration. The rationale for this ideological U-turn was driven by the sober calculation that the stubborn Serbian position on the Kosovo and EU issues left the country outside the mainstream European development and in the long run could lead to a widening civilizational, economic and political gap. Secondly, the regional pressure exerted by the fact that Croatia joined the EU forced the nationalist political elites to swallow the bitter pill of the loss of Kosovo. The pace of reforms is absolutely necessary for EU membership, but the question remains as to what extent it is driven by the perspective of membership and to what extent by the understanding that the existing political situation is incompatible with Western liberal values.

Bosnia remains a prisoner of its own artificial structure, overblown administration and the deep ethnic divisions that leave the country without any perspective for the future. The political elites benefit from the permanent smouldering of ethnic tensions. On the other hand, the deep disproportion between the average income of Bosnian citizens and politicians made involvement in politics a lucrative business combining the accumulation of wealth with the ability to obstruct any changes to the system.

The lack of natural exchange of the political elite through the democratic process has become one of the most important obstacles for political apathy and popular alienation from politics. The Romanian example of Klaus Iohannis stands alone. Greece is another example of apparent changes in the elite, but it is a consequence of a deep and relatively abrupt social impoverishment.

Paradoxically, the improvements in one area of the political situation of the Balkan countries are counterbalanced by prompt deterioration in another area. For example, the Bulgarian political instability of 2013-2014 was resolved with the return to power of the second Borisov government. While the EU and the US are much more supportive for his government, Bulgaria is simultaneously plunging in all rankings concerning human rights and the rule of law. In Serbia, the securing of the pro-European orientation of the government was traded for a deterioration in the freedom of speech and hectic judicial reforms. In Bosnia, the price of ethnic peace is the acceptance of the privatisation of the administration on ethnic principles. In Croatia, the question remains open as to whether the pre-accession mobilisation for reforms will generate sufficient momentum to continue improving its record, or if it will follow the Romanian and Bulgarian examples of fossilising the political *status quo*. The Greek experience is the most terrifying, because it was the only country in the region

to be strongly integrated in the process of European integration. Today, after years of economic crisis, its living standard has significantly deteriorated and radicalism is replacing the monopoly of the compromised European values.

The Romanian successes in the field of the fight against corruption and the fact that the underdog won the presidential elections support the argument of Claudia Giobanu who claims that, unlike Bulgaria, the massive protests provoked the birth of a civil society that is genuinely ready not only to resist the government, but also to participate actively in the construction of the common good. The Romanian successes should thus serve as a source of inspiration and a role model for countries willing to move closer to the EU rather than the Balkans.

SPASIMIR DOMARADZKI

II. SOUTHEASTERN EUROPE STUCK IN ECONOMIC TRANSITION

Since 1989 former Communist countries have gone through economic transformation and the process of building a sustainable democracy. In Southeastern Europe⁴⁸ – excluding Greece and Slovenia – the transformation process lagged behind Central Europe. However, following the stabilisation of the region from 2000 onwards the Southeastern countries recorded accelerated growth and many successes were achieved in terms of macroeconomic stabilisation and liberalisation. The transformation brought about a reintegration of Southeastern countries into the global economy and an improvement in living standards. But fast economic growth to 2008 led to the false impression that they would quickly catch up with the rest of European Union (EU) without the need for reform. The global economic crisis exposed the weakness of the growth model which was being pursued by many countries in the region based on FDI and loans but a lack of productive investment.

Although the Southeastern countries are at various stages of EU integration and development levels, at present there is clear divergence from the core of the EU and the process of catching-up with advanced economies is slower in the case of those countries than those of Central Europe. The deteriorating economic situation caused by the global crisis has had wider consequences not only for the determination to implement economic reforms but also for the quality of democracy, which is still fragile in the region. In those countries which achieved EU membership lack the motivation for further reform and populism movements have gained public support, making reform less viable. On the other hand, political elites in those outside of EU observe that their membership perspective is constantly questioned and they thus prefer to resort to undemocratic methods to retain power than to launch reforms. All the countries of the region need to revive the momentum of reform otherwise the convergence with rest of the EU will be hard to achieve.

1. The Southeastern periphery

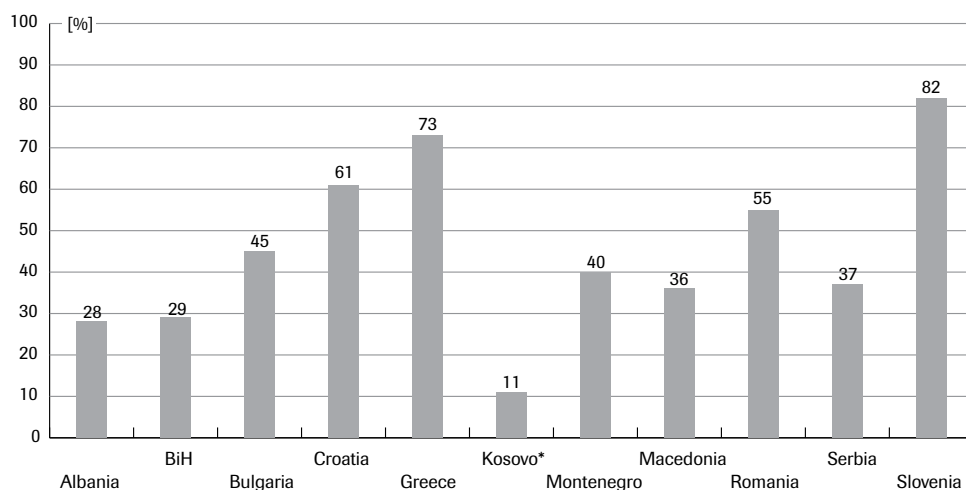
The region consists of rather small economies. Greece is the largest with a population of 11 million and GDP at €182 billion.⁴⁹ Romania is second with

⁴⁸ In this paper “Southeastern Europe” refers to: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Kosovo, Macedonia, Montenegro, Romania, Serbia, and Slovenia.

⁴⁹ Eurostat.

20 million inhabitants and GDP at €142 billion.⁵⁰ The others have between seven million to only half a million inhabitants and the smallest economies have GDP of around €8 billion. Although some of them were genuinely successful in the process of catching up with the level of development in the advanced economies, still Southeastern Europe lags well behind average EU standards in terms of basic economic development indicators such as GDP *per capita* in PPS. Even the best ones are at a level of 70-80% of the EU-28 average GDP. There is also a clear gap between the countries in the EU and those outside it. Slovenia, Greece and Croatia are the most developed countries on a level comparable to those in Central Europe. Bulgaria and Romania are the poorest ones in the EU but still have a higher income level than those outside the EU. In Kosovo, Albania and Bosnia and Herzegovina GDP *per capita* in PPS is lowest and they are one of the poorest countries in Europe. From among the 11 countries, Greece became an EU member state long before the others – in 1981, Slovenia was next, in 2004, with Romania and Bulgaria following in 2007 and Croatia is the most recent, joining in 2013. The others have prospects of EU membership.

Chart 4. GDP *per capita* in PPS in 2013 as % of EU average



Source: Eurostat

The process of the reform in Southeastern Europe⁵¹ was delayed in comparison to Central European countries. The military conflicts followed the

⁵⁰ *Ibid.*

⁵¹ Greece, which did not experience communist rule and was already EU member state and was not subject to the processes. Also Slovenia is partially excluded from this development as it quickly started transformation.

disintegration of Yugoslavia had negative impact on the development also in those countries which were not directly involved in warfare since all the region was perceived as unstable. The transitional recession for almost all Southeastern countries was also more dramatic. Three countries Bosnia and Herzegovina, Montenegro and Serbia still haven't achieved the 1989 level of development.⁵² Collapse in GDP following the introduction of market reforms was twice as severe as in Central Europe and recovery was far more sluggish.⁵³ The ex-Yugoslavia countries faced the consequences of sanctions, civil unrest, the destruction of infrastructure and hyperinflation and Albania was completely autarkic. For these reasons at the beginning of transformation the macroeconomic condition of the countries in the region were worse than those in Central Europe. The political stabilisation in the first decade of the XXI century brought new momentum in reforms and remarkable change for Southeastern Europe. The democratic and economic transformation gained pace, leading some countries to EU membership.

2. Reform pattern

Although, there are significant regional differences in the level of development in the countries in the region, their reform strategies are similar. This was due to the important influence of external factors (the IMF and later on the EU) in shaping reform priorities. Almost all of the countries in Southeastern Europe are successful in terms of macroeconomic stabilisation and trade liberalisation. Inflation was gradually reduced and some fiscal consolidation was implemented. In comparison to EU countries public debt remained low until the global crisis began. Price, trade and exchange liberalisation was introduced. Small scale privatisation was conducted. But in terms of a systemic change of the real economy and structural reforms, they are far behind. In consequence, they are now facing similar problems, although they are more severe in the case of those countries outside the EU. The incomplete economic transition is holding back the development of the countries in the whole region.

In the case of large-scale privatisation, governance and enterprise restructuring, and competition policy, the region is lagging behind the old EU members.⁵⁴

⁵² The Economics of Secession. Analyzing the economic impact of the collapse of the former Yugoslavia, <http://infogen.webs.uvigo.es/WP/WP14o8.pdf>

⁵³ <http://www.ebrd.com/downloads/research/economics/workingpapers/wp0064.pdf>, p. 2.

⁵⁴ EBRD transition indicators, www.ebrd.com/downloads/research/economics/macrodatab/tic2012.xlsx

As research conducted by the European Bank for Reconstruction and Development shows there is no significant difference in this sphere between the countries in the EU and those outside it. The public sector still has a significant share in GDP. Government spending as percentage of GDP is especially high in Greece (51,2%), Slovenia (50,8%) Bosnia and Herzegovina (49%) and Serbia (45,2%).⁵⁵ Privatisation was moved ahead primarily in the non-tradable sector (e.g. banking, telecommunication and in some cases energy). The banking sector in most of the countries was transformed and dominated by foreign companies. Slovenia, where the biggest banks stayed public, is an exception. Large public enterprises in historically important industries – such as metal, shipyards, utilities and railways have been hard to privatise due to large social opposition and few bidders.⁵⁶ They usually stayed public and are dependent on public aid. In situations when privatisation was carried out, enterprises often were sold not to a strategic investor with capital and know-how but to insiders; this frequently caused them either to collapse or to perform substandardly. This led to deindustrialisation on a more advanced scale than in Central Europe.

The countries in the region have not introduced a comprehensive pension system or social welfare reform to correspond better to the need of ageing societies. Pension spending is much higher in most Southeastern countries than in Central Europe, ranging from almost 10% of GDP to almost 18% of GDP in Greece where it is highest. The system is unsustainable in the longer run as the population is ageing and where a large informal economy and high unemployment both limit revenues.⁵⁷

The judiciary remains ineffective and unable to ensure the rule of law in key areas. Weak administrative capacities limit the speed of the reform and undermine the absorption capacities for public investment in the area of much-needed infrastructure.⁵⁸ This is slowing down the process of catching up; for example Bulgaria and Romania are the least efficient in spending EU funds and the latter in 2013 had the lowest level of absorption of EU funds in Europe, at

⁵⁵ 2015 Index of Economic Freedom.

⁵⁶ The Western Balkans. 15 Years of Economic Transition, Washington, International Monetary Fund, 2015, http://www.imf.org/external/pubs/ft/reo/2015/eur/eng/pdf/erei_sr_030915.pdf, p. 22.

⁵⁷ *Ibid*, p. 62.

⁵⁸ The Western Balkans in Transition, Occasional Papers, No 46, European Commission, Directorate-General for Economic and Financial Affairs, 2009, http://ec.europa.eu/economy_finance/publications/publication15155_en.pdf

about 34%.⁵⁹ The countries outside the EU have also failed to use all the financial assistance (IPA Fund) available for them from the EU.⁶⁰

An ineffective and overstuffed public sector is consuming a large proportion of budget revenues and is main cause of an unfavourable business environment. In the World Bank Ranking of ease of doing business the countries in the region are lagging behind, except Macedonia and Montenegro. This strongly impedes their competitiveness. Red tape and corruption also hamper economic activity.

3. The decade of growth

Between 2000 and 2008 economies in the region recorded a strong increase in GDP – around 6% per year on average. Their growth model was based mainly on expansion in domestic demand financed by external sources (loans, FDI, remittances) and to a lesser extent on export growth. Rapid growth brought a visible improvement in living standards, household income increased and poverty was reduced.

However, rapid development overshadowed the structural problems of the economies in the region and diminished the political will for the introduction of comprehensive, structural reform. The huge inflow of capital also led to asymmetric expansion in the consumption and creation of external debts, the trade deficit and low savings rates, which made the south-easter economies more vulnerable to external shocks.⁶¹ The type of FDI that poured into the region is mainly focused on non-tradable sectors and this deepened the asymmetries. Those economies are still dominated mostly by low value added activities and in all of them the contribution of net export to GDP remain negative (excepting Slovenia).

Foreign capital has played an important role in the transformation of post-Communist countries. During the first decade of transition due to political instability the FDI inflow in the region was low. Improved political conditions

⁵⁹ EU Funds in Central and Eastern Europe Progress Report 2007-2013, <http://www.kpmg.com/CEE/en/IssuesAndInsights/ArticlesPublications/Documents/EU%20Funds%20in%20Central%20and%20Eastern%20Europe%202013.pdf>

⁶⁰ http://ec.europa.eu/enlargement/pdf/key_documents/2013/ipa-2013-annual-report-printed-version_en.pdf

⁶¹ South East Europe after the Economic Crisis: a New Dawn or back to Business as Usual? W. Bartlett, V. Monastiriotis, London 2009, p. 7.

and an enhancement of the business environment brought a significant increase of FDI in the first decade of the XXI century. Although all the South-eastern Europe countries register an increase in FDI, they have a significantly lower FDI stock in relation to Central European countries. FDI stock in South-eastern countries in 2013 was 268 billion USD and in four countries in Central Europe – 556,9 billion USD. Furthermore Romania alone attracted almost one third of all investment to the region (USD 84.5 billion). Bulgaria ranked second attracting almost one fifth.

There are several explanations for low value of FDI in the region. First of all, most Southeastern countries are late-transformers. Introducing political and macroeconomic stability was delayed in comparison to Central Europe countries. The domestic markets are significantly smaller and the distance from the investing economies like Germany is greater.⁶² The underdeveloped infrastructure make the problem of distance is even harder. An unfavourable business environment also reduces the quantity of FDI in the region. Those outside EU also attracted significantly lower amount of FDI since they are perceived as less stable.

FDI and foreign loans were mainly biased towards the non-tradable sector and consumption rather than investment and thus have no significant impact on productivity growth and the creation of a strong export base.⁶³ The service sector accounted for most incoming FDI stock, reaching an average of 69.8% of the total by 2010. Banking, real estate, telecommunication and retail trade have attracted the most investment. Only three countries attracted a significant amount of FDI in manufacturing by 2010: BiH (35%), Macedonia (31%) and Romania (32%).⁶⁴ The lowest share was in Albania (16%) and Bulgaria (19%). In contrast the Czech Republic, Poland and Slovakia attracted over 30% of FDI in manufacturing.

Despite much lower levels of FDI into Southeastern Europe, its role in total investment is much higher than in Central Europe because less developed countries require more FDI in order to finance investment as they do not have

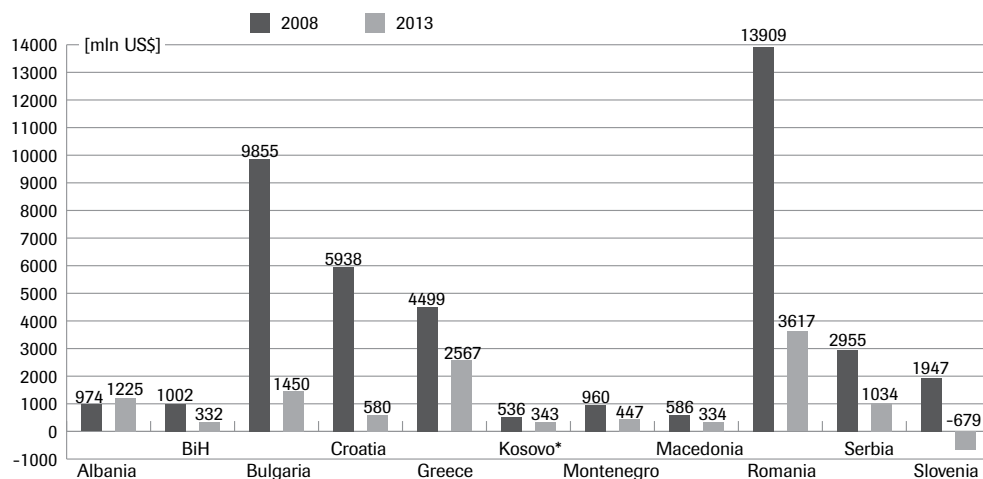
⁶² S.Estrin, M.Uvalic, Foreign direct investment into transition economy: Are the Balkans different, LEQE Paper no 64/2013, p. 6.

⁶³ The Western Balkans in Transition, *op. cit.*

⁶⁴ S.Estrin, M.Uvalić, *op. cit.*, p. 22.

domestic savings.⁶⁵ FDI also serves the current account deficit. The sharp drop in FDI after 2008 for this region not only meant problems financing the trade deficit but also losing a source of growth.

Chart 5. FDI in millions US\$



Source: World Investment Report 2014

4. Modest export capacities - huge imports

Significant external imbalances are an important challenge for Southeastern Europe's economies. EU member states and neighbourhood countries are the largest trading partner for the region.⁶⁶ In 2000 those outside EU were granted a preferential regime, which allows almost all their products to enter the EU without custom duties or upper limits.

Trade liberalisation with the EU and other countries has contributed to a remarkable increase in foreign trade; in some countries it was even fivefold.⁶⁷ This revival brought a much faster increase in imports than exports. After a period of repressed household consumption, the countries in the region recorded a strong increase in the demand for durables and other goods.⁶⁸ At the

⁶⁵ A. Inotai: The European Union and Southeastern Europe: Troubled Waters Ahead?, Brussels, 2007, p. 56.

⁶⁶ For the countries outside the EU, trade with EU member states accounts for 72.7% of their imports and 81.8% of their exports.

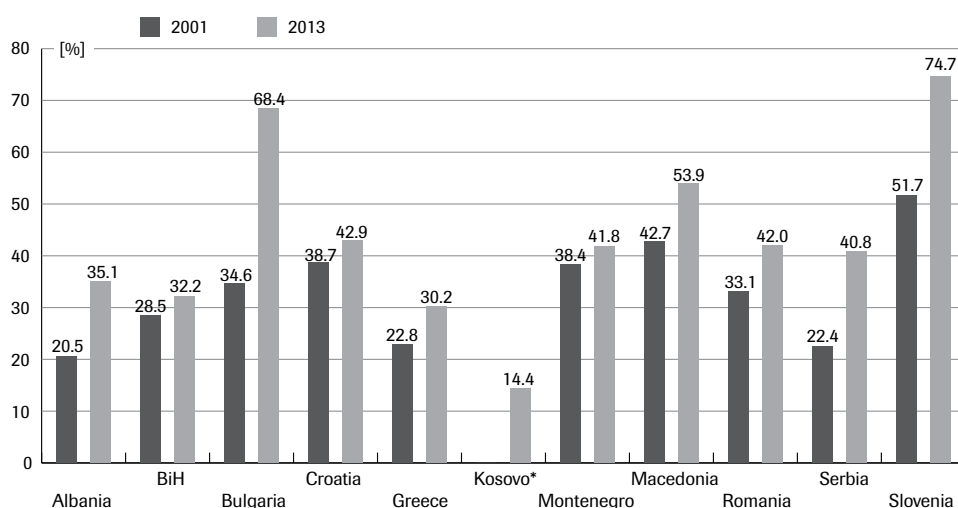
⁶⁷ M. Uvalic, The economic development of the Western Balkans since Thessaloniki, Sarajevo 2013, p. 75.

⁶⁸ The Western Balkans in Transition, *op. cit.*, p. 9.

same time the access to international financial markets improved significantly due to the development of the banking sector, which is in the majority owned by foreign companies. Since local production could not satisfy this growing demand, the deficit in current account balances increased significantly, especially in the pre-crisis period. Although the crisis reduced imports and exports the situation in many countries is alarming. In Montenegro the trade deficit reached 40% of GDP in 2014, in Kosovo and BiH it is over 30%, and in Albania and Macedonia it is 21%. In the case of EU members the situation is much better. Only in Croatia is the trade deficit over 15%. In the pre-crisis period 2000-2008 the current account deficit was mainly financed by remittances, foreign private lending and FDI. Since 2008, though, a significant decrease has been noted in all these areas.

Although all the countries in the region have increased their exports since 2001, the high current account and foreign trade deficit indicate that those countries have a relatively narrow export base and are less competitive. FDI did not significantly improve the situation. Only Slovenia and Bulgaria are exceptions from this pattern as both countries were able to develop strong export base. All the others export significantly less in terms of value and they are less sophisticated products with lower added value than Central European countries. In the case of such small economies, export is one of the main sources of growth, but in order to achieve that, investment in productivity is needed.

Chart 6. Export as % of GDP

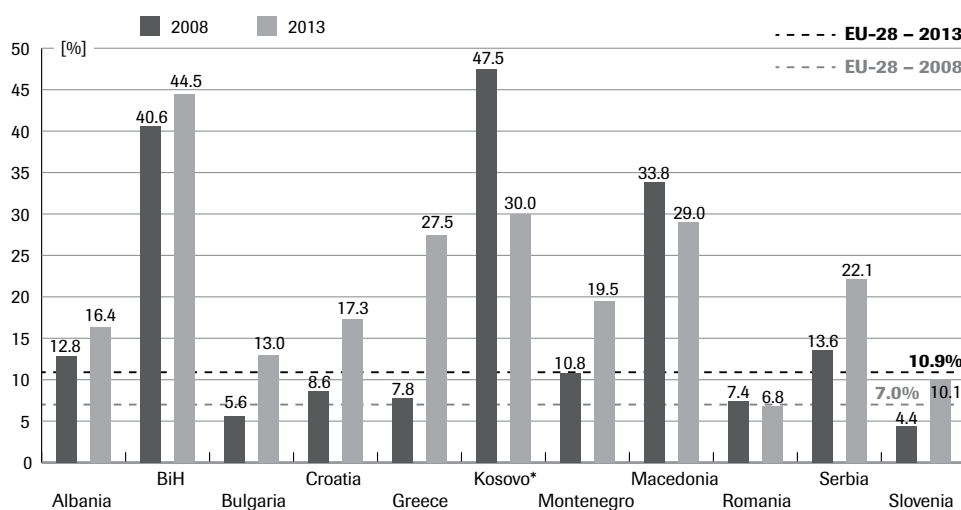


Source: World Bank

5. Persistent unemployment

Structural problems and a weak economy are keeping unemployment at the highest level in Europe. Low job creation is a major concern in the region and a challenge for higher future growth. Only in Slovenia and Bulgaria is unemployment below the EU-28 average. Even during times of growth the regional economies failed to create many jobs and after 2008 they registered large-scale lay offs during the economic crisis. Furthermore, long-term and youth unemployment are a pervasive aspect of the Western Balkans labour markets. Only in Slovenia, Bulgaria and Romania youth unemployment is between 20% and 30%. In others countries well over half of 15-25 year olds are unemployed (BiH – 60%, Kosovo – 58%).⁶⁹ This is not only economically harmful but also politically and socially dangerous. Furthermore, the activity rate of the population aged 20-64 is also low in this region. The persistence of unemployment regardless of cyclical conditions is mainly caused by the structure of FDI, large emigration and high remittances, and also labour market rigidity.

Chart 7. Unemployment [%]



Source: EU Candidate & Potential Candidate Countries' Economic Quarterly, Eurostat

⁶⁹ Kosovo 2014 Progress Report, Commission Staff working documents, http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-kosovo-progress-report_en.pdf, Bosnia and Herzegovina 2014 Progress Report, Commission Staff working documents, http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-bosnia-and-herzegovina-progress-report_en.pdf

Western Balkan countries are latecomers to the transition process and hence FDI stocks and private sector job creation are still lagging behind Central Europe.⁷⁰ Investment, which went into non-tradable services did not create many well paid jobs. Moreover migrants account for roughly for 25% of the population of those countries which are not EU members and 6% of the population of whole region.⁷¹ Thus the region's reliance on remittances tends to raise the pay which people are willing to work for. In many countries the legacy of Communism has contributed to rigidity in labour market regulation and a high level of protection for employees. This has rather enhanced employment in the informal sector and discouraged job creation.

The structure of employment in many countries is also indicative of the deep-seated problems of these economies, especially in Western Balkans countries. Most people work in the agricultural or public sectors. In Albania 44.6% work in agriculture. In Serbia one fifth of total employment is in agriculture and about a third in the public sector. Moreover informal employment remains substantial. According to Labour Force Survey, informal employment is growing. In 2014 in Serbia 21% were employed in the informal economy. In Kosovo 30-35% of GDP is created in the informal sector according to the European Commission reports.

Due to the high unemployment rate, many people are leaving the region and are moving mainly to old EU member states. This lowers unemployment in SEE countries but also mainly young and well-educated people are leaving which can hamper growth in the longer run.

6. Stabilisation on credit

The countries in Southeastern Europe have felt the impact of the economic crisis through the financial sector and the reduction in the of the capital inflow, which till then had fuelled growth. However, the recession in the region was less severe (with the exception of Greece) than in the rest of the EU, but the post-crisis recovery is weak. The crisis also displaced the structural problems of local economies but countries in the region have been avoiding

⁷⁰ The Western Balkans. 15 Years of Economic Transition, *op. cit.*, p. 34.

⁷¹ World average is 3%. Coping with Floods, Strengthening Growth, South East Europe Regular Economic Report, World Bank, 2015, <http://www.worldbank.org/content/dam/Worldbank/document/eca/seerer7-eng-report.pdf>, p. 55.

introducing reforms or austerity measures in the hope that the crisis will be short-lived.

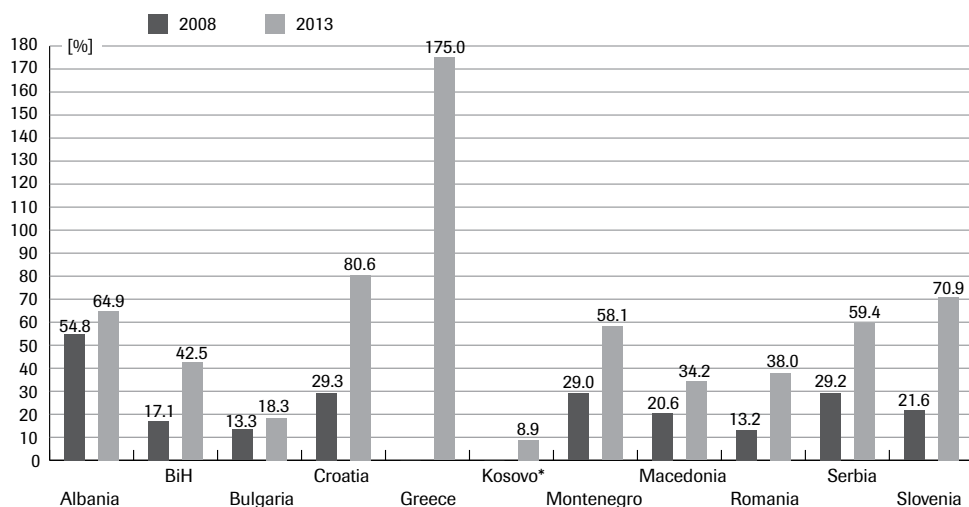
During first decade of the XXI Century Southeastern Europe countries improved the general government balance but only Macedonia and Croatia reduced current spending. In countries like Serbia, Kosovo, Montenegro and Albania the adjustment was mainly due to an increase in revenues.⁷² Serbia and Montenegro benefited additionally from 66% of debts written off by the London and Paris Club.⁷³ Although the increase in revenues was matched by higher spending, the Southeastern Europe countries entered the crisis period with a rather low level of government debt. In most cases it was far below the ceiling recommended by Ecofin of 60% of GDP.

In the pre-crisis period mandatory expenditure, particularly public sector wages and pensions increased. After 2008 due to declining economic activity, revenues decreased but at the same time governments faced political pressure to protect social spending and wages. Also subsidies for the unprofitable public sector companies have become a heavy burden on the budget. Governments in the region tried to avoid introducing austerity measures and fiscal cuts in order to adjust to decreasing revenues. This strategy was based on the assumption that cuts would further diminish falling domestic demand and that the crisis would soon be over. In consequence the budget deficits increased in all the countries. For example in Serbia and Montenegro the average budget deficit was 5.6% and 4.54% respectively for last five years. This strategy proved to be shortsighted and longer than expected stagnation led to a rapid growth of public debt. In Serbia and Albania the general government debt reached 71% of GDP in 2014. But the most dynamic increase was recorded in EU member countries Slovenia and Croatia, which in 2014 had general government debt at 80% of GDP.

⁷² The Western Balkans in Transition, *op. cit.*, p. 7.

⁷³ The debts of other countries were also significantly reduced in the 90s.

Chart 8. General government debt as % of GDP



Source: EU Candidate & Potential Candidate Countries' Economic Quarterly, Eurostat

Countries in Central Europe returned to growth by devaluing their currencies but in the countries in the region this is impossible. Slovenia and Greece adopted euro as their currency and also Montenegro and Kosovo have done so unilaterally; others have fixed or nearly fixed exchange rates. Furthermore, in countries like Croatia or Serbia a large part of the loans are foreign-currency denominated. Thus improving competitiveness through devaluation in these countries is either impossible or difficult and risky.

7. Crisis and reform

As shown in the Transition Reports of European Bank of Reconstruction and Development (EBRD), the reform in Southeastern Europe were stalled in the mid-2000s with the exception of some Western Balkans countries, which have continued to introduce some changes due to the process of integration with the, EU but in this case at rather a slow pace.⁷⁴ Although the crisis proved that further progress in democratic and economic transition reform are badly needed, it had the opposite consequences. The governments in the region tended to avoid reforms and tried to protect the *status quo* in the hope that recovery on a global scale would automatically lead to growth in their countries. Croatia and Slovenia have been forced to re-introduced large scale privatisation by their huge budget deficits and other countries, like Albania

⁷⁴ Stuck in Transition, EBRD Report, <http://www.ebrd.com/downloads/research/transition/tr13.pdf>, p. 13.

and Serbia, are planning to follow their course. It is symptomatic that in the first two countries, in which huge valuable assets are still in public ownership, society is rather sceptical about privatisation. This is due to the widespread perception that a non-transparent privatisation process benefits only a tiny local elite.

There is a sense in the region that reforms have under-delivered and failed to bring significant changes for economic performance. Even in those countries in which economic indicators show the opposite, like in Bulgaria where GDP *per capita* in PPS increased from 33% of EU average in 2003 to 45% in 2014 society is disappointed. In all the countries in the region except Bulgaria support for the liberal market economy decline between 2006–2010. A similar process can be also observed in Central Europe. In both regions support for markets reforms is visibly smaller than in advanced economies.⁷⁵ At the same time, although reform fatigue is persistent in the whole region, societies still support them. In Croatia 91%, in Greece 89%, in Bulgaria 69% and in Romania 57% of society think that reform is inevitable if their countries are to face the future.⁷⁶ In the candidate countries the majority of society still consider reform to be something positive.⁷⁷ This sentiment is confirmed by voting patterns over the last five to six years, with politician being voted in for having a reform agenda. However, upon gaining power, they failed to implement these policies.

Furthermore, the governments' reaction to the crisis may impede future growth. The high level of general government debt make financing much needed investments in infrastructure significantly less possible. The lack of proper transport and energy infrastructure is one of the main problems of the region, undermining its competitiveness. The reform of public administration and the restructuring and privatisation of public companies is also less possible as they would require lay-offs which, taking into account the increased level of unemployment, are rather impossible. In some countries the process of privatisation was even rather reversed. In Serbia for example Telecom and steel manufacturing conglomerate Zelezara Smederevo were renationalised. The economic crisis also widens the scope of the informal sector, which is constantly undermining both confidence in the rule of law and competitiveness.

⁷⁵ *Ibid.*, p. 15.

⁷⁶ http://ec.europa.eu/public_opinion/archives/eb/eb82/eb82_anx_en.pdf

⁷⁷ *Ibid.*

8. Outlook

The countries in the Southeastern Europe have come out of the crisis with weak growth, high unemployment and with less determination to carry out reforms. The latter especially is worrying since the crisis highlighted the need for structural reforms to be carried out and a return to the pre-crisis model of growth is rather impossible. Given the unfavourable global climate for FDI, the return of a large influx of investment in the short term is rather impossible. Although in 2015 growth is expected to be positive throughout the region (except Serbia), with the current significantly slower pace of economic development, convergence with the rest more developed economies in EU will be impossible.

In the case of many of the region's countries the global crisis had more profound consequences than economic slowdown. It also influenced the quality of democracy in the region. It is especially visible in the countries on the EU's doorstep, since it challenged the concept of transformation and development with EU membership as a main goal. The economic crisis undermined commitment to EU enlargement and the willingness of member states to engage in the region and share limited resources with less developed countries. The EU has been dealing with its internal problems and has thus been paying less attention to deteriorating democratic standards of democracy in the region and is not using its tools to push for the consolidation of reforms.

The governing elite in the region lacking the perspective of EU membership on the horizon is keen on using non-democratic methods to stay in power. With a huge public sector and dwindling opportunities in the private sector, the government have more opportunities to control society. A high rate of unemployment makes the distribution of jobs in the public sector a powerful tool in gaining supporters. It is nearly impossible for the political opposition to find work. The lack of sufficient financing of the press makes it more vulnerable to political influence. Especially when we take into account that they are dependent on commercial financing by public enterprises, the administration or oligarchs close to government.

In the economic recovery of Southeastern Europe, the EU's role is crucial. It is rather impossible that the countries in the region will be able to catch up with advanced economies without help from the EU both financially and politically as the membership perspective is the main catalyst for reform, as the Central European countries have proven. Commitment to EU enlargement is vital to ensure incentives for political elites to pursue the economic and institutional agenda.

Southeastern Europe countries to improve economic situation and speed up the process of catching up need to ease the burdens of the investment climate, to build infrastructure which ensures links within the region and to the EU and to strengthen institutions. These are the basic conditions for developing the current low-skilled economy with a lack of innovation and low investment in education and research and development. Detailed strategies are available in the document prepared by various international actors: Europe 2020 for Southeastern Europe prepared by the European Commission or the reports of the IMF or the EBRD. Looking at Central Europe's transformation, though - evidence suggests that if countries are to accelerate reform in the region then broader support is badly needed: international actors like the EU and member countries, domestic leadership and societies have to work hand in hand.

MARTA SZPALA

III. BYZANTIUM AND PIPELINES: RUSSIA IN THE BALKANS

The Balkans are certainly not in first place on the list of Russian foreign policy priorities. Nevertheless, its location in Europe, the most important area of Russia's economic and political activity in the world, the unfinished character of its integration with the EU and NATO, and serious economic and social problems in the Balkan EU member states (Greece) make the Balkans an attractive destination for Russian diplomats, spies and businessmen. Indeed, if we exclude the post-Soviet space, Russia does not enjoy such large influence as it possesses in the Balkans in any other part of the world. The importance of Balkans in the Russian foreign policy agenda also derives from its role as a transit route for the Russian gas projects (currently Turkish Stream). The region's European perspective and certain countries' EU membership further increase even more the attractiveness the Balkans have for Russia, because Moscow's engagement with these countries can be treated as an investment in the pro-Russian lobby in the EU ("Orthodox friends of Russia"). However, the most significant value of the region is the fact that Moscow treats the Balkans as a proxy playground in a wider geopolitical competition with the EU and the US. The Kremlin is ready to swap part of its assets in the Western Balkans for the Western concessions in the post-Soviet space or the Middle East, namely for the West to recognise the post-Soviet space as an exclusive Russian sphere of influence.

1. From the Slavia Orthodoxa to the New Russia: Cultural and historical heritage

The legacy of history, cultural heritage and the politics of memory constitute the main pillars of Russia's influence in the Balkans. On the other hand, they also to a large degree shape Russia's policy towards the region. The impact of these factors is often ignored or at least insufficiently recognised by the Western actors focused on the present, the future and *acquis communautaire*.

The Balkans occupy a very important place in Russia's politics of memory, its cultural heritage and historical identity. The common Orthodox and Byzantium heritage and (for most of the region's inhabitants) Slavic ethnic background create the most important link between Russia and the Balkans. Orthodox Christianity arrived in Kievan Rus' from the Byzantium Empire whose centre of gravity was located in the Balkans. Along with Christianity the Church Slavonic language also arrived from the Balkans. In its Russian edition it remained the official language of Russia until the 18th century

and had a huge impact on Russian literary language. Church Slavonic was simply called Slavonic and constituted a basis for proto Pan-Slavism in Russia. After the fall of Constantinople Russia began to present itself as the sole successor of the Eastern Roman Empire (with the Tsar as *autokrator*, the double-headed eagle, the idea of the Third Rome, the legend of Monomakh's cap – a symbol-crown) and a leader of the Orthodox and Slavic worlds. This self-perception was strengthened by many immigrants from the Balkans who played an important role in the development of Russian culture, its armed forces and diplomacy and Russia's opening up to the West.⁷⁸ Since the 18th century Russia strove to liberate the Balkans and Constantinople from "the Turkish yoke" in order to re-establish the Roman Empire (the so called "Greek Plan"). In the 19th century the Balkans gained a central place in the ideology of Pan-Slavism which admitted to Russia the role of protector and liberator of all Slavs. By default, between 1711 and 1918, Russia fought nine wars in the Balkans against the Ottoman Empire. These conflicts resulted in the destruction of the Ottoman Empire and establishment of independent countries in the Balkans. On the other hand, Russia's expansion to the Balkans created the rivalry with Austria-Hungary and Germany which ended up with the First World War (it was no accidental that it broke out in the Balkans) and the fall of Tsarist regime. In the 20th century communism became another important instrument of Russia's leverage in the region. In the interwar period Communist parties were popular in Bulgaria, Greece and Yugoslavia.⁷⁹ The Balkan Communists occupied important places in the Soviet party structures or international communist organisations (Christian Rakovski, Georgi Dimitrov). During the Second World War, communist partisans supported by the Soviet Union played a key role in the resistance movement in the Balkans. At present, the legacy of the Second World War serves Russian interests because it is used to instigate anti-German prejudices in Greece and Serbia. On the other hand, after the Second World War the communist regimes in Yugoslavia and Albania defied the Soviet Russian predominance in the Communist movement, creating a serious challenge to the universalistic aspirations of the Kremlin. Last but not least, in the 20th century the Balkans become one of the most important arenas of the Cold War rivalry between the Soviet Union and the West.

⁷⁸ Important figures from the Balkans who substantially contributed to the development of Russia include inter alia: Metropolitan Cyprian, Theophanes the Greek, Maximus the Greek, Pantaleon Ligarid, Arsenius the Greek, Matija Zmajevic, Sava Vladislavich, Mikhail Miloradovich and Ioannis Kapodistrias.

⁷⁹ For instance, in 1920 Bulgarian communists won 20% of the vote in free and fair elections.

In recent months the significance of the Balkans in the Russian historical narrative increased decisively due to Russia's aggression against Ukraine. The historical concept of New Russia (Southern Ukraine) promoted by Moscow is strongly intertwined with the Balkans. New Russia was conquered by Russia at the end of 18th century within the framework of the expansion towards the Balkans. It was colonised *inter alia* by various ethnic groups from the Balkans including Romanians, Bulgarians, Greeks, Serbs, Gagauzians and Orthodox Albanians. They became to a very large degree Russified, accepting Russian national identity or Russian as their mother tongue. In effect, these communities symbolise the vision of Russia promoted by the Kremlin as an idealised multi-ethnic empire, a sort of melting pot. Moreover, Crimea is particularly linked with the Balkans in the Russian historical memory because it is the most Byzantine part of former Tsarist Russia. The baptism of Vladimir the Great took place there. Therefore, Crimea possesses for Russia a status of deed conveyance of its property rights to the Imperial, Orthodox Christian and Kievan Rus' traditions. Currently, the creation of a new myth of the Crimea can be observed in Russia. Taking into consideration Putin's speeches and interviews, it can be assumed that the Kremlin is using the myth of Kosovo as the Serbian Jerusalem and sacred cradle of Serbian statehood as a source of inspiration for the vision of Crimea as the Russian Mount Temple. It is not accidental, taking into account that Putin's regime makes use in its propaganda of the dissolution of Yugoslavia as a dangerous lesson for today's Russia. According to President Putin, the West aspires to destroy Russia as it did Yugoslavia. Kosovo's independence is put in the same category as the annexation of Crimea but is also presented as one of the most serious Western challenges to Russia's position in the world.

A mythologised history makes the Greeks, Serbs and Bulgarians stand out in Europe in terms of positive attitudes towards Russia in Europe. The positive image of Russians as protectors or liberators is deeply entrenched in their historical memories.⁸⁰ Since the 16th century Russia has been perceived by Balkan Christians as a protector of the Orthodox Church. The financial and political support of Moscow increased gradually to the point when Russia in 1774 officially gained the status of the defender of Orthodox Balkan Christians' interests, which allowed her to interfere in the internal affairs of the Ottoman Empire. Russia played a key role in how Bulgaria, Greece, Montenegro, Romania and Serbia gained independence or autonomy. In the 19th century the huge Bulgarian and Greek communities living in in Tsarist Russia (particularly

⁸⁰ In the 18th century the legend about *xanthos genos*, a fair-haired powerful nation of liberators living in the North became very popular in Greek folklore.

Southern Ukraine) contributed considerably to their independence movement and the modernisation of their countries.⁸¹ Meanwhile, Russia after Peter the Great's reforms came to serve as a window to the West for immigrants from the Balkans.⁸² Indeed, Russians were substantially engaged in the modernisation of the Balkan nations in the 18-19th century (particularly Vojvodina in Serbia).⁸³

On the other hand, the image of the historical Russian-Balkan relationship is idealised in the Balkans and Russia. The main problem is that in the past Russia relatively often treated its Balkan religious or ethnic "brothers" instrumentally. Moreover, a mutual feeling of superiority and negative prejudices – though weaker than the positive attitudes – exists between the Balkan nations and the Russians.⁸⁴ The rivalry between the Balkan nations many times forced Russia to take sides and in consequence to alienate certain countries (Serbia and Greece vs. Bulgaria during the First World War).⁸⁵ The Balkan societies often do not want to remember the difficult issues. It is also worth recalling that the Balkans are home to a huge Muslim community which perceives Russia's historical legacy in the region in an unequivocally negative way.⁸⁶

Russian politics of memory in action

Last year's hundredth anniversary of the breakout of World War I was another opportunity for Putin to present a Russian version of history addressed to the Balkans. According to Putin, Russia differed from the other great powers in not wanting this war, but it had to defend its brother Slavs, the

⁸¹ The Greek uprising against the Ottomans was originally conceived by Greek immigrants in Odessa (Filiki Eteria or Society of Friends).

⁸² In the 19th century in Odessa the main leaders of the Bulgarian national movement studied or worked: Ivan Vazov, Nayden Gerov, Hristo Botev or Stefan Stambolov.

⁸³ Relations between Serbs in Vojvodina and Russia resulted in an emergence of a new literary language in the middle of the 18th century, namely Slavonic Serbian. It was a mix of the Church Slavonic languages of Serbian and the Russian/Ruthenian version and vernacular Serbian and Russian. It was the official language in the autonomous Serbia until the 1860s.

⁸⁴ For instance, in the 15-17th century Russians perceived themselves as the only true Orthodox Christians which had never betrayed their faith, as opposed to the Greeks who at some point accepted unions with the Roman Catholic Church. On the other hand, the Balkan Orthodox Church elites described Russians quite often as primitive uneducated barbarians.

⁸⁵ For instance, despite traditionally good Greek-Russian relations, in 1992 Russia was one of the first countries which recognized Macedonia's independence under its constitutional name (the Republic of Macedonia).

⁸⁶ Due to demographic trends, the influence of the Muslim community in the Balkans will increase even more in coming years.

Serbs, who were under attack from Austria-Hungary. Consequently Russia waged a just war and not an imperialist one like Vienna or Berlin. In response Belgrade, within the hundredth anniversary of Russia's and Serbia's joint struggle, started construction of a monument to Tsar Nicholas II. At the end of October 2014, on the 70th anniversary of the liberation of Belgrade by the Red Army and Tito's partisans, the Serbian government organised a great parade in the capital, inviting Putin despite the objections of the EU. It was the first military parade in Serbia for almost 30 years. Putin is the only foreign leader who has received the highest Serbian official award. Serbian President Nikolic, who became famous due to his declaration that "there is only one thing [he] loves more than Serbia, namely Russia", said to Putin when pinning the medal to his breast: "Please wear this as an expression of gratitude for everything that you and your nation did and are still doing so that Serbia could preserve its sovereignty and territorial integrity in freedom and peace and to achieve progress in every sphere of life". During the parade President Nikolic continued in the same lofty spirit: "Your participation is an honour for us, the symbol of our common great past, present and future. [...] The Russian necropolis (of soldiers killed in battle) in the New Cemetery in Belgrade is a sacred place for every inhabitant of the capital of Serbia, it is an expression of the eternal gratitude of the inhabitants of my country for every private, non-commissioned officer, and officer of the Russian army, who will remain forever in Serbia, for which he heroically gave his life." Putin responded in kind, declaring that "Russia and Serbia are united by a stable and continuous bond of brotherhood and friendship, which always was, is and will be the pride of our countries and nations". Tens of thousands of Serbians listened to his speech, interrupted with shouts of "Putin, Putin" and "Russia, Russia".

Source: www.b92.net

2. From Russia with Love: Russian soft power

The impact of history is so strong that Russia does not need to spend big money on development aid and scholarships for students from the Balkan countries. In fact, the funds allocated by Moscow for these purposes are often ridiculously small. The myth of a friendly and caring Russia is stronger, and knowledge about the real Russia is weaker. Very few tourists from Balkan countries visit Russia. Few people in Serbia or Greece know Russian, though the situation is different in Bulgaria. The most fascinating phenomenon is how the virtual image of Russia is reality-resistant in Balkan societies. For instance, opinion polls conducted in Serbia show that almost half of the Serbian population believe

Russia to be the main donor of development aid for their country. In fact, the Russian ODA is negligible in comparison to the financial support provided by the EU. Moscow pursues a successful propaganda campaign reinforcing the mythical positive image of Russia. Russian organisation Russkiy Mir (Russian World) and the International Foundation for the Unity of Orthodox Nations opened their offices in the Balkans. Russian foundations supporting local extreme right and Eurosceptic organisations are also active in the region. There are also Serbian, Greek and Bulgarian language versions of Russian websites, hawking the Kremlin's version of events. The Russian Orthodox Church is a very important instrument of Russia's influence in the Balkans, with it often playing the role of the "Older Brother" for the local churches.

In consequence of all these factors, Russia enjoys an impressive high level of sympathy among Bulgarians, Serbs and Greeks. According to opinion polls, the Serbs, particularly in Republika Srpska in Bosnia and Herzegovina, are the most pro-Russian nation in Europe outside the post-Soviet space. Sympathy towards Russia is just slightly weaker in Greece. Greek society, besides Cyprus, has the most positive approach towards Russia in the EU. As far as a positive attitude to Russia is concerned, the Bulgarians end up with the third place on the podium. All the above mentioned nations – though to varying degrees – are against sanctions against Russia. Sympathy for Russia in Greece and especially in Serbia is combined with an antipathy for the US, which in the context of its confrontation with the West is for Moscow an excellent opportunity to reinforce its influence among ordinary people. Bulgarian sympathy towards Russia – as opposed to Greece and Serbia – is not accompanied by strong anti-Americanism. Bulgaria and Greece perceive the EU as the main centre of gravity for themselves. However, the number of supporters of a pivot towards Russia is relatively high in these countries. Serbia is a particularly valuable partner for Russia because Serbian society is the most pro-Russian and simultaneously anti-American and staunchly rejects accession to NATO since the NATO air strikes in 1999. Moreover Russia is perceived by Serbs as a more preferable partner than the EU.⁸⁷ Nevertheless, in Greece and Bulgaria and even in Serbia substantial minorities have a negative opinion of Russia. The criticism increased in recent months because of Russia's aggression against Ukraine.

⁸⁷ It is not an accident that Serbs make up the largest group of volunteers fighting on the separatist side in Donbas. However, their number is generally negligible.

Opinion polls on Russia

Greece

According to the Transatlantic Trends 2014 survey conducted in June 2014, more than half of Greeks declared support for Russia's strong leadership in world affairs and 40% of Greeks were against it. It was definitely the highest level of support within the EU among the nations polled. By comparison, only 30% of Greek supported a strong US leadership in world affairs, and 65% were against it. 65% of Greeks have a positive opinion of Russia and 35% negative. Again, Greece with a strong sympathy to Russia and its interests was a unique case among the nations polled. Only 35% supported stronger economic sanctions against Russia and over 60% were against. In fact in recent months approval of sanctions in Greece decreased further.⁸⁸

Bulgaria

In the survey conducted by Alpha Research on the demands of the European Council on Foreign Relations at the turn of February and March 2015, the positive attitude towards Russia after the annexation of the Crimea remained unchanged at 54% of Bulgarians with 7% claiming that they support Russia more today than before the annexation. Almost 10% state that they had a negative attitude towards Russia before the conflict and another 30% declared that they sympathise currently less with Russia than last year due to the Russian aggression against Ukraine. The majority of Bulgarians (over 60%) do not support the imposition of severe sanctions against Russia if it violates the ceasefire agreement in Ukraine as opposed to almost 40% who would support them. In a hypothetical referendum, more than 60% would vote "yes" for the conservation of the orientation towards NATO and the EU and one third would vote "yes" for a shift towards Russia and the Eurasian Union.⁸⁹

Serbia and Republika Srpska

According to the opinion poll conducted by IPSOS in May 2014 in Republika Srpska 66% of respondents supported the opinion that Republika Srpska

⁸⁸ GMF, Transatlantic Trends 2014, http://trends.gmfus.org/files/2012/09/Trends_2014_ToplineData.pdf

⁸⁹ Public Opinion Poll: Bulgarian foreign policy, the Russia-Ukraine conflict and national security 26th March 2015, http://www.ecfr.eu/article/public_opinion_poll311520

should align itself with Russia even if the EU and the US opposed this (only 13% had a different position on this issue). 39% of the citizens of Republika Srpska supported EU accession on condition that RS would retain broad autonomy, and 38% were against. Support for accession dropped below 15% and opposition rose to almost 60% in the case of the implementation of constitutional reforms required by the EU which foresee a limitation of the autonomy. The overwhelming majority of Bosnian Serbs rejected Bosnia's accession to NATO.⁹⁰

According to the opinion poll conducted in April 2015 by the journal *Nova Srpska Politicka Misao*⁹¹, more than 60% of respondents in Serbia supported an alliance with Russia (less than 20% were against) and more 40% supported Serbia's accession to the EU (almost 40% were against). The support for the accession to the EU decreased from above 55% in November 2014.

80% of Serbs were against NATO membership (less than 10% were in favour). Above 45% of Serbs were supportive of an equally strong cooperation with the EU and Russia. Almost 30% of Serbians see Russia as the most important partner in foreign policy, while the EU is seen this way by less than 15% of Serbian society.

3. An economic playmaker?

Russia is an important economic partner of the Balkan countries, but it stands no chance of replacing the EU in its role as a focus of attraction for the economies of Bulgaria, Greece and Serbia. Moreover, Russia's position is weaker than that of some of EU members, for example Germany and Italy. Russia's aspirations to strengthen its economic influence are increasingly being relegated to the sphere of wishful thinking. The geopolitical confrontation with the West and the economic crisis in Russia led Moscow to abandon the project of building the South Stream gas pipeline through the Black Sea and the Balkans in late 2014. When he announced his decision during his visit to Turkey in December 2014, Putin had not even bothered to warn the Balkan countries beforehand. On the other hand

⁹⁰ U. Vukic, *Istrazivanje: Podrska Rusiji bez obzira na posljedice*, 10.06.2014, *Nezavisne Novine*, <http://www.nezavisne.com/novosti/bih/Istrazivanje-Podrska-Rusiji-bez-obzira-na-posljedice-248780>

⁹¹ NSPM, *Srbija - zima 2014/15 (sa komentarom Đorđa Vukadinovića)*, 1.01. 2015, <http://www.nspm.rs/istrzivanja-javnog-mnjenja/srbija-%E2%80%93-zima-2014/15-sa-komentarom-djordja-vukadinovica.html>

Putin presented another great gas project, assuming the construction of a pipeline across the Black Sea to Turkey and then of a gas hub on the Turkish-Greek border. Putin did not explain how a belt-tightening Russia would find the huge funds for the project and in what way and whom he will involve in the EU. This project is even more of a “pipe dream” than South Stream. It can be treated as a Potemkin village in the energy area. Failure to implement the Turkish Stream project would be a serious blow to Russia’s standing in the region. For Greece or Serbia, the attractiveness of cooperation with Russia is based on expectations of benefits stemming from future transit tariffs, investment in the energy sector (capital inflow), construction projects (employment) and cheaper gas prices.

In spite of these obvious weaknesses of Russia, its economic influence in the region should not be ignored, especially in the energy sector. Russia is one of the top trade partners of the Balkan countries. In 2014 Russia’s share in Greece’s, Bulgaria’s and Serbia’s total trade approached 10% and in Republika Srpska it was as high as 15%. Russia is an important importer to Bulgaria, Greece and Serbia (10-15%), it sells mostly raw materials, especially natural gas. The share of natural gas in the total consumption of energy in Bulgaria, Greece and Serbia is not high. It varies from around 12% to 15%. However, the share of Russian gas in the consumption of gas in Bulgaria and Serbia oscillates between 85-90% and in Greece it is over 50%.

In contrast, the importance of the Russian market for exports from Bulgaria or Greece is limited (1.5-2.5%). The situation is better in the case of Serbia, with which Russia has signed a free trade agreement. Its exports to Russia were around 7% in 2014. Belgrade hopes that by not participating in the sanctions it will increase exports to Russia, but last year they stagnated and this year, because of the crisis in Russia, they will probably start to decline.

As recently as a few years ago Bulgaria and Greece hoped that Russian tourists – oligarchs and the middle-class – would become a driver of development for the tourist sector in the light of the crisis in the Eurozone. Rich Russians also bought a lot of houses on the Bulgarian coast and on the Greek islands. But the economic crisis in Russia is turning the vision of a deluge of Russian tourists flooding the beaches in Varna or on Rhodes into a pipe dream. Russians accounted for slightly more than 7% of all foreign tourists in Bulgaria (fifth place) and above 5% in Greece (sixth place). Their share in receipts in Greece exceeded 9% (third place).⁹²

⁹² Dimitrios Journeys, 2014 Greek Tourism statistics – more than 24.2 million tourists in Greece in 2014, <http://buhalis.blogspot.com/2015/04/2014-greek-tourism-statistics-more-than.htm>

However, due to the economic crisis in Russia the share of Russians in arrivals of foreign tourists fell back in 2014, particularly in Greece. In the coming years their number will probably decline further rather than increase.

Russia is a relatively important investor in Bulgaria and Serbia (about 5% of all direct investment). It is worth remembering that in both countries there are also large investments registered in Cyprus, quite often really originating in Russia. The Cyprus connection also plays an important role in the case of Greece, its economy being tightly connected with Cyprus. Russian investments in the Balkans are targeted mostly at the energy sector which, like in Russia, is interwoven with politics. For example, Gazprom is the owner of the private energy company Naftna Industrija Srbije, the largest corporation in Serbia. Belgrade sold it at a much reduced price to Gazprom as a gift for Moscow's support on the international stage in the context of Kosovo.

Russian companies are interested in investments in the Greek energy sector and infrastructure facilities (port of Thessaloniki, railways). Despite the mutual interest in cooperation, Moscow and Athens are still unable to agree on the terms and conditions. In 2013, Gazprom was close to the acquisition of controlling stakes in the main Greek state-owned gas company DEPA, but the deal fell through at the last moment due to the reluctance of the Greek side to accept Russian control of the company.

Russia has established even more striking links between politics and energy in the Republika Srpska in Bosnia. It is in this country that Moscow has by far its greatest economic influence in the Balkans. Russia is unrivalled there as a very important investor and the second most important trade partner (almost exclusively Russian imports). The oil refinery in Bosanski Brod controlled by Russian capital plays a key role in Republika Srpska's economy. The market of Republika Srpska has very small economic importance, but is highly significant politically and it is no coincidence that Russia has such a strong presence there.

4. Geopolitical chess

Russia treats the Balkans as an arena of its great game with the West, encompassing also the post-Soviet area and the Middle East. On the other hand, Republika Srpska, Serbia and Greece treat cooperation with Russia as leverage on the international and European arena and particularly in the region in dealings with rivals. It is easiest for Russia to influence the countries waiting in line for EU membership – Serbia and Republika Srpska in Bosnia. In both countries all the major

political parties support close cooperation with Moscow. Indeed, in no other part of the Balkans can Russia count on such high support from the political elite as in Republika Srpska in Bosnia. After the annexation of the Crimea, the president of RS, Milorad Dodik waxed lyrical about Putin and said that Russia's actions should be a model for his country to follow: Republika Srpska should announce a referendum and unite with Serbia. Bosnia is a very loose federation, and support from Republika Srpska is a necessary condition for making any important decisions regarding the whole country. Bosnia, just like Serbia, in March 2014 abstained from voting in the UN General Assembly when a resolution condemning the aggression of Russia in Ukraine was adopted.

Bosnia a highly corrupt and inefficient failing state is the most serious challenge to the West in the Balkans. One important challenge to the country's transformation is the fact that reforms are blocked by RS, which has very wide veto rights and can count on hard-line support from Russia. The aim of RS is to prove that Bosnia is a failing state with no future and consequently to lead to its breakup. Unfortunately, within the West there is no consensus about resolving this Gordian knot. Russia has significant influence on the future of Bosnia as a permanent member of the UN Security Council. In November 2014, Russia abstained from voting in the Security Council on the matter of extending the EU mission in Bosnia. By doing so it sent a clear signal to the West that it is capable of hampering its progress in this country. Russia justified its position by claiming that the resolution concerning that issue supported the accession of Bosnia to the EU and NATO. Meanwhile, Moscow does not support the NATO bid of Bosnia using as a pretext the fact that the majority of Bosnian Serbs, constituting around 30% of Bosnia's population reject NATO membership.

No major politician in Serbia has dared to follow Dodik in his unconditional support for Russia's annexation of Crimea. But Moscow could count on Belgrade during the vote in the UN General Assembly in March 2014. The position of Serbia was reciprocal for Russia's support of Serbia on the international arena in the context of the independence of Kosovo, which Belgrade still regards as its own province. On the other hand, Russian position is very inconsistent. In recent years Moscow has radically undermined the principle of territorial integrity in Georgia and in Ukraine. From the point of view of Brussels, the fact that Serbia has not joined the EU sanctions against Moscow is even more problematic. The close cooperation between Russia and Serbia (visa-free travel, a free trade agreement and cooperation in the energy sector) constitutes a serious challenge to Serbia's EU bid. In all these fields, Serbia will have to adapt to EU law and hence come into conflict with Moscow.

From the Russian perspective one great asset of Serbia is its lack of interest in NATO membership, making it an exceptional case in the Balkans and Central Europe. Moreover, Serbia is working closely with Russia in the military sphere (the 2013 agreement). Already in 2011, a Regional Humanitarian Centre, where Russian engineers are stationed, was established in Serbia. Regular Russian-Serbian military drills take place there. Serbia became the only country from outside the former Soviet Union Serbia to join the Russian-led Collective Security Treaty Organization as an observer. However, the military cooperation between Serbia and NATO is definitely more advanced than that between Serbia and Moscow.

In the case of Athens, the main geopolitical consideration behind Greece's cooperation with Russia is a balancing act between Turkey and the EU. Support for close cooperation with Russia enjoys almost absolute approval across all parties of the political spectrum. For instance, Greek-Russian relations flourished under Prime Minister Kostas Karamanlis from the centre-right New Democracy, who was in office from 2004 to 2009. Karamanlis held far more meetings with Putin than he had with American leaders. He cooperated closely with the Russians on major energy projects, such as the Burgas-Alexandroupolis and South Stream pipelines. However, the recently established government composed of the far left Syriza and nationalistic Independent Greeks distinguishes itself particularly by its pro-Russian stance.⁹³ The ministries regularly refer to Russia as a "Plan B" an alternative to the EU in their fight against the economic crisis. In spring 2014 Alexis Tsipras voiced support for the Crimean "referendum" that paved the way for the annexation. He said that the EU "is shooting itself in the foot" by imposing sanctions. According to Tsipras, Ukraine's pro-EU government contains "neo-Nazis". Currently, Tsipras is among the few EU leaders supporting the Turkish Stream project. Certain officials from Syriza and politicians of the Independent Greeks have even stronger ties to the Russian elite than Tsipras. Defence Minister Panos Kammenos and Foreign Minister Nikos Kotzias have documented ties to Alexander Dugin, a Russian Eurasianist and academic close to Putin. Since 1991 Greece has been the NATO member to cooperate most closely with Russia in the field of hard security. In 1995 the countries signed an intergovernmental agreement on the military cooperation. Between 1998 and 2005 Greece acquired over one billion USD worth of

⁹³ Syriza policy towards Russia is inspired by the PASOK government which, under the Socialist Prime Minister Andreas Papandreou, in the 1980s vigorously pursued rapprochement with the Soviet Union as a way to put pressure on Turkey and because of ideological and populist considerations (Anti-Americanism).

Russian weapons. In that period Russia was the third most important supplier of military equipment to Greece (almost 15% of total military export). After 2005 and before the Russian aggression against Ukraine, Greece held several naval and air exercises with Russian armed forces.

The foreign policy of Bulgaria is definitely less pro-Russian than the policy conducted by Republika Srpska, Serbia or Greece. This state of affairs stems from the more diverse position of the Bulgarian parties on Russia and feeble anti-Americanism in the Bulgarian political elite. GERB, a centre-right party – and the most popular political force in recent years– has generally a realistic and pragmatic approach towards Russia. Smaller centre-right parties, for instance the Reformist Bloc, are critical towards Russia. The Russian lobby is composed of post-Communist parties: the Bulgarian Socialist Party, the Alternative for Bulgarian Revival and the far-right Ataka. Russia can also influence negatively on developments on the political scene by using certain Bulgarian oligarchs involved in business with Russia or intelligence networks originating from the communist period when the Bulgarian security sector was the most closely integrated with the KGB in the Soviet sphere of influence. Nevertheless, Russian leverage in Bulgaria depends mostly on the make-up of the government. After the elections in November 2014 a new government was established around GERB with strong representation from the Reformist Bloc. Rosen Plevneliev, the president of Bulgaria, is one of the most popular politicians in the country and he presents an ambivalently pro-Western position. It is no accident that when Putin announced the decision to abandon the South Stream project during his visit to Turkey, he blamed the failure of the project on Bulgaria. In his view Bulgaria had not behaved as a sovereign state and had succumbed to pressure from Brussels contrary to its own interests.

5. Conclusions

In the long term perspective, there is no credible alternative to EU membership for the Balkans. However, the EU cannot rest on its laurels. The influence of Russia in the Balkans has substantially risen in recent years. Moreover, Russia's leverage is deeply rooted in history and culture and, by default, it is often irrational and very difficult to challenge. At the same time, the EU's leverage in the region is hazy. There is no stakeholder (such as Germany in the case of Central Europe) that would push integration in the region forward. As a consequence, the EU's attraction in the short and medium term perspective can be contested by Moscow in certain Balkan countries. Currently, the so-called "Greek pivot to Russia" is mostly just posturing or soft Greek blackmail

directed towards the EU. Its aim is to increase Greece's leverage in dealing with Brussels and Berlin. Taking into consideration the creeping economic crisis in Russia, the Kremlin's ability to "save" Greece is very limited. It was very symptomatic that during Tsipras's last visit to Moscow in April 2015 Greece was not offered any form of financial aid for its struggling economy.⁹⁴ In consequence, despite its pro-Russian rhetoric, in summer 2015 Greece will most probably stick to the EU's common position on sanctions against Russia if it has any hope of emerging from the economic crisis. However, the failure of negotiations between the EU and Greece concerning the economic reforms or the Grexit (the Greek withdrawal from the Eurozone) should not be excluded either. It could result in a very serious crisis in Athens' relations with Brussels and Berlin. Certainly, this crisis would be exploited by Russia which would try to exert the tactics of "divide and conquer" against the EU.

The best antidote to Russian interference in the Balkans is EU membership for the all countries of the region. Although Russia enjoys large sympathy in Greek society, Greece has endorsed – if unwillingly – the EU sanctions. The most important issue in the region is to make the continued process of Serbia's integration with the EU dependent on Belgrade's unequivocal support for EU policy towards Republika Srpska in Bosnia. It would be a repetition of the EU stance towards Croatia before its accession. Unfortunately, the reliability of EU pressure depends on the plausibility of the membership prospects, and these, given the rise of Eurosceptic forces in the EU and enlargement fatigue, may become increasingly distant. (Unfortunately, the reliability of EU pressure depends on the plausibility of membership prospects and these, given the rise of Eurosceptic forces in the EU and enlargement fatigue, may become increasingly distant.) In fact, the most recent increase of Euroscepticism in Serbia is to a certain degree in response to these negative trends in the EU. Another precondition for the success of the conditionality placed on Serbia has to be for the EU's main players to take a common stance on the future of Bosnia.

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⁹⁴ Instead, Tsipras returned to Greece with only a general joint action plan to increase cooperation in trade, tourism and energy, including discussion of a possible deal with Gazprom on Turkish Stream.

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