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The Bosnian Divide

It took just [two shots from Gavrilo Princip to change the world](#). That day in Sarajevo marked the end of the Habsburg dynasty, ignited the first of two intercontinental wars, and laid the groundwork for the present-day global order. Gavrilo, a Bosnian Serb, thought he would pave the way for a common South Slav state by killing Archduke Franz Ferdinand, the heir to the Habsburg throne. Almost 110 years later, the dream of a common South Slav state has yet to be fulfilled, although the sentiment is still shared among many Bosnian Serbs today.



(Source: Hungarian Spectrum)

On October 2, Bosnia-Herzegovina will hold its ninth general election since the signing of the Dayton Accords in 1995. The election has garnered international attention as there are growing concerns that the outcome could lead to another civil war. Bosnian Serbs are pushing for secession, while Bosnian Croats have called for their own entity. Both groups have threatened to boycott the upcoming election unless electoral reforms are made and there doesn't seem to be an obvious solution.

Meanwhile, there are also growing fears that Bosnia could become Russia's next target after Ukraine. Tensions between the two countries have risen since Bosnia-Herzegovina expressed interest in joining NATO. Last year, Russian foreign minister Sergei Lavrov warned that his country would [react if Bosnia-Herzegovina joins the military alliance](#). Lavrov's threat, although somewhat vague, has led many to speculate that Moscow could be plotting an intervention in Bosnia-Herzegovina. We suspect that Russia will use this election as an opportunity to assert itself within the region.

In this report, we will examine the history of Bosnia-Herzegovina, why Russia has a vested interest in the country, and how the election could play out. As usual, we will conclude with market ramifications.

Background

Bosnia-Herzegovina was formed following the end of the 1992-1995 Bosnian War. The peace agreement, also known as the Dayton Accords, allowed for one president from each of the country's three major ethnic groups: Serbs, Bosniaks, and Croats. The decision to have one leader for each ethnic group was designed to mitigate tensions. The presidency of the country is granted to each group's leader on an eight-month rotating basis, so that the groups can share executive power. This unusual arrangement, also known as a tripartite, was intended to resolve the war as quickly as possible in hopes that the groups could eventually negotiate a better agreement in the future. Nearly 30 years later, the groups are still bickering over the flaws in the agreement.

The Dayton Accords split the country into two politically autonomous entities: the Federation of Bosnia and Herzegovina and the Republika Srpska. In total, there are over 3.5 million people living in the country, mostly separated along ethnic and religious lines. In the Federation of Bosnia and Herzegovina, the people are predominantly Croats and Bosniaks. The Croats practice Catholicism, while the Bosniaks practice Islam. Serbs are the majority in Republika Srpska, and this group is associated with Eastern Orthodox Christianity. The agreement also assigned Sarajevo as the country's only capital.



(Source: [BBC](#))

Bosnia-Herzegovina is the only net exporter of electricity in the Balkans, making it a crucial trading partner in the region. [More than half of the country's electricity generation](#) comes from hydropower, with the remaining power coming from coal. The three biggest importers of Bosnia-Herzegovina's electricity are Croatia, Serbia, and Switzerland. Additionally, the country is a major exporter of metals and electric machinery.

The Dayton Accords

The Bosnian War was one of the last conflicts following the breakup of

Yugoslavia. The war broke out due to a dispute over territory. The Bosnian Serbs wanted the region to be part of Serbia, the Bosnian Croats wanted some of the region to be added to Croatia, and the Bosniaks wanted the region to be its own country. The dispute led to two wars. The first and much larger war was fought between the Bosnian Serbs and the Bosniak-Croat alliance. The second, smaller war was fought between the Bosniaks and the Croats. The two wars happened simultaneously, but the latter ended first. In addition to the presidency, the agreement also established two entities, the Federation of Bosnia-Herzegovina and the Republika Srpska, and created the Office of High Representatives to oversee the peace process within the region.

The Dayton Accords were flawed. The three-leader government has led to disputes over power and autonomy. In the Republika Srpska, Bosnian Serbs were allowed to vote for their leader; however, in the Federation of Bosnia and Herzegovina, Bosnian Croats and Bosniaks vote on their two seats together, putting the minority Bosnian Croats at a disadvantage. Thus, splitting the country into two regions instead of three has led to accusations of discrimination. Meanwhile, the Office of High Representatives has been accused of overstepping its mandate. As a result, the three parties have sought to either alter or eliminate the agreement altogether. These flaws have made it easier for Russia to bolster its influence within the region.

Republika Srpska

In July 2021, the outgoing High Representative [imposed a ban on the denial of the Srebrenica Genocide](#). The ban appeared to be targeting Bosnian Serbs, who deny the genocide occurred due to the group's involvement. Following the ban, Republika Srpska's National Assembly

voted to start the procedure of withdrawing from [the Bosnian Army, security services, tax system, and judiciary](#). In addition, the assembly voted on a declaration for a new constitution. Although the law was non-binding and likely unconstitutional, the vote reflects the growing sentiment for secession. The ban also led Republika Srpska President Milorad Dodik to push for the removal of the High Representative position. He argued that [his constituents favor abolishing the seat](#) because it works against their interests.

The High Representative is selected by the United Nations Security Council (UNSC), thus it is not voted on by the people within Bosnia-Herzegovina. However, Russia, a permanent voting member of the UNSC, has advocated for a reduced role of the High Representative on Republika Srpska's behalf. Last year, Russia [unsuccessfully pushed for the removal of the seat](#) but was able to have the position scrapped from being mentioned in a resolution that authorized peace-keeping forces within Bosnia-Herzegovina. The move, although small, is an example of the lengths Russia is willing to go to keep Republika Srpska in its orbit.

Federation of Bosnia and Herzegovina

The Bosnian Serbs are not the only group to express concerns with the Dayton Accords. Bosnian Croats have also supported changes to the peace agreement. In the 2018 election, the winner of the Croat seat in the tripartite did not receive [the majority of Croat votes for the second election in a row](#). The outcome has led Bosnian Croats to demand changes to electoral rules that ensure their leadership seat is voted on by areas that have a Croat majority.

Russia has also weighed in on the voting controversy. In January, Foreign Minister Lavrov described the Croats' alleged

inability to choose [their own leaders as a form of discrimination](#) and added that [election reform](#) is needed to address the problem. Moscow's advocacy has not gone unnoticed. Bosnian Croat leader Dragan Covic publicly lamented that "there is not enough Russian influence [in Bosnia-Herzegovina]."

Although Russia argues that it is helping to address the longstanding issues within the Dayton Accords, it clearly has a motive. Moscow is trying to prevent Bosnia from joining NATO, thus its involvement in this year's election is likely related to breaking the country's reliance on the West. That being said, Russian ambition likely extends much further than just influencing Bosnia-Herzegovina.

The Russian Agenda

Russia has a long history of wanting to control the Balkans. Following a revolt of Christian peasants in Bosnia-Herzegovina, Russia formed an alliance with Serbia, Montenegro, Romania, and Bulgaria to fight against the Ottoman Empire in 1877-1878. After the defeat of the Ottoman Empire, [the two sides agreed to give autonomy to Bosnia-Herzegovina](#) in the Treaty of San Stefano. However, under diplomatic pressure from Western European powers, who wanted the Ottomans to repay their foreign debt, the treaty was modified so that [Bosnia-Herzegovina would be controlled by Austria-Hungary](#). Although Russia was able to maintain influence in the Balkans, instability within its own borders due to the death of Tsar Alexander II prevented it from being a major player. Nevertheless, even amidst ongoing political turmoil, Russia still entered World War I to defend Serbia against Austria-Hungary following the assassination of Archduke Franz Ferdinand.

After the war ended, Bosnia-Herzegovina, Serbia, Montenegro, Croatia, Slovenia, and Macedonia formed the Kingdom of Serbs, Croats, and Slovenes (renamed Yugoslavia in 1929). Although Russia (formerly the Soviet Union) and Yugoslavia were not allies, the two sides shared cultural ties and had similar ideologies. Russia had consistently tried to pull Yugoslavia into its sphere of influence, but its efforts were frequently rebuffed. When Yugoslavia collapsed and war broke out in 1992, NATO intervened to help settle the region. Due to Russia's economic and political problems after the fall of the Soviet Union, Moscow was unable to take an active role in the rebuilding process.

The collapse of Yugoslavia gave NATO a chance to demonstrate its capabilities. Following accusations of a genocide in Srebrenica, NATO enforced a [no-fly zone over Bosnia-Herzegovina](#), the alliance's first mission. When four Serbian planes violated the order, U.S. forces shot them down. The military action by NATO was pivotal in tipping the war in favor of the Bosnian Croats and Bosniaks in the conflict against the Bosnian Serbs. Russia has always resented NATO's role in the war and viewed the mission as a threat to its territorial ambitions. As a result, Russia has routinely criticized NATO's actions as a violation of international law and has wanted to push the West out of the region ever since.

Russia's Motive

Since the collapse of the Soviet Union, Russia has felt marginalized by the West. This view was reinforced when former Russian allied countries began seeking closer ties with Western Europe and the U.S. These countries not only tried to gain access to the West's thriving consumer market (via the European Union) but also join its military alliance. Russia tried to cope with

this new reality by creating competing institutions, such as the Eurasian Union and the Collective Security Treaty Organization, but had only limited success.

After failing to attract interest through its institutions, Russia changed its strategy to meddling in other countries' affairs and undermining Western influence. Since the dissolution of Yugoslavia, Russia has consistently sought to undermine pro-Western governments. In 2016, it [supported a coup in Montenegro](#) to overthrow a pro-Western government. Additionally, it attempts to undermine the West's legitimacy by failing to recognize Kosovo as a separate country from Serbia. Thus, it isn't that surprising that Russia has backed both Bosnian Serb and Croat claims for changes to the Dayton Accords. By interfering in the election, Russia could achieve two goals: undermine trust in the West and build pro-Kremlin sentiment within Bosnia-Herzegovina.

The Election

The general election will be a testing ground for Russian influence. If turnout is low, it would reflect growing distrust of the West. However, a high turnout would suggest that the groups are still committed to the Dayton Accords. At this time, it is very difficult to determine which way the country will lean on election day. A [recent survey](#) conducted by the Organization for Security and Co-operation in Europe (OSCE) has offered conflicting evidence. The report showed that public trust in the country's institutions is relatively weak. Only 23% of respondents believe that elections are conducted in a fair or mostly fair manner. However, the report also showed that many Bosnians believe that voting is necessary. Sixty-two percent of the respondents described voting as a civic duty.

In order to deal with election concerns, there have been talks to change some of the election rules. So far, [it doesn't appear likely that a major agreement will be made](#) before the October election. Still, the Bosnian Croats and the Bosniaks have expressed an openness to continuing negotiations. If an agreement is reached, we suspect that it will be limited and unlikely to appease concerns from either the Bosnian Croats or Bosnian Serbs. However, it may be enough to keep voters from boycotting.

At this time, we are optimistic that an election will have a relatively high turnout. The Bosnian Serbs will likely get out the vote to ensure that the very popular Milorad Dodik gets reelected, while fears of another civil war will likely convince the Croats to vote. Although we are optimistic that turnout will be adequate, we suspect that the push for secession will persist after the election.

Ramifications

Bosnia-Herzegovina is one of three countries in the Balkans to not join NATO, [the other two being Serbia and Kosovo](#). Hence, a high turnout in the election will likely not be enough to thwart Russia's ambitions in Bosnia-Herzegovina. As long as Milorad Dodik remains president of Republika Srpska, Moscow will have an ally to protect its interests. That being said, Russia appears serious in its efforts to deter Bosnia-Herzegovina from being the next country to join NATO. As a result, Russia may back secession ambitions in Republika Srpska if support for joining the military alliance grows, which could lead to another civil war. If war were to break out in the Balkans, it would likely be bullish for commodities and safe-haven assets and bearish for risk assets. European equities could also be at risk as a war would likely create yet another refugee problem for Western Europe.

Thomas Wash
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