

# Hope for the Best, Prepare for the Worst: Is North Macedonia Vulnerable to Economic Pressure by the People's Republic of China?

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By *ESTIMA*

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## Summary

The paper at hand analyzes North Macedonia's vulnerabilities towards economic pressure from the People's Republic of China in three main areas: trade, investments and external public debt. It draws on the experience of other countries around the globe, namely Lithuania, Sweden, Japan and Australia, to raise awareness about China's economic coercion as a tool enabling China to use its economic advantage against these countries to pursue political goals, with different outcomes. In that context, it examines aspects specific to North Macedonia's economic relationship with China, in order to flag the country's potential "weak spots". The conclusions provide a broad sketch on the dependence on China in each of the three examined areas.

In terms of trade, North Macedonia depends on China for its exports of extractive goods and raw materials, as well as on imports with higher value added, such as consumables, electronics, electrical equipment and machinery. In case of a potential fall out, there will be a short-term negative effect on consumers and a mid-term negative effect on companies that source their inputs from China. A more thorough analysis and diversification efforts could ease the burden and mitigate potential risks. When it comes to direct investments, there are no major companies with Chinese ownership in critical sectors or among the top exporters to China, which implies a commercial logic: any economic repercussion including these two economic operators would certainly have an immediate effect on the local economy, but ultimately will harm the Chinese companies in question as much. In the area

of infrastructure, North Macedonia's public debt owed to China accounts for a small portion of the total foreign debt and the country's GDP. However, the loan contract, which follows a Chinese model agreement, reveals a high level of asymmetry, making it very difficult for the North Macedonia to get out of a deal which has become in recent years a liability to its public finances and local economy.

## North Macedonia's "pivot to the West"

In the past two decades, Macedonian officials have always described the relationship with the People's Republic of China (hereinafter: China) as traditionally friendly, with no open issues. North Macedonia has adhered to the One-China Policy and strived to make the most of the economic cooperation, focusing on increasing exports, attracting direct investments and using Chinese funds for large infrastructure projects. Given the current global polarization, recurrent tensions between China and the US, as well as the EU's changing approach to China, countries in the Western Balkan region, including North Macedonia, increasingly face difficult policy choices.

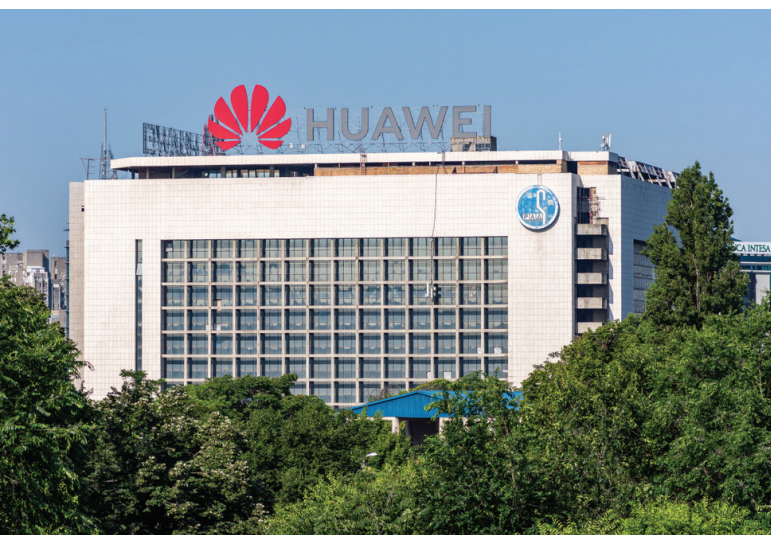
As a NATO ally, North Macedonia is bound to align with NATO's positions, including on China. While in the past China was not on NATO's radar, since 2020 - interestingly coinciding with North Macedonia's membership in the Alliance, China features prominently in all its strategic documents. The report NATO 2030: United for a New Era emphasizes the simultaneous geopolitical and ideological challenges coming from Russia and China, warns

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against the possibility and risks for China to explore political divisions between allies and advocates for increased resources and attention to be devoted.<sup>1</sup> The 2022 NATO Strategic Concept states that China “uses its economic leverage to create strategic dependencies and enhance its influence” and warns against “the deepening strategic partnership between the People’s Republic of China and the Russian Federation and their mutually reinforcing attempts to undercut the rules-based international order”.<sup>2</sup> The ongoing war in Ukraine only reinforces the animosity between China and NATO, as China blames NATO for instigating the war and NATO accuses China of supporting Russia, thus perpetuating the conflict.<sup>3</sup>

In the context of its EU accession process, North Macedonia is expected to follow the EU’s position and is fully aligned with the restrictive measures adopted in the context of the EU’s Common Foreign and Security Policy. In its Strategic Outlook on China dated March 2019, the EU labeled China a negotiating partner, an economic competitor and a systemic rival.<sup>4</sup> In July 2020, it adopted the first cyber sanctions targeting Chinese entities, including two legal persons and two individuals.<sup>5</sup> A year later, in March 2021, it adopted sanctions against four Chinese officials over human rights violations in Xinjiang.<sup>6</sup> In recent years and following a number of economic coercion cases around the world, the buzzword on the side of the EU is de-risking, which aims at reducing economic dependencies on China in key sectors.

Source: Shutterstock



Moreover, having a strategic partnership with the US, North Macedonia signed up to the Clean Network Initiative targeting non-secure vendors in the 5G telecommunications infrastructure, implicitly Huawei - to China’s dissatisfaction.<sup>7</sup> It has also significantly reduced the level of seniority when its officials attend events hosted by China, be it in the context of the Belt and Road Initiative (BRI), the China-CEE cooperation platform or merely bilateral anniversary-marking events. The 2015 Memorandum for Cooperation in the BRI has not been renewed, despite the fact that it officially expired in 2020 and despite the request by the Chinese side.

While China’s reactions to some of the above-mentioned moves amounted to mere warnings, in the early days of its independence, Macedonia witnessed first-hand what the repercussions of a fall-out with China could look like. Namely, following the country’s recognition of Taiwan in 1999, China decided to discontinue the diplomatic relations and veto the extension of the UN-led peace mission in the country. With the war in Kosovo in full sway on the other side of the border, the move allowed for a spillover of ethnic tensions that later turned into an internal armed conflict. The bilateral relations resumed in 2002 when President Boris Trajkovski visited China and signed, with Chinese President Jiang Zemin, a joint statement on the bilateral relations emphasizing Macedonia’s respect for the One-China Policy.<sup>8</sup> That statement has been the cornerstone of bilateral relations until the present day.

Given the current global uncertainty, it is difficult to foresee all the challenges to the Sino-Macedonian relations that may come up in future, the difficult policy decisions that may need to be made or the directions in which China’s retaliation could go should it consider at some point that North Macedonia’s alignment with the “West” endangers its core interests. At the same time, a number of examples throughout the world, spanning from Sweden and Norway, to Lithuania, Japan, South Korea and Australia point to the fact that in recent years, China has increasingly resorted to using its economic influence for achieving political objectives. Hence, this paper aims **to contribute to the policy debate on the future relations with China by assessing North Macedonia’s vulnerabilities to potential Chinese economic coercion**. To that effect, it will examine:

- › The state of play of **bilateral trade relations**, focusing on the stability of supply chains, key export and import items and alternative markets;
- › **Chinese investments in key sectors and companies** with the potential to influence trade, employment or the economy at large;
- › The level of **foreign debt owed to China**, especially amassed as a result of loans for infrastructure projects.

## Telltale examples of China's economic coercion

One of the closest examples of China's economic coercion for North Macedonia is the case of **Lithuania**. The diplomatic flirtation between official Vilnius and Taipei dates back to 1998 when these two cities signed a "sister cities" memorandum. However, the diplomatic radar started buzzing intensively since 2021 when the Lithuanian government decided that fostering closer relations with Taiwan would be beneficial for the country, especially when it comes to trade and business. This step was green-lighted by the Lithuanian Parliament, and coupled with Lithuania's withdrawal from the China-CEE cooperation platform (so-called 17+1),<sup>9</sup> everything was set for the opening of the Taiwanese Representative Office in Lithuania in November that year.<sup>10</sup> Joseph Wu, the Taiwanese Foreign Minister confirmed that the full name of the respective office would have the name *Taiwanese* (unlike similar representations in other countries which are labeled as Taipei offices), which was an indicator that Lithuanian - Chinese relations will face turmoil. In turn, China withdrew its ambassador from Vilnius and expelled the Lithuanian one from Beijing. However, its fiercest retaliation was the total ban on imports from Lithuania, alongside intensive pressure on foreign manufacturers to stop using Lithuanian components.<sup>11</sup>

This action caused serious disturbance in the Lithuanian-Chinese trade exchange, but also seriously affected the European single market. For instance, only in December 2021 the Chinese customs data showed 91.4 % drop in shipments from Lithuania.<sup>12</sup> China targeted everything that was coming from this Baltic country, including products,

services or components that had any origin or linkage with Lithuania. The measures affected both Lithuanian and other EU companies. Since the ban, German companies urged that "*Made in Lithuania*" would cause a blockage of their own shipments to China, including cars that included Lithuanian components. One of those suppliers, Brolis Group a Lithuanian based company specialized in chip design, micro-optics, as well as full electro-optical system design for various applications, had to move the manufacturing facility to Belgium in order to avoid a total collapse of the exports.<sup>13</sup> Moreover, in December 2021, the German-based Continental AG, one of the biggest global exporters of car parts, as well as other companies in the automobile and agriculture sectors, informed that Chinese officials had been putting serious pressure on them to stop using components made in Lithuania.<sup>14</sup> Given that trade is an exclusive EU competence, in early 2022, the European Commission launched a dispute in the World Trade Organization (WTO). In January 2024, it suspended the panel in order to assess and prepare relevant documentation. According to WTO's procedures, if the dispute does not resume by January 2025, it will be considered as officially stopped.<sup>15</sup>

In 2023, the WTO was the setting for another complaint against China, this time launched by **Japan**. Namely, China imposed a total ban on Japanese seafood after the release of treated water from the Fukushima nuclear plant, even though the International Atomic Energy Agency (IAEA) assured that the disposal does not pose health and environmental risks.<sup>16</sup> Observers in the East Asia region put forward that the ban had a merely political rationale and was used as a pressure point having in mind the long lasting territorial disputes between the two countries, the tensions in the East China Sea, and the efforts of Chinese authorities to strengthen their position internally, amid the challenges for the national economy.<sup>17</sup> However, during a meeting in November 2023, the Japanese Prime Minister and Chinese President agreed to give the dialogue another chance and solve the dispute bilaterally.<sup>18</sup>

Since 2019, **Sweden** has been facing an unofficial trade ban from China, after it awarded a human rights prize to Gui Minhai, a jailed Chinese publisher and dissident.<sup>19</sup> In early 2020, an ban of graphite exports to Sweden was imposed, creating serious

challenges for battery producers in Sweden, especially Northvolt – a manufacturer specialized in lithium-ion technology for electric vehicles.<sup>20</sup> According to some analysts, with that move China was not only looking for retaliation, but also for a convenient way to strengthen its global market position in the production of electric vehicles (EVs). The values-based approach and critical stance of the Swedish authorities on a number of China-related issues also translated into a response *by* and backlash *against* Swedish companies. Namely, H&M, the Swedish clothing retail giant, was boycotted by Chinese consumers and wiped of the Chinese e-commerce sites and social media after it published a statement that it will not use cotton produced by force labour in Xinjiang.<sup>21</sup>

Source: Shutterstock



Another in the line of countries affected by Chinese trade sanctions was **Australia**. In 2020, China imposed a ban on the import of coal from Australia after a series of frictions between the two countries related to Australia's voiced positions on Huawei as a security concern, on the Uyghur genocide, as well as the way China handled the pandemic.<sup>22</sup> In 2023, the ban was lifted and economists from the region calculated that it did not have a significant impact on the Australian economy, as the country managed to find alternative markets.<sup>23</sup>

## Sino-Macedonian Trade Relations

During last year's anniversary of the 30 years of diplomatic relations between North Macedonia and China, North Macedonia's Ministry of Foreign Affairs declared that the two countries have close and stable relations, with potential to be intensified, especially in the area of trade.<sup>24</sup> Trade has been one of the highlights in the cooperation and a longstanding priority of the Macedonian side, especially in terms of increased access to the Chinese market. Since 2020, China is North Macedonia's fourth trade partner. However, since 1993, the last year when North Macedonia had a surplus in the trade exchange with China, the deficit has only been deepening and in 2023 it almost reached USD 1bn.

When it comes to the export of goods, according to the National Statistical Office, China is positioned on the 5<sup>th</sup> place among the top 20 export partners, while the biggest destination for Macedonian goods are the EU countries, notably Germany, Greece, Bulgaria as well as Serbia and Kosovo.<sup>25</sup> The year 2021 is the record year with USD 183 million in exports to China, whereas significant decrease is noted in 2022 when only USD 58 million are recorded, leading to a trade ratio of 1:17 in favor of China. However, the export dynamic resumed to some extent last year with USD 112 million, which indicates that the export volume is not constant, but fluctuates a lot in different years. In the record export year of 2021, ferroalloys were the most exported goods to China with 64,9%, followed by marble, travertine and alabaster with 16,3% and motor vehicles, parts and accessories with 5,8%. In the critical year of 2022 we can notice complete re-ranking of the export list. Namely, marble, travertine and alabaster make up 44,4% of the total exports to China, motor vehicles, parts and accessories come second with 14,2%, whereas ferroalloys mark a big drop and are ranked third with 12,3%.<sup>26</sup> Wine has been the only agricultural product that managed to make a breakthrough on the Chinese market, but still currently accounts for only 1% of the total exports.

The export composition is more worrisome than the trade deficit in numbers because it means that North Macedonia exports to China mostly goods with low value added, which exploitation causes environmental degradation and yields little benefit to the local economy. Some years, the ratio of

extractives and raw materials even surpasses 80-90% of the overall exports to China.<sup>27</sup>

On the other hand, if we analyze the Macedonian import portfolio, we can see that the most imported goods after 2020 include cotton, industrial machinery, polyethylene fibers, glass fiber strips, steel, electronics, consumer goods (peanuts, canned tomatoes, lactic, tartaric, citric acid) bus and truck tires, plywood, stones for monuments and buildings, ceramic tiles, air conditioning machines, tricycles and scooters. Given the price-quality ratio of Chinese goods, the purchasing power of Macedonian citizens, as well as the size, capital and ability of the companies, mostly small and medium sized enterprises, to purchase inputs and be competitive, Chinese imports significantly contribute to improving the quality of life and the performance of domestic companies.

## Chinese direct investments

China remains a marginally important investor in North Macedonia, far behind Austria, Germany, Greece, the Netherlands and the United Kingdom as biggest investors that account for around 50% of the total stock.<sup>28</sup> According to the Macedonian National Bank, at the end of 2022 the Chinese investment flows amount to USD 20.42 million, which presents an increase compared to 2020 and 2021, the years that were challenging for the overall global market due to the pandemic.<sup>29</sup> Still, the amount of Chinese investments stands at 2.6% of the total investment stock.

The biggest Chinese investment in the last two decades, albeit indirect, is the acquisition of the

Makstil steel plant in 2016. Makstil's mother company, the Swiss giant Duferco International Trading Holding (DITH), was taken over in a deal between Hebei Iron and Steel (HBIS) and Duferco Participations Holding (DPH) in 2014. The transaction allowed HBIS to acquire an additional 41% of the shares for \$400 million, obtaining a controlling stake in DITH of 51%.<sup>30</sup>

Source: Shutterstock



Located in Skopje, Makstil has a headcount of approximately 1,000 employees that operate across two production sites - the Steel Shop and the Plate Mill. With a net profit increasing by 27% year-on-year to reach USD 19.1 million in 2022, operating revenues of MKD 11.2 billion in 2022, and increased export sales of 57%, the company is a regional

Table 1: Chinese direct investments (DI) in North Macedonia, 2014-2022. Source: National Bank of the Republic of North Macedonia.

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Chinese DI (in mil.\$)	-5.13	6.79	29.15	29.45	27.16	28.42	-31.6	-6.42	20.42
Total FDI (in mil.\$)	272.45	245.86	372.99	199.83	725.31	443.64	226.77	551.87	779.98
% of total FDI	-1.88 %	2.76 %	7.82 %	14.74 %	3.74 %	6.41 %	-13.93 %	-1.16 %	2.61 %

leader in secondary steel production obtaining its steel mainly from scrap. The EU is Makstil's main export destination with 51% of the total production, followed by Turkey with 31,4% and other non-EU countries with 9,1%.<sup>31</sup>

Another significant Chinese investment in the country is Joyson Safety Systems Macedonia DOOEL, located in Kichevo. This investment was also the result of the acquisition of a foreign company – Key Safety Systems, by Ningbo Joyson Electronic Corp. The facility is mainly engaged in the manufacturing of automobile parts – airbags and seatbelts, with 1.426 employees in the Kicevo free zone at the start of 2018, whereas this figure is projected to reach up to 2000 people.<sup>32</sup> There are no available data on the profit of Joyson Safety Systems Macedonia, though according to Ningbo Joyson's Semi-Annual Report, the overall corporation calculates the beginning balance in 2022 at USD 125 million.<sup>33</sup>

Apparently, North Macedonia is not the most attractive investment destination for Chinese companies. Domestic economic factors, the lack of an attractive investment offer and intensive political collaboration, the firm stance of North Macedonia as a Western-oriented country, member of NATO and negotiating country for full membership in the EU potentially present deterring factors for more intensive Chinese economic presence because they impose certain restraints that the country needs to abide by. This is particularly visible in light of the stark contrast with Serbia, whose political leadership is willing to go an extra mile and make concessions for China and Chinese companies, which sometimes challenge the economic logic, the established national legislation and Serbia's prospects to join the EU.<sup>34</sup>

## Infrastructure contracts and loans

North Macedonia has been a member of the China-CEE Cooperation platform since its establishment in 2012. The platform aims at fostering cross-regional cooperation between China and the respective countries spanning across a variety of areas, including economy and trade, culture, education, youth exchange, agriculture, tourism, science and technology, health, think-tank exchanges and sub-national cooperation. It also served as an avenue to

channel Chinese infrastructure loans through a USD 10bn facility put at the disposal of the CEE countries. North Macedonia was the first country to withdraw funds from this credit line for the construction of two highway sections.

One of the main drivers for Macedonia's authorities at the time to take on Chinese debt was the fact that the project was considered non-viable and rejected by European lenders. Moreover, the principles and rules for eligibility and implementation of projects funded with Chinese loans are much flexible compared to the EU rules and mechanisms. Namely, Western lenders and donors, predominantly the EU, European financial institutions and most of the "old" EU member states condition development assistance with strict project-related parameters and tangible deliverables and results in certain reforms in various area, such as public finance management, judiciary, fight against corruption and public administration reforms. China's conditionality, on the other hand, involves practicing equidistance from China's internal issues, alongside adherence to the One-China Policy.<sup>35</sup> In that context, the Macedonian government accepted the "Chinese way" of large infrastructure project implementation and selected a Chinese contractor between two pre-selected companies through closed-door negotiations. While this *modus operandi* allowed for the implementation to start swiftly after the contract was signed, it also led to a high-level corruption scandal.

It is worth noting that North Macedonia had a relatively positive experience in terms of effectiveness and delivery of the first loan and Chinese-funded infrastructure project, the Kozjak hydro power plant by China International Water and Electric Corporation (CWE) in the early 2000's, despite some delays and a change of the contractor at the beginning of the project. The contract for construction of two highway sections in a total length of around 100 km concluded in 2013, however, is a different story. While the Shtip-Miladinovci section was finished with only a minor delay and without major controversies, the Kichevo-Ohrid highway construction did not go smoothly and in line with the projected deadlines and amounts, opening serious issues related to project planning, preparation and execution.

The construction, started in May 2014, was based on project documentation that was several decades old and prepared under outdated and currently



inferior construction standards.<sup>36</sup> The poor quality of the planning procedure and project documentation, including shortcomings in the geotechnical examinations, expropriation and administrative procedures, as well as insufficient workforce and equipment on site, has caused a serious delay of 5 years, as the project was initially supposed to be finished in 2019.<sup>37</sup> In an attempt to resolve the issues, during the period 2018-2020, five annexes have been signed with Sinohydro, the Chinese contracted company to prolong the deadlines and borrow additional funds from the Export-Import Bank of China amounting to over €180 million.

Moreover, calculations show that so far €421 million out of the overall planned €598 million have been spent, although the initial amount for the project was €374 million.<sup>38</sup> With the recent landslides occurring on already built stretches of highway, the project seems to be nowhere close to completion.<sup>39</sup> The overall external public debt owed to China amounts to €478,6 million, which equals 8,7% of the total external public debt and 3% of the country's GDP.<sup>40</sup> While the conditions for the loan are quite competitive and favorable, with 2% fixed interest rate and 20-year repayment that includes a 5-year grace period, loan contracts concluded with the Chinese EXIM bank all contain provisions that put recipient countries in an inferior position.<sup>41</sup> Namely, according to the contracts China, through its policy bank, has the prerogative to:<sup>42</sup>

- › Source Chinese workforce in the amount of up to 49% and Chinese construction materials in the amount of up to 51% of the contract value.
- › Enjoy full exemption of VAT, customs and excise duties.
- › Unilaterally suspend the contract, cancel the loan and ask for immediate repayment in a broad range of circumstances.
- › Decide on the cancellation of unused funds or in cases of prepayment or restructuring
- › Ask for confidentiality and impose to the borrower not to disclose any information to third parties, unless otherwise required by applicable law, which presents a rather ambiguous case.

- › Use the arbitration of the China International Economic and Trade Arbitration Commission in Beijing, whereas applicable legislation is Chinese law, which represents a major asymmetry between the parties;

Moreover, the borrower waives any immunity, sovereign or other, for itself or its property, which is sometimes interpreted as a possibility for China to ask for confiscation of sovereign land in cases of default. This option in practice is difficult to enforce and prominent scholars have debunked the so-called "China's debt trap".<sup>43</sup> In the case of Montenegro as quite similar to North Macedonia, China showed leniency when installments were late and allowed for debt reprogramming in the context of the two loans (for the purchase of commercial ships and the highway construction). Still, even without an explicit intention on the Chinese side to confiscate sovereign land, the contracts are asymmetric enough that it makes it extremely difficult for North Macedonia to "free" itself, despite the obvious fact that the delivery of the project for the Kichevo-Ohrid section, has gone beyond all reasonable deadlines and into huge cost overruns.

Source: *vlada.mk*



It is also worth mentioning that, despite the failure of the Kichevo-Ohrid highway project, China is not only still perceived positively among the public, but positive perceptions seem to be on the rise in recent years.<sup>44</sup>

Table 2: Percentage of citizens who believe that North Macedonia's interests are best served by maintaining strong relations with China. Source: International Republican Institute.

Percentage of interviewees who responded with 'agree' or 'strongly agree' combined	Aug 2017	Jul 2018	Feb 2020	Mar 2021	Nov 2021	Oct 2022	May 2023
	52	58	53	59	64	65	63

## Final considerations

North Macedonia's (inter)dependence on China is visible across all the three issue areas examined in this paper – trade, investments and infrastructure loans. Thus far, China has not “weaponized” this (inter)dependence in the way it has used its economic pressure in countries like Lithuania, Sweden, Japan or Australia. The reason lies in the borderline balancing of the national authorities who have thus far honored their commitments to the Western partners without overstepping the Chinese red lines. However, this does not mean that China's transactional approach has not been in play at all, since in the past few years it has sought to “reward” with investments countries with more friendly attitudes, namely Serbia and not North Macedonia as a country with less amicable ties with China. This, in combination with North Macedonia's limited attractiveness for China and its companies in general – due to its size, market, investment offer and low regional importance, has resulted in limited prospects for cooperation or furthering the national economic interests of the Macedonian side in terms of increased exports to or commercial investments from China.

Still, the very fact that North Macedonia is a NATO country and on track to join the EU, with significant privileges in terms of access to the EU's single market, holds significant importance because it provides an additional channel for China to understand the dynamics in these two organizations and to learn how it can potentially exert influence, albeit currently in a rather informal way, through interactions with individuals, institutions, organizations and companies. We have already cases of a NATO or EU country maintaining close partnership with China, in the likes of Hungary at the moment, projecting its domestic agenda and indirect Chinese influence onto the EU's or NATO's decision-

making table. Furthermore, China does not need to mobilize significant resources to ensure constant presence or increased influence in North Macedonia. It can afford to adopt a wait-and-see, opportunistic attitude, anticipating a potential change in politics in some future electoral cycle and a more favorable environment for its activities. To that effect, it has already managed to expand its presence and influence among the general public, as seen through the increase in the favorable views towards China in recent polls.

Moreover, China also has at its disposal economic aces that it could use in the case of a political fallout. Should it decide to ban the exports of Macedonian products, it would only cause itself a minor inconvenience given that the overall production output of Macedonian extractives and raw materials contributes to satiate only a tiny fraction of China's thirst for these products. On the other hand, Macedonian companies would scramble for a while to find new buyers, especially for wine and ferro-alloys. When it comes to imports from China, the range of imported products is very diverse, but for most of them China is not the sole global producer or exporter. Hence, in the case of some sort of export embargo from China to North Macedonia, the substitute for the consumer goods should be sought in alternative markets like Europe and the Western Balkan region, Turkey, South Korea, North Africa and India, or by increasing domestic production. While in the short term, the market and consumer prices will certainly be affected, in the long term it will not have a serious impact. An exception to this may be businesses, which will need support to reorient their supply chains and purchase more expensive inputs, equipment and machinery elsewhere. In this context, a comprehensive and detailed analysis should be done by the relevant authorities and the economic chambers to identify options for diversification of supply chains and markets.

When it comes to investments, the two major Chinese investments in the country are driven by a commercial, not a political logic. Moreover, they do not export to China, but to European and regional markets where they strive to impose their presence, which limits the potential for economic coercion. Both companies are significant employers, exporters, taxpayers and drivers of the local economies in the respective regions (Skopje and Kichevo). Hesteel is a state-owned enterprise, which provides an increased basis for control and influence by the Chinese state authorities and the Chinese Communist Party.

In terms of loan financing and public debt owed to China, North Macedonia is quite exposed and vulnerable to Chinese influence. This is not directly associated, however, to the so-called “debt trap” or the ability of the country to repay the loan. While the overall public debt has reached unprecedented levels, beyond the sustainable 60% of GDP, the external debt towards China is not the major reason driving the debt and at this moment, repayment is not considered to be very problematic from the perspective of North Macedonia’s financial capacity. China is not set on exploiting the loan to create financial hardships for the recipient countries in order to extort land concessions, on the condition that bilateral relations are amicable.

The main political gain for China in the big infrastructure loans is the dependency in terms of foreign policy and decision-making of the recipient countries vis-à-vis itself.<sup>45</sup> To this effect, North Macedonia is not an exception when it comes to the standard model of Chinese loan agreements. The highway construction project ties North Macedonia

to China in an asymmetrical way that provides China with significant leverage in the bilateral relations. It contains clauses on the conditions in which China could unilaterally terminate the contract in a very vague manner, which could be arbitrarily invoked should China decide to do so for a political reason. Such clauses could serve as a potent tool for China to protect its own interests and prevent North Macedonia from taking a position drastically different from the Chinese official stance on sensitive issues (ex. Xinjiang, Tibet, Hongkong, Taiwan etc.) Hence, while the repayment of the loan in unproblematic times should not be a reason for headache, its merely economic nature could potentially be politicized to lead the country into dire economic difficulties in case North Macedonia “misbehaves”.

Source: Shutterstock



## Endnotes

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