

# Assessing the Risks of the Russian Economic Footprint in the Western Balkans

## Governance Vulnerabilities and Russian Footprint in Montenegro

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Chairman Wicker and Co-Chairman Smith, Distinguished Members of the Committee, Senate and the House of Representatives,

Thank you very much for having us here, to share our thoughts on the challenges facing the Western Balkans.

- During the Cold War, in 1956, Yugoslav Ambassador to Moscow, Montenegrin Veljko Micunovic, wrote to Yugoslav President Tito that history of our economic relations with Russia is not less dramatic than history of our political relations. “For Russia, today, as in the past, every trade is a direct mean of politics.” he wrote. Even today, it has continued to remain valid. The playbook for our region has always been the same.
- In the last decade, we saw a significant level of economic engagement by Russian companies and individuals in Montenegro. In addition to their economic relationship, Montenegro and Russia had sparkling political ties.
- Political relations have however deteriorated since 2013, as Montenegro moved forward with its NATO integration. So far, this change in the relationship has not yet significantly affected the economic ties between the two countries, but there have been some warnings coming from Russian officials. Russian Foreign Minister, Sergey Lavrov, stated in March 2017 that Montenegro sacrificed its economic relations with Russia by joining NATO. The dependence of Montenegrin economy on Russian investment in real estate and Russian tourism raises the possibility that further deterioration in bilateral relations could pose a grave risk to our economy.
- Today, Russian foreign direct investment (FDI) in Montenegro makes up close to a third of the country’s gross domestic product (GDP). Russia is the single largest direct investor in Montenegro, with USD 1.27 billion in cumulative investments – equal to 13 % of all FDI stock in the country. The majority of the FDI is concentrated particularly in real estate and tourism.
- The number of Russian tourists in Montenegro has consistently increased in the last ten years. Russian tourists make around one quarter of the total number of country’s visitors. This is very important because tourism is the key sector of Montenegro’s economy and the most powerful generator of economic growth. It makes up around one-fifth of the Montenegrin GDP and over 54 % of all exports.

- It is however true that Russia's share of the overall Montenegrin economy significantly shrank in recent years, from 29.4 % of total revenue in 2006 to around 5.5 % in 2015. This is largely a result of the withdrawal of the Russian capital from the Podgorica Aluminum Plant (KAP), one of the largest companies in the country.
- A similar trend can be observed in an analysis of the number of employees working for Russian-controlled entities in Montenegro, which fell from 14.2 % in 2007 to just 2.3 % in 2015. Again, primarily because of the loss of control of KAP.
- Based also on the experience of some other countries in the region where some of the initial Russian investment in energy for example spilled over to a number of other economic sectors, we can now only contemplate what would have happened if the Parliament have not stopped the acquisition of country's key energy resources by KAP's owner Oleg Deripaska in 2007.
- The Government of Montenegro rejected a Russian request to use the Montenegrin port of Bar for military purposes, despite the fact that Russia had allegedly proposed payments worth at least half of the Montenegrin GDP. In 2014, Montenegro also aligned with the EU sanctions following the annexation of Crimea.
- Prior to NATO admission, the Russian government condemned Montenegro's membership aspirations and actively worked to prevent it, in particular by backing ethno-nationalist groups whose policy platforms are at odds with Western values. Russian Deputy Prime Minister Dmitry Rogozin went even further when he said that Montenegro would regret joining NATO. In parallel, the Russian media started to run a negative campaign to prevent Russian tourists from coming to Montenegro describing it as a dangerous place.
- Montenegro accused the Russian Federation of meddling in the 2016 parliamentary elections by attempting to overthrow the government through the strongest opposition coalition in Montenegro – the Democratic Front (DF). There is an ongoing court case for the coup attempt against some of the DF leaders for acting against the country's constitutional order. The indictment also includes two Russian military intelligence officers and several Serbian nationalists. Furthermore, another DF leader is being charged with participation in a money-laundering scheme during the 2016 election campaign. Allegedly, the DF used funds of criminal origin, provided in large amounts by Russia through offshore accounts, and then split into small installments and sent to individuals, who then donated the money to the party.
- Nevertheless, Montenegro managed to resist the allegedly Russian-orchestrated use of hard power as well as soft power, joining NATO in 2017. Yet, even NATO admission has not completely brought Montenegro out of the danger zone. Russian interest in the Western Balkans has never been to annex the region, but to keep it unstable and as far from the Western integration as possible. Many analysts agree that the region's integration in the EU will be the next target.
- EU integration is supported by the overwhelming majority of citizens and key political actors in Montenegro. The report that we prepared examines the governance gaps that have been exploited for the intrusion of the corrosive capital, and offers recommendations on how to close these gaps to prevent further deterioration. Addressing these gaps is essential for our democratic reforms, inclusive economic growth, and EU integration. In order to succeed, we remain determined to advancing the progress made so far and would welcome even more international support.

Mr. Chairman,

I would like to thank you for your ongoing support and commitment to the region. The West should be persistent in demanding real democratic progress in our countries because it is the key to security, stability, prosperity, and resilience to harmful foreign influence both in the region and beyond its borders. Civil society in the Western Balkans looks with hope at the United States' enhanced diplomatic engagement and relies on your help in ensuring that the region remains on its Euroatlantic integration path.