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Russia's economic soft power: The case of Serbia**

Rosyjskie soft power w polityce gospodarczej – przypadek Serbii

Abstract: Serbia inherited Yugoslavia's tendency to pursue its foreign policy in terms of "multi-vector" policy and balancing between the West and the East to achieve its own political goals and maintain the attention of other countries. Despite the desire to join the European Union, as officially declared by the state authorities, Serbia also strives to maintain a "strategic partnership" with Russia. This paper presents Russia's interests in the policy towards Serbia in the economic sphere over the years, starting from 1999. It points to the complexity of Serbian-Russian economic relations and their relationship with political issues. Russia, as a permanent member of the UN Security Council, can significantly affect Serbia's internal and foreign policy, making it dependent on guarding Serbia's sovereignty and territorial integrity and through the lack of recognition of Kosovo's independence by pursuing its own interests, manifested by an increasing Russian presence in the energy sector.

Keywords: Russia, Serbia, Central and Eastern Europe, economic diplomacy, economic influence, soft power

Streszczenie: Serbia odziedziczyła po Jugosławii tendencję do prowadzenia swojej polityki zagranicznej w kategoriach „polityki wielowektorowości” i balansowania między Zachodem a Wschodem w celu osiągnięcia własnych politycznych celów oraz utrzymania attencji krajów trzecich. Mimo chęci przyjęcia do Unii Europejskiej, oficjalnie deklarowanej przez władze państwa, Serbia dąży również do zachowania „partnerstwa strategicznego” z Rosją. Autorka dokonuje próby przedstawienia interesów Rosji w polityce wobec Serbii w sferze gospodarczej na przestrzeni lat, poczynając od roku 1999. Wskazuje na złożoność serbsko-rosyjskich stosunków gospodarczych i ich ściśły związek z uwarunkowaniami politycznymi. Rosja, jako państwo będące stałym członkiem Rady Bezpieczeństwa ONZ, może bowiem w znaczący sposób wpływać na politykę wewnętrzną i zagraniczną Serbii, uzależniając kraj od stania na straży jego suwerenności i integralności terytorialnej oraz braku zgody

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** The text is an expression of the author's personal knowledge and views and should not be treated otherwise.

na uznanie niepodległości Kosowa na arenie międzynarodowej. Tym samym Rosja realizuje własne interesy, co znajduje szczególne odzwierciedlenie w jej rosnącej obecności w sektorze energetycznym Serbii.

Słowa kluczowe: Rosja, Serbia, Europa Środkowo-Wschodnia, dyplomacja gospodarcza, soft power

Introduction

The purpose of this article is to present Russia's economic interests and its policy towards Serbia in this regard. Most analyses of Serbian-Russian relations are devoted strictly to the Russian influence in the political or economic spheres but are mainly limited to the Russian activities in the Serbian energy sector. This paper presents a comprehensive overview of Russia's influence in Serbia's economic zone since 1999, namely since NATO intervention in Yugoslavia, as well as Russian rhetoric and its interests in that country.

In public discourse, both in Serbia and in Western countries, too often there is a misconception that Serbian-Russian relations are highly intense in all the spheres, and the financial support, donations and investments of the Russian government in Serbia are at a level comparable to the EU, which the author will investigate in this work. The author puts forward a hypothesis that Russia is seeking to make Serbia economically dependent, mainly in the energy sector, in order to pursue its own interests: weakening the EU's influence in the region and hindering Serbia's future accession to the EU. In this context, protecting "Serbia's interests on the international stage," including preventing Kosovo's international recognition, is used by Russia as a bargaining chip in the relations with Serbia.

1. Historic background of Russian economic presence in Serbia

For centuries, Russia has remained an important and active actor in Central and Eastern Europe, including Serbia. What distinguishes these unique Serbian-Russian relations is the declared lack of negative historical experience, referred to by a significant part of the Serbian political elite and society, and Russia's defense of Serbian national interests over the past centuries. This narrative is also accepted as certain

and indisputable by Western countries.¹ That is why when speaking about relations between the two countries, the terms “Orthodox solidarity”² or “Slovenian brotherhood” are often used.

However, attention should be paid to distortions in this rhetoric. Russia often presents itself as a defender of the interests of the Serbian nation and its traditional ally in regaining independence. In fact, Russia always used Serbia for its imperial purposes in competing with other powers, especially in the 19th century. According to Serbian historian Milivoj Bešlin, Russia saw Serbia as the guarantor of its presence in the Balkans.³ This presence in the region was to play a significant role for Russia because without great risk it would prove their power and allow access to the Adriatic Sea and the Black Sea. This pragmatic approach is still maintained in Russian politics.

Nevertheless, after the end of the World War II, despite the initial modeling on the economic solutions of the Union of Soviet Socialist Republics (USSR), Belgrade adopted its own path to socialism, which led to a cooling of relations between the two countries.⁴ At that time, financial assistance to Yugoslavia under the rule of Josip Broz Tito was directed mainly by the US, seeking to ensure the internal stability of the state and maintain its own influence in the region. American support intensified when in 1948 diplomatic relations were broken by the USSR and Yugoslavia.⁵ Although Belgrade initially refused to join the Marshall Plan, eventually the state was included in an assistance program targeted at countries “threatened by Soviet expansion.” In the following years, Yugoslavia also received loans and credits from international institutions, and – after establishing diplomatic relations with the European Economic Community in 1968 – financial support from Western Europe. Financial assistance was to lead to independence

1 Studija Centra za evroatlantske studije, *Širom zatvorenih očiju. Jačanje ruske meke moći u Srbiji – ciljevi, instrumenti i efekti*, 2016, https://www.ceas-serbia.org/images/publikacije/CEAS_Studija_-_Sirom_zatvorenih_ociju_-_Jačanje_ruske_meke_moci_u_Srbiji.pdf, p. 44 [2020-05-15].

2 A. Curanović, *Czynnik religijny w polityce zagranicznej Federacji Rosyjskiej*, Warszawa 2010, p. 111.

3 ‘Istoričar: Balkan je Rusiji uvek bio moneta za potkusurivanje’, *N1info.rs*, 18 January 2019, <http://rs.n1info.com/Vesti/a452900/Istoricar-Milivoj-Beslin-o-Rusiji-i-Balkanu.html> [2020-09-13].

4 J. Wojnicki, ‘Kwestia jugosłowiańska w polityce radzieckiej i rosyjskiej (1945–1999)’, in: *Balkany Zachodnie w systemie bezpieczeństwa euroatlantycznego*, eds. A. Główacki, S.L. Szczesio, Łódź 2015, pp. 47–59.

5 *Yugoslav-American Economic Relations Since World War II*, eds. J.R. Lampe, R.O. Prickett, L.S. Adamović, Durham (NC), 1990, p. 27.

and economic stability of the Social Federal Republic of Yugoslavia (SFRJ) and to protect the state against a potential return to Moscow.⁶

The inefficient use of financial resources by Yugoslavia, including their placement in one branch of the economy – heavy industry – led to serious state debt in the 1980s. Economic problems significantly contributed to the break-up of the SFRY, and foreign debt still represents a significant burden for Serbia.⁷

After the end of the Cold War, Russia sought to weaken the presence of the US and the European Communities/European Union in Central and Eastern Europe. The region played a special role for Russian foreign policy because of the possibility of influence in the political, military, economic and social spheres, in contrast to Central European countries and the Baltic States, which since the beginning of the 1990s have taken actions towards rapprochement with the West and accession to the EU and NATO.⁸

Striving to maintain the status of a superpower, Russia has engaged in resolving conflicts in Croatia, Bosnia and Herzegovina, and Kosovo. One of the main reasons was the conviction of Russian political decision-makers that SFRY was “an element of stability in the Balkans and Europe as a whole.”⁹ According to some experts,¹⁰ this could be interpreted as the desire to preserve Serbian domination within the SFRY. The consequences of conflicts that took place in the 1990s in the area of former Yugoslavia significantly influenced Russia’s current policy towards Serbia.

2. Step-by-step strategy of the Russian economic presence in Serbia (1999-2002)

The common opinion of the Western world is that Serbia is responsible for the Yugoslav wars. The negative attitude of the US and the EU

6 D. Morgan, ‘Yugoslavia to Get Aid From Western Nations’, *Washington Post*, 18 September 1971, <https://www.washingtonpost.com/wp-srv/inatl/longterm/flash/sept/yugo71.htm> [2020-05-15].

7 O. Karabeg, ‘Koliki su Titovi dugovi?’, Danas.rs, 11 March 2016, <https://www.danas.rs/nedelja/ko-liki-su-titovi-dugovi/> [2020-05-15].

8 J. Bugajski, *Cold Peace. Russia’s New Imperialism*, Westport (CT), 2004, p. 169.

9 Ibidem, p. 173.

10 For example, Janusz Bugajski in his book *Cold Peace. Russia’s New Imperialism*.

towards Slobodan Milošević, then ruler of the Federal Republic of Yugoslavia (FRY), enhanced the Russian-Serbian friendship.

The Federal Republic of Yugoslavia was excluded from the Stability Pact for Southeastern Europe, which was established in 1999 by the EU and others, notably Russia.¹¹ The initiative focused on the reconstruction of the region's economies, the security of energy supplies and the promotion of free trade zones, and provided for the prospect of accession of the region's countries to the EU and NATO. Russia remained involved in this initiative, although at the time it was also dealing with internal financial and diplomatic problems, including the failure of its diplomacy during the conflict in Kosovo, and Russia's intention to continue to be an economic presence in the region.

In addition, at the end of the 1990s, the EU and the US refused to provide financial assistance to the Yugoslav government, directing their support to independent media, local NGOs and the labor movement. Brussels also allocated funds to Montenegro and Kosovo, then part of the FRY, while the EU provided only humanitarian assistance to Serbia, with targeted aid to the cities run by opposition forces.¹² In contrast, however, in July 1999 Russia allocated USD 150 million for the reconstruction of the FRY after the bombing by NATO forces.¹³ In May 2000, it also granted Yugoslavia a loan of USD 150 million. In addition, Moscow continued to supply gas to the territory of the FRY, despite pressure from the US to stop. Moreover, in opposition to the West's strategy of political and economic isolation of the FRY on the international stage, in August 2000 Russia signed a free trade agreement with Yugoslavia. Thus, both Serbia and Montenegro have become the only countries outside the Commonwealth of Independent States, with whom Russia signed this kind of agreement. It was primarily a political gesture from Moscow. According to many experts, the agreement was aimed at strengthening Milošević's internal position after the withdrawal of the FRY troops from the Kosovo

11 W. Bartlett, W. Samardžija, 'The Reconstruction of South East Europe, the Stability Pact and the Role of the EU: An Overview', *Most: Economic Policy in Transition Economies*, vol. 10, 2000, p. 52.

12 Federal Republic of Yugoslavia, Human Rights Developments, World Report 1999, <https://www.hrw.org/legacy/wr2k/Eca-26.htm> [2020-09-13].

13 J. Headley, *Russia and the Balkans. Foreign Policy from Yeltsin to Putin*, New York 2008, s. 434.

area.¹⁴ The agreement has not been ratified by the Russian Federation, although the agreement is still being implemented and assumes a preferential tax rate of 1% on a number of products manufactured by each party.¹⁵

After Milošević was removed from power in October 2000, Western policy towards Yugoslavia changed. The FRY was included in the Stability Pact and the Stabilization and Association Process. In November 2000, the European Council adopted so-called autonomous trade measures (ATMs), the regulation extending duty-free access to the EU market for almost 95% of products originating in Yugoslavia. Moreover, after the political changes in Yugoslavia, both the US and the EU decided to lift the economic sanctions imposed on Serbia, including trade embargos on oil and weapons.¹⁶ The EU initially used “carrot and stick” tactics in an attempt to force the FRY to change its policy towards Kosovo. However, EU policy has proved ineffective here.

In opposition to the West, Russia strongly condemned the imposition of economic sanctions, although at the same time it introduced restrictions on the arms trade, which were adopted by UNSCR 1160 in March 1998. Russia did the same in the early 1990s when it joined the West with sanctions against the FRY. This was due to Russia’s desire at the time to join the International Monetary Fund (IMF), which eventually came about in 1992. In its rhetoric, Russia presents itself as an ever-standing guardian of Belgrade’s political and economic interests. It is also common among Serbian political elites, including Foreign Minister Ivica Dačić, to deny that Russia ever introduced sanctions against the country.¹⁷

Ultimately, the lifting of economic restrictions by the EU and the US had a positive effect on the economy of the FRY. The change of the ruling elite in the early 2000s also brought a redefinition of the coun-

14 ‘The last farewell from the Russians’, SFOR NATO, 20 June 2003, <https://www.nato.int/sfor/index-inf/articles/030620c/t030620c.htm> [2020-05-15].

15 M. Szpala, ‘Rosja w Serbii – miękka siła i twarde interesy’, *Komentarz OSW*, no. 150, 2014, <https://www.osw.waw.pl/pl/publikacje/komentarze-osw/2014-10-29/rosja-w-serbii-miekka-sila-i-twarde-interesy> [2020-05-15].

16 Global Policy Forum, *List of International Sanctions Against Serbia*, 2000, <https://www.globalpolicy.org/global-taxes/42528.html> [2020-05-15].

17 ‘Rusija je podržala sve sankcije protiv Jugoslavije’, b92.net, 6 May 2014, https://www.b92.net/info/vesti/tema.php?yyyy=2014&mm=05&nav_id=844561 [2020-05-15].

try's foreign policy. President Vojislav Koštunica and Prime Minister Zoran Đindić supported the FRY's rapprochement with the European Union and NATO, while maintaining good relations with Russia.

3. “We Are Going to the Balkans in a Different Form” (2003-2008)

The year 2003 was particularly important for Russia's involvement in Serbia. At that time, the situation in the immediate vicinity of country stabilized, and the state of the national economy improved. In 2003, Russia's GDP increased by 7.3% compared to 4.7% in 2002.¹⁸ This, in turn, enabled Russia to have greater economic involvement in the post-Yugoslav arena. Sergei Razov, then deputy minister of foreign affairs of Russia, declared: “We are going to the Balkans in a different form.”¹⁹

This signaled the political and military withdrawal of Moscow from the Balkan countries and greater involvement in the economic sphere. It also meant a shift in Russian policy towards so-called “softer power.”²⁰ The aim of Russian diplomacy now was to increase economic dependence in the region.²¹ According to James Headley, an expert on Russian politics, rivalry with the EU is not perceived by Russia in terms of a zero-sum game.²² For example, the need for Balkan states aspiring to EU membership to undertake reforms including privatization reforms enables Russia to maintain a greater economic presence in the region.

After Foreign Minister Sergei Lavrov visited the Balkans in December 2004, it was emphasized that “special attention was paid to investment cooperation to increase the share of Russian capital in privatization processes in the countries of the region and to initiate long-term projects in the gas and oil industry.”²³ During this period,

¹⁸ World Bank, *World Bank Open Data*, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=RU&name_desc=false [2020-05-15].

¹⁹ D. Bechev, *Rival Power: Russia's Influence in Southeast Europe*, New Haven (CT), 2017, p. 89.

²⁰ J. Headley, *Russia and the Balkans...*, p. 459.

²¹ N.K. Gvosdev, *Gas, Guns, and Oil: Russia's “Ruble Diplomacy” in the Balkans*, Wilson Center, 2011, <https://www.wilsoncenter.org/publication/gas-guns-and-oil-russias-ruble-diplomacy-the-balkans> [2020-05-15].

²² J. Headley, *Russia and the Balkans...*, p. 458.

²³ The Ministry of Foreign Affairs of the Russian Federation, Alexander Yakovenko, *the Spokesman of Russia's Ministry of Foreign Affairs, Answers Russian Media Questions Regarding Council of Europe*

Moscow, using the USD 280 million debt arising under the rule of Marshal Tito,²⁴ sought to take over state-owned enterprises in the energy sector in exchange for repayment of their financial liabilities. This concerned above all Serbia and Montenegro, which, as the SFRJ successor state, took on most of the debts of the former federation.²⁵ Thus, involvement in energy sector projects provided Moscow with the opportunity for a long-term presence in the region.

The consequence of intensified Russian diplomacy on the economic level was an increase in trade turnover between Serbia and Russia since 2003. In the following year, this amounted to USD 1.5 billion and systematically increased until 2008, when it constituted over USD 4 billion.²⁶ It is worth emphasizing that in 2000 this amounted to almost USD 400 million, indicating a significant improvement in the trade relations of both countries over the years.

4. Strengthening the influence of the Russian Federation in Serbia (2009-2019)

The 2008 financial crisis significantly affected the economic involvement of the Russian Federation in Serbia.²⁷ The initial rise in commodity prices, including oil, caused an improvement in the internal situation in Russia, and as a consequence increased activity, including in Serbia. However, the recession on the global market since the end of 2008 has forced the EU to limit financial support, trade and investment in Southeastern Europe, including Serbia. Even at that time, economist Joseph Stiglitz talked about the consequences of the economic crisis

Secretary General Terry Davis's Upcoming Visit to Moscow, 13 February 2005, https://www.mid.ru/en/press_service/spokesman/answers/-/asset_publisher/OyrhusXGzgLz/content/id/449034 [2020-05-15].

²⁴ J. Headley, *Russia and the Balkans...*, p. 463.

²⁵ Ibidem.

²⁶ J. Simić, 'Ekonomski aspekti strateškog partnerstva Srbije i Rusije', Centar za evroatlantske studije, *Novi vek*, no. 6, 2014, https://www.ceas-serbia.org/images/2015-i-pre/Novi_vek__br_06-J.Simic.pdf [2020-05-15].

²⁷ R. Kebede, 'Oil hits record above \$147', *Reuters*, 11 July 2008, <https://www.reuters.com/article/us-markets-oil/oil-hits-record-above-147-idUST14048520080711> [2020-05-15].

for the countries of the region, which “being economically dependent on Europe, will suffer severely from the crisis.”²⁸

Due to the global financial crisis and the warming of relations between Washington and Moscow under Barack Obama’s first term as the US president (2009-2011),²⁹ Russia remained almost exclusively in the energy sector of Serbia. In Russian-EU relations, however, the 2009 Russian-Ukrainian gas crisis became a problem and pointed to the need for diversification of energy sources by EU member states and also by Serbia, which was temporarily without gas supplies. Although the Russian International Affairs Council (RIAC) emphasized that “Russian investment has become a guarantee of political stability [in the region],”³⁰ its contribution to the economies of the Balkan countries – compared to EU investment – remained low.

In 2012, Russia started to invest in the Serbian banking sector. At that time, the Russian Sberbank bought Austrian Volksbank International AG and thus became present, among others, in Serbia. The company’s authorities emphasized in 2012 that “the acquisition was an important step in Sberbank’s international strategy,”³¹ aimed at increasing the economic dependence of Southeastern European countries. However, Serbia’s banking sector is still dominated by financial concerns from the EU countries. So far, Sberbank has not even found itself among the top ten banks in Serbia.³²

Since 2009, Moscow has also intensified its efforts to provide financial support to Serbia in the form of investment loans and loans to cover the budget deficit. They were to become an alternative to loans granted by the EU and the financial institutions, which were conditioned upon the need to carry out reforms. A good example is the agreement on the transfer of USD 1 billion by the Russian side to

28 R. Panagiotou, ‘The Impact of the Economic Crisis on the Western Balkans and their EU Accession Prospects’, *EUI Working Paper*, no. 64, 2012.

29 H. Cooper, ‘Promises of “Fresh Start” for U.S.-Russian Relations’, *New York Times*, 1 April 2009, <https://www.nytimes.com/2009/04/02/world/europe/02arms.html> [2020-05-15].

30 A. Pivovarenko, ‘Modern Russia in the Modern Balkans: Soft Power through Investment’, RIAC, 23 May 2014, <https://russiancouncil.ru/en/analytics-and-comments/analytics/modern-russia-in-the-modern-balkans-soft-power-through-inves/> [2020-05-15].

31 Sberbank, *Investor Presentation*, 2012, https://www.sberbank.com/common/img/uploaded/ir/docs/investor_presentation_april_2012.pdf [2020-05-15].

32 Narodna banka Srbije, *Bilans stanja/uspeha banaka*, 14 April 2020, https://www.nbs.rs/internet/latinica/50/50_5.html [2020-05-15].

reduce Serbia's budget deficit, which was signed by the presidents of Serbia and Russia in Belgrade in 2009.³³ Moscow emphasized at the time that the loan was intended to offset the negative financial effects of the reforms required by the International Monetary Fund.³⁴

From 2012, Russia also began investing in the Serbian infrastructure sector. This was related to the temporary suspension of the loan agreement by the IMF with Belgrade. In 2013, Moscow transferred USD 800 million in loans for modernizing the Serbian railway, including the construction of a railway connection on the Belgrade–Pančevo route.³⁵ In 2016 the agreement was extended for additional five years. In 2014, Russian State Railways (RŽD International) began implementing the modernization plan for the Serbian railway system, including the reconstruction of the connection between Belgrade and Montenegrin Bar as well as the delivery of new trains. According to the RIAC, "Serbia has become the first of the countries on the European continent in which RŽD International is present."³⁶

In the following years, Russia continued to provide, and often only declare, financial support to Serbia. In April 2013, both parties signed an agreement to provide Belgrade with a USD 500 million loan to cover the budget deficit.³⁷ This coincided with Serbia's suspension of negotiations on the agreement with Kosovo, conducted under the auspices of the EU, which successfully concluded with the "First Agreement of Principles Governing the Normalization of Relations" ("Brussels Agreement").³⁸ Although the Serbians expected more financial support, it eventually received only EUR 344 million from the Russian Federation.

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- 33 B. Barlovać, 'Serbia, Russia Sign Deal on 200 Million Loan', *Balkan Insight*, 10 April 2007, <https://balkaninsight.com/2010/04/07-serbia-russia-sign-deal-on-200-million-loan/> [2020-05-15].
- 34 In 2009, the IMF provided Serbia with a loan of EUR 3 billion to carry out economic reforms. M. Lowen, 'Medvedev makes first visit to Belgrade as Russian president', *Deutsche Welle*, 20 October 2009, <https://www.dw.com/en/medvedev-makes-first-visit-to-belgrade-as-russian-president/a-4810672> [2020-05-15].
- 35 E.R. Petrillo, 'Russian foreign policy towards the Balkans: which perspective?', *ISPI Analysis*, no. 169, 2013, https://www.ispionline.it/sites/default/files/pubblicazioni/analysis_169_2013.pdf [2020-05-15].
- 36 A. Pivovarenko, 'Modern Russia...'
- 37 *The Political Economy of Russian Loans*, World View Stratfor, 16 January 2014, <https://worldview.stratfor.com/article/political-economy-russian-loans> [2020-05-15].
- 38 D. Korsunskaya, 'Russia to lend Serbia \$500 million, pledges support on Kosovo', *Reuters*, 10 April 2013, <https://www.reuters.com/article/us-russia-serbia-loan-idUSBRE9390OP20130410> [2020-05-15].

Although economic support and loans managed by the EU and Western financial institutions were many times higher and – due to lower interest rates – more favorable, Serbia gladly used Russian loans, the receipt of which was not conditional on internal reforms. Thus, the Russian Federation skillfully used the difficult economic situation of country to pursue its own interests.

In May 2013, Russia and Serbia signed a strategic partnership declaration that was assumed to cover all areas of cooperation.³⁹ On this occasion, Putin began his speech by emphasizing the importance of economic relations between the two countries. He referred to the energy projects carried out by Russia in Serbia, primarily the construction of the South Stream gas pipeline, as important for bilateral relations. He also declared that Russia was “continuing to grant loans and financial support to Serbian friends,” including readiness for Russia to bear all the costs of the South Stream project. Assurances, however, were not covered in reality. Ultimately Serbia suffered serious financial losses when Moscow resigned from the pipeline construction.⁴⁰

Financial support provided by the West and the Russian Federation in May 2014 during the largest flood in years in Serbia was also important for Russia’s presence in the region.⁴¹ As a consequence, the country suffered serious financial losses. This became an incentive for Russia to present the EU as not involved in helping the region, despite the fact that Brussels has provided by far the greatest material and humanitarian support to these countries.

The total amount of EU financial assistance to Serbia, excluding individually managed contributions by member states, amounted to over EUR 150 million by 2015.⁴² Russia was involved on an ad hoc basis in the early stages of the crisis, supporting a rescue operation in Ser-

³⁹ The Office of the President of the Russian Federation, ‘Press statements following Russian-Serbian talks’, [kremlin.ru, 24 May 2013, <http://en.kremlin.ru/events/president/transcripts/18181> \[2020-05-15\]](http://en.kremlin.ru/events/president/transcripts/18181).

⁴⁰ Serbia spent approx. 30 million euro on the South Stream pipeline, including land acquisition, preparatory work and projects. The total worth of the investment could have been worth EUR 2.1 billion. I. Nikolić, ‘Serbia Counts Costs of Russian Pipeline Halt’, *Balkan Insight*, 3 December 2014, <https://balkaninsight.com/2014/12/03-serbia-counts-costs-of-gas-pipeline-halt/> [2020-05-15].

⁴¹ M. Szpala, ‘Balkany po powodzi – konsekwencje polityczne i gospodarcze’, *Analizy OSW*, 2014, <https://www.osw.waw.pl/pl/publikacje/analizy/2014-06-04/balkany-po-powodzi-konsekwencje-polityczne-i-gospodarcze> [2020-05-15].

⁴² The Delegation of the European Union to the Republic of Serbia, *EU Assistance for Flood Relief in Serbia*, <https://europa.rs/tag/eu-assistance-for-flood-relief-in-serbia/?lang=en/> [2020-05-15].

bia and by establishing the Russian-Serbian Humanitarian Centre in Niš in 2013. Moscow, however, accused Brussels – paradoxically – of sluggishness and insufficient help. In view of the significant disparities compared to the EU, ultimately Russia did not provide detailed data on the value of aid to Serbia.

The greatest financial support for Serbia so far was directed by the EU. In 2000-2015 Brussels allocated over EUR 3 billion to Belgrade, while the US took the second position on the list of donors, contributing EUR 679 million.⁴³ Russia was not among the fifteen foreign entities, including countries such as Germany (EUR 350 million), Japan (EUR 114 million) and China (EUR 9.5 million), directing the largest financial resources to Serbia in that period.

Nevertheless, Serbia and Russia are still intensifying their trade cooperation. In 2018, the value of the trade turnover was EUR 3.6 billion, which was nearly 19% more than in the previous year. It is worth emphasizing that Serbia has a huge negative trade balance. In 2018, Serbian imports from Russia amounted to EUR 1.726 billion, whereas Serbian exports to Russia were only worth EUR 864 million. According to estimates, approximately 70-80% of the Serbian imports from Russia were in oil and gas. Thereby, Russia is Serbia's fifth biggest trading partner when it comes to Serbian exports (after Italy, Germany, Bosnia and Hercegovina, and Romania), and the fourth biggest partner in Serbian imports (after Germany, Italy and China).⁴⁴

During the last visit by the Russian president to Serbia in January 2019, 26 intergovernmental agreements were signed, including agreements on nuclear energy cooperation, railway infrastructure (worth EUR 230 million), and modernization of the Banatski Dvorgas storage.⁴⁵ However, these are mostly non-binding memoranda.

In October 2019, Serbia signed a free-trade agreement with the Russian-led Eurasian Economic Union (EES), despite opposition from

⁴³ EU Info Centre in Belgrade, *Growing Together 2 Most Successful EU Funded Projects in Serbia*, 2016, https://euinfo.rs/files/Growing_Together_2.pdf [2020-05-15].

⁴⁴ Statistical Office of the Republic of Serbia, *External trade*, December 2018, <https://publikacije.stat.gov.rs/G2019/PdfE/G20191199.pdf> [2020-05-15].

⁴⁵ M. Szpala, W. Rodkiewicz, 'Putin w Belgradzie – entuzjazm zamiast konkretów', *Analizy OSW*, 2019, <https://www.osw.waw.pl/pl/publikacje/analizy/2019-01-18/putin-w-belgradzie-entuzjazm-zamiast-konkretow> [2020-05-15].

the EU.⁴⁶ The agreement did not replace the bilateral free trade deals between Serbia and Russia, Belarus and Kazakhstan. The EES countries have not so far played a curtailing role in the Serbian trade turnover. In fact, it was mainly a political step by Russia to check Serbia's loyalty. If Serbia had joined the EU, it would be forced to denounce all its free trade agreements with Russia.

However, according to many Western experts, "the Russian economic presence, concentrated mainly in Serbia, Bulgaria, Montenegro and the Republic of Serbia, is now greater than ever since the beginning of the 1990s,"⁴⁷ therefore the increasing Russian presence in the Balkan countries should be closely monitored. Nevertheless, real Russian power to interact is mostly overestimated.

5. Russian presence in the Serbian energy sector

Since the beginning of the 21st century, the energy sector in the western Balkans has been one of Russia's key areas of influence. Due to its geographical location, the region plays a significant role as a potential route for the transit of energy resources to Western and Central Europe. In addition, due to the very limited amount of energy sourced, Serbia is also heavily dependent on natural gas and oil from Russia. The importance to Russia of the Balkan countries has increased since 2004 when Russian-Ukrainian relations deteriorated. Moreover, due to the gas crisis of January 2009, during which the Russian group Gazprom completely cut off the supply of natural gas from a pipeline passing through Ukraine, many European countries, including Serbia, were deprived of direct supplies of raw material for several weeks.

Plans related to the use of the Balkan countries as a transit corridor were also considered in the 1990s by Russia, the EU and the US. At that time Moscow sought to build the so-called "Orthodox" oil pipeline

46 'Serbia Signs Trade Agreement With Russia – Led Eurasian Economic Union', *Radio Free Europe/Radio Liberty*, 29 October 2019, www.rferl.org/a-serbia-to-sign-trade-agreement-with-russia-led-eurasian-economic-union/30235917.html [2020-05-15].

47 LSEE Research on South Eastern Europe & SEESOX South East European Studies at Oxford, London School of Economics, *Russia in the Balkans. Conference Report (13 March 2015)*, <http://www.lse.ac.uk/LSEE-Research-on-South-Eastern-Europe/Assets/Documents/Events/Conferences-Symposia-Programmes-and-Agendas/2015-Report-Russia-in-the-Balkans-merged-document.pdf> [2020-05-15].

(Burgas-Alexandroupolis), passing through the territories of Bulgaria and Greece. This initiative was a sign of the growing importance of the region in the energy sphere. In the mid-1990s, Russia was developing a plan to build a natural gas pipeline through the Balkans. In 1996, Yugorosgaz was established, a joint Serbian-Russian venture responsible for the construction of the pipeline. Moscow was using the project as a carrot for a number of concessions from the Serbian side in the energy sphere. Nevertheless, the construction project was suspended and since 2007 the company has been Serbia's natural gas purchaser.

In the early 2000s, the Russian ambassador to Romania said that "Southeast European countries should create the right conditions for receiving Russian capital."⁴⁸ This mainly concerned the implementation of projects by energy sector concerns, Gazprom and Lukoil, and demonstrated Moscow's growing economic interest in the region, especially since 2003.⁴⁹ In 2003, Lukoil acquired a 79.5% share in Beopetrol – Serbia's second-largest petrol chain – for EUR 117 million. It is estimated that since 2000 Gazprom and Lukoil made investments in Serbia worth between USD 2 billion⁵⁰ and more than USD 20 billion.⁵¹

Russia, while maintaining its monopolistic position on the energy market, is imposing relatively high prices for natural gas and oil on Serbia compared to the quotas offered to Western European countries. For example, in 2013 Belgrade paid USD 720 for 1m³ of natural gas.⁵² In turn, the average price of Russian raw material for Western European countries in this period was USD 574 per 1m³. The disproportionate pricing was primarily because of Serbia's high degree energy dependence on natural gas from Russia, namely 80%.⁵³

48 N.K. Gvosdev, *Gas, Guns, and Oil...*

49 M. Simurić, 'Russian Energy Policy and the Balkans', in: *Energy in Southeast Europe. The Sixth Report of the Monitoring Russia-Serbia Relations Projects*, ISAC Fund, 2017, <https://www.isac-fund.org/wp-content/uploads/2017/01/Energy-in-the-SEE.pdf> [2020-05-15].

50 *Assessing Russia's Economic Footprint in the Western Balkans: Corruption and State Capture Risk*, Center for the Study of Democracy, 2018, p. 16.

51 *Russia in the Balkans. Conference Report (13 March 2015)...*, p. 8.

52 B. Trivić, 'Why does Serbia pay the highest price for Russian gas?', *Radio Free Europe/Radio Liberty*, 27 August 2014, <https://www.slobodnaevropa.org/a/why-does-serbia-pay-the-highest-price-for-russian-gas/26553217.html> [2020-05-15].

53 D. Breban, *Serbia – Between the hammer and the anvil: an overview of the security of supply in South-Eastern Europe*, Belgrade Centre for Security Policy, 2018, www.bezbednost.org/upload/document/serbia_between_the_hammer_and_the_anvil.pdf [2020-05-15].

In the meantime, the EU had recognized the growing Russian interest in the Serbian energy sector. Then European Commission President José Manuel Barroso stated that energy issues should not be allowed to divide Europe and Russia, as had happened during the Communist period.⁵⁴ The same declaration was made by Putin during the June 2007 Energy Summit in Zagreb. The Russian leader diplomatically emphasized that Moscow's goal is to develop cooperation with the countries of Southeastern Europe based on experience gained so far with actions taken with the EU.⁵⁵ Then, the EU intensified its activities for the construction of the Nabucco gas pipeline. The pipeline was to run from Turkey through Bulgaria, Romania and Hungary, to Austria. Plans to create an interconnector connecting Serbia and Bulgaria were considered. In 2008, Gordon Brown, then UK Prime Minister, warned that in order to weaken Russian potential, greater intra-community support for the Nabucco project was needed.⁵⁶

Around the same time, Moscow began efforts to build the South Stream gas pipeline, transporting gas from Russia to Bulgaria, and then through the territories of Serbia, Hungary and Slovenia to Austria as an alternative project to the Nabucco pipeline.⁵⁷ In December 2006 the Russian company signed an agreement with the company Srbijagas to conduct research related to the construction of the pipeline. In January 2008, Moscow and Belgrade signed an energy agreement which assumed that the northern pipeline line would pass through Serbia. The decision was also made to establish a joint enterprise responsible for the construction of the Serbian section of the gas pipeline and for Gazprom to take over the only Serbian gas storage facility located in Banatski Dvor.⁵⁸ Dmitry Medvedev, then a candidate for president of

54 K. Engelbrekt, I. Vassilev, 'European energy policy meets Russian bilateralism. The case of South-Eastern Europe', in: K. Engelbrekt, B. Nygren, *Russia and Europe. Building bridges, digging trenches*, Abingdon-on-Thames 2010, p. 194.

55 The Office of the President of the Russian Federation, 'President Vladimir Putin took part in the Balkan Energy Cooperation Summit', kremlin.ru, 24 June 2007, <http://en.kremlin.ru/events/president/news/40813> [2020-05-15].

56 K. Engelbrekt, I. Vassilev, 'European energy policy...', p. 200.

57 K.M. Pronińska, *Bezpieczeństwo energetyczne w stosunkach UE – Rosja. Geopolityka i ekonomia surowców energetycznych*, Warszawa 2012, p. 223.

58 'Serbia signs strategic energy deal with Russia', Reuters, 25 January 2008, <https://uk.reuters.com/article/uk-russia-serbia-idUKL2515142420080125> [2020-05-15].

Russia, stressed that “[Russian-Serbian] close political relations were converted into economic results.”⁵⁹

It should be emphasized that the signing of the agreement took place during the Kosovo independence campaign. Moscow took advantage of Belgrade’s tense relations with the EU and the US to conclude an unfavorable arrangement for the Serbian side. It also assumed that Gazprom Nefte would take over 51% of shares in the state-owned company NIS (*Naftnaindustrija Srbije*).⁶⁰ The Russian group bought a majority stake in the enterprise for EUR 400 million, although the estimated market prices ranged from EUR 1 billion to EUR 2 billion. Thus, with a relatively small financial outlay, the Russian company gained control over the oil processing sector and the fuel sector in Serbia. In exchange for the purchase of shares on preferential terms, the Russian side undertook to invest EUR 550 million in the enterprise by 2012 and promised to create new jobs.⁶¹ However, it eventually failed to comply with the contract, whereas according to the NIS authorities since 2009 over EUR 3 billion have been invested in the development of the company.⁶² As a consequence, Russia monopolized the energy market in Serbia in exchange for support for maintaining the territorial integrity of the state. In later years, Russia continued to invest in the Serbian gas, oil and fuel sector. In 2011, Gazprom Nefte increased its share in NIS to over 56%, leaving almost 30% in Serbian state ownership.⁶³ Over the years, NIS has become a leading enterprise in the energy sector in the region.

Russia’s increasing activity in the energy sector of the Balkan countries has prompted the EU to intensify its efforts to weaken Russian impact in the region. In April 2014, the European Parliament voted

⁵⁹ Ibidem.

⁶⁰ A. Łoskot-Strachota, ‘Ekspansja Gazpromu w UE – kooperacja czy dominacja’, *Raport OSW*, 2009, <https://www.osw.waw.pl/pl/publikacje/raport-osw/2009-10-15/ekspansja-gazpromu-w-ue-kooperacja-czy-dominacja> [2020-05-15].

⁶¹ A. Pivovarenko, ‘Modern Russia...’

⁶² NIS Group Performance Presentation For 2019, http://ir.nis.eu/fileadmin/template/nis/pdf/Reporting/Presentations/English/Presentation_Results_2019_eng_final.pdf [2020-05-15].

⁶³ Centralni registar depo i kliring hartija od vrednosti, *Statistički pravaz vlasništva AD – NIS A.D. Novi Sad*, www.crhov.rs/?Opcija=22&odabranitementjmb=138FFCF71BC50D8E&isin=73EC82867CBB718ACoFBEC0D7 [2020-05-15].

against the construction of the South Stream pipeline.⁶⁴ Two months later, the European Commission initiated a procedure against Bulgaria for breach of EU law due to a lack of transparency when choosing the contractor for their South Stream pipeline section. As a consequence, Bulgaria suspended works related to the construction of the pipeline, which in turn influenced Moscow's decision to abandon the initiative.⁶⁵ Putin announced this news during an official December 2014 visit to Turkey, blaming the EU for the failure of the initiative.⁶⁶ It should be emphasized that the decision was made public without prior notice to the authorities of the countries involved in the pipeline construction project.

The initiative to create the South Stream was replaced by Russia with the Turkish Stream, which would transport gas i.a. through Serbian territory. Moreover, the current agreement on natural gas deliveries, which was signed in 2012, provides for the delivery of up to 5 billion cubic meters of gas per year between 2012 and 2021. In the amendments made in 2018, both sides agreed to enable Serbia to re-export Russian gas, although it would have to build a new infrastructure to do so.⁶⁷

During his last visit to Serbia in January 2019, Putin declared that Gazprom is planning to invest USD 1.4 billion in Serbian gas infrastructure by 2025.⁶⁸ This relates mainly to the construction of the Serbian section of the Turkish Stream gas pipeline. As a result, in February 2020 the Serbian energy regulator approved Gastrans, formerly South Stream Serbia, as an "independent" gas grid operator. It is important

64 Ch. Olivier, J. Farchy, 'Russia's South Stream gas pipeline to Europe divides EU', *Financial Times*, 4 May 2014, <https://www.ft.com/content/a3fb2954-d11d-11e3-9f90-00144feabdco> [2020-05-15].

65 D. Kalan, 'Bałkański przystanek gazociągu South Stream', *Biuletyn PISM*, no. 75 (1187), 2014, https://pism.pl/publikacje/Ba_ka_ski_przystanek_gazoci_gu_South_Stream [2020-05-15].

66 S. Walker, 'Russia blames EU as it abandons plans for South Stream gas pipeline', *The Guardian*, 1 December 2014, <https://www.theguardian.com/business/2014/dec/01/russia-blames-eu-as-it-abandons-plans-for-south-stream-gas-pipeline> [2020-05-15].

67 M. Zivanović, 'Serbia Eyes Chance To Sell on Russian Gas', *Balkan Insight*, 15 March 2018, <https://balkaninsight.com/2018/03/15-serbia-to-re-export-russian-gas-03-14-2018/> [2020-05-15].

68 'Serbia: Russia to Invest 1.4 billion USD in gas infrastructure', *Serbia Energy*, 26 January 2019, <https://serbia-energy.eu/serbia-russia-invest-1-4-billion-dol-lars-gas-infrastructure/> [15.05.2020].

to note that Russian Gazprom holds a 51% stake in the company, with the state-owned Srbijagas holding the remaining 49%.⁶⁹

6. The Russian influence – the perception of Serbia

• Serbia inherited the tendency to conduct foreign policy in terms of multi-vector policy from the rule of Tito in Yugoslavia. Due to geographic allocation and historical experience, as evidenced by the symptomatic term “soft underbelly of Europe”, post-Yugoslavian states do not, however, reject any possible level of cooperation, striving to balance between West and East in order to achieve their own goals and maintain the attention of other countries. The best example of this is the policy of Serbia towards the EU and Russia, highly motivated by the “open Kosovo issue.” In recent years, Serbia has also been implementing a similar policy in relation to China.

After the fall of Milošević’s rule, in 2001 the FRY’s Ministry of Foreign Affairs adopted four diplomacy goals, in which Russia was included along with the Serbian main goal to join the EU.⁷⁰ In 2009, at the beginning of the rule of pro-Western President Boris Tadić, the other so-called four pillars of Serbia’s foreign policy were announced, which included the EU, the US, Russia and China. The concept outlined the priority areas of Serbian diplomacy and remains relevant to this day.

According to national opinion polls in 2019, Russia is perceived as a friend by 87% of Serbs, while 25,5% of respondents think that Russia is the biggest Serbian donor.⁷¹ In comparison, in the latter question, the EU scored a second place and 25,3% of respondents’ votes. According to the a public survey conducted by the Serbian Institute for European Affairs and published in May 2020, 86% of Serbian citizens believe that Russia is a friend of Serbia, although only 11% of respondents have

⁶⁹ ‘Serbia’s Gastrans invites binding bids for new gas link’, *Reuters*, 11 March 2019, <https://www.reuters.com/article-serbia-gas-turkstream-serbias-gastrans-invites-binding-bids-for-new-gas-link-idUSL8N2oY4F8> [2020-05-15].

⁷⁰ R.M. Torrabla, ‘Belgrade at the crossroads: Serbian-Russian relations in light of the Ukraine crisis’, *Real Instituto ELCANO*, no. 64, 2014, http://www.realinstitutoelcano.org/wps/portal/rielcano_en/_contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari63-2014-montes-belgrade-crossroads-serbian-russian-relations-ukraine-crisis [2020-05-15].

⁷¹ ‘Stavovi građana srbije prema Rusiji’, *Institut za evropske poslove*, no. 17, 2019, <http://iea.rs/wp-content/uploads/2019/09/2019-Stav-gra%C4%91ana-Srbije-prema-Rusiji-mart-2019-final.pdf> [2020-05-15].

ever been to Russia.⁷² Moreover, 14% of Serbian citizens consider Russia to be the biggest foreign investor in the country, which puts Russia in third place behind China (40%) and the EU (17.6%).

In fact, however, the EU and member states allocated over EUR 3.5 billion to Serbia in 2000-2013, which represented almost 74% of total foreign financial support for Belgrade, while Russia was not even among the ten largest donors. This illustrates well the effectiveness of media coverage carried out by the Russian Federation in the countries of the region, including Serbia. This belief was also reinforced by Serbian politicians. Tomislav Nikolić, being the President of Serbia, said publicly to Putin that “he only loves Serbia more than Russia.”⁷³ In 2007, being then an opposition politician, he declared that “it would be better for Serbia to become a Russian province than to join the European Union.” A similar policy has been driven by Aleksandar Vučić, Serbian Prime Minister from 2014 to 2017, and the current president of the country, who thanks to the Russian authorities at any opportunity for protecting Serbian interests⁷⁴ and repeats that “Serbia is privileged by the closest friendship with Russia.”⁷⁵

Besides the declared “Slavic brotherhood” or “Orthodox solidarity,” Serbian-Russian relations are driven by pragmatism. Serbian policy is still motivated by the defense of Serbian interests by Russia in the UN Security Council, mainly in the context of Kosovo’s status. It will be used by the Russian side as a bargaining chip as long as the Kosovo issue will be resolved.

⁷² ‘Stavovi građana srbije prema Rusiji’, *Institut za evropske poslove*, no. 21, 2020, <https://iea.rs/wp-content/uploads/2020/05/Stav-gra%C4%91ana-Srbije-prema-Rusiji-mart-2020.pdf> [2020-05-15].

⁷³ ‘Nikolić pada “pred noge” Putinu: Od Rusije više volim samo Srbiju’, index.hr, 10 December 2012, <https://www.index.hr/vijesti/clanak/Nikolic-pada-pred-noge-Putinu-Od-Rusije-vise-volim-samo-Srbiju/636230.aspx> [2020-05-15].

⁷⁴ ‘Vučić: Srbija i Rusija, prijatelji na racionalnim osnovama’, politika.rs, 27 October 2015, <http://www.politika.rs/sr/clanak/342118/Vucic-Srbija-i-Rusija-prijatelji-na-racionalnim-osnovama> [2020-05-15]; ‘Vucic Expresses “Deep Gratitude” To Putin As Serbian, Russian Leaders Meet At Kremlin’, Radio Free Europe/Radio Liberty, 2 October 2018, <https://www.rferl.org/a/vucic-expresses-deep-gratitude-to-putin-as-serbian-russian-leaders-meet-at-kremlin/29521732.html> [2020-05-15].

⁷⁵ ‘Vučić čestitoao Putinu Dan Rusije: Srbija će nastaviti razvoj saradnje sa Rusijom’, N1info.rs, 10 June 2020, <http://rs.n1info.com/Vesti/a608655/Vucic-cestitao-Putinu-Dan-Rusije-Srbija-ce-nastaviti-razvoj-saradnje-sa-Rusijom.html> [2020-06-20].

Conclusions

Russia's presence in Serbia and the Western Balkan region is motivated mainly by the desire for the state to be perceived as a global power and to maintain that belief in Russian society. In addition, it is important that the region plays a strategic role for the EU and the US, which is another level of competition between the Russian Federation and the West. From the Russian perspective, the political and economic impact on non-EU and NATO countries, like Serbia, is facilitated.

As a consequence of Serbia's future accession to the European Union, the Russian Federation would see the possibility of influencing the country as a Trojan horse in order to internally divide the organization, reduce cohesion, and divide the member states on issues crucial to Moscow's interests. Moreover, Russia skillfully uses Serbia's negative historical experience with NATO and the bargaining chip of international recognition of Kosovo to pursue its own interests, including strengthening its presence in Serbia's energy sector.

The declared close cooperation in other economic sectors is negligible, as is the volume of Russian foreign direct investment and donations. However, as public opinion polls show, a significant part of Serbian society (25% in 2019) believe that Russia is the largest foreign donor in Serbia, even though it is not even in the top ten. However, the pro-governmental and Russia-affiliated Serbian media plays a key role in promoting this positive message.

By implementing a multi-vector policy, Serbia has been using the impact of Russia to influence the greater interest of the EU in its country and take advantage of positive aspects related to European integration, including the acquisition of significant pre-accession funds, which – mainly due to the size of population – are still the largest among all Western Balkan countries. Ultimately, all these obscure the most important issues – the state of the rule of law, freedom of the media, and corruption.

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