Abstract

Chinese investments in Southeast Europe 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, Southeast Europe, Belt and Road Initiative, SOE, Sri Lanka, Hambantota Port, Southeast Europe, European Union