The economic influence of Russia in SEE

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The Western view of Russian presence in SEE

Russia: Hegemon with nuclear weapon Or world power in decline

The crisis of current concept of world order.

‘Munich speech’ as a turning point of global security system reshaping (Munich Conference on Security Policy, 2007).

The need of ‘New world order’: from unipolar towards multi-polar world, balance-of-power principles. Challenges for global political architecture.

New place for the Balkans in the Russian foreign economic policy

Russian approach to the Balkans

Mutual dependence of foreign policy and economy

Flexible policy, swift decisions, consideration of local factors. Lack of long-term strategy.

Soft power over hard power. “Might is right” rule is not acceptable

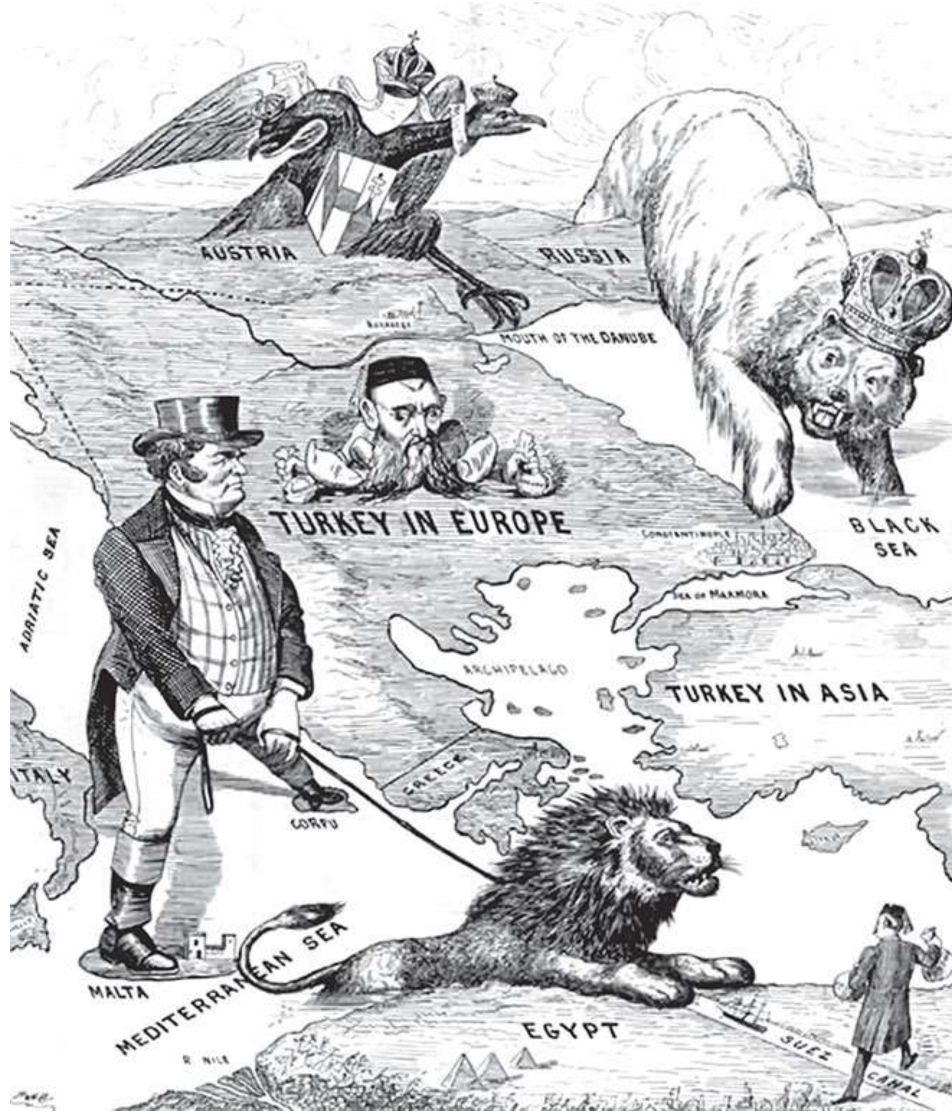
Soft power:

- cultural ties, historical Slavic legacies / symbols of ‘brotherhood’
- TNCs investments etc.

1990-ies: limited influence, Yugoslav wars as “Balkan humiliation of Russia”
2000-ies: active economic policy due to the increase of export revenues, formation of “ruble diplomacy”

Clash of civilizations
Russia vs. West (values, NATO, etc.): the Balkans as a “buffer zone”, arena of competition, important battleground.
Western attitude: marginalized European periphery, “soft underbelly”
Russian attitude: - “The Balkan region is of a great strategic importance to Russia, including the role for transport and infrastructure since its territory is used for deliveries of oil and gas in the European countries” (Russian Foreign Policy Concept, 2013); SEE as a third regional priority in the Concept.

The Balkans as a region of particular importance (1)



The Balkans as a region of particular importance (2)

THE BOILING POINT.

Western fears:

Russian “Trojan horse” policy

with a help of current and future member states

Intervention via the “back door” (the Balkans).

Containment of further NATO expansion into the republics of former Soviet Union

Factors and instruments of Russian influence in the region

-**UN Security Council** decisions (Kosovo case, Srebrenica resolution)

- The Balkans states: uncertainty over the EU prospective . Russia uses a **slowdown in the integration** process (Serbia, BiH, Macedonia). Closer cooperation with Russia as alternative to the “europeanisation” and other regional (Turkey) and global (China, USA) powers.

-Russia takes advantage of **economic crisis in the EU**: reorientation of foreign economic relations of the region. Western Europe undermines its economic position in the region due to the responsibility for “export of crisis”.

- Support of **eurosceptic** (incl. anti-enlargement) political movements – from ultra-left to ultra-right. Making new political allies, creation of loyal elites.

- **Propaganda** instruments affecting different issues – from political to cultural.

- **TNCs activities** as a ‘channel’ of expansion: do their decisions follow the needs of foreign policy? Business (profit-seeking) or national interests. Differences: state or private, energy sector or other industries (e.g. Gazpromnest / Zarubezhneft vs. LUKoil / Rusal strategies).

Political barriers for capital flows from Russia (INA case, Belene / Kozloduy, pipelines)

“Black and white”:

the Western view on the role of the EU and Russia in the region

The EU

- -constructive actions
- - possible membership as a driving force for reforms
- - spreading democracy and principles of market economy
- - win-win cooperation and mutual interest
- - security guarantees

Russia

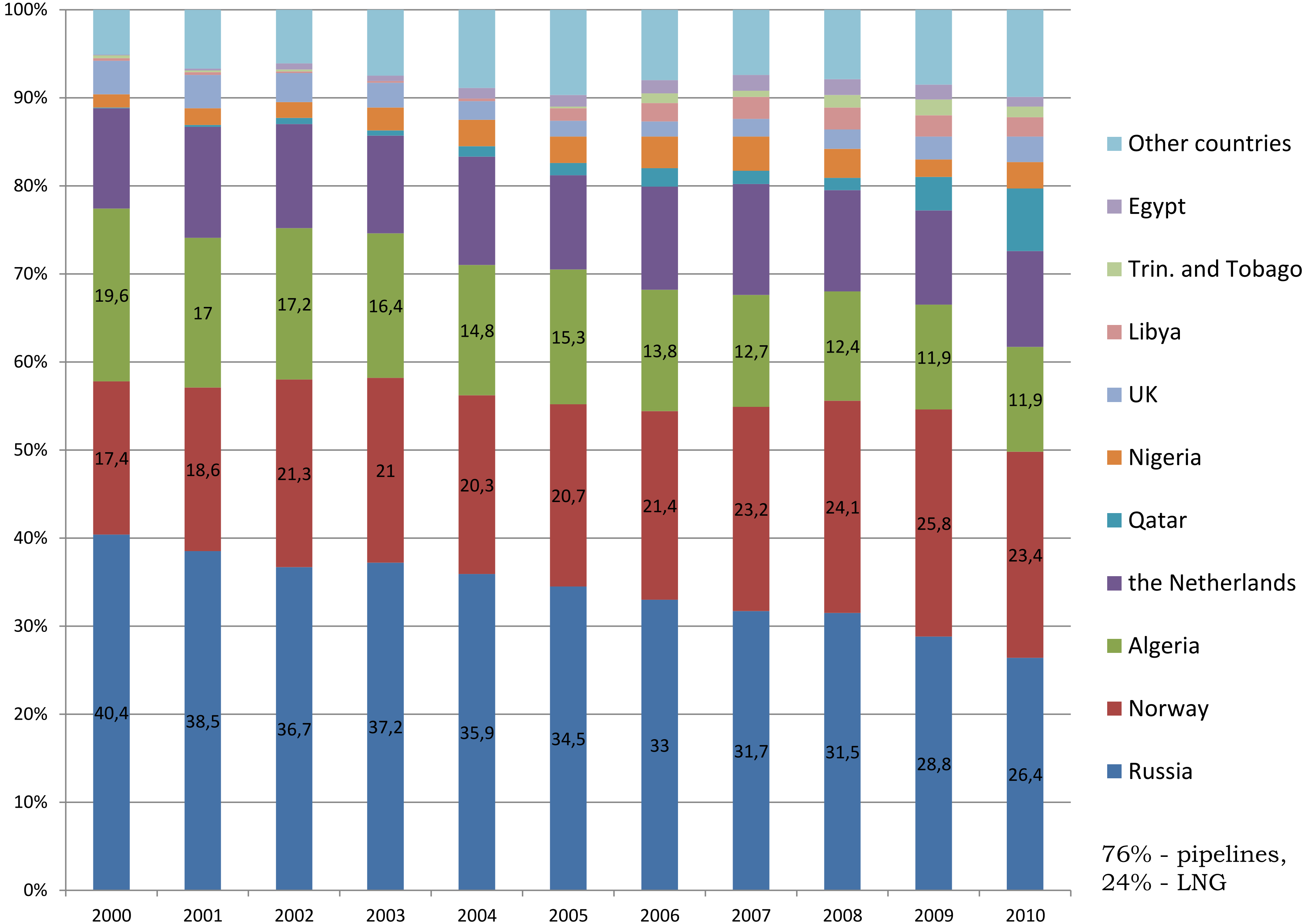
- -dangerous spoiler in general
- -disruptive actions and revisionist aims
- -provoking ethnic tensions and instability
- - erosion of state independence
- - non-transparent business and investment models
- -economic intervention thanks to corruption and underdeveloped institutions
- - spoiling the local methods of governance (“creeping oligarchisation”, “putinisation”)
- -halting the spread of democracy, the rule of law and transparency
- - preventing Euro-Atlantic integration
- -deterioration of energy security

Western "salvation plan" for the Balkans

- to stop the marginalization of the region and to rise the attention to it
- to adopt a strategy that reflects common interest of the EU member states
- to accelerate integration into the EU and NATO
- to unify Common Foreign and Security Policy (with particular attention to candidate countries)
- to examine investment projects (e.g. pipelines which are not exempt from the Third Energy Package)
- to control over Russian TNCs, in particularly in energy sector

Energy dependence as a key factor

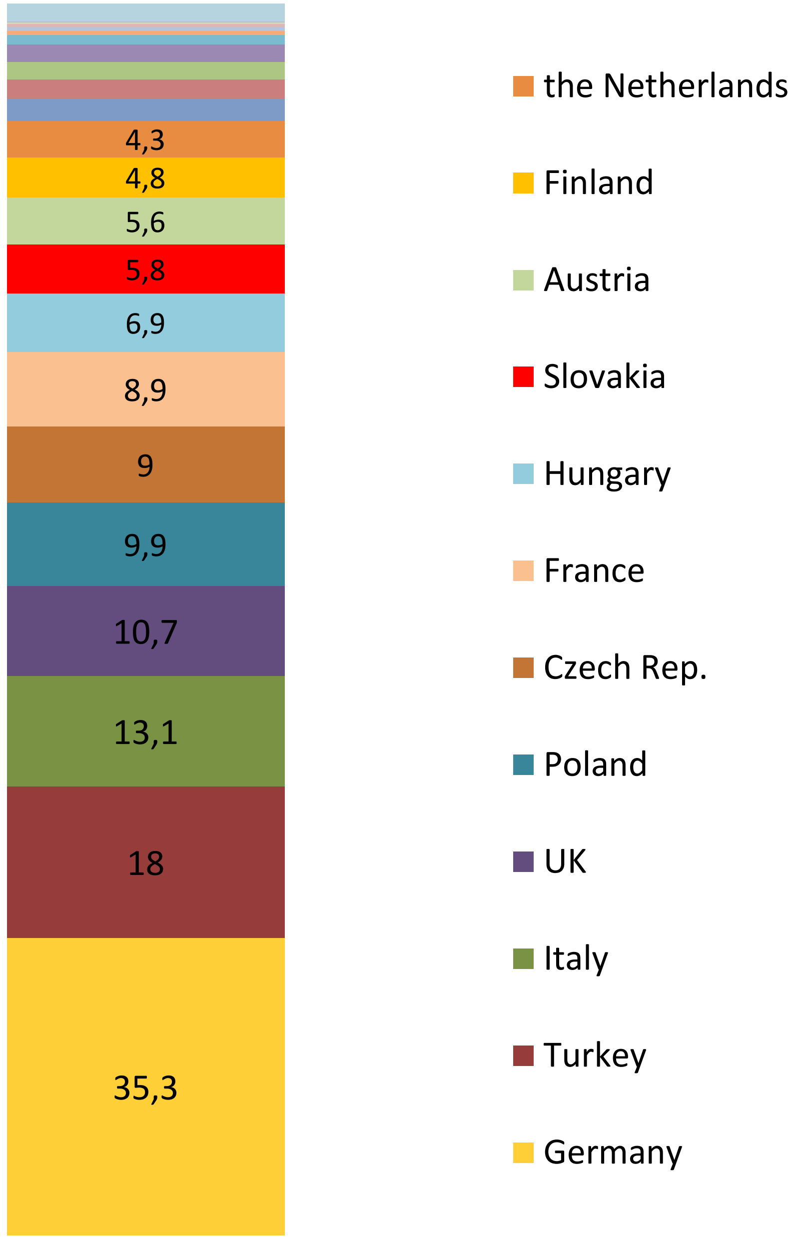
Structure of natural gas import of EU member states, %
(by gross calorific value)



76% - pipelines,
24% - LNG

SEE countries: the volume of Russian gas consumption is low…

Russian natural gas export structure (2010), bill. cubic m



… but the importance of it for local economies is high

Slovakia	96-100
Finland	96-100
BiH	96-100
Macedonia	96-100
Bulgaria	94-98
Serbia	90-94
Czech Rep.	74-78
Poland	61-65
Austria	57-61
Hungary	55-59
Greece	52-56
Turkey	51-55
Slovenia	48-52
Germany	36-40
Croatia	36-40 0 (2011)
Italy	21-25
Romania	16-20
France	14-18
Switzerland	12-16
UK	8-12
the Netherlands	7-11
Belgium	1-5

Share of Russian gas in the total consumption structure (2010)

Energy security concerns

European Energy Security Strategy, European Commission, May 2014.

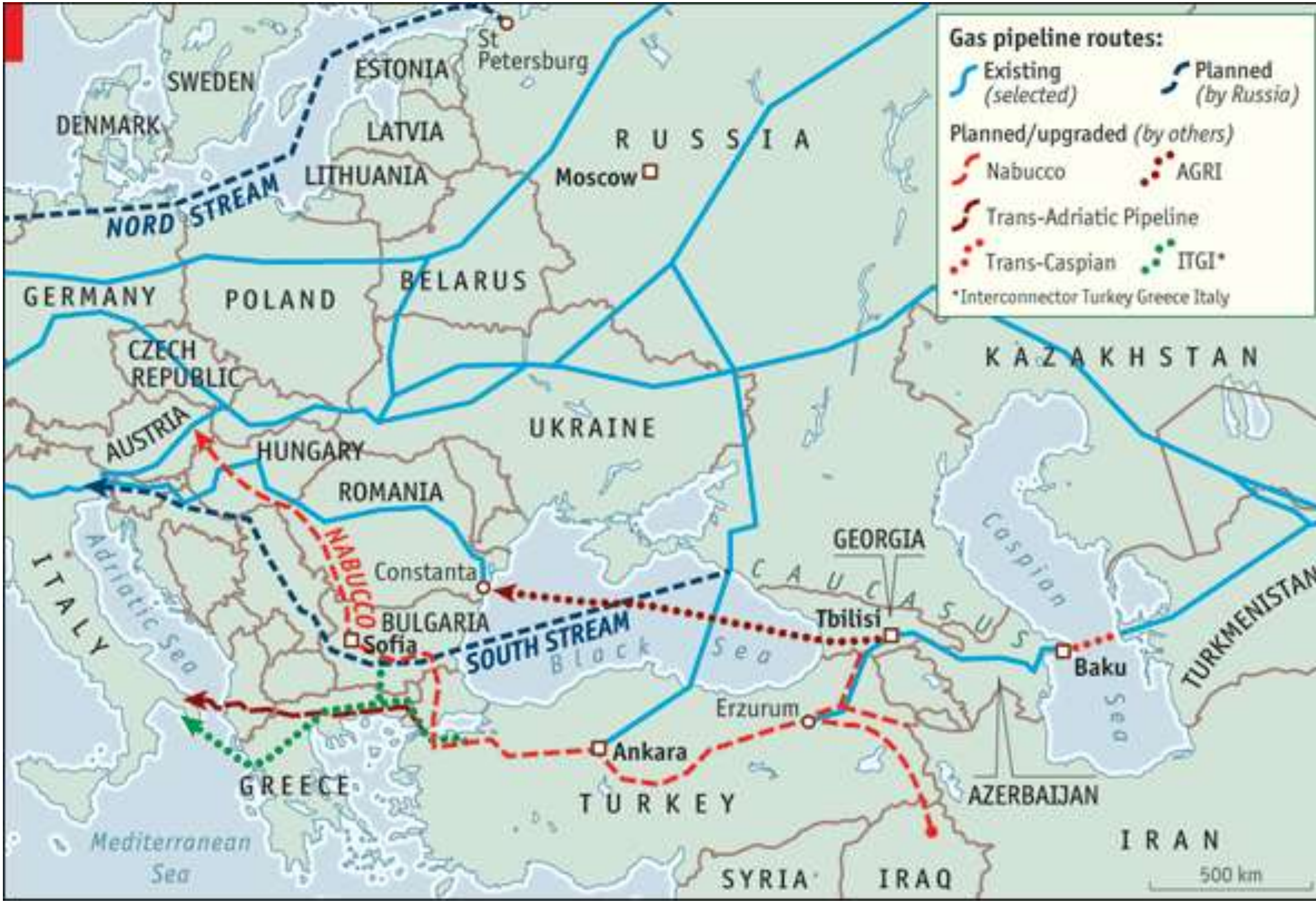
In 2013 energy supplies from Russia accounted for **39% of EU natural gas imports** or 27% of EU gas consumption; Russia exported 71 % of its gas to Europe.

There are, however, issues that need **to be closely monitored** and that require a **more strategic coordination** of the EU's **oil policy**:

- The dependence of the EU's refinery industry on Russian crude oil;
- The increased concentration in the Russian oil industry, and the increased ownership of EU refinery capacity by Russian oil companies;

The EU refining sector faces significant challenges to remain competitive as evidenced by the reduction in refining capacity and foreign investment, in particular from Russian companies which **add to the dependence on Russian crude oil.**

Russia is a key competitor in nuclear fuel production, and offers integrated packages for investments in the whole nuclear chain. Therefore, particular attention should be paid to investments **in new nuclear power plants to be built in the EU using non-EU technology**, to ensure that these plants are not dependent only on Russia for the supply of the nuclear fuel.



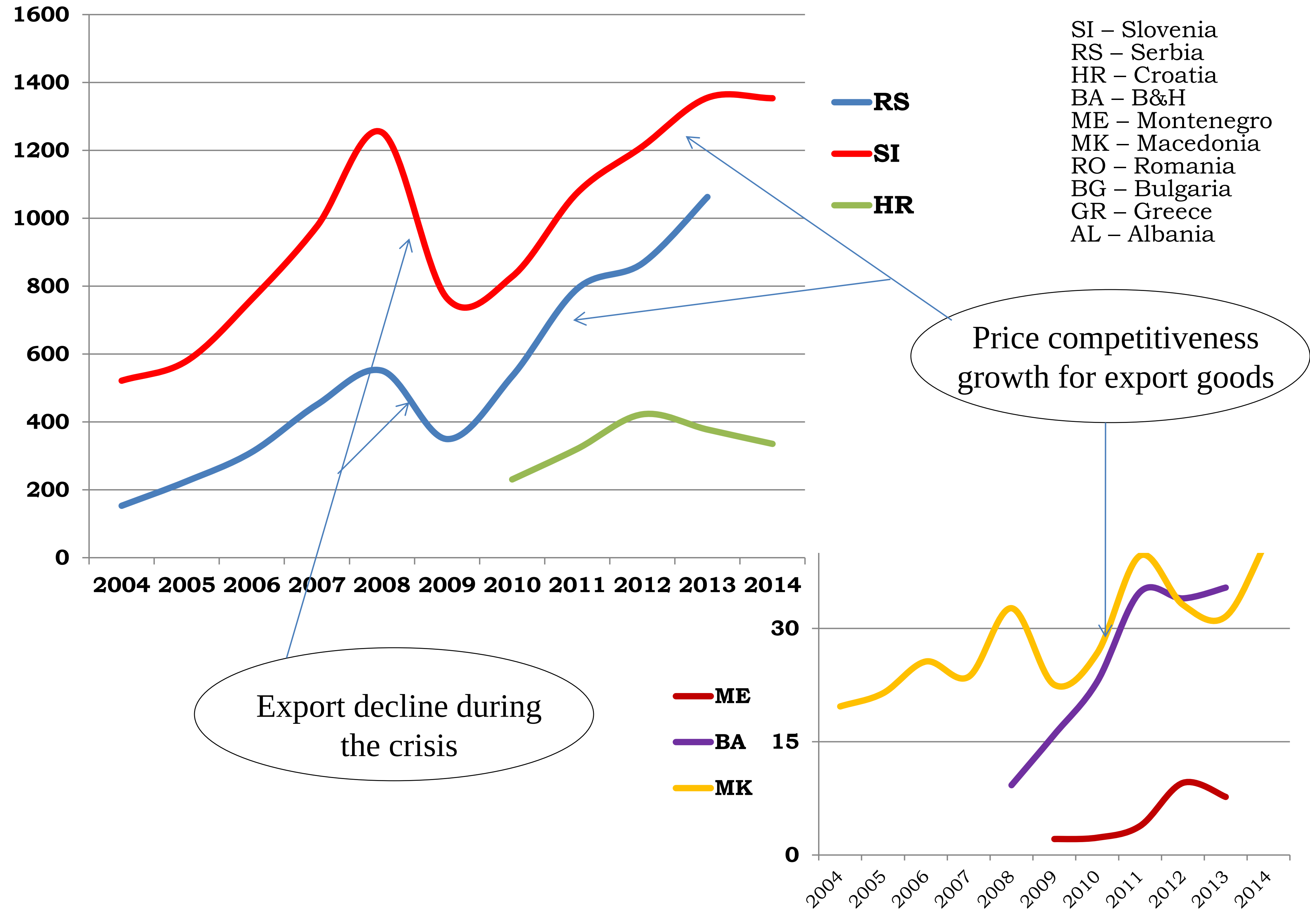
Source: www.economist.com


Balkan Oil Transit Pipeline Projects
SLOVENIA
Ljubljana
HUNGARY
Trieste
Zagreb
Proposed Adria Reversal
Omisalj-Trieste Pipeline
Omisalj
Adria
ROMANIA
Odesa
Kherson
Constanta-Omisalj Pipeline
(Balkan Route)
CROATIA
BOSNIA AND HERZEGOVINA
Belgrade
ITALY
SERBIA AND MONTENEGRO
Bucharest
Constanta
Existing pipeline
Existing bypass pipeline
Planned pipeline
Proposed bypass pipeline
Tanker route
Selected refinery
Selected tanker terminal
Sofia
BULGARIA
Burgas
Black Sea
ALBANIA
Skopje
AMBO Pipeline
Tirana
F.Y.R.O.M.*
Kiyikoy
Bosporus
Vlore
Thessaloniki
Alexandroupolis
Istanbul
Saros
Kocaeli (Izmit)
Dardanelles
Ankara
Ionian Sea
Aegean Sea
Pipeline alignments are approximate

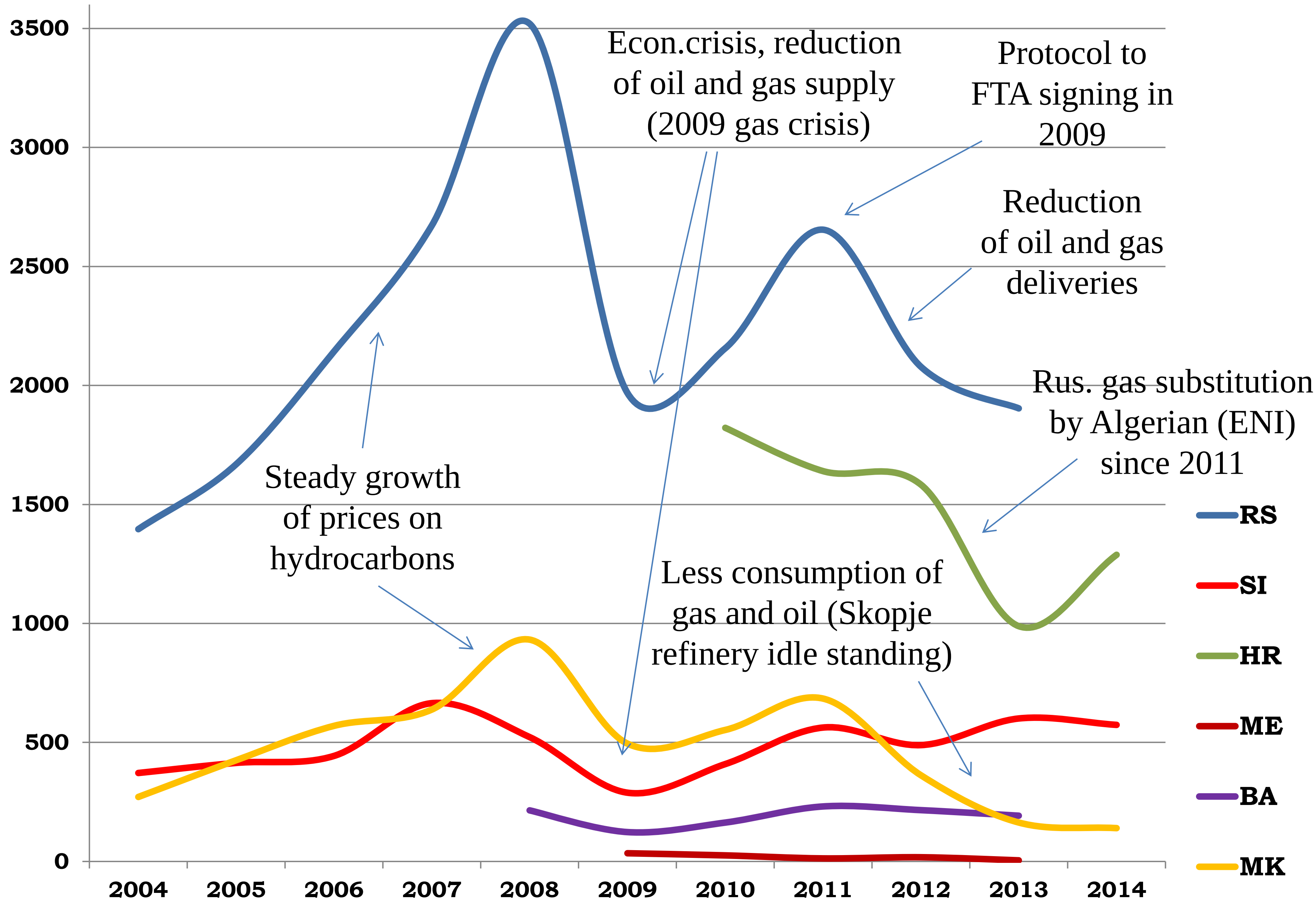
Russian influence in SEE: goods and capital flows

Intra-regional differences

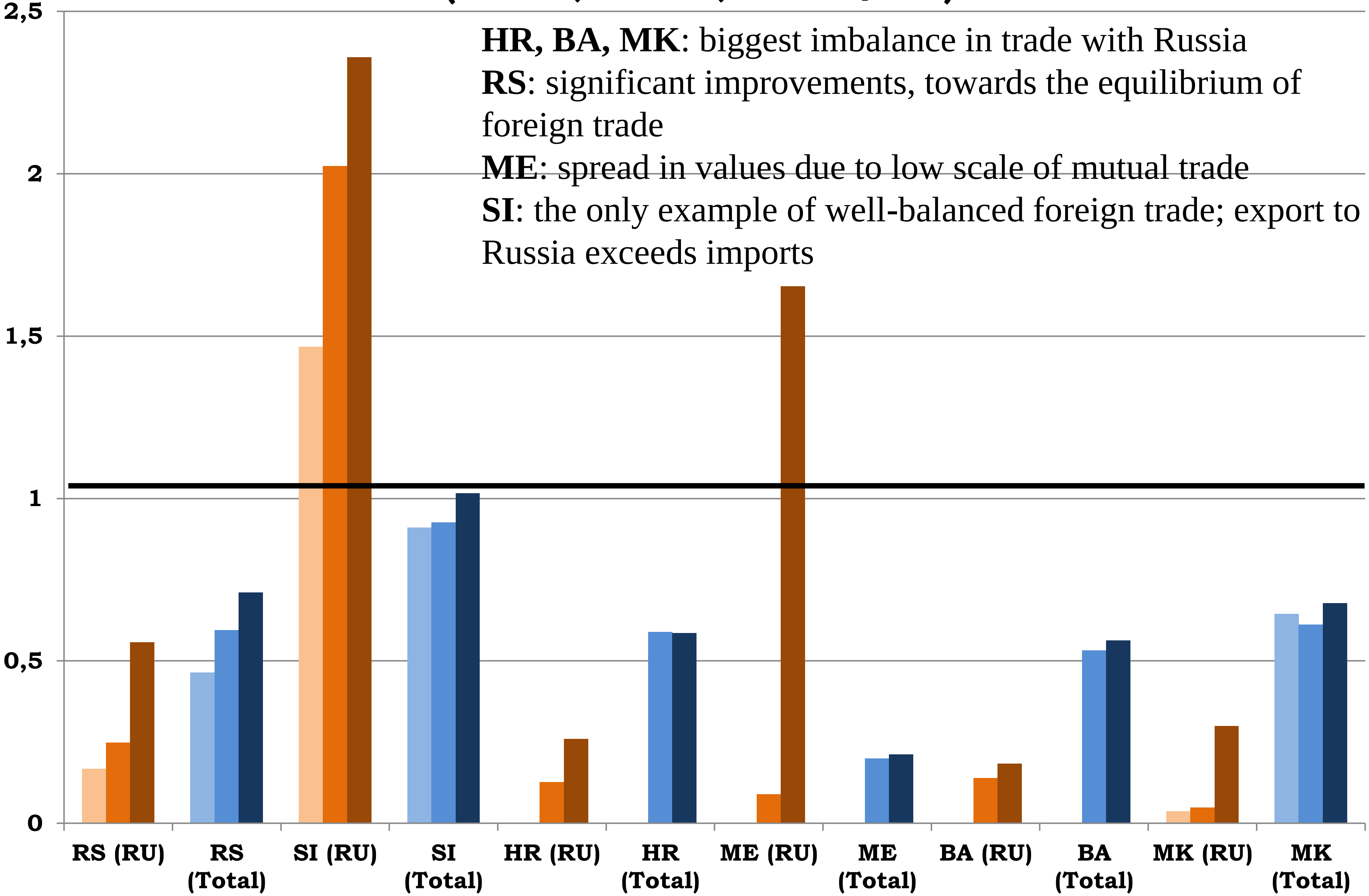
Export to Russia (2004-2014), mln. USD



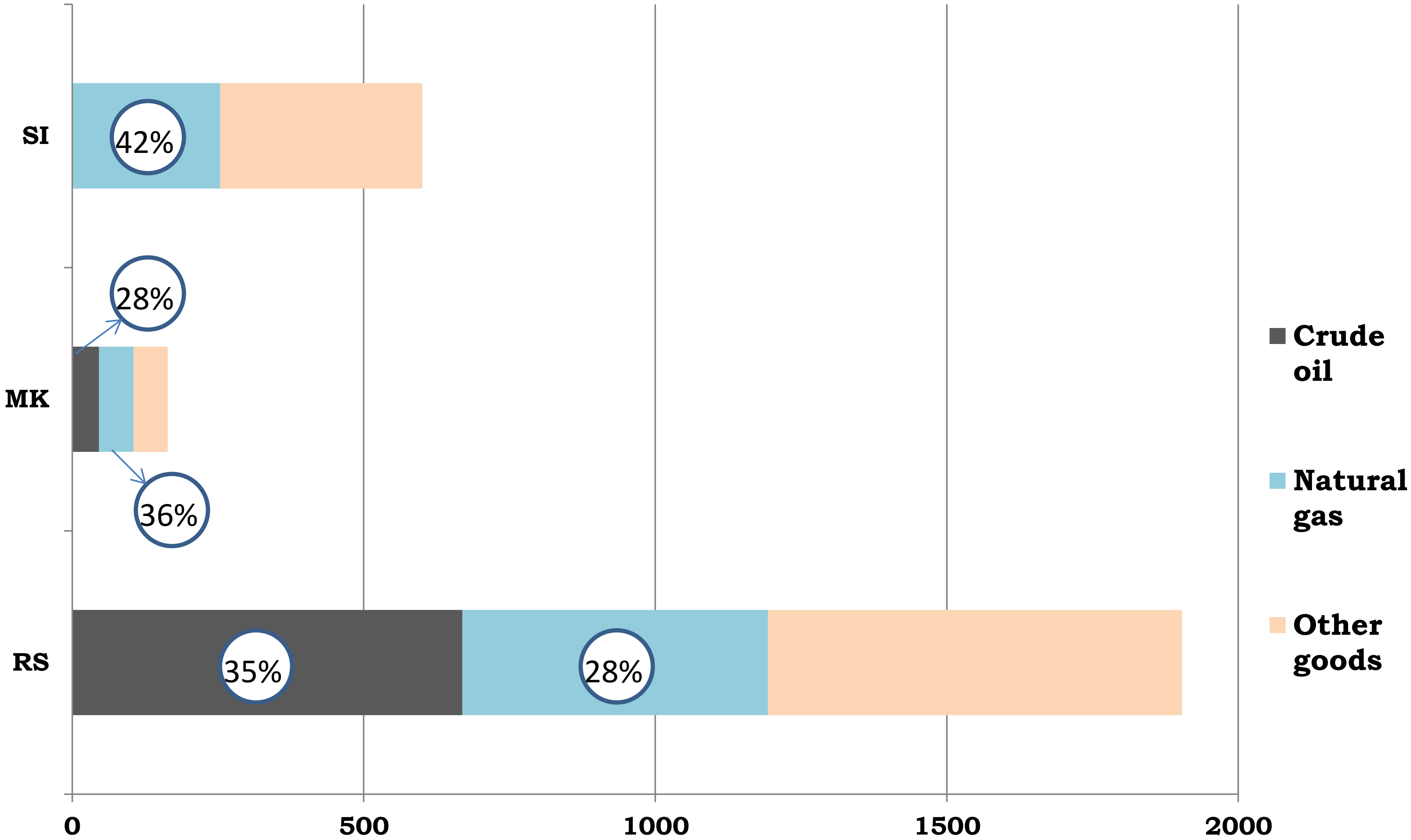
Import from Russia (2004-2014), mln. USD



Export [to Russia] to import ratio in comparison to *Total export to total import* ratio (2007, 2010, 2013/14)

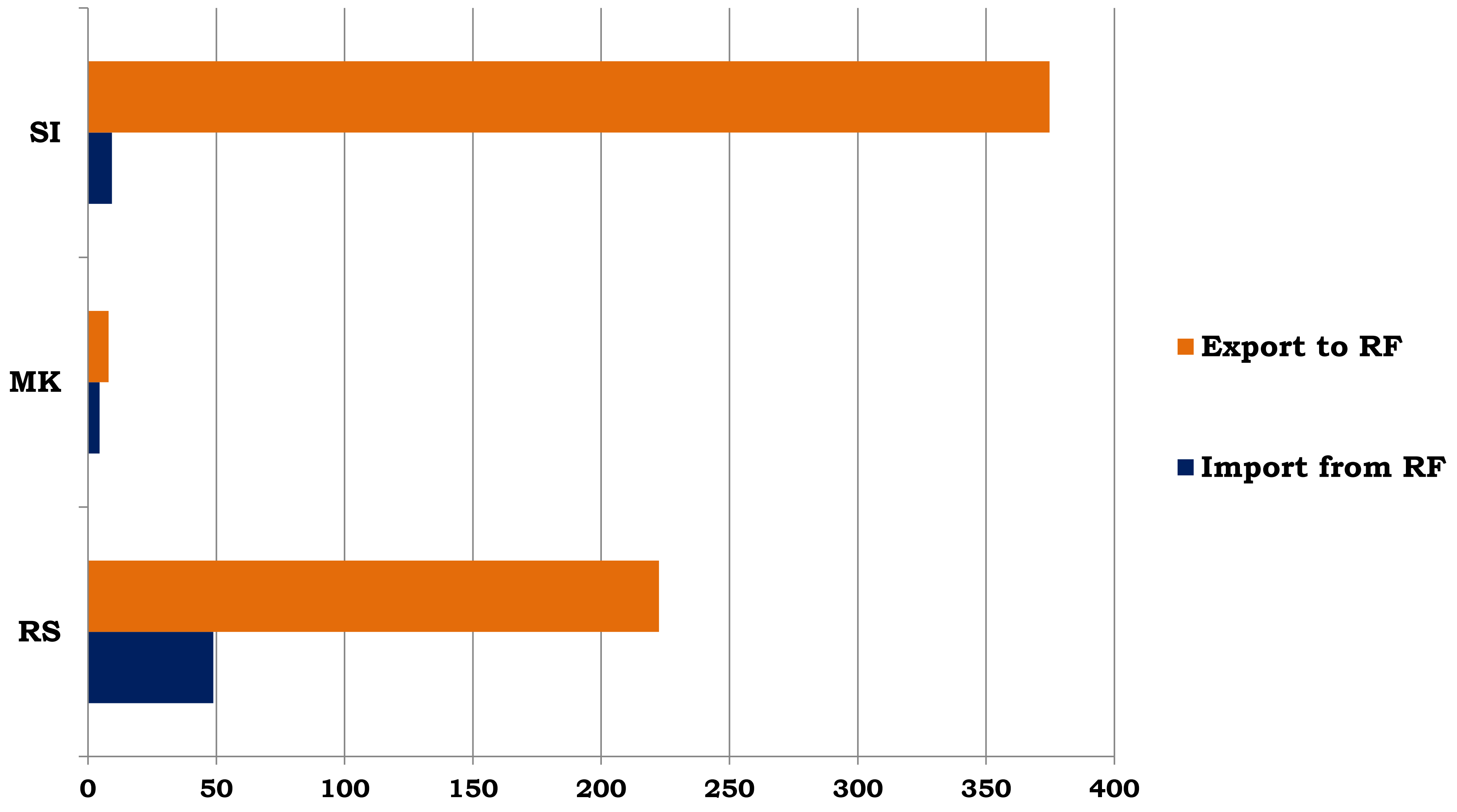


Share of hydrocarbons in import from Russia (2013), mln. USD



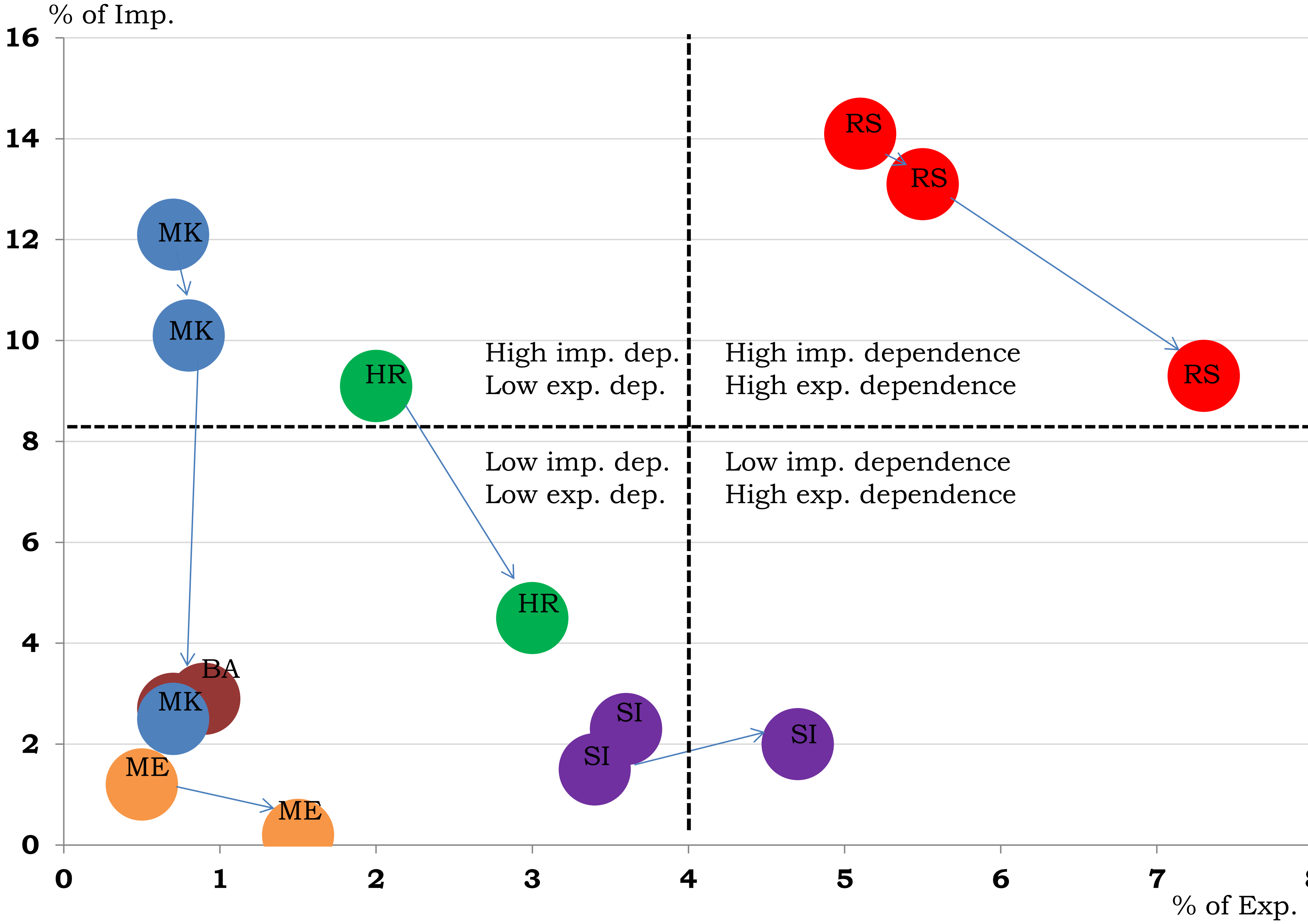
Mutual trade: machinery and equipment (2013), mln. USD

Russian potential for civil engineering products export is weaker in comparison to former Yugoslavia republics (sic!)

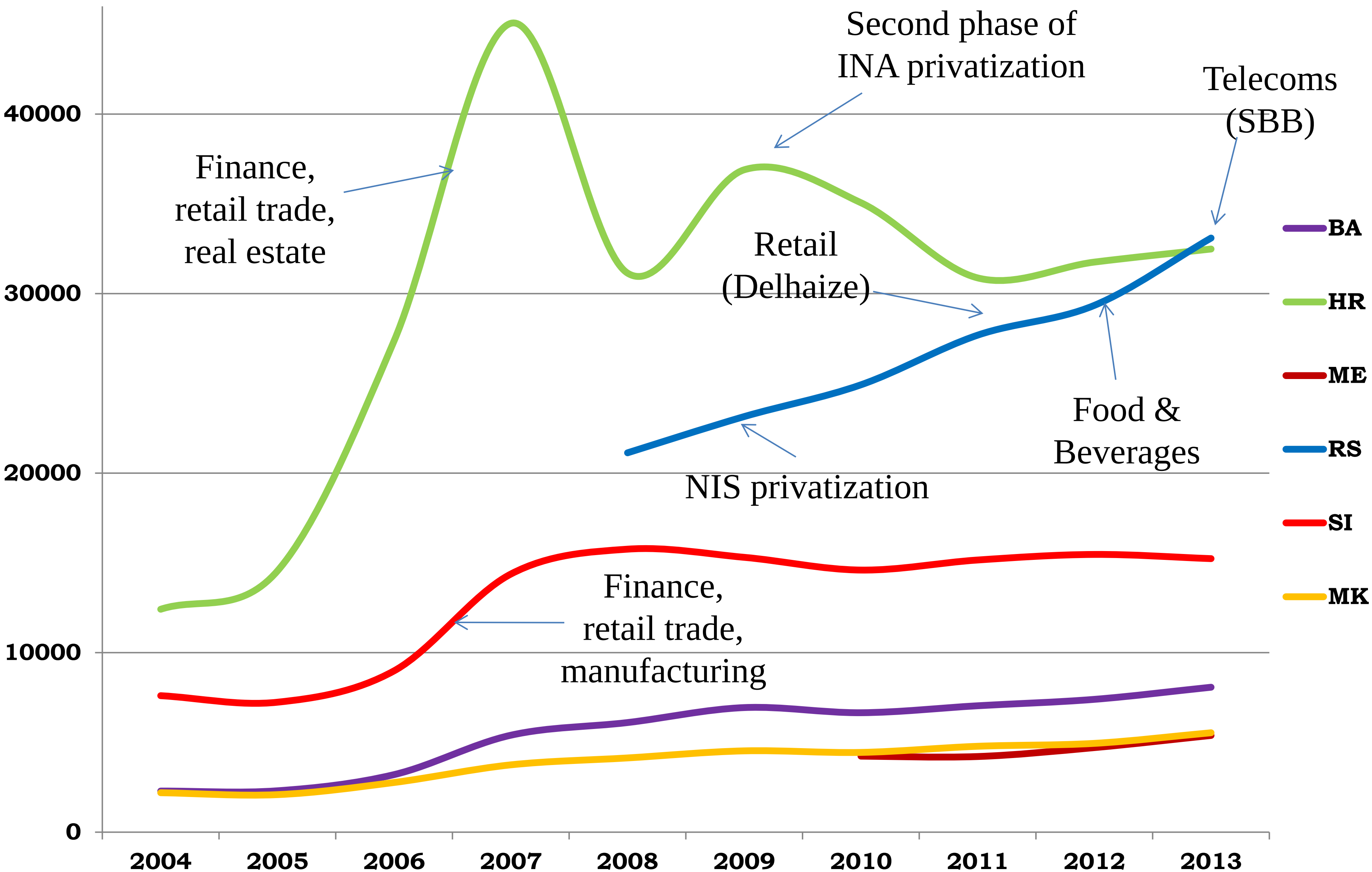


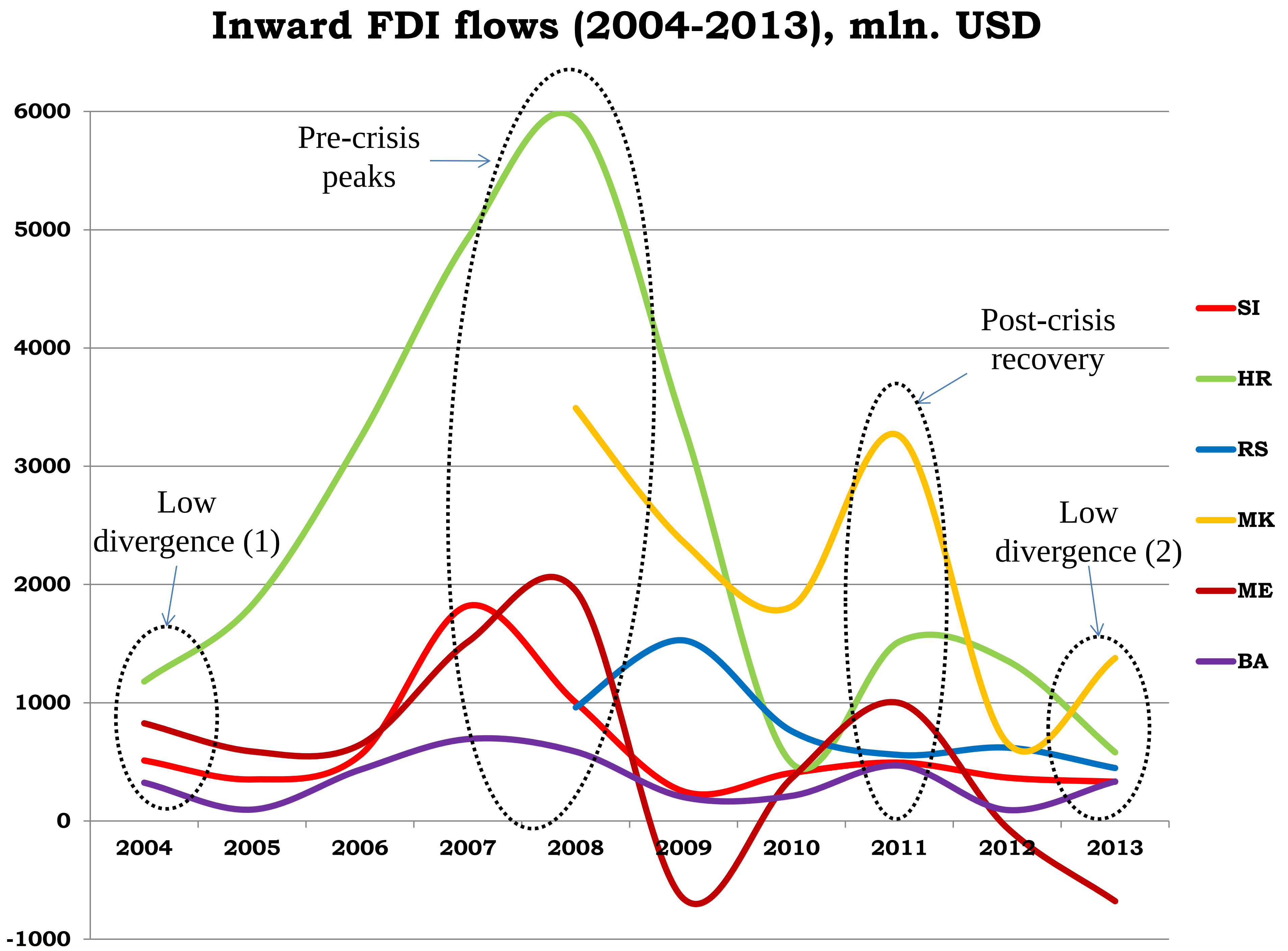
Significance of Russia for external trade

Share of Russia in export and import (2007, 2010, 2013), %

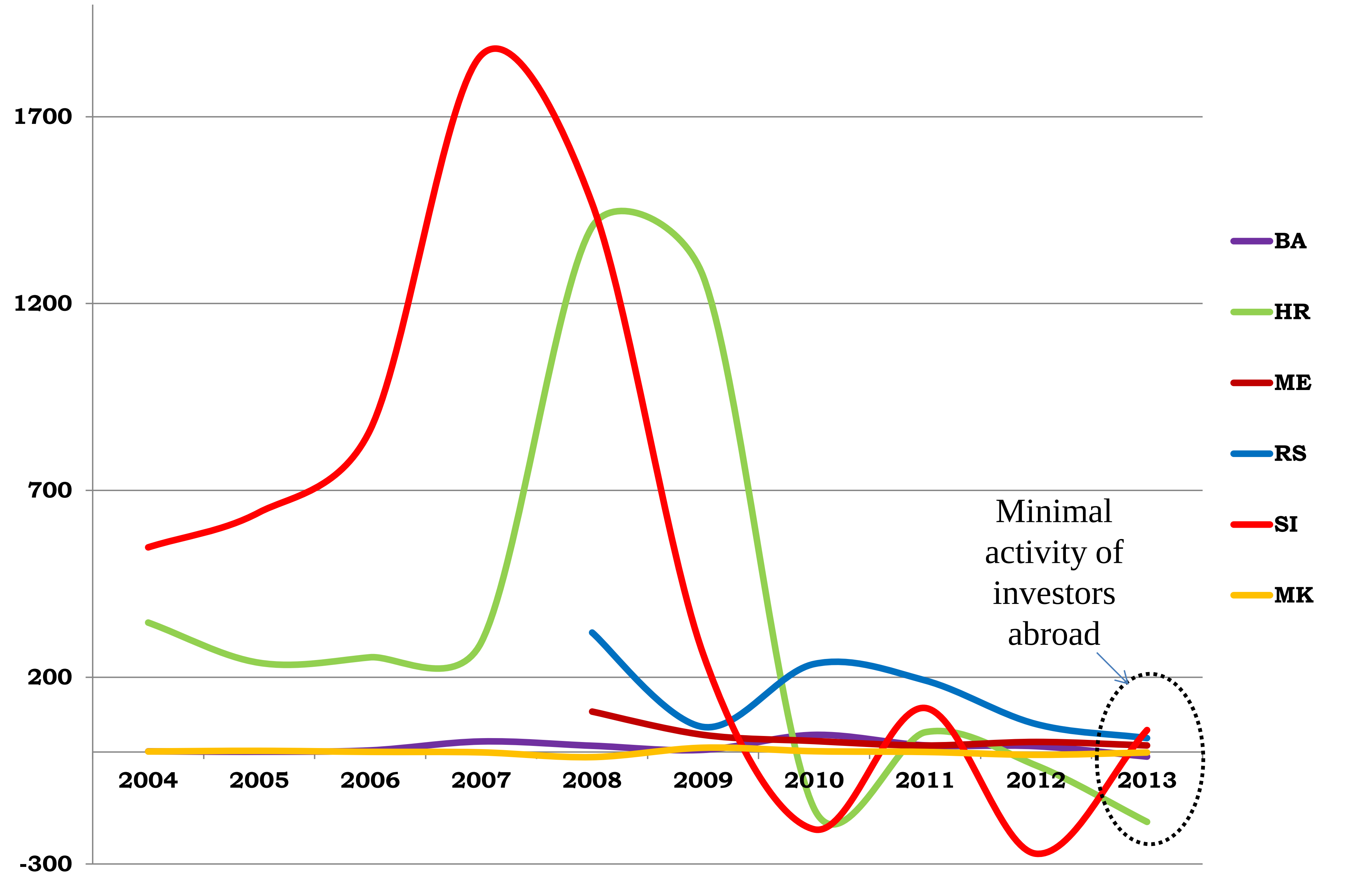


Inward FDI stock (2004-2013), mln. USD

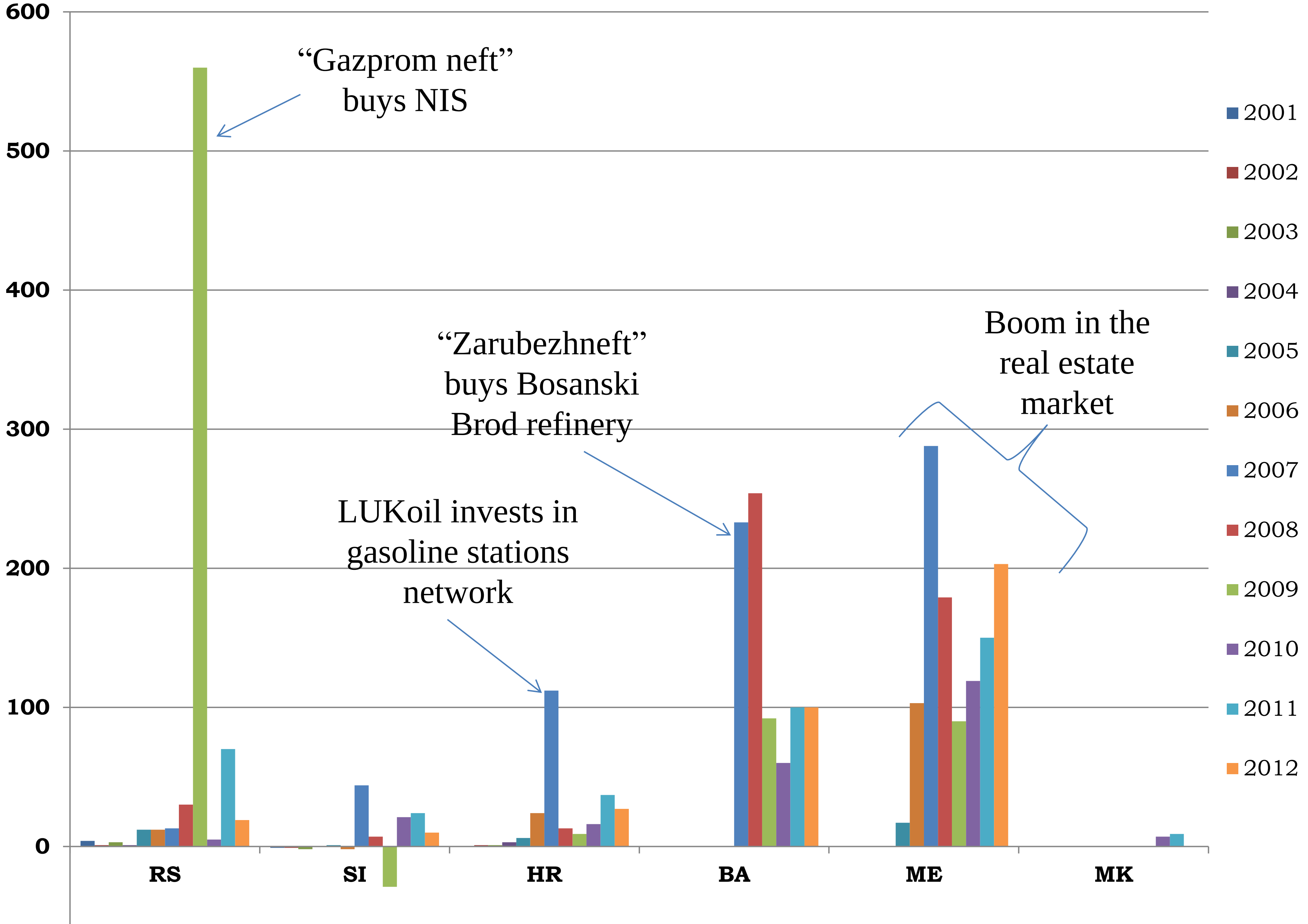



Inward FDI flows (2004-2013), mln. USD
6000
5000
4000
3000
2000
1000
0
-1000
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Pre-crisis peaks
Post-crisis recovery
Low divergence (1)
Low divergence (2)
SI
HR
RS
MK
ME
BA

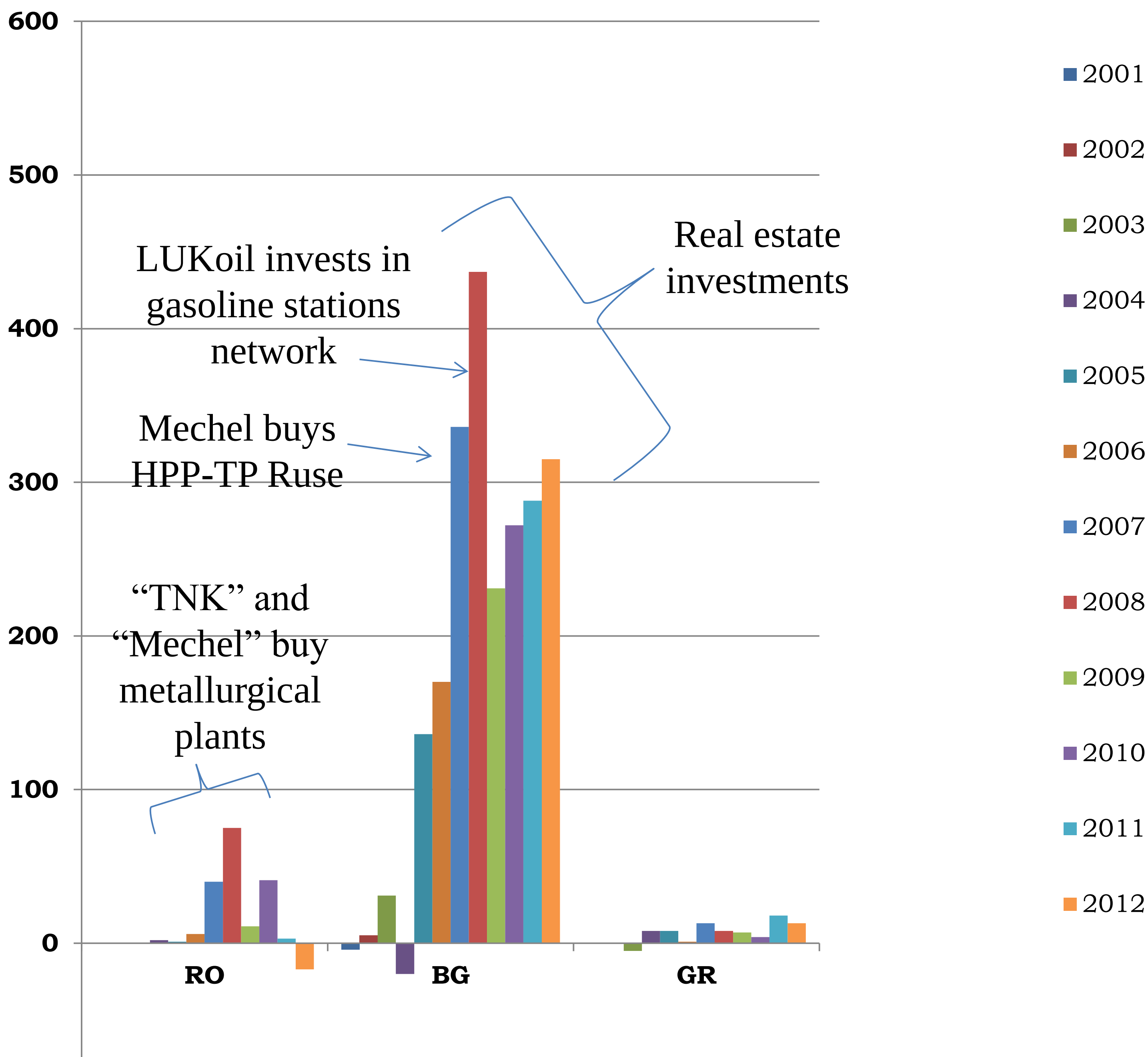
Outward FDI flows (2004-2013), mln. USD

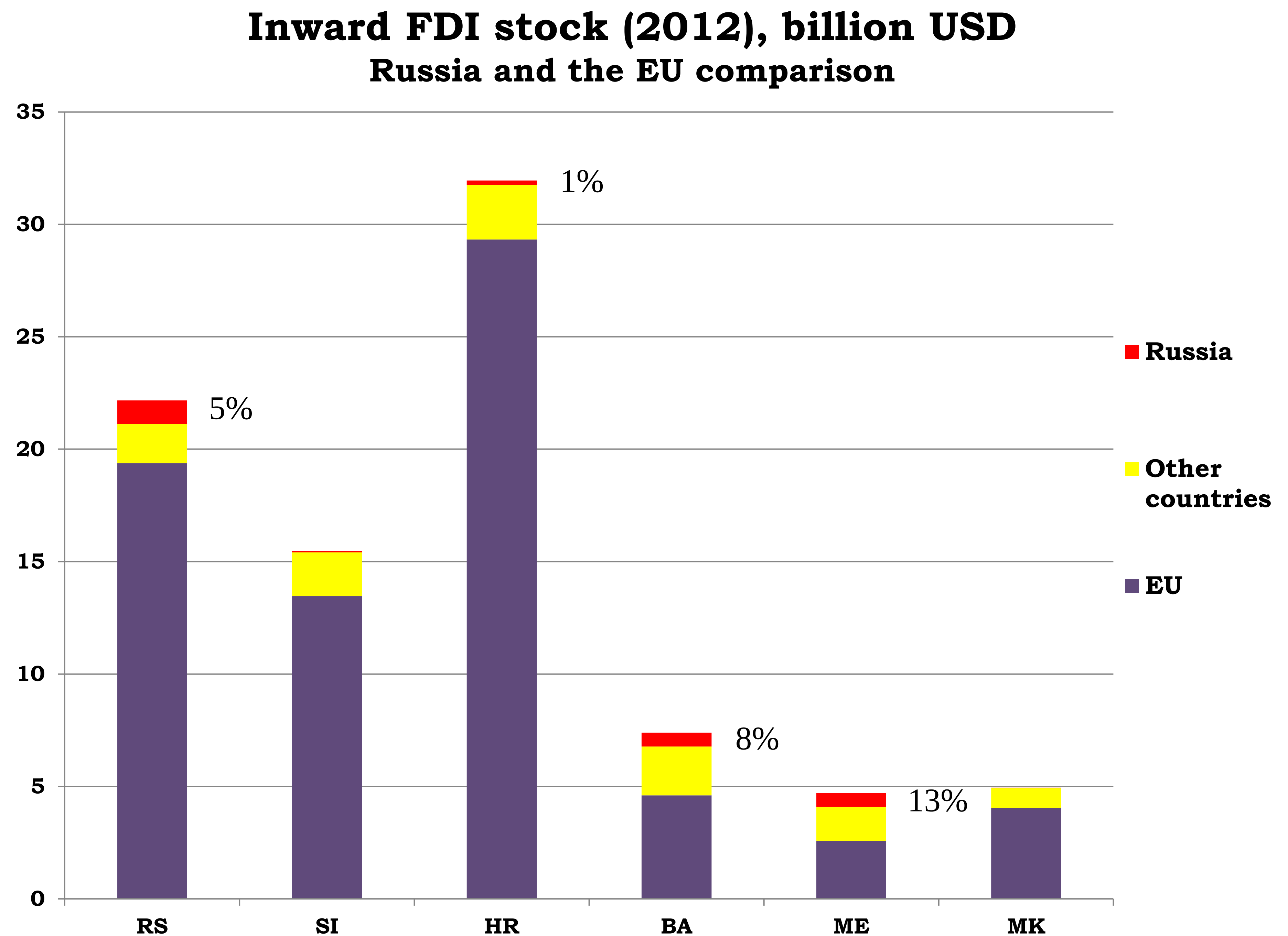


FDI inflows from Russia (2001-2012), mln. USD

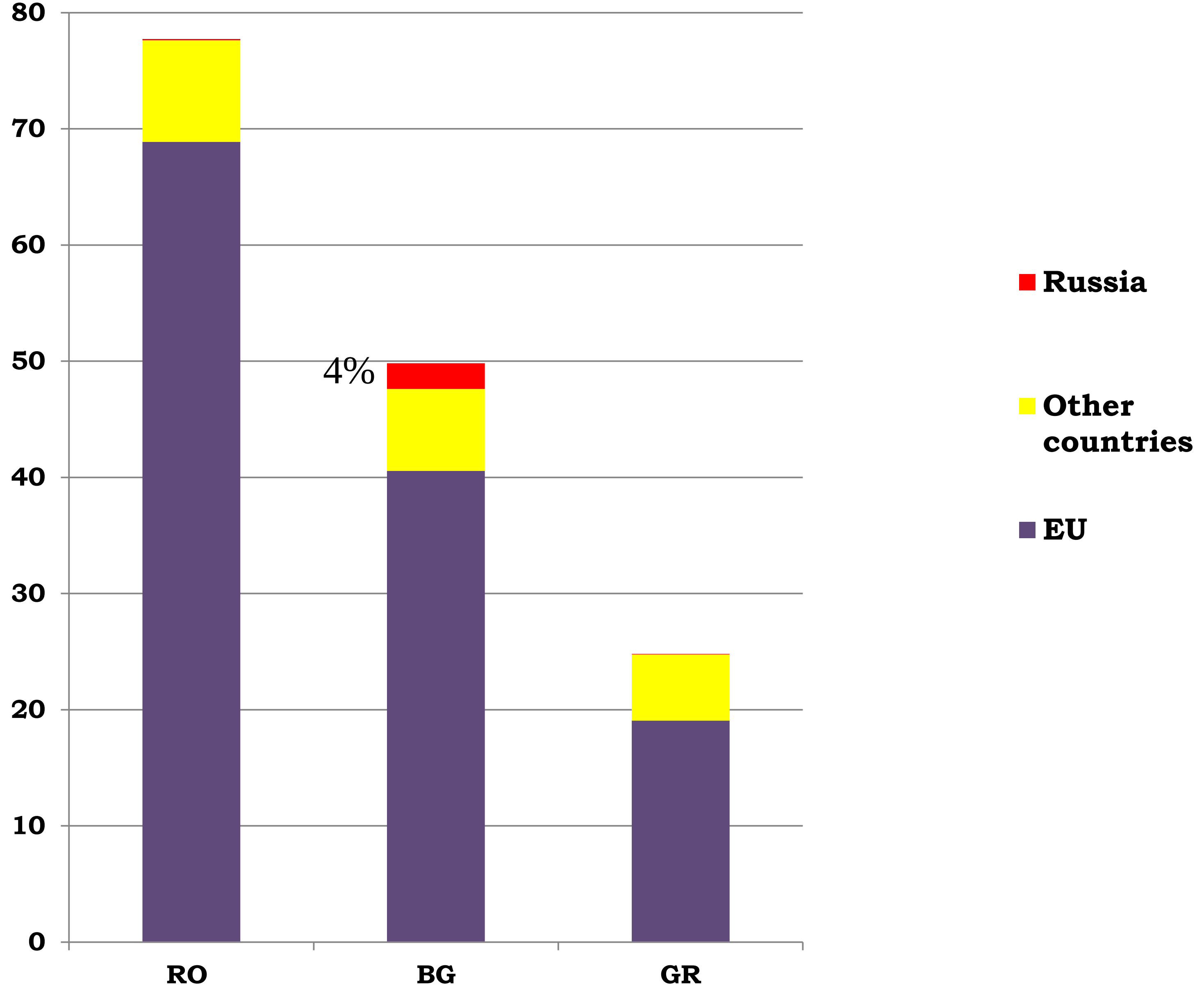


FDI inflows from Russia (2001-2012), mln. USD




Inward FDI stock (2012), billion USD
Russia and the EU comparison
35
30
25
20
15
10
5
0
5%
1%
8%
13%
RS
SI
HR
BA
ME
MK
Russia
Other countries
EU

Inward FDI stock (2012), billion USD
Russia and the EU comparison

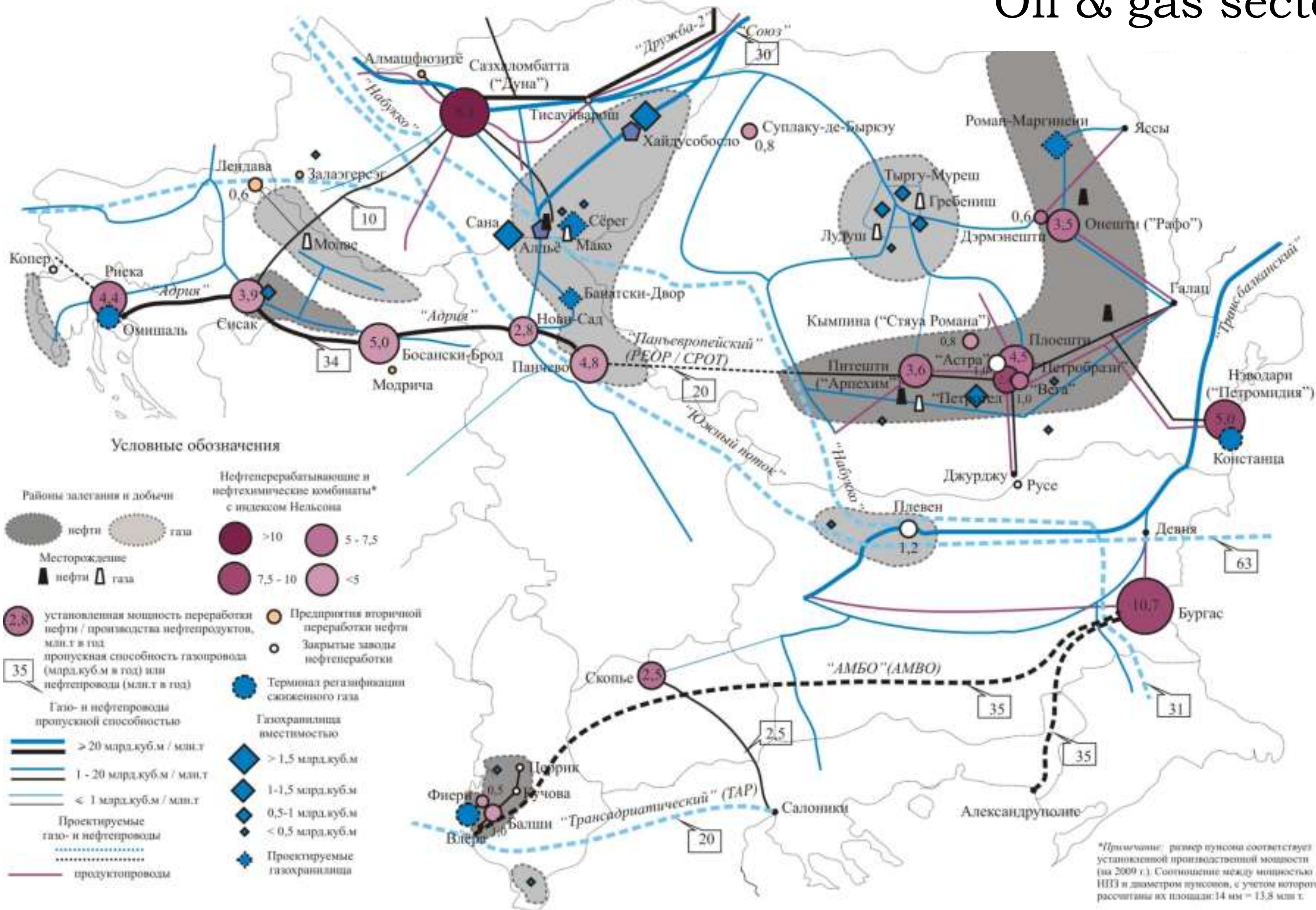


Russian companies in SEE countries: the most important investment projects

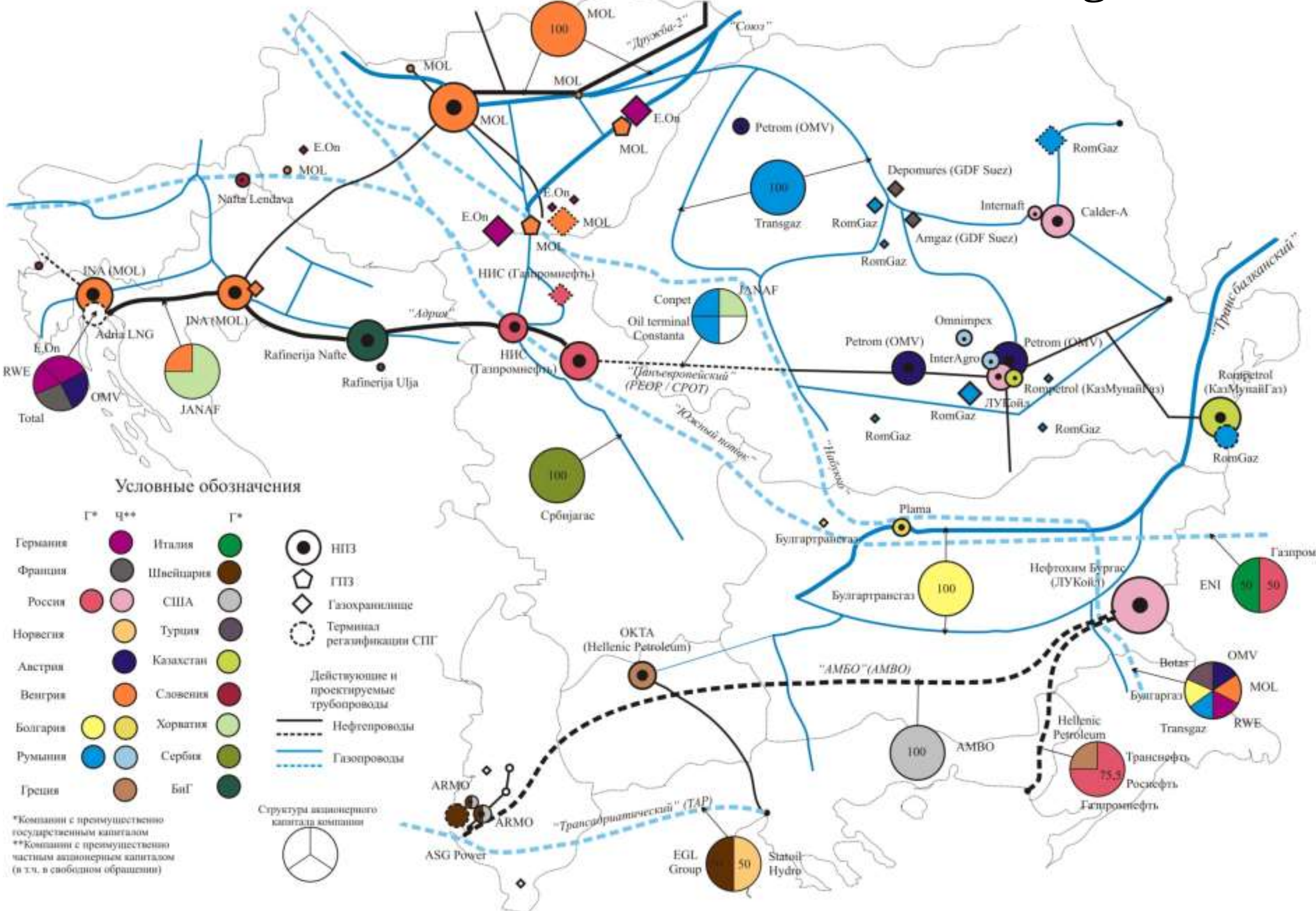
	Serbia	Croatia	BiH	Montenegro	Macedonia	Romania	Bulgaria
Oil & gas	Gazpromneft –> NIS (2009 – …) Lukoil –> Beopetrol (2003 – …)	Lukoil –> gasoline stations (2008 – …)	Zarubezhneft –> Bosanski Brod / Modrica, gas.stations, (2007 – …)	Lukoil –> gasoline stations (2008 – …)	Lukoil –> gasoline stations (2006 – …)	Lukoil –> Petrotel (1998 – …), gas.stations	Lukoil –> Neftochim Burgas (1999 – …), gas.stations
Electricity	Reconstruction: HPP Djerdap-1, TPP Kostolac, TPP-HP Novi Sad				Construction TPP-HP Skopje (2011), reconstr. TPP Bitola		Mechel –> TPP-HP Ruse (2007-2012)

Not presented in the table: Slovenia, Albania and Greece

Oil & gas sector



Oil & gas sector



	Serbia	Croatia	Slovenia	Montenegro	Macedonia	Romania
Metallurgy and metal ores mining	UGMK –> FBC (2004 – …); Corun (2011 – …)	Mechel –> Zeljezara Sisak (2003-2004)	Koks –> SIJ (2007-2013)	CEAC –> KAP (2005-2013)	Solvay –> copper and lead-zinc ore mines (2005 –> …)	Mechel –> Ductil Steel (2008-2013), Campia Turzii (2003-2013), Targoviste (2002-2013), Laminorul (2010-2013) TMK –> Resita and Artrom (2006 – …) Rusal –> Cemtrade (2000-n.f. 2006)
Chemical	KT –> Vulkan (2013 – …)					

Not presented in the table: BiH, Bulgaria and Greece

<table>
<tr><th></th><th>Serbia</th><th>Croatia</th><th>Slovenia</th><th>BiH</th><th>Monten.</th><th>Macedonia</th><th>Romania</th><th>Bulgaria</th><th>Greece</th></tr>
<tr><td rowspan="2">Banking</td><td colspan="4">Sberbank –> Volksbank (2012-2015?)
SBERBANK</td><td rowspan="2"></td><td rowspan="2"></td><td rowspan="2"></td><td rowspan="2"></td><td rowspan="2">Kedr
(2007 – …)
BANK KEDR
COMMERCIAL BANK</td></tr>
<tr><td>Bank of Moscow / VTB
(2008 - …)
VTB</td><td></td><td></td><td></td></tr>
<tr><td>Telecomm. equipment</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>Sitronics –> Intracom Telecom
(2006 – …)
sitronics</td></tr>
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General characteristics of Russian economic influence in SEE

Type of FDI: Market-seeking (horizontal), resource- and efficiency-seeking (vertical), asset-seeking FDI	Mostly market-seeking in spite of small local markets. Sometimes export-oriented efficiency-seeking (using the Russian resource base), control of value chain. Asset-seeking (privatization as a special case in post-socialist states)
Greenfield / brownfield FDI	Mostly brownfield
Important factors for investment decision	Size of economy, free access to EU market (+ geogr. proximity), level of competition, level of political barriers to Russian FDI. Presence of important infrastr.projects (e.g. partners and service for pipelines construction). Employment structure, security and general institutional factors (incl. business environment) are less important.
Using of local policy stimulus (low tax burden, subsidies, ind. parks infrastructure)	Low extent of stimulus using. Location outside industrial parks (brownfield FDI)
Role in geographical structure	Among leading investors (in particular in Serbia and Montenegro)
Branch structure	Mostly oil & gas, metallurgy. Dominance of industry over services (for FDI in total – vice versa)
TNCs as foreign policy actors	State Russian oil & gas companies coordinate activities with national policy objectives (e.g. South Stream). Private companies are profit-seeking.
Level of monopolization –> influence on economic growth and economic policy	In some extent in oil & gas industry (max. in Serbia and BiH), metallurgy (in Montenegro before 2013)

Influence on budget system	Mostly high (NIS – 14% of budget revenues in Serbia (2013), LUKOIL – 25% in Bulgaria)
Influence on export. Export-oriented FDI	High influence on export growth: NIS is the 2nd exporter in Serbia, KAP was the 1st in Montenegro (2/5 before 2013), etc. Low influence on improvement of export structure or its diversification
Influence on gross capital formation, financial accumulation. Increasing domestic investments ('crowding-in' effect)	Generally low
Influence on balance of payments (direct – capital inflows, indirect – by the export growth)	Positive in short-term period, negative in long-term period (deterioration of current account due to high import intensity of FDI)
Influence on employment, job creation	Medium
FDI spillovers / externalities: intra-industry (horizontal) and inter-industry (vertical – forward and backward).	Mostly horizontal; less presented forward vertical spillovers
Productivity and export spillovers (horizontal and vertical)	Possible productivity spillovers in the case of biggest TNCs. Less evident export spillovers because of strategy of 'export platforms'
Innovation spillovers, horizontal / vertical transfer of technology	Low (except biggest oil & gas and metallurgy firms)
Dualism of the economy (dichotomy between foreign-owned and domestic firms)	No significant effect
The risk of reallocation, capital outflow	Relatively low
Clusters formation	Low extent of participation

Thank you for attention!