

POLICY PAPER

The Good, the Bad and the Ugly: Chinese influence in the Western Balkans

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- **With the past export-led economic growth that has gradually become a tool of Chinese soft power, China showcased globally a powerful and inviting policy of economic power in action, and investment-seeking countries (especially from the Western Balkans) are willing to show their eagerness towards Chinese loans and capital. On the reverse side, China presents itself as an equally eager investor, and can be counted on in all situations, including when Chinese investors picked up projects declined by the EU.**
- **This paper suggests that the impact of Chinese influence on the Western Balkans is paradoxical: Beijing seems to benefit from EU-led convergence towards political stability (in order to increase its opportunities to implement its economic agenda), whilst Chinese eager pockets result in a divergence from EU criteria and an undermining of EU membership prospects for the recipients.**



Introduction

The information presented in this paper derives from the authors' interviews with various stakeholders from the countries of Albania, Bosnia and Hercegovina, Macedonia, Montenegro and Serbia conducted in the month of October 2017. Due to the sensitive nature of the information, interviewees have asked to remain anonymous.

The perception of China's foreign policy capacity has been changing lately, especially after the introduction of the One Belt One Road initiative. Aiming to re-establish a new Silk Road, the project is as ambitious and lengthy as another Chinese key strategic plan: the 13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016-2020). The document drafted in 2015 offers a concrete framework of development for the next 5 years and puts a substantial amount of emphasis (if compared to its predecessors) on words such as *innovation*, *modernization* and *development*. Given the past growth-oriented model of the economy and despite the actual gradual economic slowdown, China seems to have already taken on the role of an economic leader of global importance – or at least wants to be perceived as so. The outlined set of growth-oriented goals certainly hints at a sense of economic and political confidence, and it would therefore seem safe to assume that a confident domestic policy shall be also reflected in foreign policy. With the past export-led economic growth that has gradually become a tool of Chinese soft power, Beijing showcased globally a powerful and inviting policy of economic power in action. With the example of Chinese investments in Africa in mind, many investment-seeking countries – especially from the Western Balkans – are willing to show their eagerness towards Chinese loans and capital. On the reverse side, China presents itself as an equally eager investor, and can be counted on in all situations, including when Chinese investors picked up projects declined by the EU.

China's approach to the Western Balkans: a market penetration strategy for the European markets?

However, what remains curious about the possible impact of Chinese influence on the Western Balkans, is the duality of the goals China pursues: Beijing seems to benefit (unlike Russia, another important regional player), from EU-led convergence towards political stability in order to increase its opportunities to implement its economic agenda. Apart from striving for a key role position in a region composed of EU membership candidates and applicants, China leverages its economic activities by de facto turning the beneficiaries of investments into supporters of its foreign policy. Its carefully marketed investment capacity reinforces its leadership role in economic integration, whilst taking advantage of possible regional disputes. In such a context, China has been aggressively offering what are seemingly the simplest (if not the only available) financing schemes for regional projects.

Despite certain efforts, EU funding becomes, in the eyes of Western Balkans beneficiaries, more sophisticated, bureaucratic and politically obsolete compared to Beijing's eager pockets. Moreover, under Chinese terms, clauses of alignment with EU standards are omitted, if not subtly reversed.

In what seems to be a market penetration strategy for the region, China sees the Western Balkans countries as

part of a 'trading bloc': the so-called 16+1 platform¹, consisting of 16 Central and Eastern European countries and Beijing. The bloc, hinted by then Party Secretary Xi Jinping and launched by China in 2012, namely consists of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, China, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia, and is thus politically fairly heterogeneous²: among EU members there are EU 'enthusiasts' such as Latvia and Lithuania but also the V4 group with the controversial Poland and Hungary, complemented with official candidates to EU accession. With many of the states being former Soviet satellites, the remaining three – Belarus, Moldova and Ukraine – are possibly still being seen as too close to Russia's sphere of influence, and were therefore excluded.

The 16+1 platform and its framework, probably being considered as a possible entry point for Beijing in the European market, is cleverly linked to the OBOR initiative with the signature of multilateral agreements and memorandums of cooperation at the yearly 16+1 meetings. However, when it comes down to actual engagement, few countries have seen investments pour into their economy. It seems that China prefers bilateral agreements for its project implementation, especially with the Western Balkans countries. In this respect, previews of OBOR-oriented strategy are to be found between the lines: after targeting the port of Piraeus in Greece – which was acquired by the Chinese shipping company COSCO³ – the port became China's main access point to the Mediterranean, serving as a base for further connecting the countries on the road towards mainland Europe. Going forward, China is in the process of finalizing an important corridor, called the

Land Sea Express Route – spanning from Greece, via the Western Balkans, to Central Europe.

Thus, the focus switched to two 16+1 member states: Serbia and Hungary. Paving the way towards the markets of Central Europe, the part of the economic corridor through Serbia into Hungary started to be imagined in the form of talks about a Belgrade–Budapest railway, a project that was then delayed by the European Commission's concerns about the procurement mechanism conducted by the Hungarian government. Overall, via its two flagship infrastructure projects – the port in Greece and the railway connecting Hungary to Serbia – China seems to favour the interconnectivity of the OBOR project through investments within the 16+1 bloc.

Chinese investments in Serbia: an unprecedented precedent

As far as economic activities and investments go, China's bilateral approach towards Serbia might in fact significantly symbolize its foreign policy aims and tools towards the Western Balkans. Serbia certainly welcomed China's interest by becoming the first European country to abolish visas with China, following a mutual agreement signed during the Riga Summit. Given the fact that the region might be considered a minor market for Chinese products, Chinese investments aim to support the available infrastructure and boost possible future access to European markets. One area of such investments appears to be the energy sector, in which China likes to play the role of an available, simple and most eager alternative source of investment(s). However, as we will see below from the case of Chinese funding of Kostolac B in Serbia, initial positive

¹ For more information, see the official website at: <http://www.china-ceec.org/eng/>

² Of those listed: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia are both EU and NATO members; Albania and Montenegro are only NATO members.

³ For more details about COSCO, see Bloomberg's Company Overview, available at: <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=5425831>

expectations might result in less positive results. Despite its eagerness to provide the region with much-needed investments, China's role in the region remains incomparable to the EU's. Apart from the force of attraction that the Union provides with its future membership possibilities for the Western Balkan countries (and despite the costs that come with it), China lacks decades of experience on the ground throughout the region.

The existing tensions are one of the reasons of the long-term EU commitment to reform and most importantly stabilize the region, which is paradoxically on what the Chinese influence, which tends to undermine such stability, solely depends. The Serbian case of the construction of Kostolac B further illustrates such a paradox: the country benefitted from a Chinese loan to construct a new block of a thermal (coal combustion) power plant, which the Serbian state backed with its budget, and agreed on Chinese terms that, in case of a dispute, Chinese law is the applicable law. According to Bank Watch, the loan was agreed by the Serbian government and implemented by Elektroprivreda Srbije, a state-owned energy company. On the Chinese side, the loan was provided by China ExIm Bank⁴. However, the decision-making process regarding loans from Chinese companies remains unclear: according to the publication Insaider, there is an overall lack of transparency from the Serbian government when it deals with Chinese investments.⁵ Moreover, Serbia did not take into account the assessments of the environmental impact of the construction, and especially the close proximity of the border with Romania, which would be directly affected by the construction. However, Chinese eagerness diminishes such inconveniences for Serbia, as the country seeks modernization and China offers funding that the EU would at least consider as risky, if at all.

It is worth noting that Chinese support seems, in the case of Serbia and as opposed to other Western Balkans states, to be grounded on more than economic tools. After the 1999 NATO bombing of the country, during which the Chinese Embassy was hit, China has supported the Serbian stance towards Kosovo by not recognizing it. On the other side, Serbia sides with China on sovereignty disputes, backing China's policy towards Tibet and Xinjiang. The already existing warm Sino-Serbian relations were thus strengthened through economic ties, and China somewhat opportunistically positioned itself in the role of a viable alternative whilst following its foreign policy strategy.

The case of the Chinese investment in Kostolac B illustrates that a strategic political motivation is to be found behind the investments in energy infrastructure – Serbia, otherwise relying on pricey Russian gas, saw the offer as an indeed attractive alternative.

China, meanwhile, is drawing attention from the Western Balkans thanks to its successful relationship with Serbia, which Beijing sees as a stepping-stone towards the European market.

Is Chinese influence undermining the stability on which it depends?

The steps taken by China while approaching (only) some of the Western Balkans countries within the 16+1 platform seem to express certain preferences in its framework – preferences that can be interpreted as a)

⁴ See more details here <https://bankwatch.org/project/kostolac-lignite-power-plant-serbia#project-background>

⁵ See more details here <https://insajder.net/en/site/news/4752/>

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following the aims of securing the development of its economic corridor(s) outlined in the OBOR project; and b) trying to create a political playing field on which to compete with Western influence. Upon closer observation, Chinese interest in the Western Balkans appears to follow the countries' prospects of joining the EU: Montenegro, Serbia and Macedonia – regarded as the three Western Balkans states closest to potential membership⁶ – are also the strongest beneficiaries of Chinese investments.⁷ After signing deals with Serbia on energy projects, China's investments activities have also targeted the country's transport infrastructure: it is now building a railway connecting Belgrade to Budapest, and has put forward plans to connect Belgrade and the Montenegrine port Bar through a costly highway, not to mention its bidding for the 25-year operating concession for Belgrade's Nikola Tesla airport⁸. On top of that, China Exim Bank, a prominent Chinese investor in Serbia, has established an investment fund⁹ designed to facilitate further investments in the country. Probably due to Beijing's targeting of the country, the growth of outbound Chinese tourism has also spiked: apart for an unprecedented success in the form of visa liberalization between the two countries, Serbia has been marketing itself as a prominent destination. It received the 'Chinese Tourists Welcoming Award' and achieved the longest duration of Chinese tourists' stay (2.3 days in 2015¹⁰) of all the Western Balkans countries.

Despite the large scale of these projects, concerns over the actual benefits of the deals for Serbia are on the rise within the country. By supporting the construction and

development of power plants, highways, railways and airports, China is surely securing the infrastructure needed to develop OBOR but is still investing in projects that carry substantial risks. As exposed by the Balkan Investigative Reporting Network (BIRN)¹¹, Energoprojekt Niskogradnja, a company charged with building a section of the Belgrade-Montenegro Corridor 11, secretly handed a US\$75 million contract to a consortium of three firms linked to the coalition government partners (and with little to no road-building experience): Nukleus, C&LC and Inkop. The latter is linked to Zvonko Veselinovic, a Serbian businessman currently on trial and linked to the conservative right-wing Serbian Progressive Party, while Nukleus is owned by Vladimir Jevtic, a former member of the Nova Srbija party, now part of the coalition government. Apart from neglecting the initial risks, China accorded from the very beginning terms that led to unfavourable conditions and a subsequent negative impact: the main Sino-Serbian construction contract (also revealed by BIRN¹²) did not require public oversight or the publication of a tender while appointing subcontractors, a clause fully exploited by Energoprojekt Niskogradnja.

Such lack of transparency, which is required by EU-led investments but often omitted by Chinese-led investments, opens the way for corruption and opposes progress in a region that is already stumbling when trying to develop a functioning market economy – one of the crucial criteria for joining the EU.

⁶ For more information, see the 2016 Communication on EU Enlargement Policy, available at https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_strategy_paper_en.pdf and an analysis of the 2016 Progress Report, available at: <http://europeum.org/data/articles/eastern-monitor-ckl-2.pdf>

⁷ For details, see here: http://www.china-ceec.org/eng/zdogjhz_1/t1414696.htm

⁸ For details, see here: <http://www.exyaviation.com/2017/06/belgrade-concession-bidders-outline.html?m=1>

⁹ For details, see here: <https://seenews.com/news/interview-chinese-backed-fund-eyes-serbia-for-next-investment-project-499264>

¹⁰ For details, see here: <https://www.researchgate.net/publication/303838866>

¹¹ The full investigation, together with all the documents related to it, see BIRN's article, available at <http://www.balkaninsight.com/en/article/veselinovic-linked-consortium-bags-75m-dollar-contract-in-secret-deal>

¹² All related documents were obtained by BIRN and are available at: <http://birnsource.com/en/folder/195%20>

Having a closer look for example at the construction of Kostolac B, Chinese investments into the energy sector were implemented in hidden cooperation with (local) corruption networks whose activities go beyond money laundering of the investments. The result (and possibly the purpose) of such “cooperation” is to speed up the implementation process without implementing the administration’s transparency procedures, and/or the involvement of the public – a move tacitly welcomed from both the Serbian and the Chinese side. Another example, quoted in a story published by the *magazine-tabloid.com* media outlet, suggests that additional anonymous sources confirmed participation of local political representatives (with the approval of the parliamentary representation) on “smoothing the administrative process” of constructing Kostolac B as well as “solving” the pollution problem connected to operation of the Kostolac B power plant.¹³ Having said that, both cases show an apparent readiness of Chinese companies to push their interest(s) by glossing over potential abuses to the rule of law and market economy practices.

The preference of effectiveness when it comes to implementing the agreed projects goes hand in hand with China's ability to find partners for its endeavours in the Western Balkans. In other words, it focuses on the quick implementation of projects, which does not positively influence the progress of individual countries on their path to the EU.

The onus is rather put on the ability of individual countries to reach mutually beneficial agreements with Chinese investors, which Serbia and Montenegro have been apt at. With this quid pro quo, China is able to quickly reach its goal of being actively present in the region, whilst the corruption networks secure essential financial resources, guaranteeing at the end of the day that OBOR-related important infrastructure projects are being built.

To make the picture more complex, the case of Bosnia and Hercegovina, Kosovo and Albania shows that finding agreement with Chinese investors does not have to be beneficial to both sides. It appears that corruption networks within the three other countries of the Western Balkans are too difficult to handle for Chinese investors. The constitutional struggle between Republika Srpska and the Federation of Bosnia and Herzegovina within Bosnia and Herzegovina translates, in reality, into the two most significant infrastructure projects having been almost halted or significantly postponed. This is the case of the Banja Luka – Split highway¹⁴ and the Hungary – Bosnia and Hercegovina – Croatia (Corridor X) highway.¹⁵ Due to the internal political struggle in Bosnia and Hercegovina, there is very limited interest for Chinese investors to enter negotiations. Even if lately, although not so promptly, China expanded also to Albania¹⁶ (and partly to Kosovo) by acquiring 100 % of Tirana’s airport operator shares¹⁷, little significant progress has been made in both countries. The unofficial explanation for such a situation is that, again, managing the political corruption and external actors present in both countries represents too much of a difficulty. From another point of view, there are also geopolitical

¹³ The issue touches upon the issuing of a construction permit of Kostolac B power plant and obeying the right of the local community when it comes to securing environmental standards. For details, see here: <http://www.magazin-tabloid.com/casopis/?id=06&br=360&cl=16>

¹⁴ For details, see here: <https://www.akta.ba/en/Vijest/news/project-of-the-banja-luka-to-split-highway-has-been-presented/45294>

¹⁵ For details, see here: <http://in.reuters.com/article/bosnia-highway-bids-idINL8N1K84PS> and <http://www.total-croatia-news.com/business/17535-new-major-bridge-to-connect-croatia-and-bosnia-and-hercegovina>

¹⁶ For details, see here: <https://www.forbes.com/sites/kenrapoza/2016/06/13/albania-becomes-latest-china-magnet/#17ec53aa2490>

¹⁷ For details, see here: <http://www.reuters.com/article/us-china-albania-everbright/china-everbright-group-buys-albanian-airport-operator-idUSKCN1271ZE>

arguments at play: both countries (Kosovo and Albania) are the biggest allies of the US in the region – with Albania a NATO ally and Kosovo hosting a strong military presence of NATO armed forces within the KFOR mission. On top of that, the great care that China took into leaving out the three neighbours (Belarus, Moldova and Ukraine) of the Russian Federation into the 16+1 framework suggests that Beijing's strategy is not to attract unnecessary attention. However, if China chooses again to neglect the side-effect of its investments where it seeks to boost its presence – and thus indirectly support regional corruption structures as showed in the case of Corridor 11 – the harmful consequences of Chinese investments will support the authoritarian political stability that Beijing has fostered in the region, a development that could trigger warning signals in the international community.

Beijing's focus on trade aims to derail concerns over its political strategy

China's leading executive, in tasking Xi Jinping with implementing the OBOR project, seeks to convey and promote a unifying message: the doors of economic cooperation and trade are opened for all the countries involved in the project. Despite the Communist Party's monopoly on power, Chinese government officials and private sector representatives seem to speak a common language with their respective international counterparts. OBOR, with a pompous vision reflected in its rhetoric, lures to deepen the economic and trade activities – while quietly putting aside very complex issues down the road. The vast amount of differences in the recipient countries, especially in the Western Balkans and its myriad of geopolitical issues, are somewhat simplified and downplayed with a very appealing vision of bilateral benefits. Beijing, while implementing OBOR in the Western Balkans, seems again to reflect that. As the economic goals outlined in the 13th

Five-Year Plan (FYP), Chinese investment activities in the Western Balkans are rather ambitious.

Such ambition is reflected in the Chinese goal of strengthening trade and investment globally, by creating the beginning of a common trading zone and axis of cooperative states towards Beijing. This would have the effect of focusing the international community's attention towards milder issues of trade, rather than towards a more structured political strategy.

As Xi's party is approaching the important 2021 milestone of its centenary anniversary, both his strive for achieving the 13th FYP goals and marketing such success is unprecedented. Not only Xi Jinping, for the first time as ruling president, presented the 13th FYP himself, but he also stripped the State Council of its responsibilities for the FYP, leaving both the implementation and controlling of the plan in the hands of the Communist Party of China. This centralization is also implied and reflected in the conclusive chapter of the 13th FYP, which is solely focused on the leadership of the CPC in society. However, even if heavily using terms such as *innovation* and *development* whilst *adapting to the new normal*, China seems to still prefer state-led economic governance (in order to achieve its outlined goals), and does not exactly pave the way towards a market-based economic model. The very existence of OBOR and its implementation in the Western Balkans reflects the domestic planning: Xi's flagship project, as ambitious as it may be marketed, does not follow the EU model of market-based decision making, transparency and convergence towards common criteria. Instead, it prefers to politicize the investments to leverage Beijing's soft power

against the already established international players in the region, disrupting the status quo that it builds its investments upon.

Conclusion

While presenting itself as the only alternative of investments for the Western Balkans, it attempts to create political leverage built on economic dependency. After successfully testing the waters in Serbia, China has quickly approached other Western Balkans countries – often luring them into deals within the 16+1 framework under the blessing of long-term prospect of cooperation within the OBOR project. While international cooperation and Chinese investment packages might carry a strong potential for the region, their implementation and oversight by China intentionally omits and does not follow EU standards.

Taking into account the role of the viable and effortless alternative that China wants to portray in the region, this paper concludes that precedents of indirect support of local corruption networks as well as the undermining of market-based principles of investment activity have already been established, and are likely to reoccur in the future.

Even as investments do not necessarily correlate with the prospects of the recipients to join the EU, China seems to invest pragmatically, most especially where a future seat at the table in Brussels is imminent. In other words, Chinese investors consider the economic and political return of their investments as more realistic in such countries because the progress of EU accession goes hand in hand with a functioning public administration and stable political system

– which creates a better environment for investments in the country.

Therefore, as the long-term strategy of China is to primarily reach the EU market, the possible EU membership(s) of Serbia and Montenegro would represent a political added value for Chinese involvement in the region. China eagerly offers investment projects without implementing EU-level standards. Thus, while securing strong ties with future EU members would indeed politically pay off – especially in terms of possible Chinese influence towards Brussels – the imminent effect of an investment-based foreign policy towards the region actually undermines EU membership prospects for the recipient countries. Their application process is built upon meeting the criteria that China intentionally omits in its investment offers and subsequent projects. As the convergence towards EU standards in terms of investment transparency and market-economy principles is reversed, the relative stability on which China is building its influence is disrupted. However, even as the European Union is certainly aware of such Chinese activities in its backyard, a clear response is yet to crystalize.

Hints of a possible counter-narrative strategy can be found in the 2017 State of the European Union Address, in which Jean-Claude Juncker stressed trade issues while calling for a repositioning of the EU as leading actor of free trade. Intentionally turning East while proposing a framework for investment screening, the President of the Commission outlined a rather defensive stance towards Chinese FDIs in a struggle to protect European markets against China's buyouts. Such a move, added to the lack of a clear counter-strategy to Chinese economic influence in the Western Balkans, supports Beijing's leverage strategy outlined above.

In reaction to the EU protectionist screening framework, China might require the Union to leave space

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for its investments in the Western Balkans, where it compensates for the Union's transparency and free-market requirements. With the considerable emphasis put by Juncker on free trade deals, one can expect China to, even

if only as a fearless bluff, threaten the smooth course of the deal-making process to cash in the leverage it has created for itself in the EU's neighbourhood.

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Co-funded by the
Europe for Citizens Programme
of the European Union