

China and the EU in the Western Balkans

A zero-sum game?

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Clingendael Report



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List of Acronyms

BiH	Bosnia and Herzegovina
BRI	Belt and Road Initiative
CDB	China Development Bank
CEE	Central and Eastern Europe
CEEC	China Energy Engineering Corporation
DG NEAR	Directorate-General for Neighbourhood and Enlargement Negotiations
EBRD	European Bank for Reconstruction and Development
ECFR	European Council on Foreign Relations
EIB	European Investment Bank
ERP	Economic Reform Programme
EU ETS	European Union Emissions Trading System
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign Direct Investment
G2G	Government to Government
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
HR/VP	High Representative of the Union for Foreign Affairs and Security Policy
IBRD	International Bank for Reconstruction and Development
IPA	Instrument for Pre-Accession Assistance
LSER	China–Europe Land–Sea Express Route
NATO	North Atlantic Treaty Organisation
PEARL	Piraeus Europe–Asia Rail Logistics
PRC	People’s Republic of China
RS	<i>Republika Srpska</i>
SAA	Stabilisation and Association Agreement
UAE	United Arab Emirates
UAV	Unmanned Aerial Vehicle
UK	United Kingdom
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNSC	United Nations Security Council
US	United States
VMRO	Internal Macedonian Revolutionary Organisation (political party)
WB	Western Balkans
WB6	Western Balkans Six
WBIF	Western Balkans Investment Framework

Executive summary

This Clingendael Report explores whether and how China's approach to the six non-European Union (EU) countries of the Western Balkans (the WB6) relates to EU interests. It focuses in particular on the question of whether China's influence affects the behaviour of the WB6 governments in ways that run counter to the EU's objectives in the region. China engages with the Western Balkans primarily as a financier of infrastructure and a source of direct investment. This is in line with China's main strategic objective for the Western Balkans – that is, to develop the Land–Sea Express Corridor, a component of its Belt and Road Initiative, aimed at improving China–EU connectivity.

China is not pursuing a common regional strategy for the Western Balkans. Instead, it has embedded its bilateral ties with the region in the 17+1 cooperation platform, which involves the EU's Central and Eastern European countries, plus Greece. There is substantial differentiation among the WB6 when it comes to the level of linkage formation with China, with Serbia clearly being China's preferred partner, and relations with Kosovo being the least developed.

The effectiveness of Chinese attempts to forge relations with the WB6 depends on how these attempts, and China itself, are perceived in the individual countries of the region. While the WB6 recognise China as a significant source of infrastructure financing, there appears to be a sense of disappointment among regional governments regarding foreign direct investments (FDI). Major instances of Chinese FDI remain limited and involve mainly acquisitions of existing companies rather than the creation of new companies (through so-called greenfield investments). At the same time, governments in the Western Balkans welcome the limited conditionality in economic cooperation with China. As elsewhere in the world, the Chinese government's main condition is that its counterparts refrain from maintaining diplomatic ties with or providing any kind of political support to Taiwan. Even Kosovo, despite not being recognised as a state by China, maintains no diplomatic or political ties with Taiwan.

Among the countries of the Western Balkans, Serbia in particular has sought to employ increasing political and economic linkages with China to balance against the EU and great powers. While increasingly aware of risks related to large-scale lending from China, the will to converge economically with the EU and others has stimulated politicians in the WB6 to step up cooperation and will likely continue to do so in the future. However, linkages on the cultural and civil-society levels have not yet developed to a significant level and are not expected to do so in the near future. Similarly, a real

public discourse on China remains little developed in the region, with the potential exception, again, of Serbia.

In terms of overall objectives, Chinese and EU engagements do not constitute a zero-sum game. However, the actual way in which China operates is not always comparable to the vast and highly institutionalised relations of the EU and the WB6 countries, as embedded in the Stabilisation and Association Agreements (SAAs) and enlargement frameworks. Despite the size and intensity of linkages clearly playing out to the advantage of the EU, China's mere presence in the WB6 obstructs EU norm diffusion in political, economic and security terms. The legal approximation of the WB6 with the EU, as required in their path towards EU membership, requires the full adoption and implementation of EU standards on good governance, macro-economic stability, environmental protection, public procurement (transparency), corruption, human rights, privacy and data protection. In all these fields, engagements between China and the WB6 have frequently caused the latter to drift away from EU-intended reforms. As well as confronting the WB6 with deviating standards, China's increased role in the Western Balkans has furthermore undermined the mechanisms of socialisation and conditionality through which the EU has sought to draw the region closer.

For the EU to address these issues, this Clingendael Report proposes a number of actions. These should be based on recognising the developmental needs of countries in the Western Balkans, and accepting that China's economic involvement is inevitable and potentially beneficial for such developmental needs. In particular, the EU should maximise accession conditionality as a tool to influence the conditions under which China is involved in the region.

China in the Western Balkans: A problem for the EU?

'If Europe does not provide a prospect for the future [to the six non-EU countries of the Western Balkans], China, Russia or another influential actor will'.¹ This line of thought, in this case expressed by Dutch parliamentarian Kees Verhoeven (D66), has become a dominant discourse among proponents of speeding up the EU's accession process for the six Western Balkans nations (WB6).² An important implication for the European Union (EU) follows from Verhoeven's statement: an increase in influence by non-EU great powers could create a situation in which some or all of the six Western Balkans governments make policy choices that do not align with the EU's interests.

In recent years, academic experts have increasingly paid attention to China's engagement in the Western Balkans. Some authors point at the relevance of an expectation-fulfilment gap: Western Balkans (WB) governments, disappointed by lack of progress with EU accession, welcome greater Chinese economic engagement.³ However, for a number of regional countries this engagement, too, has started to suffer from an expectation gap, as China seems focused predominantly on Serbia.⁴ Another point made by some experts is that despite the many advantages of China's economic engagement both for China and the EU and WB countries themselves, the model of Chinese state-led engagement can run contrary to the EU's reform agenda.⁵ A further warning for the EU sounded by some researchers is that, although China cannot be held responsible for low environmental standards or high corruption in the Western Balkans, Chinese-funded infrastructure projects may perpetuate local networks

1 Translation by the authors from Tweede Kamer der Staten-Generaal, 21 501-02, Raad Algemene Zaken en Raad Buitenlandse Zaken, Nr. 2031, Verslag van een Algemeen Overleg, 6 June 2010, <https://zoek.officielebekendmakingen.nl/kst-21501-02-2031.html>. Literally, Verhoeven said 'a sphere of influence will'.

2 The so-called 'Western Balkans Six', or WB6 for short, comprise the six non-EU countries in the Western Balkans: Albania; Bosnia and Herzegovina; Kosovo; Montenegro; North Macedonia; and Serbia. While geographically 'Western Balkans' may refer to a broader region (including in particular also Croatia), in this report it solely refers to the six afore-mentioned countries.

3 M. Vetrovcova (2018), 'Towards an "Expectations Fulfilment Gap" in 16+1 Relations? China, the EU and the Central and Eastern European Countries', in Chen Xin (ed.), *16+1 Cooperation and China-EU Relationship*, Budapest: China-CEE Institute, pp. 115-135.

4 J. Mardell (2020), 'China's Economic Footprint in the Western Balkans', *Bertelsmann Stiftung*, <https://www.bertelsmann-stiftung.de/en/our-projects/germany-and-asia/news/asia-policy-brief-chinas-economic-footprint-in-the-western-balkans>.

5 Ibid.

of patronage and corruption.⁶ European debates on how to deal with Chinese direct investments or large-scale loans in the Western Balkans are connected to broader, fundamental questions on the role of the state versus the private sector, national security versus a commitment to open markets, and to north/south and east/west divides inside the European Union itself.⁷

This Clingendael Report explores whether and how China's approach to the six non-EU countries of the Western Balkans relates to EU interests. It addresses in particular the question of whether China's influence affects the behaviour of regional governments in ways that run counter to the EU's objectives in the region.⁸

Theoretically, the report follows the idea that a great power's influence over any given state is exercised through linkages. The analysis in this report is focused on political, economic and security linkages. These can either serve as channels for exerting influence (such as political contacts) or as sources of such influence in their own right (for example, trade relations). Influence can moreover either directly shape a country's conduct (that is, to affect concrete actions or choices), or indirectly by shaping its policy context (to shape the parameters of the choices another country can make). The EU's 'soft power' can be seen as a form of influence that impacts another country's policy context, as it seeks to shape the parameters of what is socially, politically and economically relevant for the Western Balkans. The extent to which major powers are able to employ linkages with less powerful countries for their purposes depends on a number of contextual factors at the international level (including geography, nature of the international system and availability of alternatives), state level of the small power (for example, the small power's openness to linkage establishment) and domestic level (political and economic systems). These theoretical underpinnings will feature throughout the report.

Methodically, the research employs a qualitative analysis, based on both desk research (with mixed usage of primary sources, secondary sources and 'grey literature'), as well as interviews with experts and policy-makers in the six Western Balkans countries. These interviews were conducted in part 'on the ground' in the region (in February 2020) and partly online (in March–April 2020), as travelling was then not possible because of measures against the novel coronavirus.

6 A. Doehler (2019), 'How China Challenges the EU in the Western Balkans', *The Diplomat*, <https://thediplomat.com/2019/09/how-china-challenges-the-eu-in-the-western-balkans/> (accessed 2 June 2020).

7 J. Bastian (2019), 'European Fault Lines and Chinese Crossroads', <https://reconnectingasia.csis.org/analysis/entries/european-fault-lines-and-chinese-crossroads/>.

8 The authors are grateful to Maaike Okano-Heijmans and Louise van Schaik for their extremely useful comments on a previous draft of the report.

The first chapter of the report focuses on China's general foreign policy objectives and how China approaches bilateral relations with the Western Balkans. China's approach to the Western Balkans is assessed through three key spheres of bilateral relations: political; economic; and security. Chapter two examines the perceptions and responses to China of the six Western Balkans countries. Chapter three subsequently assesses how China's increased presence in the Western Balkans affects the EU's efforts to draw the region closer, making this assessment on multiple levels, including overall objectives, actual linkages, the standards and values the EU seeks to diffuse, as well as the underlying mechanisms of socialisation and conditionality that are at play in the EU's enlargement framework.

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1 China's approach to the Western Balkans

This chapter focuses on China's approach to the Western Balkans in the economic, political and security domains. What are the Chinese government's objectives for the Western Balkans region as a whole, and what are the main characteristics of its relations with the region's countries at a bilateral level?

1.1 The regional level

The Chinese government does not have a foreign policy framework for the Western Balkans as a region. Rather, China deals with Western Balkans countries mainly at the bilateral level. Still, to understand the context in which these bilateral relations have been developing, it is relevant to take into account the multilateral level, where the 17+1 mechanism is the platform for China's collective approach to the Central and Eastern Europe (CEE) region. Five of the Western Balkans countries (Bosnia and Herzegovina, Montenegro, Albania, Serbia and North Macedonia) are members of the 17+1 mechanism. China maintains no diplomatic relations with Kosovo, which it does not recognise as an independent state.

China participates in a range of regional groupings related to various parts of the world. In most (but not all) cases, these groupings are based on the '+1' model – that is, a set of countries from a specific region plus China as the only extra-regional participant. The regional forums are linked to activities financed by China's so-called policy banks: the China Development Bank (CDB) and the China Export–Import Bank (Exim Bank). Thus, '17+1' does not constitute an exception to China's foreign policy methods of institutionalising cooperation at the regional level. What sets the 17+1 platform apart from the other regional groupings is that the others are mainly aimed at the developing world.

A distinctive common characteristic of the CEE countries, from a Chinese point of view, is that most were under a socialist regime during the Cold War. The only exception is Greece, which joined the 17+1 later than the rest.⁹ China has refrained from deploying

9 S. Milekic (2017), 'Rise of Yugo-Nostalgia "Reflects Contemporary Problems"', <https://balkaninsight.com/2017/03/14/yugonostalgia-as-result-of-unfinished-nation-building-processes-03-14-2017/> (accessed 20-05-2020).

a narrative aimed at highlighting the shared socialist past towards either the CEE as a whole or the Balkans in particular, despite the existence of some degree of post-socialist nostalgia in the Balkans.¹⁰ The Chinese government has generally referred to its relationship with the whole 17+1 group only in general terms as one of 'traditional friendship' and 'shared past'.¹¹

Within the 17+1, the five non-EU countries of the Western Balkans that are members do not constitute a formal sub-grouping. As such, while these five countries are the only non-EU members in the 17+1, China's approach at the CEE level ignores this distinction. Still, at the bilateral level, the approach of China to the Western Balkans countries involves infrastructure financing more prominently than its approach to the other 17+1 countries. China's involvement with the Western Balkans thus resembles its interaction with developing countries, in which infrastructure financing plays a central role. In a way, relations between China and the Western Balkans as a region may be regarded as a hybrid category that combines elements from China's approach to developing countries with its interaction with member states of the European Union. Chinese activities in Asia, Africa and Latin America are relevant for the Western Balkans in two regards. First, Chinese companies that engage in infrastructure financing and construction in the WB6 have often acquired experience and advantages of scale through their activities elsewhere. Experiences from elsewhere are likely to have an impact on their behaviour in the Western Balkans, for instance with regard to dealing with risks and managing relations with local actors. Second, China's involvement in infrastructure development in the WB6 is part of a near-global network of transport, communications and energy infrastructure that Chinese governmental and business actors are building as part of China's 'Belt and Road Initiative' (BRI). Infrastructure projects in the WB6 should not be seen as stand-alone activities. Rather, their strategic relevance for China is related to the BRI's overall progress.

Indeed, China's main interest in the Western Balkans relates not primarily to the region's countries as such, but to their proximity to the European Union, which is a major export market for China. Consequently, the main region-wide initiative of the Chinese government for the Western Balkans is the China–Europe Land–Sea Express Route (LSER).¹² The LSER, a component of the BRI, is a transport corridor that connects China

10 R. Turcsanyi (2019), 'Friends or Foes? How Diverging Views of Communist Past Undermine the China–CEE "16+1 platform"', *Asia Europe Journal*.

11 Chinese Ministry of Foreign Affairs, 'Speech: Strengthen Traditional Friendship and Promote Common Development', https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t836545.shtml (accessed 20 May 2020).

12 M. Ferchen *et al.* (2018), 'Assessing China's Influence in Europe through Investments in Technology and Infrastructure: Four Cases', Leiden Asia Centre, <https://leidenasiacentre.nl/wp-content/uploads/2018/12/Influence-in-Europe-through-Investments-and-Technology-and-infra.pdf>, p. 20.

and Europe via Greece and the Western Balkans. Containerised goods travel by sea from China to the port of Piraeus in Greece, from where they are transported by train through North Macedonia and Serbia into Hungary and the Czech Republic.¹³ China COSCO Shipping, a state-owned enterprise that is China's largest shipping company, has been developing Piraeus into a major regional hub since 2009. COSCO has a majority stake in the port authority of Piraeus, while a subsidiary operates the port's container terminal. In late 2019 COSCO bought a majority stake in the Greek railway company Piraeus Europe-Asia Railway Logistics (PEARL) and a minority stake in a train terminal at Budapest in Hungary.¹⁴ Under COSCO's influence, Piraeus has become the busiest container port in the Mediterranean. The train link between Piraeus and Central Europe is linked to the network of China-Europe rail services via Budapest. In May 2020, during the corona crisis, the Chinese government dispatched a train with medical supplies directly from Wuhan in central China to Belgrade in Serbia. Several rail companies subsequently announced plans to establish a permanent rail connection between China and Belgrade.¹⁵

In relation to the Belt and Road Initiative, the two Western Balkans countries most significant to China are Serbia and North Macedonia (with Serbia being the more relevant of the two). Improved transport connections linking the Adriatic ports of Albania, Montenegro and Bosnia and Herzegovina could potentially enhance these countries' strategic importance. However, all three countries have only minor seaports and are not well connected to the main north-south transportation routes through North Macedonia and Serbia. The ongoing construction project financed through a Chinese loan that aims to connect the port of Bar, Montenegro's main seaport, to Belgrade in Serbia is an attempt by Montenegro to enhance its role in cross-regional transportation.

13 COSCO Shipping, 'COSCO Shipping Acquired a 60% Stake in a Greek Railway Company',

http://en.coscoshipping.com/art/2019/11/15/art_6923_124985.html (accessed 20 May 2020).

14 F. Van der Putten (2019), 'European Seaports and Chinese Strategic Influence', *Clingendael Policy Brief*,

<https://www.clingendael.org/publication/european-seaports-and-chinese-strategic-influence-0>.

15 Rail Freight, 'Serbia Next European Destination on the New Silk Road', https://www.railfreight.com/beltandroad/2020/06/02/serbia-next-european-destination-on-the-new-silk-road/?utm_source=newsletter&utm_medium=email&utm_campaign=Newsletter%20week%202020-23&gdpr=accept

(accessed 27 June 2020).

Map of the China–Europe Land–Sea Express Route¹⁶



For China, the LSER is only one among several corridors that Chinese companies are developing to improve Sino–EU trade and to increase their role in international logistics. It is not even the only avenue to improve transportation from China into Central Europe via South-East Europe. Other regional entry points to reach the EU are seaports in the northern Adriatic Sea: Trieste (Italy); Koper (Slovenia); and Rijeka (Croatia). Moreover, Chinese state-owned companies have also invested in the Turkish port of Kumport near Istanbul and have a minority stake in the Port of Thessaloniki in Greece. Apart from long-distance seaborne trade, South-East Europe and China are also connected through shipping across the Black Sea and by train across Turkey, via the Caucasus and Central Asia. The Belt and Road Initiative provides China's foreign trade with a gradually expanding network of alternative and complementary routes. Beyond South-East Europe, Chinese actors also have interests in seaports in the western Mediterranean (such as Vado Ligure and Valencia) and in Western Europe (such as Zeebrugge, Antwerp and Rotterdam), as well as in train traffic via Russia and Belarus. Yet China's close diplomatic relations with Greece, Serbia and Hungary provide both the

16 Gavekal Dragonomics (2019), 'Beijing's Backdoor into Europe', <https://research.gavekal.com/gavekal-dragonomics> (accessed 27 May 2020).

Chinese government and Chinese companies with an incentive to continue to develop the Land–Sea Express Route across the Western Balkans as one of the main China–EU trade corridors of the future. Although focused on trade, investment and development, the BRI serves China’s geopolitical interests. It links countries more closely with China, strengthening its economy and international reputation. By enhancing mutual trust through economic dependency, the BRI seeks to ensure a favourable strategic space for China in the long term. The BRI constitutes a core component of China’s foreign policy.

1.2 The economic domain

China’s Belt and Road Initiative is the main framework for China’s foreign policy towards most parts of the world, including the Western Balkans. Consequently, China’s relations with this region’s countries are to a large degree shaped by this framework, which aims to increase international trade and the role of Chinese companies, in particular in transport, energy and communication infrastructure.

Western Balkans’ trade in goods with the EU and China, as percentage of the total trade, 2019¹⁷

	EU		China	
	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>
Albania	58% (1)	76% (1)	9% (3)	2% (4)
BiH	61% (1)	72% (1)	7% (3)	-
Kosovo	49% (1)	33% (1)	10% (3)	-
Montenegro	47% (1)	37% (1)	8% (3)	4% (5)
N. Macedonia	50% (1)	79% (1)	6% (4)	2% (4)
Serbia	59% (1)	68% (1)	9% (2)	2% (7)

17 Sources for trade figures: European Commission 2019 factsheets on Trade in Goods (accessed 20 May 2020). For Serbia, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_serbia_en.pdf; for Montenegro, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_montenegro_en.pdf; for Bosnia and Herzegovina, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_bosnia-herzegovina_en.pdf; for Albania, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_albania_en.pdf; for North Macedonia, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_north-macedonia_en.pdf; for Kosovo, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_kosovo_en.pdf; and for the WB6 at large, see https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_western-balkans-6_en.pdf.

The dynamics of the volume of exports and imports above demonstrates that the region's direct trade exposure to China is ambiguous and consistent among all the countries. While engagement as a percentage of the total trade is less than 10 per cent, China has risen to be the second or third most important import partner. In other words, while the EU is still by far the most important partner, China has managed to offset other traditional partners of the region like Russia or Turkey.

The pattern for foreign direct investment (FDI) is similar to that for trade. Engagement is growing, but China is not the largest direct investor in any of the region's countries. Which country is the top investor varies from country to country and from year to year, but for the period 2013–2018 it was always a European country. In 2018 the top investors were France (for Serbia), Austria (Bosnia and Herzegovina), the United Kingdom (for North Macedonia and Kosovo), Switzerland (Albania) and Italy (Montenegro).¹⁸ Bosnia and Herzegovina has no recent reliable data available for Chinese FDI. For Albania and Montenegro, Chinese FDI is low, accounting for just 2.27 per cent and 0.36 per cent respectively in 2018 (although a Chinese oil firm is a major investor in Albania via its Canadian subsidiary; see below).¹⁹ North Macedonia recorded a slightly higher figure, with Chinese FDI accounting for 3.75 per cent of the total investment in 2018.²⁰ The rates in previous years were similar for all three countries – Chinese FDI did not see an exponential rise.

Important recipients of Chinese FDI in the region are Serbia and Albania. In 2016, Chinese FDI represented 7.32 per cent of the total FDI in Serbia, while the top investor – the Netherlands – had a 13.18 per cent share.²¹ In 2018, Chinese investments in Serbia

18 Sources for foreign direct investment figures have been obtained from the WB6 central banks' datasets (accessed 20 May 2020). For Serbia, see https://www.nbs.rs/internet/english/80/platni_bilans.html; for Bosnia and Herzegovina, see http://statistics.cbbh.ba/Panorama/novaview/SimpleLogin_en.html.aspx; for North Macedonia, see http://nbstat.nbrm.mk/pxweb/en/Eksterni%20statistiki/Eksterni%20statistiki_Direktni%20investiciji_Direktni%20investiciji%20-%20Dvizenja/4_DIRMPoZemjiGodisniEN.px/table/tableViewLayout1/; for Kosovo, see <https://meptinis.rks-gov.net/desk/inc/media/A1B0861D-D650-47D5-AF53-898FE80D414B.pdf>; for Albania, see <https://www.bankofalbania.org/?crid=0,8,1,8,0,18666&uni=20200212134102901452029929756148&ln=2&mode=alone>; and for Montenegro, see <http://www.mipa.co.me/en/sdi-statistika/>.

19 Bank of Albania, 'Foreign Direct Investment Flow', https://www.bankofalbania.org/Statistics/External_sector_statistics/Foreign_Direct_Investments/Foreign_direct_investments_flow.html (accessed 27 June 2020); and Government of Montenegro, 'FDI Statistics', <https://www.mipa.co.me/en/sdi-statistika/> (accessed 27 June 2020).

20 National Bank of the Republic of Macedonia, 'Direct Investment in the Republic of North Macedonia: Transactions – by Country, by Years', http://nbstat.nbrm.mk/pxweb/en/Eksterni%20statistiki/Eksterni%20statistiki_Direktni%20investiciji_Direktni%20investiciji%20-%20Dvizenja/4_DIRMPoZemjiGodisniEN.px/table/tableViewLayout1/ (accessed 20 May 2020).

21 National Bank of Serbia, 'Serbia's Balance of Payments', https://www.nbs.rs/internet/english/80/platni_bilans.html (accessed 27 June 2020).

had risen to a 14.82 per cent share, coming close to (then the main investor) France's 16.24 per cent.²² China's FDI is based mainly on acquisitions rather than greenfield investments. In 2016, Hesteel Group, a Chinese state-owned enterprise, purchased the Zelezara Smederevo steel-manufacturing conglomerate for EUR 46 million. Zelezara Smederevo (also known under its formal name of HBIS Group Serbia) has become the biggest Serbian exporter and has been responsible for a rise in local employment in the area where its facilities are located. The company operates a steel plant, tin mill and a river port.

Also in Serbia, Zijin Mining Group, in which the Chinese government holds a controlling stake, bought a 63 per cent interest (for EUR 279 million) in the RTB Bor copper factory (which was then renamed Zijin Bor Copper) in 2018. Recently, in April 2020, Zijin Bor Copper announced a EUR 731 million investment to expand its capacity.²³

In Albania, Chinese state-owned company China Everbright Group bought TIA, the operator of Albania's national airport, in 2016. The take-over sum was not disclosed, but media reports suggest that it amounted to roughly EUR 81 million.²⁴ Investments by Chinese entities in foreign airports are in line with the Belt and Road Initiative, as they potentially contribute to improved transport links between China and other regions, and/or to a great role for Chinese companies in international air transport.

Another instance of Chinese FDI related to Albania occurred in 2016 when Geo-Jade Petroleum bought the Canadian firm Bankers Petroleum for EUR 385 million.²⁵ Geo-Jade is a Chinese private company that entered the oil business only in 2013. The company currently has oil fields in Albania and Kazakhstan and is listed on the Shanghai stock exchange. Although the purchase of Bankers Petroleum formally constituted an investment in Canada (and therefore tends not to show as a China-related investment in Albania in many statistics), the deal created a significant linkage between China and Albania. Bankers Petroleum's main asset is an exclusive concession to produce oil at the Patos-Marinza oil field in Albania, the biggest onshore oil field in Europe. It also has exclusive concessions in two further oil fields in Albania (which are known as Kucova and Block F). Bankers Petroleum, which derives all of its oil revenues from Albania,

22 Ibid.

23 Serbia Energy, 'Zijin Bor Copper in Serbia Plans to Invest \$800 Mln in Expansion of its Production Capacity', <https://serbia-energy.eu/zijin-bor-copper-in-serbia-plans-to-invest-800-mln-in-expansion-of-its-production-capacity/> (accessed 27 June 2020).

24 Reuters, 'China Everbright Group Buys Albanian Airport Operator', <https://www.reuters.com/article/us-china-albania-everbright/china-everbright-group-buys-albanian-airport-operator-idUSKCN1271ZE> (accessed 27 June 2020).

25 *Balkan Insight*, 'Chinese Investments Raise Eyebrows in Albania', <https://balkaninsight.com/2016/05/03/chinese-investments-raise-eyebrows-in-albania-05-02-2016/> (accessed 27 June 2020).

is the country's largest oil producer. The company produces 95 per cent of Albania's crude oil, and in 2018 'mineral fuels including oil' accounted for almost 11 per cent of the country's exports (with roughly 85 per cent of extracted crude oil being exported).²⁶ According to Bankers Petroleum's website, it is the largest foreign investor, largest taxpayer and one of the largest employers in Albania.²⁷

The aspect of China's economic ties with the region that has drawn most international attention relates not to trade or direct investment, however, but to loans for infrastructure construction. While Chinese construction companies are among the world's largest and active in many parts of the world, their role in Europe is largely limited to the Western Balkans (including Croatia).²⁸ China's infrastructure-related lending to the WB6 countries includes the following:

- *Montenegro's* sovereign debt to China is the highest in the region. China's Export-Import (Exim) Bank has financed the construction of the Bar-Boljare highway. As of 2019, Montenegro owes EUR 671 million, which is 22 per cent of its total foreign debt of EUR 3.1 billion, with its total foreign debt standing at 63 per cent of its Gross Domestic Product (GDP).²⁹ China is the second biggest lender to Montenegro, and it is the single biggest bilateral lender.
- In 2013 *North Macedonia* borrowed EUR 714 million from China's Exim Bank for the construction of two highways: Miladinovtsi-Stip and Kicevo-Ohrid.³⁰ This is approximately 14 per cent of the current 2020 level of government debt, which stands at EUR 5.2 billion.
- *Bosnia and Herzegovina* (BiH) has welcomed involvement by Chinese construction companies in the construction of the 12-kilometre-long Počitelj-Zvirovići section of a highway at a cost of EUR 66 million, which is being financed by the European Investment Bank (EIB).³¹ Nonetheless, Bosnia and Herzegovina has received loans

26 Reuters, 'China's Bankers Deny Abusing Dominant Oil Position in Albania', <https://www.reuters.com/article/us-albania-competition-crude-idUSKBN1X31UP> (accessed 27 June 2020); and World's Top Exports, 'Albania's Top 10 Exports', www.worldstopexports.com/albanias-top-10-exports/ (accessed 27 June 2020).

27 Bankers Petroleum, 'Profile', <https://bankerspetreum.com/about/> (accessed 27 June 2020).

28 M. Petkova and F. van der Putten (2020), 'Building the "Belt and Road" in Europe?', *Clingendael Policy Brief*, <https://www.clingendael.org/publication/building-belt-and-road-europe>.

29 Montenegrin Ministry of Finance, 'Report on the General Government Debt of Montenegro as of 31 December 2019', <http://www.mif.gov.me/en/sections/state-debt/224302/Report-on-the-General-Government-Debt-of-Montenegro-as-of-31-December-2019.html> (accessed 20 May 2020).

30 North Macedonia Ministry of Finance (2015), 'Government Debt for 2019: Reduced Public Debt Stabilised and Lower than Projected', https://finance.gov.mk/files/u252/Godisen%20izvestaj%20za%20upravljanje%20so%20javnot%20dolg%20na%20Republika%20Makedonija%20za%202014%20godina_0.pdf, p. 17.

31 *Sarajevo Times* (2019), 'Chinese Companies to Build 100 Million Euros-Worth Section in BiH', <https://www.sarajevotimes.com/chinese-companies-to-build-100-million-euros-worth-section-in-bih/> (accessed 28 May 2020).

from China with regard to two energy projects, the Stanari coal plant and the Tuzla lignite power plant, which accumulated a total debt of EUR 1.1 billion.³² This equals 13 per cent of Bosnia's total external debt.³³ In May 2020, the government of the *Republika Srpska* (one of the two political entities that make up BiH) signed an agreement with China Gezhouba Group, part of the Chinese state-owned conglomerate China Energy Engineering Corporation (CEEC), to build a large-scale hydropower plant in the south of BiH.³⁴

- *Serbia* borrowed EUR 195 million from the Exim Bank for the Pupin bridge and EUR 1.08 billion for the two sections of the Belgrade–Budapest railway.³⁵ Additionally, EUR 538 million were borrowed for the construction of the Kostolac B3 coal power plant.³⁶ This equals 7.91 per cent of Belgrade's EUR 24.5 billion government debt.³⁷ This amount is approximately equal to what Belgrade owns to the EIB, or half of its debt to the International Bank for Reconstruction and Development (IBRD).
- *Albania* has registered a decreasing level of indebtedness to China, owing Beijing EUR 13.7 million in 2010 and EUR 1.6 million in 2019.³⁸
- There is no data on *Kosovo*, which presumably has no debt with China as the countries do not have official relations.

32 Serbia Energy (2019), 'Bosnia and Herzegovina: TPP Stanari Recorded 39 Million Euros Profit in 2018', <https://serbia-energy.eu/bosnia-and-herzegovina-tpp-stanari-recorded-39-million-euros-profit-in-2018/> (accessed 28 May 2020); Reuters (2017), 'Bosnian Region and Chinese Companies to Build 350 MW Coal-Fired Plant', <https://www.reuters.com/article/bosnia-energy-china/bosnian-region-and-chinese-companies-to-build-350-mw-coal-fired-plant-idUSL8N1OC3XI> (accessed 28 May 2020).

33 Ministry of Finance, Bosnia and Herzegovina, 'External Debt', <https://www.mft.gov.ba/srb/index.php/2012-07-03-21-30-57/2012-07-03-21-31-41> (accessed 28 May 2020).

34 *The Asset*, 'China Gezhouba to Build Hydro Plant in Bosnia and Herzegovina', <https://theasset.com/article/40457/china-gezouba-to-build-hydro-plant-in-bosnia-and-herzegovina> (accessed 27 June 2020).

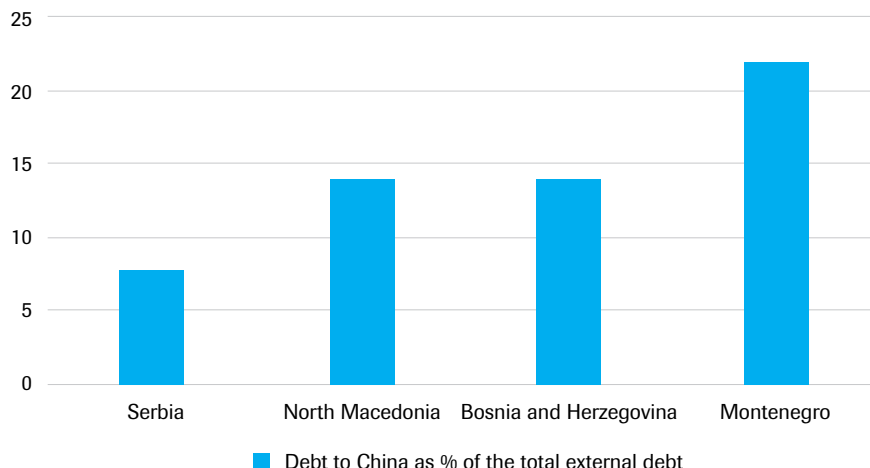
35 Serbian Ministry of Construction, Transport and Infrastructure, 'Modernisation and Reconstruction of Belgrade–Budapest Railway: Sections Belgrade–Stara Pazova and Novi Sad–Subotica–State Border', <https://www.mgsi.gov.rs/en/infrastrukturna-gradilista/modernisation-and-reconstruction-belgrade-budapest-railway-sections> (accessed 20 May 2020).

36 Fiscal Council, Republic of Serbia (2019), 'Business Analysis and Recommendations for Reform and Increased Investments in Elektroprivreda Srbije', http://www.fiskalnissavet.rs/doc/analize-stavovi-predlozi/2019/Analiza_poslovanja_i_preporuke_za_reformu_i_povecanje_investicija_EPS-a.pdf (accessed 28 May 2020).

37 Ministry of Finance of the Republic of Serbia, 'Public Debt Stock and Structure', <http://www.javnidug.gov.rs/eng/default.asp?P=46&MenuItem=4> (accessed 20 May 2020).

38 Ministry of Finance and Economy of the Republic of Albania, 'Statistical Bulletin of Debt', <http://www.financa.gov.al/wp-content/uploads/2020/02/Buletini-i-Borxhit-Q4-2019-versioni-shqip.pdf> (accessed 20 May 2020).

Debt to China, accumulated by loans for infrastructure and energy projects, as a percentage of the total foreign government debt, 2019 levels



In infrastructure financing China is an alternative provider to the EU, one that countries in need can turn to if the EU is not willing to help. In Montenegro, China's Exim Bank was the only available actor to finance a highway that Montenegro's government has deemed of national significance for decades.³⁹ The highway is to complement the existing railway that links the port of Bar to Belgrade and that requires significant upgrading. In late 2019, the Serbian government and Russian rail company RZD signed an agreement to modernise the Bar–Belgrade railway.⁴⁰ It is unlikely that the Exim Bank's loan will result in a Chinese entity at some point taking ownership of the highway. Through a 2014 law passed by the Montenegrin parliament, a third party cannot acquire ownership or any other property rights over it. Consequently, while the conditions of the bilateral loan agreement with Exim Bank are not disclosed, seizure of the highway, or parts of it, in the case of debt default would not be possible.

The only completed infrastructure construction project in the Western Balkans is the Pupin bridge in Serbia since 2016, with the other bigger and more complex projects still under construction or delayed. The Bar–Bolja highway in Montenegro, the Belgrade–Budapest railway, the two motorways in North Macedonia – Miladinovtsi–

39 Mladen Grgic (2016), 'Chinese Infrastructural Investments in the Balkans: Political Implications of the Highway Project in Montenegro', *Territory, Politics, Governance*, Vol. 7, p. 55.

40 D. Burroughs (2019), 'Russian Railways to Upgrade Serbia–Montenegro Border Line', *International Railway Journal*, <https://www.railjournal.com/regions/europe/russian-railways-to-upgrade-serbia-montenegro-border-line/> (accessed 20 May 2020).

Shtip and Ohrid–Kicevo – and the Pochitel–Zvirovici section of motorway in Bosnia and Herzegovina remain under construction. The identified economic sectors for cooperation are infrastructure, natural resources and energy, and engagement is primarily on a government-to-government basis.

Apart from the actual economic interaction between China and the region, the potential of what China could offer in the future is also relevant. Just like the expectation of future EU accession for the Western Balkans region's countries is a key aspect of the EU's approach, so too the region's expectations of China as an emerging economic power may play a part in the Chinese approach.

COSCO's activities in Piraeus signal to Western Balkans nations that upgrading their infrastructure with the assistance of China may bring subsequent activities by which a country can more directly benefit from China's economic growth. This may take the form of increased tourism, trade or manufacturing-related investment. Once the Chinese government and Chinese multinationals have a vested interest in the long-term development of a country's infrastructure, this enhances the likelihood that they use their ability to coordinate related activities to the benefit of that country. To date, the actual economic benefits to Greece of Chinese activities in Piraeus remain mostly limited to rapid growth in trans-shipment (resulting in the port becoming the Mediterranean's largest by 2019). Whether the Greek case is unique or may to some degree be replicated in the Western Balkans is difficult to determine. Nevertheless, it seems inevitable that the prospects and expectations of China's future economic capabilities play a role in its relations with the Western Balkans.

1.3 The political domain

In its approach to South-Eastern Europe, like many other regions, China's official rhetoric emphasises equality and mutually beneficial economic interaction, thereby directing attention away from values and politics.⁴¹ Yet although China is an economic rather than a political actor in the countries of the Western Balkans, the political dimension also plays a role in bilateral relations. While Chinese–Albanian diplomatic ties were very close during the 1960s, after the Cold War and the disintegration of Yugoslavia, Serbia emerged as China's primary diplomatic partner in the region. Serbia is the only Western

41 Chinese Ministry of Foreign Affairs, 'Communiqué: The Belgrade Guidelines for Cooperation between China and Central and Eastern European Countries', https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1224905.shtml (accessed 20 May 2020); and Chinese Ministry of Foreign Affairs, 'Communiqué: The Dubrovnik Guidelines for Cooperation between China and Central and Eastern European Countries', https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1655224.shtml (accessed 20 May 2020).

Balkans country visited by Xi Jinping in his capacity as president of China (in June 2016). China's regional focus on Serbia mirrors its approach to other parts of the world, where its main diplomatic and economic partners tend to be the largest regional countries in terms of economic and demographic size. During the 1998–1999 Kosovo War, China was supportive (and has remained so) of the Serbian position on Kosovo and objected to the North Atlantic Treaty Organisation's (NATO) military intervention. The attack on the Chinese Embassy in Belgrade by NATO bombers during that war, which killed three Chinese journalists, brought China and Serbia closer together and continues to serve as a symbol of their relationship.

The main political pillar under Sino–Serbian relations is China's role in the United Nations Security Council (UNSC), where China has the power to back Serbia's opposition to Kosovo's status as a sovereign state through a veto against possible United Nations (UN) membership for Kosovo.⁴² Serbia is also supported on this matter by Russia, which likewise has veto power, thus diminishing Serbia's dependence on China. Beijing has not recognised Kosovo as an independent state (although it maintains unofficial relations with Kosovo, see chapter 2) and abstained in the voting for UN Security Council Resolution 1244, which laid the basis for Kosovo's role internationally. From the viewpoint of the Chinese government, Kosovo's unilateral declaration of independence conflicts with China's principled approach to territorial integrity. This approach stems from concerns over political stability in autonomous regions such as Tibet and Xinjiang, as well as China's resolute rejection of an independent Taiwan. China eventually accepted Resolution 1244 as a legal basis for the settlement of the Pristina–Belgrade dispute.⁴³ So far, however, China has not pursued anything similar to the EU-led negotiations and has refrained from addressing the bilateral dialogue between the two Balkans countries on a level different than through the UN.

China has at times used its influence to prevent Kosovo's participation in international organisations. In 2015, for example, China voted against Kosovo's United Nations Educational, Scientific and Cultural Organisation (UNESCO) membership bid.⁴⁴ In 2017, Kosovo withdrew its Interpol application as the assembly was hosted in China, with the reason being lack of international support but also the unfriendly environment.⁴⁵

42 V. Xhambazi (2019), 'Final Deal Does Not Guarantee UN Membership for Kosovo', *Pristina Insight*, <https://prishtinainsight.com/final-deal-does-not-guarantee-un-membership-for-kosovo/> (accessed 20 May 2020).

43 *Xinhuanet*, 'China Supports Settlement of Kosovo Issue through Dialogue: Envoy', http://www.xinhuanet.com/english/2019-06/11/c_138132033.htm (accessed 20 May 2020).

44 European Commission (DG TRADE), 'EU Trade in Goods with Kosovo', https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_kosovo_en.pdf (accessed 20 May 2020).

45 P. Isufi (2017), 'Kosovo Abandons Bid to Join Interpol this Year', *Balkan Insight*, <https://balkaninsight.com/2017/09/21/kosovo-abandons-bid-to-join-interpol-this-year-09-21-2017/> (accessed 20 May 2020).

In 2018, Serbian media outlets reported that China had voted against Kosovo's Interpol application, but as the voting is by secret ballot this claim cannot be verified.⁴⁶ China took no active position on the 2018 Prespa Agreement, which settled the name dispute between Greece and North Macedonia, and which China probably welcomed as a step towards a more stable environment for the LSER. It also continued the construction of the Croatian Peljesac bridge, in spite of Bosnian claims that the bridge obstructs access to Neum, Bosnia and Herzegovina's only seaport.⁴⁷

In February 1999, China used its veto power in the UN Security Council, one of the first times it had done so, to veto the proposed extension of a UN preventive deployment force's mandate in North Macedonia (then still known as the Former Yugoslav Republic of Macedonia),⁴⁸ which was seriously destabilised by the inflow of more than 300,000 refugees from Kosovo during the Kosovo War. The fact that North Macedonia maintained diplomatic relations with Taiwan, whose independence China opposes, was the likely reason for why the Chinese government used its veto. North Macedonia later declared the government of the People's Republic of China (PRC) as the sole legal government of China, and relations were re-established.

While all countries in the Western Balkans region adhere to a One China policy by refraining from political interaction with Taiwan, the extent to which they support China on other issues, such as matters relating to Xinjiang, Hong Kong and the South China Sea, has remained limited. Serbian officials have supported China's position on Hong Kong, but have refrained from comments on the South China Sea issue, beyond calling for a peaceful settlement.⁴⁹ In Serbia, Marko Djuric, in his capacity as vice-president of the ruling Serbian Progressive Party, stated in an interview with China's press agency *Xinhua*: 'I can tell you that the level of protection of minority rights in Xinjiang is something that many countries in my part of the world could envy'.⁵⁰

46 B92, 'Kosovo's Bid to Join UNESCO Fails; Details of Voting Emerge', https://www.b92.net/eng/news/politics.php?yyyy=2015&mm=11&dd=09&nav_id=95984 (accessed 20 May 2020); and N1, 'Serbia Thanks China for Being Against Kosovo in Interpol', <http://rs.n1info.com/English/NEWS/a437054/Serbia-grateful-for-China-s-opposition-to-Kosovo-s-Interpol-membership.html> (accessed 20 May 2020).

47 M. Lacic (2018), 'Bosnia to Protest to EU over Croatia Bridge Deal', *Balkan Insight*, <https://balkaninsight.com/2018/04/24/bosnia-calls-eu-commission-over-peljesac-bridge-04-24-2018/>.

48 United Nations, 'Security Council Fails to Extend Mandate of UN Preventive Deployment Force in Former Yugoslav Republic of Macedonia', <https://www.un.org/press/en/1999/19990225.sc6648.html> (accessed 20 May 2020).

49 *Euractiv*, 'Serbia Backs China over Hong Kong', https://www.euractiv.com/section/politics/short_news/belgrade-serbia-backs-china-over-hong-kong/ (accessed 28 June 2020).

50 *Xinhua*, 'Interview: On Xinjiang and Terrorism, US Double Standards on Display', www.xinhuanet.com/english/2019-12/18/c_138641055.htm (accessed 28 June 2020).

Milorad Dodik, the Serb member of the Presidency of Bosnia and Herzegovina, has expressed support for China over the issue of Hong Kong.⁵¹ Montenegro's foreign ministry issued a statement on the ruling of the Permanent Court of Arbitration in The Hague on the dispute between China and the Philippines in the South China Sea, classifying the Philippines' appeal as a unilateral measure and calling for dialogue instead.⁵² Albania, Bosnia and Herzegovina, and North Macedonia have not issued any statements on these issues.

In 2019, a group of 22 states issued a joint letter to the UN Human Rights Council, condemning China's mass detention of Uyghurs in Xinjiang. This was followed by a letter from a group of 55 states that backed the PRC's policies in the Xinjiang region. None of the Western Balkans countries joined either letter, but a second letter from October 2019 supporting China was co-signed by Serbia.

The extent to which the WB6 have so far been willing to engage openly in political quid pro quos in return for Chinese economic or diplomatic support seems rather limited and there is no evidence of a diplomatic push from China in this regard. However, Serbia's support to China on the Xinjiang case could form a precedent for increased quid pro quos from the region to China. The absence of critical voices from the region towards China does indicate, however, that the WB6 put their interests first when dealing with China and therefore remain wary about criticising it over human rights or other issues that the Chinese government regards as sensitive.

1.4 The security domain

Like in the economic and political domains, Serbia is the country with the most extensive cooperation with China in security-related sectors. These include police cooperation, military equipment purchases and certain telecommunications operations. A joint Sino-Serbian police exercise aimed at disabling terrorists and releasing hostages was held in late 2019 at a facility of the Zelezara Smederevo steel company.⁵³ From the Chinese side, the exercise involved 180 police officers, 20 vehicles and three helicopters.

51 Serbian Press Agency SRNA, 'Support to China in Efforts to Maintain Peace in Hong Kong', www.srna.rs/novosti/718507/support-to-china-in-efforts-to-maintain-peace-in-hong-kong.htm (accessed 28 June 2020).

52 Government of Montenegro, 'Announcement on the Verdict of the Permanent Court of Arbitration in the Hague on the Dispute between China and the Philippines', <http://www.gov.me/naslovna/vijesti-iz-ministarstava/163193/Saopstenje-povodom-objavljivanja-presude-Stalnog-arbitraznog-suda-u-Hagu-o-sporu-izmedu-Kine-i-Filipina.html?alphabet=cyr%20> (accessed 28 June 2020).

53 M. Zivanovic (2019), 'Serbia and China Hold Joint Police Exercise', <https://balkaninsight.com/2019/11/28/serbia-and-china-hold-joint-police-exercise/> (accessed 20 May 2020).

The rise of Chinese tourists in Serbia, which draws more Chinese tourists than the other Western Balkans countries, prompted the start of joint police patrols in the Serbia capital, Belgrade, in 2019.⁵⁴ Apart from Belgrade, Chinese police officers were also deployed to Novi Sad and Smederevo, according to the Serbian Minister of the Interior out of security considerations.⁵⁵ These deployments may be related to the prevalence of Chinese workers at major Chinese industry and infrastructure investments in those regions: the Zelezara Smederevo steel mill and the Budapest–Belgrade railway. Chinese police officers in the three Serbian cities number only six in total, with no power to arrest or to use coercive means. In recent years, the Chinese government also deployed police officers to cities in some other European countries, including Italy and France.

Serbia is the only country in Europe that has bought unmanned aerial vehicles (UAV) from China. It bought nine Chengdu Pterodactyl-1 drones in late 2019, with a possible future order of an additional fifteen UAVs.⁵⁶ These drones can be employed for reconnaissance tasks or be fitted with a variety of weapons, such as laser-guided bombs, air-to-surface anti-tank missiles and guided rockets.⁵⁷ Purchasing UAVs from China is attractive, as they cost less than half as much as American UAVs with similar capabilities.⁵⁸

Beyond Serbia, the scope for security cooperation with China is limited, with Albania, Montenegro and North Macedonia being NATO members and Kosovo having no diplomatic ties with China. Cooperation with Chinese communications and technology company Huawei has so far remained limited to Serbia. While the government of Bosnia and Herzegovina signed a cooperation agreement with Huawei in 2018, no further cooperation followed.⁵⁹ In Albania, the main telecommunications provider chose Swedish company Ericsson as the sole supplier to modernise Albania's core networks for the next five years.⁶⁰

54 Radio Free Europe, 'Chinese Police Launch Joint Patrols in Serbia', <https://www.rferl.org/a/serbia-china-police/30174932.html> (accessed 20 May 2020).

55 N1, 'Joint Serbian–Chinese Police Patrols in Belgrade', <http://rs.n1info.com/English/NEWS/a526839/Joint-Serbian-Chinese-police-patrols-in-Belgrade.html> (accessed 30 June 2020).

56 D. Stojanovic (2019), 'China to Boost Serb Military with Drones, Other Equipment', *Associated Press*, <https://apnews.com/c19a207d89b34dd7aa0f608933ef607b> (accessed 20 May 2020).

57 Airforce Technology, 'Wing Loong Unmanned Aerial Vehicle', <https://www.airforce-technology.com/projects/wing-loong-unmanned-aerial-vehicle-uav/> (accessed 20 May 2020).

58 ChinaPower, 'Is China at the Forefront of Drone Technology', <https://chinapower.csis.org/china-drones-unmanned-technology/> (accessed 20 May 2020).

59 *Sarajevo Times*, 'Sarajevo Mayor Signed Agreement on Cooperation with Huawei', <https://www.sarajevo-times.com/sarajevo-mayor-signed-agreement-on-cooperation-with-huawei/> (accessed 20 May 2020).

60 RTSH, 'Huawei Albania mohon të ketë bërë pilotim apo testim 5G në Shqipëri', <https://www.rtsh.al/lajme/huawei-albania-mohon-te-kete-bere-pilotim-apo-testim-5g-ne-shqiperi/> (accessed 20 May 2020); and Ericsson, 'Ericsson to Modernise Telekom Albania Core and Radio Networks', <https://www.ericsson.com/en/news/3/2020/ericsson-to-modernise-telekom-albania-core-and-radio-networks> (accessed 20 May 2020).

1.5 Conclusions

China's main foreign policy objectives in the Western Balkans region may be summarised as: 1) to develop the Land–Sea Express Route, as a component of the Belt and Road Initiative, in order to strengthen the capacity of the port of Piraeus to act as a hub for EU–China trade; 2) to maintain and deepen diplomatic and economic relations with countries in the region, with Kosovo as an exception at the diplomatic level as it is not recognised by China, and with Serbia as China's main regional partner. There is substantial differentiation among individual countries with regard to China's engagement with the region. China has no collective approach to the five Western Balkans countries with which it maintains diplomatic relations. Instead, China deals with them on a bilateral basis and through the 17+1 mechanism (which has a much broader geographical coverage). China's extensive relationship with Serbia corresponds with its approach in other regions. It frequently focuses attention on larger countries with which it has stable and collaborative relations over a long period of time. Serbia and, to a lesser extent, North Macedonia are also important to China's largest strategic regional interest, the LSER, which connects the Chinese-run port of Piraeus to Central Europe and Germany. Other Chinese activities in the region, such as operating the Albanian national airport, building the Bar–Bollare motorway and other regional motorways, resource extraction and steel production can potentially contribute to the future development of the LSER. The recently announced establishment of direct rail transportation between China and Serbia, as well as Chinese activities in the logistical field in countries bordering the WB6 (such as port activities in Greece, Croatia and Slovenia), are also relevant to the further development of the LSER as a transport network that supports Chinese economic interests in the EU.

Throughout the Balkans, the economic activity for which China is most relevant as a complementary and potentially alternative actor to the EU is infrastructure financing. Although the number of actual instances where Chinese banks have provided financing for large-scale construction projects in the Western Balkans remains limited, China has demonstrated its ability to provide significant loans. The most politically salient instance of Chinese lending relates to the Bar–Bollare highway project in Montenegro, because of the ratio of the loan amount, which is large compared to the size of Montenegro's economy. Significant instances of Chinese direct investment exist only in Serbia and (although not visible in official statistics) in Albania. Given the size of Serbia and Albania, the relative impact of Chinese FDI in Albania exceeds that of in Serbia.

The two main potential economic sources for Chinese political leverage over national governments in the Western Balkans are debt (in the case of Montenegro) and direct investment in oil production (Albania). It should also be noted that in the Albanian case, the investment was made by a private Chinese firm, Geo-Jade, without the apparent involvement of the Chinese government. While there is undoubtedly a degree of dependence of the Albanian government on Geo-Jade (as a major provider of tax

revenue and foreign currency through oil exports), the reverse applies as well. For Geo-Jade, Albania is one of only two countries where its main oil extraction operations are located. Various international oil companies are active in Albania, including oil giant Royal Dutch Shell, which could potentially replace Geo-Jade if it withdraws. The possibility of China exercising political influence through its economic involvement appears to be relevant in the case of Montenegro (for example, by granting debt relief in return for political concessions), more so than in the Albanian case. Still, there are no signs so far that the Chinese government has attempted to use this leverage (or will ever do so) for political purposes in either country (both of which are NATO members).

China's leverage in the region based on political or security ties is also limited. The main factor in this respect is Serbia's need for Chinese support in the UN Security Council in order to prevent Kosovo from becoming a member of the United Nations. However, Serbia is not exclusively dependent on China, as Russia plays the same role, and here again there is no information available to suggest that this potential source of leverage has ever been put to use by China.

2 Reactions to China in the Western Balkans countries

This chapter identifies the perceptions of local actors towards China. It does so through a country-by-country approach for each of the six Western Balkans countries, focusing on political, economic and security dimensions of bilateral relations.

2.1 North Macedonia

Economic cooperation between North Macedonia and China commenced in the early 1990s. A Chinese loan of about EUR 80 million helped build a major thermal power plant, Kozyak. Construction began in 1994 and the plant became fully operational in 2004.⁶¹ Both were the outcome of government-to-government (G2G) negotiations and were not open to transparent public procurement. Such a style of conducting bilateral relations appears to have been a facilitating factor for deal-making because of lower levels of transparency and accountability. Former government officials insist that the entire loan package was lower than available funding via Western lending institutions. The project also involved Chinese workers and experts, who together constituted just under half of the total work force.⁶²

The need and desire to develop economically and converge with other European countries has been a major motive for North Macedonia's openness to Chinese overtures. China's motivations are not subject to major public scrutiny, with 36 per cent of interviewees stating in a recent survey that they believe that China has no motivations beyond economic, such as influence or control of the country.⁶³ Tourism from China has grown significantly, which in the long term may result in increased economic dependence. While trade is slowly rising, there are no obvious conditions for a more significant uptick. The lack of greenfield investments is universally noted among all interviewees.⁶⁴ To many, it serves as an indication that China lacks serious economic

61 Interview with Andrej Lepavcov, former Ambassador to the EU, policy- maker and lecturer, Skopje, North Macedonia, 24 February 2020.

62 Interview with Andrej Lepavcov, former Ambassador to the EU, policy- maker and lecturer, Skopje, North Macedonia, 24 February 2020.

63 International Republican Institute, 'Western Balkans Regional Poll', <https://www.iri.org/resource/western-balkans-poll-shows-strong-support-eu> (accessed 28 June 2020).

64 Interview with state official, Skopje, North Macedonia, 25 February 2020.

ambitions for North Macedonia, preferring to focus instead on Serbia. This is a cause for some, perhaps even for rather muted, resentment towards Beijing.

There has been some increase in *political cooperation* and non-state interaction, but its scale is still limited and does not amount to a significant shift in posture. North Macedonia experts and officials interviewed for this report rejected the notion of renewed geopolitical competition in the Western Balkans as a result of Chinese influence as an exaggeration. The proliferation of involvement by extra-regional actors including China does not seem to affect North Macedonia's determination to accede to the EU. (It has already joined NATO.) China represents greater economic opportunity, but cooperation with the country is not seen as contradictory to wider geopolitical goals. Moreover, Beijing has been rhetorically supportive of these aims. Besides, local experts do not regard China as a significant actor, although cooperation with Beijing is perceived as facilitating North Macedonia's development. There is some resentment of the EU's at times forceful rhetoric against such contacts, with some North Macedonian experts and officials seeing it as an expression of the EU's 'double standards', given China's intense interaction with many Western countries.⁶⁵

There have been no reported instances of contacts between China and North Macedonia's political parties. The Social Democrats are focused on EU and NATO negotiations and accession, while the Internal Macedonian Revolutionary Organisation (VMRO) is more open to intense cooperation with third countries.⁶⁶ Cooperation at the level of public administration is slowly increasing.⁶⁷ There is no notable rise in Chinese media presence, but the style of the new Chinese ambassador has been more open in terms of interviews and attendance of various events. Also, Chinese online news portals based in Albania, such as *Radio Ejani* and *CMG Shqip*, are followed by the Albanian minority living in North Macedonia. While there is hardly any Chinese aid assistance to North Macedonia, during the COVID-19 crisis and as a token of support, Beijing has sent some medical supplies to Skopje.⁶⁸ Thus China's visibility in North Macedonia is growing, even if starting from a low base.

Contacts and cooperation in the field of *security and technology* are also limited.⁶⁹ Security cooperation is hard to detect, and NATO membership creates 'red lines' that officials and non-officials agree would be very difficult to ignore or overstep.

65 Interview with state official, Skopje, North Macedonia, 25 February 2020.

66 Interview with Dr Zoran Nechev, expert at The Balkans in Europe Policy Advisory Group, PhD student at the Free University in Brussels, based in Skopje, 25 February 2020.

67 Interview with EU Ambassador, Skopje, North Macedonia, 25 February 2020.

68 *Xinhuanet*, 'China Provides Medical Supplies to North Macedonia to Help Battle Coronavirus', http://www.xinhuanet.com/english/2020-04/19/c_138990481.htm (accessed 20 May 2020).

69 Interview with Dr Saso Ordanovski, analyst and journalist, former Director of Macedonian National TV and professor at South-East European University, Skopje, 24 February 2020.

So far, there has been no obvious interest in the acquisition of telecommunication companies. Most companies in the sector have used China's Huawei for the construction of their base stations. In conclusion, there appears to be a gradual widening of the terrain of interaction and cooperation between China and North Macedonia, and of greater engagement. At the same time, however, this has not led to a notable deepening of relations. North Macedonia clearly sees China as an important but still emerging rising power and as a potential partner in addressing its developmental needs.

2.2 Kosovo

Economic interaction between Kosovo and China is showing some signs of an uptick even if from a low base. One notable feature is that Chinese companies active in Kosovo are often based in other countries, mostly Albania and to some extent Serbia. The level of Chinese FDI, loans or construction contracting remain extremely low. A China-led consortium submitted a bid to construct a new coal-based power plant, Kosovo e Re, but the government selected another company, UK-registered ContourGlobal.⁷⁰ An unconvincing environmental track of the consortium members' record and subtle pressure from Western countries appear to have played a role in the decision. Importantly, there is a rise in the number of visits by Kosovar companies to trade fairs and other forums in China. Tourism is also on the rise. In the coming years, there might be a spillover effect from the construction of the Belgrade–Budapest railway corridor and its extension as trade flows pick up and logistical links improve. China has not had any declared interest or involvement in infrastructure construction, as motorways have been built with national public funds. American and Turkish companies have won the relevant public tenders.

Politically, the bilateral relationship is largely determined by the fact of Beijing's non-recognition of Kosovo's independence.⁷¹ China has an informal liaison office with five staff members in Kosovo's capital, Pristina, while Kosovo does not have any informal governmental representation in China. Yet Pristina does not perceive China to be a 'hard blocker' and appreciates that Beijing does not take a similar approach to Russia of actively obstructing recognition of Kosovo. In practice, there are plenty of informal political contacts between the two sides, both in Pristina (outside the premises of the Kosovar foreign ministry) and at the UN in New York. The Kosovar government may seek to forge these informal contacts not only for economic reasons, but also to ensure that China will not obstruct a solution to the Belgrade–Pristina conflict in the UN Security Council. Kosovar officials have also informally communicated to their Chinese

70 Bankwatch, 'Kosova e Re Lignite Power Plant, Kosovo', <https://bankwatch.org/project/kosova-e-re-lignite-power-plant-kosovo> (accessed 20 May 2020).

71 Interview with non-EU diplomat, 25 February 2020, Pristina, Kosovo.

counterparts that recognition of Taiwan is forthcoming from Pristina. (Although Taiwan has recognised Kosovo since 2008, Taipei and Pristina have not established formal diplomatic relations.) All in all, Beijing is seen as more neutral and flexible than Russia on most matters of contention.⁷² While political realities prevent deeper ties, the local Chinese liaison office is increasingly active socially and at the edges of bilateral dialogue.⁷³ For instance, its officials are regular attendees of most civil-society events and conferences, even if they rarely engage. There is no evidence of any interaction at the level of political parties and China is also not really 'on the radar' of Kosovar public opinion.⁷⁴ Furthermore, there is hardly any information about China in the local media and information sphere.

In the field of security and technology, Kosovo's links to Western powers remain essential and leave very little, if any, space for bilateral cooperation between Kosovo and China. No serious pitch appears to have even been attempted by China. At the same time, there are some signs of rising Chinese interest and activity in telecommunications. The Chinese firm Huawei has a large market share in telephone and related equipment of some mobile and cable operators, with its relatively low prices being seen as a major factor. There is talk of a likely Chinese bid for the state telecommunications company, Vala-Kosovo Telecom, which is soon to be privatised. Moreover, in 2019, China's Huawei offered a big loan in exchange for permission to build Kosovo's 5G network. This was apparently declined by the Kosovar authorities. Rising sensitivity to the security implications of such projects was a factor in the decision.

In conclusion, while China's non-recognition of Kosovo as an independent state is a fundamental obstacle to a proper bilateral relationship between the two countries, there are some notable emerging shifts. Kosovo perceives China as a potentially beneficial longer-term partner regardless of the recognition issue. Still, given the strong Western involvement in Kosovo, the scope of the relationship with China is likely to remain relatively narrow and constrained.

2.3 Serbia

The economic relationship between Serbia and China is extensive, durable and diversified. China is seen as an important investor, as Western companies have slowly divested their engagement in the sectors of energy and natural resources.

72 Interview with Petrit Selimi, CEO of Millennium Foundation, former Foreign Minister of Kosovo, 25 February 2020, Pristina, Kosovo.

73 Interview with EU diplomat, 26 February 2020, Pristina, Kosovo.

74 Interview with Visar Xhambazi, Democracy for Development Institute, Policy Researcher and commentator, 25 February 2020, Pristina, Kosovo.

The acquisitions of Zelezara Smederevo and RTB Bor by Chinese investors are of structural importance to Serbia's national economy. Debt sustainability issues are not particularly significant in the case of Serbia, with a budget deficit of about 0.5 per cent and a current debt level of 54 per cent of GDP. In contrast to other countries in the Western Balkans and elsewhere in Central and Eastern Europe, Serbia's infrastructure cooperation with Beijing predates the BRI (which was launched in 2013) and China's recent push to enter these markets. The first major loan for the construction of a Belgrade bridge dates back to the late 2000s. Serbia's shift towards closer economic cooperation with China is largely because of Moscow's inability to follow through on commitments, while Beijing ramped up its engagement and made financial resources available.⁷⁵

Infrastructure remains a prominent component of China's presence in Serbia. Joint projects date back more than a decade and China in effect replaced Russia as Serbia's main counterpart. The much-discussed upgrade of the railway link between Belgrade and Budapest is largely proceeding as planned (apart from delays in regard to the original time schedule) and the focus of Sino-Serbian cooperation is shifting to other projects: modernisation of the rail link between Belgrade and Nis in the south; as well as the rail links to Sarajevo in Bosnia and Herzegovina and Podgorica in Montenegro.⁷⁶ From the EU's standpoint, and increasingly from a local public opinion perspective, the transparency of financial contracts and commitments remains a serious issue, but the problem is not particular to Chinese investors.

Political relations between China and Serbia are also expanding and strengthening. Current political bonds were forged during the Kosovo War in 1998–1999. China has also traditionally been an important 'vector' in a foreign policy mindset that emphasises multi-polarity. Its position as a permanent UN Security Council member is likely to be an additional motive for Serbia to develop strong ties with China. The language in political and diplomatic contacts is strikingly warm, with many actors talking of a 'steely relationship' in an overt reference to the largest Chinese direct investment in the country, the Chinese acquisition of the Zelezara Smederevo steel company.

While the Serbian government continues to be committed to EU accession, interaction with Beijing is seen as a necessary tool for closing the development gap with the rest of South-East Europe and the EU.⁷⁷ In this sense, intense cooperation with China is seen as a way of delivering tangible resources and tools for economic development and political multi-polarity. The intensity of political contacts is remarkably high. Officially, the

75 Online interview with Igor Novakovic, Director of Research, International and Security Affairs Centre, 5 March 2020, Belgrade, Serbia.

76 Online interview with EU diplomat, 4 March 2020, Belgrade, Serbia.

77 Online interview with EU diplomat, 4 March 2020, Belgrade, Serbia.

relationship is defined as a 'comprehensive strategic partnership'.⁷⁸ Notably, there are close party-to-party contacts between the Chinese Communist Party and the governing Serbian Progressive Party of President Alexander Vucic. There are reports of exchanges with delegations of party officials travelling to Beijing.⁷⁹ People-to-people contacts are picking up quickly as visa liberalisation has facilitated travel and tourism. While Beijing has been slowly increasing its activities in relation to media, there is no marked rise in China-related media coverage in Serbia.⁸⁰ Besides being seen as a relevant actor for closing the developmental gap with the EU, China is increasingly also seen as a partner in times of need by Belgrade's policy circles. While the EU announced up to EUR 15 million in immediate aid for the public health system and EUR 78 million for economic recovery following the COVID-19 outbreak, Serbia was disappointed by the EU's initial export ban on medical protective equipment, with the Serbian president subsequently claiming that 'European solidarity is a fairy tale'.⁸¹ The Serbian government welcomed Chinese aid with much more fanfare than it displayed in relation to the EU's assistance, further aligning the public discourse with its interest in strengthening relations with China.

Cooperation in the areas of *security and technology* has also been intensifying, especially since 2017. A series of high-level meetings resulted in the signing of a bilateral cooperation plan in 2018 that includes training and defence industry cooperation. Belgrade has purchased nine drones to be employed for surveillance and aerial reconnaissance. These can be fitted with bombs and missiles to hit targets. This makes Serbia the first European country to purchase such equipment from China.⁸² Law-enforcement cooperation is also advancing, with the most notable example being joint police patrols in several Serbian cities, as well as the purchase and installation of surveillance technology from Huawei (known as 'Project Safe City'). Serbian privacy watchdogs and civil-society organisations have raised concerns about what they perceive to be a major infringement on privacy and are fearful that it will open the doors for political abuse by the Serbian government.⁸³ Huawei is also modernising the fixed

78 Online interview with Vladimír Medjak, Vice-President, European Movement in Serbia, EU and International Affairs Expert, 6 March 2020, Belgrade, Serbia.

79 Online interview with Marco Savkovic, Programme Director, Belgrade Fund for Political Excellence, 5 March 2020, Belgrade, Serbia.

80 Online interview with Jelena Milic, Director, Centre of Euro-Atlantic Studies, 6 March 2020, Belgrade, Serbia.

81 V. Vuksanovic (2020), 'China has its Eyes on Serbia', <https://foreignpolicy.com/2020/04/08/china-serbia-aleksander-vucic-xi-jinping-coronavirus/> (accessed 28 June 2020).

82 *Associated Press News*, 'China to Boost Serb Military with Drones, Other Equipment', <https://apnews.com/c19a207d89b34dd7aa0f608933ef607b> (accessed 20 May 2020).

83 *Foreign Policy*, 'Big Brother Comes to Belgrade', <https://foreignpolicy.com/2019/06/18/big-brother-comes-to-belgrade-huawei-china-facial-recognition-vucic/> (accessed 30 June 2020).

network of Telekom Serbia to the tune of EUR 105 million, with lower costs being a major consideration.⁸⁴

In conclusion, Serbia is clearly an outlier among the WB6 in terms of the high level of institutionalisation of its bilateral relations with Beijing, which are on a clear and stable upward trend of deepening ties. Belgrade sees China as a key global actor with important political heft and as a source of investment and trade – a geopolitical ‘heavy weight’ to balance relations with the West and Russia. Beijing is also perceived as a major contributor to Serbia’s economic development after years of isolation and limited ability to tap into the various opportunities to converge economically with the rest of Europe.

2.4 Bosnia and Herzegovina

In *economic terms*, the Bosnia–China relationship has been intensifying during the last couple of years. Similar to developments in Serbia, China is becoming an important player in sectors where Western companies have slowly divested their engagement. Examples where Chinese construction companies have participated include coal power plants, such as the 300 MW Stanari plant near the town of Doboј, which has been completed, and the 415 Tuzla 7 plant, which is under construction. Similarly, there have been significant developments in infrastructure construction, as outlined in section 1 above.

Politically, relations are slowly evolving in an upward trend. Bosnia and Herzegovina (BiH) and China established bilateral relations back in 1995 and the legal basis and scope of cooperation has been expanding. There is no specific impetus for the bilateral relationship, which has seemingly been developed as a side-effect of China’s overall regional strategy.⁸⁵ Bosnian politicians are quite open in their rhetoric and complimentary about the benefits of cooperation, praising China’s lack of conditionality, pragmatism and developmental aspects.⁸⁶ The explicitly defined priority areas of cooperation include agriculture, transport and energy. Notably, the Chinese interact across the political spectrum, in contrast to other actors such as Russia, Turkey and the United Arab Emirates (UAE), which focus in their dealings on culturally affiliated social groups in Bosnia and Herzegovina (Russia with actors in the *Republika Srpska*, and Turkey

84 *LightReading*, ‘Telekom Serbia: Fixed Network Modernisation Is on the Way’, <https://www.lightreading.com/huawei-mobile-world-congress/telekom-serbia-fixed-network-modernisation-is-on-the-way-/d-id/730768> (accessed 20 May 2020).

85 Online interview with Muamer Hirik, Lecturer, International Burch University, 20 March 2020, Sarajevo, BiH.

86 Online interview with Osman Softic, Political Analyst, Former Diplomat, Foreign Relations Council, 20 March 2020, Sarajevo, BiH.

and the UAE with Bosnian Muslims).⁸⁷ Academic and cultural cooperation is also increasing.⁸⁸ China's media presence in BiH is very patchy, predominantly informational, and lacks a coherent narrative.⁸⁹ China is also beginning to approach civil-society organisations in order to develop some relationships, even if the process remains slow and seemingly lacking in coherence and ambition.

There are no indications of notable *security cooperation*, largely because of the impactful engagement of NATO in the area of defence and the EU in the area of law enforcement. China had donated some military equipment to Bosnia and Herzegovina after the end of the Yugoslav War in the mid-1990s.⁹⁰ There is a great deal of speculation about a possible deal between the main telecommunications company, BiH Telecom, and China's Huawei for construction of the 4G network for the entire country. The financial parameters are not known, but at least three options are thought to be under discussion: free supply of equipment in exchange for company shares; acquisition of exclusive rights over the maintenance of the newly built network; and a contract that would oblige BiH Telecom to purchase Huawei equipment for the construction of a future 5G network.

There is a visible uptick in bilateral relations between BiH and China, mostly focused on energy and academic cooperation, but it has not yet reached sufficient breadth and remains under-institutionalised. Bosnia and Herzegovina perceives China as an increasingly central global power and a politically important actor with an enormous economy and investment potential that can help BiH close its economic development gap. There is some divergence between the two constituent parts of Bosnia and Herzegovina, as the *Republika Srpska* (RS) is more enthusiastic about relations with China than the Federation of Bosnia and Herzegovina (FBiH).

2.5 Montenegro

Economic relations between Montenegro and China are dominated by infrastructure, in particular the construction of the first section of the Bar–Bolja motorway, which links the Adriatic Sea and Serbia. Two feasibility studies in 2006 and 2012 concluded that the project lacked economic viability and both the European Bank for Reconstruction and

87 Online interview with Leila Bicakcic, Executive Director, Media Specialist, Centre for Investigative Reporting, 19 March 2020, Sarajevo, BiH.

88 Online interview with Ivan Barbalic, European Movement in BiH and Analyst, and former Ambassador to the UN, 20 March 2020, Sarajevo, BiH.

89 Online interview with Leyla Ramic-Mesihovic, Executive Director, Foreign Policy Initiative BiH, 20 March 2020, Sarajevo, BiH.

90 Online interview with Leila Bicakcic, Executive Director, Media Specialist, Centre for Investigative Reporting, 20 March 2020, Sarajevo, BiH.

Development (EBRD) and the European Investment Bank (EIB) expressed no interest.⁹¹ There is a great deal of public discussion in Montenegro about future construction of the two remaining sections of the motorway. Governmental financing is thought to be out of the question as the level of indebtedness has risen. Montenegro has thus sought to develop its maritime and coastal capacity and has turned to China. A couple of years ago, Montenegro borrowed over EUR 45 million from the Chinese Exim Bank to order two bulk cargo transportation ships, which were built by Chinese shipyards.⁹² Two more ships have since been ordered in order to develop maritime shipping and develop the port of Bar, in which Beijing is perceived to be very interested.⁹³

Debt sustainability has been a major issue in Montenegro, emerging in the last few years without, however, dramatically changing attitudes towards China. The debt-to-GDP ratio stood at 57 per cent in 2012, rose to 69 per cent in 2015 and then to almost 73 per cent in 2018.⁹⁴ Tourism is an increasingly important sector, with the number of Chinese tourists to Montenegro increasing, which is seen very positively by local actors. In the field of energy, the Mozura Wind Park opened in November 2019, built by a consortium between the Maltese company Enemalta and the Shanghai Electric Power Company.⁹⁵ In November 2019, a Chinese consortium led by Dongfang Electric won the tender for reconstruction of the Pljevlja thermal power plant, in line with new EU directives on harmful emissions.

Political relations are also on the rise. Cooperation at the level of public administration appears to be slowly expanding. Politically, the government is quite firm in its defence of the motorway project, with its main arguments including connectivity, development of the northern part of Montenegro, trade and logistics benefits, as well as the integration of agricultural producers into regional and world markets.⁹⁶ Chinese diplomacy is more visible and rising in presence and confidence. Academic cooperation is picking up as well, with local universities signing memorandums of cooperation with China, including

91 Online interview with EU diplomat, 24 March 2020, Podgorica, Montenegro.

92 SeeNews, 'Montenegro Borrows \$47.4 Mln from China to Buy Two Chinese Cargo Ships', <https://seenews.com/news/montenegro-borrows-474-mln-from-china-to-buy-two-chinese-cargo-ships-192288> (accessed 20 May 2020).

93 Online interview with Prof. Gordana Djurovic, President of Montenegrin Pan-European Union, and Deputy Prime Minister for European Integration (2006–2009), 26 March 2020, Podgorica, Montenegro.

94 *Country Economy*, 'Public Debt Went Up in Montenegro', <https://countryeconomy.com/national-debt/montenegro> (accessed 20 May 2020).

95 Online interview with Milika Mirkovic, Researcher, Institute for Strategic Studies and Prognoses, and Lecturer, University of Donja Gorica, 26 March 2020, Podgorica, Montenegro.

96 Online interview with Vojin Golubovic, Senior Lecturer in Economics, University of Donja Gorica, 27 March 2020, Podgorica, Montenegro.

student and lecturer exchanges, as well as study visits,⁹⁷ and there is a Confucius Institute at the University of Podgorica. The Chinese Embassy in Podgorica has made several financial donations, including to a primary school and the health sector.⁹⁸ There are also some instances of town-twinning arrangements with Chinese cities. There is quite a bit of interest in this, but the level of expectations for deep cooperation appears low. Moreover, there has been some criticism of Chinese involvement in Montenegro among civil-society organisations. The anti-corruption watch dog 'MANS' has criticised the motorway project on the grounds of lack of transparency, inefficient use of resources, corruption and environmental standards violations.⁹⁹

There is little in the way of *security and technology cooperation* between Montenegro and China. Montenegro is a member of NATO and contacts confirm that this severely limits any opportunities for security-related cooperation with China.¹⁰⁰ In the last few years, Montenegro has procured new military equipment, bought primarily from Canada and the United States.¹⁰¹ Huawei is commercially present in Montenegro, but there is no information about any further involvement, more specifically in relation to 5G. Technology and the development of new technological products are elements of academic cooperation, but on a small scale.¹⁰²

In conclusion, bilateral relations are visibly expanding, with a clear trend of gradual institutionalisation. Like the other WB6 countries, Montenegro sees China as a rising global power that brings new economic and financing opportunities. Local institutions and actors in Montenegro are positively disposed and keen to develop and deepen bilateral relations. Expectations continue to prevail over critical attitudes because of a perceived imperative to address the country's development needs.

97 University of Donja Gorica, 'UDG and Chinese University BUU: Mutual Support in Challenging Times', <https://www.udg.edu.me/en/news/udg-and-chinese-university-buu-mutual-support-in-challenging-times-1555> (accessed 20 May 2020).

98 Government of Montenegro, 'Handover of 12 Ambulances Donated by Government of China', <http://www.gov.me/en/announcements/168565/Handover-of-12-ambulances-donated-by-China-to-Montenegro.html> (accessed 20 May 2020).

99 Reuters, 'Chinese "Highway to Nowhere" haunts Montenegro', <https://www.reuters.com/article/us-china-silkroad-europe-montenegro-insi/chinese-highway-to-nowhere-haunts-montenegro-idUSKBN1K60QX> (accessed 16 July 2020).

100 Online interview with Igor Milosevic, Executive Director, Association for Democratic Prosperity, 27 March 2020, Podgorica, Montenegro.

101 *Café del Montenegro*, 'Over \$36 Million for the Provision of 67 "Oshkosh" Vehicles', <https://www.cdm.me/english/over-36-million-for-the-provision-of-67-oshkosh-vehicles/> (accessed 20 May 2020).

102 Online interview with Stevo Muk, Director of Managing Board, Institut Alternative, 26 March 2020, Podgorica, Montenegro.

2.6 Albania

The bilateral *economic relationship* between China and Albania is slowly expanding and widening. Albania has a relatively high debt-to-GDP ratio, but this has stabilised over the past few years.¹⁰³ By far the most significant economic linkage between Albania and China is embodied by Geo-Jade, the Chinese company that operates the Patos-Marinzha oil field. China also seems to welcome Albania's increased export of agricultural products to China and has increased its investments and cooperation in the Albanian agricultural sector.¹⁰⁴ Furthermore, in 2017, the Ocean Alliance of major container carriers, within which China COSCO Shipping is the largest participant, included the Albanian port of Durrës in its network. Via major trans-shipment hubs such as Piraeus in Greece, Durrës is thus linked to various ports in China.¹⁰⁵ Tourism is beginning to rise as visa restrictions are lifted. Some 17,000 Chinese tourists visited Albania in 2018, a rise of 60 per cent *vis-à-vis* 2017. The concession to operate Tirana International Airport that has been held by China Everbright Group since 2016 has recently been extended to 2027 in exchange for an upgrade of Kukës Airport to receive international flights.¹⁰⁶ There is speculation that the concession agreement contains clauses allowing a further extension if the Chinese side upgrades other airports in the country. There is a pending tender for the airport of Vlorë.

Mineral extraction is another area of Chinese involvement – chromite, copper and ferro-nickel, etc. Some smaller Chinese companies own operations in the sector (such as at Bulqizë and Kukës) and in many cases China is a monopoly buyer. Still, most companies in the sector are Albanian-owned.¹⁰⁷ There is rising interest in investment in renewable energy, but little has been done thus far in Albania. Chinese investors were interested in developing an economic zone around the port city of Durrës to the tune of EUR 1.3 billion, but the project stalled in 2016–2017 and has not moved forward. Bilateral trade is also rising markedly. In 2018, China became the second largest importer to Albania, on a par with Turkey (8.4 per cent share) and behind Italy (with a share

103 *Country Economy*, 'Albania National Debt Goes Up', <https://countryeconomy.com/national-debt/albania> (accessed 20 May 2020).

104 A. Brady (2019), 'Are We Real Friends? Albania–China Relations in the Xi Era', <https://sinopsis.cz/en/are-we-real-friends-albania-china-relations-in-the-xi-era/> (accessed 30 June 2020).

105 Freightwaves (2017), 'OCEAN Alliance Adds Five Feeder Calls to the Mediterranean', <https://www.freightwaves.com/news/ocean-alliance-adds-five-feeder-calls-to-the-mediterranean> (accessed 3 July 2020).

106 Reuters, 'China Everbright Group Buys Albanian Airport Operator', <https://www.reuters.com/article/us-china-albania-everbright/china-everbright-group-buys-albanian-airport-operator-idUSKCN1271ZE> (accessed 20 May 2020).

107 Online interview with Dr Altin Hoti, Lecturer in Economics, Mediterranean University of Albania, 25 March 2020, Tirana, Albania.

of 27 per cent). There are a few instances of initial Chinese interest that have not materialised on the basis of insufficient protection of Albanian interests, such as the number of local workers employed in the projects.¹⁰⁸ One such proposal was for the construction and operation of Kalivac hydro-power plant in 2017, when the tender was won by a consortium of Turkish and Albanian companies;¹⁰⁹ another is a two-lane road project worth EUR 269 million, linking Tirana to North Macedonia, construction of which was awarded in 2018 to the Albanian company Gjoka Konstruktion. There are no notable greenfield investments by Chinese companies.

Political ties have a deeper historical context. Albania and China had close relations after the abrupt disruption of Tirana's relations with the Soviet Union in 1961. Close ties at the elite level between the Chinese and Albanian communist parties have played a facilitating role over the years, with contacts also reporting various rumours implying improper practices.¹¹⁰ Albania is a member of NATO and just received an invitation to start EU accession negotiations. There has been interest from local political elites in Chinese involvement in large-scale projects, but little in the way of specific commitments and proper project preparation. Media cooperation is slowly picking up.

China's posture is predominantly non-conflictual in contrast to other actors, which is well received by the Albanians.¹¹¹ At this stage, Chinese efforts appear to be mainly 'image polishing' rather than a systematic moulding of perceptions,¹¹² but they do not yet appear to be filtering down from the elite to public perceptions. Notably, cooperation at the level of political parties dates back to at least 2013, when the Socialist Party of Albania, the Democratic Party of Albania and the Socialist Movement for Integration attended the 4th China–Europe High-level Political Parties Forum in China, but there has been little beyond that. Attempts at wider academic cooperation are picking up, with some exchange programmes and emerging links with the Chinese Academy of Social Sciences, structured around BRI-related research. Academic cooperation has been

108 Online interview with Ilir Aliaj, Executive Director, Centre for Development and Democratisation of Institutions, and Lecturer in Geopolitics of Europe, Mediterranean University of Albania, 25 March 2020, Tirana, Albania.

109 *Balkan Green Energy News*, 'Energy Community Receives Complaint against Albania over Kalivac, Pocem Hydropower Plants', <https://balkangreenenergynews.com/energy-community-receives-complaint-against-albania-over-kalivac-pocem-hydropower-plants/> (accessed 20 May 2020).

110 Online interview with Ledion Krisafi, Senior Researcher, Albanian Institute for International Studies, 25 March 2020, Tirana, Albania.

111 *Xinhuanet*, 'Albania, China Sign Agreement on Broadcasting of Television Programs', http://www.xinhuanet.com/english/europe/2019-10/20/c_138487215.htm (accessed 20 May 2020).

112 Online interview with Roland Gjoni, legal and political scientist and consultant to the World Bank, UN and US Aid, 27 March 2020, Tirana, Albania.

mostly with Albania's main state university, the University of Tirana,¹¹³ where a Confucius Institute has been in operation since 2013.

There have been some developments in the areas of *security and technology*. Albania's NATO membership significantly narrows the potential for cooperation in security and defence matters.¹¹⁴ There is anecdotal evidence of strong United States (US) and other allies' pressure on these issues. Albania's Ministry of Defence has now proposed that major Albanian ports become NATO bases and NATO is currently building a large base in southern Albania, near the town of Berat. The United States has lately been very active locally in highlighting the risks of deeper engagement by Albania with China. The local authorities are so far heeding this advice. Huawei is key to the operation of Albania's 4G networks and its phones and equipment have an extensive market share. In November 2019, Vodafone Albania ran a 5G network test in Tirana amid particular interest and scrutiny. Huawei components were used, but the company denies having a contract to establish and operate the entire network (although Vodafone Albania's 'mother company' in the UK has such a contract for Britain). The US Embassy in Tirana and the US Secretary of State responded publicly to the event, highlighting the risks of operating such a network constructed by Chinese companies.¹¹⁵ Albania's opposition parties also criticised the government for jeopardising the country's national security and potentially undermining NATO, but this appears to be just an element of normal political bickering and not a sign of a geopolitical shift. After all, Huawei's presence in Albania goes all the way back to 2009.

In conclusion, bilateral relations are gradually intensifying but in a patchy and seemingly incoherent manner at a rather low level of institutionalisation. Albania's NATO membership seems to be blocking the way for deeper security and technology ties with China. There is rising awareness, however, of the central importance of China in the emerging geopolitical context and its potential contribution to Albania's economic development. Local political actors are keen to explore investment and trade opportunities, but appear increasingly aware of the challenges of balancing these with NATO membership and EU accession negotiations. Non-state actors remain interested in cooperation with Chinese entities, but show no particular intention and drive to institutionalise them.

113 Online interview with Dr Enri Hide, Associate Professor in International Relations and Security, European University of Tirana, 26 March 2020, Tirana, Albania.

114 Online interview with Andi Dobrush, Executive Director, European Roma Rights Centre, 25 March 2020, Tirana, Albania.

115 *Albania News*, 'Albania, US Embassy Pushes Back against Huawei 5G Ambitions', <https://en.albanianews.it/tech/embassy-use-huawei-network-5g> (accessed 20 May 2020).

2.7 Conclusions

China is gradually but consistently laying the groundwork for a long-term, extensive and deep presence in the WB region. Interaction between Chinese and regional actors ranges from ad-hoc personal and institutional opportunities in various sectors to the gradual building of nascent relationships and even emerging linkages. From a regional perspective, a change in China's overall style and posture is evident, shifting towards greater confidence, visibility and assertion. For observers in the WB region, the strategy underpinning Chinese initiatives such as the BRI and the 17+1 platform is perceived as aimed at gaining a foothold on the periphery of Europe and the EU.

China has established an image of itself as an economic superpower, seeking to seduce and attract on the promise of economic opportunity and mutual benefit. Yet for the most part, and as seen through the predominant experiences of the WB6, China could more accurately be construed as an infrastructure and lending power. China is starting to face a number of challenges and obstacles complicating its entry, positioning and influence on the WB. There is a degree of disappointment at China's unwillingness to become a contributing actor to the region's wider economic development. The low level of greenfield investments is clearly being noticed and disapproved of throughout the region. In addition, the NATO membership of several WB6 countries is complicating security cooperation with China.

Still, China will continue to benefit from some important positive perceptions. It is viewed as a strong and attractive source of economic growth. An enormous market with rising consumer demand and capital pools, the so-called 'Middle Kingdom' is widely expected to play an ever more central role in international affairs and economics. Developmental needs in the WB will persist and need addressing, and China is bound to remain a significant partner in this respect. Being able to cooperate with Chinese investors under less transparent conditions may remain an attractive option for WB regional governments, but slowly rising scrutiny could somewhat hinder that temptation. A degree of affinity with the Chinese political culture exists among WB local elites, most visibly in Serbia, where authoritarian approaches are making headway. There is little sign of an established pro-China versus anti-China political cleavage among political elites in the region.

China is perceived as supportive of the WB countries' geopolitical goals and cooperation does not appear, so far, to have a high political price. The general lack of conditionality in interaction with China is bound to remain a strong point for many in the region. The fact that China is seen as an opportunity for faster development has not translated into an institutionalised preference for China's political-economic model of state-led development. Furthermore, local elites continue to be under pressure to pursue national development. To achieve rapid convergence with the EU's overall level of development,

they will remain open to Chinese and other opportunities for economic engagement and investment.

On the basis of this research, an initial, tentative ranking by degree and depth of engagement and presence of China may be defined in a descending order: Serbia; Montenegro; Bosnia and Herzegovina; North Macedonia; Albania; and Kosovo.

3 China and the EU in the Western Balkans: Different strings attached

This chapter analyses to what extent China's activities in the Western Balkans conflict with the objectives of the EU's enlargement policies.

3.1 EU and Chinese foreign policy objectives

The 2003 Thessaloniki Summit put the EU membership perspective of Western Balkans countries in clear terms, when it was concluded that 'The future of the Balkans is within the European Union'.¹¹⁶ Reminded by the bitter wars accompanying the dissolution of Yugoslavia, the EU is engaged in an intensive process of stabilisation and association with the six Western Balkans countries to foster peace and stability in the region.¹¹⁷ By providing a membership perspective, the EU aims to spur reforms in line with EU norms and values. EU membership criteria have been formulated in the so-called Copenhagen Criteria, constituting key political, economic, and administrative and institutional requirements for aspiring EU members (see textbox below). A Copenhagen+ criterion regarding regional cooperation and good neighbourly relations has, moreover, been specifically added for the Western Balkans. This criterion stems from the above-mentioned objectives of fostering peace and stability in the Western Balkans, but also serves to ensure that the EU does not import outstanding bilateral conflicts when accepting new members.

116 See European Commission, 'Eu-Western Balkans Summit, Thessaloniki, 21 June 2003', https://ec.europa.eu/commission/presscorner/detail/en/PRES_03_163 (accessed 20 May 2020).

117 European Commission, 'EU Enlargement Policy', https://ec.europa.eu/info/policies/eu-enlargement_en (accessed 20 May 2020).

Copenhagen Criteria:

- ‘the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities’
- ‘a functioning market economy and the capacity to cope with competition and market forces’
- ‘administrative and institutional capacity to effectively implement the *acquis communautaire* and ability to take on the obligations of membership’.

Source: European Commission, ‘Accession criteria’, https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/accession-criteria_en (accessed 20 May 2020).

The core objectives of the EU towards the WB region are thus to foster peace, stability, democracy and the rule of law, and to ensure alignment with all norms, values and legislation of the EU through legal approximation. The final objective of the EU’s engagement with the region remains full EU membership, as confirmed most recently by European Commission President Ursula von der Leyen when publicly communicating that ‘the Western Balkans belong in the EU’.¹¹⁸ EU engagement with the region is hence not a standard example of foreign policy. The EU pursues an all-encompassing approach, employing its full policy toolbox, including many elements of EU internal policies, in its attempt to draw the region closer.

When assessing EU objectives towards the Western Balkans, the EU tries to diffuse its values both for normative and self-interested reasons. Arguably, there can be some degree of tension between the EU objectives of stability and democratisation in the WB6 (as a longer-term process). A heavy emphasis on regional stability in the short term could lead to a weak, inconsistent application of EU conditionality that strengthens autocratic governments at the cost of democratic forces in the WB6.¹¹⁹ It is nevertheless hard to imagine the European Union allowing into the EU a WB state that has not completely undergone processes of democratisation and improvements to the rule of law, given the increased focus on these ‘fundamentals’, as codified in the 2020 revised enlargement methodology.

118 European Commission, ‘Statement by President von der Leyen at the Joint Press Conference with President Michel and Andrej Plenković, Prime Minister of Croatia, following the EU–Western Balkans Zagreb Summit’, https://ec.europa.eu/commission/presscorner/detail/en/statement_20_825 (accessed 20 May 2020).

119 T. Töglhofer and N. Wunsch (2011), ‘EU-Erweiterungspolitik auf dem westlichen Balkan: Zwischen Stabilisierung und Integration’, *Sicherheit und Frieden*, Vol. 29, No. 3, p. 143.

The rather limited Chinese objectives of increasing economic engagement with and connectivity within the region do not seem to be at odds with the EU's objectives in its approach towards the region at first sight. The Chinese business-first approach, revolving mainly around objectives of economic investment and development, can by no means be compared to the scope, depth and level of ambition of what the EU seeks to accomplish in the region. Boosting physical connectivity through infrastructure development is moreover not only a Chinese affair. The EU itself has a connectivity strategy for third countries, including the WB6, and it finances infrastructure development through its pre-accession funds and the European Investment Bank in order to spur economic convergence of the region with the EU. The EU may hence benefit from increased Chinese investments in the Western Balkans, especially as the region is in need of large amounts of external financing to catch up economically with the EU-27, something the WB6 need to do to a considerable degree before acceding to the EU.

It should be acknowledged that Chinese economic engagement, as chapter 1 highlighted, cannot be seen separately from China's geopolitical interests. For the EU, this is relevant mainly in regard to the value base of Chinese engagement with the region. The Chinese government's attitude towards political and economic values is different from the EU's to such a degree that simultaneous engagements of China and the EU with the Western Balkans, as the next sections show, inevitably lead to conflicting choices for the region's governments.

3.2 The formation of EU–Western Balkans linkages – hampered by China?

In pursuit of their strategic objectives, the EU and China have divergent instruments at their disposal and also employ these instruments to different degrees. The extent to which the EU has established political and economic linkages with the Western Balkans, as well as the highly institutionalised nature of those linkages, matches the ambitious and all-encompassing objectives that the EU pursues in the region.

The EU's relationship with the WB6 is institutionalised through legal treaties, regular summits between Western Balkans and EU leaders, and continuous active engagement from the European Commission (particularly the Directorate-General for Neighbourhood and Enlargement Negotiations, DG NEAR), the High Representative of the Union for Foreign Affairs and Security Policy (HR/VP),¹²⁰ the EU Delegations and the EU's Special Representative for the Belgrade-Pristina Dialogue, currently Miroslav Lajčák. The relationship is highly intensive, bureaucratic and characterised by fixed process

120 The HR/VP is currently Josep Borrell.

and documentation, establishing detailed benchmarks and recommendations for aspiring members. Economically, the WB6 are required to submit annual Economic Reform Programmes (ERPs) to the European Commission, outlining their economic projections and reform agendas to ensure alignment with the economic membership criteria. As such, core sectoral economic strategies are fully geared towards the EU. Supranational engagement from the EU is moreover reinforced by bilateral political engagement from (groups of) EU member states, which comes in both classic foreign-policy form but in the Western Balkans also takes an institutionalised form, such as is the case in the Berlin Process.

These institutionalised ties between the EU and the Western Balkans countries are tight, and Chinese engagement does not form a direct threat to the WB6 countries' EU aspirations. However, in some countries, notably Serbia, institutionalised ties with the EU are also increasingly paired with political ties with China, in an attempt by incumbent leaders to maximise the benefits of external engagements. This has implications for the environment in which EU accession and enlargement processes play out, in which for some countries the EU is no longer the 'only game in town'. As chapter two already indicated, while for most WB6 countries the determination to join the EU remains the main driving force behind WB-EU ties, the push to deliver economic progress and jobs, as well as to raise their negotiating power *vis-à-vis* the EU, has made the WB6 rather open to Chinese linkage formation efforts.

Economically, the EU remains the largest economic partner of the Western Balkans: the EU provides subsidies, not just loans, and EU foreign direct investment outperforms Chinese FDI manifold. The EIB and the EBRD are engaged in various investment projects throughout the region, including large-scale infrastructure projects such as the Corridor X motorway across Serbia.¹²¹ The EU provides 'carrots' in the form of financial assistance through so-called Instruments for Pre-Accession Assistance (IPA) funding, visa liberalisation and preferential market access to its internal market. The European Commission also announced macro-economic support for the WB6 as a response to the COVID-19 crisis. It is also preparing an economic development and investment plan for the region, which is to be published in 2020. Imports of goods from the EU-27 in 2019 accounted for 61.8 per cent of regional imports, while exports in the same year stood at 82.9 per cent. China, with which WB trade has increased during the past decade, still stands nowhere near these numbers: WB6 imports from China accounted for 9.2 per cent of total imports, and exports for just 1.8 per cent. Whereas the EU-27 are the top trading partners for the WB6, China often finds itself behind the UK, Serbia, Turkey or

121 Western Balkans Investment Framework, 'Corridor X', <https://www.wbif.eu/project/PRJ-SRB-TRA-005> (accessed 13 May 2020).

Russia.¹²² With the WB6's geographical proximity to, and increased interconnection with, the EU's single market, it is highly unlikely that Chinese trade or FDI will overtake the EU's economic engagement as a whole any time soon.

3.3 EU standards and values – affected by China?

The EU's objective of attempting to bring the WB countries to full adherence with EU standards, rules and values is made more difficult by the involvement of actors with alternative standards, rules and values that have potentially lower adoption costs than those of the EU.

Political

EU standards on good governance/corruption

EU engagement with the WB6 is predicated upon large-scale governance reform. A concrete example of this is that in the EU's approach, chapters 23 and 24 of the EU's *acquis communautaire* regarding the judiciary and fundamental rights, and justice, freedom and security, respectively, have been placed in a central position. Such emphasis on the rule of law is absent from China's economic state-to-state loans.¹²³

From an EU viewpoint, China's approach is problematic, because the conditions attached to external financing are vital in fostering governance reform, especially in transitioning economies. The inflow of external financing from authoritarian countries to emerging democracies lacking 'transparency, accountability and market orientation' can, without the proper checks and balances in place, reinforce corruption and undemocratic practice.¹²⁴ In a region such as the Western Balkans, where issues of state capture

122 Sources for trade figures: European Commission 2019 factsheets on Trade in Goods (accessed 20 May 2020). For Serbia, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_serbia_en.pdf; for Montenegro, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_montenegro_en.pdf; for Bosnia and Herzegovina see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_bosnia-herzegovina_en.pdf; for Albania, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_albania_en.pdf; for North Macedonia, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_north-macedonia_en.pdf; for Kosovo, see https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_kosovo_en.pdf; for the WB6 at large, see https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_western-balkans-6_en.pdf.

123 M. Makocki and Z. Nechev (2017), 'Balkan Corruption: The China Connection', European Union Institute for Security Studies (EUISS), <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%2022%20Balkans.pdf>, p. 2.

124 J. Morrell *et al.* (2018), 'Channelling the Tide: Protecting Democracies amid a Flood of Corrosive Capital', Center for International Private Enterprise, <https://www.cipe.org/resources/channelling-the-tide-protecting-democracies-amid-a-flood-of-corrosive-capital/>, p. 2.

and corruption are ubiquitous, elites being captured by such ‘corrosive capital’ is markedly a threat.¹²⁵ The absence of a good governance agenda similar to that of the EU makes Chinese economic engagement an attractive alternative for Western Balkans’ strongmen. Not having to comply with transparent tendering procedures, accountability and other elements of governance reform, but still receiving much-needed capital, makes WB leaders less dependent on the EU, and enables them to preserve their vested economic interests. While some have argued that it is in the interest of China to promote good governance reforms in the WB region as well, the current absence of a Chinese good-governance agenda for the WB6 remains problematic from an EU perspective.¹²⁶

EU standards on fundamental human rights and freedom of expression

Human rights, freedom of expression and pluralism are principles that are central to the functioning of democracy and are part of the EU’s core values, as enshrined in the treaties, rights and principles enshrined in the European Charter of Fundamental Rights and chapter 23 of the *acquis communautaire*. Media freedom is a crucial part of freedom of expression and it is generally acknowledged that independent media plays an important role in highlighting political corruption, as such acting as the crucial fourth pillar of a functioning democracy. The WB6, however, continue to perform low in the World Press Freedom Index, with especially Serbia showing a strong downward trend.¹²⁷ While it is unclear whether media outlets in the Western Balkans are directly or indirectly owned by Chinese entities, there are examples of formal and informal cooperation with Chinese news agencies, for example Serbia’s *Tanjug* news agency, which publishes pro-Chinese reports as part of a cooperation agreement with China’s *Xinhua*.¹²⁸ China does pursue a campaign of expanding Chinese media influence abroad, so future investments in the WB6 media landscape cannot be ruled out.¹²⁹ These could lead to altered reporting on China in terms of both coverage and content. Recent billboards in Serbia portraying Chinese Chairman Xi Jinping with the text ‘Thank you, brother Xi’ were

125 M. Hála (2020), ‘A New Invisible Hand: Authoritarian Corrosive Capital and the Repurposing of Democracy’, National Endowment for Democracy, https://www.ned.org/wp-content/uploads/2020/03/New-Invisible-Hand-Authoritarian-Corrosive-Capital-Repurposing-Democracy-Hala.pdf?utm_source=forum-landing-page&utm_medium=site&utm_campaign=corrosive-capital, p. III.

126 A. Urosevic (2018), ‘Is the Balkan Silk Road a Force for Good (Governance)?’, *Intellinews*, <https://www.intellinews.com/comment-is-the-balkan-silk-road-a-force-for-good-governance-137830/>.

127 Reporters without Borders, *2020 World Press Freedom Index*, <https://rsf.org/en/ranking> (accessed 20 May 2020).

128 P. Tonchev (2020), ‘China’s Soft Power in South-East Europe’, *Friedrich Ebert Stiftung*, <http://library.fes.de/pdf-files/bueros/sarajevo/16005.pdf>, p. 15.

129 Reporters without Borders, ‘China’s Pursuit of a New World Media Order’, <https://rsf.org/en/reports/rsf-report-chinas-pursuit-new-world-media-order>.

erected by the Serbian magazine *Informer*, which is testament to the fact that a more pro-Chinese stance is entering the national media discourse in Serbia.¹³⁰

Chinese standards on media freedom and human rights deviate substantially from those of the EU, with China ranking 177 out of 180 in the World Press Freedom Index. The lack of Chinese support for international norms that protect human rights, such as the freedom of expression, plays into the hands of those Western Balkans governing elites with autocratic governing styles. China's economic engagement without an agenda for strengthening fundamental human rights, similar to its lack of good governance efforts, is problematic for the EU.

Economic

EU standards on public procurement and infrastructure development

Reforming public procurement – chapter 5 of the *acquis communautaire* – in the Western Balkans is a key priority of the EU, as reflected by its inclusion in the 'fundamentals' cluster in the revised enlargement methodology. For future integration of the WB6 into the EU's single market, public procurement needs to facilitate open market competition and take place in a transparent process that is open to all companies on the basis of non-discrimination and equal treatment. China, instead, requires countries to select Chinese contractors for much of the implementation when offering loans for infrastructure projects. Large Chinese infrastructure projects are therefore often implemented through inter-governmental agreements, which open the door for *lex specialis* (special law) procedures that bypass public procurement law. This practice reduces transparency of funding and opens up possibilities for corruption.¹³¹ A prime example is the special law that was passed in the Montenegrin parliament ratifying the government loan with China for the Bar-Boljare highway, which bypassed Montenegro's national public procurement law.¹³² The same could be observed in Serbia, where the non-governmental organisation Transparency Serbia criticised the Serbian parliament in May 2019 for passing inter-state agreements with China that bypassed procurement law and took place in an untransparent manner, with no details publicly available on the project evaluation and/or cost analysis.¹³³ According to the European Commission, while

130 EURactiv, 'Serbia Sets the Stage for Beijing's Mask Diplomacy', <https://www.euractiv.com/section/china/news/serbia-sets-the-stage-for-beijings-mask-diplomacy/1450727/> (accessed 20 May 2020).

131 N. Cuckić (2019), 'EWB Interview – Miličević: Fight against Corruption is Not Sufficiently Supported by the Public', <https://europeanwesternbalkans.com/2019/12/18/ewb-interview-milicevic-fight-against-corruption-is-not-sufficiently-supported-by-the-public/> (accessed 20 May 2020).

132 A. Prekić (2014), 'Construction of the Highway Begins in the Spring', *Independent Balkan News Agency*, <https://balkan.eu.com/construction-highway-begins-spring/> (accessed 20 May 2020).

133 Transparency Serbia, 'Public Procurement Law being Ignored', <https://www.transparentnost.org.rs/index.php/en/ts-and-media/press-issues/10557-public-procurement-law-being-ignored> (accessed 20 May 2020).

Serbia's public procurement law 'is largely in line with the *acquis*',¹³⁴ the real issue is that projects on the basis of state-to-state agreements are exempted from its application. Apart from issues of the law's compatibility with EU standards, compliance is hence an important problem, especially 'in big infrastructure projects financed or implemented by non-EU companies'.¹³⁵

The EU itself also provides loans for development projects in the Western Balkans through the EBRD and the EIB. The Western Balkans Investment Framework (WBIF), a joint facility of the European Commission and European investment banks and donors, helps WB countries to access funding for much-needed strategic investments in line with their EU accession goals. EU loans come attached with a wide host of conditions and procedures that intend to guarantee financial feasibility, environmental sustainability and the quality of infrastructure development, as well as adequate labour conditions and transparency of procedures. The availability of China as an alternative lender means that if EU institutions deny funding of a project for feasibility reasons, the WB6 governments can often turn to the Chinese, as happened in the case of the Bar-Boljare highway in Montenegro.¹³⁶ Even if projects are deemed feasible by EU institutions, EU standards necessitate high local bureaucratic capacities and increase the time duration from when projects are formulated, agreed to and started.¹³⁷ Chinese loans from state-owned entities such as the China Exim Bank signify that the Chinese government probably regards relevant projects as a political priority, which are then swiftly approved. However sizable EU loans might be, Chinese loans make an attractive alternative.

Logically, inter-governmental agreements between China and the WB6 on infrastructure investment, once established, have implications for EU norm diffusion beyond the field of public procurement itself, because due diligence and sustainability considerations as enshrined in EU standards are waived. This risks low-quality and financially inviable projects, hampers the development of the WB6 economies towards well-functioning market economies, as well as hampers the objectives of government transparency and banning economic corruption practices. The North Macedonia Kichevo–Ohrid highway, built by Sinohydro with a contract financed by China Exim Bank, for example, showed that lack of transparency brings a risk of lowering the quality of the project.

134 European Commission, *Serbia 2019 Report*, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-serbia-report.pdf>, p. 20.

135 Ibid, p. 50.

136 J. Mardell (2019), 'A Road that Divides as Much as it Connects', *Berlin Policy Journal*, <https://berlinpolicyjournal.com/a-road-that-divides-as-much-as-it-connects/>.

137 M. Makocki (2017), 'China in the Balkans: The Battle of Principles', *Clingendael Spectator*, <https://spectator.clingendael.org/pub/2017/4/china-in-the-balkans/>.

Estimates regarding soil structure proved to be wrong during implementation, and no junctions were reportedly planned for the entire 57-kilometre road.¹³⁸

EU standards on macro-economic stability

Countries that seek to accede to the EU are required to abide by the Stability and Growth Pact (SGP) on fiscal surveillance – chapter 17 of the *acquis communautaire* – which regulates EU standards on budget deficits and maximum debt. In short, the annual budget deficits of EU member states must not exceed 3 per cent of GDP and public debt must not exceed 60 per cent of GDP.¹³⁹ Relatively small Western Balkans countries that assume relatively large amounts of debt risk being unable to abide by these rules, or ultimately to repay their debts. Montenegro, especially, is at a high risk because of the large scope of the Bar–Bolja highway project relative to the size of its economy, as it owes 20 per cent of its total foreign debt or 11 per cent of its GDP to China.¹⁴⁰ North Macedonia is indebted to China to a lesser extent, owing at least 14 per cent of its foreign debt to China in 2019.¹⁴¹ High foreign debts may lead to debt distress, with negative consequences, including being forced to cut domestic spending and increased interest rates on new government bonds. These effects can be observed in Montenegro and may in the medium to long term also have destabilising effects on the political level.¹⁴² Second, owing a large share of foreign debt to a single country poses dependency risks. In the case of Montenegro, its high debt to China could open the door for undue geopolitical influence. The main problem is not Chinese funding in and of itself, but the means through which funding is done (state-to-state engagement) and the (lack of) conditions attached if they are not in line with EU standards and good governance standards. Coming back to the SGP, it should be noted that also within the EU the rules on maximum debt and budget deficits are regularly infringed upon by individual EU member states and only selectively enforced by the European Commission, which has problematic implications for the EU's credibility in its normative engagements with the Western Balkans.

138 A. Krstinovska (2019), 'Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia', *China Observers*, <https://chinaobservers.eu/exporting-corruption-the-case-of-a-chinese-highway-project-in-north-macedonia/>.

139 Consolidated Version of the Treaty on the Functioning of the European Union, Art 126, https://webgate.ec.europa.eu/fpfis/mwikis/thinktank/index.php/Article_126_TFEU (accessed 20 May 2020).

140 Montenegrin Ministry of Finance, 'Report on the General Government Debt of Montenegro as of 31 December 2019', <http://www.mif.gov.me/en/sections/state-debt/224302/Report-on-the-General-Government-Debt-of-Montenegro-as-of-31-December-2019.html> (accessed 20 May 2020).

141 North Macedonia Ministry of Finance, 'Government Debt for 2019 Reduced', <https://finance.gov.mk/mk/node/8517> (accessed 20 May 2020).

142 N. Barkin and A. Vasovic (2018), 'Chinese "Highway to Nowhere" Haunts Montenegro', <https://www.reuters.com/article/us-china-silkroad-europe-montenegro-insi/chinese-highway-to-nowhere-haunts-montenegro-idUSKBN1K60QX> (accessed 20 May 2020).

EU standards on the environment and energy

The Western Balkans remains one of the most polluted regions in Europe, with one reason being that WB countries still depend to a large extent on low-level lignite coal for electricity production.¹⁴³ Environmental sustainability is one of the standards by which European investment banks decide on their funding, so the EU has not provided funding for polluting coal plants. China, a large exporter of coal and itself heavily reliant on coal plants for energy, is providing the WB region with an alternative to the EU by funding coal-plant investments. China's investments in the Zelezara Smederevo steel company and the RTB Bor copper mine and melting company in Serbia saved local employment, but these outdated facilities create excessive air pollution, with considerable environmental damage. While WB countries are so far not technically bound by EU environmental standards, plants will need to be retrofitted in order to continue operations if EU membership is secured. Specifically, the EU requires coal plants to comply with its 'Best Available Techniques' standards under its Industrial Emissions Directive (Directive 2010/75/EU), which would require tremendous investments. Additionally, with EU plans for a new green deal underway, a more costly EU Emissions Trading System (EU ETS) would be a death knell for the business models of these polluting coal plants.¹⁴⁴ While abiding by the EU's environmental standards is the responsibility of domestic actors in the Western Balkans, they receive the opportunity not to do so as a result of the availability of Chinese-backed funding.¹⁴⁵ Chinese economic engagement in the region hence allows the WB6 to avoid costly EU environmental standards in the short run, while undermining their EU integration path in the mid- to long term.

EU state aid standards

The Stabilisation and Association Agreement (SAA) and the Energy Community Treaty oblige WB6 countries not to introduce state aid measures that would distort competition between the EU and WB6 countries. Large state aid measures favouring certain energy sources, such as coal, over others are not compatible with the SAA and ultimately with the EU treaties. This led to a procedure against Bosnia and Herzegovina in which a Chinese loan for coal powerplants in Tuzla was deemed to be non-compatible with EU

143 S. Esser *et al.* (2018), 'High Carbon Lock-in vs. Low Carbon Opportunity in the Western Balkans: Critical Investments and the EU Accession Process' *E3G*, https://www.e3g.org/docs/WB_Report_FINAL_with_Annex_pdf.pdf, p. 14.

144 Ibid.

145 T. Hale (2020), 'Belt and Road Decision-Making in China and Recipient Countries: How and to What Extent does Sustainability Matter', *ISEP & BSG*, <https://sais-isep.org/wp-content/uploads/2020/04/ISEP-BSG-BRI-Report-pdf>, p. 80.

state aid rules.¹⁴⁶ While China is not directly responsible for state aid violations in the Western Balkans, the larger state intervention that China's state-to-state loans bring with them has negative, distorting impacts on WB6 markets. Strict EU rules on state aid mean that WB governments need to reduce state intervention in the economy, whereas in the Chinese economic model the state has a much larger role.

Security

Privacy and data protection standards

Serbia's cooperation with Huawei in its 'Safe City' project, with mass video surveillance, raises questions regarding compatibility with EU standards on privacy and data protection, as enshrined in the EU's General Data Protection Regulation (GDPR). Serbia has recently been named a 'hybrid regime' in the *Nations in Transit* report from Freedom House and such mass video surveillance is feared as a way to suppress civil liberties, including the right to privacy.¹⁴⁷ Kosovo and Serbia have transposed the GDPR into their own regulatory frameworks, but implementation is proving difficult.¹⁴⁸ The problem is not mass surveillance per se, but rather that lack of oversight and proper implementation of data protection rules leaves Serbian citizens vulnerable to political abuse.¹⁴⁹ There are growing concerns that mass video surveillance by the Serbian government represents an intrusion into the privacy and civil rights of citizens, as large amounts of facial recognition data are collected, without precise rules for their processing.¹⁵⁰ This opens the door for the use of this data for political reasons and to use technological measures to keep check on critical voices in society, which contrasts strongly with the EU's objectives of forging democracy and the rule of law.

China is developing its own standards for data protection and privacy, but while protecting against private entities, its standards do allow governments to build backdoors into software for reasons of public security.¹⁵¹ While Chinese standards do

146 Bankwatch, 'Energy Community: Bosnia-Herzegovina Guarantee for Chinese Loan for Tuzla 7 is State Aid, Breaks EU Law', https://bankwatch.org/press_release/energy-community-bosnia-herzegovina-guarantee-for-chinese-loan-for-tuzla-7-is-state-aid-breaks-eu-law (accessed 20 May 2020).

147 Freedom House (2020), *Nations in Transit: Dropping the Democratic Facade*, https://freedomhouse.org/sites/default/files/2020-04/05062020_FH_NIT2020_vfinal.pdf.

148 European Digital Rights (2019), *Will Serbia Adjust its Data Protection Framework to GDPR?*, <https://edri.org/will-serbia-adjust-its-data-protection-framework-to-gdpr/>.

149 EDRi (2019), 'Serbia: Unlawful Facial Recognition Video Surveillance in Belgrade', <https://edri.org/serbia-unlawful-facial-recognition-video-surveillance-in-belgrade/>.

150 B. Stojkovski (2019), 'Big Brother Comes to Belgrade', *Foreign Policy*, <https://foreignpolicy.com/2019/06/18/big-brother-comes-to-belgrade-huawei-china-facial-recognition-vucic/>.

151 E. Pernot-Leplay (2020), *Data Privacy Law in China: Comparison with the EU and US Approaches*, https://pernot-leplay.com/data-privacy-law-china-comparison-europe-usa/#32_Surveillance_and_Privacy_The_Data_Protection_Dichotomy_in_China.

provide some protection to consumers against abuse by businesses, which is meant to increase consumer confidence in the digital economy, they also provide large opportunities for an increase in government access to personal data.¹⁵² EU standards, embedded in the GDPR, come in the legal form of a regulation, meaning it is directly applicable to EU law. Divergence from the GDPR in the form of disproportional state surveillance relative to citizens' rights and freedoms, and unclear implementation of the EU's data privacy regulation, would mean that EU candidate countries remain ineligible for EU membership until this is rectified.

Regional cooperation and good neighbourly relations

Resolving bilateral conflicts between Western Balkans countries in order to strengthen regional stability is one of the prime goals of the EU enlargement process. The so-called 'Copenhagen Plus' criteria include politically sensitive conditions on reconciliation and regional cooperation that WB countries have to fulfil before they can join the EU. In the case of the Serbia–Kosovo question, Chinese support for Serbia's non-recognition of Kosovo, by continuing to vote against Kosovo's membership in international organisations, is being seen by the EU as not conducive to finding a sustainable solution. While China is not expected to oppose a potential normalisation agreement between Serbia and Kosovo, its position on the issue and its explicit support for Serbia provide the latter with additional leverage.¹⁵³ China is not actively supporting the EU and US-led processes for a resolution of the conflict, nor has it initiated solutions itself. While China is not the only external actor that can be said to influence the reconciliation process between Serbia and Kosovo, and also while the EU's own mediation between Kosovo and Serbia is complicated by the non-recognition of Kosovo by certain EU member states, China's stance is unconducive to resolving this bilateral dispute in the EU-propagated manner, which would allow both Serbia and Kosovo to advance on their path to EU membership.

3.4 Chinese effects on EU socialisation and accession conditionality mechanisms

Socialisation and accession conditionality are the two main mechanisms at play through which the EU seeks to obtain its objectives in the Western Balkans. This section investigates the influence of China on the effectiveness of these mechanisms.

¹⁵² Ibid.

¹⁵³ J. Milic (2020), 'China is Not Replacing the West in Serbia', *The Diplomat*, <https://thediplomat.com/2020/04/china-is-not-replacing-the-west-in-serbia/> (accessed 20 May 2020).

Socialisation

Socialisation happens when actors change their identities and preferences in a process of argumentative persuasion in accordance with EU standards and values. Rather than focusing on the short-term prospect of incentives, socialisation reflects a long-term change of mindset by which actors become convinced of the legitimacy of EU rules.¹⁵⁴ For such internalisation to take place requires that EU rules are seen as legitimate, that the target society itself identifies with the EU, and that there is a level of domestic resonance towards EU standards, values and rules beyond the government level.¹⁵⁵ To a certain extent, socialisation takes place passively. At the same time, there is an active component in which the EU (or other actors) actively promotes socialisation processes through soft-power strategies, such as subsidising civil society throughout the Western Balkans and organising student exchanges with the region.

With regard to socialisation, China is well aware of the influence of ‘soft power’ and while it does not pursue an overarching Western Balkans soft-power strategy, it does seek cultural engagement with individual countries. Ranging from Confucius Institutes offering Chinese-language courses to ‘friendship associations’, these initiatives are meant to promote people-to-people contact in key countries linked to the Belt and Road Initiative. It is hard, however, to separate China’s soft-power strategy in the Western Balkans from the appeal of China’s own economic achievements and the economic engagement that it offers.¹⁵⁶ China’s public diplomacy engagements, constituting the ‘active’ part of socialisation, have been welcomed in Western Balkans societies but have not been perceived as comparable to the region’s Euro-Atlanticist integration. Besides Western Balkans governments, societies must also be convinced of the legitimacy of standards introduced by third powers, and societal debates on China have so far not taken off in the WB6.

Given that China-WB6 relations are primarily focused on economic engagement, the level of socialisation between the WB6 and China will remain very much dependent on the appeal of the economic opportunities that China offers. If China manages to maintain its image of an economic superpower and overcome some of the teething problems of the BRI’s first decade, the WB6 may increasingly also regard some

154 F.S. Montesano, T. van der Togt and W. Zweers (2016), ‘The Europeanisation of Moldova: Is the EU on the Right Track?’, *Clingendael Report*, <https://www.clingendael.org/publication/europeanisation-moldova-eu-right-track>, p. 4; and F. Schimmelfennig and U. Sedelmeier (2004), ‘Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe’, *Journal of European Public Policy*, Vol. 11, No. 4, p. 676.

155 Ibid.

156 P. Tonchev (2020), ‘China’s Soft Power in South-East Europe’, Friedrich Ebert Stiftung, <http://library.fes.de/pdf-files/bueros/sarajevo/16005.pdf>, p. 24.

of the norms of China's political model as an example. Increased economic and political linkages between China and the WB6 may hence lead to enhanced 'passive' socialisation between the two, and may also make China's soft-power instruments (the 'active' component of socialisation) more resonant in WB6 societies. As chapter two outlined above, there are several factors on which such socialisation will depend. There is a degree of disappointment in the WB region about the limited level of Chinese investments that have taken off. Yet even if China's economic involvement brings fewer benefits than had been hoped, the potentiality of China as a significant economic partner is likely to remain a major factor. Given that China represents a completely different governance model than the EU, enhanced socialisation will – even if at a considerably lower level than with the EU – have a disadvantageous influence on the WB region's EU integration process. On the political level, especially Serbia's current government is increasingly presenting China publicly as an example for Serbia. While this may be just a deliberate political discourse, it has a real effect on the EU's efforts to draw Serbia closer. It is hence of utmost importance for the EU to continue adequately to display the benefits of the EU's own governance model. As long as the EU is able to do so, socialisation will remain a powerful mechanism for the EU to exert its influence in the WB.

Conditionality

Accession conditionality is seen as the most powerful mechanism through which the EU is able to exert its influence in the Western Balkans.¹⁵⁷ By holding EU membership as conditional on reforms, the EU exerts pressure on WB governments to engage in the all-encompassing transformative processes that are needed to accede to the EU.

The mechanism of conditionality is, however, affected by China's increasing presence in the Western Balkans in two main ways: cross-conditionality; and increasing opportunity costs for adopting the EU *acquis*. Cross-conditionality can be defined as 'other sources offering comparable benefits at lower adjustment costs'.¹⁵⁸ Stringent and vast EU rules mean that adjustment and adoption costs for the WB6 are considerable. If external actors such as China offer economic development without the stringent rules attached to EU conditionality, then the effectiveness of the EU's conditionality is reduced because of the availability of alternatives. It should be noted that one can argue whether China offers 'comparable benefits' compared to the overall offer of EU integration. EU integration transcends economic benefits such as access to the EU's internal market and EU cohesion funds. Becoming a member means gaining a seat at the table of the

157 F. Schimmelfennig and U. Sedelmeier (2019), 'The Europeanisation of Eastern Europe: The External Incentives Model Revisited', *Journal of European Public Policy*, Vol. 27, No. 6, p. 8.

158 F. Schimmelfennig and U. Sedelmeier (2004), 'Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe', p. 674.

EU's political institutions, becoming part of a geopolitical power that is focused on cooperation and the rule of law, etc. Why do the countries of the Western Balkans then still engage in a balancing act, sometimes seemingly deliberately undermining their progress towards accession? When reducing alignment to a cost-benefit analysis, one should ask whose costs and benefits are discussed. While objectively the benefits for a country of acceding to the EU may be clear, in practice decisions about transformative power lie with political elites whose vested interests may not align with the objectives of EU enlargement.¹⁵⁹ This is because, economically and politically, such political actors continue to thrive only because EU standards on rule of law and democracy are not enforced. Established dynamics of corruption, clientelism and nepotism mean that, while reforms may be in the general interest, they are not in the private interest of those in power, for whom reforms come with immense adoption costs. While nominally in favour of EU accession, political leaderships therefore often ensure that adoption, implementation and enforcement of EU-intended reforms happen only to a point where it touches upon such interests.¹⁶⁰ Looking at costs and benefits, we should also not underestimate the importance of narratives: the impression that China is doing much to help WB countries grow economically, or support them with health regarding COVID-19, might be more important for public opinion than factual information on FDI and EU grants, or exact trade figures for the region.

Second, adopting EU rules means rejecting alternative benefits from external actors, which in turn generates opportunity costs. These costs increase as the alternative offers to Western Balkans countries, other than the EU offer, become more attractive. In some WB6 countries, this has led to what chapter two referred to as 'political multipolarity', or the strategic balancing between multiple offers to extract maximum gains out of the available linkages. That strategy is in line with the time-tested Titoist foreign policy that sought to balance engagement with external actors in order to maximise offers from each of them. Serbia, in particular, is a country of sufficient size to be able to engage external powers to maximise offers from multiple actors, and under its current government it seeks to do so.¹⁶¹ The EU enlargement process is an ongoing negotiation premised on asymmetric interdependence: candidate states gain more from the EU

159 W. Zweers, 'Between Effective Engagement and Damaging Politicisation: Prospects for a Credible EU Enlargement Policy to the Western Balkans', Clingendael Policy Brief, <https://www.clingendael.org/publication/prospects-credible-eu-enlargement-policy-western-balkans>, p. 3.

160 G. Vurmo (2020), 'Tailor-made Laws in the Western Balkans: State Capture in Disguise', *CEPS Policy Insight*, <https://www.ceps.eu/ceps-publications/tailor-made-laws-in-the-western-balkans/> (accessed 30 June 2020).

161 F. Marciacq (2020), 'Serbia: Looking East, Going West?', in F. Bieber and N. Tzifakis (eds), *The Western Balkans in the World: Linkages and Relations with Non-Western Countries*, Routledge, p. 78.

than the other way around, which gives the EU leverage and negotiation power.¹⁶² When seen from a negotiations perspective, increasing (apparent) engagement with third powers and raising geopolitical stakes represents one of the few opportunities that accession candidates have to strengthen their negotiating power *vis-à-vis* the EU. China's increased presence in the WB region hence puts pressure on the effectiveness of EU conditionality, as its effectiveness is partly dependent on the absence of potential alternatives.

3.5 Conclusions

On the level of overall objectives, China's and the EU's explicit intentions do not seem at odds. Economic and infrastructure development in the Western Balkans are objectives shared by both powers, as well as by the region itself. Also when it comes to actual linkage formation, China does not provide a significant challenge to the EU. The institutionalised multi-level relationship of the EU and the WB6 is laid down in an all-encompassing process, affecting nearly all facets and levels of governance in the region. Political linkages between the WB6 and China are by no means comparable, as they do not dispose of a targeted institutional structure and remain limited mostly to the political level. Economically, China's development as a geo-economic superpower, embodied in its expanding Belt and Road Initiative, may lead it to increase its relative economic footprint in the Western Balkans, but it is highly unlikely that linkages will grow to levels similar to the EU.

That is not to say, however, that all is rosy in the EU's 'inner courtyard'. The assessment of selected political, economic and security standards that the EU seeks to diffuse in the WB6 shows that engagement between the WB6 and China involves political choices that are incompatible with harmonisation with EU *acquis* and EU standards. EU objectives of fostering good governance are directly and indirectly affected by economic engagements between the Western Balkans and China that bypass public procurement law, take place in an untransparent manner, or may be neither economically nor environmentally sustainable from the EU's point of view. EU state aid rules, as well as macro-economic sustainability objectives, are put aside in these engagements, meaning that the already vulnerable economies of the WB6 become even more susceptible to debt distress and Chinese influence. While respect for fundamental freedoms and human rights remains a key pillar of EU engagement, the issue is fully absent from China–Western Balkans relations. Looking at security, risks emerge with regard to data protection and privacy, as well as with the EU's objectives of fostering

162 M.A. Vachudova (2020), 'EU Enlargement and State Capture in the Western Balkans: A Failure of EU Conditionality?', in J. Džankić *et al.*, *The Europeanisation of the Western Balkans: A Failure of EU Conditionality?*, Springer, p. 66.

stability through conflict resolution, as in the case of Serbia and Kosovo. Simply put, the WB region's engagement with China or the EU comes with different strings attached.

Finally, this chapter assessed the influence of China on the two main mechanisms through which the EU actively and passively seeks to draw the Western Balkans closer: socialisation; and conditionality. With regard to conditionality, the presence of an alternative actor offering economic benefits at lower adoption costs means that the EU's conditionality becomes less effective. Socialisation, meanwhile, the process of WB actors internalising EU standards and values and increasingly considering them as legitimate, is a slow-moving process. Increased linkages between China and the WB6 may lead to enhanced socialisation between the two. As long as China remains economically successful, it will be able to use its soft-power toolbox to send the message that economic success is not dependent on human rights, transparency or democracy. Whether or not that message comes at the detriment of socialisation with the EU depends on how the WB6 governments perceive that message. Chapter two indicated that, despite regional variations, the perception of China as an attractive economic partner to close the development gap is not yet contested. While Chinese engagement might now be relatively small compared to EU engagement, there can be path dependencies that lead the WB6 away from EU convergence in the future, such as when external financing allows them to invest in polluting power plants that might not be financially sustainable within the EU or in line with the EU's stringent environmental standards.

4 Conclusions and recommendations

China's increased engagement with the six non-EU countries of the Western Balkans affects the EU's ability to shape the policy context (that is, to shape parameters of the choices another country can make) and conduct (that is, to affect concrete actions or choices) of governments in the region. At the same time, Chinese and EU economic engagement does not need to constitute a zero-sum game in which gains by one mean losses for the other. Efforts by the two great powers aimed at economic development and regional stability can be potentially mutually reinforcing. China's most important strategic objective for the WB region, building the Land-Sea Express Route, can provide the region with a more central role in transport networks that connect Central Europe to Asia and East Africa. This, in turn, can help the region attract more foreign direct investment, both from Chinese and non-Chinese sources.

Whether and to what extent China's involvement is actually compatible with EU interests depends on the conditions under which such involvement takes place. This Clingendael Report shows that activities by Chinese actors in regard to the Western Balkans are to some degree incompatible with the EU *acquis* and EU standards. This relates to a variety of domains, including public procurement, state aid, environmental sustainability and human rights. China is relevant not only for the behaviour of Western Balkans governments in these domains, but linkage formation with China also weakens (somewhat) the EU's bargaining position, as governments in the region have an increased opportunity to play the EU and China against each other. Moreover, linkage formation with China provides politicians in the Western Balkans with new avenues for established practices of corruption.

To date, there are no signs that the political leaders of the EU and EU member states are interested in disengaging economically from China. Moreover, China may be expected to continue to respond to the demand for economic development in the WB6, especially as a provider of infrastructure development, and particularly if EU institutions refrain from doing so. In other words, China will remain a significant economic actor both in the Western Balkans and within the EU, with which the EU will need to continue to deal. This poses a dilemma for the EU. To draw the Western Balkans closer, the EU needs to show that it is able and willing, to an important extent, to meet the demand for economic development. At the same time, the EU needs to stick to its own standards. To address this fundamental dilemma, this Clingendael Report makes a number of recommendations.

Policy recommendations for the European Union:

- The EU should acknowledge the (economic) interests of the WB6 and provide alternatives for cooperation with China. The European Commission's upcoming economic investment and development plan for the Western Balkans can create a basis for such an approach.
- At the same time, the EU should use a more effective enlargement process to mitigate potential negative effects of increased Chinese–Western Balkans engagement. The revised enlargement methodology, with its increased attention for political steering, is promising in this regard. EU institutions and EU member states should take the implementation of the revised methodology seriously in order to ensure its effectiveness.
- The EU would do well to increase its efforts to ensure that when there is Chinese economic engagement, it is in accordance with EU standards, rules and values, especially with regard to the EU's good governance agenda and EU rules on public procurement. It could do so by employing its vast institutional, political and economic linkages with the WB6 to communicate clearly and consistently when engagements with China are contrary to the WB6's obligations under the Stabilisation and Association Agreements and that accepting different standards than those of the EU strongly disturbs the WB6 countries' path towards EU membership.
- The attractiveness of EU funding for infrastructure development is negatively affected by the conditions attached to it. While the EU should not do away with bureaucratic rules that guarantee the feasibility, transparency and environmental sustainability of projects, it could offer increased operational support to the WB6 to meet the demands attached to funding.
- Given the high prevalence of corrupt practices in China itself (and despite an ongoing anti-corruption push by the Chinese government), linkage formation between China and the Western Balkans will continue to offer incumbent governments in the region with opportunities to retain locally established practices of corruption. Vulnerable institutions, with the judiciary being the prime example, are crucial to the ruling parties' abilities to profit from contracts not disclosed to the public, as Chinese contracts have frequently been. While the EU offers a framework and financing for the rule of law, anti-corruption has only sporadically been on the agenda of high-level political dialogue, exerting little pressure on ruling parties. Reinforcing dialogue on (high-level) corruption, and clear condemnation of corrupt practices in written documents such as the EU non-papers on Chapter 23 and the Annual Enlargement Package, will remain key in this regard.
- It remains vital for the EU to communicate clearly the benefits of the standards it seeks to diffuse in the Western Balkans, both to governments and to citizens. Especially in those fields where alternative standards are incompatible with the EU membership objective of the WB6, such as environmental protection or privacy and data protection, the EU should step up its communication.

- Intra-EU initiatives aimed at preventing or discouraging Chinese acquisitions that have negative long-term implications for the European Union's strategic autonomy should be aligned with the fact that the non-EU countries in the Western Balkans are preparing for EU membership. The EU should condition progress in the accession process on a mechanism for such alignment that converges long-term strategic interests of both the EU and individual WB countries in ways that are politically feasible and acceptable today for those countries (prior to their membership) and in the longer run (once they are members) for the EU as a whole.
- Public procurement rules only work if they are consistently applied. The European Commission should therefore monitor when state-to-state deals circumvent public procurement law through *lex specialis* procedures, and should clearly condemn such instances, as well as follow up its political condemnation with action.

Policy recommendations for the Netherlands:

- With its China policy paper of 2019,¹⁶³ the Dutch government took an important step towards establishing a comprehensive China strategy. The Netherlands should keep developing all aspects of such a strategy, including its approach towards intra-EU debates on relations between the European Union and China in regard to the WB6.
- Within the EU, the Netherlands is one of the EU member states most actively promoting the rule of law and standards of good governance. At the same time, increased linkage formation between China and the WB6 directly impacts those standards. Given the path towards EU membership on which the WB6 find themselves, the promotion of EU standards is as important in the WB6 as within the EU. The Netherlands could therefore step up its political prioritisation of the EU enlargement dossier, and is in a well-placed position to 'lead by example' with regard to the rule of law, media freedom and other issues.

163 Dutch Ministry of Foreign Affairs, *The Netherlands and China: A New Balance*, Policy Paper, 2019.