CHARLES UNIVERSITY

FACULTY OF SOCIAL SCIENCES

Institute of Political Studies

Department of Political Science

Master's Thesis

2022 **David Pavic Radulovic**

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Chinese influence in the Western Balkans: comparison with examples from Asia and Africa

Master's thesis

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Study programme: International Economics and Political Studies

Supervisor: Mgr. Bohumil Doboš, Ph.D

Year of the defence: 2022

Declaration

1. I hereby declare that I have compiled this thesis using the listed literature and resources only.
2. I hereby declare that my thesis has not been used to gain any other academic title.
3. I fully agree to my work being used for study and scientific purposes.

In Prague on 30 July, 2022 **David Pavic Radulovic**

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Abstract

Chinese investments in the Western Balkans resemble their investments in Asian and African countries, where China uses 'debt trap' in order to increase its influence. China eagerly gives loans for huge infrastructure projects, often seen as uneconomical due to their size and viability for local economies, that are constructed by Chinese state-owned enterprises (SOE). Loan agreements have collateral in the form of important assets, most notably ports, but they also could be airports, special economic zones etc. In likely case of recipient country defaulting on payment, China is in a position of taking over a collateral thus having an asset abroad that can not only be used in commerce but also as a military outpost.

With initiation of the Belt and Road Initiative (BRI), a massive trade expansion strategy that serves to increase Chinese influence worldwide, the 'debt trap' diplomacy became its most visible tool. Most notable case of a country falling into the Chinese 'debt trap' is Sri Lanka, who relinquished its second largest port, Hambantota Port to China in 2017 after defaulting on payment. With the country on brink of collapse due to enormous external debt, angry crowd stormed the government building and the president resigned in summer 2022.

China applies 'debt trap' diplomacy in the Balkans as well. Montenegro, North Macedonia, Serbia, Albania are all recipients of Chinese loans for infrastructure projects. In the case of Albania, the only international airport in the country, had to be turned over to China, while Montenegro and North Macedonia are in danger of falling into a 'debt trap' due to expensive and uneconomical highways that are being built by Chinese SOEs. This might be an opportunity for the European Union to intervene financially in its backyard and become more assertive geopolitical player.

Keywords: debt trap, Western Balkans, Belt and Road Initiative, SOE, Sri Lanka, Hambantota Port, the European Union

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Proposed Topic:

Chinese influence in South-East Europe

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Topic characteristics / Research Question

- What are aims of Chinese influence in Southeast Europe?
- What are means/tools of it?

China engages in "debt trap diplomacy", where Chinse loans for infrastructure investments put counties involved in positions where China can increase its leverage over them by putting them into debt trap. Chinese excessive credits to debtor countries, gives China possibility to acquire economic and political connections (e.g. extending influence on the national decision-making process, leasing of part of national territory such as ports). Since the countries in question are candidates for membership of the EU, their potential future membership would put Chinese influence within the borders of the EU. The question that poses itself is whether Brussels can do more (and how) to mitigate the Chinese ever growing sway over its aspiring member states before it is too late?

Working hypotheses:

China utilization of its debt trap diplomacy made some developing countries to relinquish part of their national sovereignty to China in a form of territorial concession (i.e. Sri Lanka, Bangladesh, Angola, Pakistan, Ethiopia). China does that by providing attractive loans to debtor nations with huge, seemingly intentional possibility of countries not being able to pay back the loans. Chinese loan diplomacy has increased significantly when China started implementing projects that are part of its Belt and Road Initiative. One of the prime examples of 'debt diplomacy' is Sri Lanka and its Chinese- financed Hambantota port. Despite feasibility studies arguing that the port would hardly be economical, Sri Lankan government went with the project. After Sri Lanka failed to make payments on the debt, the government was voted out and the port was handed over to China for 99 years. This is but one example of Chinese debt trap diplomacy implemented in developing countries in Asia and Africa.

Asia and Africa are not the only continents where China utilizes its debt diplomacy. My preliminary hypotheses are:

1) Chinese aims are to gain sway over future EU member states
2) China applies the same economic tools in South East Europe as in other parts of the world

In Europe, three aspiring members of the EU, Albania, North Macedonia, Montenegro found themselves entangled with Chinese debt trap diplomacy. The examples are highways in Montenegro and North Macedonia and airport in Albania. In the case of Montenegro (the case strikingly similar with Sri Lankan one), China invested in a constriction of a highway, despite two feasibility studies saying that it won't be marketable and that there's no real need for a highway (due to low traffic etc.). Nevertheless, Montenegrin government, went with the project. Nowadays the highway is not finished, and the entirety of Chinese loan is spent. In North Macedonia out of two planed highways with the initial deadline in 2018 only one and half of the other is built. In Albania, international airport near Tirana was fully transferred to a Chinese-led joint venture concession in 2016 after a consortium of Chinese companies invested in the reconstruction of the airport. In all cases it seems that Chinese state-owned enterprises engaged directly with the government officials with a huge possibility of bribery involved (something that's been proved in the case of North Macedonia).

China gained potential huge sway over what basically are future EU member states. When Montenegro and Norther Macedonia won't be able to pay back the loan, China will be in a position to ask for compensation in the form of territorial/political concession, something that already happened with Albanian airport. On the other side Brussels so far seems unwilling to counter this Chinese intrusion in what seemingly in the future would be within the EU.

Methodology: Analyzing and comparing Chinese tools of influence in countries involved with an emphasis on theoretical approach of geoeconomics.

Outline:

1 Introduction

2 Background into the topic

with theoretical approach 3 10

3 Analysis of Chinese economic

means of foreign policy

4 Analysis of Chinese economic policies (as main tools of

influence) in the region 5 Assessment of Chinese aims

6 Conclusions

7 Bibliography/References

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- Interviews

Date:

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Approval of the supervisor:

Table of Contents:

Introduction

The aim of my thesis is to research Chinese influence in the Western Balkans, its tools and aims. The countries in the Western Balkans that are analysed in this thesis are mostly candidates for the membership of the European Union. I'm drawing a comparison with Chinese tools of projecting its influence in other countries in Asia and Africa where similar Chinese presence has already been established. Here I am trying to answer in what way are aims and tools of Chinese influence in these countries similar to the aims and tools of Chinese presence in the Western Balkan countries and why are the potential future member states of the European Union especially interesting to China.

Chinese tools are visible through its loan diplomacy. And Chinese loan diplomacy is almost exclusively related to Chinese infrastructure investments. In poor Asian and African countries there are numerous cases of infrastructure projects fully or partially funded by generous Chinese loans. Those projects more often than not end up being economically unviable. In all cases Chinese loan agreements require collateral in a form of valuable asset of transportation or commercial value (e.g. ports, airports). When impoverished recipient countries default on payment, Chinese then take over the collateral. This is Chinese 'debt trap' diplomacy and observing its modus operandi, one can conclude that almost all cases analysed in this thesis highly resemble each other and have many similarities.

Chinese 'debt trap' diplomacy mundus operand in Asia and Africa has following characteristics[1]:

- Chinese engage in negotiations directly with heads of states and their associates
- all counties involved are highly corrupted and have poor governance
- Chinese loans present an alternative to conditionality related to loans from the International Monetary Fund and the World Bank
- Chinese loans cover construction projects that are "too good to be true" and are uneconomical
- All loan agreements have valuable collateral attached, that might be potentially crippling for a debtor country to lose.
- Chinese avoid debt cuts and proceed with offering new loans for covering existing debt or taking collateral

[1] Chellaney, Brahma: "China's Debt-Trap Diplomacy", *Project Syndicate*, 2017; Gopaldas, Ronak: "Lessons from Sri Lanka on China's 'debt-trap diplomacy'", *Institute for Security Studies*, 2018; Krstinovska, Ana: "Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia", CHOICE, 2019; Matijašević, Biljana: "Ogrlica od bisera i omča od dugova", *CIN*, 2021; Valerie Hopkins and James Kynge: "Montenegro fears China-backed highway will put it on road to ruin", Financial Times, 2019

- The way Chinese operate taken collateral is through joint venture that Chinese investors form with local counterparts while keeping majority share thus having full control over a joint venture that operates the facility (not exclusively used in ‘debt trap’ diplomacy)
- In many cases after giving away collateral, countries usually still have debt to China related to other loans that countries tend to take to cover their initial debt to China

With its economic rise China aimed to challenge unipolarity of the liberal international order. China tries to establish itself as a dominant power in third world countries and present itself as an alternative to western influence. Its ‘debt trap’ diplomacy is the main tool for China to ascertain its dominance and drag countries under its influence. With the formation of the Belt and Road Initiative, ‘debt trap’ diplomacy became its “bread and butter”, thus putting countries in some form of neo-colonial position vis-à-vis China. In ports and other assess taken as a collateral; China has outposts which theoretically can use in its global power projection. Chinese aim is to be a global superpower.

With Chinse establishing their presence in the Southeast Europe, there is a possibility that China tries to gain sway over countries in Europe that might become part of the European Union and establish more permanent foothold in the continent, in the similar way it does with Asian and African countries. In my theses I will try to answer whether or not the aims of Chinese influence in the Western Balkans are indeed the same as the ones in third world countries in Asia and Africa and is China using the same tools, and if so where did they succeed and where did they fail in utilising them.

Methodology applied in this thesis focuses on developing factors of Chinese ‘dept trap’ in selected cases in Asia and Africa and comparing them to Chinese presence in the Western Balkans in order to confirm the hypothesis that China wants to gain sway over potential future member states of the European Union. Countries in question are Montenegro, Serbia, Albania, North Macedonia and Bosnia and Herzegovina. The case of Croatia is also analysed since it differs from its easter neighbours. The factors taken from the cases of Asia and Africa are applied to analysed Wester Balkan countries, in order to determine to what degree, they are relevant for the Western Balkans. With that, the answer is made weather Chinese aims and tools are the same in the Western Balkans as in the third world countries.

1. Background to the topic with theoretical approach

Theoretical approach taken into account while analysing the topic of this thesis is that of geo-economics. As opposed to military means, geo-economics puts emphasis on commerce as the main tool to achieve the strategic advantage.[2] Geoeconomics, a term popularized by Edward Luttwak in 1990, argues that the importance of military power diminished in favour of importance of economics. According to him economic competition has several major similarities with military conflict. Henceforth, economic means can be utilised in achieving the same goals as with military means. Smaller and economically weaker countries are in danger of being put into subservient position by more powerful and economically dominant countries.

Against the backdrop of the Cold War, the observers correctly pointed out that the military might is not necessarily relevant in achieving the geopolitical objective. The Soviet Armed Forces had more active troops than the United States, even though the Soviet Union and its Warsaw Pact were on the losing side of the Cold War. The Western world won the Cold War and the USSR got dissolved without major conventional warfare ever occurring between the two sides. With the western countries being economically dominant, there was an increase in importance of business in the world politics.[3] Enterprises, business connections, economic influence were to become major tools in international affairs.

This observation is especially relevant while considering Chinese economic rise and its increased political influence. China uses economic influence in order to attain its goal of becoming a superpower. State owned enterprises and other businesses with close government connections are main tools of Chinese projection of power abroad.[4] This mercantilist approach is mostly seen after the inauguration of the Belt and Road Initiative, with representatives of Chinese enterprises negotiating with heads of governments and Chinese companies being extremely influential in countries they are presented. China generally refuses to use military force abroad, except in UN peacekeeping missions, while heavily engaging in attempts of economic dominance.

Geoeconomics is selected as theoretical guideline since analysed factors of Chinse influence in this thesis are economical. Chinese tools of power projection covered involve loans and infrastructure projects through which China use to subdue smaller countries and put them into neo-colonial position.

[2] Luttwak, Edward: "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce", *The National Interest*, 1990
[3] Luttwak, Edward: "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce", *The National Interest*, 1990
[4] Schneider-Petsinger, Marianne: "Geoeconomics explained", *Chatham House*, 2016

2. Chinese economic means of foreign policy

2.1 Introduction

After death of Mao Zedong, there was a new dawn for China. Not wasting too much time, the new paramount leader Deng Xiaoping, initiated ground-breaking economic reforms that led to unprecedented economic growth. The reforms went through a few stages and focused on opening domestic market for foreign investments, emergence of domestic entrepreneurs, lifting price controls and privatisation.[5] Eagerly wanting to become more entangled in the world economy, China joined the US-backed World Trade Organisation in 2001.[6] All this notwithstanding, the economy will be dominated by state owned enterprises and private businesses with the close ties with the party or state authorities. Precisely these companies will be the most visible and influential Chinese instrument in exercising its influence abroad.

With average yearly growth rate of impressive 10% between 1979 and 2011, China was the fastest growing economy for some 30 years and by 2011 became the biggest manufacturing powerhouse in the world surpassing the United States.[7] This growth also inevitably led to China using its economic might to increase its presence abroad. In China, the idea of using economic influence as a form of power projection was probably born during the period of reforms. After beginning of the 21st century China made numerous free trade agreements, starting in its neighbouring countries – member states of the Association of Southeast Asian Nations (ASEAN).[8] Between 2000 and 2010 China formulated free trade agreements with almost all southeast Asian countries, culminating in the ASEAN–China Free Trade Area.[9]

Southeast Asian countries are far from the only ones that China showed interest to. Around the same time China begun with foreign direct investments in African countries that increased rapidly in last twenty years. So much so that Chinese FDIs in Africa skyrocketed from 74.8 million USD in 2003 to more than 5 billion USD by 2018.[10] Many other Asian countries, desperate for foreign investments, also become recipients of Chinese FDIs. In early 2000s in a war-torn Angola, China started with donations for reconstruction and infrastructure projects executed by the Chinese construction companies and financed by Angolese oil. This seemingly benefited both countries in the beginning. Angola was cash

[5] John William Longworth, Colin Brown and Scott Waldron: "Beef in China: Agribusiness Opportunities and Challenges", *University of Queensland Press*, 2001
[6] Sutter, Robert: "Chinese Foreign Relations", *Rowman & Littlefield*, 2012
[7] Sutter, Robert: "Chinese Foreign Relations", *Rowman & Littlefield*, 2012
[8] Richardson, Michael: "Asian Leaders Cautious on Forging New Regional Partnerships", *The New York Times*, 2000
[9] Rastogi, Vasundhara: "ASEAN's Free Trade Agreements: An Overview", *ASEAN Briefing*, 2017
[10] Fu, Yike: "The Quiet China-Africa Revolution: Chinese Investment", *The Diplomat*, 2021

strapped country that didn't qualify for IMF loans as it was seen as unstable among other things, while China's demands for oil couldn't be fully met on a global market.[11] Chinese investors negotiated directly with the president of the country and his associates. It could be that right in Angola, future Chinese loan diplomacy was born.

In order to obtain loans, form the World Bank (WB) and the International Monetary Fund (IMF) recipient countries would have to meet conditionalities of transparency, balanced debts, and adhere to liberal market economy with privatisation, liberal trade and competitive foreign investment.[12] This however is problematic to the struggling nations that can't meet IMF and WB criteria due to corruption, untransparent finances, poor governance, economic difficulties, instability etc.[13]

With many African and Asian countries that have authoritarian leadership and are highly corrupt, China seemed like the only and easy alternative to conditionality attached to the IMF and WB loans. Given their poor infrastructure, rapidly growing economies of Africa and Asia looked desperately for infrastructure investments. Chinese engage directly with local powerbrokers over loans for infrastructure projects and required land collateral in case these poor countries default on debt. Collateral aspect is especially noticeable since most of the countries did not have oil to pay for their debt to China. This Chinese 'debt trap' will become more prevalent with increasing of Chinese infrastructure projects abroad after inauguration of the Belt and Road Initiative.

The Belt and Road Initiative (BRI) can be seen as a culmination of constantly growing Chinese economic influence worldwide. The BRI is not really a single project or policy, but rather it is a grouping of them into a strategy to increase Chinese geostrategic position to that of a global superpower. It was announced in 2013 by Xi Jinping, the president and paramount leader of People's Republic of China. It encompasses large infrastructure projects and as of 2022 it has presence in 147 countries.[14] China even went as far as founding Asian Infrastructure Investment Bank (AIIB) in 2016, essentially a Chinese-back equivalent of the World Bank.[15]

Due to its obvious Sinocentrism and predatory nature mostly due to widespread employment of 'debt trap' diplomacy, the BRI found its fair share of criticism. The criticism initially mainly came from some Western countries and India, while at the same time it was eagerly welcomed by the whole range of third world countries, something that will ironically have woefully negative impact on some of the latter. Chinese investment strategy regarding 'debt trap' focuses on direct talks with corrupt leaders of cash strapped countries that are willing to

[11] Silva, Cláudio: "How Angola's honeymoon with China came to an end", *The Africa Report*, 2022
[12] Bello, Walden: "Deglobalization: Ideas for a New World Economy (Global Issues)", *Zed Books*, 2003
[13] Lensink, Robert: "Structural Adjustment in Sub-Saharan Africa", *Addison-Wesley Longman*, 1996
[14] Nedopil, Christoph: "Countries of the Belt and Road Initiative", *Green Finance & Development Center*, 2022
[15] "Three major nations absent as China launches World Bank rival in Asia", *Reuters*, 2014

accept Chinese offers for loans for infrastructure projects, performed by Chinese construction companies with loan agreements consisting of collateral in the form of strategically important asset, usually harbour. Willingness of leaders of countries in question to accept Chinese loans, gives incentive to Chinese to offer uneconomical but lavish projects. Once finished, these projects (i.e. ports, airports, highways, railways) do not generate enough income, which enables China to take the collaterals (i.e. ports) that it can utilise as its own outposts abroad. Through its 'debt trap' diplomacy, China found a way to have bigger global outreach required of a superpower.

Unfortunately, it would be hard to go through all the examples of countries that are recipients of Chinese investments that simultaneously fall into a category of 'debt trap' diplomacy in Asia and Africa, so here few most relevant examples for this study of Chinese loan diplomacy will be examined: Sri Lanka, Pakistan, and Bangladesh in Asia; and Angola and Kenya in Africa. These countries represent the best examples how 'debt diplomacy' works, where and how it succeeds and where it fails.

The main reason that these cases have been selected is that they follow characteristics of Chinese 'debt trap' explained in the introduction part. Thus, they can serve as a good reference point for analysing countries where China tried to use 'debt trap' outside of Africa and Asia. On the other hand, countries analysed in this chapter face danger of falling (or already did fall) into the 'debt trap'. Characteristic of Chinese investments in the examples in here have many common denominators with the countries of the Western Balkans analysed in the chapter 3.

Sri Lanka, is the obvious example of a county falling into the 'debt trap'; Kenya is on the brink of falling; Pakistan arguably did fall already with handing over the Gwadar Port and Gwadar Special Economic Zone[16] in a similar fashion Albania (covered in the chapter 3) turned over its international airport instead of paying for reconstruction and maintenance[17].

On the other hang Angola, an oil rich country, is an example of kleptocratic government during initial Chinese investments in the country, thus providing a perfect example of how Chinese enterprises engage directly with state representatives, outside of public knowledge of recipient country; while Bangladesh is an interesting example of a country that is heavily engaged in trade with China, but so far is not in danger of falling into the 'dept trap', therefore, being an curious example of a country that seemingly avoided Chinese grip over it, all the while maintaining active trade relations with it. It is a good reference point of how Chinese 'dept trap' fails.

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[16] Li, Yan. "Groundwork laid for China-Pakistan FTZ". *ECNS*. 2015
[17] Krstinovska, Ana: "Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia", *CHOICE*, 2019

2.2 Examples in Asia

2.2.1 Sri Lanka

In any discussion about Chinese investments in Sri Lanka, the case of the Hambantota International Port is the one that probably first comes to mind. The reason for this is that this port is probably the most notable example of Chinese 'debt trap' diplomacy and its effects on recipient countries.

Being situated right in the middle of major shipping routes, Sri Lanka had only one major port, that of Port of Colombo. This port, which is still the biggest in the country today, was not being seen as enough. The idea of Hambantota port being the new trading hub is some twenty years old at this point. However, the feasibility studies saw it as uneconomical.[18] It wasn't until Chinese showed interest and Mahinda Rajapaksa became a president that the idea for building this port has been revived. It is under him that Sri Lanka started to rely more heavily on Chinese support. Rajapaksa is the last president of Sri Lanka, during its bloody civil war that the government fought against Tamil rebels for a quarter of a century. China started supporting the government, which was very much welcomed by Rajapaksa, given that Chinese were way better alternative from unreliable India.[19] India, who initially help found the Liberation Tigers of Tamil Eelam (better known as Tamil Tigers) in the 1970s, switched sides in the early 1990s to support the government troops. With more Tamils living in India than in Sri Lanka, policy makers in India realised that independent Tamil country can jeopardise Indian unity, with its large Tamil population in its southern states.

With all that being said, China needed stable and united Sri Lanka. With its strategic location, in the middle of major shipping lanes and right next to the coast of Chinese major rival – India, Sri Lanka proves to be perfect addition to the Maritime Silk Road (MSR), a maritime part of the Belt and Road Initiative. After Rajapaksa consolidated power following the victory in the civil war, he bought back to life the idea of the second big port. India refused to be involved in the project, as two big ports for a small country was not seen as economically viable. However, where Indian investors said "No", China said "Yes".[20]

The Hambantota Port was to be built in two phases, with most of the construction expenses covered by loans from the Exim Bank of China. Loans form this bank to Sri Lanka amounted

[18] "Hambantota port feasibility study rejected", *The Island*, 2003
[19] "How Beijing won Sri Lanka's civil war", *The Independent*, 2010
[20] Abi-Habib, Maria: "How China Got Sri Lanka to Cough Up a Port", *The New York Times*, 2018

to some 1 billion USD altogether only for the construction of this port.[21] The construction was performed by the China Harbour Engineering Company.[22] The port opened at 2010, on the autocratic president's birthday.[23]

From the onset, it was obvious that the port is complete economic failure. In 2012, the port attracted a mere 34 ships.[24] There are examples that the construction of port was hurried up to meet the deadline of Rajapaksa's birthday for grand opening, which resulted in unfinished job of removing boulder that blocked the entrance of the port for large ships.[25] This seems to be a serious mistake, given that the island lies in one of the busiest shipping lanes in the world and the point of the port was to be a second shipping hub in the country. The rock was later removed with additional cost of 40 million USD.

Under the presidency of Mahinda Rajapaksa, foreign debt of Sri Lanka was growing at an alarming rate. Accusations of corruption, widespread nepotism added fuel to the fire, and he was ousted in the 2015 elections. With poor performance of the port and the country being unable to pay back the staggering debt, new government immediately started negotiations with Chinese over debt reduction. However, this is something that Chinese were not interested in. To remove more than 1 billion USD of debt, Sri Lanka had to give over the port as a collateral, along with some land surrounding it to China Merchants Port, a state control enterprise, for 99 years. The deal was closed in 2017 and was formulated in a way that a joint venture has been established between China Merchants Port and Sri Lanka Ports Authority. This gave semblance that the authorities of Sri Lanka kept some form of control over the port. However, this couldn't be further from the truth since 85% of the joint venture stakes belongs to the China Merchants Port, meaning that full executive control of the joint venture belongs to Chinese.[26]

This is not the only project Chinese companies conducted in Sri Lanka with dubious economic viability. Cricket stadium that has "more seats than the population of Hambantota's district capital"[27] and Mattala Rajapaksa International Airport, second biggest airport in the country that has no more flights and basically lays empty[28] are another example of Rajapaksa rushing into any Chinese infrastructure projects that they were willing to offer.

There are security concerns in India over Chinese having control over large port facility few miles from the coast of India. The People's Liberation Army Navy (Chinese navy)

[21] Rithmire, Meg, and Yihao Li. "Chinese Infrastructure Investments in Sri Lanka: A Pearl or a Teardrop on the Belt and Road?" Harvard Business School Case 719-046, January 2019
[22] Abi-Habib, Maria: "How China Got Sri Lanka to Cough Up a Port", *The New York Times*, 2018
[23] Reddy, B. Muralidhar: "Hambantota port opened", *The Hindu*, 2010
[24] Abi-Habib, Maria: "How China Got Sri Lanka to Cough Up a Port", *The New York Times*, 2018
[25] Abi-Habib, Maria: "How China Got Sri Lanka to Cough Up a Port", *The New York Times*, 2018
[26] Abi-Habib, Maria: "How China Got Sri Lanka to Cough Up a Port", *The New York Times*, 2018
[27] Abi-Habib, Maria: "How China Got Sri Lanka to Cough Up a Port", *The New York Times*, 2018
[28] "No more flights from Sri Lanka's second airport", *Gulf News*, 2018

submarines already visited the Port of Colombo during Rajapaksa's presidency and there are fears that Chinese might use Hambantota port as a military base along with other strategically located maritime facilities (e.g. in Pakistan, Bangladesh, Djibouti) as part of the suspected neatwork of possible military facilities in Indian Ocean – the theory named String of Pearls by western observers.[29]

Handing over the port did not however remove other debts to China that Sri Lanka accumulated due to loans taken for covering existing debts and other Chinese-related construction projects. This means that the country still did not escape the Chinese 'debt trap' in spite of giving over the Hambantota Port. The GDP to debt ratio of Sri Lanka continuously increased for more than a decade and by the beginning of 2022 the country ended up in a dire situation facing shortages of food and other basic necessities.[30] China though ranking third among Sri Lanka's top lenders (after Japan, and Asian Infrastructure Investment Bank), can be seen as crucial for solving the countries debt problem, since they are biggest foreign investor and they did agree to give new loans for covering debt but they were the only of Sri Lanka's biggest lenders to completely rule out any possibility for debt cuts.[31]

With the country on the brink of collapse, angry protestors stormed the offices of the presided in July 2022 and the president agreed to resign.[32]

In retrospect, Sri Lanka is probably the most striking example of how Chinese 'debt trap' diplomacy contributed to running a weak third world country, all the while still attaining strategic possessions in the country.

2.2.2 Pakistan

At the first glance Pakistan and China seem like natural allies. Since its inception as an independent country, Pakistan fought 4 major wars with its bigger neighbour India along with numerous localised and prolonged conflicts, skirmishes and stand offs. It should be also noted that both states have nuclear weapons. On the other side, India found its opponent in China with whom it waged a war in 1961 over disputed areas in Aksai Chin and North-East Frontier Agency (today's Arunachal Pradesh). India lost that war and the relations between

[29] Dabas, Maninder: "Here Is All You Should Know About 'String Of Pearls', China's Policy To Encircle India", *India Times*, 2017
[30] Wickramasinghe, Ranil: "China used 'debt trap diplomacy' to gain control over Sri Lanka: Think tank", *Business Standard*, 2022
[31] Bharatha Mallawarachi, Krutika Pathi and Joe McDonald: "China Becomes Wild Card in Sri Lanka's Debt Crisis", *The Diplomat*, 2022
[32] Ellis-Petersen, Hannah: "Sri Lanka: president agrees to resign amid unrest", *The Guardian*, 2022

two countries were never restored to initial cordial level. The two Asian juggernauts remained rivals to this day, which culminated in armed skirmishes along the Line of Actual Control (LAC) in 2020 that last to this day.[33] Developing of closer relations between Pakistan and China was seemingly just the matter of time. However, it wasn't before the dawn of the new millennium that closer economic and military cooperation developed.

Most notable example of cooperation between Pakistan and China is the China–Pakistan Economic Corridor, that aims to increase Chinese overall global trade networks while promising to improve Pakistan's infrastructure, energy, and trade sectors.[34]

The China–Pakistan Economic Corridor (CPEC) has been finalised in 2013. The CPEC consists of series of agreements signed between the two sides[35], some of which includes ventures outside Pakistan that go as far as Xinjiang.[36] The corridor itself is massive infrastructure endeavour that includes variety of infrastructure projects mostly revolving around highways and railways that roughly span across north – south of Pakistani territory. The CPEC also includes energy development projects and numerous special economic zones (SEZ).[37] The entire CPEC costs more than 62 billion USD[38] and is mostly financed by different Chinese lenders depending on the particular agreement.[39] So far 62 billion USD is the newest number, with the possibility of the project going more expensive with its expansion in the future.[40] Power plants, railways, highways and even Lahore metro line are being built as part of the CPEC by Chinese construction and utility companies.[41]

The Gwadar Port in Balochistan supposed to serve as a maritime hub of the CPEC. Although first started being built as a deep-water port in 2002, it wasn't until 2015 when it continued being developed as part of the CPEC, which includes Gwadar Special Economic Zone, itself modelled after Chinese SEZs.[42] For this purpose Pakistan handed over some 2000 acres of land around Gwadar to China.[43] When it comes to the port itself, it remained property of Pakistan but it is under operational control of the China Overseas Port Holding Company (COPHC).[44] The port agreement was being made in such way that the COPHC, a Chinese

[33] Kakar, Harsha: "India-China standoff: How possibility of escalation has reduced but that of continued stalemate increased", *Firstpost*, 2022
[34] Mardell, Jacob: "The BRI in Pakistan: China's flagship economic corridor", *MERICS*, 2020
[35] "China, Pakistan Sign Deals Worth USD 1.6 Billion to Beef Up CPEC", *Outlook India*, 2015
[36] Tiezzi, Shannon: "The China-Pakistan Economic Corridor Gets Even More Ambitious", *The Diplomat*, 2015
[37] Danish Hyder and Mushtaq Khan: "CPEC: The devil is not in the details", *Herald Magazine*, 2017
[38] Lal, Anil Kumar: "The CPEC challenge and the India-China standoff: An opportunity for war or peace?", *The Times of India*, 2020
[39] Butt, Naveed: "Economic corridor: China to extend assistance at 1.6 percent interest rate", *Business Recorder*, 2015
[40] Mardell, Jacob: "The BRI in Pakistan: China's flagship economic corridor", *MERICS*, 2020
[41] "Good news on track: Lahore to get Pakistan's first metro train", *The Express Tribune*, 2014
[42] Chang, Lyu: "Chinese firm to develop SEZ in Gwadar", *China Daily*, 2015
[43] "Pakistan hands over 2000 acres to China in Gwadar port city", *The Indian Express*, 2015
[44] Raza, Irfan: "China given contract to operate Gwadar port", *Dawn*, 2013

state owned enterprise, receives more than 90% of the port revenue, with the rest going to the relevant Pakistani authority for maritime affairs.[45]

There are many worries that Pakistan might end up in economic subservient position towards China. Huge loans for infrastructure and energy projects that the poor country might not be able to pay off and the revenue from Gwadar port going directly to China are not the only problems Pakistan faces in its relationship with China. From US State Department they expressed concern that the projects themselves lack transparency and are tailored to benefit Chinese companies involved with the COPHC, all the while leaving Pakistan with crippling debt.[46] At the same time Pakistan Armed Forces are heavily reliant on Chinese military equipment. With Pakistan's diminished importance for the United States, after American withdrawal from Afghanistan and with the exception of Saudi Arabia, Pakistan has few friends and is not in the position to choose them. Geopolitically China can provide security hedging against India, but at the cost of potentially heavily unbalanced relationship. This is also visible in Islamabad turning a blind eye on gross human rights violations by Chinese authorities against Uyghurs, a Muslim minority in Xinjiang.[47] It should be noted that Pakistan is an Islamic republic.

So far Pakistan stays as a part of Chinese sphere that it has just recently entered. During his visit to Pakistan in 2015, Xi Jinping commented that it's like visiting his "own brother".[48] It is left to be seen whether negative outcomes of its heavy reliance on China, will influence policymakers in Pakistan to reconsider Pakistan's geopolitical choices.

2.2.3 Bangladesh

Bangladesh has China as its biggest trading partner.[49] Bangladesh, an emerging economy, did see the Belt and Road Initiative (BRI) as something that it can be beneficial. The country did become part of the BRI in 2016 and there are 9 BRI-related projects around Bangladesh.[50] Through them China invested more than 9.7 billion in US dollars in Bangladesh's infrastructure.[51]

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[45] Khan, Iftikhar: "China to get 91pc Gwadar income, minister tells Senate", *Dawn*, 2017
[46] Saeed, Saim: "Pakistan learns the cost of an alliance with China", *Politico*, 2021
[47] Saeed, Saim: "Pakistan learns the cost of an alliance with China", *Politico*, 2021
[48] "Pakistan trip like visiting home of 'own brother': Xi Jinping", *Hindustan Times*, 2015
[49] Khatun, Fahmida: "How can Bangladesh benefit from the Belt and Road Initiative? – Fahmida Khatun and Syed Yusuf Saadat", *Dhaka Tribune*, 2020
[50] Rahman, Shaikh Abdur: "The BRI in Bangladesh: 'Win-Win' or a 'Debt Trap'?", *The Diplomat*, 2021
[51] Fahmida Khatun and Syed Yusuf Saadat: "How can Bangladesh benefit from the Belt and Road Initiative?", *Dhaka Tribune*, 2020

Despite concerns that Bangladesh is in danger of ending up in a similar situation like Sri Lanka and Pakistan, so far that doesn't seem to be the case. Unlike some other countries involved in the BRI, Bangladesh seems to be careful with Chinese loan offers and accepted the loans that from this point seems repayable with long enough grace period and low enough interest rates.[52] Also the country has fairly close economic relations with India and Japan and didn't allow Chinese investors to penetrate the country and dominate in local constructions projects, like it is generally the case with other BRI associated countries.

Bangladesh's relations with India and Japan, members of the Quad dialog, might also be the reason why the country is careful with Chinese investments. Quad dialog - Quadrilateral Security Dialogue, made up of Australia, India, Japan, and the United States, was initiated as a response to the rising Chinese influence.[53]

So far, from geopolitical perspective, it looks like that Chinese won't be able to put Bangladesh into its sphere, given that the country avoided Chinese 'debt trap'. This makes Bangladesh the rare example of a country actually benefiting from Chinese FDIs without being put into dependent position with a crippling debt and relinquished national assets or territories.

2.3 Examples in Africa

2.3.1 Kenya

Kenya, as many other rapidly developing economies in Africa, is in desperate need of a better infrastructure. To that end, President Uhuru Kenyatta started fostering closer economic ties with China by inviting its investors. One of the reasons for that could be his somewhat tarnished reputation due to his shaky political position. He lost his first bid for presidency in 2002 and when he won in 2013 it was challenged by opponents but legally dismissed by the High Court of Kenya.[54] China showed up as a willing investor and by 2018 whopping 73% of Kenya's debt is own to China.[55]

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52 Rahman, Shaikh Abdur: "The BRI in Bangladesh: 'Win-Win' or a 'Debt Trap'?", *The Diplomat*, 2021

53 "Quad effect: 'Asian NATO' rattles China as local press propaganda goes in high gear", *WION*, 2020

54 Skidmore, David: "How China's Ambitious Belt and Road Plans for East Africa Came Apart", *The Diplomat*, 2022

55 Skidmore, David: "How China's Ambitious Belt and Road Plans for East Africa Came Apart", *The Diplomat*, 2022

The most important Chinese infrastructure project in Kenya is the Kenya Standard Gauge Railway (SGR). The idea is that the SGR facilitates faster transport of goods and people from neighbouring countries and other parts of Kenya to the Port of Mombasa, the biggest port in that part of Africa, and vice versa.[56] The project was mostly covered by the China Export-Import Bank (90%) in amount of more than 3.2 billion USD, while the rest 10% was covered by the government of Kenya. The China Road and Bridge Corporation (CRBC) constructed the railway and the SGP became operational in 2018. At a first glance the SGR looked like it is going to be a success. It created some 30.000 jobs for the locals and transported more than 5 million passengers since.[57] However, there is more to this project than meets the eye. Kenya's Court of Appeal found the project to be illegal as it was done in a way to favour Chinese due to absence of competitiveness when initially taken and the lack of "transparent bidding".[58][59] Another rather alarming part that most likely caught attention is that the Port of Mombasa had to be offered as a collateral, something that was kept away from public and leaked form the office of Audit-General.[60]

In case that Kenya defaults on its debt to China it will lose the Port of Mombasa, the biggest trading hub in the region. To make matters worse the China Export-Import Bank decided not to fund the third stage of the SGR due to supposed Kenyan political instability and the railway itself currently costs more money than it generates.[61] In the end, the SGR that Kenyatta rushed into with little to no consideration for the outcome, probably served him the most in the beginning when it boosted his popularity among the general public. Now the situation is completely different. With the huge unpayable debt and in danger of losing the port of extreme importance for Kenya, the situation looks gloomy to put it mildly and is unfortunate example of Chinese successfully exploiting corrupt countries with poor governance.

2.3.2 Angola

Angola is another example of developing country in dire need of foreign investments, where Chinese were more than willing to step in. After decades of civil war that finally came to an end in 2002, the country was in complete ruins. Looking for foreign investors was hard, since the country was seen as unstable and corrupt.[62] China, without conditionality related to the

[56] "The bottleneck", *The Economist*, 2016
[57] Wilson-Andoh, Phebe: "China's Belt and Road Initiative in Kenya", *Foreign Policy Research Institute*, 2022
[58] Skidmore, David: "How China's Ambitious Belt and Road Plans for East Africa Came Apart", *The Diplomat*, 2022
[59] Nyabiage, Jevans: "Contract for Kenya's China-funded railway ruled 'illegal'", *South China Morning Post*, 2020
[60] "Mombasa Port at risk as audit finds it was used to secure SGR loan", *Business Daily Africa*, 2018
[61] Skidmore, David: "How China's Ambitious Belt and Road Plans for East Africa Came Apart", *The Diplomat*, 2022
[62] Silva, Cláudio: "How Angola's honeymoon with China came to an end", *The Africa Report*, 2022

rule of law and transparency that are required from western investors like the IMF or the WB, shows up as more than desirable alternative.

Being manufacturing powerhouse, China is in need of oil. And its oil needs are ever increasing. The cooperation between Angola and China started in 2004 with loans for reconstruction and in next couple of years China invested in total some 60 billion USD.[63] Angola almost fully relies on oil to pay back the debs, to the point where the country was for some period the biggest supplier of oil to China, which also coincided with increased prices of fossil fuels at the beginning of the millennium.[64] This proved to be very lucrative for China since it undertook construction projects, bult by Chinese construction companies, financed by Chinese loans, without fear of a poor country defaulting on its debt since it was covered by oil. In other words, Angola was paying China in oil regardless of the conditions of loan agreements. Chinese companies built buildings, stadiums, roads, railways, basically an entire city – Kilamba New City and are building a brand new international airport – Luanda International Airport that supposed to surpass the current main international airport – Quatro de Fevereiro Airport.[65] This economic growth and infrastructural expansion, led to many expatriates working in oil industry, many of them Portuguese, along with Chinese workers and representative of Chinese companies moving to Luanda, making it one of the most expensive cities in the world.[66]

However, most of this welt completely avoided vast majority of the population. Despite experiencing massive economic growth, Angola is still one of the poorest countries in the world. Most of the reconstruction effort is centred almost exclusively around the capital with the rest of the country still left drastically underdeveloped.[67] Angola is also one of the most corrupt countries in the world, which means the oil boom benefited only those Angolans close to the President dos Santos. Jose Eduardo dos Santos, joined the People's Movement for the Liberation of Angola (MPLA) in the 1970s to fight in guerrilla war against Portuguese army, later becoming party head of the MPLA and eventually the president of Angola from 1979 to 2017. He ruled the country as an autocrat and during the oil boom his children heavily enrich themselves, particularly his daughter Isabel dos Santos, who became the richest woman in Africa, that is until her assets were frozen in multiple countries due to embezzlement charges and money loundering.[68] Jose Eduardo dos Santos created kleptocracy where entire economy is controlled by a number of close associates and family members.

[63] Silva, Cláudio: "How Angola's honeymoon with China came to an end", *The Africa Report*, 2022
[64] Nyabiage, Jevans: "Why Angola struggles to shake off its economic dependence on China", *South China Morning Post,* 2021
[65] Silva, Cláudio: "How Angola's honeymoon with China came to an end", *The Africa Report*, 2022
[66] Chakrabarty, Malancha: "From War Zone to China's Poster Child, to Economic Despair: Angola's 40-Year Journey", *Observer Research Foundation*, 2021
[67] Chakrabarty, Malancha: "From War Zone to China's Poster Child, to Economic Despair: Angola's 40-Year Journey", *Observer Research Foundation*, 2021
[68] Dolan, Kerry: "How Isabel Dos Santos, Once Africa's Richest Woman, Went Broke", *Forbes*, 2021

On the other hand, Chinese projects seem to be badly and hastily executed. Chinese-built roads facing deterioration, required additional millions of USD for repairment, while most of the stadiums are not in usable conditions, mere 10 years after being built.[69] One of the reasons for poor construction might be related to the notoriously untransparent 88 Queensway Group. This group is in fact a conglomerate of multiple companies registered at 88 Queensway Road, Hong Kong.[70] The group includes China International Fund that is exclusively involved in dealings with African dictatorships.[71] Unreliability of 88 Queensway Group, that was heavily involved in projects in Angola could be the reason why so many infrastructure projects lay in ruin. Official Chinese claim is that the group is private and their operations have nothing to do with other Chinese SOEs, however there are many links between heads of the companies known to belong to the group with the Chinese Ministry of State Security and the Ministry of Public Security.[72]

Be that as it may, with the new president João Lourenço attitudes towards China have begun to change. He started with the crackdown on kleptocracy of dos Santos family and their associates, although with some cherry picking. He started turning away from China with the country now being more open to foreign FDIs and willing to meet required conditionality.[73]

2.4 Analysis of Chinese economic policies in Asian and African countries

Due to staggering similarities in cases analysed above, there is a clear pattern related to Chinese investments. There is no doubt that this is a state orchestrated policy. ‘Debt trap’ diplomacy, coercive economic practises abroad, heavy state control on imports, significant protectionism with even non state owned (although with connection to the state) Chinese companies abroad that have full backing of Beijing in intellectual espionage[74], all serve to increase Chinese influence on the level of global superpower.[75] China uses these actions to intentionally erode liberal economic order on account of creating its own sphere, a sort of a new worldwide modernised version of the old Imperial Chinese tributary system. China also heavily engages in economic coercion to the point it became its one of the most visible economic features abroad and bedside ‘debt trap’ diplomacy one of the main parts of its

[69] Silva, Cláudio: “How Angola’s honeymoon with China came to an end”, *The Africa Report*, 2022
[70] Lee Levkowitz, Marta McLellan and J.R. Warner: “The 88 Queensway Group A Case Study in Chinese Investors’ Operations in Angola and Beyond”, *United States-China Economic and Security Review Commission*, 2009
[71] Garnaut, John: “State or mate? Who's behind China fund?”, *The Sydney Morning Herald*, 2010
[72] Lee Levkowitz, Marta McLellan and J.R. Warner: “The 88 Queensway Group A Case Study in Chinese Investors’ Operations in Angola and Beyond”, *United States-China Economic and Security Review Commission*, 2009
[73] Silva, Cláudio: “How Angola’s honeymoon with China came to an end”, *The Africa Report*, 2022
[74] Kelly Magsamen and Melanie Hart: “Limit, Leverage, and Compete: A New Strategy on China”, *The Center for American Progress*, 2019
[75] Sutter, Robert: “Watch China’s Unconventional Levers of Power in World Affairs”, *The Diplomat*, 2020

overall economic strategy, whether for its own economic expansion or for increasing its influence in other countries.[76]

The Belt and Road Initiative is the most visible part of Chinese ambitions, the effects of utilisation of its ‘debt trap’ diplomacy in Asian and African countries is its most destructive part. The latter is noticeable in the countries analysed in this chapter (with the peculiar exception of Bangladesh). One can conclude that all of them are poor countries generally not attractive for foreign direct investments, have corrupt authoritarian leadership and weak governance. This is the type of vulnerable countries that China prey upon. China applied the same modus operandi in recipient countries: untransparent loan agreements made with generally authoritarian heads of governments; loans having important assets as a collateral or paid in fossil fuels; construction performed by Chinese construction companies.

The results for recipient counties where this modus operandi was applied is that they fell into ‘debt trap’ with following consequences: infrastructure projects ended up being more expensive with interests than they generated income so debtor countries have to take additional loans to cover additional expenses; infrastructure projects being uneconomical or just generally poorly made with bad planning and execution; China denying debt cuts for obviously unpayable debts; and eventually China taking over collateral. With most of the counties involved having multiple loan agreements, giving over a collateral does not mean that their debt to China will end. The last visible result is that most of the countries involved ousted their mostly corrupt heads of governments that rushed into deals with Chinese SOEs or were heads of governments during Chinese increasing involvement in their countries – dos Santos got ousted in favour of João Lourenço in Angola; Mahinda Rajapaksa got succeeded by Ranil Wickremesinghe as the Prime Minister of Sri Lanka in 2022[77]; while National Assembly of Pakistan dismissed Imran Khan as a prime minister in a motion of no-confidence[78], with Shehbaz Sharif succeeding him as a prime minister[79].

As a comparison, only in countries where this Chinese modus operandi failed to be implemented (example of Bangladesh in this chapter analysed) there were no negative results that are associated with other countries that ended up in ‘debt trap’ and there was no political instability.

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[76] Peter Harrell, Elizabeth Rosenberg and Edoardo Saravalle: “China's Use of Coercive Economic Measures”, *Center for a New American Security*, 2018

[77] "Prime Minister Mahinda Rajapaksa resigns", *News Wire*, 2022

[78] Shahzad, Asif: "Pakistani opposition moves no-confidence motion to seek PM Khan's ouster", *Reuters*, 2022

[79] Asif Shahzad and Syed Raza Hassan: "Political change in Pakistan as Shehbaz Sharif seeks to become PM" *Reuters*, 2022

Considering the specifics of the countries covered in this chapter, following factors will be applied in analysing Chinese influence in the Western Balkans countries:

- Chinese companies target countries with significant corruption issue and poor governance[80]
- Chinese banks offer loans for uneconomical infrastructure projects that are too big and expensive for recipient country's size and economy, given their GDP[81]
- Chinese construction companies execute infrastructure projects
- Chinese investors avoid public tenders in favour of engaging directly with state officials in closed-door meetings in an attempt to secure the best possible deals
- Loan agreements have a collateral in form of national territory (e.g. ports)
- Chinse deny debt cuts, but offer loans for covering existing debts or take over collaterals
- Recipient country might hand over constructed/repaired facility to Chinese controlled joint venture, as opposed to covering the costs

[80] "Corruption Index", *Trading Economics*, 2022
[81] "GDP by Country", *Worldometers*, 2017

3. Analysis of Chinese economic policies in the Western Balkans

3.1 Introduction

With its seemingly generous loans and huge infrastructure project, China penetrated Southeast Europe suddenly and rapidly. Chinese presence in the region started almost at the same time as Xi Jinping launched the Belt and Road Initiative back in 2013. This initiative, along with closely related loan diplomacy, is a main tool of Beijing in its projection of influence abroad and in the region as well.

China started gaining foothold in Southeast Europe by obtaining control over Greek port of Piraeus. In the past decade Chinese state-owned company China Ocean Shipping Company (COSCO) had begun with buying shares of the port until it gained control stock.[82] It was part of the bigger process of buying stakes in European ports. Chinese state-owned companies and joint ventures they established invested in some 13 ports in past decade.[83] But Chinese interests in the region do not lie exclusively in shipping industry.

In striking similarities with developing countries in Asia and Africa (e.g., Shri Lanka, Pakistan, Kenya) China uses similar modus operandi in the Balkans as well. Chinese companies' officials usually avoid tenders for infrastructure projects and prefer to engage in private talks with government officials of recipient countries where they would set up conditions favourable to Chinese companies (mostly state-owned enterprises) both banks as landers and construction companies as contractors.

In the Western Balkans nowhere is this more evident than in cases of highways in North Macedonia and Montenegro. With feasibility studies arguing against building highways and with way higher prices than market ones (the highway in Montenegro costs €20m per km, which makes it one of the most expensive in the world)[84] and huge crippling loans that still did not cover full costs of the projects. All of this is made without the full public awareness, with face-to-face talks with government officials with bribery being involved, which was proven in the case of North Macedonia. Huge loans, that small countries do not have realistic chances of repaying, intended for non-viable investment projects put receiving countries in debt crises, giving Chinese possibility to take over land or usually trade and communication

[82] Doehler, Austin: "How China Challenges the EU in the Western Balkans", *The Diplomat* 2019
[83] Kakissis, Joanna: "Chinese Firms Now Hold Stakes in Over a Dozen European Ports", *National Public Radio*, 2018
[84] Nielsen, Nikolaj: "EU refuses to bail out Montenegro's China loan", *EUobserver*, 2021

assets (ports, airports) of indebted country as collateral. Countries in question are all candidates for the EU membership. With acquisitions of land and other assets, China plans to gain permanent presence in the region, which in the near future supposed to be part of the European Union.

3.2 Montenegro

In December 2014, the parliament of Montenegro voted to accept a Chinese loan for construction of, what would be the first highway in the country, the Bar – Boljare highway. The loan amounted to 943.99 million and was denominated in US dollars.[85] Despite of this there were two feasibility studies arguing that building a highway in Montenegro would not be economically viable endeavour, one from French engineering company Louis Berger, conducted in 2006 and the other by (now defunct) URS Corporation, a construction consultancy, on behalf of the European Investment Bank in 2012.[86] Both studies made similar conclusions. The highway would be uneconomical due to the small size of the country and low traffic. Hence, the income on tariffs would not be sufficient to cover the huge construction costs, let alone turn it profitable in the long run.

Notwithstanding the studies, with the parliament giving the go-ahead, the government went with the project. Chinese highway project in Montenegro fallowed usual Chinese modus operandi in infrastructure investments abroad. Attractive loan offered by the Export–Import Bank of China (Exim Bank), the main lender of Chinese infrastructure project, meant to cover some 85% of the highway's construction costs. The Exim Bank itself is an important part of the Belt and Road initiative. The construction itself was to be conducted by the Chinese Road and Bridge Corporation (CRBC). Notably, there was no tender for the project and government officials engaged in 'behind the door talks' with Chinese companies' officials, hence the entire deal lacked transparency and the public was not well informed about this important infrastructure investment, besides what they were told by the government officials involved. Their narrative mostly circled around supposed benefits the highway would bring to the state transportation infrastructure, thus fostering more trade.

So far one third of the highway (around 40 km) has been built. However, the entirety of Chinese loan has been spent, which leaves the rest of the project (some 80 km) with uncertain future. Due to it being heavily indebted country, with debt-to-GDP ratio rising to almost 80% (with the International Monetary Fund blaming Chinese loan for that), Montenegro is not in a position to acquire further loans to cover the rest of the highway. The IMF argues that

[85] Matijašević, Biljana: "Ogrlica od bisera i omča od dugova", *CIN*, 2021
[86] Valerie Hopkins and James Kynge: "Montenegro fears China-backed highway will put it on road to ruin", *Financial Times*, 2019

without the loan form the Exim Bank, debt-to-GDP ratio of Montenegro would be less than 60%.[87] If Montenegro defaults on required payment on the loan, China could claim collateral, which in this case would probably mean Montenegrin state assets or land (e.g., the Port of Bar). With the country's unsuccessful bid to secure loan from European Investment Bank (the same institution that did feasibility study for the highway back in 2012) on a couple of occasions, with the government that made the deal being voted out, the government signed annex on contract with a new deadline when the CRBC breached the initial deadline citing that their requirements for additional payments were not met.[88]

Not being able to borrow more, the new government officials turned to the European Union for help.[89] The answer was negative.[90] In April 2021, Peter Stano, the spokesperson of the European Commission said to the reporters that the EU will not pay back loans taken by Montenegro "from the third parties".[91] Nevertheless, it seems that Brussels does recognise the situation as worrisome. Since the loan is "disproportionate" to the country's economy, Stano expressed concern over the "risk of macro-economic imbalances, and debt dependency".

This decision by the Commission did find its critics, inside and outside the EU. For critics, this does not seem to be geopolitically smart move on Brussels part. Montenegrin Finance Minister believes that this should be an "easy decision" for Brussels since the economy of Montenegro is small and paying the Chinese loan would not be a burden to the EU and it would have positive geopolitical outcome by limiting Chinese grip over the country, itself a candidate country for membership of the European Union.[92] Viola von Cramon-Taubadel, a German politician of the Alliance '90/The Greens and a member of the European Parliament and its Foreign Affairs Committee, called a decision not to financially help Montenegro "not smart", since if the country defaults on payments Chinese can take over "Montenegro's coastline" as collateral in a similar fashion to Chinese acquisition of the Port of Piraeus in Greece.[93] Tena Prelec, a researcher at the University of Oxford and the London School of Economics also finds this decision of the Commission as potential loss of opportunity for Brussels.[94] Preles is of the opinion that "Montenegro is in the EU's backyard: it would be, finally, a concrete way to show that the EU is indeed a player, a true geostrategic actor".

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[87] Valerie Hopkins and James Kynge: "Montenegro fears China-backed highway will put it on road to ruin", *Financial Times*, 2019

[88] Kajosevic, Samir: "Montenegro Forced to Extend Deadline for Chinese to Finish Highway". *The Balkan Investigative Reporting Network*, 2020

[89] Hopkins, Valerie: "Montenegro calls for EU help over $1bn Chinese highway loan", *The Financial Times*, 2021

[90] Von der Burchard, Hans: "EU rebuffs Montenegro plea to help repay $1B Chinese highway loan", *Politico*, 2021

[91] Nielsen, Nikolaj: "EU refuses to bail out Montenegro's China loan", *EUobserver*, 2021

[92] Hopkins, Valerie: "Montenegro calls for EU help over $1bn Chinese highway loan", *The Financial Times*, 2021

[93] Ralev, Radomir: "EU needs to back Montenegro in repaying Chinese loan - EU rapporteur for Kosovo", *SeeNews*, 2021

[94] Hopkins, Valerie: "Montenegro calls for EU help over $1bn Chinese highway loan", *The Financial Times*, 2021

However, if Brussels decides to step in and pay back the debt, or enough so that collateral might not be required by the Chinese, it could be seen as viable geopolitical actor by fending off Chinese grip over a country right in its backyard. On the other hand, EU's inactivity can be perceived by Chinese as Brussels acquiescence and that is something that China will definitely use in its advantage.

Highway construction had also a negative environmental impact, mostly concerning Tara River and its canyon. The Tara River Canyon, that is the longest one in Europe and the second longest in the world after the Grand Canyon, has been recognised by the UNESCO as the World Heritage Site. The findings of MANS, the Montenegrin watchdog that follows the construction of the highway and focused on environmental impact of the whole construction process, tell of "irreversible damage" done by the CRBC construction workers. The river's course has even been altered by additional construction of small bridges along the highway, while excavated material has been dumped on its riverbanks, posing environmental hazard.[95] So far, regarding this issue it seems that government officials turned a blind eye.

3.3 North Macedonia

In 2012 Sinohydro, a Chinese hydropower and engineering company, was selected as a contractor for two highways in North Macedonia, extending the highway neatwork of the country for 104 km. The deal with Sinohydro, a state own enterprise, came concurrently with initiation of Xi Jinping's landmark project the Belt and Road Initiative.

In a similar fashion with somewhat later case of Montenegro, the Exim Bank of China (the same lander) gave 638 million euros loan in a deal struck with then Prime Minister of North Macedonia Nikola Gruevski.[96] The highways were supposed to be completed in 2018 but as of now only one (47 km long Miladinovci-Shtip) is fully finished, while the other (57 km long Kichevo-Ohrid) still awaits completion. It also should be noted that North Macedonian government struggled to secure funding for Kichevo-Ohrid highway. With mountainous terrain and low traffic, it did not promise to be economical endeavour.[97] As per North Macedonian law on public procurements, the relevant state authority supposed to select a contractor from bidding companies for a public tender. However, after Gruevski, along with other government officials, engaged in private talks with Chinese companies, Sinohydro was chosen instead of the CWE, the other bidder. Since this move ignored the legislation for

[95] Petkova, Mirela: "Watchdogs Detail Damage Done by China in the Western Balkans", *CHOICE*, 2021
[96] Krstinovska, Ana: "The place of North Macedonia in China's strategy for the Western Balkans", Konrad Adenauer Stiftung, 2020
[97] Krstinovska, Ana: "Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia", *CHOICE*, 2019

public procurement, special law needed to be passed in order to quite literally legalise the deal with Sinohydro, made outside legally binding tenders. This immediately rose suspicions since not only did the CWE had lower prices, but Sinohydro's prices were "for some items even 300% higher than the standard market value".[98] Also, it is worth mentioning Sinohydro's already dubious reputation. It was debarred by the African Development Bank Group (AfDB), and also by the World Bank in 2013. The reason being that it engaged in fraudulent activities while applying for public tender in Uganda, where it went by the name Sinohydro Group[99] and misrepresented previous projects[100].

In 2015 a wiretap scandal, that brought down Gruevki's government, brough to light the nature in which Sinohydro was chosen and the CWE ignored, as well as other misconduct by senior North Macedonian officials. Artificially inflated Sinohydro prices resulted in local North Macedonian subcontractors, hired by Sinohydro being less paid for their work than what were the amounts of Sinohydro's invoices to the Public Enterprise for State Roads (PESR), the North Macedonian state infrastructure authority[101]. Investigation by the Special Public Prosecutor Katica Janeva found in 2017, now former Prime Minister Gruevski, one of his deputies in charge for economic affairs Vladimir Peshevski, the head of the PESR Ljupcho Georgievski, a state minister for transport Mile Janakieski, along with some 90 other people guilty of abuse of power and embezzlement of some 155 million EUR and were charged accordingly.[102]

On the other hand, the construction of highways itself seems to be poorly planned and executed. Inadequate geological examinations of the soil where one of the tunnels was initially supposed to be built was assigned to the wrong soil category. Specifically, it was mistakenly designated as a soft soil, and it turned out to be category two soil (rocks). Furthermore, since initial blueprint for Kichevo-Ohrid highway did not include intersections, as per the original construction plan it was impossible to enter or leave the highway along the entire length of it (57 km). To solve this problem, amendments to the contract were negotiated with Sinohydro that include intersections, which in turn means that the costs of the project are significantly increased now. For this the government took additional loan from the Exim Bank. It is estimated that with these recent developments the overall cost of the project has been increased by 180 million euros.[103]

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[98] Krstinovska, Ana: "Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia", *CHOICE*, 2019

[99] Kharal, Asad: "Violating the rules: WAPDA to award mega project to debarred firm", *The Express Tribune*, 2014

[100] Ndong-Obiang, Olivia: "Integrity in Development Projects: African Development Bank and Sinohydro Reach Settlement Agreement on Fraudulent Practice", *The African Development Bank Group*, 2018

[101] Krstinovska, Ana: "Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia", *CHOICE*, 2019

[102] RFE/RL's Macedonian Unit: "More Than 90 Indicted in Macedonia Over Wiretap Scandal", *Radio Free Europe/Radio Liberty*, 2017

[103] Krstinovska, Ana: "Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia", *CHOICE*, 2019

Given the substandard planning and execution of highways' construction by Sinohydro, the decision of the North Macedonian government to continue cooperation with both Sinohydro and the Exim Bank is questionable at the very least. However, there were not that many options available due to questionable return on investments. Both projects look quite uneconomical and do not give assurance to cover the enormous debt related to the Exim bank loans. Seemingly the only solution was to turn to the only willing stakeholders – Sinohydro and the Exim Bank.

Be that as it may, tarnished reputation of Chinese investments made the North Macedonian government to think twice before engaging with Chinese investors again. Moreover, the government called off some planned projects associated with Chinese funding, all the while starting new ones with the funds from the European union, both related to railway modernisation.[104]

3.4 Albania

When it comes to Chinese investments in Albania, Tirana airport certainly sticks out. Being the only Albanian international airport, its gateway to the world, the airport's modernisation was seen as an outmost priority. Namely, the airport was in an appalling condition following years of neglect.

Transition from basically Stalinist like management of the country by Albanian communists to market economy was exceptionally painful for Albania. Throughout the 1990s the country faced economic and social hardships. Many opportunists showed up with dubious investment models, which let to people massively putting their life savings into pyramid schemes. When they inevitably collapsed in 1997/1998 the country was essentially in a state anarchy, with armed men roaming around demanding money they invested.[105]

When the dust has settled, left-wing coalition government led by the Socialist Party was formed, and after the unrest, finally decided to modernise the airport. Due to the lack of funds, the airport was handed over as a 20-year concession to a consortium led by Düsseldorf based Hochtief AirPort GmbH (now AviAlliance).[106] The concession agreement included all kinds of infrastructure modernisation and additional construction on access roads, as well as

[104] Krstinovska, Ana: "Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia", *CHOICE*, 2019
[105] Glauber, Bill: "It's bad in Albania and it's about to get worse Failed pyramid deals spread fear, unrest", *Baltimore Sun*. 1997 (retrieved 2012)
[106] "HOCHTIEF AirPort Signs Concession Agreement for Tirana Airport", *hochtief.com*. Retrieved 2004

the construction of the entire new terminal.[107] Being in control over the only international airport in the country, concessioners had a monopoly over the whole national territory for civilian flights. That also meant that no new international airport could be open without its permission.[108] Albania's airspace (concerning civilian flights) and its international airport ended up effectively belonging to a private entity.

After some negotiations over extent of the concession, mostly regarding exclusivity over airspace, Albanian government abruptly announced in 2016 that all airport shares were acquired by two Hong Kong based companies from previous concessionaries. Companies in question are China Everbright Limited and Friedmann Pacific Asset Management Limited.[109] China Everbright Limited is financial services provider and an investment bank owned by a state own enterprise – China Everbright Group based out of Beijing, whereas Friedmann Pacific Asset Management Limited is another "investment company" specialised in investment and operation of airports.[110][111] Seemingly, China Everbright is heavily involved in Belt and Road Initiative and acquisition of the airport is part of a "strategy to identify good infrastructure" that would fit supposed idea what the Belt and Road Initiative in South East Europe would look like.[112] Since the takeover by Chinese companies, the airport faced couple of serious security breaches. Since 2016, several armed robberies occurred within the perimeter of the airport.[113] Most notable one was in 2019, when one gunman died in an exchange of fire.[114]

But not all the blame lies with Albanian side for security failure. The way the concession agreement is formulated means that concessioners and Albanian state jointly use the airport. Part of the airport has a military runway used by Albanian Air Force, effectively a military base outside concessionaires' control. For the rest of the airport, authority lies with the concessionaries, including security provided by subcontractors.[115] Albanian state police is only responsible for the area outside of the concession.

It is wort mentioning that the country is a NATO member state. This creates a curious situation where the same facility is used by an armed forces of a NATO member state, along with potentially other NATO partners' forces and a Chinese company owned by another Chinese state-owned enterprise (an entity effectively controlled by a Chinese government). Chinese control of the airport is evident so much so that the Chinese flag was also being

[107] "HOCHTIEF AirPort Signs Concession Agreement for Tirana Airport", *hochtief.com*. Retrieved 2004
[108] Madhi, Gentiola: "Story of a Chinese Airport in Albania", *CHOCE*, 2020
[109] Madhi, Gentiola: "Story of a Chinese Airport in Albania", *CHOCE*, 2020
[110] China Everbright Limited Profile. *irasia.com*
[111] Friedmann Pacific Asset Management Ltd. *Bloomberg*
[112] Jackie Cheung and Annie Leung: „China Everbright Ltd. and Friedmann Pacific Jointly Acquires Tirana International Airport", *Acnnewswire*, 2016

[113] Madhi, Gentiola: "Story of a Chinese Airport in Albania", *CHOCE*, 2020
[114] Erebara, Gjergj: "Gunman Killed in Latest Tirana Airport Robbery", *Balkan Insight*, 2019
[115] Madhi, Gentiola: "Story of a Chinese Airport in Albania", *CHOCE*, 2020

raised, along with the Albanian one, at the airport entrance.[116] Chinese concessionaries did not seem to shy away to show who is really in control of the airport.

Following repeated heists, and despite frequent requests, Chinese concessionaires did not provide enough information to Albanian authorities and allegedly did not even take steps to improve inadequate airport security.[117] The debate over airport security took a turn for the worse. In the face of increased criticism over obvious security failures, the concessionaires even tried to create a narrative of supposed anti-Chinese rhetoric, allegedly made by Albanian state officials.[118] At the end, the debate over security issues did not bare much fruit.

Notably, Chinese concessioners recorded a high profit operating the airport and in 2017 the earnings were 18 million euros. The company was blamed for charging high fees, despite fairly low traffic and running monopoly-like business due to owning the only international airport in the country.[119] On the other hand, Chinese promote the airport as a success story, and valuable asset to the Belt and Road Initiative that should serve as a model for similar ventures, thus openly announcing further incursion into the wider region with the same or similar MO.[120]

3.5 Serbia

When it comes to Chinese investments in the Balkan region, Serbia is somewhat specific case. To say that Serbia accepted Chinese investments with open arms would be an understatement. Perhaps no other country in the region is more welcoming to the Chinese influence as much as Serbia is. It is estimated that China put, in some form or another, some 2 billion euros into the country in the past decade.[121]

Media in Serbia, usually government controlled, present Chinese investment projects as an invaluable asset to the country that creates jobs, lucrative busses opportunities and valuable, allegedly much needed, infrastructure projects. Chinese constructure ventures, mostly related to manufacture and infrastructure, are usually preceded by flashy openings in celebratory spirit were state dignitaries, that mostly being the president of Serbia Aleskandar Vucic,

[116] Madhi, Gentiola: "Story of a Chinese Airport in Albania", *CHOCE*, 2020
[117] Madhi, Gentiola: "Story of a Chinese Airport in Albania", *CHOCE*, 2020
[118] Madhi, Gentiola: "Story of a Chinese Airport in Albania", *CHOCE*, 2020
[119] Erebara, Gjergj: "Albania Trades Blame With Airport Company for Plane Robbery", *Balkan Insight*, 2019
[120] Madhi, Gentiola: "Story of a Chinese Airport in Albania", *CHOCE*, 2020
[121] Bojan Stojkovski, Ivana Jeremic, Samir Kajosevic, Ivana Nikolic, Ivan Angelovski, Fatjona Mejdini and Irvin Pekmez: "China in the Balkans: Controversy and Cost", *BIRN*, 2021

engage in overtly friendly demeanour with representatives of Chinese companies. The message is clear – China is good for us and is our friend.

Serbian government officials see Chinese investors as nothing less than saviours. The reason for that is not only high unemployment rate but how current government handles the issue. The narrative that the Serbian ruling party is pushing, mainly revolves around shifting the blame for economic problems on the previous ruling coalition government and that the current government is in fact a job creator. Indeed, in the eyes of a huge part of a Serbian public the image has been created, that of a supposedly overperforming government that's capable of substantially lowering unemployment. For the government officials, Chinese are a godsent to overpromises made to the public.

Overall, Chinese investors are basically put on a pedestal by Serbian officials. So much so, that the European Parliament adopted a resolution expressing concern that Chinese investments are weakening Serbian legal structures and bolster corruption.[122] Serbia loosened its own procurement legislation in order to make it easier for Chinese investors to avoid tenders for public procurement when possible. In that regard, the National Assembly of Serbia adopted two laws, in 2019 and 2020.[123] This effectively enabled the government to circumvent public procurement procedures for projects it deems important, which in turn has not only negative impact on competition and increased corruption but also on environment. Chinese companies are generally exempted from Serbian environmental regulations.[124] Experts worry about "irreversible environmental, social impacts and human rights violations irrespective of where their operations are based, in China or overseas".[125] 16 Chinese-related projects have been identified so far and for many of them, the general public doesn't know details since the projects are deemed state secret.[126] With many projects being uncommercial and apparently pushed by Chinese, there is an increasing fear of Serbia going ever deeper into the Chinese 'debt trap'.

Since 2018 Chinese companies are fully exempt from Serbian Labour Law and Serbian authorities can't inspect premises own by Chinese companies for labour irregularities.[127] There are also concerns about human rights violations. Some Chinese workers in Serbia are facing movement restrictions and had their passports taken away from them.[128] That is the case with workers of copper mine in easter Serbian town of Bor, owned by Zijin Mining Group Co. The miners even gattered to protest their poor treatment and living conditions

[122] Bojan Stojkovski, Ivana Jeremic, Samir Kajosevic, Ivana Nikolic, Ivan Angelovski, Fatjona Mejdini and Irvin Pekmez: "China in the Balkans: Controversy and Cost", *BIRN*, 2021

[123] Wawa Wang and Nils Resare: "China Is Changing Serbia from the Inside", *The Diplomat*, 2021

[124] Wawa Wang and Nils Resare: "China Is Changing Serbia from the Inside", *The Diplomat*, 2021

[125] Bojan Stojkovski, Ivana Jeremic, Samir Kajosevic, Ivana Nikolic, Ivan Angelovski, Fatjona Mejdini and Irvin Pekmez: "China in the Balkans: Controversy and Cost", *BIRN*, 2021

[126] Bojan Stojkovski, Ivana Jeremic, Samir Kajosevic, Ivana Nikolic, Ivan Angelovski, Fatjona Mejdini and Irvin Pekmez: "China in the Balkans: Controversy and Cost", *BIRN*, 2021

[127] Dragojlo, Sasa: "'Like Prisoners': Chinese Workers in Serbia Complain of Exploitation", *BRIN*, 2021

[128] Dragojlo, Sasa: "'Like Prisoners': Chinese Workers in Serbia Complain of Exploitation", *BRIN*, 2021

including working 84 hours per week. However, from Zijin company they claimed that the gathering is actually taking place due to vaccination against COVID-19.[129] The same company found itself under criticism for environmental pollution. According to Environmental Protection Agency on multiple instances the concentration of "sulfur dioxide in the air in Bor exceeded the values dangerous to human health".[130]

Civil liberties seem to be another negative aspect of Chinese influence in Serbia. Huawei deployed its 'Smart City' public surveillance system to Serbia seemingly as a form of a testing ground for its wider application in Europe.[131] This does pose a significant security risk since Huawei is known to have stolen data from international organisation and foreign governments before.[132]

Form all of this, one can surmise that the Chinese investments in Serbia increased democratic deficit and corruption, have negative impact on human rights, increase pollution, endanger civil liberties. In the long term, the investments put Serbia into highly unequal relationship based on dependence on China and into position of having a crippling debt with non-viable and expensive infrastructure projects.[133]

3.6 Bosnia and Herzegovina

Chinese presence in Bosnia and Herzegovina is small and almost negligible in comparison to other Western Balkans countries. It is mostly focused on energy sector and to lesser extent infrastructure.[134] Chinese investments are mainly located in Republika Srpska, one of two ethnically distinct entities in Bosnia and Herzegovina. In this Serb dominated entity, 29 Chinese projects are currently identified.[135] Multiple contracts for different projects have been signed but many of them seem inactive.[136] That does not seem to be the case for highway that would go from Banja Luka to Prijedor for which $782 million loan from a Chinese lender has already been secured as well as for a few terminal power plants. One project where Chinese are currently involved is with Tuzla Thermal Power Plant. The goal is

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[129] Dragojlo, Sasa: "'Like Prisoners': Chinese Workers in Serbia Complain of Exploitation", *BRIN*, 2021
[130] Velebit, Vuk: "A Trojan horse: Chinese investments in Serbia", *Veridica*, 2021
[131] Heather A. Conley, Jonathan E. Hillman and Maesea McCalpin: "Becoming a Chinese Client State: The Case of Serbia", *Center for Strategic and International Studies*, 2020
[132] Cave, Danielle: "The African Union headquarters hack and Australia's 5G network", *The Strategist*, 2018
[133] Levchenko, Ihor: "Serbia is under pressure from Chinese investments", *New Eastern Europe*, 2021
[134] Bojan Stojkovski, Ivana Jeremic, Samir Kajosevic, Ivana Nikolic, Ivan Angelovski, Fatjona Mejdini and Irvin Pekmez: "China in the Balkans: Controversy and Cost", *BIRN*, 2021
[135] Bojan Stojkovski, Ivana Jeremic, Samir Kajosevic, Ivana Nikolic, Ivan Angelovski, Fatjona Mejdini and Irvin Pekmez: "China in the Balkans: Controversy and Cost", *BIRN*, 2021
[136] Mardell, Jacob: "China's Economic Footprint in the Western Balkans", *Bertelsmann Stiftung*, 2022

modernisation and construction of new unit that is expected to make the plant more efficient.[137] The project came under fire due to potential negative environmental impact.[138]

The reason why Chinese seem to be less active in Bosnia and Herzegovina is most likely small infrastructure potential of the country for the Belt and Road Initiative. Poor infrastructure with mountainous terrain, complicated, and at times ineffective political structure of the country are one of the reasons why Chinese might not be interested in deeper engagement in the country. This is also evident in the fact that they are more present in Republica Srpska than in another entity, confusingly named Federation of Bosnia and Herzegovina. The Federation is Bosnian-Croatian dominated and itself is composed of ten cantons, all with their own parliaments and governments. This complicated political arrangement is made after signing of the Dayton Agreement that brought to an end the war in the country that raged from 1992-1995. In unitary Republica Srpska, Chinese can engage more easily with local actors than in the Federation. Be that as it may, there still seems to be low overall interest in the country by the Chinese so far.

3.7 Croatia

Comparing with the rest of the Balkans, Croatia is somewhat of a different story when it comes to Chinese investments. Mainly because Chinese investors have to go through public tenders and avoid their usual talks behind closed doors with local officials. The notable example is Pelješac bridge.

The idea behind this bridge is to connect the small exclave on the southern tip of Croatia with the rest of the country. The exclave, which itself fully belongs to the Dubrovnik-Neretva County, is separated from the mainland by 20km coastal strip of Neum that belongs to Bosnia and Herzegovina. Even though Croatia joined the European Union in 2013, the country is still outside of the Schengen Area. The move supposes to help Croatia in its bid to become part of the Schengen Area. The bridge will also help in movement of people and goods between the exclave and the mainland since it will fully bypass the Bosnian territory.

The China Road and Bridge Corporation (CRBC), the same company that builds the highway in Montenegro, competed for the public tender for construction of Pelješac bridge.[139] Even though the CRBC won the tender against its European competitors, which makes CRBC the first ever company to win a public tender in the EU member state, it did not come without its

[137] Spasić, Vladimir: "BiH blocks Tuzla 7 coal plant project", *Balkan Green Energy News*, 2022
[138] Mardell, Jacob: "China's Economic Footprint in the Western Balkans", *Bertelsmann Stiftung*, 2022
[139] "A major new bridge is connected in Europe, but one country is fuming", *Stuff*, 2021

fair share of controversies. Strabag, Austrian construction company which also competed for the tender, accused the CRBC of “price dumping”. They claimed that their Chinese competitor offer “unusually” low prices that were significantly lower than market prices and were not “according to EU law”.[140] Strabag initially filed an appeal to the Croatian State Commission for Control of Public Procurement Procedures against the award, which was rejected. They proceeded to file a subsequent complaint to the Administrative Court, which is still pending.

But the Pelješac bridge is not the only infrastructure project in Croatia that CRBC is interested in. The others are mostly railways and ports. The government of prime minister Plenković seems willing to have Chinese investors involved in railway network expansion. So far, the discussions between Chinese companies and Croatian government have been held about modernisation of ports in Rijeka, Zadar as well as the construction of railway between Zagreb and Rijeka.[141] Chinese companies also unsuccessfully applied for other railway construction tenders in Croatia.[142]

Nevertheless, both Chinese companies and Croatian government want to continue cooperation. The reason for that from Croatian perspective is most likely the low prices Chinese offer. It seems that Chinese companies try to offer significantly lower prices on public tenders in order to win awards, as opposed to tête-à-tête talks, they are used to in other countries in the region. In Croatia there were instructed to respond to public tenders.[143]

Pelješac bridge seems also like a success for Chinese. Croatians are satisfied with the speed the project has been conducted. Parts of the bridge have been built in China and are assembled with the crane onsite. The crane that assembles the parts is the largest of its kind in the world. According to Jeroslav Šegedin, the chef Croatian engineer on the project “no European company would have been able to do such a project in such a short time”.[144] Also, Pelješac bridge project didn’t see negative environmental impact that follows Chinese construction sites in the other Western Balkans countries. The bridge itself is a gateway to the EU market and Chinese are showing that they can do projects according to European standards. After the CRBC started construction of the bridge, other Chinese companies expressed interest in similar investments, such as in Rijeka, the biggest port in Croatia.[145]

[140] Prtoric, Jelena: “In Croatia, China’s building its bridge to Europe”, *China Dialogue*, 2020
[141] Žabec, Krešimir: “Chinese investors want to export goods to Western Europe through Rijeka”, *Jutarnji list*, 2018
[142] Žabec, Krešimir: “Chinese investors want to export goods to Western Europe through Rijeka”, *Jutarnji list*, 2018
[143] Prtoric, Jelena: “In Croatia, China’s building its bridge to Europe”, *China Dialogue*, 2020
[144] Prtoric, Jelena: “In Croatia, China’s building its bridge to Europe”, *China Dialogue*, 2020
[145] Prtoric, Jelena: “In Croatia, China’s building its bridge to Europe”, *China Dialogue*, 2020

3.8 Common aspects

Fragile governance practices of the Western Balkans countries suited Chinese investments' modus operandi well. All countries in this area that are candidates for membership of the European Union tend to follow EU public procurement requirements and practices. In corruption-ridden region, Chinese companies managed to bend these rules successfully, leaving a trail of crippling debt and unfinished infrastructure projects. Not only does this undermine EU's influence but encourages high-level corruption.[146] Only in Croatia, an EU member state, were the Chinese investors forced to develop balanced relationship with the host and bid through public tenders with other potential investors.

Factors defined while analysing specific countries in Africa and Asia (see subchapter 2.4) are applicable in the Western Balkans countries:

1. Chinese companies target countries with significant corruption issue and poor governance.

   Montenegro, North Macedonia, Albania and Serbia are highly corrupted for European standards.[147] Even though all mentioned countries are candidates for membership of the European Union, corruption is often cited as the biggest obstacle for joining the union.[148] China saw this as an opportunity where can apply its 'debt trap' mechanisms in a similar way it has already done in Asia and Africa.

2. Chinese banks offer loans for uneconomical infrastructure projects that are too big and expensive for recipient country's size and economy

   Obvious examples of this are the cases of highways in North Macedonia and Montenegro, which are huge uneconomical infrastructure projects, too big for the small countries' economies. There are numerous infrastructure projects in Serbia that as of now lack full transparency to be unequivocally deemed uneconomical. However, that is the case to at least some of the 61 of them, that the public is aware of the results of feasibility studies that saw them as uneconomical.[149]

3. Chinese construction companies execute infrastructure projects after they are accepted

[146] Mihály Fazekas and Gábor Kocsis: "Uncovering High-Level Corruption: Cross-National Objective Corruption Risk Indicators Using Public Procurement Data", *Cambridge University Press* 2017
[147] "Corruption in the Western Balkans: Bribery as Experienced by the Population", *United Nations Office on Drugs and Crime*, 2011
[148] Šemić, Anđela: "Corruption in the Western Balkans not abating: What is next?", *European Western Balkan*, 2022
[149] Bojan Stojkovski, Ivana Jeremic, Samir Kajosevic, Ivana Nikolic, Ivan Angelovski, Fatjona Mejdini and Irvin Pekmez: "China in the Balkans: Controversy and Cost", BIRN, 2021

This is the case with almost all the countries analysed in this chapter. Highway in Montenegro is being built by the CRBC, the same company that builds the Pelješac bridge in Croatia. Highways in North Macedonia are being built by Sinohydro, while in Bosnia and Herzegovina China Shandong International is building a highway between Banja Luka and Novi Grad.[150] Serbia has a multitude of Chinese companies operating on its territory seemingly with impunity and are exempt from Serbian laws.[151]

4. Chinese investors avoid public tenders in favour of engaging directly with state officials in closed-door meetings in an attempt to secure the best possible deals

   With notable exception of Croatia, this factor applies to all cases covered in this chapter. Most notably, North Macedonian former prime minister Gruevski is still at large, while being charged with embezzlement related to "Chinese highways". Another striking example is Serbia that gave privileged status to Chinese companies in 2019 and 2020.[152] Therefore, Chinese companies are seemingly fully exempt from participating in tenders.

5. Loan agreements have a collateral in form of national territory (e.g. ports)

   In case Montenegro defaults on its debt, China reserves the right to take over collateral. The obvious case could be the Port of Bar, given that Chinese already set their sights on European ports.[153] Similar case could be with North Macedonia in form of some other transportation asset. In Serbia, general lack of transparency associated with Chinese investments, since they are under Serbian law deemed "state secrets".[154]

6. Chinse deny debt cuts, but offer loans for covering existing debts or take over collaterals

   This is applicable both with Montenegro and North Macedonia. Both countries took additional loans and put annexes on existing ones in other to cover additional costs associated with Chinese projects (see subchapters 3.2 and 3.3). This is also likely the case with Serbia.

7. Recipient country might hand over constructed/repaired facility to Chinese controlled joint venture, as opposed to covering the costs

[150] Arminas, David: "Work starts on Banja Luka-Prijedor highway", *World Highways*, 2021
[151] Heather A. Conley, Jonathan E. Hillman and Maesea McCalpin: "Becoming a Chinese Client State: The Case of Serbia", Center for Strategic and International Studies, 2020
[152] Wawa Wang and Nils Resare: "China Is Changing Serbia from the Inside", *The Diplomat*, 2021
[153] Kakissis, Joanna: "Chinese Firms Now Hold Stakes in Over a Dozen European Ports", *National Public Radio*, 2018
[154] Bojan Stojkovski, Ivana Jeremic, Samir Kajosevic, Ivana Nikolic, Ivan Angelovski, Fatjona Mejdini and Irvin Pekmez: "China in the Balkans: Controversy and Cost", BIRN, 2021

This factor is seen in the case of Albania that handed over its only international airport to two Chinese financial companies as a concession.[155]

8. Chinese ‘debt trap’ might fail

   Unlike in other countries in this chapter, Chinese companies have to participate in public tenders in Croatia, which made them to revaluate their operations.

There are clear signs that some of these countries are backpedalling their initial enthusiasm for Chinese projects.[156] Montenegro and North Macedonia are eagerly looking for alternatives. Both countries changed the governments that were seen as corrupt and that welcomed Chinese investments with open arms. Chinese companies did engage in corrupt activities with the politicians and bureaucrats, which was proved so far only in the case of North Macedonia. It seems that it’s too late to drastically change the course right away. The new governments of both countries were forced to sign further deals with Chinese investors and lenders, be it annex on existing contracts or new loans, given the lack of interest of European lenders due to the non-viability of Chinese infrastructure investments.

Be that as it may, this might be the right moment for Brussels to make a strategic move.[157] If the European Union seps in and financially helps its candidates for membership to return their debts, that would fully undermine Chinese expectations. In that case the countries in question would not be in ‘debt trap’ anymore and China would have to re-evaluate its investment strategy in the region. Their further presence in Montenegro and North Macedonia from then on would probably look more like the one in Croatia. However, it is up to Brussels first not to see this as purely commercial affair, but as a geopolitical issue.

[155] Madhi, Gentiola: “Story of a Chinese Airport in Albania”, *CHOCE*, 2020
[156] Mardell, Jacob: “China's Economic Footprint in the Western Balkans”, *Bertelsmann Stiftung*, 2022
[157] Mardell, Jacob: “Brussels makes way for Beijing in the Balkans”, *Mercator Institute for China Studies*, 2019

4. Comparative assessment of Chinese 'debt trap'

Both in the Western Balkans and in the third world, countries that face Chinse 'debt trap' diplomacy are experiencing following factors:

- Targeting countries with corrupted administration
- Chinese companies' officials engaging directly with state officials in tête–à–tête talks and avoids public tenders
- Infrastructure projects, by and large, uneconomical and/or poorly constructed with feasibility studies arguing against constructing them
- Projects in question previously refused by non-Chinese investors for being economically unviable and/or recipient countries not meeting IMF and WB conditionality
- Chinese lenders gave huge loans and collateral for loans usually includes transportation hubs that can be utilised by China in case the borrowing countries default on payments
- China avoided debt cuts but offers further loans for covering existing debts or takes over collaterals
- Agreements for loans and projects generally lack transparency and public of countries in question is usually not aware of specifications of agreements, such as the aspect of collateral
- Public voiced their dissatisfaction with demonstrations, riots or removal of government on elections.
- Paying in natural resources for Chinese loans
- China might not be able to apply some mechanism of 'debt trap'

These factors are presented in Table 1 and Table 2 vis-à-vis analysed African and Asian countries in Table 1 and analysed Western Balkans countries in Table 2

Comparative tables have following values depending on to what level listed factors are applicable: applicable – this factor applies to this country; not applicable – this factor doesn't apply to this country; high possibility – this factor night have already happened or there is a possibility of it happening in the future; unknown – it is not known whether this factor is applicable in a particular country.

It should be noted that the values are applied when Chinese projects entered the analysed countries and that values in some cases might differ now.

For results of analysis please see Table 1 and Table 2.

By examining the analysed cases one can conclude that the expansion of Chinese influence in the Balkans fits its agenda of establishing foothold in the continent. Modus operandi of Chinese state-owned enterprises in the Western Balkans are almost exactly the same as in Africa and Asia where China already established its presence and pushed relationships with these countries to some sort of neo-colonial form.[158] Therefore, Chinese tools of establishing influence in the Southeaster Europe for the most part are the same as in examined cases of the third world countries. China utilised this modus operandi in the countries that are candidates for membership to the European Union, util it couldn't – in the case of Croatia, the EU member state.

Conclusion is that Chinese intentions in this part of Europe are indeed to gain sway over analysed countries, that might become part of the European Union. It is also safe to conclude that the tools China is using are the same it used while establishing influence in other continents. With that being said, it is left to be seen to what extent China can push its agenda in Europe and will there be an appropriate response from the European Union, given that it is its backyard where China utilised its investment mechanism that brought countries in other parts of the world in basically neo-colonial status towards China.[159]

[158] Etzioni, Amitai: "Is China a New Colonial Power?", *The Diplomat*, 2020
[159] Kleven, Anthony: "Belt and Road: colonialism with Chinese characteristics", *The Interpreter*, 2019

Conclusion

Ever since Deng Xiaoping initiated ‘reforms and opening-up’ in 1978 thus launching comprehensive economic reforms towards socialist market economy, China experienced unprecedented economic rise.[160] Its rise was and still is manifested through increasing influence in other countries. The Belt and Road Initiative can be seen as a milestone of rising Chinese influence in the world. The BRI and its maritime counterpart the Maritime Silk Road are the most visible tools of Chinese soft power projection. This global trade and infrastructure expansion strategy is in fact made up of multiple projects revolving around mostly infrastructure development projects in interested recipient countries with official aim of boosting trade.[161] These infrastructure projects include everything from highways, railways, bridges, housing complexes, power plants, ports, airports, pipelines, stadiums, headquarters of international organisations, national parliaments, special economic zones, to name the few.[162][163][164] This economical approach became a trademark of Chinese geopolitical aspirations.

The Belt and Road Initiative was officially adopted as part of Chinese foreign policy in 2013 when it was announced by Xi Jinping, supreme leader of China since 2012, holding positions such as President of the People's Republic of China (since 2013), General Secretary of the Chinese Communist Party (CCP) (since 2012) and the head of Central Military Commission (since 2012).[165] With Xi Jinping as its paramount leader, China redefined its geopolitical goals to more comprehensive strategy with its main tool – expansion of economic dominance.

This ever-increasing economic dominance came at the expense of recipient countries, prompting many observers to accuse China of neo-colonialism.[166] With recipient countries being developing economies of Africa and Asia, China found it easy to penetrate local markets with its seemingly generous loans for infrastructure development that did not have conditionality attached to them. The International Monetary Fund and the World Bank loans have conditionally related to market liberalisation, removal of price controls, transparency, encouraging competition, low amounts of foreign currency reserves etc.[167] Third world counties that are usually recipients of Chinese investments are generally highly corrupted, with authoritarian regimes, poor governance, have overall issues with transparency, have

[160] Xin, Zhou: “China’s reform and opening up can keep delivering ‘miracles’, says Xi Jinping”, *South China Morning Post*, 2018
[161] “China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape”, *OECD*, 2018
[162] Marsh, Jenni: “Free gift? China extends influence in Africa with $32M grant for regional HQ”, *CNN*, 2018
[163] “African Union Bugged by China: Cyber Espionage as Evidence of Strategic Shifts”, *Council on Foreign Relations*, 2018
[164] Gretinah Machingura, Tafara Mugwara: “China to hand over completed new parliament building to Zimbabwe”, *Xinhua News Agency*, 2022
[165] "China Confirms Leadership Change", *BBC News*, 2012
[166] Etzioni, Amitai: “Is China a New Colonial Power?”, *The Diplomat*, 2020
[167] “IMF Conditionality”, *International Monetary Fund*, 2021

non-competitive markets. This means that these countries in most cases have hard time meeting IMF and WB conditionality attached to their loans. Precisely in these countries is where modus operandi of Chinese economic influence has had developed. This modus operandi revolves around representatives of Chinese state-owned enterprises negotiating directly with heads of governments of recipient countries over agreements for loans related to infrastructure investments. This enables Chinese companies to avoid tenders for public procurements and arrange for them favourable conditions. Nuances of these agreements are usually kept away from public eyes, and more often than not have a land collateral attached to them. Collaterals are in form of a national territory that's an important asset for a country such as ports or other transportation hubs. In case that poor recipient countries default on their payments for huge loans, Chinese companies reserve the right to take over the respective collaterals.[168] It should be noted that the huge infrastructure projects often exceed the needs and economical viabilities of recipient countries thus making them economically unviable.[169]

In hindsight, Chinese companies offer huge infrastructure projects that visibility studies often refer to as economically unviable, knowing that the recipient countries with corrupt leadership will most likely default and that the collateral attached to loan agreements with be taken over by China. China is willing and does give loans to debtor countries for covering the existing debts to its lenders, but it never agrees to debt cuts. This strategy – 'debt trap' diplomacy, China actively applies in Asia and Africa.[170] With the collapse of Sri Lankan government due to unbearable debt to China, concerns over Chinese 'debt trap' have never been lauder.[171] It would not be possible to analyse all of the cases of Chinese 'debt trap' diplomacy with their own nuances here, so I've covered the ones that are relevant and best examples for comparison with Chinese investments in the Western Balkans countries. Countries in Asia and Africa covered here are Sri Lanka, Pakistan, Angola, Kenya, and the curious case of Bangladesh, who seemingly successfully avoided the Chinese 'debt trap'. Sri Lanka had to give its second biggest port, Hambantota port, over to China as a collateral since it defaulted on payments related to construction. The port, that was deemed uneconomical by feasibility studies, ended up costing staggering 1 billion USD, and China refused debt cuts.[172] Regardless of giving over the port, Sri Lankan external debt kept rising, mainly due to debt it has to China related to other loans for equally uneconomical endeavours.[173] Sri Lanka is usually cited as the best example of the country that fell into the Chinese 'debt trap'.

All things considered, in my thesis the focus lies on Chinese influence in the Western Balkans countries, mostly the ones that are candidates for the membership of the European Union. More precisely what is the aim of Chinese influence in this region and its tools of

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[168] Wang, Kai: "China: Is it burdening poor countries with unsustainable debt?", *BBC News*, 2022
[169] Wang, Kai: "China: Is it burdening poor countries with unsustainable debt?", *BBC News*, 2022
[170] Chellaney, Brahma: "China's Debt-Trap Diplomacy", *Project Syndicate*, 2017
[171] "Experts warn against China's debt-trap diplomacy, cite Sri Lanka's example", *Business Standard*, 2022
[172] Abi-Habib, Maria: "How China Got Sri Lanka to Cough Up a Port", *The New York Times*, 2018
[173] "No more flights from Sri Lanka's second airport", *Gulf News*, 2018

projecting that influence. The countries analysed are Montenegro, North Macedonia, Albania, Serbia, Bosnia and Herzegovina and Croatia. Of these, in danger of falling into the Chinese ‘debt trap’ are Montenegro, North Macedonia and Serbia, with Albania already relinquishing its only international airport to Chinese companies. Croatia is an example where Chinese modus operandi related to ‘debt trap’ failed. In Croatia, a member state of the European Union, Chinese SOEs were forced to bit through tenders for public procurement with other potential investors. This rendered usual Chinese talks behind closed doors inefficient, so in the case of Pelješac Bridge Chinse investor had to artificially lower prices in order to be selected for the project.[174]

Cases of Montenegro and North Macedonia are astonishingly similar to that of Sri Lanka. Both countries have taken huge loans from Chinese banks that are too high for their economies for highways that were assessed as economically unviable for the two small countries. Loans given were not enough to finish all highways to completion (one highway in Montenegro, two highways in North Macedonia).[175][176] In both countries the agreements were made between representatives of Chinese companies and government officials. With Chinese companies that ended up constructing the highways being selected outside of tenders for public procurement, corruption of government officials was proved in at least one case for now (North Macedonia). So far only one highway in North Macedonia is finished and with no more money to complete the others, both countries are in danger of not only loosing part of sovereign territory (e.g., port of Bar) but to keep being indebted to China, given additional loans that were raised when money was spent and annexes on original loan agreements.

China uses the same tools of expanding influence in the third world countries, as in the Western Balkans countries. Its aims are to dominate small local economies, that are candidates for the EU membership and put them into neo-colonial position, similar to above mentioned examples of countries in Asia and Africa. If these countries become part of the EU, that would mean unprecedented boost for Chinese influence in Europe that Brussels shouldn’t afford. China was applying its ‘debt trap’ modus operandi in the Western Balkans successfully until it stopped working. Its MO is completely not applicable in Croatia. In Montenegro and North Macedonia public opinion regarding Chinese investments completely flipped and both countries changed their governments that initially welcomed Chinese companies. The two countries try desperately to find alternatives and avoid falling into the “Sri Lankan” scenario. So far, the EU did refuse to financially help its candidates for membership that have crippling debt to China referring to that as their own issue.[177] However, this might change if the countries in question are seen as “victims” of misdeeds of previous corrupt governments as well as a huge geopolitical liability right at the backyard of the EU. New security challenges in Europe, such as Russian invasion of Ukraine, have a

[174] Prtoric, Jelena: “In Croatia, China’s building its bridge to Europe”, *China Dialogue*, 2020

[175] Krstinovska, Ana: “Exporting Corruption? The Case of a Chinese Highway Project in North Macedonia”, *CHOICE*, 2019

[176] Valerie Hopkins and James Kynge: “Montenegro fears China-backed highway will put it on road to ruin”, *Financial Times*, 2019

[177] Nielsen, Nikolaj: “EU refuses to bail out Montenegro's China loan”, *EUobserver*, 2021

potential to make the European Union more assertive geopolitical player. That in turn would mean that Brussels might just be willing to financially step in, if it chooses to see the "Chinese" debt problem of the Western Balkans countries geopolitically.

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List of appendices

Appendices

Table 1: 'Debt trap' factors in Asia and Africa

Variables	Kenya	Angola	Bangladesh	Sri Lanka	Pakistan
Corrupted administrations	Applicable	Applicable	Applicable	Applicable	Applicable
Closed-door talks and no public tenders	Applicable	Applicable	Unknown	Applicable	Non-applicable Unknown
Uneconomical projects and/or poorly constructed	Applicable	Applicable	Non-applicable	Applicable	High possibility
Projects refused by non-Chinese investors and/or countries not meeting IMF and WB conditionality	Non-applicable Unknown	Applicable	Non-applicable	Applicable	Non-applicable Unknown
Chinese lenders give loans with collateral in form of important national asset attached	Applicable	Unknown	Non-applicable	Applicable	Applicable
China avoids debt cuts and/or takes over collaterals	High possibility	Unknown	Non-applicable	Applicable	Applicable
Agreements lack transparency and public is not aware	Applicable	Applicable	Non-applicable Unknown	Applicable	Non-applicable Unknown
Public dissatisfaction led to riots and/or change of the government	Non-applicable	Applicable	Non-applicable	Applicable	Applicable
China couldn't fully apply mechanism of 'debt trap'	Non-applicable	Non-applicable	Applicable	Non-applicable	Non-applicable
Paying in natural resources for Chinese loans	Unknown	Applicable	Unknown	Non-applicable	High possibility
Country turning over constructed/repaired/maintained facility to Chinese as opposed to paying for costs	High possibility	High possibility	Unknown	Applicable	Applicable

Source: Own calculation of the author

Table 2: ‘Debt trap’ factors in the Western Balkans

Variables	North Macedonia	Montenegro	Albania	Serbia	BiH	Croatia
Corrupted administrations	Applicable	Applicable	Applicable	Applicable	Applicable	Not - Applicable
Closed-door talks and no public tenders	Applicable	Applicable	Applicable	Applicable	Applicable	Not - Applicable
Uneconomical projects and/or poorly constructed	Applicable	Applicable	Not - Applicable	Applicable	Unknown	Not - Applicable
Projects refused by non-Chinese investors and/or countries not meeting IMF and WB conditionality	Applicable	Applicable	Not - Applicable	Unknown	Unknown	Not - Applicable
Chinese lenders give loans with collateral in form of important national asset attached	High possibility	High possibility	High possibility	High possibility	Unknown	Not - Applicable
China avoids debt cuts and/or takes over collaterals	High possibility	High possibility	Applicable	High possibility	Not - Applicable	Not - Applicable
Agreements lack transparency and public is not aware	Applicable	Applicable	Applicable	Applicable	Applicable	Not - Applicable
Public dissatisfaction led to riots and/or change of the government	Applicable	Applicable	Not - Applicable	Not - Applicable	Not - Applicable	Not - Applicable
China couldn’t fully apply mechanism of ‘debt trap’	Not - Applicable	Not - Applicable	Not - Applicable	Not - Applicable	Unknown	Applicable
Paying in natural resources for Chinese loans	Not - Applicable	Not - Applicable	Unknown	Unknown	Unknown	Not - Applicable
Country turning over constructed/repaired/maintained facility to Chinese as opposed to paying for costs	High possibility	Not - Applicable	Applicable	Unknown	Not - Applicable	Not - Applicable

Source: Own calculation of the author