

RUSSIA'S WAR AGAINST UKRAINE & ITS IMPACT FOR THE WESTERN BALKANS

Implications for International Investors as the War Continues

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If the war in Ukraine and broader tensions between the West and Russia were to escalate to other fronts, the Balkans might provide fertile ground for its unfolding. Though it is not as close to the conflict zone as other potential flashpoints, such as the disputed region of Transnistria, the Balkan region harbors deep-rooted cultural and ideological divisions that pivot around the recent memory of Yugoslavia's civil war, and maintains a security dependency with key players in this current conflict.

Russia's war against Ukraine has also severely impacted government stability across the region. The largest Western Balkans state, Serbia, is widely expected to continue a careful balancing act, so as not to alienate a predominantly and historically pro-Russian voter base behind the country's ruling Serbian Progressive Party (SNS) of President Aleksandar Vučić. This comes as the recently installed new SNS-led government vows to advance the country's European aspirations.

Amidst a looming economic downturn and a cost-of-living crisis, Russia's war has also amplified energy security risks. Multiple governments in the region source their energy from Russia, with countries such as Bosnia & Herzegovina, North Macedonia and Serbia among the most impacted. While smaller regional countries are less impacted, Belgrade is also gearing up for an upcoming EU ban on Russian maritime oil shipments, which could pose severe concerns for supply security, which is already pushing other countries in the region to look for supplies from other sources.

Below, Aretera takes a deeper look at the impact of Russia's war against Ukraine on the Western Balkans, the geopolitical and security consequences, the economic and energy security fallout, as well as at implications for political stability in the region.

This memo will cover:

-  the geopolitical risks and energy security implications brought by Russia's war,
-  concerns regarding government stability in key Western Balkans states,
-  a country-specific breakdown and outlooks on Albania, Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

GEOPOLITICAL & ENERGY SECURITY RISKS

With the notable exception of Serbia and the Serb entity of Bosnia & Herzegovina, each of the six Western Balkans states have adopted the EU's sanctions on Russia and are members of NATO. A key factor for this regional divide is the close, historic alignment between Serbian and Russian interests (for instance, Russia's UN veto powers regarding Kosovo's recognition of independence), while other groups (namely Bosniak, Albanian and Montenegrin nationalists) are firmly in the Western camp and view NATO as a guarantor of their national security interests.

EU diplomatic chief Josep Borrell said that the 27-nation bloc is worried that the Russian military invasion could spread to Moldova, Georgia and the Western Balkans. Though there is no actual risk of Russia's war against Ukraine physically reaching the Balkans (three NATO members separate Russia from the region), the possibility of spreading by proxy, especially in the context of hybrid threats, is significant. The Balkans have historically been and continue to be an arena of diverging geopolitical interests; where potential for escalation is fueled by nationalist narratives and peaks in times of continental instabilities.

The prospect of a common European future has served as the main basis for overcoming past open disputes and the critical driver for the transformation of Balkan societies. Nevertheless, whenever the European vision is under strain, competing alternatives often gather momentum. Moreover, security concerns are no longer limited to the potential escalation of violence within the region, but the region itself – being encircled with EU member states – is tied into the wider security challenges faced by Europe as a whole. Recent crises have highlighted the importance of this region for the EU's stability and strategic autonomy.

In geopolitical terms, the three most salient regional issues relate to Bosnia & Herzegovina's territorial integrity, Kosovo's sovereignty and Montenegro's heightened nationalism. At the heart of each of these issues is the Serbian nationalist cause, which though not always advocated by Belgrade itself, can reliably count on Moscow's support. Another bottleneck is the dispute between Sofia and Skopje which has stalled North Macedonia's and Albania's progress towards the EU. Having in mind the security dimension of the European integration process and the fact that both Bulgaria and North Macedonia are NATO allies, the obstacle resonates way beyond just Skopje and Sofia. Hence, this situation is in favour of the Kremlin's playbook as Russia supports nationalist parties in both countries that oppose EU integration and want to undermine NATO unity.

The war in Ukraine has further exacerbated the cost-of-living crisis and energy security in the Western Balkans, given that energy supplies have essentially become weaponized. Each of the countries predominantly source their energy from coal-fired thermal power plants and other fossil fuels, except Albania, which mainly uses hydropower. Bosnia & Herzegovina and North Macedonia entirely depend on Russia for natural gas, albeit this does not constitute a significant proportion of their overall energy mix. North Macedonia also heavily depends on electricity imports from neighboring countries and since July the government in Skopje has declared a 'state-of-energy-emergency' until April 2023, while exploring the options for gas supplies and a strategy for a renewable energy future.

Russian oil imports are predominantly delivered via Croatia's Adriatic pipelines. However, from December, new EU sanctions mean Croatia will no longer be allowed to transport shipments across the region. The EU is considering an exemption for the Western Balkan states, but if this is not granted, it could spell serious concerns for their energy security, especially for Serbia, whose state energy company, NIS, is 51% owned by Russian energy giant Gazprom.

Serbia imports all of its gas and half of its oil from Russia. If the exemption is not granted, NIS will no longer be allowed to do business with EU entities, which would effectively cease its operations. Speculation is rife that the Serbian government and Hungary's oil company, MOL, are in talks to buy a majority stake in NIS from Gazprom. During a visit in late October, EU Commission President Ursula von der Leyen promised Serbia €160 million in support to help with its energy transition. Albania and Kosovo appear to be better off, as the two countries are not reliant on Russian energy imports and their energy security has not directly been impacted by the sanctions.

SERBIA'S BALANCING ACT BECOMES HARDER TO MAINTAIN

Serbia's position on the war in Ukraine is best explained as a balancing act by decade-long ruler President Aleksandar Vučić. Internationally speaking, Serbia condemned Russia's aggression in a UN General Assembly resolution in early March, though remains one of only three European countries to not impose sanctions on Moscow, along with Bosnia & Herzegovina and Belarus. Domestically, the issue dominates the political landscape and was a critical campaign topic for parties competing in recent general elections, held at all levels on 3rd April¹.

The ruling Serbian Progressive Party (SNS) was forced to juggle commitments to maintain Serbia's EU trajectory, with a domestic electorate that polls find is 84% against sanctioning Russia. It opted for a neutral line, or more accurately, a pledge that "Belgrade wouldn't pick sides or harm its national interests." The ruling party's official campaign was "Peace. Stability. Vučić". Right-wing opposition pounced on Vučić's wavering solidarity with Moscow (some explicitly using Putin's image in their own campaign materials), with remarkable success. Two far-right parties, Dveri and the Serbian Oathkeepers, entered parliament and will be joined by a host of right-of-centre parties in rallying public opinion against the Serbian President should he show signs of siding with the EU over Russia.

In late October, more than seven months after elections were held, President Vučić finally announced the formation of the new government², led by sitting Prime Minister Ana Brnabić. The government largely represents a continuation of the balancing policy, accommodating ministers from both sides of the geopolitical spectrum. At a recent anniversary commemoration of the Security Intelligence Agency (BIA), Vučić told officers that "Belgrade has become like Casablanca," swarming with Russian and Western spies.

However, from the EU and US perspectives, Serbia's neutrality is a thorn in their aspirations to unite the continent against Russia's aggression, and a number of MEPs and high-ranging officials have made it clear that aligning with the EU's sanctions is a pre-condition for any progress in accession talks, threatening to suspend the process altogether. As such, the government is likely to be exploring sanction measures that would satisfy Western partners, but not meaningfully hurt energy security, or indeed, the President's approval ratings.

Complicating this calculation is the influx of Russians that have migrated to Serbia since the start of the war. Air Serbia remains the only European airline to maintain daily flights to Russia and has flown in over 100,000 Russian citizens and several hundred companies, predominantly in the IT sector. This has caused a surge in accommodation rents, which have almost doubled in Belgrade and Novi Sad since the start of the war.

¹ See [here](#) for Aretera's overview of the Serbian general elections from April 2022

² See [here](#) for Aretera's overview of Serbia's recently installed government from October 2022

KOSOVO-SERBIA TENSIONS REMAIN BUT NOT DUE TO RUSSIA'S WAR

The most salient security threat in the region relates to the growing tension in northern Kosovo. Although firmly under NATO protection since the end of the war in 1999, Kosovo remains unrecognized by UN institutions due to Russia's veto rights at the Security Council and its Serb-majority northern municipalities are a constant source of instability. Most recently, on 5th November, Serbian representatives in the Pristina government, including police officers serving in a multi-ethnic force, announced their resignation in protest over the country's ban of Serbian car registration plates in the northern municipalities. The move sparked mass protests in the Serbian stronghold of northern Mitrovica the following day, and led Belgrade to heighten security measures and deploy troops along its border. However, despite its posturing, Belgrade severely lacks the capacity to physically intervene and will depend on its allies in the northern municipalities to continue hampering Pristina's integration efforts.

These efforts relate to a normalization agreement signed by Belgrade and Pristina in Brussels in 2013. However, stalled implementation on issues such as car registration plates, and more pressingly, the Community of Serb Municipalities, a planned self-governing model, have rendered the Brussels Agreement effectively dead. In its place, observers are speculating as to the content of a joint French and German proposal. The Serbian President has suggested the plan includes Belgrade accepting Kosovo's seat at the UN, thereby bypassing Russia's veto rights at the Security Council. The latest (and unofficial) draft focuses on the normalisation of relations based on equal rights guided by their mutual aspirations to EU membership, rather than recognition and firm deadlines. This question was addressed at the Berlin Process Summit held in early November, supported by the EU. However, the positive atmosphere captured in the Summit family photo has been disrupted by repeated tensions and official statements afterwards.

Aside from Kosovo's future status, the war in Ukraine has had a limited impact on Kosovo's political landscape. Both government and all key opposition are in favour of NATO's interests and its Prime Minister, Albin Kurti, remains a vocal proponent of tackling Russian influences in the region.

MONTENEGRO LOCKED IN POWER STRUGGLE

Montenegro's NATO membership in 2020 was seen as a bitter blow for Russia. Not only do the two countries share deep historic, religious and cultural ties, but Montenegro's tourism economy is heavily dependent on visitors from Russia and the wider CIS region, who own much of the country's prime coastal real estate. Since gaining independence from Serbia in 2006, Montenegro has been on a steady, albeit winding, course towards European integration, led by the pro-Western Democratic Party of Socialists (DPS) and its strongman leader, President Milo Đukanović. As such, since the beginning of Russia's war against Ukraine, it is little surprise that Montenegro's *official* position has been entirely aligned with the EU and NATO, condemning Russia's aggression, introducing sanctions and voting with Western partners in the UN General Assembly.

However, Serb nationalist (and by extension, pro-Russian) factions have made major gains in recent years, which threaten to destabilize this course. Namely, on the back of mass protests led by the Serbian Orthodox Church, the DPS lost its 30-year rule in the 2020 general elections, which brought in a Serb-dominated coalition government. Its mandate lasted barely a year, but remnants of this government continue to lead the country today. Most recently, local elections held in October 2022 confirmed the DPS' demise, losing the capital Podgorica to the parties of the 2020 government.

Outgoing Prime Minister Dritan Abazović, whose short-lived government collapsed in June³ after a DPS-initiated motion of no confidence, and indeed most of the pro-Serb parties, have pledged to maintain the country's European trajectory (the country is widely seen as the Western Balkans frontrunner for accession), and not waiver on divisive issues, such as NATO membership or recognition of Kosovo's independence. However, rising nationalist tensions and a resurgent pro-Serb electorate supported by the Serbian Orthodox Church, offer Moscow a backdoor to further destabilize the situation to the West's detriment. This comes as Montenegro is facing one of its most severe political crises, with the country's parliament aiming for a new multi-party coalition government, while the Đukanović-led DPS is pushing for early elections.

NATIONALISTS SUFFER SETBACK IN BOSNIAN ELECTIONS

The Kremlin's chief ally in the region is Milorad Dodik, President of the Serb-majority entity of Republika Srpska (RS). The entity's veto rights are the main reason why Bosnia & Herzegovina has stayed out of NATO and EU membership discussions, or why the country has not recognised Kosovo's independence or imposed sanctions on Russia. More pressingly, Dodik's Republika Srpska has been a constant source of regional instability, threatening to unilaterally seek independence from Sarajevo, despite Bosnia & Herzegovina's territorial integrity being enshrined in the Dayton Peace Agreement that ended the Bosnian War in the 1995.

Less than two months after the start of the war in Ukraine, Dodik, together with then-RS President Željka Cvijanović, was sanctioned by the UK government, joining sanctions from the US and broad condemnation from EU institutions (EU sanctioning was prevented due to an European Council intervention by Hungarian Prime Minister Viktor Orbán). However, as the war has progressed, Dodik's room for manoeuvre has tightened and he has backtracked on a number of controversial policies. Instead, the country's constitutional order has most recently been challenged by Croat communities demanding better political representation in the Federation of Bosnia & Herzegovina (FBiH). Throughout the summer, Bosniak groups protested against the move by the head of the internationally-appointed Office of the High Representative (OHR), Christian Schmidt, who has introduced electoral reforms favouring Bosnian Croats and Zagreb.

In early October, the country held elections across all levels and entities⁴. Despite Dodik's re-election, a key takeaway was the strong showing of civic political candidates over hardline nationalists across all communities. It also marked the defeat of Bosniak long-standing leader, Bakir Izetbegović, by Denis Bećirović, a joint candidate representing almost a dozen mostly liberal and centrist parties.

Ambiguity over the reauthorization of the EU's EUFOR Althea Operation – the EU military deployment tasked with overseeing the Dayton Agreement – by the UN Security Council highlighted the fragility of the situation in Bosnia & Herzegovina. The extension of EUFOR-Althea's mandate was agreed, while also raising alarm over the increased use of inflammatory rhetoric aimed at dividing the country. Although Russia voted in favour of extending the EU mission, it did not miss the opportunity to point out the concerns “at the unexplained doubling of the contingent in 2022, despite no immediate threats posed to the country's security” and to stand up for the RS' actions. Considering the fact that the outcome of the October elections revealed overwhelming support for the Dayton Agreement, Russian officials noted with regret that “not all colleagues were happy with the country's sovereign choice.”

³ See [here](#) for Aretera's overview of the fall of the Abazović Government from June 2022

⁴ See [here](#) for Aretera's overview of the Bosnian general elections from October 2022

MACEDONIAN GOVERNMENT FACES OPPOSITION PRESSURE

As with Montenegro, North Macedonia's NATO membership in 2020 was a blow to Russia's ambitions in the Western Balkans. Given religious and cultural ties, the former Yugoslav state has historically fluctuated around Moscow's sphere of influence, and was a particularly close ally during the decade-long rule of former Prime Minister Nikola Gruevski (2006-2016). It was able to exert influence over party politics, ensure defence and energy dependency and even use the country as a hotbed for covert operations aimed at the West (the Russian disinformation campaign during the 2016 Presidential elections was being executed by [fake-news cells in North Macedonia](#)).

On the back of frenzied corruption charges and civil society-led mass protests, the pro-Western Zoran Zaev managed to take over the Prime Minister's office in 2017 ushering in a promise of European integration and NATO membership. However, he relied on the European promise for a common future in the name of which the Prespa Agreement for change of the constitutional name was concluded. Although the Prespa Agreement removed the obstacle of North Macedonia becoming a NATO member state, the inability of the EU to deliver on its side and start the accession negotiations (due to another veto, now imposed by Bulgaria) caused internal political crises and destroyed trust both in the European perspective and towards the Zaev-led Government, resulting in his resignation from both state and party functions. Hence, despite seamless integration into the military alliance, little progress has been made towards EU accession. Since formally submitting its application to join the EU in 2004, North Macedonia has been repeatedly blocked from starting accession talks on the basis of bilateral disputes: in July 2022, the EU finally gave the green light to commence negotiations with North Macedonia and Albania, but this process will undoubtedly encounter future obstacles.

In the light of the (now accepted) French proposal designed to unlock the EU accession veto from Bulgaria, reflected in the negotiation framework with North Macedonia, the country must change its constitution to include the Bulgarian minority in order to move forward in the EU accession process. Protests against the proposal draw on discontent felt across the political and party spectrum. Along with the pressure from the Albanian minority block, these actions have risked shaking the inter-ethnic peace and pose a threat to stability. Although the government decided to accept the French proposal, the two-thirds majority needed for a constitutional change is unlikely to be achieved, with North Macedonia's accession prospects now even more unclear.

The lack of progress, coupled with stagnant living standards and continued corruption charges, has somewhat dampened European aspirations and provided Moscow with fresh fault lines to exploit. The ruling Social Democratic Union of Macedonia (SDSM) government, led by Zaev's predecessor Prime Minister Dimitar Kovachevski, maintains a delicate coalition government, but is under relentless pressure from opposition parties as it tackles accession talks, appeasing neighbours, combatting corruption and sanctioning Russia, all while navigating through an energy and cost of living crisis.

Chief among them are Gruevski's former party VMRO-DPMNE and The Left (Levica), both of which harbour strong anti-Western sentiments within their ranks. Another country specific element that should be taken into account is related to the use of the so-called Badinter's rule, which means that in accordance with "the spirit of the Ohrid Framework Agreement", the governing coalition must include the winning party from the largely pro-Western Albanian block.

Namely, aside from condemning Russia's aggression in the UN and voting with NATO partners on all relevant resolutions, this August, North Macedonia announced it would donate Soviet-era T-72 tanks to Ukraine, while reports also emerged that the country's four [Sukhoi Su-25 ground attack jets](#) had also been donated to Kyiv. Opposition pressure will likely intensify as the conflict drags on into the winter and beyond. Regarding the energy crisis, another concerning issue is the high level of air pollution, especially in the capital of Skopje, with energy poverty one of its main causes: central heating systems are unaffordable to many households and anything flammable is used as fuel.

ALBANIA REMAINS THE LEAST IMPACTED

Perhaps the country in the Western Balkans to be least impacted by Russia's war in Ukraine is Albania. The country is not home to any openly pro-Russian political groups and shares no historical or cultural links to Russia or Ukraine, other than loose ties during the communist era. In the past thirty years, no Russian president or prime minister has travelled to Albania or vice-versa.

Domestically, Prime Minister Edi Rama is pushing through his third mandate and his Socialist Party maintains a hold over all key institutions, despite recent and large-scale anti-government protests against corruption and rising poverty. Since the war began, Albania's position has been aligned with the West's on all decisions put before the UN General Assembly. However, Albania's progress towards EU accession was impacted by the Bulgarian blockade on North Macedonia which resulted in lifting the pressure. Otherwise known as the "Mini Schengen Zone", the trilateral Open Balkan initiative of Belgrade, Tirana and Skopje is also perceived as a possible outcome of the stalemate in the European integration process.

A recent security concern relates to Albania's complex relations with Iran. Albania hosts around 3,000 exiled Iranians belonging to the People's Mujahedin of Iran, MEK, an opposition to the current regime in Iran and strongly supported by the US. In September, Rama announced Tirana was freezing diplomatic relations with the Islamic republic, blaming Tehran for a major cyber-attack in July. Though Iran itself has become entangled in the war in Ukraine through defence sales to Moscow, the scale of its tensions with Albania are not relevant in this context.

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