

CHINA'S RISING PRESENCE IN THE WEST BALKANS

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Introduction

In Chinese mythology, the dragon is a symbol of wealth, happiness, kindness, and wisdom. In the Western Balkans, such beasts are said to have fallen all over the region in a meteor shower centuries ago. Similar to China but unlike the malicious dragons chronicled in the West, dragons in Serbian folklore—known as *vetrovnjak*—are good creatures that help people. They are the valiant defenders of the Serbian people, lands, and skies. It's no surprise then, that China's rising influence in the Western Balkans, a collection of countries on Europe's periphery that include Serbia, Bosnia-Herzegovina, Albania, Montenegro, Kosovo, and Northern Macedonia—known as the Western Balkans Six (WB6)—is welcomed eagerly by locals, but viewed with distrust by the United States and Europe fearing that China may be using the region as a 'backdoor' into Europe.

Coronavirus Diplomacy

This geopolitical tension was on full display in the midst of the COVID-19 public health crisis when Serbian President Alexander Vučić welcomed the arrival of China's medical team and publicly made the following statement: "Dear Chinese friends, sisters and brothers, welcome to Serbia! Thank you very much to my brother President Xi Jinping, the Communist Party of China and the Chinese people. Long live our steel friendship! Long live China! Long live Serbia!" Frustrated with the lack of EU responsiveness and European solidarity, he had reached out to China and when Beijing came to Belgrade's aid with a small medical team of advisers, videos of him praising China and kissing Chinese flags on the tarmac of the airport flooded Chinese state-owned media. His response to the pandemic echoes his similar sentiments about him "being fed up being lectured and told by all the others about cooperation with China and Russia." In a press conference he blasted his European neighbors saying, "European solidarity does not exist. That was a fairytale on paper." While China had previously been involved in multilateral approaches to the 2008 financial crisis and the 2015 Ebola outbreak, China's current international response to the coronavirus lacks the same multilateral tone taken in the past. Instead, China is pursuing a response as a lone, responsible actor willing to help countries that have been shunned and left behind otherwise. Following the arrival of Chinese doctors and epidemiologists with firsthand experience from Wuhan, Vucic revised Serbia's response plan to follow what could be described as a 'Chinese model' with a mass testing program and strict measures for failure to abide by social distancing punishable by 3 to 12 years in jail. For Serbia, who for the Chinese and the Europeans are seen as the regional leaders of the WB6, Chinese actions are especially illuminating at a time when Serbia lacks a clear fondness for EU integration. Vucic was quoted as saying, "Serbia is not very enthusiastic, but we are still committed towards our EU path because we don't see a real alternative to that path."¹ China's recent soft power offensive or "coronavirus diplomacy" as called by some is seen as an effort to score diplomatic points, but also contribute towards erasing any foreign anti-Chinese sentiment over the virus. In the case of the Western Balkans, there is clear tension with Brussels, unsurprising given that the region is considered to be the most fiercely independent-minded region that Europe has had to contend with. This report will address the historical context later in this report.

¹ "Serbia president Vucic 'fed up of being lectured' over ties with Russia and China," Euronews, YouTube, January 21, 2020, <https://www.youtube.com/watch?v=7E74Y0ylrFY>.

This is Europe?

It might be surprising to learn of China's increased activity in the region given that the Western Balkans actually present very little commercial opportunities for Chinese investors. The region attracted less than 0.57% of global FDI despite being in the 'EU's backyard,' one of the most attractive markets with 25% of global FDI and responsible for 30% of the world's outbound investment.² But neglect by their wealthy neighbors also represented a failure to intervene effectively to prevent the region from exploding into a decade of unrestrained genocidal conflict and ethnic cleansing with religious tensions still simmering beneath the surface today. Many who travel to the region often find themselves asking the rhetorical question, "This is Europe?" while traversing through war zones that bear more resemblance to Afghanistan than nations who aspire to join the EU—with 4 of the 6 WB6 formally engaged in the Berlin Process while 2 have moved on to formal membership negotiations. Membership in the bloc has been the overarching social and political goal of the region's six countries for almost two decades, but it's clear that some in the region are finding the prospects of joining increasingly distant with a recent slap in the face from France. Macron, in October of last year, had issued a decisive veto that surprised others in Brussels by upending accession talks for North Macedonia and Albania leading to feelings of abandonment, the creation of a political and security vacuum in the region, and causing some to describe it as a 'gift' for Russia and China.

Historical context

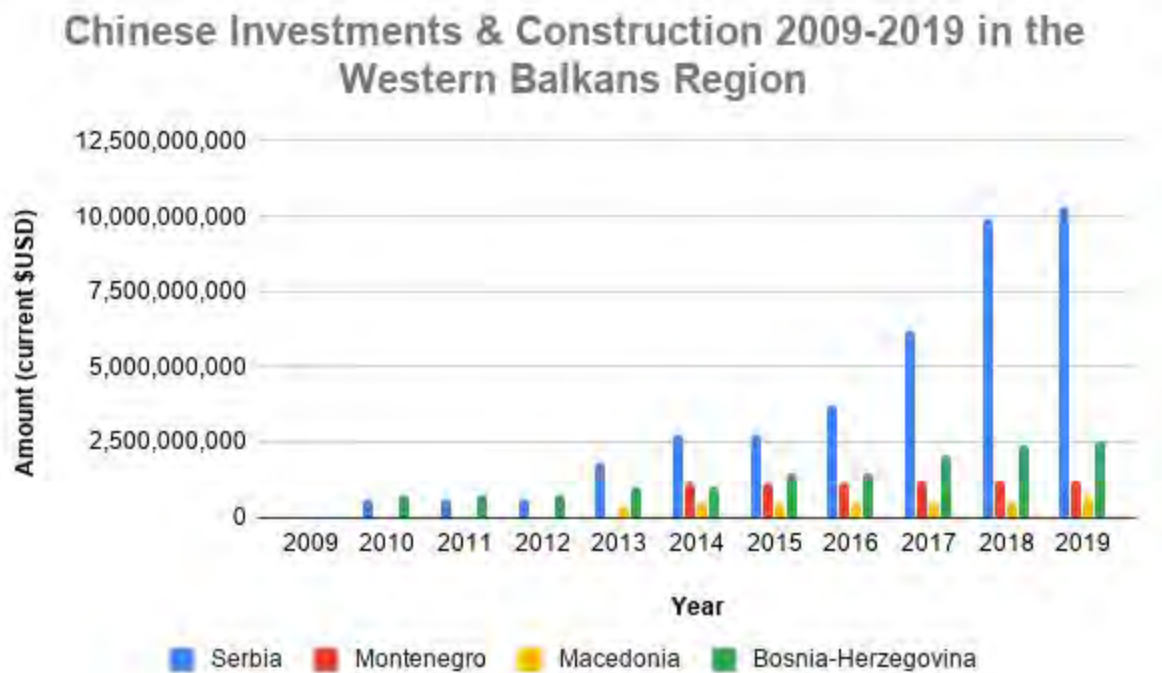
For historical context, China has always considered to be "old friends" with Yugoslavia and maintained active diplomatic relations with the country until its breakup throughout the 1980s and 1990s, vocally opposing the military and development engagement in the Western Balkans that saw the NATO bombing of Serbia and Montenegro in the late 1990s. From the perspective of the United States, the Anglo-American multilateral intervention in the Western Balkans was considered a success with zero combat-related casualties, successful efforts to stop an attempted genocide in Kosovo, and accomplished a beneficial humanitarian intervention against the military forces of Serbia's Slobodan Milosevic. But this appraisal was largely a lonely US view, especially when made in comparison to the disastrous American outcomes in Iraq and Afghanistan in retrospect. Europeans might look back less fondly than the Americans, remembering how their efforts at cantonizing the region more resembled ethnic hopscotch like during the Berlin Conference when carving up Africa than it did a legitimate political federation just years away from the dawn of the new century. Geopolitical strategist Parag Khanna writes, "officials in Paris and Berlin took a wait-and-see approach toward the demise of Bosnia's Ottoman Muslims, placing them under an arms embargo while Serbia inherited Yugoslavia's armaments, their French and German patrons overlooking their clients' atrocities. Of course it was Europe's strategic immaturity that was most exposed at the time." While Europe and the West might have been more successful in Kosovo, they failed to intervene specifically in Bosnia to save it from genocide and dismemberment with those in Washington and Brussels haunted by memories of the massacre at Srebrenica. The Chinese also have good reason to view the time period darkly. The bombing of the Chinese embassy in Belgrade as a part of a 1999 NATO operation against the Yugoslav Federation is still seared into the memories of many Chinese who vow to

² Valbona Zeneli, "The Western Balkans: Low Hanging Fruit for China?" *The Diplomat*, February 24, 2020, <https://thediplomat.com/2020/02/the-western-balkans-low-hanging-fruit-for-china/>.

never forget, building a Chinese cultural center on the site as a symbol of the anti-Western sentiments that China and Serbia often share. The locals remember being equally wronged by the US in their own ways. Rather than providing the opposition with support, Serbia was instead placed under stringent sanctions and bombed by NATO continuously for 88 days, causing immense collateral damage that did little to bolster the cause that the West had set out for in the first place aside from dislodging Milosevic. In other words, America might have won a battle but lost the war. As one activist raged against the Anglo-American response, “we couldn’t believe it... whose side were they on?”

These savage and chaotic wars that followed the disintegration of Yugoslavia in the 1990s collapsed the regional economies—a depressing reality considering each of the former Yugoslav republics was wealthier than Spain at the time before the war. But over the course of the 2000s, the EU began to apply its diplomatic skill and attention to the shattered region, eventually ending its full psychological dependency on the United States for internal military stability. Gradually throughout this decade, the Balkans were helped along by EU neighbors and there were especially high hopes after neighbors Bulgaria and Romania were both granted EU membership (2007), raising hopes for many that their time would finally come—to become ‘European’ and enjoy the same living standards as their European brothers. But reality took a different turn less than one year later with the onset of the 2008 global financial crisis which severely drained momentum away from EU enlargement. The supranational structure in Brussels struggled with its inherent structural handicap of having monetary union without fiscal union. As optimism in the Western Balkans faded about its future prospects, China, handling the financial crisis far better than its Western counterparts saw an opportunity.

Economic outreach in the countries of former Yugoslavia only truly began with Serbia in the second decade of the 21st century following the financial crisis, observable in the figure below. Data was not available for Albania while there are no Chinese projects in Kosovo as China recognizes Kosovo as a part of Serbia.



Source: American Enterprise Institute, China Global Investment Tracker

While the Belt and Road Initiative (BRI) is nearly ubiquitous in all foreign capitals today, the case can be made that a year before the BRI's formal launch (2013), Beijing established the China-Central Eastern European Cooperation Forum, better known as the '17 + 1 format' ('16 + 1' at the time before the entry of Greece) as a test case of what would later become Xi Jinping's signature foreign policy initiative. In this setup, Beijing thought of itself as able to pursue a strategy of building political support among a large number of relatively small countries. Billed as Chinese-led multilateralism, '17 + 1' was really an umbrella for a collection of projects with concrete deals and on-the-ground implementation worked out bilaterally with each respective country. This setup suited China's style—it gave China more strategic leverage in negotiations and more flexibility in implementation as it was able to better control the terms of the agreements. Most importantly though, the 17 + 1 format was an opportunity for China to engage Europe with its favored financing model—which explicitly stipulates state-guaranteed finance linked to contract guarantees for Chinese companies. China at first may not have known how to exactly engage with the EU through infrastructure projects most specifically despite extensive previous investment interaction with Europe before because this model is not permitted in the EU—only leaving the 5 non-EU states of the Western Balkans (excluding Kosovo). Evidence that suggests that China miscalculated includes the unused \$10 billion credit line that was initially earmarked for the 17 + 1 countries in 2012, but has yet to be utilized in any EU country because of EU law. But this seemed to be an acceptable compromise for China. Beijing took it in stride, once again turning a crisis into an opportunity seeing that the Balkans were incredibly behind the rest of Europe in infrastructure and Western investment had failed the region in this area before. Moreover, Beijing acknowledged it needed to learn more about European standards and development practices before graduating to the more lucrative and high-stakes market. The

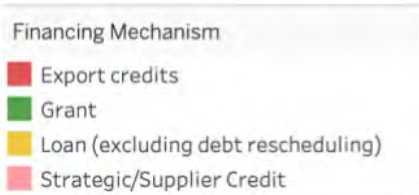
region thus became a training ground where Chinese companies could familiarize themselves with Europe before entering the EU.

On finance, while Chinese trade with the Western Balkans region was only 4.3% of China's total trade with the 17 + 1 platform in 2018 and Chinese investments have so far accounted for only 1.3% of all direct investment (FDI) in 17 + 1 countries, this is extremely misleading as the primacy finance mechanism for the Western Balkans (non-EU members) is loans, not FDI. In fact, China is prohibited from deploying its loan-contract model anywhere in the EU where public procurement laws forbid such practices for the sake of transparency and equitable competition. Therefore FDI statistics significantly undermine the influence that China plays in the Western Balkans, namely in infrastructure and transportation projects. In some analysis, up to 80% of the financing in the Western Balkans is through loans.

The following homemade AidData analysis—spatially visualized below demonstrates just how distinct this financing divide is between EU countries and non-EU countries—confirming this with numbers in the mid-70% range. To be clear, the map only displays Chinese government-financed and executed projects, meaning that it excludes investment in the form of FDI. Yellow dots represent loans (excluding debt rescheduling) while red represents export credits. The only countries in Europe with projects are the WB6 (with the exception of Albania and Kosovo), Ukraine, Belarus. Neither Ukraine and Belarus are in the EU which explains a similar Chinese economic footprint to the Western Balkans. With the peculiar exception of Moldova—the poorest country in Europe—one could overlay a map of the EU on top of the map below and see that EU laws, which prohibit the Chinese financing model, are the most important deciding factor on whether there is a significant Chinese presence in a particular country or not. Of course there are exceptions to this rule such as Switzerland, Norway, or the UK which are not EU members due to individual circumstances, but all are clearly wealthy members of Western Europe. Curiously, the map reveals a slightly smaller but still substantial Chinese presence in the non-EU, post-Soviet space—Belarus and Ukraine. Due to their non-EU status, the same economic figure underestimation applies to these two former Soviet satellite states—with most Chinese involvement under the radar, focusing on loans, and not FDI. Some analysts describe Belarus as China's 'other gateway into Europe,' and this might be true, although the context of these post-Soviet countries is much different than the Balkans. The debate about EU accession is missing from Belarus and Ukraine as both countries arguably fall under the influence of Moscow far more than their Western Balkan counterparts. Belarus is amongst the few states in Europe that has not asked for membership in the European Union and constant conflict in Ukraine makes it an unlikely contender for EU membership anytime soon. From Beijing's perspective, Belarus would under strongman Lukashenko would seem to be a much safer business partner for China's commercial activity than Ukraine but as of 2019, Ukraine had \$9.74b worth of investment compared to Belarus at \$6.03b. Uniquely in both countries, there is pushback against Moscow's influence, thus Beijing straddles a fine line by offering itself as a viable alternative to the Kremlin but being careful enough not to antagonize Russia's political interests enough to disrupt its commercial interests in both countries, particularly Ukraine. In my personal analysis, because the maritime silk road is far more feasible for China to develop trade by sea—still substantially cheaper to transport than overland—developing the Western Balkans in contrast to Ukraine and Belarus is a preferable option. Additionally, there is far too much instability, violence, and Russian influence particularly in Ukraine—although Belarus seems more promising.

Chinese Government-financed Projects 2000-2014* in Europe

*includes both Chinese aid and non-concessional official financing



Source: AidData Geocoded Global Chinese Official Finance Version 1.1.1
<https://www.aiddata.org/data/geocoded-chinese-global-official-finance-dataset>

Taking a step back and viewing the dataset in aggregate, loans are the preferred Chinese financing mechanism throughout most of the developing world with an obvious concentration in Africa, Central Asia, South and Southeast Asia. Interestingly when the Western Balkans are compared to the rest of the developing world, loans are the dominant form of financing. With the exception of supplier credit, only found in South and Southeast Asia, one can see that loans dominate Chinese deals, followed by export credits, then by grants all around the world.

Chinese Government-financed Projects via Export Credits 2000-2014*

*includes both Chinese aid and non-concessional official financing



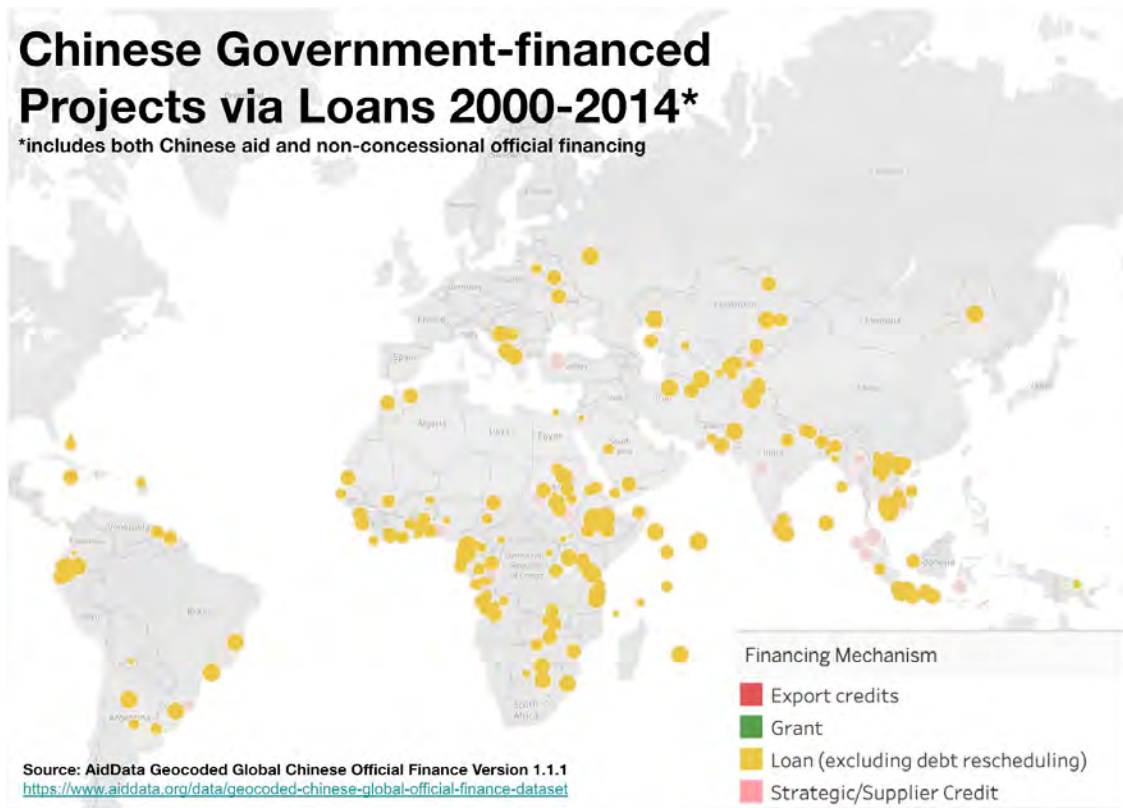
Chinese Government-financed Projects via Grants 2000-2014*

*includes both Chinese aid and non-concessional official financing



Chinese Government-financed Projects via Loans 2000-2014*

*includes both Chinese aid and non-concessional official financing



Chinese Government-financed Projects via Supplier Credit 2000-2014*

*includes both Chinese aid and non-concessional official financing



The reception to Beijing in the Western Balkans and by the EU has been generally positive—an obvious result of Beijing’s engineering and financial muscle but also equally, Beijing’s extraordinary understanding of the nuanced politics of EU accession and the high stakes for both Brussels and the Western Balkans countries. Beijing pitched it as a “win-win” as it so often does in striking deals around the world—claiming it could help bridge the EU and non-EU divide and that by doing so, China was doing Europe a favor. The region obviously suffers from a chronic infrastructure gap that has hampered economic catchup and thus European integration. At face value, Beijing’s claim that it stands behind European integration has to be taken with a degree of caution because it obviously doesn’t do so on the basis of respect for EU values, but rather its own strategic interests. But indeed, while Russia may wish for a divided and polarized Europe, China would much rather see a stable business partner so Beijing would be very happy—at least in the short term—to help Serbia join the EU. Luckily for China, Europe doesn’t present an existential security challenge like it does for Russia. China is ambivalent on the issue of Serbian NATO accession, a development all the more remarkable considering that just two decades ago, it was NATO that was dropping smart bombs on Belgrade.

China’s approach worked because of several reasons, the first being that the Western Balkans were ‘geopolitically fertile’ for Chinese business to operate in. The region is notorious for loose regulation practices, lax public procurement rules, and poor labor regulations—conditions that Chinese investors and SOEs thrive in. Economic stagnation, weak governance, high levels of corruption and unemployment have left the region in a position for China to easily establish a base or as they call it in the Chinese media, a “Chinese node” (中国节点) in the EU to drop anchor for the long-term to eventually launch themselves into the heart of Europe. This approach also appealed to politicians in these countries as it was seen as the perfect way to get to EU accession in a manner in which they previously couldn’t. Many of the projects that Beijing took on were projects that the government tried and failed to get off the ground, most of the issues coming from a problem sourcing consistent and willing financing. Other projects, like coal plants, faced a chronic paucity of funding opportunities because international financial institutions have stringent criteria for financing unsustainable projects. Contributing to this, many EU banks believed the lending terms of many projects to be unfeasible given the insufficient growth of most Balkan economies, but for Beijing this wasn’t an issue due to strong state backing and long-term strategic horizons. Therefore Beijing moved from being the lender of last resort to the preferred partner of choice in many projects with renewed vigor and momentum. Politicians seized on this opportunity of using China to join the EU, an irony that should serve as a much needed wake-up call to Brussels.

Considering Beijing’s ability to be flexible and turn on a dime, China wasted no time pushing forward with a new strategy having found a convenient strategic base of commercial operations. It’s important to remember here that the BRI is not masterminded in Beijing behind the walled compounds of Zhongnanhai. It is much more a foreign policy concept that describes abstract policy goals, chief among them, exporting overcapacity, developing overseas markets, occupying and developing the capacity of Chinese companies to operate internationally, and building relationships through its economic weight. Many more BRI projects are announced than actually ever come to fruition, and many projects that preceded the formal announcement of BRI have been lumped together with the concept that it has come to

take on—a strategic ambiguity that plays to Beijing’s advantage. Specifically in the Western Balkans, many projects have long histories that even predate Chinese involvement. These are typically projects chosen from local government wish lists with no relevance to the BRI project pipeline, but often described as falling under BRI for the sake of convenience. To date, apart from Kosovo, all the WB6 have MoUs with China on BRI.

To understand China’s current strategy, one can discern their approach from the type of projects that dominate the Western Balkans, almost all large projects in transport, infrastructure, or energy. The idea is that Beijing has a vested interest in seeing infrastructure in the Western Balkans improve so that China can transport goods shipped in from Piraeus through the Western Balkans and into the EU’s common market of over half a billion consumers. The cornerstone of this project is the Greek Port of Piraeus, which COSCO Shipping acquired a majority stake in 2016. Also a critical component is the Piraeus-Budapest transport corridor, which connects the BRI linking the Mediterranean to Central Europe. China views Budapest as the heart of the continent, especially considering that Hungary is China’s most important ally in the Central and Eastern European bloc. While indeed China cares much more what happens in London, Paris, and Berlin than Budapest, Hungary is center stage in Chinese designs for the broader Eastern European plan with Hungary receiving almost 80% of all Chinese investment in the CEE region and chosen as the location for China’s first think tank in Europe.

China’s investments are a way for it to gain economic footholds in countries that are supposed to eventually become EU member states, some potentially as early as 2025 but rather than helping the EU membership prospects of the Western Balkans, China help is actually undermining Western Balkan-EU integration, an outcome that couldn’t have been hard to foresee. The region was recently thrown into a political crisis when France vetoed Albania and North Macedonia’s negotiations for EU accession much to the chagrin of other European leaders including Merkel and to feelings of anger and betrayal from Albania and North Macedonia. Macron cited the need for more fundamental reforms within the EU and in the enlargement process, part of a wider drive against EU enlargement which the French leader has been at the forefront of. The decision was met with widespread frustration aimed at Brussels and the EU integration process with the perception that Western Europeans fear the dilution of their elite brand all while demanding too and delivering too little for too long. In response to the decision, North Macedonian Prime Minister Zoran Zaev said the decision to delay talks “gives space for third forces, which are not very helpful, who do not offer us democracy, freedoms, and the rule of law.” The outgoing EU Commissioner for Enlargement, Johannes Hahn echoed an identical warning: that leaving a ‘vacuum’ in the Western Balkans that ‘other powers would only be too happy to exploit’ would be a grave mistake for the EU, going so far as to even single out China. Serbia’s Alexander Vučić was quoted as saying the move warrants his policy of cultivating closer ties with Moscow and Beijing. The stakes were the highest though for the government of North Macedonia, who even agreed to appease Greece by changing the name of their country to placate Greece’s objections, committing a huge act of political sacrifice in return for the promise of accession talks which went completely unrecognized by France.

This gets to the paradoxical question of whether China wants these nations to join the EU or not. In reality, Beijing benefits either way regardless. It’s easier for them in the short term if they do not—there’s less competition for commercial projects, they’re able to exercise their model of procurement longer, and

it would serve to continue to ‘poison’ the EU from the inside by dividing the bloc and gaining leverage from within. The last point serves to further divide Europe and aid in China’s long term goal of building a multipolar world order and reducing the relative power of the West. The EU will be hesitant to adopt new member states that are already in a position to be exploited by China on a number of issues and would be a fiscal burden on the Union. But all of this misses the larger goal which is China’s commercial conquest of *real* Europe proper. China must realize that with every coal plant it finances and builds in Bosnia, the further China is moving the goal posts away for these nations. While some may argue that it could be Beijing’s desire to have the 17 + 1 structure increasingly economically bound eastward rather than westward through the BRI, the truth is that there is no attractive alternative to European integration. Closer relations with Beijing may present an attractive auxiliary option, especially as EU accession becomes an increasingly distant prospect, but the incentives that Europeanization offer—subsidies from Brussels, unfettered mobility, and the adoption of the EU currency—are too great not to want and have been the political and social goals of these countries for decades.

China’s presence in the region thus puts Europe in a double bind—risk these states from becoming increasingly economically bound to China in the long term as BRI rips it away from Europe or speed up the process to take them, which runs a risk given they may already be susceptible to influence from China and a challenge to European solidarity by breaking Europe down from the inside—East vs. West, North vs. South. In the short-term and in the long-term, the EU must contend with these realities and abandon purely idealist thinking for practical geopolitics, *realpolitik*, and realism to recognize what is going on right under their noses. What Europe cannot afford to do is sit around and wait by delaying talks. This only gives China more time to reduce the number of options that it has for effectively countering China. With EU integration already an excruciatingly long process, the EU can’t afford to let its elitism and high standards prolong the process even if it means a dilution of their elite brand and a short-term toll on its fiscal health. It’s in Europe’s best interest to therefore quickly integrate these Western Balkan countries as quickly as possible and completely immerse them in the economic embrace of Europe rather than let them rot at the periphery. It’s my sense that Eurocrats won’t admit it, but the EU needs to expand in order to stay relevant and survive. European expansion stabilizes population decline while increasing the labour pool. Perhaps Brussels has strayed too far from how it used to integrate states—in a manner that more resembled an efficient corporate merger by locking together military, economic, and governance issues turning unruly neighbors into productive members—rather than the style of burdensome political conquest observable now. Rather than EU membership being a productive process led first and foremost by the EU, it has become a stamp of approval *after* political, economic, and infrastructural reform has taken effect—led this time not by the EU, but by Beijing. Brussels also risks seeing the entire Western Balkans as a subregional peer group, with the EU hinting that perhaps none will enter the EU until all are qualified. Although things are not looking this way for now, this would be a mistake and only further sink the EU deeper in the predicament they are in with how to balance EU integration against Chinese influence.

Prospects for Sino-Russian cooperation and the Influence of Other Regional Powers

The history of the Western Balkans as a region on Europe’s periphery could be characterized by rival foreign powers all competing for influence on a chessboard where the big power game is being played. Russia, through an ethno-religious perspective retains some influence as the de-facto defender of

Orthodox Christianity and has consistently promoted themes of pan-Slavism. Turkey has a similar influence in the region amongst the region's Muslim populations which entails the promotion of analogous narratives of religious and cultural brotherhood. But despite the appearance of closer authoritarian ties between Erdogan and Putin and cooperation in energy, the relationship between Ankara and Moscow remains cyclical as it has for centuries with the two competing to extend influence in the Balkans and as the two middle powers stand on opposite sides when it comes to sensitive foreign policy issues including the conflict in Kosovo. As the two again compete in the Balkans, they continue to widen the ethnic and cultural divides between Orthodox Christian and Muslim populations. China, however is seen locally as a neutral partner in this regard and it is very unlikely China would sacrifice its appearance of neutrality by siding with Russia as some have predicted given their mutual interests in the region. The prospects for Sino-Russian collaboration in the Balkans comes from a shared interest in undermining liberal democracy and increasing the number of states that either overtly or tacitly support their authoritarian regimes. As the EU's backyard, clearly both have recognized the Western Balkans as an Achilles heel for Brussels for the two powers to "weaken and divide" European solidarity through Russian asymmetric cyber warfare and influence operations while China can use its financial muscle and economic statecraft to bind the Western Balkan economies eastward. Although there is a Council of Economic Cooperation between the two designed solely to coordinate Chinese and Russian investment in Serbia, the two come to the region with divergent priorities. Russia's main economic interest is energy considering Gazprom controls the natural gas distribution network throughout Eastern Europe and most countries in the region depend on Russia for their energy, which Moscow frequently uses as a geopolitical tool of political leverage (Ukraine most significantly). Russia's other stake in the region is in the domain of security—to prevent more peripheral European countries from joining NATO and drifting into the European orbit through EU integration. To achieve these goals, Russia has gone to extreme lengths—so far as to attempt to assassinate Montenegro's Prime Minister, attempt a Kremlin-backed October 2016 coup in the same country, and devise attempts to frustrate the name agreement between North Macedonia and Greece. And while China is ambivalent with regard to NATO with its interests in the region mostly economic, the Sino-Russian energy calculus is beginning to change. In 2016, China purchased one of the largest oil companies in Albania (from a Canadian company) in addition to some of the country's largest oil fields potentially offering the region alternatives to diversify away from exploitative Russian energy. Without direct cooperation though, the two reinforce some of the other's interests including the continued de-recognition of Kosovar independence and more widely, aspiring to build a more multipolar world order by attacking the cohesion of the 'West.' In general though, the two are better off pursuing their own respective agendas.

Keeping things in perspective

To keep things in perspective, it's important to remember that China's economic footprint largely refers to China's activity in Serbia. Belgrade receives half of the Chinese trade in the region (\$2.2 billion) and China considers it to be its strategic partner in the region.³ Serbia certainly has the most advanced economy and the most sophisticated level of economic interaction with Beijing. In thinking about the wider region though, it's also worth noting that even in Serbia, the EU is still the most important

³ Valbona Zeneli, "The Western Balkans: Low Hanging Fruit for China?" The Diplomat, February 24, 2020, <https://thediplomat.com/2020/02/the-western-balkans-low-hanging-fruit-for-china/>.

economic player, with the EU still the largest provider of assistance to the Western Balkans.⁴ In terms of FDI—Germany, the Netherlands, and Russia were all more important investors than China as of Q4 2018.⁵ While Western pundits are quick to label China as a competitive alternative to European integration, few policymakers in the WB6 are under any illusion that the moment has already come.

Serbia

Belgrade has been destroyed and rebuilt no fewer than 40 times over the past two millennia with considerably unlucky geography. The EU is the most recent in a long line of empires to attempt to inherit the nation, a process that proud Serbians find distasteful, but understandable given Serbia is the most independent-minded of the Western Balkan nations: it was Serbian resistance to being incorporated into the Austro-Hungarian Empire that led to WWI after all. Serbia is really the standout country for China in the region as has been described before. CSIS refers to Belgrade as the ‘Chinese investment anchor’ with more Chinese nationals in the capital city than most European cities.

Although Chinese investment only really began in 2008 with the onset of the global economic crisis, the relationship between Beijing and Belgrade goes back much further. China was a staunch supporter of Yugoslavia since the late 1970s and China maintained strong links with the top Serbian leadership even as Belgrade weathered international isolation over its damming role in the Balkan wars. China vehemently denounced the Western intervention as an act of aggression against international law and was a strong opponent of the 1999 NATO bombing campaign against Serbia, especially after the bombing of the Chinese embassy, killing 3. As one Chinese media outlet put it, “The US should have never interfered in the affairs of Yugoslavia, as they are now suffering from their own actions and their carefully crafted Balkan strategy is going bankrupt with the wavering loyalty of Kosovo, who were betrayed by the US’s unfaithful promise to support them.” As Serbia slowly reintegrated into the international community (similar to China’s experience with Tiananmen in 1989) following the downfall of Milosevic, Belgrade re-opened with a foreign policy shift proclaiming its four pillars—putting Beijing on the same level as Washington, Brussels, and Moscow. Belgrade has been strictly faithful to the One China Policy and openly backed Beijing’s position in the South China Sea. Belgrade has also, since 2008, refused to join EU initiatives criticizing human rights among Beijing’s allies including Iran, Sudan, Zimbabwe, Myanmar, and North Korea. In response, China has never wavered on the issue of Kosovar independence. In 2009, the two countries signed an agreement establishing a strategic partnership, which was then upgraded in 2016 to a comprehensive strategic partnership. A year later, they lifted visa restrictions.

Almost uniquely in the WB6, Serbia is host to several large Chinese equity investments, the most notable being the 2016 purchase by Hesteel of an ailing steel mill (Smederevo). The acquisition most likely did not have any compelling economic motivations, but it was political gold—turning a profit within 6 months, keeping the roughly 5,000 local workers it inherited, and with Xi Jinping’s personal blessing and

⁴ Valbona Zeneli, “The Western Balkans: Low Hanging Fruit for China?” *The Diplomat*, February 24, 2020, <https://thediplomat.com/2020/02/the-western-balkans-low-hanging-fruit-for-china/>.

⁵ Jacob Mardell, “China’s Economic Footprint in the Western Balkans,” BertelsmannStiftung, March 24, 2020, <https://www.bertelsmann-stiftung.de/en/our-projects/germany-and-asia/news/asia-policy-brief-chinas-economic-footprint-in-the-western-balkans>.

inauguration of the plant—the project became an enduring symbol of Sino-Serbian friendship. Other past notable projects include the Pupin Bridge, which was China's first big project in the country.

Current projects underway in Serbia are a clear step up from Balkan neighbors: a new industrial park in Borca, a new metro system for Belgrade, Huawei's safe city project with an intended 1,000 high-definition surveillance cameras, and China's first major greenfield investment in the entire region—a tire factory. Belgrade also hosts Huawei's Innovation Center for Digital Transformation, the center of Huawei's Central European operations. China is also planning to build China's first high-speed railway in Europe between Belgrade and Budapest, China's flagship project for Eastern Europe awarded to a Chinese firm without competition. The typical Balkan projects still exist—coal-fired power plants like Kostolac B3 and transportation corridors linking Serbia to other Balkan neighbors, but with Serbia, it is clear that its level of economic sophistication in its cooperation with China is at a different level.

From a defense perspective, in August of 2010, Serbian Defense Minister announced plans for further military cooperation with the PRC with a view to kickstart the joint production of military equipment, opening up the possibility of collaboration between Chinese and Serbian defense industries. This is unique among the Western Balkan countries.

Serbia has been on the EU's docket for expansion since 2011, the earliest of the Western Balkans and negotiations are expected to be completed by 2023 though the future path has become uncertain. If the region's leader doesn't see a clear path to EU membership, what becomes of the others? Some in the country voiced skepticism that Serbia is not ready: one economist in Belgrade pointed out that “we're still a decade away from having a European-class economy. To enter the Eurozone now would be like installing a world-class kitchen in a dilapidated house” evoking similar sentiment after Bulgaria and Romania joined in the fifth wave of EU enlargement while many said they were not ready.

Montenegro

Montenegro is the smallest country in a region of already small countries. It is host to ironically, the most ambitious, expensive, and high-profile project in the entirety of the Western Balkans. It is the 165km Bar-Boljare highway that connects Montenegro's main sea port of Bar on the Adriatic Sea to Boljare on the Serbian border. The package also includes 48 tunnels and 107 bridges and viaducts. The motorway is part of a larger inter-country future Belgrade-Bar motorway connecting Montenegro with Belgrade.

The highway has ignited an incredibly polarizing and partisan debate in Montenegro over the economic rationale of such an expensive project. Two feasibility studies from the IMF and World Bank concluded that the project was no way economically viable given the insufficient number of vehicles on the route, especially after it was reported the first of 4 sections (41km Smokovac-Matesevo) already cost Montenegro ¼ of its 2018 GDP. The reports found that the busiest part of the route would see 6,000 vehicles per day, but in order to reach long-term profitability, it is estimated that this number should be four times the commuter volume around 25,000. Negotiations are now underway for the remaining three sections (Matesevo-Andrijevisa, Andrijevisa-Boljareand, Podgorica-Djurmani). It is the largest Montenegrin project since it gained independence in 2006. As a solution to the debt problem, the government suggested a public-private partnership in which a third party would continue to build and

operate the motorway under a thirty-year concession in order to recover the debt. It's reported that $\frac{2}{3}$ of the workers are Chinese and the contractor arranged that all imported construction materials and accessories are exempt from customs and value added tax. Interestingly, the IMF advised the Montenegrin government to postpone the construction of the motorway until the country enters the EU and gets access to EU structural and investment funds, but the earliest date of Montenegro's accession to the EU is estimated in 2025 and most likely even later. The Chinese covered 85% of the cost of the first section of the road with an interest rate of 2%, repayment term of 20 years, and a 6-year grace period.

People have been drawing analogies between the 'highway to nowhere' and Sri Lanka's Hambantota Port, getting caught in China's 'debt-trap diplomacy' and becoming the Sri Lanka of the Balkans. As a fellow Harvard student who travelled to Montenegro in June of 2018 described it in his words: "it was one of the strangest things I had ever witnessed. After driving through the Montenegrin countryside for hours on a one-lane dirt road without seeing a soul, we started seeing signs in Chinese. Then after rounding a corner, we saw a set of barracks that could have easily housed upwards of a thousand workers surrounded by barbed wire fences and encircled by row after row of high-intensity floodlights. It was sunset and getting dark but the lights were on and illuminated hundreds of Chinese workers operating heavy equipment, working on what appeared to be a massive elevated highway cutting through the center of the country. I can't overstate how deep in the middle of nowhere we were, and I can't imagine the Chinese workers' confusion when they got dropped off there."

Other projects include energy projects like hydropower projects on the Moraca and Komarnica Rivers and a thermal power plant at Pljevlja (not invested in by the EU because of higher environmental standards). China has invested 100 million Euros in renovating the Montenegrin ship fleet. There are also a collection of railway projects and local road reconstruction upgrades. There is also a proposed major 280km link between Albania and Montenegro, the 'Blue Corridor motorway that will stretch along the eastern shore of Adriatic and Ionian seas' to be constructed by the China Pacific Construction Group.

Kosovo

Kosovo is notable considering that Beijing does not maintain diplomatic relations with Kosovo and it is one of the few countries on earth with almost no Chinese economic footprint to speak of. China opposed Kosovo's declaration of independence from Serbia in 2008 and went as far as initiating a legal challenge against Pristina's decision at the International Court of Justice, a move not usually made by China.

Beijing's view on the matter is shaped by its domestic concerns about the restive regions of Tibet and Xinjiang. China most likely was worried that Kosovo's recognition might set a precedent; the same logic applied for Russia, who also staunchly opposes Kosovo. Kosovo's independence is partially recognized by the international community, led by none other than the United States. The EU has gradually been taking the reins of Kosovo from a panoply of UN agencies where before, virtually all legitimate employment depended on servicing the UN-military-NGO complex. It still exists and remains there to this day despite efforts to scale down the peacekeeping operation, and unfortunately, no real economy has been built to sustain Kosovo once the UN eventually departs.

Bosnia & Herzegovina

China's activity in Bosnia and Herzegovina (BiH) is mainly limited to the usual transportation and energy projects including a number of bypasses, transportation corridors, interchanges, ports, and bridges. Several notable coal-fired thermal power plants have come under fire (Tuzla B) facing fierce opposition from environmental groups and the EU Energy Community Secretariat as it breaches EU law regarding state aid to the energy sector, even though BiH isn't a formal member of the EU. Locals returned the criticism claiming that Western Europeans went through the exact same modernization development process in the past and it was hypocritical for them to hold a double standard. Some thermal plants because of opposition like Ugljevik III have stalled.

BiH is slightly different from the other WB6 nations given its incredibly complex political structure stipulated by the Bosnian constitution, a legacy of the Dayton Peace Accords which ended the Bosnian War in 1995. Inside the country, there are reportedly three rival factions, split along ethnic lines, each well served by an opaque status quo. This tripartite framework originally embedded in the constitution has since been revised into a more unified system more appropriate to a multiethnic European nation in the 21st century. These criminal syndicates and paramilitaries still wield immense informal power though and even provide healthcare and pensions to maintain loyalty. People are still unsure of who to trust due to this 'lurking tribalism' and uncertain political certainty has made it difficult for Chinese firms to work in the country compared to other more predictable WB6 nations. For this reason, Chinese companies are slightly more active in the Republika Srpska, the autonomous Serb-majority region that forms part of BiH.

North Macedonia

Chinese investment in Macedonia began in 2006, considerably earlier than the other WB6 states. Part of this reason might be attributed to the fact that a preventative peacekeeping deployment staved off most of the spillover from the rest of Yugoslavia, securing borders and ensuring a stable independence. The landlocked country conveniently sits on top of the prospective commercial route connecting Piraeus to Budapest in Hungary, the perfect geography for China's strategy of a transport corridor it envisions from the coast to the heart of Central Europe.

Most Chinese activity is limited to the highway sector, where two of the most notable investments have drawn attention from around Europe. The Kicevo-Ohrid and Miladinovci-Stip highways contracted to Sinohydro and financed by a concessional Exim loan implicated the highest officials of the Macedonian government in a scandal in which salacious audio recordings were released by then opposition leader Zoran Zaev where the transport minister and the prime minister could be heard discussing how much they might be able to extort from Sinohydro in bribe money. After the news broke, the project has been plagued by difficulties and delays, requiring several changes to the original contracts, and as of June 2019, much of the Kicevo-Ohrid section appears abandoned.

Albania

Beijing's relationship with Tirana—not part of former Yugoslavia—is a curious peculiarity in the region. The two regimes were Communist brothers and very close until the Sino-Albanian split of the 1970s in which the isolationist Communist regime of Enver Hoxha cut Albania off from Europe and the outside world, becoming self-sufficient in food production and succeeding in relatively industrializing his nation.

Under his steel rule, Hoxha was able to play all the superpowers (US, USSR, and PRC) against each other at some point, until Hoxha decided to break off relations with all superpowers and lead his small nation on its exemplar path toward socialism. This historical curiosity, though, has little bearing on contemporary Sino-Albanian relations.

The country is now considered one of the poorest countries in Europe and still unknown to most Europeans aside from the occasional news accounts of refugees crossing the Adriatic Sea to Italy just like Haitians or Cubans would make the perilous journey to America. China has recognized, however, that the country is strategic due to its location on the Adriatic coast with a key position on the Maritime Silk Road and possesses considerable energy resources. In 2016, China purchased one of the largest oil companies in Albania along with the rights to some of the country's largest oil fields. Albania also occupies a key spot along the Trans-Adriatic Pipeline, a network currently under construction which will carry Caspian gas through Turkey, Greece, and Albania to Italy and the rest of Western Europe. Albania is the only country inside the WB6 to have these considerable energy resources and energy cooperation with China.

Most of its projects are consistent with the rest of the WB6—with a fair share of ports, highways, and motorways under construction. One notable acquisition was China Everbright's (光大控股) concession to operate Tirana International Airport, the main international airport of Albania.