The report looks at eight national cases and provides a regional analysis of China’s presence in SEE.

China has shifted the discourse on SEE towards geo-economic competition, thereby also contributing to a change in thinking among stakeholders in the region.

SEE countries’ engagement with China will remain shaped by their imperative of not hurting the region’s links to the EU, and the US.
GLOBAL AND REGIONAL ORDER

THE ROLE OF CHINA IN SOUTHEAST EUROPE
Contents

PREFACE
Anastas Vangeli and Arne Schildberg ................................................................. 2

CHINA IN SOUTHEAST EUROPE: A REGIONAL PERSPECTIVE
Anastas Vangeli .................................................................................................. 3

NATIONAL REPORTS

THE ROLE OF CHINA IN ALBANIA
Roland Lami ......................................................................................................... 12

THE ROLE OF CHINA IN BOSNIA AND HERZEGOVINA
Jasmin Hasić .......................................................................................................... 16

BULGARIAN–CHINESE RELATIONS: TRADITION AND REALITY
Antonina Habova .................................................................................................. 22

CHINA’S PRESENCE IN CROATIA
Senada Šelo Šabić and Morgane Rumeau .......................................................... 28

SINO-HELLENIC RELATIONS AMIDST GREECE’S LOST DECADE:
OVERPROMISING AND UNDERDELIVERING?
Vasilis Trigkas ........................................................................................................ 34

NATIONAL REPORT: MONTENEGRO AND CHINA
Miloš Vuković ....................................................................................................... 40

THE ROLE OF CHINA IN NORTH MACEDONIA
Anastas Vangeli ..................................................................................................... 48

THE RISE OF THE SINO-SERBIAN BROTHERHOOD - CAN SERBIA
USE ITS PARTNERSHIP WITH CHINA FOR GOOD?
Stefan Vladisavljev ............................................................................................... 55
The relationship between the countries of Southeast Europe and China has attracted significant attention in the policy, scholarly and media debates in the region and beyond in the last several years. And this has been for good reasons. The increase of China’s global pro-activity, also reflected in the region, is in many ways an unprecedented development – as it is for a first time in modern times that a distant non-Western actor has emerged in Southeast Europe. Second, given China’s weight, but also its very different norms and values – increasingly seen as contradicting the liberal-democratic blueprint – such relationship is potentially very consequential for the region. Third, the rise of China and its arrival in Southeast Europe happens at a very sensitive time, of high global political and economic uncertainties, return of great power politics, and re-thinking of the world order.

Given the importance of the topic, here are gathered perspectives from eight Southeast European countries – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Montenegro, North Macedonia, and Serbia – who have dissected the relationship with China, its context, and its consequences. The aim of the papers have been to put front and center the perspective and prospects of the countries in question first, taking into account their current or prospective membership in the European Union. In this sense, they have naturally looked at all the ways in which the region should take precaution and boost its capacity when dealing with China in order to minimize and mitigate risks, but at the same time, have aimed to explore whether there could be any areas where there are opportunities for cooperation that can benefit the region.

This project, importantly, predates the biggest and most significant geopolitical development of the present, which is the war in Ukraine. The war has significantly affected the global balance of power, as well as the calculus of the countries in the region when it comes to their foreign policy outlook. While China not playing a central role, its position of sympathizing with Russia has not been well received in the West. The Southeast European countries studied here, with the partial exception of Serbia which has tried to balance its pro-European orientation with its close friendship with Russia, have all expressed solidarity with Ukraine, condemned the actions of Russia and undertaken measures in response to it. Moreover, the war has pushed relations with China in the background. China itself – not only because of the war, but also due to the resurgence of COVID-19 in the country, its economic woes and the forthcoming National Party Congress in Fall 2022 – has not been as visible as before. While only few months ago, it seemed that China is by far the most important foreign policy question for the region (and the scholars studying it), for the moment, China is back-burnered.

This however, does not make the analysis here any less relevant. While all eyes are on the Ukraine war, and all of the energy and resources are invested towards ending the violence and saving European democracy, we must not forget that we live in a complex and ever more dynamic world. In the present context, this collection of report should be read as a summary of the relationship between Southeast Europe and China up until this current historical juncture, while at the same time, boldly prompting us to think beyond the constraints that the momentary geopolitical situation imposes. Having learned important lessons (both positive and negative), ever more aware of the risks and still mindful of the opportunities, being firmly committed to their European future, Southeast European countries have a solid foundation to build the new relations with China in the future. When China emerged in the region after the global financial crisis, the two sides had a ‘clean slate’ and no significant historical grounds that shaped their relations. Looking ahead, there is an important legacy of the past decade that will inevitably play a role in how the interactions unveil in the future. This legacy, as the reports here suggest is not too rosy, however it is not dismal either.

The papers presented here were written in the period of June – November 2021. In the process, we held two interim workshops with external experts and FES officers, to reflect on the progress, critically comment and ultimately improve the texts. We had several rounds of comments and revisions. With some delay, the final product is in front of you.
INTRODUCTION

Since the global financial crisis of 2008–2009, China has emerged as a visible external actor in Southeast Europe (SEE). It has attracted the attention of both local actors and other external stakeholders, to the point that today one cannot discuss the region’s future prospects without factoring in relations with Beijing. This is a stark difference compared with developments only a decade ago, when China had a negligible presence in the region.

En route to becoming a regional actor in Southeast Europe, China has provoked a variety of reactions among different audiences: it has raised expectations, stoked fears and, perhaps most importantly, created important dilemmas concerning what kind of foreign policy approach is adequate when dealing with rising non-Western powers. These debates, over time – and peaking with the Covid-19 pandemic – have also gained additional steam: discussions of China today cannot be conducted independently of global changes and challenges (and in particular, relations between the big world powers), which, in turn, often add a particular layer of strategic importance to the role of China. At the same time, debates on relations with China have touched on questions of domestic development priorities and the intersection between foreign and domestic policy. Regional and local dynamics have further complicated the question of the role of China in Southeast Europe.

The research project on China in Southeast Europe zooms in on the development of SEE countries’ bilateral relations with China since the global financial crisis (GFC) and takes stock of the challenges, risks, opportunities and limitations for developing future relations between the two sides. In the first phase of the project, authors from Greece (Trigkas 2021), Bulgaria (Habova 2021), Croatia (Šelo-Šabić 2021), Serbia (Vladisavljev 2021), Montenegro (Vuković 2021), Bosnia and Herzegovina (Hasić 2021) North Macedonia (Vangeli 2021) and Albania (Lami 2021) produced eight national reports on relations between China and the respective SEE countries. Studying the findings of those reports comparatively, and combining them with independent research by the author, this paper takes a regional perspective and explores different options for tackling the China challenge in Southeast Europe.

The paper proceeds by reviewing relations between Southeast Europe and China since the global financial crisis, before turning to the pitfalls and challenges of their economic cooperation. It then turns to an analysis of the peculiarities of SEE–China relations, in particular the normative logic of their relations, the roles of different actors and their (lack of) capacities. The paper then looks at how the United States and the EU have co-shaped SEE–China relations. Finally, the paper turns to contemplate how Southeast Europe can deal with the China challenge in the short to medium terms.

STATE OF PLAY

In general terms, the relations between China and Southeast Europe are best understood in the context of China’s emergence as a proactive actor with a global outlook in the twenty-first century, and in particular in the aftermath of the global financial crisis in 2008–2009. Following a period of ideological divergence in 1989–2008 in the aftermath of the fall of state socialism in Europe, after the financial crisis China approached the broader region of Central, East and Southeast Europe (CESEE) from the position of a rising global economic power. Chinese policymakers proposed the joint pursuit of economic prosperity, which at the time sounded like it would very well complement the needs of the region, which had suffered considerably, especially the SEE economies.

In 2011, China launched a special mechanism for regional cooperation and policy coordination, which originally included sixteen post-communist countries and was thus informally dubbed »16+1«: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania-
nia, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia. The format was expanded to include the first country without a communist past, Greece, in 2019 (making it »17+1«). The format has advanced through annual summits of heads of government and business forums, quasi-institutional secretariats for sectoral cooperation, and numerous people-to-people exchanges. Fundamental to 17+1 is the implementation of China’s Belt and Road Initiative (BRI), China’s global project that seeks to bolster soft and hard connectivity in the global (semi)periphery, announced in 2013. While 17+1 formally predates the Belt and Road Initiative, like many other items of China’s foreign policy it has been retroactively assigned the Belt and Road Initiative label. In fact, the term the »New Silk Road« (often used as an alternative to the Belt and Road Initiative) was used to describe China’s vision for Southeast Europe even in the 2000s (Poulain 2011).

The region of Southeast Europe is diverse, and China’s role has different weight in different countries. This diversity notwithstanding, China has taken a particularly region-oriented approach in Central, East and Southeast Europe (Vangeli 2020b). For Chinese policymakers, the defining feature of Southeast Europe is the dependent capitalist development trajectory of countries in the region (that is, dependent on inflows of capital from outside). Although some SEE countries are more developed than others, this makes them altogether distinct from the developed economies of the global core. In other words, for Chinese policymakers, what defines Southeast Europe as a region is the shared need for capital inflows and know-how, and the stimulation of economic development from outside. This is where they see potential openings for China.

Another aspect of economic needs is the region’s untapped economic potential. In Southeast Europe, Chinese economic actors have demonstrated an interest in and in some instances have even successfully transformed formerly »lost cases« (that is, complicated infrastructure projects that others deem unprofitable, or underperforming production capacities that other investors eschew) (Hackaj 2019). The merits of this approach are evident when even critics of China admit that it has at least »got something right« about the region. For example, the most alarming accounts regarding China’s presence in the region often centre on the notion that the EU’s strategic ambivalence (see Lami 2021) and even myopia may push Southeast Europe into China’s lap. In the case of the EU candidate countries of the Western Balkans, even high-level officials sometimes argue – perhaps with the aim of getting Brussels’ attention – that China is filling the void left behind by the EU (Stamouli 2021). In the case of Greece, China’s presence as an actor with a strong orientation towards economic development is often juxtaposed against the post-crisis austerity policy imposed by Brussels (Trigkas 2021). The appeal of such a framing of China’s role may explain why, despite controversies and shortcomings, not to mention external pressures and rising caution in the region, there is overall a less alarmist attitude towards China in Southeast Europe than in other parts of Europe. This can often baffle or even unnerve Western observers. The sharp edges of China’s power are still not visible in Southeast Europe, which is another reason why the region remains relatively China-friendly.

China’s Belt and Road Initiative and its 17+1 format are raising eyebrows in Europe, including in parts of central Europe and the Baltics, where some countries have openly expressed concerns about the rise of China’s global reach, and their dissatisfaction with both the process and fruits of cooperation with it. Lithuania has even suspended its participation in the format. This view, however, is not shared among the SEE countries, which generally seem to have more favourable perceptions of China than the rest of Europe. Public opinion polls have shown that Bulgaria (55 per cent) and Greece (51 per cent) have been the two EU countries with overall the most favourable views of China (Silver et al. 2019). In the Western Balkans, apart from Kosovo, where China is regarded unfavourably (only 14 per cent see it in favourable terms), it is seen in positive light: by 52 per cent in Bosnia and Herzegovina, 56 per cent in North Macedonia, 68 per cent in Montenegro and as many as 85 per cent in Serbia (CISR 2020). Public opinion concerning China’s economic importance is also disproportionately higher than the country’s actual economic role in the region: in Bosnia and Herzegovina 23 per cent see China as a most important economic partner, compared with 28 per cent in North Macedonia, 50 per cent in Montenegro and 71 per cent in Serbia (CISR 2020). Moreover, in Southeast Europe China is not yet a domestically politicised topic to the extent that it is in the rest of Europe, although it is increasingly becoming a hot issue (Vangeli 2021b), and has the potential to become a subject of internal political divisions (some nascent cleavages are visible, for example, in Bosnia and Herzegovina (Hasić 2021) or Serbia (Vladišavljev 2021)). Finally, whereas the Covid-19 pandemic has negatively affected perceptions of China in the United States and much of Europe, in the Balkans – and in particular in the EU candidate countries – the provision of protective equipment and vaccines has helped China maintain a fairly good reception in the region (Vangeli 2021a).

ECONOMIC COOPERATION AND ITS DISCONTENTS

The geoeconomic approach China has taken in Southeast Europe defines its relationship with the region (Vangeli 2020a), political, security and other ties notwithstanding. Chinese actors have been actively working on recasting the region’s image, from one associated with conflicts, fragmentation and lack of economic progress, not to mention a »periphery of the periphery« (Bechev 2013) into one associated with increased economic linkages and opportunities, not least stemming from its geographical location. Such a posture differentiates China from other external actors in the region (especially non-Western actors such as Russia, Turkey or the Gulf countries). The promise to help improve the region’s competitiveness maintains China’s favourable image there, even when global political tensions and controversies loom large. Within the framework of economic cooperation, Chinese actors work on cultivating ties, and boosting (inter)dependencies, which is in line with China’s globally proactive

1 For a comparative perspective see Bieber and Tzifakis (2019).
approach. While this raises fears that economic linkages could translate into political gains, so far there is no evidence of this (Matura 2019). Economic cooperation with China inevitably has an impact on governance, however, which will be elaborated in depth below.

What is also concerning for SEE countries is whether China can deliver on its promises. While the desire for an increase in economic cooperation appeals to a wide range of regional and external stakeholders in Southeast Europe, it is debatable to what extent the promise has been translated into practice and tangible results. Since 2011, China and the SEE countries (within the 17+1 and Belt and Road Initiative setup, but also bilaterally) have launched policy measures aimed ultimately at elevating China–SEE economic cooperation. From today’s vantage point, China’s economic presence has increased steadily throughout the region (Mardell 2020), with Serbia standing out. When, however, one juxtaposes developments over the past decade against the expectations of SEE countries, which desire much more investment from and exports to China than they currently have, the impression is that economic cooperation has not matched Balkan expectations, while a number of potentially transformative economic projects remain wishful thinking. Thus, critical assessments of China–SEE economic relations often paint a rather paradoxical picture: economic cooperation with China has increased to the point at which it is perceived as threatening by those afraid of China, while simultaneously those with an overtly opportunistic attitude still consider it insufficient.2

Beyond such opportunity–threat interpretations, data on SEE–China economic relations tell a less spectacular story. Two-way trade has been on the rise on a year-to-year basis; however, it has remained significantly unbalanced in favour of China (Vangeli 2020a). Commitments and measures to boost SEE exports to China (such as trade promotion activities and expos) have not managed to change the picture dramatically. More striking than the trade imbalance, however, is trade composition. Southeast Europe primarily exports raw materials to China, while it imports goods with added value (such as electronics), which is reminiscent of the trade constellation between China and the Global South. It is, however, also a reflection of competitiveness (and the lack thereof of the SEE countries). Nevertheless, for SEE companies the Chinese market remains highly attractive. A number of associations and consultancies are emerging that aim to help promote SEE exports to China, both in goods and services.

Foreign direct investment (FDI) from China, perhaps the most desired form of economic cooperation, also remains relatively low in the region (with Serbia, again, being a significant exception).3 This is particularly the case with the investments made by privately-owned companies from China (for example, there have been endless stories about potential investments from Alibaba or Huawei. A number of attempted FDI projects in the region did not materialise, such as the failed investment attempt by a consortium led by Haier in North Macedonia.4 A number of bombastic announcements have been made, such as the construction of a large industrial park near Belgrade, which was announced in 2018,5 but whose construction is yet to begin.6 There are also cases of poorly performing investments, the most significant case being Great Wall Motors, whose Bulgarian investment ended up in the bankruptcy of its subsidiary (Subev 2017). Many Chinese investors, in that sense, still lack the knowledge and understanding necessary to succeed in the SEE markets.

Chinese FDI that has successfully materialised, however, even if lower in volume than expectations, has had a significant economic effect. In relatively small and less-than-stellar economies individual projects, especially those in infrastructure or heavy industry, can make a substantial difference. In this domain, Chinese state-owned enterprises play the central role. The emblematic example is the investment made by COSCO in the Greek port of Piraeus. COSCO has managed to turn Piraeus from an underperforming port into a significant Mediterranean and European transhipment hub. Similar is the case of Hebei Steel’s investment in the Smederevo steel mill in Serbia, which has helped turn the factory – previously on the brink of permanent closure – into Serbia’s leading exporter in about a year. Such economic successes are often accompanied by serious governance and other challenges, however. For instance, Piraeus, while growing under COSCO’s management, has also experienced a deterioration of labour rights. Smederevo’s rise, on the other hand, has come at the cost of grave environmental problems. Investments in thermal power plants in BiH and Serbia, and in mining in Serbia have also had a similar outcome: while they have had certain economic benefits, they have also brought about serious environmental consequences, leading to mass protests and even suspension of some projects by the authorities (see Vlaidisavljev 2021; Hasić 2021). The recent announcement by Xi Jinping that China will end financing of the construction of overseas coal plants (Colman 2021) is a major game-changing development in this regard, and paves the way for greener and more sustainable cooperation in the future.

The most impactful form of economic cooperation between the two parties has taken place in the field of construction of transport infrastructure (Vangeli 2018a). Chinese SOEs have been contracted to build highways of strategic importance throughout the region. These projects, located primarily in the Western Balkan countries, have been financed with Chinese loans. As SEE governments had not managed to secure funding from the traditional stakeholders in regional development (EU, EBRD, IMF, World Bank), they have welcomed Chinese initiatives. A significant exception is the case of the Pelješac Bridge in Croatia (an EU member state), which has

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2 For the threat–opportunity dichotomy, see Pavlićević (2018).
3 See national reports produced as part of the project, as well as Vangeli (2020a).
4 Available at: https://www.china-cee-investment.org/
5 Available at: http://investici.prizma.mk/en/nv/Triview-and-Haier
6 Available at: https://novice.gov.rs/srpsko-kineski-industrijski-park-mihajlo-pupin-u-beogradu/
been funded by the European Commission (see Šelo-Šabić and Rumeau 2021).

While at the current juncture the far-reaching impact of these projects cannot be assessed with certainty, some trends are observable. All of them are already economically significant projects, stimulating the domestic construction industry and overall being a source of significant economic activity. Gruebier (2021) estimates the GDP effects as follows: Montenegro (13.6 per cent), Serbia (6.3 per cent), BiH (4.4 per cent) and North Macedonia (2.3 per cent). Their value is set to increase once they are completed and put into use.

Nevertheless, the construction projects have also given rise to a number of problems that have complicated SEE–China relations. The tied loans provided by Chinese financial institutions raise questions about financial sustainability, especially because the price tags for projects can be rather high (Vuković 2021). The non-competitive and opaque practices involved in arranging the projects have raised questions regarding good governance, institutional accountability and corruption, for example, the special laws circumventing procurement regulations in Serbia (Vladisavljev 2021) and North Macedonia; in the latter, this has been a subject of criminal investigation (Vangeli 2021). In some cases, poor planning and lack of due diligence have raised environmental concerns (Vangeli 2021; Vuković 2021). Finally, in some cases – such as BiH – the concession-based BOT (build-operate-transfer) model, with minimum profitability guarantees, also raises the question of who is really the beneficiary from such projects (Hasić 2021). In the case of Croatia, the competitive tender won by a Chinese-led consortium has prompted a re-evaluation of Europe-wide regulation (Šelo-Šabić and Rumeau 2021). At the same time, while China is not the original source of these issues and not the sole external actor suspected of exacerbating the situation, there is a fear in the EU that given China’s clout and its recent commitments, power transitions and political tugs-of-war are important determinants of cooperation outcomes. The plurality of perspectives that do not align with the official positions of the countries involved (contrary to the European approach, which aims to empower and give voice even to the smallest of stakeholders). The formats of cooperation – in the first place the Belt and Road Initiative and 17+1 – are loosely institutionalised, but at the core consist of bilateral relations between China and the individual SEE countries, which further perpetuates the state-led developmentalist logic.

The focus on the state as a development partner is contrasted with the diversity of state actors from both China and the SEE countries, which in turn can shape different cooperation outcomes. This diversity is significant in the case of China, as dozens of actors are involved in preparing, negotiating and implementing SEE cooperation, be it provincial governments, state-owned enterprises or financial institutions. They all reflect various sides of China’s developmental record, both at home and abroad. Some of them indeed conform to the worst fears; a number of Chinese SOEs operating abroad have a history of exploitative behaviour (for example, Sinohydro, which has been the preferred partner of the Macedonian government for highways construction had previously been debarred by the World Bank and the African Development Bank (Krstinovska 2019)), whereas others act more responsibly and seek to create added value for the host country and society (Bluhm et al. 2018). In theory, any partner country – including those in Southeast Europe – hope to get a Chinese partner that is representative of this responsible version of Global China, and projects that create lasting positive change. To secure such outcomes, however, SEE actors need information on their Chinese counterparts and how to deal with them, but most importantly, they need to embody the commitment to responsible behaviour at home themselves.

SEE states and elites are also not uniform, at the regional, but also at the national level. Fragmentary coalition governments, power transitions and political tugs-of-war are important determinants of cooperation outcomes. The plurality within Southeast Europe presents an operational challenge for Chinese actors, who in general prefer to know explicitly who is in charge, and who they can deal with. It is thus not surprising that the exceptional case of SEE–China cooperation is Serbia, a country with a strong, centralised and enduring government, personalised in the rule of President Aleksandar Vučić, which is often considered an example of a

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8 The GDP effects may be lower if the role of foreign production networks increases. However in most of these projects, there is a significant involvement of local companies as subcontractors.
backsiding democracy by liberals. The affinity here is not necessarily normative, but rather practical. To put it in prosaic terms, in Serbia there is one telephone number that Chinese actors need to call to get something done: President Vučić, who can utilise various resources quickly and efficiently to advance cooperation. While the centralisation of power is not the sole reason why Serbia stands out (as it also has a particular history in its relations with China), it is still a key variable that defines Serbian–Chinese cooperation.

The state’s ownership of the development and cooperation agenda, at the same time, points to the responsibility of SEE governments for cooperation outcomes. Taking in account some of the most significant outcomes, in which economic success is often accompanied by various quality issues, a question arises over SEE–China cooperation: are there elements of a trade-off between the relentless pursuit of economic growth, on one hand, and overriding sustainability principles, on the other, to which some SEE actors tacitly subscribe? The way priorities are formulated (such as growth, jobs and grand construction projects), certainly suggests that SEE elites can easily give in to the pursuit of development by any means. Such an approach is indeed reminiscent of the economic »Long March« of reform-and-opening-up China. But this is a version of China that the current CCP leadership wants to leave behind. This is, nevertheless, a sovereign choice rather than one imposed by China. In that sense, rather than talking about planned »export« of Chinese developmental thinking and practices, the focus should be on the role and actions of SEE elites themselves.

The state-led approach, at the same time, aside from transgressions, is also revealing of some of the key structural weaknesses related to SEE actors’ capacity to deal effectively with China. In theory, a viable state is a prerequisite for successful development, and development cooperation. States in the region seem to lack a consolidated and consistent strategy towards China, however, and resort rather to tactical and opportunistic moves. Overall, SEE countries participate in various initiatives and verbally commit to cooperation, but do not act proactively. Likewise, foreign policy often seems disconnected from economic development priorities. Geopolitical tensions add to the challenge, as elaborated below.

Internal political divisions (not centred on the question of China) and instability also complicate foreign policymaking in Southeast Europe. Political divisions overshadow institutions; Southeast Europe is not a region known for functional checks and balances (politics as regulated competition), but rather for the lack of them (politics as warfare). While China may not necessarily be a subject of contention, SEE elites often experience political turbulence, which makes governments inward-looking and hesitant towards more ambitious foreign policy, and in particular, hesitant about advancing relations with non-Western actors. At the same time, instabilities stem not only from domestic issues, but also from regional ones, which then consume foreign policy capacity and thus limit the resources allocated for relations with China.

IMPACT OF CHANGING GLOBAL POLITICS

Until recently, SEE actors have tactically prioritised their own needs in relations with China, thinking pragmatically and in isolation from the big, significant strategic and normative issues that concern policymakers in the EU and the United States. While aware of and cautious about the rapidly decaying US–China and increasingly abrasive EU–China relations after 2016, SEE countries have embraced the role of small, less significant actors that cannot make a significant change in the world, thereby pursuing their own modest agendas and hoping to remain under the radar in the era of emerging Great Power frictions. In the process, they have remained at least rhetorically consistent in their alignment with the EU and the United States, while at the same time attempting to take advantage of various opportunities stemming from their relations with China. Over time, however, they have become more cautious, as tensions between the West and China have intensified, and the geopoliticisation and ideologisation of relations with China have extended to the (semi)peripheries as well, making things more complicated for pragmatists. It is important to note that, while China is becoming ever more ambitious globally, in Southeast Europe it has not reciprocated the confrontational »wolf warrior« rhetoric, as seen for instance in Sweden or France.

The American and European approaches to China are substantially different, and thus have different ramifications in Southeast Europe. Since 2017, the United States has formally treated the rise of China as a national security threat, and stands for comprehensive and even »extreme« Great Power competition. Such sentiments have only intensified during the Covid-19 pandemic. Moreover, China has also emerged as a security concern for NATO. The EU position, while increasingly tough on China, is more nuanced (although rather ambiguous), defining China as a partner, competitor and rival across different fields, with engagement still being seen as a way forward. At the same time, the United States and the EU have different types of leverage in Southeast Europe. The United States, being the primary security guarantor of the region, and framing SEE–China relations primarily in security terms, has alarmed Southeast Europe about the perceived dangers of closer relations with China, presenting the region with a clear choice between »freedom« and »autocracy«. The EU, on the other hand, speaks a language derived from its distinctive form of institutionalism, calling for more cohesion between the governments in the region (and beyond) and Brussels, trying to bring EU member countries onto the same page when it comes to dealing with China, while making foreign policy alignment a priority for candidate countries in the enlargement process. Finally, while the EU has been adopting an ever sharper rhetoric towards China, compared to the United States it has to date instigated far less escalation in the policy domain.9

9 I am grateful to Antonina Habova for her remarks on this point.
10 I am grateful to Vasilis Trigkas for this observation.
In itself, Chinese engagement in Southeast Europe has had limited impact on attitudes and perceptions on strategic issues. In the Western discourse on perceived Chinese influence in Southeast Europe, one key question has been the issue of the South China Sea. Any kind of political support for, or rather lack of condemnation of China’s positions on issues such as the South China Sea on the part of SEE countries has been interpreted as the outcome of China buying influence in the region. Over the years, however, two countries have diverged from US and EU positions on the South China Sea, namely Serbia and Greece (a third in the wider region is Hungary). Importantly, however, in both cases the South China Sea stance has been based on the principle of sovereignty (as Serbia has the Kosovo case and Greece has concerns over Cyprus) rather than on purely transactional logic. It has also mostly manifested itself as a rejection of criticisms of China on the issue, rather than as open support. Even this is subject to change in the newly emerging situation, however. For illustration, Greece, which is heavily reliant on the US security umbrella, has adapted its stance over the years (Trigkas 2021). Today, we see similar developments when it comes to the issues of Xinjiang and Hong Kong: apart from Serbia, Greece and Montenegro, the other SEE countries participated in the Joint Statement led by Germany on the »Human Rights Situation in Xinjiang and Recent Developments in Hong Kong« at the United Nations (Auswärtiges Amt 2020). The Balkan societies have little to no debate or activism on human rights in China, but their governments do seem in alignment with current opinion.

In other areas, Western actors’ reactions have been anticipatory. For the United States, Chinese involvement in developing SEE infrastructure has been particularly significant; in American discourse this is highly securitised. After the investment in the port of Piraeus, authoritative US voices rang the alarm bell about China’s endeavours to acquire more ports in the region. A Ningbo-Tianjin consortium had set its sights on the port of Rijeka, which was supposed to be the next landmark maritime connectivity project in Southeast Europe. Nevertheless, strong pressure from the United States (and the EU) probably played a role in postponing the tender, as the Chinese consortium submitted a much more favourable bid (Šelo-Šabić and Rumeau 2021). Again, however, there is a qualitative difference between the EU and the United States. Unlike the United States, which has seen infrastructure investments as potential moves on the global strategic chessboard, the EU has been primarily concerned about principles and norms, as well as new pathways of intra-European economic competition stimulated by the inflows of Chinese capital (Gotev 2017).

A much more pronounced securitisation approach has been visible in the field of digital infrastructure, in particular the development of 5G networks, with the United States again playing a more visible role than the EU 5G Action Plan. As a result of the US push, Huawei has been excluded from the construction of the 5G core networks in most of Southeast Europe, despite being deeply embedded in the region and considered economically the most viable vendor, and a potential investor and actor in the technological upgrading of the region. Greece, Croatia, Bulgaria, Albania and North Macedonia have restricted the access of ‘untrusted’ vendors (Greece and Croatia have already contracted Ericsson); Serbia, while having advanced cooperation with China in various digital domains, committed to coordinating with the United States with the Agreement signed in Washington DC in 2020. In this domain, the role of Southeast Europe was similar to one of the diplomatic »proxies« that have taken the US side in the global tech tug-of-war.11

The response of the United States and the EU to China in Southeast Europe, however, has not only comprised criticism and restrictions. They have also adapted their own strategy toward the region, altering the »carrot«. The Americans initiated the Three Seas Initiative, for example. While Southeast Europe is not its focal point as such, Croatia was a co-initiator, and Bulgaria is also part of it. The United States has enhanced its relations with Greece as well, largely to offset uncertainty in the Eastern Mediterranean. In terms of its global strategy to counter China’s infrastructure construction endeavours, the United States has revamped its overseas development arm (now known as the International Development Finance Corporation), which opened its first and only overseas office in Belgrade in 2020. The EU has focused primarily on the candidate countries, boosting its Berlin Process, while also launching other instruments aimed at reinforcing the commitment to EU enlargement (Pavlíčević 2019).

However, the EU’s position when it comes to dealing with China (as well as on a number of other issues) is challenged by the uncertain future of the enlargement process in the Western Balkans. This is considered a strategic priority not only for the candidate countries themselves, but also for Greece, Croatia and Bulgaria (and a number of other EU member states). Thus, cooperation with China is often framed as filling the void left by the EU in the region. This is perhaps also a key reason why the United States, rather than the EU, has been the more convincing Western partner in shaping China policy in Southeast Europe over the past few years.

Overall, the combined external pressure of the United States and the EU have affected how SEE elites approach China. The openness towards cooperation exhibited by these elites in the past has, over time, given way to a less enthusiastic and more calculated approach (Vangeli 2021b). Importantly, the countries of the region still do not happen to share the same concerns as those of the United States or Western Europe (Habova 2021). This in turn makes adjustments in their China policy a sort of a compromise rather than a change of heart, in line with their self-identification as followers who need to adjust to the dynamics of global politics. This then implies that SEE countries will not cease to seek and take advantage of opportunities to cooperate with China, but will do so very much under the radar, avoiding getting embroiled in great power skirmishes.

11 I am grateful to Antonina Habova for her remarks on this point.
TURNING CHALLENGES INTO OPPORTUNITIES – AND THE LIMITS OF DOING SO

The arrival of China in Southeast Europe cannot be separated from the post-GFC context within which it took place. Looking at the future in the short to medium term, by the same token, one cannot separate the future role of China from its new context, namely the next stages of the Covid-19 pandemic and the post-pandemic recovery. Even prior to the pandemic, the Western Balkan economies were already in bad shape, facing the long road to convergence, whereas Greece has suffered in the aftermath of the GFC, and Croatia and Bulgaria have been at the bottom in the EU. The road to prosperity for all of them will be steeper after the pandemic.

China, on the other hand, has so far been faring quite well during the Covid-19 pandemic, and it is expected to further solidify its position as an engine of the global economy. While so far China is still way behind the EU on the list of economic partners of SEE, it may easily gain a more prominent position in the post-Covid era (although not displacing the EU). As shown throughout this paper and in the national reports, individual large-scale investments or projects can have quick and tangible effects in the small SEE economies. Throughout the region, China is still seen as a potential partner, through the prism of contributing to regional development, and there is a sense of openness, although this is not without significant caveats.

For one thing, while creating an urgent need for rethinking various alternatives in terms of economic cooperation, the pandemic heightens the sense of uncertainty and insecurity, which despite all their dissatisfaction with their strategic partners, would mean that SEE countries would not risk harming relations with them. The EU and the United States want to see SEE countries align more with their positions, and care more about the same issues they care about (such as human rights). The message is that now foreign policy, and in particular relations with China, is highly sensitive; increasingly, the message from Washington and Brussels is that it needs to be developed in coordination with other strategic partners worldwide. In other words, the US and EU position implies that SEE countries cannot eschew their strategic commitments.

However, such fine tuning of the SEE positions on China raises the question of the extent to which SEE countries can cherry pick which aspects of China they want and which ones they reject, and at the same time expect more fruitful cooperation. A tougher attitude towards China does not automatically lead to a worsening of economic relations. But it would take crafty diplomatic endeavours to avoid any escalation (the risks of which are much higher in the era of China’s «wolf warrior» diplomacy). While the sharp edges of China’s rising power are not yet being felt in the region, they may appear sooner or later, especially if countries in the region push harder against it.

At the current juncture, it thus seems that the best course of action for SEE countries in the short term is to become more proactive when it comes to relations with China: re-haul the overall approach so that it would be aligned primarily with the positions of the EU, while pursuing cooperation in areas that are not sensitive, and in line with their own developmental priorities. Furthermore, the debate in Southeast Europe should not only revolve around the dilemma of «how much China» will be considered acceptable post-pandemic. The question of the quality of cooperation and impact should take precedence. This goes for continuing the existing cooperation in infrastructure development, and Chinese FDI flowing to Southeast Europe. Having drawn red lines regarding dual-use projects and technologies, and clearly delimiting the scope of areas considered more sensitive than others would be the first steps before any attempt to funnel Chinese capital into the region. Drawing lessons from previous instances of cooperation is another imperative before venturing into new projects.

In the long term, Southeast Europe needs a breakthrough in novel areas of cooperation with China. One policy area in which the region and China could cooperate – one which is obviously safe and desirable, and for the moment remains underexplored – is green technology and renewable energy. While China is pushing for a green transition at home, and promotes the narrative of a Green Silk Road globally, its recent track record in energy cooperation in Southeast Europe has been less than stellar, as the focal point has been thermal power plants in the Western Balkans, with projects in renewables being on the margins of cooperation. However, such cooperation has solid foundations and already has successes to build upon. Long before Belts, Roads and geopolitics captured the geoeconomic sublime of SEE-China relations, China completed the Kozjak dam and hydropower plant in North Macedonia in 2000. Recently, the Chinese SOE Norinchоко acquired a dominant share in Energija Projekt in Croatia, and will be working on the Senj Wind Farm, a milestone for Croatia but also China in the region (Šelo-Šabić and Rumeau 2021). Creative thinking can move beyond the conventional boundaries: Trigkas (2021) muses that if European car makers can turn Greek islands into electric mobility hubs, maybe Chinese electric vehicle manufacturing giants can follow suit? Perhaps, green energy and technology is where tripartite cooperation with other European countries can be explored. Moreover, by emphasising green energy and renewables, Southeast Europe and China would inevitably start to deal proactively with climate change as an important strategic and security issue – something that is not yet the case. The wildfires that swept the region in the summer of 2021 shows that climate change needs to be discussed and prioritised in all aspects of one’s international interactions. A prospective SEE-China dialogue on climate would be in accord with the interests of the EU, as China is primarily considered a partner in tackling climate change.

Local voices also have expressed interest in more prosaic areas of cooperation. There is an almost universal desire for more Chinese tourists in the region – to achieve this, some countries (such as Serbia and BiH) have adopted visa-free re-

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12 For example, while Montenegro’s size makes it hard to generalise, its experience is telling: in 2020, China became the top investor in Montenegro (Kajosevic Balkan Insight).
gimes (or as in the case of Montenegro, facilitation of visa and entry procedures), while others have been also contemplating measures in that direction. With the advent of the initiative to relax border-crossing rules between Serbia, North Macedonia and Albania, there are new possibilities for pooling resources in an attempt to attract Chinese tourists. On the other hand, tourism has been dramatically transformed by the Covid-19 pandemic, with international travel plummeting and China shutting its borders, affecting the movement of Chinese tourists, who comprise the largest population of international travellers in the world. Adjacent to tourism, SEE countries could expand their cultural cooperation with China, with the focus on building knowledge and understanding. Greece is already leading in this area, as like China it is a partner country in the forum of Ancient Civilisations, and is looking to build on that further. There are examples in the region of successful cooperation in cultural heritage management and digitalisation.

However, the prospects of the development of any sort of SEE-China cooperation in isolation from broader Europe-China relations are not as nearly as bright as they could be if SEE-China cooperation could be further «Europeanised». While aware that it may be an uphill battle, SEE countries want to see China and the EU (and potentially the United States) working together, rather than incessantly competing and, as the case may be, presenting the region with difficult choices. To stimulate any kind of dialogue on that matter, SEE elites need to reframe the language they use; after all, infrastructural development cooperation has a direct impact on transnational supply chains (and developed infrastructure benefits businesses) (Gruebler 2021). They could also push to restore cooperation programmes, such as the EU-China Connectivity Platform, which has been dormant for the past couple of years. Countries in the region are active stakeholders, and some, such as Bulgaria, have participated in its development (Habova 2021, p. 1). By assuming a pro-active role in the pursuit of tripartite cooperation, or at least dialogue, SEE countries could work on their potential role as bridges/translators rather than as passive followers, although the extent to which both the EU and China would welcome Southeast Europe in such a role is debatable.

Finally, SEE countries do not look exclusively towards the EU and the United States when thinking about future prosperity, but also to each other. Even though there are a number of unresolved questions in Southeast Europe, there have been regional initiatives over the years. For example, there was Varna 4 (Serbia, Bulgaria, Romania and Greece), which lost momentum. Nevertheless, with the Prespa Agreement of 2018, new opportunities for linking North Macedonia and Greece emerged. The recent Open Balkans (formerly Mini Schengen) initiative proposed by Vucic, Rama and Zaev is an important development. It aims to advance the economic integration of the Western Balkans, even though lacking political support from other countries and still seen as a way to compensate for stalling EU integration. The regional scale could shift the SEE mentality from its usual focus on attracting Chinese capital, to thinking proactively and ensuring that such cooperation proceeds. Could trade relations be fixed by boosting regional coordination? China’s demand for all sorts of products, for example, in the food sector, is so great that it makes more sense for various SEE countries to collaborate than to compete with each other.

**CONCLUSIONS**

What makes SEE-China relations distinctive? It is not so much the material impact of the cooperation, but rather the sense of possibility that China inspires. At the agenda-setting level, China has managed to shift the discourse on SEE towards economic development, thereby also contributing to a shift among stakeholders from Washington and Brussels, who now also increasingly see Southeast Europe through the prism of connectivity. On the practical level, taking into account the particular normative blueprint upon which Chinese companies operate, this has implied some kind of return to the state, with all side-effects it entails. Perhaps in some instances China has demonstrated more trust in the SEE states than exists among the people of the region. In some cases this has benefited China, but in some cases it has backfired – states are often incompetent, or undergo turbulent periods during which they are de facto paralyzed. However, where Chinese initiatives have encountered centralised power and political resolve, there have been successes. Serbia is a case in point. The EU has been agitated by China’s different ways of doing things, but China’s normative model has obvious limits, and moreover, China itself is on a steep learning curve, adjusting whenever possible (as its experience with the Pelješac Bridge in Croatia shows).

Looking to the future, the role of China in Southeast Europe can obviously not be downplayed. Because China is here to stay, engagement is indispensable. For the time being, this engagement will have to take place in a relatively narrow space, delimited by global political developments and in a manner that will not hurt the Balkans’ links to its strategic partners. This means that SEE countries themselves will need to shape this space. Already, some countries in the region have started to pursue a low profile approach in their relations to China. It is painfully obvious, however, that domestic change is needed much more than any external measures. These countries lack long-term strategies and capacities to engage in cooperation in accordance with principles of good governance and in such a way as to benefit a wide array of societal stakeholders. It is against this background that we must ponder the future of relations between Southeast Europe and China. Can the countries of the region develop a China policy able to take advantage of the opportunities, while at the same not antagonising the United States and contravening EU strategic priorities, principles and norms? To this end, SEE governments need to participate in global debates, develop sound China expertise and embrace their capacity to act on the world stage.
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THE ROLE OF CHINA IN ALBANIA

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The emergence of non-Western powers such as China on the global and also regional stages has worried the EU and the United States. The Western Balkans are not immune to such developments. On the contrary, weaknesses on the part of the EU institutions in meeting emerging challenges, on one hand, and repeated delays to the EU accession process and the lack of a realistic road map for convergence between the Western Balkans and the EU, as argued by Shopov (2021), continue to create openings for third actors.

Even though, in economic terms, the EU’s position in the region is unrivalled compared to China’s, in recent years the latter has increased its investments in the region, now ranking among the top three investors. In other words, while the EU is still by far the most important partner, China has managed to surpass other traditional partners of the region, such as Russia and Turkey. It is precisely these developments that have raised the concerns of the EU and the United States.

Beijing has built a regional platform known as »16 + 1«. This platform aims to intensify and expand cooperation with 12 EU Member States and 5 Western Balkan countries. China’s investments focus mainly on infrastructure: construction of highways and bridges, increasing energy capacities and use of seaports.

Beijing has exploited the geopolitical ambivalence of many Western capitals, grasping opportunities to invest in strategically important sectors that arise from the persistent development gap between the Western Balkans and the EU, as well as the region’s lack of sustained political and economic convergence with the bloc.

Trade (and investment) between China and Albania has been the focus of a number of important ad hoc intergovernmental commissions. In an attempt to revive the successful cooperation of the 1970s and 1980s, the Joint Intergovernmental Economic and Trade Commission was set up in 1989. It is an important body for economic and trade cooperation between the two sides. Since then there have been nine high-level meetings focused on economic exchange, with latest held in Ningbo in 2018 at the 9th Session of the Joint Economic Commission between Albania and China (the 8th session had been held in Tirana in 2014). Through these meetings, concrete cooperation has been fostered in important areas including the processing industry, agricultural products and cooperation in the tourism sector. At the same time, efforts have been made to boost cooperation in the infrastructure and energy sectors to consolidate uninterrupted economic and trade relations between the two countries to their mutual interest and benefit.

Thanks to these collaborations, Chinese investments have enjoyed significant growth the past decade. In 2016 China ranked third in terms of the volume of trade with Albania (with 7.1 per cent of the total after Italy and Germany), up from fifth place in 2012. The weight of imports from China has continued to grow over the past five years, reaching 8.8 per cent in 2016 from up 6.4 per cent of total imports in 2012. Meanwhile, exports to China increased by 29.7 per cent from 2012 to 2016, supported by the increase in exports of minerals and oil and of construction materials and metals (Zweers et al., 2020).

This growing trend was also observed in the succeeding years. In 2019, exports to EU countries accounted for 76.6 per cent of total exports, and imports from EU countries accounted for 63.9 per cent of total imports. In detail, the various countries ranked as follows: Italy 34.4 per cent, Greece 7.5 per cent, China 7.4 per cent and Turkey 7.2 per cent. The highest growth in comparison with the previous year was achieved by Turkey (+14 per cent), China (+11 per cent) and Greece (+4.3 per cent); while the countries whose imports fell the most are Italy (–6.3 per cent), Germany (–6.2 per cent) and Russia (–8.2 per cent) (Musabelliu, 2020: 2). These data indicate an increasing trend in relation to China, which is Albania’s second ranking second trade partner after the European Union, with 8 per cent of total trade volume.

According to INSTAT data, imports from China are dominated by electrical equipment, sanitary goods and machinery, which make up about 40 per cent of the total worth over 23 billion Albanian lek (ALL) (188 million euros). Iron and steel commodities constitute the third most important group from China at ALL 4 billion (31.7 million euros), up 70 per cent on the previous year. Clothing is the fourth most imported product from China for the Albanian market, worth ALL 5.2 billion (42.5 million euros), up 17 per cent on the previous year, plastic parts were estimated at ALL 2.1 billion (17.18 million euros) or an annual increase of about 13.4 per cent by 2019,
and Chinese furniture imports reached ALL 2.3 billion (18.81 million euros) with an increase of over 8 per cent compared with a year before. Also important were furniture, beds, mattresses, lamps and lighting equipment.

Another interesting difference with some of the countries in the region is that Chinese investments in Albania have been carried on through indirect acquisition of the shares of Albanian companies. Meanwhile, in Serbia, Montenegro, Northern Macedonia and Bosnia and Herzegovina most of the activities of Chinese companies are supported by large government subsidies and state-owned banks.

Regarding the Albania-China agreements, about 38 economic agreements have been signed between the two countries, mainly in the fields of energy, infrastructure and exploitation of natural resources (Qoku, 2020). As China is Albania’s second largest trading partner, Chinese companies have shown an interest in strategic sectors within the framework of China’s «One Belt, One Road» strategy. In 2016, Bankers Petroleum announced the sale of Geo-Jade Petroleum oil exploration and production rights at a price of 384.6 million euros. This was despite the fact that Bankers Petroleum had started to exploit the oil resources of Patos-Marinza and Kuçova in Albania in 2004, becoming one of the largest foreign companies in Albania. In addition, the Chinese group will have the right to manage the airport until 2025, with a two-year extension until 2027. An important aspect of promoting trade exchanges between China and Albania is the swap agreement, signed in September 2013, between the Bank of Albania and the People’s Bank of China for local currencies, up to a maximum of 2 billion yuan (35.8 billion ALL). The swap agreement provides an opportunity for central banks to access the other party’s local currency. This provides incentives for bilateral trade and direct investment in economic development, supporting the two countries’ financial stability. Because of such investments, «from 20 million USD in 2014, Chinese investments have now reached more than 800 million USD, making China one of the main sources of foreign investment in Albania» (Xhepa, 2020:1). These agreements indicate an increased presence of Chinese investments in the strategic sectors of the Albanian economy. However, Albania still lags behind compared with other countries in the region.

The aspect of China’s economic ties with the region that has drawn most international attention is not trade or direct investment, however, but rather loans for infrastructure construction and energy (Zweers et al., 2020: 14). Some Western Balkan countries, unlike Albania, have experienced a significant increase in loans for infrastructure construction and energy. This reflects the low investment in infrastructure and energy in Albania compared with other countries in the region. This can be interpreted as a sign of caution on the part of the government, anticipating the risks posed by investments in the form of loans. One instance is the financing of the Bari highway in Montenegro, which has increased the national debt to 80 per cent. However, for some experts, the lack of investments is explained by the fact that Albania has not had any serious certified road or rail infrastructure projects that it can present to Chinese investors or financiers. Worst of all, it does not invest in certified projects. Even if there is a certified project, it does not mean that the project would be profitable. These projects are generally not profitable, so financiers require sovereign or traffic guarantees. No government in the Western Balkans has the budget space to offer sovereign guarantees, while Greece and Croatia (EU countries), because of their budget methodology and traffic guarantees, are able to provide sovereign guarantees up to 100 per cent. The outlook for such Chinese investments in the region is thus not promising. The European Commission could find a solution to this impasse. By classifying some Balkan infrastructure projects in the TEN-T Core Network, the EU will support them financially. To benefit from the Silk Road Corridor, Albania needs to lobby the European Commission for support for the Adriatic Corridor (extension of the Med Corridor, railway and highway). If the European Commission suggests to the Chinese government that the Silk Corridor should be in the Adriatic Corridor (Med Corridor), this would be a great achievement for Albania, as it brings it into the intercontinental trade corridors. According to Selenica, Executive Director at the Albanian Centre for Strategic Studies, Chinese investments in infrastructure could be made in Albania only within regional projects; there is no chance of pursuing only local projects because they are not profitable.

In some cases, however, Chinese investors have expressed interest, for example, in one of the projects classified as strategically important for Europe until 2031, namely the Adriatic-Ionian Highway. The Chinese Exim Bank proposed a project-idea to the governments of Croatia, Montenegro and Albania for the construction of the highway along the entire Balkan axis up to the border with Greece. As for the Albanian part, the work would cost a total of 1.4 billion euros, 50 per cent cheaper than the official feasibility study. But the Albanian government did not accept the Chinese offer, which was expected to bring extraordinary development to the country.

According to some experts, EU pressure to beware Chinese investment explains the government’s refusal. As economist Selami Xhepa rightly states: «Today in Albania, domestic trade policies are in line with EU trade policies. In this view, there is no doubt that any political commitment that Albania can undertake in the economic and trade fields should be coordinated with the EU because this is the process we have become part of» (Xhepa, 2020). The risk of Chinese investments lies in the fact that, unlike the EU, the Chinese have financed projects that have not yet matured.

The EU has warned the Balkan countries that, although of course every sovereign state has the right to choose its partners and investors, on the other hand, if they want to make progress in the EU integration process, they must respect the high standards of the bloc, including those for major infrastructure projects. Albania, which seeks to open negotiations with the EU and is waiting to hold the first Intergovernmental Conference with the EU, has been inclined to take the EU’s position into account. This has made it possible for Albania to get involved in small projects, although not large infrastructure projects, despite the fact that Tirana is an active
participant in summits in the region. There has been talk of a Chinese investment of 10 billion dollars, but Albania has benefitted little so far.

Energy is an investment priority for Chinese companies. Nevertheless, Albania has not been able to attract the interest of Chinese companies in this area. According to the Executive Director of the Albanian Centre for Strategic Studies, Albania has geostrategic concerns and therefore does not want to introduce Chinese investments in energy (Selenica, 2015). The privatisation of strategic sectors thus depends primarily on the degree of interest of our strategic partners the United States and the EU. According to Prime Minister Rama (2020), «in view of its strategic interests, Albania is a strategic ally of the US and the EU», especially when interest is expressed by the latter. In this case the United States has indeed shown an interest in the energy sector. Additionally, a 2020 US-Albanian memorandum of understanding set the stage for increased economic cooperation between the two countries. Following the signing of this memorandum, US companies signed investment deals on two major energy projects in Albania: the Skavica hydropower plant and the Vlora natural gas power plant (Papa, 2020:1).

In addition to increased interest in investing in the energy sector, the United States is also concerned about security in the region and beyond. It is not without reason that it has consistently opposed the increased presence of China’s strategic investments in the region. Opposition to the 5G network is one attempt to limit this influence. The United States has also warned that the exchange of intelligence information with NATO partner countries could be compromised if these countries entrust the construction of 5G networks to third parties, such as China. Furthermore, Albania joined Clean Network, an initiative launched by the Trump administration that has continued under President Biden. Its aim is to construct safe 5G infrastructure and establish data privacy standards, and to counter China’s dominance of the 5G market. US Secretary of State Antony Blinken and Albanian Prime Minister Edi Rama reaffirmed Albania’s commitment to safe 4G and 5G networks by signing a memorandum of understanding in Brussels at the June 2021 NATO summit.

China is well aware of the influence of »soft power«. To this end, it has significantly increased its cultural presence in the Western Balkans (Tonchev, 2020: 24). In the past few years there has been an increase in China’s media presence in Albania. For instance, between 2016 and 2019, the number of stories related to the Belt and Road Initiative (BRI) published in Albania jumped from 42 to 194. The international report Global Power Shifts published by the Konrad Adenauer Foundation (2021) highlights China’s growing influence in Southeast European media, including Albania, as well as its expanding presence in the economic, political, social and cultural life over the past decade. In the same report, the section on Albania emphasises that the greatest influence is evidenced in public media, such as the Albanian Telegraphic Agency (ATSH) and Albanian Radio Television (RTSH), which have signed cooperation agreements with their counterpart agencies in China (Konrad Adenauer Foundation, 2021).

In this context, in 2013 a Confucius Institute was established at the University of Tirana, to promote the Chinese language. Chinese is now offered as an elective course at five universities in Albania. Also in 2016, a five-year cooperation agreement was signed between the two countries. Thanks to this agreement, the translation of 25 books in the two languages is being financed. The agreement includes collaborations and participation in festivals in various fields such as theatre, film, dance, visual arts, music, circus, and other cultural activities. The agreement also extends to cultural heritage. The two respective ministries are committed to cooperation between Albanian and Chinese institutions for the protection and preservation of cultural heritage.

This communication strategy has had a positive impact on improving China’s image among Albanians. We can refer to two opinion polls. According to the Albanian Security Barometer 2020, even though China is an »external actor«, as opposed to the countries of the Euro-Atlantic Alliance, it is seen as having a positive impact on Albania’s security by a growing percentage of citizens (Dyrmishi, 2021: 55). As regards the question «how do you view China’s influence on our country’s security?» the percentage of respondents who think that China plays a neutral role dropped by 37.5 percentage points, while those who think that China has a positive influence increased by 31.4 percentage points. There was also an increase of about 17 percentage points in the number of those who think that China has a very positive influence and a significant decline in the number of those who think China has a negative influence (Dyrmishi, 2021: 56). These data show that the risk of a potential security threat from China in the region and specifically in Albania, as trumpeted by the EU and the United States, is not perceived this way by the Albanian public. There is a contradiction between the alerts issued by strategic partners such as the United States and the EU, and public perception of this risk. This means that the warnings made by the high representatives of these countries have not drawn enough attention. Furthermore, the Albanian government has not paid enough attention to the issue and China’s soft power strategy has yielded positive results. All three points may be valid and an in-depth study is needed to analyse the implications of each variable.

Certainly, these data positively influence the business climate for Chinese companies. In terms of strategic investment, however, the EU and the United States are crucially important for Albania and so the opportunities to benefit from Chinese investment are limited. Despite the great need to attract Chinese investment in various sectors, the pressure from strategic partners overrides it.

CONCLUSION

Albania gives the impression that it is pursuing a foreign policy open to alternatives, like every other country in the Western Balkans. In the case of Albania, however, this strategy can be viewed as subject to a number of reservations. When it comes to strategic investments, pressure from the EU and the United States can be strong. In Albania, decisions related
to strategic sectors are taken only with the blessing of its Western partners. For this reason, according to economic expert Adrian Civici, «Albania is still not included in a realistic and integrated way in the philosophy of the One Belt, One Road project» (2020:1).

Regarding the EU presence in Albania, its impact is explained by Albania’s integration process. In 2014 Albania requested the opening of negotiations for EU membership. In this context, the recommendations and messages sent by senior EU representatives on the increased risk of Chinese investments in Albania influence the Albanian government’s attitude to Chinese offers. US influence in Albania is paramount as the country is considered its most important strategic partner. This is mentioned in every strategic document. Also, opinion surveys conducted over the years indicate that the United States is perceived by the public as the friendliest country for Albanians. However, various Chinese companies are increasing their interest in investing in Albania, in common with other countries in the Western Balkans. Experts think that Chinese companies have obvious advantages over Western investors: first, they are backed by large government subsidiaries and state-owned banks; second, they are willing to build at low cost, regardless of environmental or social standards. Under these conditions, limiting China’s expansion in the region becomes difficult. In this complex situation, countries such as Albania are tempted to accept Chinese offers even in the face of pressure from strategic partners such as the EU and the United States, notwithstanding warnings about threats to financial and security stability.

Albania is at a crossroads between the need for investments and its geostrategic interests within its partnerships with the EU and the United States. It has chosen to partner with the Western bloc. These partners will not invest in strategic sectors, however, unless Albania meets certain criteria, such as a free market, the establishment of the rule of law or market formalisation. The hope is that this dilemma will be solved in the coming years.

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THE ROLE OF CHINA IN BOSNIA AND HERZEGOVINA
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GENERAL OVERVIEW: RELATIONS AND PERSPECTIVES

Bosnia and Herzegovina (BiH) and the People’s Republic of China have developed fundamentally friendly and stable bilateral relations, which are constantly improving in all areas of activity significant to both sides. BiH has a strong foreign policy interest in the progressive continuation and improvement of political, economic and all other relations with China.1 The importance BiH attaches to this is highlighted by the significant number of high level visits.

The Chinese government applies the »Five Principles of Peaceful Coexistence« as the basis for all its international affairs and diplomatic activities. Chinese foreign policy2 toward BiH is based upon these principles:

– China respects the independence, territorial integrity and sovereignty of BiH;
– all ethnic groups in BiH must be guaranteed equal rights;
– all disputes should be resolved through dialogue and peaceful negotiations;
– the efforts of the international community in BiH must be directed towards peaceful, just and rational solutions for all.

Bosnia and Herzegovina’s foreign policy toward China adheres to the principles of non-interference and One-China. The BiH authorities recognise the Government of the People’s Republic of China as the only legitimate government of China, and Taiwan as an inalienable part of Chinese territory.3 In practical terms, this means that the BiH authorities will not take part in or support any activities that would recognise Taiwan’s independence.

China’s motivation to establish a normative presence in Bosnia and Herzegovina is founded upon its recognition of what China considers to be »normal« in its international activities. The Chinese vision of sustainable economic growth, territorial sovereignty and national reunification, as well as opposition to external interference, are at the core of its domestic policies, and they are also projected internationally. China’s presence in BiH indicates its willingness to maintain mutually beneficial relations with BiH through cooperation, instead of seeking hegemony. Chinese industrial development is slowly expanding beyond the traditional Chinese markets abroad, and smaller countries, such as BiH, will not contribute significantly to the overall expansion paradigm, but will help China to establish a stronger foothold in Europe.

A »NO-STRINGS-ATTACHED« APPROACH TO SINO–BIH RELATIONS

BiH’s political and economic ties with China have developed far more slowly over the past 26 years than, for instance, Sino-Serbian relations.4 China has shown its support for various peacekeeping missions operating in the country over the years, and it has pledged its help to BiH in the post-conflict reconstruction phase on many occasions, although fairly limited aid has been provided to that end.

China’s role in BiH, as an investor or otherwise, has advanced and accelerated quickly in the past decade. Bilateral trade volume with BiH in the pre-pandemic period peaked at 700 million euros (€) (Peragovics and Szunomar 2021). The value of BiH imports from China in 2019 amounted to over €540 million, while exports from BiH to China remained at a negligible €30 million (BiH Foreign Chamber of Trade 2019). The appeal of a Chinese presence in Bosnia and Herzegovina is economic cooperation, mostly involving private companies.

1 The People’s Republic of China recognized Bosnia and Herzegovina on 3 April 1995, when diplomatic relations were effectively established. The Embassy of the People’s Republic of China in BiH was officially opened on 19 March 1997.
2 China has demonstrated its readiness to improve friendly relations with BiH, in line with the five principles of its own foreign policy, which include: mutual respect and mutual cooperation; involvement in cooperation on the basis of equality and equity; resolving disputes through dialogue and negotiations; refraining from imposing sanctions, using force and restrictive policies; and mutual non-interference in internal affairs.
3 Joint Statement, 3 April 1995. China constantly reminds BiH of the danger of establishing any official ties with Taiwan, except for economic cooperation, mostly involving private companies.
4 Other key Chinese investments in the Western Balkans include, but are not limited to, Europe’s largest onshore oil field in Albania; two major highways in North Macedonia and Montenegro; and mines, steel mills and tire factories in Serbia. Chinese companies are present in Serbia in various large infrastructure projects, and in Croatia they are constructing the Pelješac Bridge, which connects two geographically separate parts of Croatia.
connected to their «no-strings-attached» policy approach, which significantly relaxes tensions among local political elites, who have expressed a sense of strong and long-lasting fatigue caused by the EU conditionality pressures to deliver reforms. This does not necessarily mean that Chinese political and economic interests in BiH are mutually exclusive. They are, as a rule, intertwined.

The agreement on the abolition of visas for holders of ordinary passports, signed between the two countries on 27 November 2017 (entering into force on 29 May 2018), has also contributed to a significant increase in the number of Chinese tourists visiting Bosnia and Herzegovina, as well as the Western Balkans region as a whole. This has created a political connection and a strong basis for the development of relations, especially through direct connections. It has also generated the prerequisites for initiatives in other areas of interest. The growing presence of Chinese companies and tourists throughout Bosnia and Herzegovina indicates an additional demand for increasing knowledge of the Chinese language and the «Chinese way of doing business», as well as traditional and modern Chinese culture.5

Bosnia and Herzegovina is a fragile post-conflict economy, desperate for foreign direct investment and other types of investment to boost its growth and expand its markets. China is furthering its economic presence in Bosnia and Herzegovina primarily in large infrastructure projects, similar to those elsewhere in the region. For instance, the Chinese State Construction Engineering Corporation Limited is building a section of Corridor 5C,6 and it has recently been decided that it will be directly involved in the reconstruction of the tramline in Sarajevo.7 Such an influx of money can provide an easy exit from the current financial gridlock with which local authorities are battling.

However, most of the high-profile investment projects are funded through Chinese state-subsidised loans, which can lead to dependence on Chinese financial resources in the long run. Unlike Serbia and some other countries in the region, BiH receives no direct investments from China, and Chinese companies in BiH are financed only through credit lines or public international tenders. Currently no Chinese companies are opening production lines or manufacturing units of any size, and there are no Chinese banks in the BiH market. There are two potential consequences to such an approach. The fear of «debt-trap diplomacy» is slowly evolving among local decision-makers and the general public. Bosnia and Herzegovina currently owes around 14 per cent of its total external debt to China. Another problem is that this debt might generate dependence on Chinese political preferences, and BiH might be pressured to fall in line with China’s positions on important global matters. The development of an economic asymmetry might potentially lead to a political one, and the «no-strings-attached» policy approach might be very counterproductive for BiH in the long run.

In this context, and in contrast to the official state-level positions toward evolving Sino-Bosnian relations, some elites in the entity the Federation of BiH view the growing Chinese presence in the country as ambiguous and their influence as inconsistent with the BiH’s EU aspirations in many areas. BiH has to align its policy agenda in accordance with the EU’s requirements. The perceived «authoritarian tendencies» and political developments in China are being red-flagged more and more often, and accordingly presented as an issue that might jeopardise overall relations between the two countries. The EU is also constantly warning about China’s growing presence and influence on political decision-making in BiH. The official Chinese representatives in BiH have repeatedly stated they have no interest in deteriorating relations between BiH or any other Western Balkans country and the EU, because they would very much like to exploit the growing gateway connectivity between the Western Balkans and other regions in the EU for their own benefit. China characterises its involvement in Bosnia and Herzegovina as a «win–win» approach, helping countries to obtain the infrastructure they need at affordable prices, while making no geopolitical demands. Accordingly, Chinese involvement in no way interferes with countries’ EU accession prospects. In other words, complementarity and close connections with the financial markets of other European countries are deemed beneficial by the Chinese in the long run.

**LOW-HANGING FRUIT IN THE ENERGY SECTOR**

China’s presence is deepening across the entire Western Balkans region, including in Bosnia and Herzegovina. BiH’s exports to China are growing only modestly. Raw materials are the dominant export, chiefly wood and wood products, followed by textiles (Ivančić and Savović 2021). Although the overall value of bilateral trade between China and BiH grew in the two pre-pandemic years (by around 40 per cent), the imperative for the BiH economy is to increase the level of its Chinese exports,8 because the pre-pandemic coverage of imports by exports was only 5.58 per cent (BiH Chamber of Foreign Trade 2021). A Medium-Term Cooperation Programme between China and 16 central and eastern European countries was agreed upon for the period 2015–2020, as

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5 Opening Confucius Institutes at the University of Banja Luka and the University of Sarajevo, and a Department of Chinese language at the Faculty of Philosophy at the University of East Sarajevo, and a Xinhua News Agency office in Sarajevo was intended to aid this endeavor.

6 The construction of the motorway on Corridor 5C through BiH is divided into four geographical areas, from the Croatian border (Svrlaj) to Doboj south (Karule), from Doboj south (Karule)–Sarajevo south (Tarčin), to Sarajevo South (Tarčin)–Mostar North, and finally Mostar North–Croatian border (Bića). The Chinese have already been involved in Corridor 5C, but the project has been carried out on fragmented, miniature sections of the road, which are unconnected. At the same time, Chinese companies are taking the lead on large-scale infrastructural projects, such as the Pelešac Bridge.

7 Many local experts evaluate this approach as extraordinary and as different from Chinese companies’ usual investment patterns because of its low costs, small scale and low profit margin.

8 In September 2018, China’s COSCO shipping line opened its first branch in Sarajevo.
well as the Suzhou guidelines. BiH is fully committed to cooperating within this Agreement, with specific projects in the fields of energy, infrastructure, environmental protection and tourism, among others.

BiH is primarily interested in China’s investments in energy and infrastructure. China has invested considerable amounts of money in building the 450MW Block 7 thermal power plant in Tuzla, which is one of the results of the »17+1« initiative, and currently the most significant investment in the energy sector in BiH. The project is worth around €600 million and is financed by the Export Import Bank of China, with financial guarantees on the investment provided by the Federal BiH entity government. The investor is to be repaid in full within 20 years, with a five-year grace period (EPBiH 2019b).

The Tuzla power plant construction raises many questions, however, related primarily to BiH’s compliance with European energy policies. This might be a major obstacle to BiH’s road to EU accession. Namely, the new coal power plant contradicts EU environmental standards and Energy Community regulations (cf. Energy Community 2019). Nevertheless, local decision-makers seem keen to take up lucrative »no-strings-attached« offers with immediate political gains than far-off financial prospects and demands for structural changes before any benefits are conferred. Local decision-makers in BiH do not deem coal or other unsustainable energy plans as a better solution to their citizens’ problems, but they are rather interested in obtaining the up-front payments to cover their immediate financial gaps (Bakota 2019). For this, and a number of other reasons, the Europeanisation of the energy and environmental sector based on gradual decarbonisation has to some extent been unsuccessful (Bankwatch 2020).

Chinese representatives claim that they do not insist on coal-based projects in BiH; that is what the local governments are asking for. When signing the contracts, the implementing companies from China also require compliance with EU standards, because they are interested in building up their company portfolios and eventually bidding for projects in the EU, where they can manufacture more and make more profit. The success of the construction project phases in Bosnia and Herzegovina, as well as in other Western Balkan countries, serves as a good indicator of their ability to compete within the EU market with other EU-based companies that offer the same technology, but at higher prices.

In addition to the Tuzla plant, the Chinese company Dongfeng, financed by the China Development Bank, built the coal-based Stanari power plant near Doboj in Republika Srpska. The plant was completed in 2016, and it has been developed along with eight others in Serbia and Kosovo. It is a 300 megawatt facility worth around €530 million. A consortium of companies from China designed the power plant, built the facilities, provided the equipment and installed the power plant. All related financial obligations were taken care of by the Chinese side, through a long-term loan. Nonetheless, the RS entity government had to provide a financial guarantee, in case the private investor was unable to meet its obligations (Ciuta and Gallop 2019).

Plans for any future projects in the energy sector might not materialise, because Chinese President Xi Jinping recently announced at the UN General Assembly that China is no longer going to build new coal-fired power plants abroad. As a result, some Chinese banks have declared they will no longer provide financing for new coal mining and power plant projects outside China, starting from the last quarter of 2021.

9 The entire Western Balkans region is planning to increase its current coal-fired energy production capacities by 8.7 megawatts, which is alarming in view of the ongoing climate crisis.

10 The China Gezhouba Group Co. would implement the project, while the financing deal was signed with China’s Exim Bank.

11 The feasibility study for Tuzla Block 7 in Bosnia and Herzegovina assumes that the plant will pay no carbon price until 2034, and that even then it will only be €7.1 per tonne, even though the price is around €25 per tonne in the EU at the moment, and will only go up in the future. It also assumes a price for coal that is lower than the price in 2016. On top of this, the Federal government has approved a state guarantee for a loan from the China Exim Bank, so in case of a financial loss, BiH would have to cover it.

12 The EU side is also constantly flagging the lack of compliance with EU regulations on issuing guarantees on this type of loan, which are contrary to the EU Energy Union’s rules and regulations. Bosnia and Herzegovina, as a member of the Union, faces serious charges and potential membership suspension. Another dimension of misalignment with the EU rules relates to the ecological component of introducing coal-based fuels, which are to be completely banned in the EU by 2050, which is not enough time to make the investment worthwhile for BiH.

13 Some unofficial reports claim that companies closely affiliated to the Republika Srpska entity government were granted the contract for preparatory works on Block 7 in Tuzla, presumably as a condition of getting Republika Srpska’s agreement at the BiH state level to support the loan guarantee for China Exim Bank loans.

14 Most of new coal (ignite) capacity is financed by China, while other international financiers, such as the EBRD or the World Bank, are increasingly divesting from coal-based energy sources.

15 The Pločević–II plant in Montenegro and those planned in North Macedonia are slowly being phased out, while Albania has no coal power plants.

16 The Sinohydro Company signed a preliminary agreement on implementing the project in 2014, for approximately 1.4 billion US dollars ($). The final approval of the Export-Import Bank loan is still pending.
In addition to the economic projects outlined above, there are also divergent tactics in political decision-making related to China and Chinese affairs in BiH. For instance, on 6 October 2020, Bosnia and Herzegovina co-signed a joint statement on the human rights situation in China’s Xinjiang region and developments in the Hong Kong Special Administrative Region. The Chinese Embassy in Sarajevo protested and urged BiH decision-makers on all sides to reconsider it.

On 8 October 2020, Milorad Dodik, one of the members of Bosnia and Herzegovina’s Presidency elected in Republika Srpska, wrote a letter to the chair of the committee of social, humanitarian and cultural issues for the 75th session of the UN General Assembly (2020–2021), and informed her that BiH’s alleged co-signing of the joint statement on human rights in China’s Xinjiang and developments in Hong Kong at the General Debate of the Third Committee of the 75th Session of the UN General Assembly should be considered invalid, as the Presidency of Bosnia and Herzegovina did not reach a unanimous decision on the matter.

Another diplomatic glitch related to human rights violations in China resurfaced earlier this year, at the 47th session of the UN’s Human Rights Council held in Geneva. Diplomatic missions of the United Kingdom and Canada organised an informal meeting to discuss a joint cross-regional statement on China, to call on Chinese authorities to abide by their human rights obligations, to allow immediate, meaningful and unrestricted access to Xinjiang for independent observers, including the High Commissioner, and to urgently implement CERD’s eight recommendations related to Xinjiang, including ending the arbitrary detention of Uyghurs and members of other Muslim minorities. The proposed statement outlined the continued deterioration of human rights records in Xinjiang, Hong Kong and Tibet. The two missions presented a statement to the Council and sought the support of Bosnia and Herzegovina through diplomatic channels. They suggested that Bosnia and Herzegovina, having previously joined the statement at the third UN Committee in 2020, and in accordance with established practice, follows the positions of EU countries in joining the said statement.

Bosnia and Herzegovina eventually co-signed the statement, and the Chinese Embassy in Sarajevo protested this decision strongly and on multiple occasions, urging the Bosnian side to remain neutral and not to interfere in China’s internal mat-
ters. They called for the preservation and application of true multilateralism as the right direction to address today’s complex issues, and a way to effectively address traditional and non-traditional security challenges. This matter was further elevated to higher levels of political engagement of Chinese diplomats. For instance, Geng Shuang, Chinese representative at the UN Security Council in New York, in his remarks made in June 2021 on the current situation in BiH and the election of the new High Representative, urged the BiH side to «abide by the purposes and principles of the Charter of the United Nations, engage in foreign relations in a spirit of friendship and goodwill, genuinely respect the sovereignty of other countries and refrain from interfering in the internal affairs of other countries». Wang Yi, Chinese foreign minister also publicly defended PRC’s sovereignty, security and development interests. He voiced a similar reflection in Beijing, and outlined that China does not interfere in the internal affairs of other countries, does not hinder their development and will not tolerate the interference of any country that can hinder its development. He added that China today is not the same state that it was some 100 years ago, and it will not be weak and divided or subordinated to external forces.

In mid-July 2021, Russia and China circulated a draft resolution that proposes the removal of the so-called »Bonn powers« that the international High Representative can utilise in overseeing the implementation of DPA. The draft endorses the earlier appointment of High Representative Christian Schmidt, but only until 31 July 2022, which would be followed by a definitive closure of the Office of the High Representative in BiH. Russian and Chinese resolutions faced opposition from the United States, and European council members.

Bosnian diplomats assessed statements and resolutions made in the UN Security Council and voiced by the highest Chinese officials as a clear example of Chinese Xi Jinping’s »wolf warrior diplomacy«, by which China demonstrated political influence in BiH and its strong positions against any attempt by foreign states to interfere in its internal affairs.

CONCLUSIONS

Sino-BiH relations strengthened in the couple of years leading up to the global pandemic. Chinese presence in Bosnia and Herzegovina has gradually diversified in the economic and political spheres. But an internal divergence has been developing within the two sub-national entities of BiH, namely Republika Srpska’s (RS) and the Federation of Bosnia and Herzegovina’s (FBiH) approach towards Chinese partners. While the Chinese were interested primarily in advancing their position in BiH through subsidising their own companies to bid and lock down large construction projects (such as coal power plants, highways and the like), their political interloping has also gained prominence recently, primarily through vaccine diplomacy and uneasy diplomatic exchanges on human rights issues before multilateral bodies.

The visible improvements in bilateral economic relations between BiH and China, related mainly to energy capacity-building projects and academic cooperation, have not yet peaked and remain insufficiently structured institutionally. China’s use of a »no-strings-attached« approach, and its economic and political pragmatism in post-conflict recovery and developmental projects is appealing to local decision-makers. Without due consideration of the long-term impacts these cooperation schemata might bring, Bosnian political elites have jumped at lucrative cooperation prospects and created a dependency relationship framework. Entering into the deals without a well-planned exit strategy could be detrimental in the long run, and warrants careful reconsideration of the impacts of each project on the table.

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20 UN Security Council, Seventy-sixth year, 8810th meeting, Tuesday, 29 June 2021, 3.40 p.m. New York City.

21 This approach was popularised during the Covid-19 pandemic, although the appearance of »wolf warrior« style diplomacy among Chinese diplomats had begun a few years prior.
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Against the background of a shifting balance of geopolitical power and growing East–West polarisation in the international system, the countries in south-eastern Europe face the challenge of recalibrating their foreign policy and their relations with China as an increasingly important actor on the international scene.

Bulgaria has its own interests, considerations and motivations for engagement with China. A general overview of bilateral relations, as well as a brief analysis of the challenges and limitations on the further development of relations will allow us to identify any opportunities for successful cooperation with China, at both national and EU level.

SUMMARY OF RELATIONS WITH CHINA SINCE 2009

Bulgaria and China share a tradition of friendly relations. Bulgaria was the second country in the world, after the Soviet Union, to recognise the People’s Republic of China only two days after its establishment in 1949. This historical fact is highly valued in Beijing. It laid solid political foundations for the two countries to develop mutually beneficial relations.

Currently, Sofia attaches considerable importance to its relations with China, which is regarded as a key partner in the Asia-Pacific region. The two countries maintain active political dialogue and exchanges at all levels. The Bulgarian side has consistently supported China on issues related to its core interests. Sofia adheres strictly to the »One China« policy and recognises Taiwan and Tibet as inalienable parts of the People’s Republic of China. Bulgaria has not developed separate relations with Taiwan and there is no unofficial representative mission of Taiwan in Sofia or a parliamentary support group for Tibet. Bulgaria shares the EU’s commitment to promoting and protecting human rights, while at the same time refrains from emphasising that issue in Sino-Bulgarian dialogue.

Bulgaria has positioned itself among the good friends and partners of China within the European Union. Bulgarian leaders have declared their commitment to contributing to the further development of EU–China relations. Thanks to the traditional friendship between Bulgaria and China (despite the vicissitudes of world politics), the common socialist experience and the internationally recognised Bulgarian school of Chinese Studies, among other things, the country has developed considerable expertise in relation to China. With this expertise, it has actively participated in the development of EU policymaking towards China, including in the development of the EU strategy. Bulgaria was one of the countries that presented projects within the framework of the EU–China Connectivity Platform. These projects include the Hemus motorway project and the Black Sea motorway project; restoration of the design parameters of the Ruse–Varna railway line project; modernisation of the Sofia–Pernik–Radomir railway line project; and modernisation of the Karnobat–Sindel railway line project (European Commission 2019).

Sofia supports the Belt and Road Initiative (BRI) and was one of the first central and eastern European countries to sign a memorandum of understanding under the initiative (in 2015). Bulgaria has emphasised that it is ready to explore possibilities for promoting synergies between the Belt and Road Initiative, the 16+1 format, the EU–China Connectivity Platform and the strategy for EU–Asia connectivity.

When Beijing launched the 16+1 format in 2012 as a platform for the development of cooperation between China and the central and eastern European countries, Bulgaria was initially reticent. The country was represented only at the ministerial level at the first two 16+1 summits. The Bulgarian government delayed its initial reaction to China’s increasing interest in the region, but then hesitation was followed by enthusiasm. Bulgaria began to participate actively in the format, trying to take advantage of China’s growing involvement in the region. It sees the initiative as fully in accordance with the EU strategy for the development of EU–China relations and complementary to the comprehensive strategic partnership between the European Union and China.

In 2018, Bulgaria hosted the Seventh Summit of Heads of Government of China and Central and Eastern European Countries (CEEC) following the end of the Bulgarian rotating presidency of the Council of the EU. The country was visited by Chinese Prime Minister Li Keqiang, the first visit for 18 years.

1 The Chinese language learning programme in Sofia University was launched in 1953.
Bulgaria is the host country of two mechanisms of cooperation within the 16+1 format. The first is the China–CEEC Association for Promoting Agricultural Cooperation, set up in 2014. The aim of the association is to strengthen and further expand cooperation between China and the CEE countries in agriculture. In 2018, a 16+1 agricultural demonstration zone was inaugurated in Plovdiv, the second largest city in Bulgaria. A 16+1 Logistics Centre and a Pavilion for E-Commerce of agricultural and other products were also established in Bulgaria.

The second 16+1 mechanism of cooperation established in Bulgaria is the China–CEEC Global Partnership Centre, which was officially inaugurated in 2019. Its aim was to provide policy and legal consultation and expert analyses to governments and to European and Chinese enterprises involved in China–CEEC cooperation. However, the idea has not been further developed and the centre is still not in operation.

The two countries are involved in increasing cooperation in the field of culture and education, as well. The first Confucius Institute in the Balkans was set up in Sofia in 2007. In 2013, it became one of the first 14 Model Confucius Institutes throughout the world. The second Confucius Institute in Bulgaria was inaugurated in the city of Veliko Tarnovo in 2012. The China Cultural Centre, launched in Sofia in 2017, was the first of its kind in central and eastern Europe.

The development of bilateral relations entered a new stage in 2019 when Bulgaria and China celebrated the seventieth anniversary of relations. President of Bulgaria Rumen Radev and President of China Xi Jinping agreed to upgrade relations from a comprehensive friendly cooperative partnership (established in 2014) to a strategic partnership.

Sofia has adhered to its balanced approach to relations with China even since the outbreak of the Covid-19 pandemic. Bulgaria has never joined in the anti-China rhetoric and has cooperated with Beijing in the fight against the virus. The Bulgarian side has refrained from criticising and accusing China over the origin of the virus and from demanding compensation from Beijing for damages. During a phone call between the prime ministers of Bulgaria and China, the head of the Bulgarian government expressed appreciation for China’s offer of support.

In terms of public attitudes, the Pew Research Center Global Attitudes Survey conducted in 2019 shows that a majority of Bulgarians have favourable views of China (Silver et al. 2019). A survey published by the CEE–China Institute in Budapest also finds generally positive views of China among Bulgarian citizens (Chen 2021: 57-63). Despite lower rates than in 2019, Bulgaria remains among the central and eastern European countries with the most positive view of the Belt and Road Initiative. A majority of Bulgarians believe in the increasing importance of China on the global scene.

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2 Data from the European Council on Foreign Relations’ EU Coalition Explorer show that Bulgaria and Greece are the only EU Member States that view China as a strategic power. At the same time, the majority of the Member States view China pragmatically as a partner but also as a rival (Oertel 2020).

### CHALLENGES AND CONTROVERSIES

Despite the traditional friendship, sound political relations and the strong impetus given to Bulgarian–Chinese relations in the past few years, Bulgaria has fallen behind when it comes to enhanced practical cooperation and outcomes. There is still a significant untapped potential for developing bilateral relations. In order to realise this potential, both sides need to tackle the existing problems and challenges.

The first challenge is related to the lack of a coherent Bulgarian strategy towards China. The Bulgarian government consistently declares its willingness to further develop relations with Beijing and support for the Belt and Road Initiative, but it has underperformed in realising its declared political will. A long-term vision, clearly defined priorities and concerted and consistent efforts on the part of state institutions could strengthen Bulgaria’s ability to address the negative effects of this ambiguity in its policy. Moving beyond the current political impasse in the country, however, is a key precondition to achieving these goals.

Challenges also arise from China’s post-pandemic development and priorities. It remains to be seen how China will react to the complexities created by the Covid-19 pandemic and how this will affect its foreign policy. Beijing has to analyse the weaknesses of its own policy towards the European Union that have contributed to a deterioration of bilateral relations.

China has not yet proved that it is committed to deepening its economic relations with the south-eastern European countries and that it does not see the region only as an easy port of access to the EU market. On the contrary, in the context of the deterioration of EU–China relations and growing tensions in US–China relations China prefers to follow a wait-and-see approach in the implementation of various projects in the region. The Global Partnership Centre officially inaugurated in Sofia in 2019, for example, is still a hollow shell rather than an effective entity.

Another set of challenges concerns the significant imbalances in bilateral economic relations. Traditionally, China is Bulgaria’s largest trading partner in Asia. Bilateral economic relations, however, remain underdeveloped. There was a significant increase in trade volume between China and Bulgaria (267 per cent) in 2009, but the volume of bilateral trade remains low and lags behind other CEE countries. In 2020, two-way trade amounted to USD 2.8 billion (Ministry of Economy 2021).

Imports from China increased from USD 628.4 million in 2009 to USD 1.75 billion in 2020. China ranks third among Bulgaria’s top non-EU export markets. According to a report...
published by the Mercator Institute for China Studies, Bulgaria is the only EU member state for which China is a larger export market than the United States (Zenglein 2020: 5). Bulgarian exports to China increased from USD 136.8 million in 2009 to USD 1.05 billion in 2020 (Ministry of Economy 2021), but further diversification of the export commodity basket is needed. Currently, exports are dominated by primary commodities. Refined copper, copper alloys and copper ores are the most significant product groups in Bulgaria’s exports to China (74 per cent).

Among the reasons for these deficits are market access restrictions in China. Concerted EU efforts and constructive dialogue with Beijing are needed to overcome such challenges. However, a more active policy approach on the Bulgarian side is also needed to address these problems, to boost Bulgarian exports and to reduce the trade deficit with China. Perseverance and intensive communications with the Chinese side would further speed up the process of approval and signing of bilateral protocols and export certificates (particularly of traditional Bulgarian agricultural products and foods).

Chinese foreign direct investments in Bulgaria also remain modest despite certain declarations on both sides that the country could be a gateway to Europe for Chinese companies. At a meeting with Chinese Prime Minister Li Keqiang in July 2019, the President of Bulgaria noted that »Bulgaria is still a blank space on the map of Chinese investments« (President of Bulgaria 2019). Figures confirm his statement: according to the Mercator Institute for China Studies, between 2000 and 2019, out of around 9.4 billion euros of Chinese investments in the EU Member States from the CEE region only 0.4 billion euros were directed to Bulgaria (Kratz et al. 2020). In 2019, Chinese investments in Bulgaria amounted to 11.1 million euros and in 2020, the figure was negative, at ~8.8 million euros (Ministry of Economy).

No large-scale China-backed infrastructure or investment projects have been realised in Bulgaria. Most of the infrastructure projects that are being implemented in the region under the Belt and Road Initiative are being developed in the Western Balkans, in a south–north direction. Thus, Bulgaria is still not included in the Belt and Road Initiative infrastructure network.

The low level of Chinese investments in the country is one of the reasons Bulgaria, unlike other EU Member States, has not taken a specific position when it comes to restrictions on China’s investment activity in Europe. Lagging behind in attracting Chinese companies, Bulgaria does not share the wariness of overdependence and the growing concerns among some of the West European countries over Chinese investments. The »China threat« narrative does not dominate the policy debate in the country.

**OPPORTUNITIES**

The Bulgarian economy, like those of many other European countries, has been negatively affected by the Covid-19 pandemic. Bulgaria expects to receive 6.2 billion euros in grants from the EU Recovery and Resilience Facility as part of Next Generation EU, the EU temporary recovery instrument. The total amount of funding that Bulgaria will receive under the 2021–2027 financial framework is almost 29 billion euros.

The use of EU funds in an adequate and efficient way could contribute greatly to economic recovery and a gradual transformation toward a greener and more digitalised economy. However, this will hardly be enough to achieve Bulgaria’s strategic aim, namely convergence with average EU income levels and overcoming the existing economic and social gap between the eastern and the western parts of the European continent.

To achieve this goal, it is imperative for Bulgaria to pursue a much more diversified approach and to look for another opportunities and partners. It needs to invigorate its relations with third countries, with China in particular.

China is the only major global economy that expanded in 2020 and returned to some degree of normality. Although some experts were ready to write off the Belt and Road Initiative because of the pandemic, Beijing has demonstrated a commitment to advanced practical cooperation within its framework (Hu 2021). In the context of China’s ambition to promote the Belt and Road Initiative and to strengthen its economic position in Europe, Bulgaria should pursue mutually beneficial cooperation with China that will help it to generate further economic benefits and strategic gains (to increase its room for manoeuvre and to move away from the »periphery« of the EU, among other things). At the same time, the country has to take into consideration the side effects of enhanced economic relations with China.

In strict compliance with the EU legal framework, Sofia has to capitalise on its competitive advantages in its relations with China in order to realise the still untapped potential in Sino-Bulgarian relations. The tradition of friendly relations, the lack of political contradictions and problems in bilateral relations, the relatively high level of stability and security in the country, and its skilled workforce are only part of Bulgaria’s strengths.

The country could more actively take advantage of its strategic geographic location. The fact that five of the Trans-European transport corridors (IV, VII, VIII, IX and X) cross Bulgarian territory is a good basis for mutually beneficial cooperation.

On one hand, Chinese investments in transport infrastructure could contribute to Bulgarian efforts to modernise and further develop their national road and railway infrastructure. This will allow the country to become more integrated in the regional infrastructure network and fully correspond to the EU connectivity strategy.
On the other hand, enhanced engagement in infrastructure between the two countries under the Belt and Road Initiative could allow China to increase and diversify its access to the European market. Currently, China is focused on the Western Balkans route (port of Piraeus–Budapest). The Bulgarian side has the potential to play a key role in the development of an alternative section of the China–Europe land-sea express line. Within the development of the new Eurasian land bridge, Bulgaria could establish itself as an important logistics centre for the transportation of goods from China to Europe, and vice versa.

Sofia should also benefit from the synergy between its own interest in further developing the Pan-European corridor VIII and China's willingness to participate actively in the implementation of various connectivity infrastructure projects. Moreover, implementation of any infrastructure project along Corridor VIII on Bulgarian territory would be complementary to China-backed infrastructure projects being implemented in the Western Balkan countries.

As a Black Sea country, Bulgaria can contribute to further involvement of the Black Sea region in the Belt and Road Initiative framework. The region is a point of intersection between the two Chinese initiatives – the 16+1 format and the Belt and Road Initiative – but China's economic presence here remains limited.

The Black Sea was included in the Three Seas initiative announced at the 16+1 summit in Riga in 2016 and designated as «the cooperation initiative involving the ports on the Adriatic, Baltic and Black Seas and along the inland waterways» (Secretariat for Cooperation between China and CEE Countries 2016). The ideas mooted in the Riga declaration, however, have not been developed practically. They have been overshadowed by the US-backed Three Seas Initiative launched by Polish and Croatian presidents Andrzej Duda and Kolinda Grabar-Kitarović back in 2015 and with strong political backing by former US President Donald Trump later on.

Taking into consideration the rising tensions in the region, it would be overly optimistic to predict any significant positive development in terms of Black Sea regional cooperation and implementation of large joint projects. The Bulgarian side, however, could pursue the implementation of some of the ideas set out in the Riga declaration related to the development of transportation corridors and transportation hubs, involving ports and industrial parks in the coastal areas. The latter is in accordance with the memorandum of understanding on «Port and Harbour Industrial Park Cooperation» signed between Bulgaria and China in November 2016. The Joint Declaration between the Republic of Bulgaria and the People's Republic of China on establishing strategic partnership relations reaffirmed the two sides' commitment to fostering maritime port cooperation.

Two of the projects presented under the EU-China Connectivity Platform (the Black Sea motorway project and the Ruse–Varna railway project) are directly related to the Black Sea region. Against the background of evolving EU–China relations, however, speedy progress in the evaluation of these projects cannot be expected.

There is, however, a significant potential for mutually beneficial Sino-Bulgarian interaction in the ICT sector, innovation, financial and investment activity, energy and tourism. Opening up a direct flight between the two countries, opening a branch of a Chinese bank in Bulgaria and improving visa procedures are important prerequisites for facilitating bilateral dialogue, enhancing economic cooperation and promoting tourism. Tourism provides a solid ground for cooperation with neighbouring countries, as well. Joint tourist products promoting cultural heritage sites in the region could attract Chinese tourists. Removal of visa requirements for Chinese citizens is not on the table, but both sides need to continue talks on the adoption of visa facilitation measures for Chinese tourists.

LIMITATIONS

Relations between Bulgaria and China have entered a new phase of increasing challenges that may further limit Sofia's ability to influence its relations with China. These challenges are linked to internal processes and developments, as well as to the growing international instability and tensions.

To increase its capacity to defend its interests when dealing with China, Bulgaria first needs to make sense of China's role in the international system and its place among the country's foreign policy priorities. The Bulgarian political elite needs to prove that it is able to develop a long-term China strategy that fits into the European China policy framework, but is also based on clearly identified national goals and priorities. Sporadic policy actions and political declarations without practical implementation measures would not enable it to stand up effectively for Bulgarian interests in dialogue with Beijing.

On the other hand, the Covid-19 pandemic has seriously affected public, business and international affairs. It has had negative effects on the Belt and Road Initiative and China's activities in south-eastern Europe, as well. However, we should not exaggerate the effects of the pandemic as it has mainly accelerated and intensifies existing processes.

International relations are in a state of flux. The growing East (China, Russia)–West (USA, EU) polarisation also has regional projections. Geopolitical competition is growing in the south-eastern European region. Every one of the actors involved in this competition follows its own agenda, interests and often conflicting goals. Competing projects for the region overlap and compete, causing various cleavages among, but also within countries.

The Black Sea region and south-eastern Europe have growing importance for the US strategy to contain China and Russia. Many recent developments in the region need to be assessed precisely in the wider context of regional and global rivalry between the United States and China.
Rising tensions in China–US relations strongly affect Sino-Bulgarian relations, as well. In October 2020, during his visit to Bulgaria the US State Department’s Assistant Secretary for Political and Military Affairs R. Clarke Cooper said that Russia and China are interested in «conquering the Black Sea». He advised the Bulgarian political elite to deny China access to its ports, otherwise it could »lose its national sovereignty« (Ivanov 2020).

The sudden shifts in Bulgaria’s long-established and strictly balanced approach to China indicate that external pressure on Bulgaria is mounting and leaves Bulgarian diplomacy with limited room for manoeuvre. Sofia joined the EU declaration on the new security law on Hong Kong. In October 2020, Bulgaria supported a joint statement on behalf of 39 countries in the UN General Assembly Third Committee that criticised the human rights situation in Xinjiang and developments in Hong Kong. It was one of six countries that sent a minister instead of its head of government to the 17+1 summit in 2021, presided over by Chinese President Xi Jinping.

Global competition in the IT sector has also had a projected impact on the regional and national levels. The Bulgarian economy is largely dominated by Western IT companies. However, Chinese firms, including Huawei and ZTE, have business in Bulgaria. For example, two out of three mobile operators in the country use products and equipment provided by the Chinese companies. Moreover, the technology sector has been identified as a priority sector of Sino-Bulgarian cooperation. In June 2020, the two sides discussed the idea of focusing on information technology and human health sciences as the two priority areas in the future activities of the Bulgarian-Chinese Centre for Scientific Research and Innovation. The establishment of the centre was agreed in 2019 and Sofia University declared its readiness to provide the necessary facilities.

At the same time, Bulgaria joined the US State Department’s Clean Network Initiative, which will significantly impede the use of Chinese equipment and further Sino-Bulgarian interaction in this field. The US initiative is aimed at addressing the long-term threat to data privacy, security, human rights and principled collaboration posed to the free world from authoritarian malign actors (US Department of State 2020), thereby preventing Chinese companies from accessing to Western markets. During his visit to Sofia, US Under Secretary of State for Economic Growth, Energy, and the Environment Keith Krach noted that »Clean Network is intended to fight the authoritarianism practiced by the Chinese Communist Party« (Europost 2020).

The United States recently increased its support for the Three Seas Initiative launched by the presidents of Poland and Croatia. The initiative is a platform for economic and infrastructure cooperation between the countries between the Baltic, Black and Adriatic Seas, but US support is underpinned by geostrategic motives. The US goal is to counter China’s growing footprint and Russia’s influence in the region. In October 2020, the US House of Representatives Committee on Foreign Affairs unanimously passed a motion for a resolution supporting the Three Seas Initiative. The resolution declares that the Three Seas Initiative provides a positive alternative for financing for transport, energy and digital connectivity projects in the Three Seas region to China’s 17+1 and Belt and Road Initiatives, which have exported corruption, debt traps, and poor labor and environmental standards (House of Representatives 2020).

Participating countries emphasise different dimensions of the initiative. Some are much more focused on its geopolitical logic, while others are more interested in regional cooperation. Bulgaria, which participates in the initiative and held the presidency in 2021, belongs to the second group of countries. It is interested in further development of transport and communication infrastructure and connectivity between the countries between the three seas. In this context, Sofia has even proposed two new priorities: (i) further expansion of the geographical scope of the initiative (Greece and Cyprus were invited to join it), and (ii) scientific and educational connectivity. Any further escalation of tensions in the region, however, will tilt the balance in favour of the geopolitical component of the Three Seas Initiative.

It is interesting to note that two out of four of the projects presented by the Bulgarian government to the Chinese side have also been proposed for funding by the Three Seas Initiative. These are the modernisation of the Ruse–Varna railway line project and the Black Sea motorway project. So far, the Chinese side has not indicated a strong interest in these projects. At the same time, according to Joe Phillips, exclusive investment advisor to the Three Seas Fund, the Fund is actively focused on two projects in Bulgaria in the short term, one in energy (the Chiren gas storage facility) and the other concerning port facilities (Bulgarian Development Bank 2021).

No synergy is possible between the Chinese and the US-backed Three Seas initiatives as they have different approaches and visions for the region. The 16+1 Riga declaration proclaims that the aim of the initiative is to contribute to closer EU–China relations. The aim of the US-backed format is to build walls against China and Russia.

The new impetus in Euro-Atlantic relations, as the Biden administration has taken over, as well as China’s increasingly assertive policy have impacted EU–China relations, which have reached a critical point. Despite the mutual interest in expanding cooperation, the EU–China relationship is in a downward spiral. The EU faces the challenge of maximising its benefits from China’s growth and development, while at the same time reducing its dependence on China, maintaining the balance in EU–China relations and defending its own interests.

The growing EU caution and hardening stance on China sets additional limits on Bulgarian policy towards China. The suspension of the EU–China Comprehensive Agreement on Investment, for example, is not in line with Bulgaria’s interests. It is among those EU Member States that see the agreement as a step towards strengthening the legal basis for economic interaction with China (Oertel 2020).
CONCLUSION

Sofia’s enduring pragmatic approach to China should be retained. Constructive dialogue with Beijing will better serve Bulgaria’s interests than an excessively critical and unfriendly policy. The country needs to participate much more actively in the EU policy debate on the relationship with China, however, and to be more persistent in pursuing and standing up for its interests in the bilateral dialogue with Beijing.

Bulgaria has the potential and expertise to fully step into its role as a participant in the process of agenda-setting and policy-making in the EU, especially when it comes to defining a new conceptual framework for EU–China relations. The country is interested in a coherent EU approach that seeks to protect the interests of European countries when dealing with China, but in a non-confrontational manner. A balance is possible between mutually beneficial cooperation with the Chinese state and concerns arising from China’s growing economic and political power and expansion. It is a question of strategic vision, far-sighted policy behaviour, geopolitical emancipation and assertion of European «strategic autonomy».

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FRIEDRICH-EBERT-STIFTUNG – THE ROLE OF CHINA IN SOUTHEAST EUROPE

RELATIONS BETWEEN CHINA AND CROATIA: MILESTONES, OPPORTUNITIES, LIMITATIONS

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SUMMARY OF RELATIONS SINCE 2009

In 2011, when China launched the 16+1 Initiative to promote investment opportunities and strengthen economic cooperation with sixteen countries from central and eastern Europe,1 Croatia, under the premiership of Zoran Milanović (2011–2015), did not demonstrate much enthusiasm (Šelo Šabić 2017: 4). Prime minister Milanović declined an invitation to take part in the 16+1 meeting in Belgrade in 2014 and sent a delegation led by the foreign minister. In November 2015, prime minister Milanović was again absent from the 16+1 summit in Suzhou.

Croatia’s attitude changed when Andrej Plenković became prime minister in late 2016, opening up Croatia for cooperation with China. In 2017 Croatia selected a Chinese company to build its largest infrastructure project. In 2018, Plenković made a trip to China to meet Chinese president Xi and prime minister Li. Attending a China-Croatia business forum in Shanghai, Plenković presented investment opportunities to Chinese businesses, underlining Croatia’s favourable geographic position in Europe as an entryway into a 500-million people large EU market. Croatia’s change of heart was welcomed by the Chinese prime minister, who described relations between the two countries as reaching what he called a »diamond stage« (Bakota 2020).

Before the warming up of relations could generate more intense economic cooperation, the Covid-19 virus struck the world. Although initially the Croatian public viewed China with suspicion regarding the virus’s origins, China’s handling of the pandemic domestically changed perceptions, projecting China as an able and efficient power. As Croatia was able to purchase medical equipment from China in spring 2020, the government explained that prioritisation of Croatia’s equipment order reflected excellent bilateral relations (Jutarnji list 2020). China also donated medical equipment to Croatia (Vlada.gov.hr 2020), although the media hype never reached the same level as in some neighbouring states. The reason is that Croatia predominantly purchased protective gear and medical equipment from China and that it showed no inclination to use the pandemic in order to tarnish the image of the EU.

DYNAMICS OF EXISTING COOPERATION

China’s direct investments in Croatia remain low (HNB 2020), with 2017 being a turning point for economic relations between the two countries. For the period 2000–2005, China’s direct investments were so low they do not appear in the statistics. For the period 2005–2009, they rose to 0.8 million euros (€). From 2011 to 2016 they tripled to reach about €3 million, and from 2017 to 2020 they amounted to about €131 million. Still, these figures are relatively small and China ranks 24th among the top 35 investors in Croatia, with a total FDI of €135.4 million from 1993 to 2020 (HNB 2020).

Figure 1 shows overall trade between Croatia and China in the period 2009–2019.

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1 Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, which are EU member states; and Albania, Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia, which are candidates or potential candidates for EU membership. In 2019, Greece joined the initiative, turning it into the 17+1.
**Pelješac bridge**

In June 2017, Croatia was granted €357 million by the European Commission to build the Pelješac bridge in the south of the country, connecting two parts of Croatian territory. With the EU contribution amounting to a 85 per cent of the cost of bridge construction, Croatia finally began implementing the long-awaited strategic project. In January 2018, the contract was awarded to China’s state-owned China Road and Bridge Corporation (CRBC). The Chinese company outbid its competitors by committing to complete the project both faster and cheaper (Radio Slobodna Evropa 2018).

Two losing bidders – the Austrian Strabag and the Italian-Turkish consortium Astaldi-Ictas – filed complaints (Hina 2018). Strabag claimed that CRBC offered a dumping price, that the company is subsidised by the Chinese government, which has an interest in entering the European market, and that at real market prices the bridge cannot be built for €270 million (Žabec 2018). Strabag directors explained that their offer envisaged strong cooperation with Croatian companies, which would have had net positive effects on the Croatian budget and employment, while CRBC offers Croatian companies cooperation on low paid segments of bridge construction, such as soil and concrete works (Žabec 2018a).

Astaldi-Ictas complained that their offer was rejected on the grounds of an insufficient bank guarantee. In March 2018, the state commission for procurement (DKOM) dismissed the appeals of the losing bidders (Hina 2018).

This project has been of particular interest to China. It will be the first EU-funded infrastructure project to be built by a Chinese company. Its successful completion gives CRBC and thus China a reference for future tenders for EU funded infrastructure projects. This presumably was China’s incentive to offer favourable terms to Croatia. The head of communications of the Chinese Southeast European Business Association (CSEBA) said that for China this project is a way into the European market, stressing that CSEBA assisted the Chinese company in preparing documentation for the tender: such partnerships are crucial for China to secure future contracts in the EU (Prtoric 2020).

This and other cases have led the EU to prepare a law that further protects European companies and limits participation in the European market of companies that are subsidised by governments. Under this law, for example, CRBC could not have been selected for bridge construction in Croatia (Pavić 2021).
Prime minister Plenković, during the state visit to China in November 2020, spoke about the bridge, describing it as a project with »triple symbolism«: it connects divided parts of Croatian territory; it is the single largest infrastructure project funded through the EU Cohesion Fund within the current multiannual financial framework; and it will forever symbolise the connections and cooperation between Croatia and China (Hina 2018a).

Senj wind farm
In November 2017, Norinco, a Chinese state company, bought 76 per cent of the Croatian Energija Projekt company for €32 million, allowing it to construct the Senj Wind Farm and operate it for 23 years. This project is valued at €230 million and is expected to produce 530 million kWh of electricity annually (Domazet 2021). In February 2021, the project employed about 160 Croatian and 40 Chinese workers and experts (Domazet 2021). The current government says this project will increase production of renewable energy, boosting Croatian capacity for the green transition. Additionally, revenues of the municipalities surrounding the Wind Farm will grow by €741,000 annually, thanks to taxes on the Wind Farm’s operations (Spasić 2018). Successful completion of the wind farm will not only give China a reference for similar future projects in the EU (Prpić, 2021), but also presents China as an actor in the green transition within the 17+1 Initiative.

Port of Rijeka
In January 2021 the authorities of the Port of Rijeka annulled a tender, published in 2019, for a 50-year concession of the Port, which was worth approximately €2.733 billion. Two binding offers were received – one from a Chinese consortium and the other from a Dutch-Croatian consortium. The Chinese consortium’s offer was – according to media reports – much more favourable: it offered €2 million annually as a permanent concession fee and a five-year deadline for completion of the second phase of terminal construction. The Dutch-Croatian consortium offered €1 million annually as a permanent concession fee and a 10-year deadline to complete the second phase. The authorities, apparently, were under strong EU and US pressure not to allow Chinese takeover of the Port (Vecernji.hr 2021). The final decision was postponed several times to be officially announced at the beginning of 2021. The authorities, allegedly, faced two choices – either to annul the tender or to grant the contract to the Chinese consortium. A third option – to grant the contract to the Dutch-Croatian consortium – was not debated (Večernji.hr 2021). In late spring 2021 the Port authorities announced publication of a new tender.

However, in 2018, Plenković directly invited the Chinese to invest in the port of Rijeka. Describing Croatia’s unique geographical position in Europe, he said: »Our sea ports can become entry ports for all Chinese companies and for all Chinese cargo shipped to Europe … this geographical advantage means that transport can be shortened by seven days and 2500 km if shipment goes through Suez canal to the port of Rijeka instead of making a large detour to Rotterdam or Hamburg« (Hina 2018a).

Croatian authorities did not offer any further explanation of the annulment decision. They did try, however, to make the Chinese interested in investing in two shipbuilding yards, both heavily indebted, in Rijeka and Pula (Vladisavljevic 2019). Chinese officials and businessmen visited the sites several times in 2019, but eventually decided against investing in the shipyards because of their technological backwardness (Hina 2019a).

OPPORTUNITIES
Although Sino-Croatian relations remain strongly asymmetrical, judged simply by the size of the two countries, it seems that bilateral relations are getting closer. The Croatian government welcomes investments in tourism, energy and infrastructure, while private companies such as Rimac Automobili, an electric car company strong in innovation, are actively collaborating with Chinese investors.

Tourism
As a country that relies heavily on tourism (total contribution of tourism to GDP was estimated at 19.6 per cent in 2018; OEC 2020), Croatia wishes to transform itself into an attractive destination for new tourists and, as such, it is taking steps to welcome an increasing number of Chinese tourists. In 2019, the then Croatian tourism minister stated: »The Chinese market is very important to us ... Last year 234,100 Chinese tourists visited Croatia and generated 344,000 bed nights« (Hina 2019). In April 2019, Premier Li Keqiang attended the 8th China-CEEC Summit in Dubrovnik and participated in the opening ceremony of the China-Croatia Year of Culture and Tourism, during which various joint activities were organised to strengthen cultural ties, share experience and encourage investments in tourism. For example, 33 Chinese nationals were licenced as tourist guides and workshops and webinars were organised for about 200 Chinese travel agents and tour operators (Hina 2019).

Education and academia
Beyond the economic and cultural ties, the two countries are keen to further expand the existing cooperation in the education and academic sectors. In October 2004, a Sinology major was officially established at the University of Zagreb. In 2006, Beijing Foreign Studies University included a major in the Croatian language in its curriculum. In May 2012, the Confucius Institute was unveiled at the University of Zagreb, aimed at promoting the Chinese language, culture and way of life. Later on, Confucius Institute branches were opened in Dubrovnik, Varaždin, Rijeka, Split, Zadar and Pula, reflecting a desire to bring information about China, its language, culture and way of life to a larger number of Croatian citizens. China also offers study trips to China to Croatian academics, artists, journalists, experts, public officials, and business people through various state-sponsored programmes. Unlike in other neighbouring countries, the expansion of Confucius Institute’s branches in Croatia does not at

the moment seem to be giving rise to criticisms about under-mining national security.

Scholarships for students to study in China are also available. In 2013 vice prime minister Liu Yandong announced that China would grant 200 government scholarships for Croatian students in the next five years.

A «Programme of Cooperation in the Field of Education» between China and Croatia signed for the period 2013–2016 was renewed in July 2018 (Chinaembassy.org 2020). In 2021 a CroAsia Institute (CAI) was established at the Zagreb School of Economics and Management with the aim of facilitating effective communication between Croatia and China, South-east Europe and Asia (Croasia.hr 2021).

**Electric cars**

Rimac Automobili is an innovative, globally-recognised company in the electric cars sector. Its first Chinese investment came in 2017 when Camel Group invested €30 million. A year later, Rimac and Camel agreed on a joint venture – opening a factory in China that produces engine components for electric cars and buses. The total cost of the investment is US$ 158 million, with Rimac investing US$ 5 million and its know-how, while the Camel Group covers the rest of the cost. Rimac has a 40 per cent ownership share of the new factory (Ivezic 2018). This is the only Rimac factory outside Croatia, reflecting their interest in expanding in the Chinese market, which has seen a constant rise in demand for electric vehicles. For the rest of the globe, Rimac continues to operate from Croatia. Rimac expansion to the Chinese market continued in 2021 when a luxurious Rimac car saloon was opened in Shanghai by the Kingsway Group, which also has an exclusive dealership for Lamborghini and Tesla (Vrabc 2021).

In May 2021 a high-level official of the Chinese Communist Party visited Croatia and was received by the president, prime minister and speaker of the Parliament. The upshot of this meeting is that both China and Croatia are interested in expanding their economic cooperation and diplomatic relations. Of particular interest is cooperation in infrastructure, SMEs and technological innovation, as well as the fight against the pandemic and intensification of tourism and people-to-people contacts between the two countries (CRI 2021). The Croatian Chamber of Commerce reports intensified efforts to promote Croatian agricultural and food produce (dairy, wine, spreads) to the Chinese market (HGK 2020).

**LIMITATIONS**

Croatia shows strong interest in cooperating with China, while exercising some restraint as a result of the deterioration of relations between the West and China. Looking broadly at the Croatian political scene, there is no major proponent nor opponent of cooperation with China. The current government is the first to open the Croatian market to China by granting a major infrastructure project to a Chinese company. A similar large project – the port of Rijeka – in which the Chinese side expressed interest, has not been signed off on, however. There seems to be a similar situation concerning railway construction on a section of line between Rijeka and Zagreb. This is part of a major European railway corridor connecting southern and central European countries, from Spain to Ukraine, spanning around 7000 km. Croatia is very interested in seeing this section of the railway built through Croatia, from Rijeka to Zagreb, and then further to Budapest. For Croatia, this would mean connecting Rijeka, a major maritime port, with the east of the country and ports on the river Danube. China is interested in building the railway as it fits into its Belt and Road Initiative, a strategic network of ports, highways, bridges and railways. The European Commission, as in the case of the port of Rijeka, whose tender Croatia annulled, seems wary of a tender for the construction of the portion of the railway between Rijeka and Zagreb, for which two Chinese companies have submitted offers. One is financially so much lower that it has raised suspicions of being a dumping price. The Croatian authorities report that they will seek clarification from the Chinese company regarding the submitted offer, but it is clear that Brussels is not happy to see European public money being invested in a project that will benefit a Chinese company and strengthen Chinese influence (Raunić 2021).

The United States, too, does not look favourably on Croatia expanding its ties with China. With the EU, the United States was instrumental in the Croatian decision to annul the port of Rijeka tender. It has also warned Croatia of risks if it allows Chinese companies to build parts of the 5G network and allow China to acquire citizens’ private data. In a visit to Croatia during his last trip to Europe as the US Secretary of State, Mike Pompeo warned Croatia not to green-light Chinese strategic projects because national security must be a priority. Reflecting on the Pelješac bridge, Pompeo said that the Chinese were there only to take the money, concluding that he believes Croatian leaders would make the right decision in the interest of their citizens (Hina 2020). Recent reports reveal that Croatia has not yet made a decision regarding Chinese participation in the development of the 5G network. Huawei’s director for Central and Eastern Europe, however, said in an interview that they are still negotiating with Croatian telecommunication companies about building the 5G network despite US pressure and the unclear position of the European Commission (Ivezic 2021).

While the relationship between the United States and China was at a historical low during Trump administration, no sudden significant improvements can be expected from a new US administration. The United States sees China as trying to compete unfairly in the international arena and doing so in an increasingly adversarial mode, accusing it of intellectual property theft and technological espionage (BBC 2021). The EU sees China, depending on the policy area, as a cooperation partner, negotiation partner, economic competitor or a systemic rival (EEAS 2020). What some have viewed as a naïve European view of China as only a trade partner seems to have been replaced by an increasingly sober view. Criticism from the European side regarding unfair treatment of European companies in the Chinese market, the suppression of demonstrations in Hong Kong, mistreatment of Uighurs, human rights violations
in Tibet and militarisation in the South China Sea have been more pronounced in recent years (Baer 2020). Germany’s position, which for long time toned down criticisms of China in Europe, seems to be open for change (Barkin 2021).

Renewal of transatlantic cooperation, pledged after the election of Joe Biden as US president, will, unavoidably, include consultation and an attempt to form a common position between the United States and the EU regarding China. Prospects of reaching a broad consensus are not strong, as the EU has grown weary of US exceptionalism and its focus on national interests. But where US and EU interests intersect, room for a mutual agreement and joint action exists. The likelihood of this increases as the EU feels ever more under threat from Chinese actions.

Both the United States and the EU recognise that cooperation in today’s post-pandemic and globalised world is complex, without the luxury of excluding cooperation with a power like China. Europe wants to cooperate with China on climate change and to maintain strong trade and economic relations. However, if the painful realisation grows that China is becoming an adversary, its tilt towards the United States and stronger G7 cooperation against China seem likely.

CONCLUSION

The hundredth anniversary of the Chinese Communist Party in 2021 was an opportunity for China to present itself as a global power with a vision. Its confidence, based, among other things, on its successful handling of the 2008 financial crisis and the pandemic, is strong. It offers a developmental model for this success, appealing to various forces across the globe. If illiberal tendencies grow in Europe, partially driven by the Chinese influence, and coupled with a stronger economic grip on Europe, a change of sentiment and, consequently, a change of policy on the part of the EU towards China seems inevitable.

The EU does not want to make China a confrontational partner, however. The two sides need each other in a number of areas requiring multilateral action. The EU understands that China also has a number of domestic challenges: population ageing, sustaining economic growth, and operating in an unstable neighbourhood being just a few. However, the phase of European benevolence towards China and its increasing presence in Europe has been quickly dissipating. Croatia has observed these developments and is adjusting its position towards China as a reflection of broader relations among the United States, the EU, and China.

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As the geopolitical competition between China and the United States becomes more cutthroat, peripheral countries’ strategic flexibility will become more constrained. In particular, Greece’s relations with China will be heavily influenced by this new geopolitical situation. Athens’ security dependence on the United States, exacerbated by Greece’s »lost economic decade«, both restricts and conditions its strategic engagement with Beijing. There are, however, significant unexplored avenues of Sino-Hellenic cooperation in the cultural, educational and non-dual-use economic sectors. Consequently, within the limits of geopolitics, both Beijing and Athens can tap into creative strategic agency in advancing their bilateral relations, especially if Greece is to prudently shape an EU-friendly strategic framework in its relations with China.

Over the past decade, Greece has been one of China’s most steadfast political supporters in the EU. The current Mitsotakis government has however calibrated SYRIZA’s proactive political support for China, which paved the way for Greece’s entry into the China-CEEC framework in April 2019. Although the Greek government has remained cautious so as not to criticise developments in China, and in principle it argues for constructive engagement, it has nonetheless striven not to attract the spotlight by obstructing »Sinosceptic« EU resolutions.

Sino-Hellenic cultural relations have experienced a decade of steady growth. Culture has been one of the pillars of this process as both Chinese and Greek elites see each other’s millennia-old civilisations as part of the group of so-called »axial civilisations«. The culmination of constructive Sino-Hellenic cultural relations came in 2019, when the Greek President was the only head of state from outside Asia to be invited to Beijing’s Asian Civilisation Summit. China itself has co-sponsored Greece’s Ancient Civilisation Forum. Still, there is significant untapped potential in expanding Sino-Hellenic cultural relations – particularly in secondary and tertiary education – which could contribute to people-to-people exchanges and promote lasting track-two diplomacy contacts. Such engagement may also be normatively beneficial, as Beijing and Athens investigate the humanism of their classical heritage on a comparative basis with a view to drawing on the wisdom of the Ancients to inspire creative action to meet contemporary socioeconomic challenges.

Greece has been a latecomer in advancing its strategic economic relations with China. It was only in 2007 that the Karathanasis government engaged with China on the privatisation of the port of Piraeus. The consequent acquisition of the port by COSCO has turned a once peripheral port into one of the EU’s largest. The 2016 deal that increased COSCO’s stake in the port continues to encounter friction, however. The geopoliticisation of investments in strategic infrastructure has complicated Sino-Hellenic economic relations: the US Development Finance Corporation’s interest in the ports of Alexandropolis and Elefsina, the expansion of the US base in Souda Bay, and the upgraded US defence support for Greece come with strategic strings attached. Non-dual-use economic sectors offer fertile ground for cooperation, however. These include green energy investments, tourism, private equity and financial services. Long-established relations between Greek shipowners and Chinese shipyards may also prosper, although Chinese and Greek shipping companies compete intensively across the globe.

»Politics is the art of the possible – the art of the next best.« In the pre-Great Power competition era, Greece engaged with China rather late. Although it achieved a »comprehensive strategic partnership« in 2006, its overall economic relationship with China, with the exception of Piraeus port, has been modest. Nowadays, Greece faces a much more complex geopolitical environment, which undercuts certain aspects of its strategic engagement with China. A »first best« of ever-closer strategic relations between Athens and Beijing may be hard to attain. Greece nevertheless remains in a sense the »foundation of the West«. As such, it may act as a strategic interpreter between the West and Beijing. Being such an interlocutor will require the advancement of Chinese studies in Greece and of Hellenic studies in China. Most importantly, it will require considerable strategic acuity, along with the foresight that however intense the Sino-American rivalry may become, China will not disintegrate like the USSR. Rather, it will remain one of the major cultural and political forces shaping ecumenical civilisation in the twenty-first century. It is in Greece’s long-term national interest to further cultivate its engagement with China and, from a position of wisdom within the EU, act as a prudent strategic interpreter with Beijing.
TRENDS IN SINO-HELLENIC STRATEGIC, POLITICAL AND SECURITY AFFAIRS

In an era of Great Power competition, smaller states are akin to bicycles navigating the pathways of high politics next to multi-trailer trucks, the great superpowers. Some degree of flexibility is available to the cyclists, but an imprudent turn may well prove fatal, crushing them under the wheels of the trucks or at least causing them to «fall by the wayside».\(^1\) The return of Great Power politics has significantly restricted Greece’s strategic flexibility in its engagement with China, but this «geopoliticisation of things» has only recently affected the strategic political engagement between Beijing and Athens. In the past decade, the strategic political nature of Sino-Hellenic relations has expanded significantly, conferring benefits on both sides (Shi and Trigkas, 2019).

Although Greece became China’s «comprehensive strategic partner» only in 2006, the more authentic source of stronger political bonds with China was Greece’s prompt intermediation in 2011 to support the safe evacuation of Chinese citizens from Libya to Crete and then to China. This was an event that has often been mentioned by Chinese officials and has been widely reported in the Chinese press. China reciprocated by engaging more closely with Greece during the country’s financial meltdown, seeing true potential in Greek economic recovery. While Brussels imposed a shock doctrine that wreaked havoc on the Greek economy (Stiglitz, 2016), Beijing continued to invest in strategic assets such as the port of Piraeus, but also in Greek sovereign bonds. This investment demonstrated China’s confidence that Greece would remain in the Eurozone and ultimately return to a path to sustainable economic growth (China and Greece, 2015). Stressing their political support, Chinese leaders also visited Greece. In 2010, Chinese Premier Wen Jiabao made an official trip to Athens and addressed a plenary session of the Greek Parliament, an honour bestowed on only a select few political leaders. In summer 2014, Chinese Premier Li Keqiang visited Athens and described the port of Piraeus as «a pearl in the Mediterranean Sea» (BBC, 2014). That same summer, President Xi Jinping used Rhodes as a stopover to his Latin America trip and met with the then Greek Prime Minister Antonis Samaras. That both the Chinese Premier and the President visited Greece in such a short interval was seen as clear sign of upgraded political relations between the two countries.

When SYRIZA took office in January 2015, it originally sought Chinese support in an effort to increase its leverage and negotiate with European creditors and the IMF from a position of strength. Beijing kept a cautiously neutral position but declared its unwavering support for Greece’s eurozone membership and its trust in the euro. After Alexis Tsipras reached a revised agreement with the creditors in September 2015, he saw China as a source of strategic economic investment and doubled down on Greece’s political engagement with Beijing. Though his populist party enjoyed close relations with the labour unions in Piraeus, which had long opposed COSCO’s investments, Tsipras eventually gave in to Chinese pressure and allowed COSCO to expand its stake in the port to 51 per cent in 2016. Beijing had made it clear that that was a first-order condition before China advanced its strategic economic investments in Greece.

With the Piraeus port issue resolved, Tsipras took an official trip to Beijing in April 2016. Two more visits followed in the spring of 2017 and 2019 to participate in China’s Belt and Road mega-summits. Meanwhile, China’s «China Grid» had entered Greece’s strategic energy infrastructure network by acquiring 25 per cent of the Independent Power Transmission Operator (ADMIE) in December 2016. Later, it extended financing through its development bank (CDB) to upgrade Greece’s energy network. Against this backdrop of substantial engagement in strategic infrastructure, Greece blocked a European Union statement in June 2016 on the issue of the South China Sea. In the summer of 2017, Greece also blocked an EU statement in the United Nations critical of China’s human rights record.

Greece’s pro-China pulpit was then heavily criticised by American and European diplomats. The Greek Foreign Ministry countered that the proposed EU statements would only provide «unconstructive criticism» and would not materially affect China’s domestic policies. Then Minister of Foreign Affairs Nikolaos Kotzias, during his official trip to China in August 2018, insisted that Greece’s political support for China came without conditions or requests for financial rewards. Rather, Greece’s support was an outcome of his government’s wider support of Chinese sovereignty and his personal belief that a constructive and sanctions-free dialogue would better nudge China’s human rights regime reform.

Kotzias’ claim that Greek support for China was not motivated by potential economic gains seems correct, as no major flows of Chinese investments followed Greece’s vocal political support in 2016 and 2017. These were only cordial political statements, and Chinese media framed Greece (along with Hungary) as China’s closest friends in Europe. Ultimately, however, this act of «good will» may have facilitated Greece’s entry into the 16+1 China-CEEC framework in April 2019. Though it is not quite clear how this decision was reached, it seemed that at the time there was bipartisan support in Greece for membership of the China-CEEC club. This membership was seen as an opportunity for Greece to engage with the Balkan region and benefit from increased regional connectivity (Tzogopoulos, 2020; Vangelis, 2020). After Greece’s official endorsement of the BRI in 2017, Greece’s entry into the China-CEEC mechanism in 2019 signified the culmination of the Sino-Hellenic political honeymoon.

The return of Great Power competition and the United States’ international campaign to undermine China’s rise has interrupted the Sino-Hellenic honeymoon. Following the 2017 US National Security Strategy report, which framed China as a power «that wants to shape a world antithetical to US values and interests» (NSSR, 2017), Washington has abandoned its previous strategy of engagement with China.

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1 I would like to thank Professor Athanasios Platas for introducing that interesting allegory during a discussion with the author. For a theoretical position on the topic see: Platas, 1986.
It has instead gone to great lengths to mobilise an international coalition and restrict China’s progress. When the geopolitical situation shifted, Greece was in a vulnerable geostrategic position. An imperialist Turkey, supercharged by Islamic fundamentalism, was encroaching upon Greece’s sovereignty in the Aegean (Turkey’s «Blue Homeland» doctrine), while a decade of protracted economic meltdown had undermined Greece’s deterrence strategy (Erdemir and Kovalsky, 2020). Moreover, as Turkey cynically weaponised refugees, Germany’s fear of confronting Turkish President Erdogan prevented the EU from intervening decisively, thus leaving Greece strategically dependent on the United States and, to a lesser extent, France (The Economist, 2021).

Although then US President Trump cozed up to Erdogan, both the US security establishment and the US Congress saw in Greece a potentially credible, democratic and stable partner in an otherwise turbulent East Mediterranean region. Greece proved its commitment to NATO by resolving its name dispute with North Macedonia (thus paving the way for North Macedonia’s entry into NATO and paradoxically Greece’s entry into the China-CEEC mechanism as well) (Lee, 2019). Athens also resolved land-border disputes with Albania, signed an EEZ agreement with Italy, and doubled down on its strategic engagement with Israel, Egypt, Jordan, Saudi Arabia and the UAE. The United States reciprocated with the 2019 Eastern Mediterranean Security and Energy Partnership Act, hailed as a «historic and truly transformational development», placing Greece, Cyprus, and Israel on the front line of American policy in the Eastern Mediterranean. This act is to be further upgraded with Senators Menendez and Rubio’s U.S.-Greece Defense and Interparliamentary Partnership Act of 2021, which «seeks to bolster support for Greek military modernisation, authorise new transfers of American military equipment, and foster increased multilateral engagement among the legislatures of Cyprus, Greece, Israel, and the United States». In 2021, Greece is more dependent on the United States for its security than ever. As a small peninsula with one of the world’s lengthiest shorelines, Greece is strategically programmed to seek closer security relations with countries able to project significant naval power at will. Given that the United States is the only nation able to do so in the Mediterranean (followed by France) and China lacks such capabilities, Greece’s security engagement with Washington is a matter of necessity, not choice.²

In geopolitics there is no charity. Realpolitik rules supreme, and it is no surprise that US security support for Greece comes with restrictions. Clauses in congressional acts tie US military and financial aid to special «security provisions», which preclude similar investments by US competitors (Russia and China in particular). Apart from these public provisions, one may also naturally expect political pressure behind the scenes. Thus, it is not surprising that while China had reached out to Greece to organise the celebrations for Greece’s entry in the China-CEEC summit in Greece in autumn 2019, Athens was not particularly keen to host it. To be sure, President Xi Jinping’s visit to Greece in November 2019 was accompanied by a plethora of bilateral deals, but even that did not suffice to include Huawei in Greece’s 5G network (Greek MFA, 2019). After then Secretary of State Mike Pompeo’s visit to Athens in September 2020, Vodafone Hellas and Tim followed the lead of Cosmote (a subsidiary of Deutsche Telekom) and chose Ericsson as a major contractor to develop their core 5G network; Huawei is to provide only peripheral equipment. Silently and without taking a public stance against Huawei, Greece’s core 5G network will be Ericsson-made, just as Washington demanded (Ntelezos, 2020).

As security trumps welfare and as Greece’s dependence on US security provision is expected to remain high in the future, Athens’ political and strategic engagement with Beijing is being conditioned by the return of Great Power geopolitics.³ This is a structural impediment that a vulnerable nation like Greece may find hard to overcome. It is important to note, however, that the overall positive sentiment of Greek popular opinion towards China is one of the highest in Europe. Moreover, political bipartisanship on further advancing Greece-China relations remains strong. During the Covid-19 pandemic, Greece acknowledged China’s contributions, offered support during the early months of the pandemic and also benefited from Chinese reciprocal aid. The October 2021 visit of Chinese Foreign Minister Wang Yi to Athens and the cordial statements made by Greek Foreign Minister Nikos Dendias and Prime Minister Kyriakos Mitsotakis attest to excellent political relations between the two countries. Consequently, as public and political commitments to continuing engagement with China remain solid, Greece will need to navigate the uncharted geopolitical waters with acuity and look for creative ways to advance bilateral relations. Indeed, within the «art of the possible» there are areas of significant untapped potential with high added value in cultural and non-dual-use economic cooperation for China and Greece. These are explored in the next two sections of this report.

TRENDS IN SINO-HELLENIC CULTURAL RELATIONS

China and Greece have not overlooked the significance of their «Axial Age» roots (Zhang, 2019).⁴ In the past decade, Sino-Hellenic cultural relations have advanced solidly by

² Note that Tsinghua University professor Yan Xuetong has long argued that China’s inability to extend security commitments abroad undermines its ability to attract and retain partners. His view is that wallet diplomacy can buy only short-term artificial «friendship», while security guarantees provide long-term strategic credibility (Yan Xuetong, 2014). See also Trigkas, 2020.

³ Greece’s dependence on a major superpower can to a degree be decreased if Greece were to substantially upgrade its domestic economic and technological infrastructure. This is something that will, however, require concerted reform and long-term vision. If this were to be accomplished, then Greece would enjoy a higher degree of strategic flexibility.

⁴ Karl Jaspers introduced the concept of «axial civilisations» in his classic 1949 treatise «The origin and goals of history». Between the eighth and the third centuries BCE, Jaspers argued that «the spiritual foundations of humanity were laid simultaneously and independently in China, India, Persia, Judea, and Greece. And these are the foundations upon which humanity still subsists today». 
building on a shared perspective that Greek and Chinese culture have helped to shape world civilisation. In 2017, against this strategic cultural backdrop, Greece and China co-sponsored the first forum on Ancient Civilisations, which took place in Athens at the level of foreign ministers. China hosted the third ministerial summit in Beijing in 2019. Repeatedly, Greek and Chinese intellectuals have stressed the contemporary significance of Sino-Hellenic civilisational dialogue. In an op-ed published in Kathimerini newspaper prior to his visit to Greece in November 2019, Chinese President Xi Jinping highlighted the universal logic behind the development of the two humanistic civilisations of China and Greece. He quoted a Greek author who argued that «Confucius and Socrates were two masks that covered the same face of human logic». Earlier in the year, in April 2019, Xi Jinping had invited Greek President Prokopis Pavlopoulos to attend and address the forum of Asian civilisations. Pavlopoulos was the sole head of state outside Asia to have been invited to the forum. When Xi visited Athens in November 2019, Pavlopoulos gifted a Chinese edition of a book about the library of the Platonic Academy to Xi.

This high-level civilisational engagement offers fertile ground for much more comprehensive cultural relations between China and Greece. Prestigious institutions such as Beijing and Tsinghua Universities now offer Greek language classes. Beijing has a centre dedicated to Hellenic studies, while Tsinghua has sponsored an endowed visiting professorship on European and Hellenic studies. An increasing number of universities across China invest in attracting experts on classical studies, while elite institutions in the West have been abandoning the Classics in an attempt to placate vociferous critical race theorists. This offers Greece a tremendous opportunity to promote Hellenic studies in China and to work together with Chinese scholars in an effort to develop comparative classical curricula in both secondary and tertiary institutions. Such a close engagement between Greek and Chinese scholars would supercharge people-to-people exchanges and help build long-lasting bonds among intellectuals and cultural elites (Zhang, 2020). Most importantly, such a close cultural and educational engagement may draw syncretically from the wisdom of the Hellenic and Chinese classical corpuses and provide didactic insights related to contemporary socioeconomic challenges. The Greek and Chinese classics have throughout history been chrysalises of cultural renaissance and their unadulterated humanism remains a formidable intellectual resource (Platias and Trigkas, 2022).

If Greece is to engage effectively with China in this important cultural, educational and civilisational dimension, however, it needs to address its own lack of Chinese studies: currently there is not even one department dedicated to Chinese studies in a Greek institution of higher education. This is a deficit that Greece can ill-afford. China will be one of the major superpowers that will shape the twenty-first century. Greece must urgently cultivate local talent with knowledge and expertise about China, enabling it to manage bilateral relations in the future and address potential misperceptions amidst a fraught geopolitical environment. In other words for Greece, China in the twenty-first century is not an elective course but part of the core curriculum. There is therefore a pressing need for Greece to institutionalise departments of Chinese studies in its major universities, while at the same time sponsoring interdisciplinary Chinese studies centres in key departments of economics, business, and political science, all the while continuing to support the expansion of Hellenic studies in China.

If Greece were to substantially advance its expertise on China, given that China is continuing to invest in Hellenic studies, then Greece would be better qualified to act as a cultural interpreter between China and the West. Given the geopolitical complexities, this will not always require a track-one diplomatic process, but may well proceed by a track-two process and people-to-people engagements. Looking at history in terms of millennia, not simply decades or centuries, Greek scholars versed in Hellenic humanism could help the EU and the United States to understand certain aspects of Chinese behaviour and strategic culture, while at the same time helping to lessen misperceptions about the West in China. Such cultural misperceptions, if left unaddressed, may well incite a «clash of civilisations» (Magnier, 2019). If that were to occur, then space for strategic engagement between China and the West would narrow and «cultural exceptionalism» might precipitate nationalisation of opinions and intensify Great Power rivalries. Areas that would otherwise be attractive for West–East cooperation, such as climate change, arms control, financial stability and preventing the next pandemic, may become much more entrenched. An inability to address problems that transcend national borders would lead to wider worldwide suffering.

**TRENDS IN SINO-HELLENIC ECONOMIC RELATIONS**

In Sino-Hellenic relations, the big elephant in the room has been COSCO’s 2008 investment in the port of Piraeus. With its 2016 deal, COSCO further expanded its stake to 51 per cent. That deal also allowed COSCO to acquire another 16 per cent of the port by August 2021, provided that the company delivered an additional package of investments in the interim. Amidst a backlash from Piraeus’ local government and an intense political campaign by local ship-repair companies, however, COSCO’s investment package has progressed only slowly; the August 2021 deadline was seen as hard to achieve (Belos, 2021). Knowing that China sees Piraeus as the economic pillar in bilateral relations, the Mitsotakis government remained committed to supporting COSCO and defied the opposition organised by local trade unions, the mayor of Piraeus and potential pressure from both the EU and the United States to limit China’s investments in Greece’s strategic infrastructure (Mitsotakis, 2020). In October 2021, the Hellenic Asset Development Fund (HADF) finally acquiesced to a new transfer of shares corresponding to 16 per cent of the Piraeus Port Authority to COSCO.

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5 The October 2021 initiation of a joint Sino-Hellenic tertiary cooperative platform under the aegis of the Chinese and Hellenic ministries of education may provide a good stepping stone.
With that deal the Greek government seems to have fully realised that COSCO’s proposed construction of a new terminal in Piraeus is indispensable if the port is to remain competitive as a transshipment hub amidst increased competition from other regional ports across the Mediterranean Sea. Moreover, Greece has long argued to both the EU and the United States that the investment in Piraeus should not be seen as a «dual use» investment affecting security but rather as a matter of pure commercial significance conducive to national welfare. Worries that Piraeus may dock PLA’s naval units are unsubstantiated as Greece may ban the docking of any ship on national security grounds. In addition, as the Directorate-General for Competition has just endorsed the construction of a mega-logistics centre at Thriasio by non-Chinese investors, the expansion of COSCO in Piraeus will not lead to a vertically integrated Chinese logistics system in Greece but rather make the national system even more competitive and efficient.

Overall, upgrading the port of Piraeus and its connection to the European Southeast Corridor remains essential for the future of the Greek economy and the bipartisan domestic commitment (rare in Greek politics) to make Greece one of the top 20 countries in the world based on the Logistics Performance Index (LPI) by the end of this decade (Kefalogiannis, 2021). COSCO’s commitment to Piraeus assists Greece in advancing its position as a regional logistical hub and advances regional interconnectivity (16 to 18 freight trains depart from Piraeus port for central and eastern European countries each week). It is thus not antithetical to the EU’s cohesion policies aiming to advance convergence between its periphery and core in a decade of divergence (European Commission, 2020). The Piraeus port case indicates that often the very definition of what constitutes «dual use» can be amendable, based on the ability of the Greek government to promote regulatory transparency and demonstrate that the returns on Sino-Hellenic economic exchanges are commercial in nature and in full accord with established European norms and practices. Further solidifying its position would allow Greece to become a more competitive player in economic diplomacy and accelerate its economic recovery from its lost decade, for which, ironically, the EU is partly to blame (Stiglitz, 2017). A more economically empowered Greece would also be a stronger security partner to the United States by protecting European borders and advancing stability in an otherwise turbulent East Mediterranean region.

But what about general trends in Sino-Hellenic commercial relations? In 2019 Prime Minister Kyriakos Mitsotakis suggested that those who criticise Chinese investments in Greece should «put their wallet where their mouth is and invest in Greece instead» (Mitsotakis, 2019). Overall as Mitsotakis put it, Greece has been treating Chinese investments «with flexibility and dexterity» (Atlantic Council, 2020). After all, cumulatively, between 2010 and 2020, China (including HK) was only Greece’s seventh most important source of FDI; Cyprus, Germany and France took the top three spots (Enterprise Greece, 2020). Evidently, China’s investments in Greece are more hype than substance, and they have been rather inflated by the sensational media coverage of COSCO as the dragon’s head in Piraeus (Tonchev and Davarinou, 2017). In essence, in the past decade COSCO’s Piraeus stake and China Grid’s 25 per cent stake in ADMIE constituted the bulk of China’s investments in Greece (ADMIE, 2017). As the Bank of Greece has reported for the past decade, Greece has been a net exporter of capital to China. Moreover, in the past 15 years, Greek shipping companies have placed more than 1,000 ship orders at Chinese shipyards. Sino-Hellenic economic relations remain strongly asymmetric.

The asymmetry in bilateral Sino-Hellenic economic relations proves that there is room for significant improvement across an array of sectors. Green energy in Greece is quite a promising sector, falling within both US and EU strategic priorities in addressing climate change. Given its expertise in green energy, China is well qualified to support green projects in Greece (Tzogopoulos, 2020). An EIB–AIIB initiative would be helpful in this. The Chinese private sector may also learn from the example of innovative German companies. VW, for instance, has committed to transform the Greek island of Astypalea into an electric mobility hub. Chinese electric vehicle companies could choose another of the countless Greek islands to transform into an electric mobility hub. This would upgrade the image of those companies internationally as Greek islands are by themselves an international brand name. Moreover, given the popularity of those Chinese brands in China, their green presence in Greece would act as a magnet for Chinese tourists. Tourist flows from China to Greece increased rapidly in the pre-pandemic years, but they started from a very low base. Future growth would necessitate more direct flights from Chinese mega-cities to Greece. Progress on direct flight connectivity has been slow, but this can be fixed relatively easily as both sides clearly recognised the issue in the revised agenda of their comprehensive strategic partnership declared during President Xi Jinping’s official visit to Greece in 2019 (Greek MFA, 2019).

Finally, Greece should be careful to avoid the unnecessary politicisation of investments. This will not be easy for some sectors, such as 5G, which are clearly dual use and directly affect Greece’s relations with its major security partners (Congressional Research Service, 2021). There are sectors, however, which, although unrelated to national security, have suffered from unnecessary foreign political intervention. The privatisation of Ethniki Asfalitiki, a major Greek insurer, was such a case. When Chinese conglomerate Fosun bid for the company back in 2017, then US Secretary of Commerce Wilbur Ross intervened by sending a letter to the Greek Prime Minister requesting support for a Greek American consortium. Ross argued that if the deal went through, then more American investments would follow. The Greek-American consortium outbid Fosun but was ultimately unable to fund the acquisition. The whole process ended in a fiasco (Tzortzi, 2017). Greece should learn from this lesson and ensure that investments in non-dual-use infrastructure or services must be screened and based purely on their financial returns and long-term support to national socioeconomic development. In that dimension, Greece could complement the recent EU-wide investment-screening mechanism and clearly demarcate sensitive sectors on national security...
grounds. In green energy, tourism, private equity, transportation and financial services, China may be a competitive investment partner. Particularly in private equity investments, Greek regulators have to ensure that labour and environmental rights are protected and that potential investors are interested in building long-term value that advances the welfare of local societies, avoiding vulture economics.

**CONCLUSION**

As Otto von Bismarck once declared, «politics is the art of the possible — the art of the next best». In the pre-Great Power competition era, Greece engaged late with China. It achieved a «comprehensive strategic partnership» in 2006, but its overall economic relationship with China, with the exception of the port of Piraeus, has been underdeveloped. Greece is now facing a much more complex geopolitical environment which undercuts certain aspects of its strategic engagement with China. A «first best» of ever closer strategic bonds between Athens and Beijing may be hard to attain. But Greece remains the bedrock of the West, occupying a unique position between West and East. Thus, Greece may very well act as a strategic interpreter between the West and Beijing. This will, however, require the advancement of Chinese studies in Greece and of Hellenic studies in China. Most importantly, it will require considerable strategic acuity built with foresight and sober recognition that however intense the Sino-American rivalry, China will not suffer the same fate as the USSR. Rather, it will remain one of the major cultural and political forces of the twenty-first century. It is in Greece’s long-term national interest to further cultivate its engagement with China from a position of wisdom within the EU, while acting as a prudent strategic interpreter with Beijing.

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THE ROLE OF CHINA IN MONTENEGRO
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INTRODUCTION TO MONTENEGRO–CHINA RELATIONS

Chinese influence in the Western Balkans, and therefore in Montenegro, differs significantly from the influence of other global powers, which have had an historical presence in the region. China does not have deep and significant historical and cultural connections with Montenegro; its influence is rather new and mainly involves economic cooperation.

It was only after the financial and economic crisis of 2008 that China started to accelerate its involvement in the Western Balkans, while Western countries were focused on recovery in their own economies. Hence, countries such as Montenegro, which experienced a contraction of economic activity as a result of the 2008 crisis, started to attract investment from new global players, including China.

Because China was not hit hard by the 2008 financial crisis, mainly because of its closed and tightly monitored monetary system, it was able to seize this opportunity to accelerate growth of its global influence based on its sound financial position and vast economic resources. The 2008 financial and economic crisis was thus one of the key factors in the creation of the Belt and Road Initiative, China’s flagship project for expanding its global presence.

As part of its strategic positioning in central and eastern Europe (CEE), China’s intensified cooperation led to the establishment of the »17+1« cooperation with 17 CEE nations: 12 EU states (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Greece and Slovenia) and five Western Balkan countries (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia), which are at different stages of the EU accession process, with Montenegro as frontrunner. Montenegro has opened all of the negotiation chapters (33) and closed three of them early.

Macroeconomic, trade and FDI situation: Montenegro and China

From 2006 to 2019, the average growth of Chinese GDP was 8.77 per cent, while Montenegrin GDP rose by 3.26 per cent. China’s GDP growth was always positive, but Montenegro’s contracted by 5.8 per cent in 2008 and by 2.72 per cent in 2012.

Figure 1 clearly indicates the main issue when it comes to Chinese economic influence in Montenegro. Montenegrin GDP started to grow more rapidly for the first time since 2008 only when it launched construction of the priority part of the Bar–Boljare highway, which connects the seaport of Bar (southern Montenegro) with the Serbian border (northern Montenegro). The GDP growth was a result of this project and will slow down as the project comes to a conclusion.

However, this also led to an increase in of inequality in Montenegro.

Concerning Montenegro’s economic situation, it is important to stress that it has one of the worst trade deficits in the world; only 18 per cent of imports are covered by exports. When we look at the trade data between the two countries (Table 1), the share of Chinese imports is 8 per cent and that of exports is 2 per cent, which indicates a clear imbalance in favour of China. Montenegro exports raw materials, while importing final goods and machinery (for highway construction).

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1 Available at: https://www.twn.my/title2/ge/ge25.pdf


3 Available at: https://wiiw.ac.at/yugoslavia-30-years-on-winners-and-losers-from-transition-n-512.html
Figure 1
GDP growth rate: Montenegro and China

Figure 2
National income going to the top 1% and the bottom 40% of the population, 1989-2019

Source: https://wiiw.ac.at/yugoslavia-30-years-on-winners-and-losers-from-transition-n-512.html
According to 2019 data, only 1.2 per cent of total foreign owned businesses in Montenegro are Chinese. Most are engaged in wholesale and retail sales, unlike in the region as a whole, where they already own, outright or by concession, mines and steelworks. However, China Road and Bridge Corporation has a subsidiary in Montenegro for the project to construct the priority section of the Bar–Boljare highway.

Table 1
Foreign trade data – Montenegro and China

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Import (u 000 EUR)</th>
<th>China Import (u 000 EUR)</th>
<th>China’s share in imports (%)</th>
<th>Total Export (u 000 EUR)</th>
<th>China Export (u 000 EUR)</th>
<th>Trade balance (000 EUR)</th>
<th>China Share of trade balance (%)</th>
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</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,457,361</td>
<td>56,874</td>
<td>3.9%</td>
<td>441,133</td>
<td>0</td>
<td>-1,016,228</td>
<td>-56,874</td>
</tr>
<tr>
<td>2007</td>
<td>2,073,093</td>
<td>100,464</td>
<td>4.8%</td>
<td>454,739</td>
<td>62</td>
<td>-1,618,354</td>
<td>-100,402</td>
</tr>
<tr>
<td>2008</td>
<td>2,529,741</td>
<td>123,834</td>
<td>4.9%</td>
<td>416,165</td>
<td>152</td>
<td>-2,113,576</td>
<td>-123,682</td>
</tr>
<tr>
<td>2009</td>
<td>1,654,170</td>
<td>90,343</td>
<td>5.5%</td>
<td>277,011</td>
<td>95</td>
<td>-1,377,159</td>
<td>-90,248</td>
</tr>
<tr>
<td>2010</td>
<td>1,657,329</td>
<td>88,864</td>
<td>5.4%</td>
<td>330,367</td>
<td>149</td>
<td>-1,326,962</td>
<td>-88,715</td>
</tr>
<tr>
<td>2011</td>
<td>1,823,337</td>
<td>103,080</td>
<td>5.7%</td>
<td>454,381</td>
<td>748</td>
<td>-1,368,956</td>
<td>-102,332</td>
</tr>
<tr>
<td>2012</td>
<td>1,820,850</td>
<td>130,615</td>
<td>7.2%</td>
<td>366,896</td>
<td>3,802</td>
<td>-1,453,954</td>
<td>-126,813</td>
</tr>
<tr>
<td>2013</td>
<td>1,773,352</td>
<td>142,895</td>
<td>8.1%</td>
<td>375,585</td>
<td>3,907</td>
<td>-1,397,767</td>
<td>-138,988</td>
</tr>
<tr>
<td>2014</td>
<td>1,784,214</td>
<td>132,736</td>
<td>7.4%</td>
<td>333,166</td>
<td>2,561</td>
<td>-1,451,048</td>
<td>-130,175</td>
</tr>
<tr>
<td>2015</td>
<td>1,841,524</td>
<td>189,591</td>
<td>10.3%</td>
<td>317,172</td>
<td>7,904</td>
<td>-1,524,352</td>
<td>-181,687</td>
</tr>
<tr>
<td>2016</td>
<td>2,061,688</td>
<td>185,182</td>
<td>9.0%</td>
<td>325,846</td>
<td>18,932</td>
<td>-1,735,842</td>
<td>-166,250</td>
</tr>
<tr>
<td>2017</td>
<td>2,303,503</td>
<td>221,419</td>
<td>9.6%</td>
<td>371,463</td>
<td>6,450</td>
<td>-1,932,040</td>
<td>-214,969</td>
</tr>
<tr>
<td>2018</td>
<td>2,553,580</td>
<td>256,624</td>
<td>10.0%</td>
<td>400,107</td>
<td>14,011</td>
<td>-2,153,473</td>
<td>-242,613</td>
</tr>
<tr>
<td>2019</td>
<td>2,600,771</td>
<td>221,954</td>
<td>8.5%</td>
<td>415,484</td>
<td>17,413</td>
<td>-2,185,287</td>
<td>-204,541</td>
</tr>
<tr>
<td>2020</td>
<td>2,105,170</td>
<td>218,000</td>
<td>10.4%</td>
<td>366,128</td>
<td>22,136</td>
<td>-1,739,042</td>
<td>-195,864</td>
</tr>
<tr>
<td>Total</td>
<td>30,039,683</td>
<td>2,262,475</td>
<td>8%</td>
<td>5,645,643</td>
<td>98,322</td>
<td>-24,394,040</td>
<td>-2,164,153</td>
</tr>
</tbody>
</table>

Source: Statistical office of Montenegro.

Table 2
Number of businesses owned by foreigners overall and by Chinese companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Chinese</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3,771</td>
<td>53</td>
<td>1.4%</td>
</tr>
<tr>
<td>2015</td>
<td>4,194</td>
<td>55</td>
<td>1.3%</td>
</tr>
<tr>
<td>2016</td>
<td>4,710</td>
<td>57</td>
<td>1.2%</td>
</tr>
<tr>
<td>2017</td>
<td>6,621</td>
<td>73</td>
<td>1.1%</td>
</tr>
<tr>
<td>2018</td>
<td>8,410</td>
<td>76</td>
<td>0.9%</td>
</tr>
<tr>
<td>2019</td>
<td>12,429</td>
<td>149</td>
<td>1.2%</td>
</tr>
<tr>
<td>2020</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
According to Table 3, total Chinese FDI in Montenegro amounts to 81.626 million euros (€). The major share of total FDI came in 2020, at €71.2 million. Total FDI from China amounts to less than 1 per cent of total FDI in the country.\(^4\)

As of 31 December 2020, outstanding loans for the construction of the Bar–Boljare highway stood at €640.54 million euros which represents 16.7 per cent of total foreign debt (€3.84 billion). Other major holders of Montenegrin national debt are international investors and international development banks (EUROBOND issuance, IBRD, WB).

It should be noted that no specific data is available on China for 2018 and 2019.

China’s economic presence in Montenegro is rather unbalanced: while a substantial proportion of FDI comes from other countries than China (which accounts for less than 1 per cent of total FDI), China holds a significant part of Montenegro’s foreign debt (16 per cent) and is a major exporter of goods to Montenegro (8 per cent of total imports).

### Table 3
Foreign direct investment in Montenegro by country, including China

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflow (000 EUR)</th>
<th>Outflow (000 EUR)</th>
<th>Net FDI (000 EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>China</td>
<td>%</td>
</tr>
<tr>
<td>2006</td>
<td>647,303</td>
<td>220</td>
<td>0.0%</td>
</tr>
<tr>
<td>2007</td>
<td>1,057,229</td>
<td>377</td>
<td>0.0%</td>
</tr>
<tr>
<td>2008</td>
<td>847,316</td>
<td>697</td>
<td>0.1%</td>
</tr>
<tr>
<td>2009</td>
<td>1,224,000</td>
<td>2,471</td>
<td>0.2%</td>
</tr>
<tr>
<td>2010</td>
<td>652,836</td>
<td>1,694</td>
<td>0.3%</td>
</tr>
<tr>
<td>2011</td>
<td>494,741</td>
<td>840</td>
<td>0.2%</td>
</tr>
<tr>
<td>2012</td>
<td>633,695</td>
<td>440</td>
<td>0.1%</td>
</tr>
<tr>
<td>2013</td>
<td>479,191</td>
<td>141</td>
<td>0.0%</td>
</tr>
<tr>
<td>2014</td>
<td>498,084</td>
<td>1,018</td>
<td>0.2%</td>
</tr>
<tr>
<td>2015</td>
<td>757,435</td>
<td>1,376</td>
<td>0.2%</td>
</tr>
<tr>
<td>2016</td>
<td>687,154</td>
<td>441</td>
<td>0.1%</td>
</tr>
<tr>
<td>2017</td>
<td>659,233</td>
<td>677</td>
<td>0.1%</td>
</tr>
<tr>
<td>2018</td>
<td>858,113</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>2019</td>
<td>778,518</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>2020</td>
<td>663,047</td>
<td>71,234</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Total 10,937,895 81,626 3,601,573 7,336,322 81,626

Source: Statistical office of Montenegro, Monstat.

\(^4\) It should be noted that no specific data is available on China for 2018 and 2019.
CONTROVERSIES AND CHALLENGES

The People’s Republic of China is strategically positioning itself in Europe by means of the portfolio of central and eastern European countries that are united through the 17+1 Mechanism. Among these countries is Montenegro, a country with numerous socio-economic challenges: poor road infrastructure with no highways, difficult access to EU structural funds for infrastructure projects, weak administrative capacity in terms of meeting the demanding rules of European development banks and funds, a significant investment risk as well as an underdeveloped and underdiversified economy.

China has found an ideal partner in Montenegro with whom it has established a strategic connection to launch the first significant infrastructure projects in central and eastern Europe.

Highway project

At the end of February 2014, the Government of Montenegro signed an Agreement on the design and construction of a priority section of the Bar-Boljare highway, with the Chinese state company CRBC. This 42 km section connects Podgorica and Kolasin and in terms of construction challenges it is the most demanding of all sections. Furthermore, it connects Montenegro with Serbia. The contract was signed based on a preliminary, not a main project, which was the first major wrong step in this complex project, which led to numerous future problems.

On 30 October 2014, the Government of Montenegro and the Chinese state-owned EXIM Bank signed a preferential loan agreement to finance the project under the following conditions: US$ 942 million was granted to a country whose currency is the euro, exposing it to currency risk, with a repayment period of 20 years (a six year grace period and 14 years repayment) and an annual interest rate of 2 per cent. In addition, Montenegro waived its sovereignty immunity in the event of credit arbitration; as in other cases, arbitration on a possible dispute based on the loan agreement was agreed to take place in Beijing.

The People’s Republic of China has offered Montenegro a package that international and European partners (World Bank, IMF, European Investment Bank and European Bank for Reconstruction and Development) simply cannot match, for many reasons. Analysis by international consultants showed that construction of the Bar-Boljare highway was not feasible; financial institutions were not able to finance it because of the extreme impact on the sustainability of public debt. Chinese construction companies, because of their predominant state ownership, operate in consortiums on investment projects and pursue the Chinese state’s global economic policy. This approach differs greatly from the business policies of Western companies which, because of their private ownership, may struggle to make a profit on such projects. Their views on the long-term integrated benefits of infrastructure projects are narrow.

In addition, when establishing such credit arrangements, Chinese state-owned construction companies receive monopoly support from Chinese state-owned financial institutions. This offers greater flexibility in negotiations, does not require (much) investment analysis to justify the investment, imposes weaker environmental requirements and, most importantly, is significantly less transparent in relation to the project financing process than Western creditors. In turn, the financing of large infrastructure projects affects the share of Chinese state construction companies in the project (in the case of Montenegro, 70 per cent of the work is performed by the Chinese company CRBC, with 30 per cent being performed by domestic contractors). Finally, if the borrowers are not in a position to repay their loan obligations, Chinese strategists are open to taking over strategic resources of the state through concession arrangements. Such synergistic arrangements, aided by a strategic state interest as a priority, provides a unique advantage with which Western systems, based on fair and open market competition, simply cannot compete.

The arrangements for the priority section of the highway in Montenegro had several structural shortcomings. The deal was contracted in US dollars, it was unprofitable economically, it was characterized by insufficient transparency, the agreed amounts and deadlines were exceeded, while the environmental impact has been best expressed by the Joint World Heritage Centre/IUCN Advisory mission report, which declares that the River Tara has been devastated. Unlike EU-funded projects, which are characterized by careful planning and full transparency, not much was known about the highway project in Montenegro because many documents were declared confidential.

It should be added that there were omissions in the initial planning process (the contracts were signed based on the preliminary, not the main project), as a result of which a loop connecting the priority section of the highway with the capital Podgorica was overlooked, as were electricity and water networks for supplying the highway. This cost the Montenegrin state over €100 million. Also, Montenegro has so far lost over €40 million in projected revenues because of construction delays, further hitting public finances.

China has a clear interest in this project: they are employing their own workers, providing funding in US dollars, expanding their influence in the region and are protected from possible arbitration processes because the jurisdiction of the loan contract is Beijing.

However, it is important to emphasize that China has no wish to jeopardize EU accession for Western Balkans countries. This is most likely a strategic political decision.

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5 Available at: https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html
6 In order to repay the debt for construction of the priority section of the highway, one vehicle must pass the priority section of the highway every 4 seconds, 24 hours a day and 365 days a year.
7 Available at: https://whc.unesco.org/en/documents/174707
Bilateral relations between Montenegro and the People's Republic of China go beyond the highway project, although that is the biggest challenge. In addition to the fact that the design and construction contract has expired, the project has not been completed and the first semi-annual loan installment of about €30 million is due in June this year, several other projects are worth mentioning.

According to the former ruling party in Montenegro, this project has reshaped regional disparities and has had multiplier effects on the economy. Official data show a different picture, however: people are moving away from the northern region and major investments are happening in the south. The multiplier impact on the Montenegrin economy is thus limited.

Energy

THERMAL POWER PLANT PLJEVLJA
In addition to infrastructure projects, Chinese companies are slowly entering the energy sector in Montenegro. In 2019, the Montenegrin national energy company Elektroprivreda Crne Gore (EPCG) awarded the project for reconstruction of the Pljevlja Thermal Power Plant to a consortium of Chinese companies – Dongfang Electric International, Bemax, BB Solar and Permonte – to reduce pollution. The €54.4 million project envisions a complete ecological reconstruction of the Pljevlja Thermal Power Plant, which is expected to meet the strictest EU environmental standards. So far, it is known that a significant advance has been paid, but that work has not yet really got going because of the pandemic. Nevertheless, the public has doubts about the environmental effects; it is an open question whether this project will really lead to the Thermal Power Plant being environmentally rehabilitated to a level acceptable to the European Energy Community.

In addition, on 20 April 2021, the Secretariat of the EU Energy Community sent an Introductory Letter to the Ministry of Capital Investments regarding the Thermal Power Plant and thus initiated proceedings to resolve disputes against Montenegro for alleged non-compliance with the Energy Community Treaty. The EC Secretariat thereby initiated a preliminary procedure, the purpose of which is to provide Montenegro with an opportunity to comment on allegations of non-compliance with Energy Community rules within two months (by 20 June 2021) and to enable the Secretariat to determine the full background.

MAJOR HYDRO PLANTS
In 2016, Chinese state companies China Power and the State Development & Investment Corporation (SDIC) openly expressed interest in building hydroelectric power plants on the Moraca river, which are set to play a significant role in future renewable energy sector developments in Montenegro. There has been no official news on the involvement of Chinese companies in these projects.

WIND FARM MOŽURA
Another example of significant activities on the part of Chinese companies in the Montenegrin energy sector dates back to 2015, when the Montenegrin government awarded the contract for the construction of the Možura wind farm in Ulcinj municipality to Enemalta PLC Malta, a state-owned Maltese energy company. Although the majority owner of this company is the government of Malta, 33 per cent was purchased by Shanghai Electric Power. In 2020, it was revealed that this project is the subject of an international investigation due to alleged money laundering, with the involvement of high state officials in Malta. This project was also investigated by the Maltese journalist Daphne Caruana Galizia, who as a result was murdered in 2017 because of her revelations of high corruption in Malta.

From the abovementioned energy projects, it can be concluded that China continues to build, strengthen and diversify its presence in Montenegro. In the foreseeable future, it is likely that the presence of Chinese state-owned companies will be strengthened in new energy projects to exploit Montenegro’s exceptional potential in the field of renewable energy. Chinese energy companies are keen to take advantage of the strategic submarine cable project between Montenegro and Italy (a project of common interest of the European Commission), which has made Montenegro a regional energy hub. China is able to finance large financially questionable infrastructure projects. This increases its influence, putting it in a better position to purchase significant natural resources in Montenegro. This is possible because Montenegrin public debt is above 80 per cent as a proportion of GDP, which opens up the possible sale of companies in which state has majority ownership.

Vaccine policy
China has been a major Covid vaccine supplier to much of the developing world, an effort that some experts say could bolster Beijing’s global influence and deepen its ties with other nations.

The results of this policy for Montenegro have been clear: 200,000 Chinese vaccines have been delivered to Montenegro, which will enable mass vaccination of the population. The summer tourist season depends on this. The importance of work on the procurement of Chinese vaccines is also shown by the following data: according to the WTTC, the tourism and travel sector accounts for as much as 33 per cent of Montenegrin GDP, and 66,000 jobs, half of all jobs in the private sector. There was no debate on whether to accept the Chinese vaccines.

Shipping industry
The first major business arrangement between China and Montenegro was the directly contracted procurement of ships for two state-owned companies, Crnogorska plovdiva and Barska plovdiva. In 2010 and 2013, the Montenegrin government issued US$ 93.7 million in state guarantees to Chinese shipping companies for the purchase of four ships. Loan arrangements were approved by Exim Bank, a state-owned bank which later financed the Bar–Boljare highway. It is not surprising that, similar to the highway contract, the agreement stipulates that in the event of a dispute over the payment of guarantees, arbitration will be carried out in Bei-
jing. According to media reports, the Montenegrin government has not conducted an adequate economic analysis of the cost-effectiveness of the project. At the beginning of 2021, the Ministry of Finance and Social Welfare postponed the collection of guarantees for ships because shipping companies did not have the money to pay them. In the coming period, we can expect the state guarantees to fall due.

**Culture**

In addition to the economic presence, another form of Chinese influence designed to reaffirm and support China’s presence is culture. To this end, China provides scholarships and opportunities for Montenegrin students in various fields. In 2015, China founded the Confucius Institute at the University of Montenegro with the aim of promoting Chinese language and culture, as well as developing friendly relations between Montenegro and the People’s Republic. The Institute was opened in February 2015, through a partnership with Changsha University of Science and Technology.

**CHALLENGES**

China’s influence in Montenegro has not gone unnoticed by the country’s political allies (EU and NATO member countries). The first significant official mention of the issue of Chinese influence in Montenegro was in 2018 at the Munich Security Conference. The official report of the conference emphasised that the share of Chinese debt in Montenegrin foreign debt was as high as 39 per cent, while the financing and construction of the priority section of the Bar–Boljare highway was presented as a case study on China’s global influence on international security.

In light of this 620,000 population state taking out a loan to fund a project from a 1.4 billion-strong state, it should come as no surprise to find a recent tweet by EU Enlargement Commissioner Oliver Varhejlji: «We are exploring options with the Montenegrin government and our partners on how to find feasible solutions for the country’s investment projects and ensure the sustainability of its public debt, as well as eliminate the risks of past arrangements, while respecting EU policy and financial rules.»

With this short, explicit message, from which the standard diplomatic equivocation is clearly absent, the economic policy of the former Montenegrin government concerning highway financing and construction was officially rejected. It is clear that Brussels is aware of the gravity of the problem that the Chinese loan brings to the small economy of Montenegro, especially in the context of future recovery from the economic crisis and when important strategic decisions need to be made on infrastructure projects at EU level.

The final blow to the economic policy of the former government of Montenegro was dealt by the Washington Post, which published an article declaring that Montenegro has mortgaged itself to China. The article also states that US intelligence recently assessed the spread of Chinese economic influence through financial instruments as a global threat to American economic and security interests. A direct and precisely structured message from a key foreign policy ally of Montenegro means only one thing, that the former government crossed a Washington red line with its highway project. Such reactions from key Western countries should come as no surprise, given that Montenegro is a member of NATO and aspires to be the next member of the European Union.

Bearing in mind Montenegro’s geostrategic position in Europe, as well as the way in which the People’s Republic of China resolves bilateral issues, it is to be expected that China will offer Montenegro loan rescheduling and complete the priority section of the highway as soon as possible. However, no further construction of the remaining part of the highway will be possible without a combination of grants and favourable loans because of the high public debt and the impact of Covid-19 on public finances.

Montenegro is a small country (620,000 inhabitants) with limited administrative capacity. As such, the challenges it faces in its relations with China are great. Without adequate financial and technical support from the EU, it can hardly cope with the challenges it faces.

**OPPORTUNITIES**

Montenegro can be a partner to Chinese companies in the following industries:

1. Agriculture: the company 13 July Plantaže is a major producer of high quality wines. It can export up to €10 million worth of wine to China each year.
2. Tourism: in 2019, over 2.5 million tourists visited Montenegro. The growing middle class of Chinese citizens can boost the Montenegrin tourist season for the whole 12 months. Chinese tourists can be a good strategic fit for the extension of the tourist season for the whole year.
3. Logistics: better utilization of the port of Bar can be used to speed up the transport of goods from and to the region. Because the port is underutilized, strong commercial benefits are possible.
4. Health tourism: one of the most renowned medical facilities in the region is the Dr Simo Milošević Institute for Physical Medicine, Rehabilitation and Rheumatology, located in the coastal town of Herceg Novi. Bearing in mind the increasing need for medical services, the Institute can be good resource for post Covid recovery.

Montenegro’s main opportunity is the completion of other sections of the highway. For the time being, however, the government does not have the money. Montenegro should continue infrastructure investments, but only after the consolidation of public finances, which have been hit hard by the Covid-19 pandemic. Precisely in the period of consolidation of public finances, intensive preparatory action must be taken to continue the construction of other sections of the highway. However, new projects must be fully transparent and fully implemented through the public pro-
curement system. Due to the difficult position of public finances, other shares must be financed only through the EU’s Western Balkans Economic and Investment Plan worth around €9 billion, as well as a combination of own funds, grants and long-term loans from European banks that guarantee compliance with all EU procedures and rules.

LIMITS

As stated in the introduction, relations between Montenegro and China are largely economic and not based on identity or cultural issues. Building on the above, it should be emphasized that the two countries’ political systems differ considerably: Montenegro is a functional democracy, which is nevertheless assessed by Freedom House as a »hybrid regime«. China, of course, is very different.

China’s major leverage over Montenegro is evident: China has over 1.4 billion people, GDP is measured in tens of thousands of billions of euros, and its territory is huge. Additionally, China has strategic resources that compete with other countries globally. On the other hand, Montenegro, with a population of 620,000, a GDP of €4.5 billion and scarce resources, has real challenges that complicate relations with China. Therefore, Montenegro must be anchored in accordance with the strategic direction of the EU and its overall relations with China. Only in this way can it position itself wisely in this bilateral relationship while maintaining national development.

China’s new five-year development plan shifts the focus to improving the quality of life of China’s population. After a detailed consideration of the five-year plan and underlying documents, it is necessary to map out possibilities for cooperation and prepare for challenges as well.

The European Union and thus central and eastern Europe need a unified response to the key challenges arising in relations with China, which must not preclude economic cooperation. Investments in projects leading to a climate-neutral Europe, transparent financing, as well as compliance with EU rules should lead to better cooperation between the two global players.

Bearing in mind its aspiration to join the EU, Montenegro, in its relations with China, should position itself on the side of its EU and NATO partners.
OVERVIEW OF MACEDONIAN-CHINESE RELATIONS

The earliest significant exchange between the People’s Republic of China (PRC) and the then-Socialist Republic of Macedonia took place in 1979, when the paramount leader of China Hua Guofeng travelled to Skopje, and publicly expressed support for the Macedonian nation in its struggle for international recognition (Sfetas, 2012). After the dissolution of the Yugoslav federation, China recognised the country’s independence in 1993 and supported it on the way to UN membership. Throughout the 1990s, China emerged as a development partner to North Macedonia, the most significant endeavour in this domain being the construction of the Kozjak Dam. The two sides had a generally cordial relationship until 2000, when Skopje abruptly recognised Taiwan as an independent country, thus violating the One China Principle. In addition to severing relations with the country, PRC in retaliation also vetoed the extension of the mission of the UN peacekeeping mission on Macedonian territory (Tubilewicz, 2004). Relations normalised in 2001–2002, after the Macedonian conflict of 2001 (when ethnic Albanian paramilitaries comprising Kosovo war veterans clashed with Macedonian security forces) and the replacement of the government with an interim one.

The early 2000s saw the gradual restoration of Macedonian-Chinese relations. As in other countries in the region, North Macedonia’s relations with China received a significant boost with the establishment of the platform for cooperation between China and Central, East and Southeast Europe (originally dubbed 16+1, and 17+1 after Greece joined) in 2011–2012, and subsequently, with the launch of the Belt and Road Initiative (BRI) in 2013 (Vangeli, 2017). While the country was not represented at a high level at the BRI forums in 2017 and 2019, rhetorically Macedonian officials have often repeated their commitment to the initiative.

The initial years of the China-initiated multilateral and regional cooperation led to increased interaction, but also to the agreement and implementation of two infrastructure projects: the Kičevo-Ohrid (57 km long, due to be completed after numerous delays in 2023) and Miladinovići-Štip (47 km long, completed in 2018) highway sections, whose cumulative cost has been 861 million euros (€). These are among North Macedonia’s most significant infrastructure undertakings since its independence. They are of strategic importance and expected to have a strong positive macroeconomic impact over the long term. These projects, however, have experienced a number of issues (Nechev and Nikolovski, 2020), including cost overruns, delays, political controversies and challenges on sustainability grounds (to be elaborated below). They have often been cited as examples of problems with bilateral relations, and broadly, with Balkans-China relations. Simultaneously, they have often been showcased as examples of both successful Macedonian-Chinese cooperation and as successes for the Macedonian governments that oversaw their development.

The 16+1/17+1 platform and the BRI have provided an opportunity for Macedonian elites to contemplate regional connectivity in bold ways, inspired to a significant extent by the narratives of the New Silk Roads and China’s own example of rapidly developing connectivity. North Macedonian representatives have often participated in meetings related to the idea of creating a »China-Europe Land-Sea« express (CELS) corridor, which would connect Athens and Budapest, via North Macedonia and Serbia, thus cooperating with Serbian, Hungarian and Greek counterparts. Policy cooperation in some areas, such as customs, has also accompanied discussions of the CELS (PRC Embassy in Skopje, 2014). In terms of quasi-institutional development under the 17+1 platform (Song and Pavlićević, 2019), North Macedonia hosts the China-CEEC Centre for Cultural Cooperation (since 2017), and hosted the High-Level Think Tanks Symposium in 2018.

The 17+1 platform has attracted a lot of criticism in the EU, although the grounds for the overall negative assessment are often questioned (Stec, 2020). Some CESEE countries have voiced their dissatisfaction with the results of China-CESEE cooperation and have therefore scaled back their involvement. North Macedonia for now remains part of the platform and has not expressed major objections to it. Nevertheless, North Macedonia’s relations with China somewhat cooled after 2015 as a result of a combination of internal and external developments. First, in 2015, the country entered a deep and protracted political crisis, which made the VMRO-DPMNE and DUI government more inward-looking. In an effort to avoid any further trouble with its Western partners, that government cautiously reduced its relations with
China. Moreover, Chinese actors themselves were also apprehensive about the prospects of cooperating with the Macedonian government at a time of great uncertainty, not least because the highway projects were themselves the subject of major corruption scandals (see below). After the change of government in 2017, the ruling SDSM continued to hold cooperation with China at arm’s length; for example, it did not proceed with its 2016 election promise to pursue new infrastructure projects in cooperation with China. As the SDSM-DUI government invested all of its resources in resolving the name dispute with Greece and relations with Bulgaria, while advancing applications for NATO and EU membership, relations with China were sidelined. Even though for Greece, the solution of the name dispute facilitated its accession to 17+1 (Tonchev, 2019), in North Macedonia cooperation with Greece was never linked to China.

Changes in the global political landscape significantly contributed to the change in posture among Macedonian elites. Changes in sentiment in the EU have made cooperation with China a sensitive issue from the perspective of the domestic reform process. The change in US foreign policy discourse decidedly raised the stakes when it comes to the strategic impact of Macedonia’s China policy, however. While North Macedonia has not embraced the «China Threat» approach, it has made certain amendments that signal a change. This has perhaps been most visible in the decision to join the Clean Network Initiative led by the United States, which effectively restricts Chinese vendors from providing core 5G infrastructure (Morina, 2020). In the Macedonian context, the decision signalled a significant turnaround, as the country has had long-standing partnerships with Huawei (including in education and science), and both Huawei and ZTE have been considered potential R&D investors (Vlada.mk, 2017).

Yet another twist in the relationship was brought about by the Covid-19 pandemic. In the early stages (Spring 2020), North Macedonia faced significant shortages of medical and protective equipment; a year later, it faced difficulties in procuring vaccines. In both cases, China emerged as an important «Plan B» option. It enabled the sale while also providing aid in the form of protective equipment, as well as technological devices to help with the implementation of remote learning during the lockdowns (as a number of Macedonian students did not have the means to participate in online classes). Even more significant has been the provision of vaccines produced by Chinese pharmaceutical companies. Initially, the Macedonian government turned down the possibility of obtaining Chinese vaccines, arguing that it wanted to remain aligned with the standards set by its Western partners. After repeated failures to secure sufficient vaccines through the Covax mechanism, however, and the delays in EU assistance mechanisms, Macedonian leaders turned to China, initially purchasing 200,000 doses of the Sinopharm vaccine, receiving a further 100,000 doses as a donation from the People’s Liberation Army, and finally, purchasing 500,000 doses of the Sinovac vaccine. Symbolically, Prime Minister Zaev and other government officials have all publicly received the Sinopharm shot. Zaev has used the momentum not only to praise China for its help, but also to remind the EU that inaction in the Balkans creates conditions for external actors to fill the void (Stamouli, 2021).

Nevertheless, these developments have not substantially altered the state of play in the country. China’s role in North Macedonia, as in the Balkans, remains primarily geoeconomic (Vangeli, 2019). In sum, its role in the country has increased since 2009, but it remains a partner of secondary, or even tertiary importance. Overall, Macedonian elites see China as an important partner that could be a source of supplementary economic cooperation, but not a provider of a strategic alternative to relations with the West. In this sense, the preference of Macedonian leaders has been to explore opportunities for deeper economic cooperation with China, while remaining fully committed to the country’s integration in the European Union and advancing its role as a NATO member.

**CHALLENGES**

Economic cooperation has been central to Macedonian-Chinese relations, and has been the most important direct shaper of mutual perceptions and expectations. It is in the realm of economic cooperation that relations are facing a number of practical challenges and controversies. Overall, the set of challenges can be divided into three subgroups: those arising from trade relations, those arising from the mismatch between expectations and results in terms of Chinese FDI flows into the country, and most significantly, the problems accompanying cooperation in transport infrastructure development.

**Unbalanced trade**

Looking at the numbers, China is a significant economic partner of North Macedonia, although the scope of their economic relations, as well as China’s relative importance to the country are far below those with the EU. In 2019, bilateral trade between the two countries amounted to around USD 710 million, and has been fairly unbalanced: Chinese exports to North Macedonia amounted to USD 544.9 million, while Macedonian exports to China totalled USD 166.1 million (Stat.gov.mk, 2020). However, besides the overall trade asymmetry, the composition of goods being traded between the two sides is striking. While China primarily exports advanced technological goods (machines, electronics, appliances), North Macedonia primarily exports raw materials (for example, more than two-thirds of Macedonian exports to China are ferroalloys) (OEC, 2021). This trade composition demonstrates the production disparity between the two countries, and resembles China’s economic relations with the developing economies of the Global South. This is perhaps an additional reason why China files its relations with North Macedonia and the Balkans under South–South diplomacy (Kowalski, 2018).

**Lack of investment**

Even though successive Macedonian governments have expressed a desire and undertaken various measures to attract investment from China, the amount of Chinese FDI in North Macedonia has been much lower and less significant than in the rest of the Balkans, not to mention most of Europe. By
2020, there was only around €27 million of Chinese FDI (stock) in North Macedonia (Matura et al., 2021). Some of this is a result of the global expansion of Chinese capital and the acquisition of production capacities formerly owned by Western companies. These include the MakSteel steel mill in Skopje (as HeSteel, acquiring a 51 per cent stake in MakSteel’s parent company, the troubled European steel giant Dufelco’s steel trading arm in 2015) and the former Key Safety Systems factory for automotive safety-critical components and systems near Kičevo (in 2015 Ningbo Joyson Electric Corp acquired the American Key Safety Systems and its factories worldwide, now known as Joyson Safety Systems) (Matura et al., 2021). Additionally, there have been two failed attempts, announced with great pomp, to deliver a significant outcome: a joint Sino-Korean (Haier-Triview) investment in an electronics factory in partnership with the Macedonian government; and the acquisition of a textile factory by the Chinese-Turkish Weibo Group, which was supposed to be transformed into the largest integrated textile centre in Europe. This was later put on hold and never materialised (Matura et al., 2021).

**Governance and sustainability issues related to infrastructure projects**

Central to the Macedonian-Chinese relationship are the two highway projects (Kičevo-Ohrid and Miladinovci-Štip). The projects followed the »tied loans« practice, meaning that the funding was provided in the form of a loan by a Chinese financial institution (in this case, the China Export-Import Bank), and a Chinese company was hired as leading contractor (in this case, Sinohydro Corporation). This arrangement was implemented through a special law, fast-tracked through parliament on the grounds that it concerns strategic projects, circumventing standard regulations on public procurement (competitive public tenders) and proper public debate. Such practices are seen as undermining the reforms the country is undertaking in preparation for EU accession.

The awarding of the highway projects has also been the subject of a major political and legal controversy. Leaked wire-taps (part of the »bombshells affair« in 2015) revealed that the government had decided to reject the offer made by another Chinese company (China Water & Electric Corporation, CWE) that had been competing for the same projects, even though CWE, which was excluded from the process, was given that CWE, which was excluded from the process, was already preparing a better offer.

In addition to concerns about the price tag, critical voices argue that by taking such high loans from Chinese state financial institutions North Macedonia has become politically vulnerable to Chinese influence (the so-called »debt trap« narrative). On the other hand, the argument in defence of the decision to proceed with the Exim Bank loan was that there was no better alternative to finance the two infrastructure projects (as the projects did not find support among Western financial institutions). Furthermore, the price tag notwithstanding, the conditions for repayment of the loans have been relatively favourable, and so far, the Macedonian government has experienced no problems with its financial obligations (Nechev and Nikolovski, 2020).

Problems were also encountered with the construction of the highways as well. Because of poor planning and a number of adjustments in the construction process in response to landslides and unforeseen excavations, both highways experienced delays (originally they were intended to be completed and fully functional by 2017). The Miladinovci-Štip route was completed two years behind schedule, in 2018. The Kičevo-Ohrid one, however, was the subject of much more serious issues, which included inadequate study of the terrain, legal issues regarding land ownership, and adjustment of the energy and water infrastructure in the area of construction. Hence, work on the highway has experienced long periods of stagnation. After lengthy re-negotiation, in 2018 the Macedonian government and Sinohydro agreed to a number of adjustments that raised the total cost of the project by an additional €187 million, making a total cost of €589 million.

The projected date for completion laid down in the 2018 Annex was moved to 2021; currently, the expected completion date is sometime in 2023.

The Kičevo-Ohrid highway is often discussed in terms of its environmental sustainability and impact, not least because of the complex construction process and the associated challenges (such as landslides) (Tsimonis et al., 2020). Moreover, the highway passes through the Ohrid Lake region, which is a UNESCO protected natural and historical heritage site that in recent years has seen rapid degradation (including as a result of unsustainable infrastructure development) and may soon be re-classified as »endangered«. The area is also the natural habitat of the endangered Balkan lynx, and there has been a push by wildlife protection activists to push for construction of green overpasses on the new highway.

### OPPORTUNITIES

North Macedonia lags significantly behind the European average in terms of economic development, and this is the main motivating force behind its China policy. While there is an in-

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1 Details on the highway projects in this section are based on Vangeli (2021).

2 This practice was recently repeated with the construction of three new highways in cooperation with the American-Turkish consortium Bechtel-Enka. See Marusic (2021).
creased awareness of the challenges that (may) arise from cooperation with China (both in the realm of high politics, and in terms of the practical details of the cooperation), the promise of mutually beneficial economic cooperation is still the dominant element of relations with China. Any optimism for the future, however, can ensue only after lessons have been learned from problems that have arisen in the past, and once risks are gradually transformed into opportunities.

**Macedonian export promotion**
The significant trade deficit, and the unfavourable composition of trade (exporting raw materials, importing advanced goods) has been recognised by both Macedonian and Chinese actors as challenges to be addressed. Promoting and diversifying Macedonian exports to China are priorities for the Macedonian side. Policymakers and entrepreneurs have already demonstrated enthusiasm about the potential of exporting agricultural and other food products to China (Metamark, 2019). Given the existing agricultural and food industry base in the country, and China’s interest in boosting food imports, agricultural cooperation aimed at boosting Macedonian exports is a worthwhile policy goal. To fully seize the opportunity, however, such cooperation needs to overcome the problem of scale (the volume of output of Macedonian producers is in general much lower than the expectations of Chinese importers). Therefore, coordination on a national, and potentially regional, level would be essential for boosting agricultural and food exports to China. Beyond agriculture and food, other sectors could be explored, although the limited competitiveness of Macedonian producers remains a key challenge.

**Investment in industrial and technological upgrading**
One of the key priorities -- and for now, a distant dream -- of Macedonian policymakers has been to attract substantial Chinese FDI. Efforts to attract FDI (and just from China) should continue, but a rethinking of the strategy is necessary if these efforts are to succeed (overall, beyond China, there has been a significant under-delivery in terms of attracting FDI). So far, successive governments have promoted North Macedonia as a destination for labour-intensive industries, and have relied on deregulation, subsidies and offering various perks to companies that invest in the country. A more robust, long-term vision for economic development is essential for promoting the country not only as a haven for companies seeking a quick profit, but also as a potential hub for value creation and long-term growth. Improving the rule of law and the institutional environment is another key step in this direction.

Attracting Chinese FDI should not only be about quantity, but also about the quality of those investments. North Macedonia should not become a destination for the relocation of labour-intensive or polluting industries closer to the EU (such as the Linglong tyre factory in Serbia). The country already hosts significant automotive parts production capacities, and thus it should rather explore opportunities to upgrade and move up the value chain (in advanced manufacturing and technologies).

This in turn raises the questions of standards and security and other considerations raised by its strategic partners. In the past, successive Macedonian governments contemplated deeper cooperation with Huawei or ZTE (including investments in R&D), but with the securitisation of Chinese technology in the West, cooperation with Chinese tech giants has become contentious. Thus, ensuring compliance and obeying critical security and dual-use regulations should now be an integral part of the country’s investment attraction strategy, which will also mean a narrower scope of possible investments from China. However, in sectors deemed safe, Chinese companies should be actively enticed.

**Investment in renewable energy, the circular economy and sustainability**
China has made considerable strides in developing renewable energy at home, and promotes it as one of the pillars of the »Green Silk Road« around the world. In the Balkans, however, recent energy cooperation with China has developed in the opposite direction: it has focused on coal-powered thermal plants, ringing alarm bells in the region and beyond about the detrimental environmental impact.

North Macedonia sets a different example, however, and could help in nudging energy cooperation with China in the right direction. In 2000, long before 17+1 and BRI, China Water & Electric built the Kozjak Dam and Hydropower Plant near Skopje, with a loan provided by the Bank of China. Ever since, there have been talks on developing other hydropower capacities in the country. Further developing hydropower capacities represents an important contribution to reducing the dependency on energy produced using fossil fuels. China remains a significant possible partner for developing the untapped potential in solar and wind energy as well, and an overall partner in the energy transition plan unveiled by the Macedonian government in 2021.

Furthermore, while China has a history of environmental degradation, it has also championed environmental recovery, which could offer lessons for North Macedonia: cooperation in air pollution reduction, water treatment, reforestation and environmentally-friendly retrofitting are areas in which cooperation could be explored. Finally, circular solutions, which are high on China’s developmental agenda, and also an emerging priority for North Macedonia, are another potential area of cooperation, and possibly an area in which the EU and other international partners can be involved. Recent pledges made by China to cut coal financing overseas (BBC, 2021) could create a momentum for green, sustainable cooperation in the future.

**Transport infrastructure development and regional connectivity**
North Macedonia has a significant infrastructure gap, and therefore the partnership with Chinese companies and financial institutions is one way to tackle this challenge. However, cooperation in particular on high-value, strategic megaprojects needs to take in account the existing challenges and controversies, and to be developed in a more sustainable manner. Future projects need to be transparent, follow the
principles of good governance, and be environmentally friendly. This is not impossible for Chinese companies: the fact that Sinohydro won competitive tenders funded by the EBRD in 2019 and by the national government in 2021 (and demonstrated that it can work diligently, efficiently and responsibly), shows that Chinese companies, which otherwise have valuable experience and knowhow, can play an important role in addressing the Macedonian infrastructure gap. Ensuring competitiveness would mean that Chinese companies can rely on their competitive advantages rather than on political favours.

Another potential avenue to explore is the further use of Chinese development funding. So far, the financial conditions have been favourable (in other words low interest rates, sufficient grace periods and lengthy repayment periods, with space for renegotiation). However, the practice of «tied loans» should be rethought (the loans should be «untied»), and competitive use of Chinese loans should be contemplated. Just as Chinese companies bid for international funding, local and international companies should also be able to bid for Chinese development funding.

Finally, the regional vision of Chinese initiatives is aligned with endeavours to boost connectivity between North Macedonia and its neighbours (for example, through the Berlin Process or Open Balkans). Ambitious regional connectivity ideas are often flaunted within China-led formats, but so far remain figments of the national (and regional) imagination. Such ideas include modernisation of the existing north-south railway line to make it a high-speed one, from Belgrade, through Skopje, to Thessaloniki, as part of the China-Europe Land-Sea Express line that connects Budapest and Piraeus (Li, 2019); and the construction of a waterway that would connect the River Vardar with Morava and Danube, making it possible to ship goods from the Aegean Sea to the Danube (Tzimas, 2017). While such spectacular ideas are hard to implement in practice, less ambitious projects could be brainstormed and developed jointly.

**Culture and tourism**

North Macedonia has ample cultural heritage, but lacks the capacities to properly conserve, manage and develop it. In lieu of its own resources, the country relies heavily on external support for such efforts. The partnership with China, and in particular, the hosting of the China-CESEE Cultural Cooperation Centre in Skopje should be leveraged to advance cooperation with China in culture (not least because the cultural domain remains relatively less secured compared with other areas). Examples from other countries, such as the Serbian-Chinese partnership in cultural heritage protection and digitalisation (Ekapija, 2018), and the ample Greek-Chinese cultural and civilisational cooperation (see the report by Trigkas) could perhaps offer significant lessons in this direction.

Attracting more Chinese tourists has been yet another goal for both the Macedonian government and tourism entrepreneurs. North Macedonia initially followed in the footsteps of Serbia, Montenegro and Bosnia and Herzegovina, and was negotiating a bilateral visa-free regime with China (Makfax, 2018). However, this has not yet materialised, and the cumbersome visa policy remains an obstacle. A breakthrough in this domain should not be expected as long as China maintains the firm regulation of movement in and out of the country in response to the Covid-19 pandemic.

**China as a window to Asia**

Besides relations with China and Japan, North Macedonia has negligible relations with Asia, and has no expertise or policy that addresses that continent. Given that Asia has become the engine of the global economy, such lack of capacity must be addressed. Thus, in parallel with developing capacities to deal with China, Macedonian policymakers, experts and entrepreneurs should also look beyond China and deepen ties with other Asian countries. In this, they should actively follow the EU approach of engaging Asia beyond China (for example, in the domain of connectivity). They should also use the opportunities provided by multilateral channels (that is, within the Belt and Road framework) established by China to establish contact not only with Chinese counterparts, but also with representatives of other Asian countries (and beyond).

**LIMITATIONS**

Discussing the opportunities of Macedonian-Chinese relations is an interesting exercise in thinking about possible, and largely desirable scenarios. However, one should also be aware of the limitations and constraints that stand in the way of the most desirable scenarios. These limitations are a cumulative result of structural factors and the role of different agencies, and are rooted in the (in)capacity of Macedonian actors, the posture of Chinese actors and the impact of external factors.

**Local (in)capacity**

Macedonian elites tend to think of North Macedonia as a small country without significant agency on the world stage. Such an approach is conducive to timid behaviour when dealing with powerful global actors. Usually, relations are interpreted through the binary lens of threat and opportunity, while the country itself is seen as a venue rather than as an actor, and therefore is more complacent than proactive on the international stage. Foreign policy is moreover often shaped in isolation from the broader development agenda and thus devoid of economic substance.

North Macedonia also has significant knowledge gaps, even about basic issues regarding China; therefore building up expertise on China and Asia should be a priority (Krstinovska, 2019). Currently, the knowledge comes either from mainstream Western or Chinese sources, but there is no original Macedonian perspective or debate on China. Overall, the challenge of producing (and retaining) knowledge is present in all aspects of foreign policymaking and beyond, and there is little prospect that this can be amended in the short to medium term.
Finally, when it comes to the practical side of cooperation, there are significant structural and systemic issues unrelated to China, which appear to be a major challenge and risk for North Macedonia. These are challenges and risks related to (absence of) the rule of law, the (lack of) efficiency of state institutions, and depletion of human resources (brain drain). The difficulties involved in cooperation with China are not exclusive to that, but rather have been plaguing Macedonian development since independence, as well as the process of EU accession. In this sense, hopes that North Macedonia’s China policy can experience a significant improvement should not be inflated; it is likely to resemble developments in other areas rather than be an exception.

China’s posture
While China has the political will to deepen relations with North Macedonia, there are some obvious caveats. Chinese actors themselves lack both knowledge of and sensitivity for the region, and the Macedonian context in particular. While rapidly filling in the gaps, Chinese actors are still in the learning stage when it comes to pursuing relations, and in particular, implementing projects overseas. This implies that while China has significant »hardware« (financial resources, institutions) it still needs to improve and optimise its foreign policy »software«, which means that in the short-term there is a limit on how much adjustment can be expected.

Moreover, while operating with some flexibility, China has little incentive to go out of its way to improve its relations with North Macedonia. North Macedonia is small, suffers from structural weaknesses and relative instability, and cooperation with it often attracts negative attention. This poses the question of why China would pay disproportionately high attention to its relations with North Macedonia? Chinese actors position themselves as stakeholders in the country’s development, but with a certain degree of constraint; in other words, they do not want to get entangled in domestic politics, and would rather wait for the period of instability to pass.

Furthermore, beyond their monolithic appearance, Chinese actors are highly diverse, and different actors operate in different ways. In practice, this means that there are many faces of China’s presence in the world. These include the transformative one, practiced by Chinese actors that pursue sustainable development and act responsibly abroad, to the benefit of local populations, and the exploitative one, that of Chinese actors that are opaque and corrupt, potentially to the detriment of local populations. In the Macedonian context, this duality is visible in the case of Sinohydro: it has been both embroiled in scandals related to the highway projects, and has successfully undertaken newer expressway projects. When discussing the opportunities of relations with China, obviously, Macedonian elites have in mind the image of transformative China. But which version of Global China one ultimately gets is a result of one’s endeavours, rather than chance. It is up to Macedonian actors to ensure that exploitative or transactional behaviours are curbed, and that the cooperation with China is geared to providing added value, especially for the local population.

External/global factors
Macedonian-Chinese relations have developed against the background of a tense global political landscape. Among authoritative voices, there is an increasing perception worldwide that China is now pursuing a particularly ambitious global agenda that may come with sharp edges. After designating China a strategic competitor, and launching a trade war, the United States is now pursuing »extreme competition« with China in every corner of the globe (BBC, 2021). The EU’s relations with China have soured over the years, and are currently in the doldrums. Both the United States and the EU have expressed concerns about increased Chinese influence in the Western Balkans, and have alarmed governments in the region, urging them to adopt a more vigilant attitude. Macedonian elites are well aware of the growing sensitivity and have adjusted their attitude accordingly: while not embracing a more confrontational attitude towards China, they have downplayed relations with China, while loudly reaffirming their allegiance to the West. Whatever opportunities they have sought with China, thus, remain below the radar. This gives the impression that, for now, North Macedonia has somehow managed to balance between commitments to the European and Transatlantic agenda, and pursuing pragmatic cooperation with China. However, it remains to be seen whether such an attitude is sustainable, and whether there is a threshold that would tip the country towards one side or the other, especially if current global trends continue or accelerate. Macedonian elites should pay attention to these developments, and gauge the strategic risks of deepening relations with China on a case-by-case basis (rather than labelling everything related to China as a threat).

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BAND OF BROTHERS – DEVELOPMENT OF SINO-SERBIAN RELATIONS SINCE 2009

When we look at the development of relations between two countries, often it is not easy to pinpoint when the relationship started. In the case of relations between Belgrade and Beijing, 2009 was a crucial year for their overall development, when they were formalised as a comprehensive strategic partnership (Press Statement 2018). On the road to that level of cooperation socio-economic and political relations developed between the two actors, led by the political elites and governments.

In 2009 Serbia and China also signed a framework agreement on economic, technological and infrastructural cooperation (Government of Serbia website 2009). This document still forms the basis for each joint infrastructural project and the financial arrangements that China has made for the implementation of those projects.

Those two agreements have made Beijing, in the words of former Serbian president Boris Tadić, a »pillar of Belgrade’s foreign policy« (Politika 2009), and an important actor for Serbia, both inside and outside its borders. The partnership, since that moment, has spread beyond the economic and infrastructural sphere. It includes the alignment of Serbian foreign policy with Chinese initiatives, such as promotion of the »One China Policy«. This is not surprising, given that Serbia has its own territorial issues with the status of Kosovo. Belgrade does not recognise Kosovo as an independent country and treats it as an integral part of Serbian territory. Because of its close political relations with Belgrade and its own territorial disputes China does not recognise Kosovo and has no official diplomatic relationship with Pristina.

From that starting point, China slowly rose to the position of Serbia’s closest non-Western partner. In 2016, two countries signed a Joint Statement on the Establishment of a Comprehensive Strategic Partnership, bringing Serbia even closer to its partner from the Far East. Belgrade has become an important hub in the Chinese Belt and Road initiative and is seen as a champion of cooperation with China among other central and eastern European countries.

The beginning of a contemporary partnership between Belgrade and Beijing precedes both the Chinese Belt and Road initiative and the establishment of the 16+1 platform. But the development of those two Chinese foreign policy efforts has brought the relationship to a higher level. But the relationship is not defined solely by Chinese global outreach. An equally, if not even more important aspect of China’s cooperation and popularity among Serbian citizens is domestic agency and the positive representation of relations among representatives of the Serbian political elite.

Since 2012, the ruling majority party in Serbia has been the Serbian Progressive Party (SNS). Led by the current Serbian President, Aleksandar Vučić, SNS has an absolute majority in the Serbian national parliament. Gradually, with both legislative and executive power, SNS and Vučić have centralised power and have total control over political life in Serbia. The centralisation of power and control over the system has decreased the overall level of respect for the democratic values in Serbia. In 2020, the Freedom House report put Serbia in the group of »partly free« countries, stating that »in recent years the ruling SNS steadily eroded political rights and civil liberties, putting pressure on independent media, the political opposition, and civil society organisations. Despite these trends, the country has continued to move toward membership in the European Union« (Freedom House 2020).

SNS has also established close relations with the Chinese Communist Party (CCP), emphasising the relationship between SNS leader Aleksandar Vučić, and CCP leader Xi Jinping. In addition to this relationship, the parties have worked closely on exchanges of experience and the establishment of close cooperation, calling for ever closer links (Stojanović 2019). The close relations between the two parties and their leaders, and SNS’s undisputed position within the Serbian political system have enabled it to be the main facilitator of Chinese presence in Serbia, pushing the narrative of »steel friendship« between two countries and »brotherhood« between the Serbian and Chinese leaders (Instagram Page, @buducnostsrbijeav 2020).

The peak of positive public opinion on cooperation between Serbia and China (so far) happened during the Covid-19 crisis. First, in 2020 at the very beginning of the pandemic in Serbia, Vučić stated that China is the only country that can
help Serbia in the fight against the virus (CGTN 2020), and Serbia quickly became the centre of Chinese »mask diplomacy« in central and eastern Europe. Then, almost a year later, when the vaccination process started, once again China was presented as Serbia’s main partner because most of the vaccines that Serbia was able to obtain on the global market were Chinese Sinopharm (Vladisavljev 2021).

All of that made China one of the most popular foreign actors among Serbian citizens. Public opinion research from April 2021, conducted by the Serbian Institute for European Affairs, showed that 83 per cent of Serbian citizens perceive China as a »friendly country«, and 77 per cent think that relations between Belgrade and Beijing will be even better in the future (Institute for European Affairs 2021). According to public opinion research published by the Belgrade Centre for Security Policy in November of 2020, 87 per cent of Serbian citizens have a positive impression about China, and 75 per cent think that China was the biggest donor to Serbia during the fight against Covid-19 in 2020 (Belgrade Centre For Security Policy 2020).

The positive perception of China is the result of the overall development of cooperation over the past decade. China’s desire to position itself as a leader on a global level, including in southern and eastern Europe, has been generally accepted among the Serbian political elite, and hence among Serbian citizens, creating an overall positive image and context in which China is seen as a beneficial partner for Serbia.

**HEADING WEST – LOOKING EAST**

A convoluted foreign policy has been Serbia’s hallmark. Decision-makers in Belgrade often pursue a multi-vectoral approach to relations with the major global powers. It is important to note, in this context, that EU membership is still being presented by Serbian officials as the main foreign policy goal.

As a country with the status of candidate for EU membership, Serbia has committed to aligning its legal framework and policies with the EU, and to meeting the standards needed for membership. Recently, however, the integration process has been hampered by both an unclear stance towards future enlargement within the EU itself, and also a declining level of respect for the rule of law and democratic values in Serbia.

The uncertain future of EU integration has opened the door for third-country actors. The rising presence of these actors is not alien to Serbia’s official foreign policy; the development of relations with actors such as Russia, China and the United Arab Emirates is also often mentioned as a foreign policy goal by Serbian officials (Beta 2020). Closer relations with partners from the East are not inherently harmful to Serbia. There are instances, however, in which it is important to remain cautious about developing closer relations with countries such as Russia and China, because closer political relations can heavily influence the process of EU integration.

One area in which that is particularly important is the alignment of Serbian foreign policy with EU foreign policy declarations. According to Serbian think tank, the ISAC Fund, in 2020 Serbia aligned itself with only 56 per cent of the EU’s declarations, which makes Serbia the Western Balkan country with the worst record in this respect (Novaković et al. 2021). The same report states that in 2020 the EU issued the most number of declarations related to China so far, as many as five. None of these declarations imposed restrictive measures on China, but mainly reflected the EU’s positions on developments in Hong Kong. Serbia has not adopted any of them, but has openly shown support to China in dealing with the Hong Kong issue. Serbian President Vučić stated that »as an independent country, Serbia is against any interference with the internal affairs of a sovereign country« (Eu- reactiv 2020). It is important to note that it is not only partnership with China that defines Serbia’s stance. It is also highly motivated by its strategic interests, above all the issue of Kosovo’s independence. Nevertheless, to become part of the EU, Serbia will have to lean closer to full alignment with EU positions on (for Serbia) sensitive issues related to countries that Serbia perceives as partners. If not, that will remain the major obstacle to EU accession, and therefore a serious issue for a country that has proclaimed EU membership as its primary and strategic foreign policy goal.

**TO WORK, OR TO BREATHE CLEAN AIR, THAT IS THE QUESTION**

Most countries in central and eastern Europe, when establishing economic and infrastructural cooperation with China are looking for financial arrangements (loans) for projects. The main criticism of platforms such as »16(17)+1« is that China has fallen short of its promises and that many infrastructural projects have been negotiated and/or agreed upon, but not many of them have been implemented.

In Serbia, the situation is different. Data collected by CEECAS Budapest show that the influx of Chinese capital through Chinese FDI since 2009 has reached 5.015 billion euros over the past decade, with an additional 7.084 billion euros coming through preferential financial loans for infrastructural projects backed by Chinese banks (CEECAS 2021). The criticism that China has not been keeping its promises thus does not stand up in the Serbian case.

Nevertheless, there have been challenges with some of the projects backed by companies such as Hesteel Group, which purchased the Smederevo steel mill, the purchase of Bor mines by the Chinese Zijin Mining, and the construction of a vehicle tire factory by Linglong in Zrenjanin. These Chinese investments in Serbia have not complied with environmental standards, however.

The major issue in the case of the Smederevo steel mill and Bor mines is the air pollution caused by production increases after purchase by Chinese companies. Both companies were under the management of the Serbian government before being sold. Both companies were on the verge of collapsing, which would have meant a loss of more than 10,000 workers, with a serious negative impact on the local economy.
Serbian officials told the Serbian public that the purchases by Chinese companies were the only way to keep those companies afloat and to save jobs for local workers (RTS 2016). Before selling the companies, however, Serbia did not receive assurances that the new owners would take the necessary steps to upgrade existing facilities, making them more suitable for safe production, in compliance with current environmental standards. In both cases, the first opposition to the project came from the local level. Local activists have pointed out that the companies are harming local ecosystems, and that the rise in pollution is having a harmful effect on workers’ health, but also on the wider population in those areas.

Shandong Linglong’s vehicle tire factory investment is a bit different. First and foremost, this is a greenfield investment in the Zrenjanin area, meaning that the Chinese investor can pay attention to environmental standards and build capacities to ensure compliance. Project implementation aroused much controversy, however. First, the Serbian government provided the Chinese investor with the land necessary for constructing the factory for free. This is not exceptional, as Serbian government policy is to motivate potential and existing investors. But in this case, not all of the 96 hectares of land were planned for construction and have been repurposed for the needs of the Chinese investor (Nova Ekonomija 2019). Serbia has a long history of adjusting and bending the legal framework to attract partners and investors (for example, the Belgrade Waterfront construction with partners from the United Arab Emirates), but this was the first case in which a Chinese company was involved. Second, the Chinese company started construction without a proper building permit from the Serbian authorities (RERI 2020). The third concern came from the fact that the study on the new factory’s environmental impact has never been made public. Under Serbian law there should be a public debate about documents of this level of importance for the community. And while such debates were organised, opponents of certain aspects of the construction of the Linglong facilities were forbidden to attend the event (Energetski Portal 2021). None of that slowed down, let alone halted the construction of the facilities and it was announced that the first products could come out of the factory as soon as the end of 2021.

The common thread in all these cases is that the Serbian government decided to meet the needs of the investors, to rush implementation or the purchase of the companies, without ensuring that all the necessary standards will be respected and that the health and well-being of both workers and citizens and/or the environment will not be harmed. Serbia. Additionally, the government decided that in the short term it is more important to keep 10,000 jobs and to open a new factory, even if that means that nature and the ecosystem will not be safe. A similar case concerns the fact that Serbia turned to China for support in modernising the facilities of the Kostolac B coal-powered power plant, being aware that it would be hard to find partners in the West willing to invest in an ‘old’ source of energy. This is an example how domestic actors have facilitated potentially negative long-term consequences that can come from investing in a ‘dirty industry’. There have been requests from domestic actors to align with environmental standards. The end result depends on the investor’s willingness to respect environmental norms. Chinese investments and their reported consequences show that in the cases of Bor and Smederevo the investor did not pay much attention.

These projects, while undoubtedly beneficial for both local and national economies in Serbia in the short term, will be more harmful in the long run. Investment in these sectors (mining, metal industry, automotive industry) could be challenging in the future when global society is turning towards green energy and full compliance with environmental standards. It should also be noted that many of the projects are demand-driven. Serbia looked for a long time to find a partner for the Smederevo steel mill, and was not successful until Hesteel accepted the partnership offer. Serbia is the one insisting on investing in the modernisation and upgrading of the coal-powered thermal power plant facilities or decreasing the unemployment rate through investments in low-quality jobs, such as on automotive factory lines. If Serbia decided that it would, for example, invest in (more expensive) wind farms or hi-tech jobs based on digital technologies that would create a better quality of work but a lower quantity. On the other hand, China would be able to provide the means for that as well. The fact is that Serbia did not ask for those types of jobs, and China did not mind when Serbia asked for jobs in coal, steel and copper.

The transition from cooperation with China in energy production based on coal to more sustainable and environmentally friendly sources is something that may happen in the future, possibly at Chinese instigation. In September 2021 (Al Jazeera 2021), the Chinese authorities announced that they will stop financing overseas projects that include coal and coal-based energy production. Shortly after Beijing’s announcement, Serbia’s Minister of Mining and Energy, Zorana Mihajlović met with representatives of Power China and spoke about Chinese investments in green energy and building new capacities that use renewable sources (Ministry Of Mining and Energy, Government of the Republic of Serbia 2021), showing that the nature of the cooperation between two countries could change in the future.

EVERYBODY IN BELGRADE – ALL EYES ON US

With the rising global influence of China, more and more questions have been asked about China’s true intentions at the global level. China is not generally perceived as having a high level of respect for democratic values, it has many human rights issues, and there are many limitations on Chinese citizens’ freedoms. One concern is that China might look to export techno-autocratic governance that would provide undemocratic leaders with crucial tools to establish even more control over their citizens. In other words it is not only a question of Chinese exports but also acceptance of its modes of governance by political systems and autocratic leaders across the world.
That is why, when implementation of the Safe City project in Belgrade was announced, many asked what the real aim was. The Safe City project is being carried out in cooperation between the Serbian Ministry of the Interior and Chinese tech giant Huawei. Announced in 2019, the roots of the project go back to 2011, and the initial pilot phase was implemented in 2017 (BFPE 2019).

The announcement that 1,000 security surveillance cameras will be installed at 800 locations in Belgrade has raised the question of how those cameras will be used and for what purpose. The cameras are equipped with facial recognition software and include AI technology, which creates the potential for misuse. And while the Serbian political elite have described the project as a means of improving security in the Serbian capital, NGOs and experts have raised concerns regarding privacy, data collection and storage, and (ab)use of the data collected. One reason such concerns are being expressed is that the same technology is being used in Xinjiang province in China to control the Uighur minority, as well as in the «social credit system» that is being rolled out in Chinese provinces and major cities. It is an issue of priorities, setting security against human rights and freedoms. If not used correctly, the potential for misuse of this technology is great, therefore transparent procedures are needed, together with control over the institutions using this technology and a clear description of how exactly the data will be collected stored, and used in the Serbian capital city.

THE STAR OF THE SHOW – THE STORY OF DOMESTIC AGENCY

The Chinese presence in Serbia has given rise to rising concerns and challenges. But the fact is that most of those concerns are coming from outside Serbia. Before the serious impact on the environment in Serbia, few domestic actors publicly expressed concerns, at any level. The Chinese presence in Serbia is facilitated by domestic actors. They promote joint projects, creating a narrative of China as a friendly country, one that supports Serbia’s infrastructural and economic development, and is a supporter of Serbia in international relations arena, and during times of crisis. What Serbia lacks are internal control mechanisms over the ruling political powers, respect for the rule of law, which is necessary to enable Serbia to take the next step in the process of European integration, and a clear set of rules that would ensure that economic and infrastructural development are not achieved at the expense of citizens’ well being or the preservation of the environment. This does not apply only to Serbian cooperation with China. These are key issues for a country and society that have not hitherto applied themselves fully to domestic reforms, with or without the prospect of EU membership. It is nevertheless easier to discern these issues if viewed through the lens of Sino-Serbian cooperation. Furthermore, it doesn’t mean that EU membership would automatically eliminate all the abovementioned problems. Similar issues and challenges may arise even within the framework of the EU institutions. That is the case in relation to Hungary, for example, an EU Member State that has developed a strategic partnership with China along similar lines to Serbia, and which has been heavily criticised for not following competition rules, neglecting transparency and mistreating civil society organisations. As in the case of Serbia, by no means all of those issues are caused by the partnership with China and the development of joint projects. Once again, it depends mainly on domestic agency.

Serbia is an EU membership candidate country, but there is still no real obligation to follow any of the rules or standards laid down by Brussels if there is no political will in Belgrade to do so. Therefore, if Serbia truly wants to become a part of European society in the foreseeable future, it should pay more attention to the relevant processes and express a clear commitment to them.

On the other hand, aligning with the EU when you are not yet part of it does not guarantee that you will benefit fully from the partnership at every point. As already mentioned, the slow response of EU mechanisms at a time of crisis opens the way for other actors to jump in and to provide prompt and easy short-term solutions. Such quick solutions as preferential loan agreements with Chinese banks for projects that have been a «dream» of political leaders are often more enticing than any long-term benefits of democratic reform or potential negative consequences, such as air pollution. Therefore it is not surprising that offers from such actors as China or Russia are readily accepted, especially when they come without any conditionalities. Therefore, actors that want to contest Chinese influence have to be ready to act promptly and to understand the needs of developing countries such as Serbia. They have to be ready to show dedication to the processes of cooperation and should be aware that, without clear benefits, countries like Serbia could easily drift in the other direction.

WHAT ARE THE BENEFITS AND LIMITATIONS OF COOPERATION WITH CHINA?

Often, there is a tendency to look at the Chinese presence in a certain country as inherently bad. The fact that China is seen as a systemic rival is followed by a rising interest in the potentially harmful consequences of a Chinese presence in a certain country. But it has to be noted that there are also tangible benefits of cooperation with China, at least in the short term.

Among other things, China has expanded its global presence by providing quick solutions and funding of infrastructural projects, which contributes to the development of outdated or non-existent infrastructure in developing countries. China presents itself as a provider of developmental tools, and it cannot be disputed that countries such as Serbia have used the financial means put at their disposal by China to upgrade their infrastructure. Serbian projects include a bridge over the Danube river, the «Miloš the Great» highway from Belgrade to the Montenegrin border, and the Belgrade bypass. China gains additional points when such projects are finalised.
Since 2014, although it bears the name of distinguished Serbian scientist Mihailo Pupin, the bridge over the Danube river has been better known as »the Chinese bridge«. The new »Miloš the Great« highway section in Serbia was constructed by Chinese firms, and many banners along the highway acknowledge that. China »gets the job done« in Serbia, and Serbian political leaders are happy to present their achievements to the Serbian public.

What makes Serbia a unique case in Central and Eastern Europe, especially outside EU borders, is the increase in FDI coming from China. China has pledged more than 5 billion euros of investment to Serbia and has become one of the biggest individual investors over the past decade. In Serbia, Chinese investments include both greenfield and brownfield and have contributed to the preservation of existing workplaces and the creation of new ones. On the other hand, the worrying thing about both Chinese FDI and Chinese financial arrangements in Serbia is the perception of them as corrosive capital, lacking transparency, characterised by unfavorable contract conditions, and often harming the environment. With that in mind, there is also the question of impact of Serbia’s financial stability and public debt. While Serbia has so far managed to avoid public debt problems, it must take care because financial irresponsibility might risk a negative impact similar to China’s financial arrangements with Montenegro.

Additionally, when speaking about China as a beneficial partner for Serbia, what is often highlighted is the enormous Chinese market and export potential. Serbia has indeed experienced a continuous rise in exports over the past decade. But this shows just half the picture. The rise of exports still does not mitigate the fact that the export-to-import ratio is unfavourable to Serbia. Apart from anything else a significant portion of exports are accounted for by Chinese-owned companies in Serbia. The main export from Serbia to China is copper, and copper exports have risen in the wake of Zijin Mining’s purchase of Bor Copper Mines in 2018. From 2018 to 2019, copper exports jumped from 23.5 million USD to 263.5 million USD. This created a perception of a significant rise in exports, but most of the profits went to the Chinese firm.

Besides the economic benefits of Sino-Serbian cooperation, apart from a number of limitations, the political impact could prove to be beneficial for Serbia. Serbia’s multivectoral approach to foreign policy provides a chance to develop a partnership with China and still work towards EU membership. And while there are rising tensions between the EU and China, Serbia is still not caught in the middle of it (although that does not mean that it will not be). It may be possible to develop extensive relations between Belgrade and Beijing without giving up on the prospect of EU membership.

With that in mind, we can conduct a thought experiment. The starting point is that it is in China’s interest that Serbia become part of the EU. China and the EU do not (yet) perceive each other as enemies. Systemic rivalry notwithstanding, China is the EU’s largest foreign trade partner, and the largest market for many large European companies. It would be in the Chinese interest for Serbia to become the part of the European Union, not only because it would be a direct gateway for Chinese companies to the European market, but also because it would offer an opportunity to influence Serbian representatives and push the Chinese agenda within the EU. Domestically, within Serbian borders, we can say that the partnership with China is facilitating the centralisation of power in Serbia. Through financial arrangements and FDI, and with the positive framing by the Serbian political elite, China is becoming the most popular actor in Serbia. Also, China provides an opportunity for the political promotion of domestic actors, through their presentation of infrastructural projects and Chinese investments. Such promotion is one of many reasons for the firm position of the powers that be in Serbia. This currently undisputed position also means that if a leading political actor decides to take steps towards EU membership, there will be no obstacles to doing so (internally or externally). Serbia is thus in a position to make swift progress towards EU membership.

This is wishful thinking, however. More likely is that closer and closer political cooperation with China, along the same lines as hitherto, could mean that Serbia does not fulfil the standards and norms needed to become an EU Member State. In addition, the EU is already concerned about the current state of relations between Serbia and China, and would certainly not allow membership of a country with such close relations with Beijing in the near future.
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THE ROLE OF CHINA IN SOUTHEAST EUROPE

In this report, written in the period June - November 2021, eight authors from eight Southeast European countries – Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Montenegro, North Macedonia, and Serbia – have dissected the respective national relationship with China, their context, and consequences. The report explores how can SEE maintain a pro-European course, minimize and mitigate risks when dealing with China, but at the same time, also explores whether there could be any areas where there are opportunities for cooperation that can benefit the region.