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Between values and interests

Western Balkans' cooperation with China and its potential implications for the EU

Ana Krstinovska

- The Western Balkans region is of geostrategic importance. Some of the countries are already official EU-candidate countries and / or NATO members. However, the slowed pace of EU enlargement is causing many societies to stagnate or the elites to open up to other geopolitical and economic policy options.
- China has significantly intensified its involvement in the region and wants to integrate the region into its Silk Road initiative. The long-term Chinese strategy is not only aimed at expanding its economic strength, but also at promoting its value model in contrast to the West.
- China benefits from the fact that many of the countries are very open to supposedly unconditional investments in their own infrastructure or that there are political systems in which lack of transparency and susceptibility to corruption unfortunately play a major role.
- For the European Union, this means stepping up its efforts to integrate and reform the states and, above all, to communicate in the region that the countries in the region continue to have a European perspective.
- The region is of great interest to the EU in terms of both economic and security policy.

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Abstract[1]

The economic rise of the People's Republic of China (hereinafter: China) has been increasingly accompanied by attempts to exert political and diplomatic influence and promote its own political model and values, which has put China at odds with the USA, the EU, and other Western powers. In such an increasingly polarized geopolitical landscape, the Western Balkans (WB) are faced with difficult choices and decisions. While admittedly they are entitled to maintain and develop their cooperation with China, they will have to ensure that it does not hamper their EU accession process and does not alienate their Western partners. Hence, it is imperative for them to build their own strategic position on a balanced foundation of values and interests.

This article aims to contribute to a more nuanced understanding of China's presence in the region, provide some insights into the current dilemmas that the WB are facing, weigh the potential benefits and risks of cooperating with China in the context of the EU accession and provide recommendations for policymakers in the WB and the EU to make informed choices on China-related issues.

The economic rise of the People's Republic of China has been increasingly accompanied by attempts to exert political and diplomatic influence and promote its own political model and values.

I. Economic Cooperation – the Focus of Western Balkans' Cooperation with China

Dating back to Yugoslavian times, Western Balkan (WB)[2] countries have traditionally good relations with China. Partly because of the historic ties and socialist legacy and partly as a result of their attempts to maintain cooperation with China as the rising power of the 21st century. China's increased focus on the WB region in the past two decades falls within the scope of China's "Going Out" strategy (走出去战略). It was launched in 1999 and aimed to support Chinese banks and companies to export, invest and do more business abroad. At the same time, China's motivation is also driven by WB's important geographic location for the implementation of the Belt and Road Initiative (BRI), as well as China's desire to secure allies in international organizations and support for its positions.

The main rationale behind WB's eagerness to cooperate with China is mostly economic and includes the potential increase in exports to the Chinese market, attracting Chinese FDI and funding for infrastructure projects. China, like other non-EU countries, namely Russia, Turkey, and the Gulf States, is often seen as an opportunity to fill in a gap or complement the cooperation with the EU and Western countries in these areas. One potential outlier where political and diplomatic concerns are equally important is Serbia, which sees China

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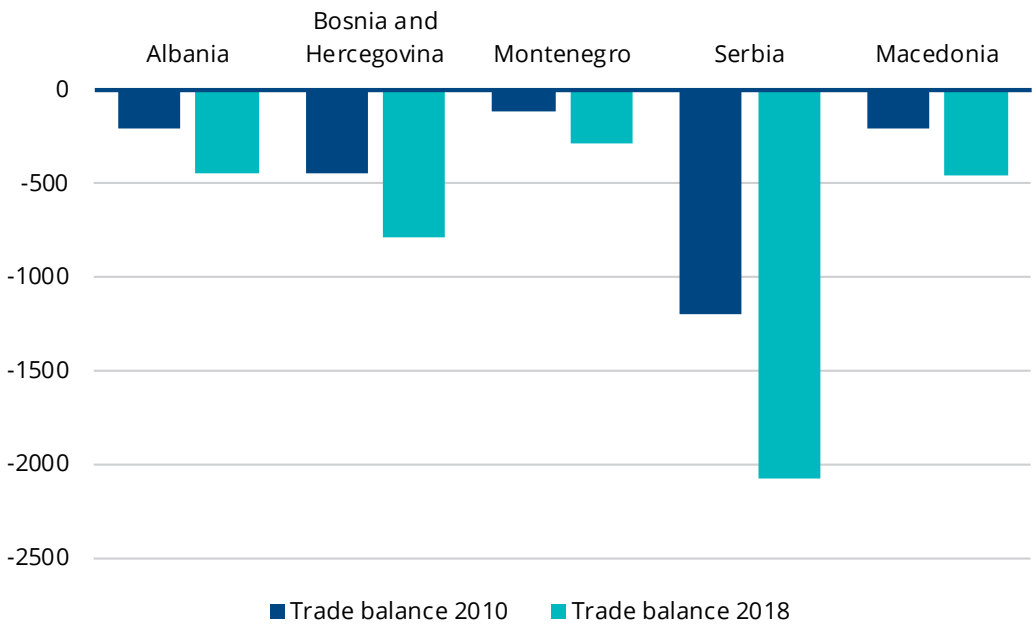
as a staunch supporter of its position on the Kosovo issue. The good bilateral cooperation between China and Serbia has been elevated to the level of strategic partnership since August 2009 and further on to a comprehensive strategic partnership since 2016.

In addition to the bilateral cooperation, the five WB countries are members of the multilateral cooperation platform between China and Central and Eastern Europe (CEE), informally known as the 16+1 cooperation. All five of them have also signed memoranda with China on the BRI. Not all of them, however, can boast with active participation *in* or tangible benefits *from* China-led multilateral cooperation fora.

The five WB countries are members of the multilateral cooperation platform between China and Central and Eastern Europe (CEE).

While bilateral trade has accelerated in the past decade, all five countries have started to export more, but also to import more Chinese goods, doubling their trade deficit (graph 1). Despite China's commitment in the 16+1 platform to help CEE companies penetrate the Chinese market, there have been few tangible results and important trade barriers persist in the form of different standards and bureaucratic procedures.[3]

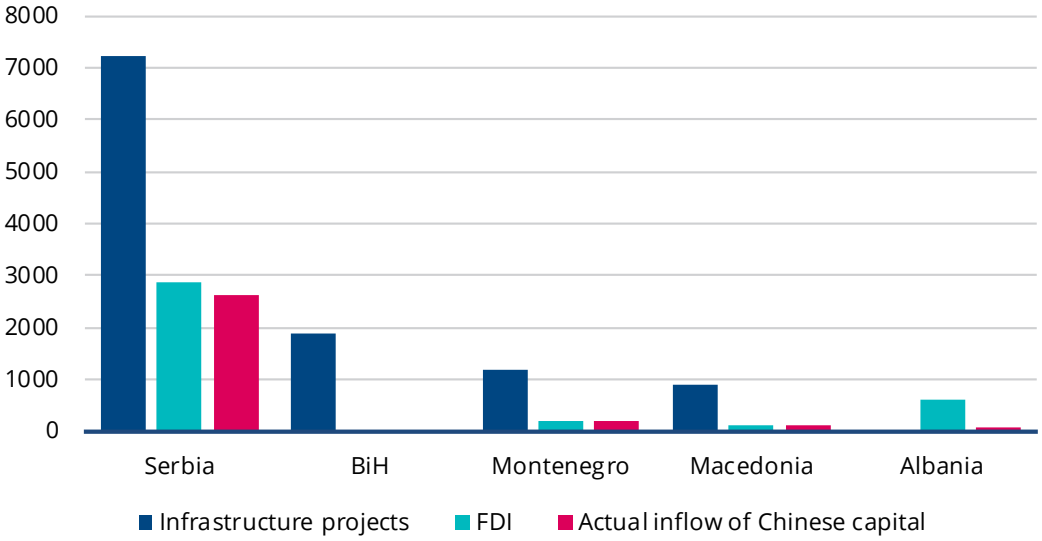
Graph 1:
Western Balkan's Trade Balance with China, 2010–2018, in Million USD



Source: Author's representation based on World Bank's statistics, https://wits.worldbank.org/

Another disenchantment is the fact that none of the WB countries, with the potential exception of Serbia, received the much-coveted Chinese direct investments. Instead, the WB region has become the main destination for Chinese infrastructure investments with 79 per cent of the total funding to CEE countries (graph 2).[4] All WB countries, except for Albania, have already implemented public Chinese-funded projects through concessional loans or grants and the outcomes have been mixed.

Graph 2:
Estimated Value of Infrastructure Projects, Direct Investments and Actual Inflow of Chinese Capital in the Western Balkans, in Million EUR



Source: Author's representation based on data collected by CEECAS Budapest, https://www.china-cee-investment.org/

Some projects considered of utmost importance by national authorities, such as the construction of highways in Montenegro and North Macedonia, or thermo-power plants (TPPs) in Bosnia and Herzegovina (BiH) and Serbia, would probably not have seen the light of day without Chinese funding. On the other hand, they are often quoted as examples of China's so-called "debt-trap diplomacy" due to their excessive cost, "corrosive capital" because of related corruption affairs or as proof of China's environmentally irresponsible behavior.[5] In that context, Montenegro asked for the EU's help to repay the Chinese loan with funding under more favorable terms[6] and launched an investigation into the potentially harmful environmental impact of the highway construction project.[7] Moreover, the construction of the TPPs Tuzla and Kolubara, in BiH and Serbia respectively, is suspended while the governments reconsider their commitments under the green agenda for the WBs to phase out coal.

II. The Cooperation Seen Through China's Lens

According to China's official rhetoric, its cooperation strategy is based on the principle of "mutual benefit" and aims to support the development and growth of its partners. Nevertheless, there are profound differences in comparison to the Western notion of development which promotes the idea that political and economic development should go together and conditions the support for economic development with the implementation of certain reforms. According to the Chinese principle of non-interference in other states' internal affairs and its state-centered approach, the national authorities bear the sole responsibility for a country's development, entirely shape the cooperation, and have a sovereign right to decide how the Chinese funds will be spent.[8]

This explains the important agency of national authorities and "exonerates" China from the obligation to control whether the money is spent in a transparent and cost-efficient manner, whether it actually contributes to development or undermines a country's economic, fiscal or environmental sustainability. The lack of such "checks and balances" is the main reason why Chinese-funded projects are sometimes perceived to be less time-consuming and demanding in terms of management and governance. However, in a region like the WB with widespread corruption and political clientelism, disregard for the established norms of good governance could not only entail project implementation issues but also the potential risk of misuse of funds, the perpetuation of the intrinsic vulnerabilities, and backsliding in the reforms.

Recent developments in China's relations, both with the EU and the US, indicate that China is no longer willing to be a rule-taker but a rule-shaper. Faced with the Western dominance in the existing international organizations, it has sought to influence and recreate to the extent possible the existing multilateral system, so that it can suit better China's own needs and interests. The increasing mismatch between its rhetoric of "Peaceful Rise" and the more assertive foreign policy leaves little space to question China's determination to fulfill its ideal of a multipolar – as opposed to multilateral rule-based world order. China's White Book *International Development Cooperation in the New Era* published in January 2021 for the first time explicitly mentions the idea to "establish a new model of international relations based on mutual respect, equity, justice, and win-win cooperation" and puts forward the ambition to make other countries learn from the Chinese governance model.[9] This was especially visible during the Covid-19 pandemic when China attempted to present its political system as the key asset in handling the crisis, in contrast to "the failure of democratic governance"[10]. The appeal of its authoritarian model resonates with WB political elites who often amplify China's positive image in their respective countries.

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III. Western Balkan's Dilemmas

In such a geopolitical landscape, the countries of the WB should carefully weigh their foreign policy choices. While joining the EU is a strategic priority of all five countries, they find themselves at different stages in the accession process, with Montenegro and Serbia already negotiating, Albania and North Macedonia waiting to start the negotiations, and BiH still waiting for the candidate status. Three of them – Albania, Montenegro, and North Macedonia – are NATO members, and two of them – BiH and Serbia – participate in NATO's Partnership for Peace. North Macedonia and Albania, additionally have a strategic partnership with the USA.

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One concrete litmus test for the WB's allegiance to the West is the Clean Network Initiative launched by the USA and aimed to "address the long-term threat to data privacy, security, human rights, and principled collaboration posed to the free world from authoritarian malign actors"[11]. Including China's Huawei (and ZTE) as a strong candidate to build 5G networks around the globe. While Albania, North Macedonia, and Serbia joined the initiative, Bosnia and Herzegovina, and Montenegro have not made any public pledges.[12] Nevertheless, it remains to be seen how the countries will implement the political commitment in practice and whether they will take any legally binding decisions to exclude Chinese vendors from the 5G network.

Legally binding obligations which may put the WB at odds with China do exist in the context of EU accession and specific negotiation chapters. To name but a few examples:

(I) Chapter 5 – Public procurement: The lack of open and competitive tendering procedures for Chinese-funded projects is a clear violation of the EU's acquis.

(II) Chapter 8 – Competition policy: State guarantees for the loans to build TPPs in BiH and Serbia are considered to be unlawful state aid.

(III) Chapter 24 – Justice and Home Affairs: Serbia and BiH visa-free regimes with China are not in line with the EU's visa policy.

(IV) Chapter 27 – Environment: Chinese highway and TPP projects are often non-compliant with the EU's acquis in the area of environment.

(V) Chapter 30 – External relations: None of the WB countries have a mechanism to prevent investments by companies under the influence of foreign states in critical sectors. The transposition of the EU's directive on investment screening mechanism could make some Chinese investments "unwelcome".

(VI) Chapter 31 – Common Foreign and Security Policy: WB countries are obliged to align with EU's positions and sanctions, including those in March 2021 against four Chinese officials on the grounds of human rights violations in Xinjiang and any new measures that the EU could impose against China.

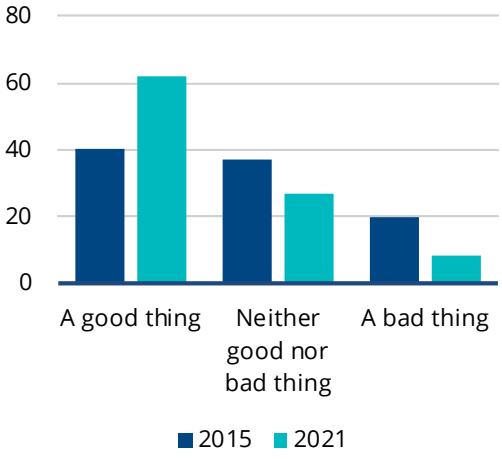
Given the current standstill in EU's enlargement policy, WB countries do not feel the imminent need to align with the EU acquis and potentially severe the relationship with China. On the other hand, as long as these countries are not formally EU members, the EU does not have any mechanism to impose the alignment, except for political pressure and conditionality related to the use of EU funds. However, the lack of such conditionality in dealing with China is precisely the reason for the WB governments to use Chinese funds. Compared to the complex procedures stemming from all the safeguards in the management of EU funds (macroeconomic parameters, sound financial management, environmental and fiscal sustainability), Chinese funds flow in more quickly, with fewer strings attached, and are sometimes a more attractive option for political elites seeking quick results within an election cycle. Hence, increased conditionality by the EU could be a double-edged sword and further alienate these countries from their EU path.

Given the current standstill in EU's enlargement policy, WB countries do not feel the imminent need to align with the EU.

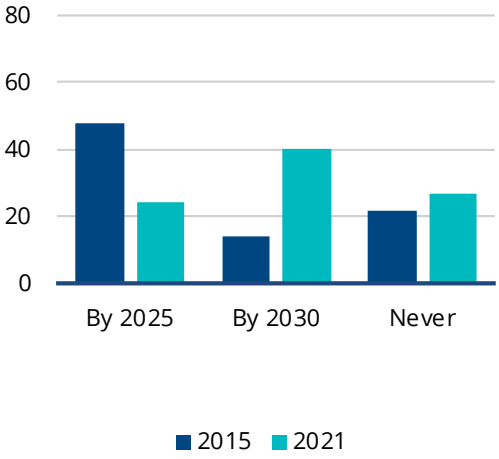
IV. Full EU Integration – Potential Guarantee for Full Allegiance

WB's close cooperation with China before and especially during the pandemic suggests that as long as these countries remain outside the EU, they will neither perceive it as a sufficient safety net in times of crisis nor as a replacement for the interests they pursue with China. Their confidence in the EU has been eroding due to the lack of credible EU integration prospects, stemming mostly from the lack of support for enlargement policy among EU member states. This has also been reflected in the citizens' opinion regarding EU membership (graphs 3 and 4). While there is still broad popular support for the process, the expectations to join the EU have become more pessimistic throughout the years. Such a public mood alleviates, to a certain degree, the pressure on political elites to comply with the EU's requirements and implicitly allows them to pursue other avenues.

Graph 3:
Western Balkan Citizens' Opinion on Joining the EU in 2015 and in 2021, in percentage



Graph 4:
Western Balkan citizens' Expectation to join the EU, in 2015 and in 2021, in percentage



Source (graphs 3 and 4): Authors' representation based on data from the RCC's Balkan Barometer, https://www.rcc.int/balkanbarometer/home

Arguably, the state of play within the countries and their failure to sufficiently deliver the reforms required to join the EU *do* play an important role in convincing the reluctant countries to "release the brake". But the seemingly insurmountable obstacles come from member states using enlargement for domestic political calculations, as is the recent case of Bulgaria's veto to North Macedonia opening accession negotiations. Allowing bilateral issues to hamper enlargement is detrimental for the EU's values and interests in its immediate neighborhood as an area of key strategic importance. It paves the way for China to build a stronger position, gain allies for its ambitions to reshape the existing world order and undermine the EU's credibility and international actorness.

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While the WB countries arguably have a lot to learn and gain from the EU accession, they are often disgruntled by the EU's prescriptive attitude. Most EU-led initiatives and activities *target* the region, do not *engage* it in cooperation between equals. In contrast, China uses a language that sounds more appealing to the WB audience by insisting on the rhetoric of partnership and pointing to the fact that it is also a developing country that understands and even shares the same challenges.

Although China has become an increasingly prominent topic in research and policymaking worldwide, the interest in the WB lags behind. There is little public debate and original media reporting, while civil society organizations (CSOs) usually lack interest, expertise, and funding to play their role of watchdogs. The WB governments generally lack a clear vision for their cooperation with China and the agenda is defined according to China's agenda.[13] Cultural differences, lack of institutional capacity, and understanding on the side of the WB regarding China's interests and *modus operandi* act as an additional impediment for the WB to achieve their objectives. Thus, they resort to ad-hoc decisions instead of long-term policies and remain vulnerable to potentially harmful influence.

While the EU has the means to redress the situation, it is questionable whether it can find the internal unity to help the WB anchor themselves more firmly in the "alliance of liberal democracies". It is not realistic to expect that they will entirely comply with EU's policies on China until full membership is at hand's reach. The most efficient step would be closer integration for all WB countries which would oblige them to deal with China in the institutional and legal framework already set by the EU.

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V. Policy Recommendations

Although full EU membership for all the WB countries is the most difficult and least likely scenario in the mid to long term, there are several more pragmatic steps that could be taken until that goal is reached.

The EU could:

- Pay increased attention to the cluster External relations in the EU's new enlargement methodology which should be addressed at an early phase in the accession process. Candidate countries should engage in an analysis of the "thorny" points, start developing successful coping strategies and be assisted in the implementation (i. e. to reduce the trade, supply chain, or technological dependence on China; to introduce investment screening, etc.)

- Step up its communication activities to explain why conditionality is in the interest of WB citizens and societies and why it does not approve of some Chinese-funded projects.

The Western Balkans' governments could:

- Develop a transparent and rule-based framework for infrastructure project management applicable to all investment and development cooperation partners. Accepting and streamlining EU's conditionality on good governance will mean that they are embracing the values of the "club" they hope to join.

- Give a chance to the trilateral cooperation (EU-China-WB), if China accepts to abide by the rule-based framework on good governance.

The EU, the USA and other Western development partners could:

- Include the WB in the joint reflections for a broad China-policy. It will be much easier to obtain WB countries' consent and support for any decision if they are present at the table, have the right to voice their concerns, and receive answers.

- Include the WB in other initiatives where infrastructure funding is available, such as the Three Seas Initiative.[14]

- Support independent media and CSOs to act on the "demand" side for more transparency and accountability by producing original investigative journalism articles and analyses of the cooperation with China.

Include the WB in the joint reflections for a broad China-policy. It will be much easier to obtain WB countries' consent and support for any decision if they are present at the table, have the right to voice their concerns, and receive answers.

1 This article is based on the author's doctoral dissertation and field research in the five Western Balkan countries. The author wishes to thank all the interviewees for their precious insights.

2 The term *Western Balkans* designates the non-EU countries on the Balkan Peninsula: Albania, Bosnia and Herzegovina (BiH), Montenegro, North Macedonia and Serbia. While the term usually includes Kosovo as well, given that China does not recognize its statehood nor maintains any official cooperation, Kosovo is not considered in this analysis.

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The Author

Ana Krstinovska is Konrad-Adenauer-Stiftung's PhD scholar, founder and president of ESTIMA (think tank and consultancy) and member of North Macedonia's Permanent Strategic Council on Foreign Policy.

Konrad-Adenauer-Stiftung e. V.

Daniel Braun
Leiter der Auslandsbüros Nordmazedonien und Kosovo
European and International Cooperation
T +389 (2) 3217075
daniel.braun@kas.de

Daniela Braun
Foreign and Security Affairs
Analysis and Consulting
T +49 30 / 26 996-3399
daniela.braun@kas.de

Postal address: Konrad-Adenauer-Stiftung, 10907 Berlin

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