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CHINESE PRESENCE IN THE WESTERN BALKANS: COMPETITION, COMPLEMENTARITY, COOPERATION

This contribution examines the Chinese presence in the Western Balkans region – a country in the process of joining the European Union – the motivations, the methods of entry and the achievements of the Chinese companies which are present there. The impact of this presence is analyzed both in its economic aspects – trade, investment, construction of infrastructure – and geostrategics, in particular its impact on the integration of these countries, on the alternatives that it proposes in the face of the integration process led by the European Union.
JEL: F1; F5; F6; P2; P5

Introduction

This contribution focuses on the Chinese presence in the Western Balkans. Six countries – Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, Serbia (WB6) are in the process of joining the European Union or invited to do so. They will join it in a time horizon, which, like a mirage, moves away as they apply the recommendations set by the 27 (previously 28) to become a member. The EU is today their main partner in terms of trade and direct investment. Other countries are also present in the region, Russia, Turkey, the Gulf countries and China, which is emerging as a partner in many fields and economic sectors. The Chinese presence in these countries, with the exception of Kosovo, is manifested in increasing trade, the realization of direct investments, the provision of services in the construction of port, rail and motorway infrastructure. With one of them, Serbia, it even goes so far as cooperation in the military (supply, assembling of equipment) and security (surveillance systems).

WB6s come back from afar – isolationism from communist Albania, disintegration, inter-ethnic conflicts, independence of Kosovo, reconstruction of nation-states in the former Yugoslav Federation; they are engaged in upgrading policies, are trying to exploit the potential comparative advantages hitherto little developed. Although invited to do so, the Western Balkan countries are still far from fulfilling the conditions for joining the EU,

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faced with several problems, both structural, economic and social: geographic opening up, declining activity, chronic underinvestment in many sectors, high unemployment rates, endemic emigration, especially of young people, skilled or unskilled, high debt.

Over the past three decades, after the fall of the local "varieties of communism"[2] in the region, these economies have restructured, they have privatized – sometimes closed – former state/self-managed firms, they have welcomed foreign direct investments, signed trade, stabilization and association agreements with the European Union which opened its markets to them, enabled them to benefit from pre-accession programs. However, progress in the accession process has been slow, for a long time the European Union has favoured stability (political, economic, by advocating the essential institutional reforms (rule of law, democratic institutions, justice), by controlling their implementation without bringing substantial financial support to ensure structural adjustment to often authoritarian and corrupts political powers.

It is in this context that Chinese firms intervene in the countries of the region, with the exception of Kosovo (which is not recognized by China[3]) as they also do in the countries of Central and Eastern Europe, under the *17+1 Format*[4] which, with the 5 countries of the Western Balkans (B05) mentioned, brings together the eleven new member states of the European Union, and, most recently, Greece.[5] The *Format*, which was launched in 2012, is a component of the ambitious *New Belt, One Road*[6] project, later renamed the *Belt and Road Initiative* (thereafter the *Initiative*) launched by the Chinese government in 2013.

Within the WB5s, China deploys its "infrastructure diplomacy" by proposing the realization of port and motorway investments, the construction of railways for which the beneficiary countries get into debt with Chinese financial institutions which lend at attractive rates without too strong conditionalities ("no string attached")and over an extended repayment period contrary to the practices of Western financial institutions, notably European, the main providers of credits and donations in the region.

In this new framework – a slow restructuring and upgrading of the economies of the region, an EU which imposes many conditions for their future membership – with the arrival of China[7] in the landscape, we are in a three-player game which questions us about the aims sought by some, the reactions of others and the strategies which result from this between competition and cooperation (WB5, Ruet, Wang 2017).

The Chinese presence in this part of Europe is developing in a more general context, that of relations between China and Europe around commercial relations, investments, pressures around the adoption of Chinese equipment in the field of communications (5G). It has a

[2] Autarchic communist dictatorship in Albania, Yugoslav self-managed socialism, more open, but having retained a fringe of Stalinism.
[3] neither by Russia nor by 5 other member countries of the European Union: Spain, Cyprus, Greece, Slovakia, Romania.
[4] Originally *16+1 Format* until Greece recently joined the last Dubrovnik Summit in 2019.
[5] In this contribution we do not discuss the case of Greece (cf. Fabre, 2019).
[6] *Belt* for land corridors (railway lines) through Central Asia, *Road* for 2 maritime corridors.
[7] And other countries: Russia, Turkey, Gulf countries.

political and geostrategic dimension: is China seeking to gain influence in European affairs as it has already started to do in Greece, in Hungary?

Today the presence of China at the gates of Europe and under other skies raises questions. Its simultaneous presence in different markets, in Europe, in Africa, in Latin America is often described as a surge. Is it "buying the world", acquiring a hegemonic position on a global level? If we take into account the volumes invested and the infrastructure spending incurred in the region, they remain modest (around 3%) in comparison with the sums allocated for the acquisition of assets in other regions of Europe. Has Europe taken too long to assess the risk posed by the Chinese presence at its marches when the countries concerned are about to become members soon? For the receiving countries, does the Chinese presence help to close the development gaps of the countries of the region, to open new markets towards China, is it an alternative to the procrastination of the EU and the deadlines imposed as for their future membership?

What is new is the confrontation of an economic strategy without strong conditionality vis-a-vis the normative power of the European Union which associates the project of future adhesion with the efforts carried out in the field of the respect of the rule of law, the end of the stranglehold on state property and all forms of corruption that still manifest themselves in the countries of the region. For local leaders, the Chinese presence appears to be a means of accessing alternative resources allowing them to save time, satisfy their populations, bypass the constraints of costly structural transformations economically and politically.

In section 1, we recall the linkage of the region's economies to European markets (trade), the importance of foreign direct investment from the European Union in addition to the pre-accession programs which provide non-core funding. negligible but far from what would be necessary in the eyes of the receivers.

In section 2, we present the BRI project of "new silk routes" initiated by the Chinese government by analyzing the motivations, the instruments, the objectives sought by the Chinese operators.

In section 3, we present the main achievements completed in WB5 thanks to the financing that the Chinese government allocates to its firms within the framework of the Initiative. In the final section, we analyze the impact of this presence, its contributions, its limits, its possible complementarities and compatibility with the projects of the accession of these countries to the European Union.

1. The Western Balkans: Catching up, polarized exchanges and anchoring in the European Union

1.1 Restructuring and polarization of trade with the European Union

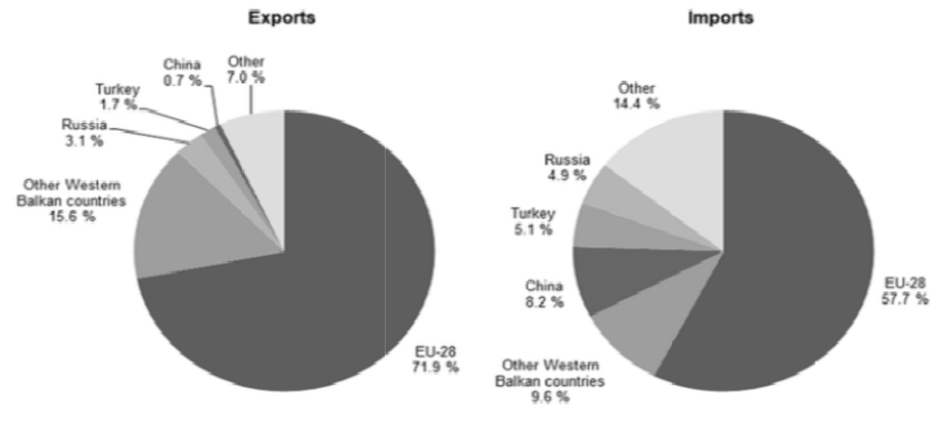
Since their transformation into market economies (Albania), after the disintegration (member countries of the former Yugoslav Federation, independence of Kosovo in 2008), the countries of the region, following the European Summit in Thessaloniki in 2003, were invited to join the European Union which has defined a framework and adopted instruments to facilitate the process. Slovenia and Croatia, two former republics of the former Federation, joined it in 2004 and 2013 respectively. The reconstruction and upgrading to new national frameworks, for the former Yugoslav republics, were carried out under difficult conditions: search for competitive advantages, under-investment, massive unemployment, emigration, heal the wounds of inter-ethnic confrontations.

To date, the convergence of the countries of the region with the 28 (before the departure of Great Britain) is slow, the WB6 still show significant differences: the GDP per capita (in PPP) is at 1/3 of the average of the 28, the population's unemployment rates range from 15% to almost 30%. Emigration hits the WB6s strongly, Albania plans to hire foreign workers; in Bosnia and Herzegovina, in Serbia, the villages are depopulating. Skilled labour migrates to the EU-15 countries, the least qualified to the New Member States (EU-11) to work in factories and subcontractors of the large European groups that have established themselves there since the transformation of these economies into market economies and their integration into the EU (WB5, 2019b).

WB6 trade quickly and massively turned towards the EU, which absorbs more than 70% of their exports and almost 60% of their imports. Comparatively for China, the figures are very modest and highly unbalanced with 1.7% for exports and 8.2% for imports respectively (Figure 1).

Figure 1

Share of WB6 exports and imports with their main partners, 2018



Source: Eurostat.

At the same time, they welcomed foreign direct investment coming mainly from the EU, most of them in the service sector (finance, distribution, telecommunications, real estate) which often did not create jobs (Table 1). Most of the FDI comes from the EU-27, the United Kingdom and other countries in the region (Switzerland, Turkey, Russia).[8]

[8] The relatively large share of the Netherlands and Cyprus can be explained for two reasons: the location of large European firms in the first country to benefit from tax advantages, the massive presence of Russian capital invested in Cyprus.

Table 1

Stock of FDI by main country of origin (in%) (2018)

	AL	BA	XK	MK	ME	RS	WB
						2015	
Austria	6.3	19.2	5.5	12.2	3.4	13.9	12.2
Belgium	0.0	.	0.5	1.3	.	0.4	0.4
Croatia	0.2	17.2	0.2	2.0	1.9	2.4	3.9
Cyprus	2.5	1.1	0.2	3.5	4.6	10.5	6.6
France	1.6	0.2	0.6	0.9	1.5	3.3	2.2
Germany	2.2	4.3	9.4	5.3	2.2	4.6	4.5
Greece	21.7	.	0.3	10.0	1.2	4.3	5.7
Hungary	0.0	0.2	0.0	4.5	.	1.6	1.2
Italy	10.6	4.3	0.7	2.3	14.6	3.8	5.2
Liechtenstein	.	0.0	.	1.0	.	0.1	0.1
Luxembourg	0.0	2.0	0.2	0.8	.	4.1	2.5
Netherlands	12.6	5.6	2.9	9.1	3.4	21.4	14.5
Russia	.	6.3	0.0	0.8	11.4	5.9	4.9
Serbia	0.3	16.3	0.4	2.0	5.7	.	2.8
Slovenia	0.3	7.3	6.4	8.0	4.1	4.3	4.7
Sweden	.	0.5	1.1	0.4	0.2	0.3	0.3
Switzerland	9.7	3.9	8.9	3.9	3.4	2.9	4.3
Turkey	9.0	3.0	12.1	5.3	0.7	0.0	2.8
United Kingdom	0.7	3.4	2.4	11.2	3.2	2.4	3.2
United States	1.4	0.6	3.3	1.7	1.7	0.9	1.2
Other countries	20.8	4.6	44.9	13.8	36.9	12.8	16.9
EU-15	55.8	39.9	23.8	53.7	32.0	61.5	52.4
EU-28	59.2	63.5	32.4	77.2	43.9	82.4	70.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total, EUR mn	**5,677**	**6,629**	**3,405**	**4,657**	**4,118**	**26,467**	**50,953**

Source: WIIW.

Chinese investments, which are difficult to quantify, amount to around 1% of the total FDI made in the region. The relative importance of trade and investment within the *Yougosphère* must be underlined, in particular with Croatia and Slovenia, already members of the EU.

1.2 Regional economic zone of the Western Balkans: facilitate future integration or quarantine?

Following the announcement by the former President of the European Commission Juncker in his 2017 State of the Union address, the European Commission has adopted an ambitious strategy entitled *A credible enlargement prospect and a Reinforced European Union commitment* for the Western Balkans providing for the establishment of a Regional Economic Zone in the Western Balkans, a type of common market, which is based on six initiatives with the aim of accelerating the implementation and preparing for their future membership. They revolve around six points:

- Strengthen the rule of law
- Strengthen support for socio-economic development
- Develop a digital strategy for the Western Balkans
- Strengthening ties in the area of security and migration
- Strengthen connectivity in the transport and energy sectors
- Support reconciliation and good neighbourly relations

The list emphasizes the political and economic aspects of adjustment, which until now have not been possible in the different countries (rule of law, corruption, authoritarianism, various barriers to trade). The Commission thus intends to carry out political, economic, but also structural (connectivity) and technological reforms. This project, with financial resources which remain limited, leads us to question the possibilities of really implementing these different initiatives, to articulate them, to lead them head-on with a view to making them emerge (at what time horizon?) a new economic space fulfilling the conditions for becoming members of the European Union.

If this project was received positively by the leaders of the region, however, cooled by the declarations of the French president Macron who insists on the reinforcement of the existing tools and procedures before expanding, one can point out some of the limits of these initiatives.

- Their funding. The volume of funds allocated remains limited in relation to needs, particularly in the infrastructure sectors, which will take time to realize.
- Another question concerns productive investment: how can it quickly contribute to the growth of national GDP and quickly translate into job creation.
- Lowering barriers and increasing trade risks, moreover, leading to an imbalance in trade in favour of Serbia to the detriment of its neighbours.
- In addition, the share of foreign direct investment, which has played a driving role in upgrading and specialization in the new member states, remains limited. Those from the European Union have limited impact in terms of creating regional value chains, their integrative level is currently very low.

Springboard or airlock? Finally, the difficulty in implementing these initiatives could transform this Balkan economic zone into a sort of airlock, of long-term parking in the expectation of a membership that is always delayed.

Some questions arise:

Do these limits open up space for the deployment of Chinese firms in the region? Can the Chinese presence in its various aspects (commercial, major works, investment) become an alternative or be limited only to an auxiliary option for the receiving countries (Mardell, 2020)?

2. The Western Balkans: Entry modes of Chinese firms

2.1. The Initiative: An ambitious, global project, with variable geometry

It was in 2013 that Chinese leaders announced the launch of the One Belt, One Road project, later renamed the *Belt and Road Initiative* (BRI), also known as the *New Silk Road* (NRS). This is an ambitious project in terms of its objectives, the scope covered (Figure 2), the resources mobilized, the associated partners, the conditions for carrying it out, the investments required, the level of the risks involved and the expected benefits (Li, Taube, 2019).

Figure 2

Land and sea routes to Europe

This project is part of the growing power of the Chinese economy, today one of the main engines of global growth (before the Coronavirus crisis in January 2020). The level of development reached over the past four decades, that of the accumulated financial reserves make China (a hybrid, half-administered, half-capitalist, economic system) today an actor in a position to orient and shape trade and capital movements at regional and global level mobilizing specific instruments, in particular in the area of financing, and activating state enterprises to carry out this project.

The Initiative focuses on five main objectives.

1) Establish a political communication promoting and deepening cooperation and consensus among the different governments;
2) Connect via the construction of various types of infrastructure: roads, railways, canals, ports, transport, energy networks, information and communication technology networks;
3) Facilitate investment and trade by lowering customs barriers and establishing free trade areas, encouraging Chinese firms and those of other countries to invest along the way;
4) Mobilize financial support with the creation of several supra-national financial institutions (the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (NDB)) with mainly Chinese capital, the establishment of special funds dedicated to the financing of sections of the route, in Central Asia, Eastern and South-Eastern Europe. In addition, there is the mobilization of Chinese "political" banks, the Exim Bank and the China Development Bank, armed arms of the Chinese central government to support its projects at home and abroad, as well as the country's major commercial banks (Figure 3). Incidentally, the use of Chinese currency, RMB, in the issuance of bonds, the signing of credits to finance the construction of infrastructure, the realization of swap agreements (WB5, 2019c) is also the means to promote the internationalization of the Chinese currency;
5) The project finally provides for the development of cultural relations, exchanges in the field of education, promotion of tourism, cooperation in the technological field, everything that comes under *soft power*. It even extends, a first in Europe, to military cooperation.

Who graps all, looses? The BRI initiative encompassed, broadly, two or three years ago, 65 countries, much more today, around 130, and concerns more than 5 billion people; it illustrates China's ambitions, first of all, to ensure the sustainability of its supplies of raw materials, to access new markets leading to strong asymmetries going as far as certain forms of dependence for the most indebted partners.

What are the motivations behind this Initiative?

It perpetuates, in a certain sense, the growth strategy driven by exports by facilitating the access of Chinese goods to new markets.

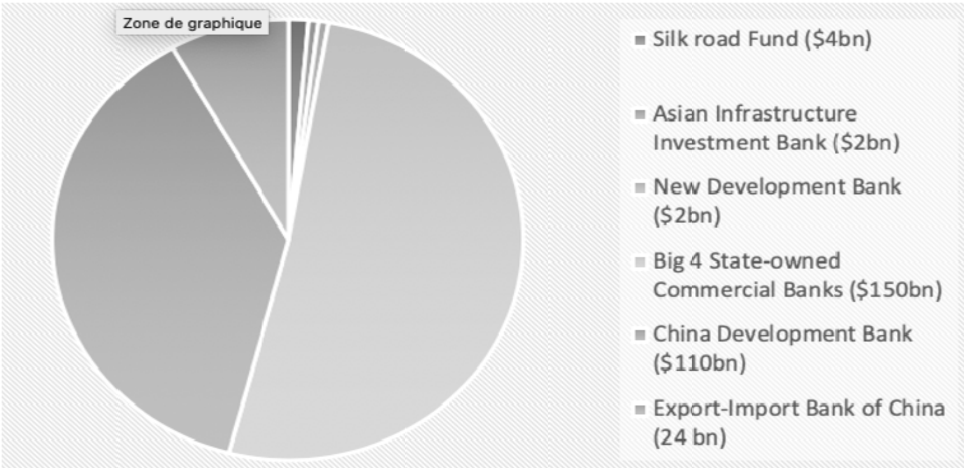
Explanations of "Leninist type" (theory of imperialism), advance the need for China to find outlets for the use of overcapacities in several industrial sectors, in which China has recognized competitive advantages (railway industry, steel, cement, aluminium). The Chinese growth model driven by investment has led to significant overcapacity. It is estimated that an additional annual domestic demand of $ 60 billion would be required to use excess capacity in the Chinese steel sector alone.

It is also the possibility of recycling the accumulated financial reserves through specific channels. To this end, Chinese officials have a substantial financial strike force to finance projects (Figure 3).

It illustrates the "infrastructure diplomacy", practised for a long time by China. The government markets its construction companies, which then pave the way for firms in other sectors. This practice complements the other aspect of the externalization of the Chinese economy which manifests itself through the realization of direct investments (WB5, 2019a) by the acquisition of notably strategic assets in the EU-15 (Blockmans, Hu, 2019) and, to a lesser extent, making greenfield investments.

Figure 3

BRI funding sources (billion US $)



Source: Drache, Kingsmith, Qi, 2019.

The project has a domestic dimension by seeking to promote the development of the backward provinces of western China, by establishing regional growth hubs and relays from which the new rail routes set out to conquer the markets of Europe via Central Asia, thus preventing goods from passing through already congested coastal regions. The project has a strong regional dimension towards neighbouring countries: even before the announcement of this project in 2013, China had already secured and secured its supplies of raw materials by signing trade agreements with Mongolia, Kazakhstan, Laos, Myanmar and others. The implementation of this project allows it to intensify exchanges and integrate Central Asian partners by polarizing exchanges around it.

In terms of political economy, one can detect a strategy of the Chinese power which aims at strengthening the state enterprises, the main beneficiaries of financing provided by "political" banks to the detriment of the private sector. State-owned companies, many of them unprofitable, heavily indebted, and difficult to restructure, were able to exchange part of their bad debts for loans taken out on advantageous conditions on condition of engaging in projects abroad the performance of these firms remains far below that of non-Chinese firms operating in the construction sector (Figure 4).

Figure 5 illustrates the economic model underlying this project by showing the role of the various parties involved, the resulting interactions, the human, technological and financial resources mobilized. In many respects, this model reproduces, on the outside, that which prevails at the domestic level with regard to the definition of priorities, the preparation of projects, and their financing.

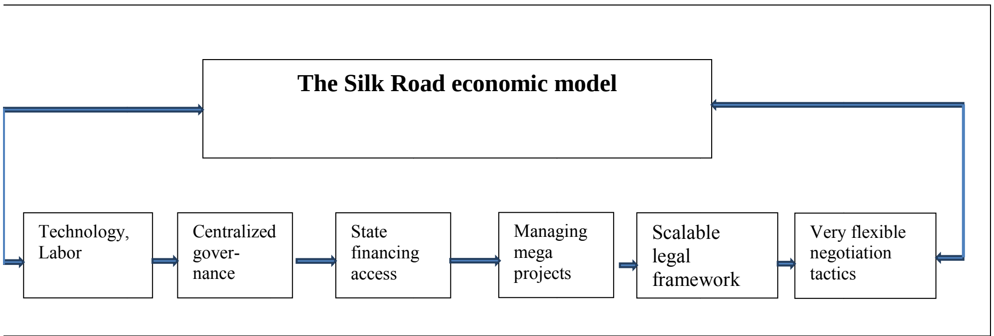
Figure 4

The debt of Chinese state-owned firms participating in the BRI project: Total debt on profits

Source: Financial Times.

Figure 5

The Silk Road economic model



Source: Drache, Kingsmith, Qi, 2019.

2.2. A "win-win" project or the implementation of a China-centred geo-economic strategy?

What shaping of the economic spaces concerned can result from the realization of this project? What dependency relationships, what asymmetries can arise from this? Depending on the region, the nature and the scope of the projects, several types of relationships can emerge:

- A relationship of domination or even vassalization towards neighboring countries (Pakistan, Laos, Sri Lanka, even Myanmar).

- An increasing dependency relationship for the Central Asian countries close to China with an impact on the integration process within the Euro-Asian Union created around Russia.
- A cooperation/competition type relationship with Russia with a confrontation between the geo-economic dimension (China) and geopolitics (Russia). The "Asian pivot" advocated by Vladimir Putin is not certain to counterbalance both his dependence on the West and on China. Russia may be reluctant to engage in projects for which it would partially lose control of certain technologies.
- A competitive relationship with the other large countries in the region which each have infrastructure construction projects if not alternative but not necessarily complementary with Chinese projects (Iran, India, Turkey, Japan, South Korea and even Russia).
- A secondary relationship with the countries of central and south-eastern Europe (*The 17+1 Format*) with strong asymmetries to the detriment of the 17.
- A competitive relationship with the European Union for which China is now considered a "strategic rival" and which is currently rethinking its strategy with regard to China (Briant, 2019; Brattberg, Le Corre, 2020).

2.3. The Western Balkans in the 17+1 Format: Regional institutional framework, bilateral approaches

The 16-1 Format, which became 17+1 with the accession of Greece in 2019, was launched in 2012. This association integrates the New member countries of Eastern Europe which joined the European Union in several waves (2004, 2007, 2013) and WB5. In recent years, the volume of trade in goods and services has increased, Chinese firms are acquiring local businesses, making limited greenfield investments. FDI in the region accounts for only around 1% of FDI. Chinese companies mainly make investments in the form of services in the rail, port and motorway sectors.

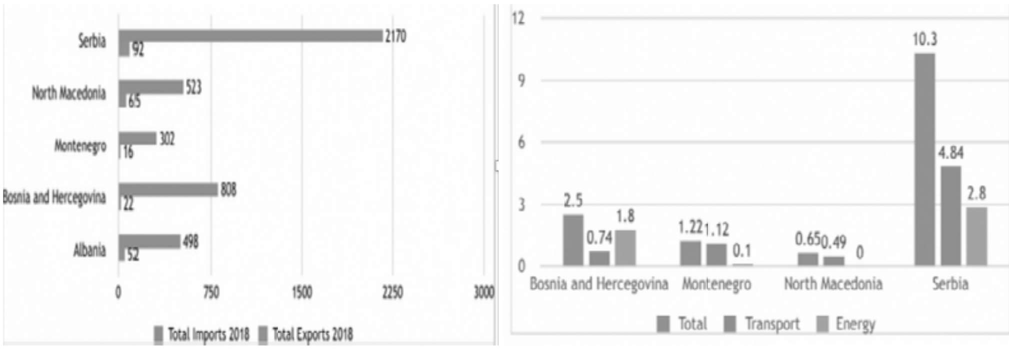
Chinese investments in Europe seek to access technologies, markets and resources by favouring certain sectors, by concentrating in certain countries, mainly the most developed (Figure 7). The share that goes to eastern and southern Europe is more modest. In volume, FDI that goes to central and south-eastern Europe barely represents 6% of the total investment made in Europe. WB5s, not taken into account, here represent only around 1% of the total Chinese FDI carried out in Europe.

The low amount of FDI under the Format and more particularly in the WB5 component (Figure 7) can be explained for two reasons: the massive privatization of public assets was carried out during the 90s of the last century and at the very beginning of the present century when the opening and the rise of China were at its very beginning. The acquisition of these assets, their integration into the strategy of large European groups quickly contributed to shaping the new industrial landscape of the region, to accelerate their integration and contributed to the formation of "dependent capitalisms" (Richet, 2019b). The second reason is that Chinese firms favour acquisitions of firms. They have the capital but still lack technological skills in many areas (Figure 8). They do so largely in order to repatriate their technology to China. In WB5, the Chinese offer is concentrated around the provision of various infrastructure construction services.

Figure 6

China-Western Balkans trade and FDI

Échanges commerciaux China-WB5 trade, mns USD — *Chinese investment* in WB5, 2005-2019, bns USD*

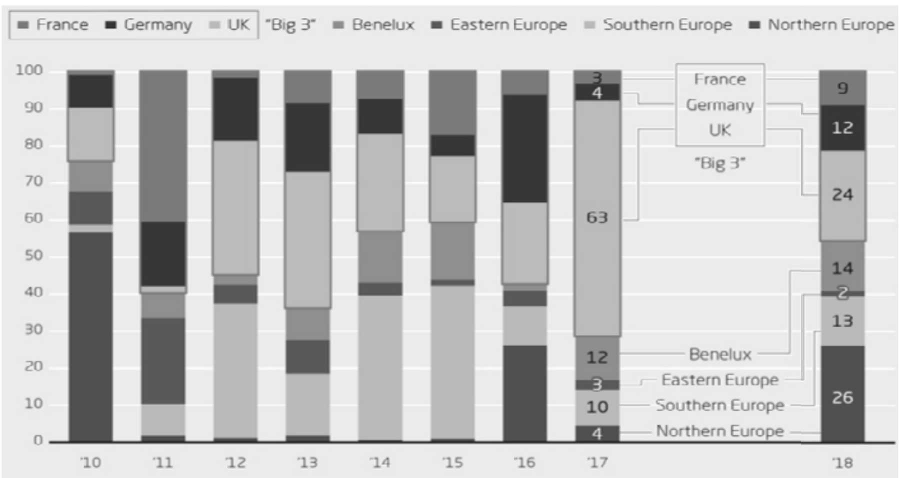


* Investments and contracts for the construction of infrastructure

Sources: 1) UN COM Trade, https://comtradre.un.org/; 2) https://www.aci.org/china-global-investment -tracker/

Figure 7

Chinese FDI in the EU-28 by group of countries *, 2010-2018, in%



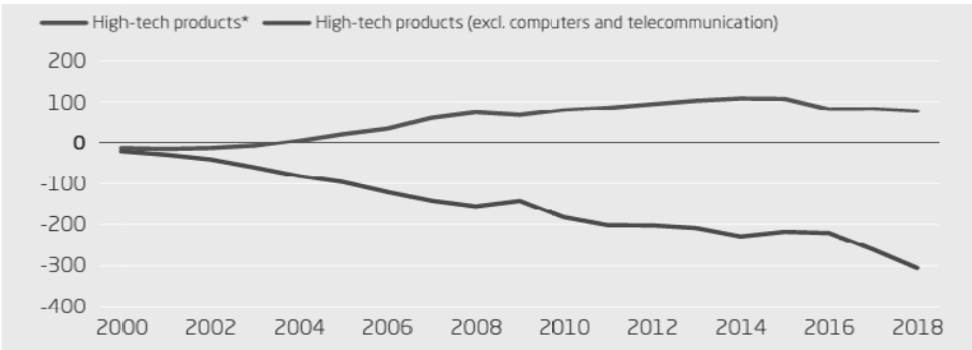
* The big 3: Germany, France and Great Britain, Benelux: Belgium, Netherlands, Luxembourg, Eastern Europe: Austria, Bulgaria, Hungary, Poland, Rep. Czech, Slovakia, Southern Europe: Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, Northern Europe: Danmark, Estonia, Finland, Latvia, Lithuania, Sweden

Source: MERICS

The importance of the Chinese presence in the countries making up the – has shifted in recent years to WB5 (Figure 6) with the growing share of infrastructure investments made by China, to the detriment of investments in the form of acquisitions and greenfield investments the latter, moreover remaining the smallest in all Chinese acquisitions, barely 5% of the total FDI realized. This arbitrage is easy to understand: the supply of assets to be acquired is limited, almost dried up, the construction of infrastructures, by reducing transport times and by facilitating interconnections should attract greenfield investments, in particular from China (Briant, 2020; Hackaj, 2018). The limited share of greenfield investments shows both China's dependence on the acquisition of assets and the weakness of the impact of the presence of Chinese firms on the industrial sector of host countries of the region.

Figure 8

China's trade deficit in high technology



Source: Huotari, Weidenfeld, Arcesati, 2020.

Paradoxically, the largest member country of the *17+1 Format*, Poland, receives the smallest share of Chinese investments, the Czech Republic expresses its dissatisfaction with China concerning the low level of its investments (Karásková, I., Bachulska, A., Szunomár, A., Vladisavljev, S., 2020). Under pressure from the United States, Romania did not follow through on a contract to modernize and extend a nuclear power plant.

3. In the Western Balkans, a Chinese presence focused on building infrastructure

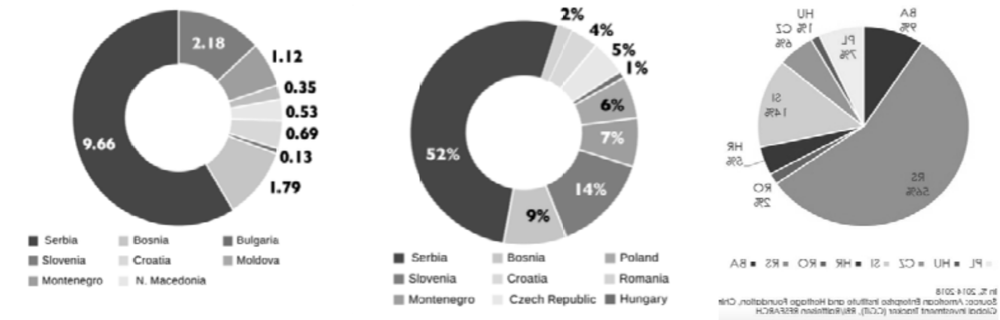
Several factors explain the motivations of Chinese firms in the region:

- The economic and geographic area represented by the 17, and in particular the WB5 is located at the intersection of two corridors, one terrestrial, the other maritime of the *Initiative*. They end up in eastern and south-eastern Europe by two entrances: a land route, in the north, in Poland, then reaching the heart of western Europe, a sea route in the south, in Greece at the outlet of the Suez canal. Between the two, a railway line between the port of Piraeus and Budapest must make the junction between the north and the south. Around this axis, Chinese firms are engaged in the modernization of existing facilities and are building a new port, rail and motorway infrastructure in the countries of the region (Figure 10), by contributing to the achievement of the road interconnections provided for by the ‘European Union. The aim is to develop points of arrival in southern Europe for Chinese goods. Other port development projects, apart from WB5, are underway, notably in Turkey, Bulgaria, Croatia, Italy (Pairault, 2019).

Figure 9

Chinese investment in central and south-eastern Europe

Chinese investments in South-East Europe 2013-2019 in bns €	*Share of infrastructure construction in central and south-eastern Europe*	*Serbia, main recipient of Chinese investment in central and south-eastern Europe in%, 2014-2018*



Source: RBI Raiffesein Resaerch & China Global Investor Tracker.

- Respond to infrastructure needs (Holzner, Schwarzhappel, 2018) which have only been partially taken into account in the pre-accession programs of the European Union (Figure 10). Large state-owned companies are carrying out these projects signed between China and the receiving countries. The governments of the countries of the region borrow at relatively low rates (around 2%), over relatively long repayment periods (20 years) and without many constraints regarding risk assessment, the relevance of the economic choice which contributes to greatly increasing the indebtedness of recipient countries.

- It is also a market which allows to recycle investments which are no longer – in theory – made in China because of the ecological commitment of the government, in particular the construction of thermal power stations in Serbia, in Bosnia-Herzegovina. In the latter country, new power plants, in addition to the pollution they will cause in the long term, go against European regulations. The country will also end up with energy overcapacity. This policy presents risks which were discussed during the second BRI summit which was held in Shanghai in May 2019 and where it was decided to assess more seriously the financing and evaluation of projects, to associate more foreign firms that complain of being kept away (Cabestan, 2019). This soft budgetary constraint, in some countries, has given rise to renegotiations of contracts (Malaysia). In Montenegro, many critics have been addressed to the construction of a motorway and to its future profitability, the builders planning to manage the infrastructures themselves in order to be able to reimburse themselves through the technique or to be able to have counterparts (land) to compensate for the losses suffered.

- Create a network effect by promoting around the Road the establishment of large Chinese groups in the field of telecommunications (ZTE, Huawei), encouraging investments in the medium and high technology sectors (automotive industry), that of consumer goods (Haier), in more traditional industries. The purchase of regional firms is aimed at firms which have encountered difficulties in restructuring. This is the case of the great Serbian steelworks Smeredevo, sold for a symbolic $ 1 by its American owner and sold to a Chinese buyer, who after a major recapitalization and the promise to keep 5000 jobs, made it both profitable and the very first Serbian exporter to the European Union.
- -Initiate the creation and development of regional value chains around a few sectors such as the automotive sector (components, electric batteries, construction of a tire manufacturing plant), in particular in Serbia and Croatia, by carrying out greenfield investments.
- The establishment of Chinese banks accompanies this movement. The distribution of credits denominated in the Chinese currency, the RMB, is also an opportunity to contribute to the internationalization of the latter in parallel with the signing of swap agreements.

Figure 10

Interconnectivity of transport networks and participation of Chinese firms

Source: GIS.

In addition to the financial institutions mobilized (Figure 3), a specific fund has been dedicated to financing projects in the region within the framework of financial cooperation within the *17+1 Format*. It is a special line of credit of US $ 10 billion primarily intended to finance infrastructure construction, but also “green”, technological investments. Interest rates are low, between 1 and 3%. A Chinese operator must be associated with the project, and the receiving country must provide a sovereign guarantee. At the same time, the China-CEEC Investment Cooperation Fund was established, registered in Luxembourg (also made up of US $ 1 billion mainly from Chinese banks) and operating on a commercial basis (Ji, Liu, 2019).

Table 2

Completed, ongoing, planned projects supported and funded by China in the WB5

Country	Projects
Albania	Project to build a highway connecting Montenegro to Albania Financing an industrial park in the coastal city of Durres. Project to build a deepwater port. Management of Tirana "Mother Tereza" international airport Acquisition of the Albanian oil refinery.
Bosnia-Herzgovina	Construction and modernization of 3 coal-fired power plants (Stanari, Tuzla, Banovici), Investments in energy projects in the Serbian part of the country (Republic of Srpska). Participation project of Chinese companies for the construction of the section of a highway connecting Banja-Luka to Split. In 2018, BiH owed nearly 14% of its external debt to China
North Macedonia	Construction of highways. A construction site for two highways, carried out by the Chinese state firm Sinohydro suspended for corruption. Project to build the country's gas network. Chinese participation in the construction of the Macedonian section of the Athens Belgrade railway line. Construction of a hydroelectric plant. Sale of a fleet of buses, electric locomotives. Huawei partner of the Macedonian telecommunications company to ensure network coverage and prepare the deployment of 5G In 2018, North Macedonia owed almost 20% of its external debt to China.
Montenegro	The smallest country in the region with the largest and most ambitious infrastructure investments. Construction of a railway line connecting Bar to the border with Serbia. Construction of a highway between Montenegro and Albania Construction of a 170 km long highway. Many questions on the future profitability of the project, on corruption, lack of transparency, environmental risks. Renewal of the Montenegrin fleet with the construction of four ships Renovation of a railway line Investments in several hydroelectric and thermal projects. Montenegro owes nearly 40% of its external debt to China. The country is one of the eight countries that could fall into the 'Chinese debt trap'.
Serbia	China's largest presence in the region with various types of interventions: Construction of bridges, motorways, railway line (Serbian section of the Belgrade Budapest line, Nis-North Macedonian border), a peripheral highway around Belgrade, construction project for the Belgrade metro, realization of an industrial park near Belgrade, construction of a treatment plant in Belgrade, modernization of thermal power plants Acquisition of assets, notably from two large state-owned companies, iron and steel, copper mines Greenfield investments in the automotive sectors (battery, tire construction) Framework contract for the supply of ICT equipment and services in association with Huawai which supplied 1,000 face cameras in 3 main cities. As part of cooperation in the military and security fields, China has and will deliver more than a dozen drones to Serbia. Serbia owed nearly 12% of its debt to China in 2018

Sources: Baritisitz, Radzyner, 2018; Chrzová, Grabovac, Hála, Lalić, 2019; MERICS, Courrier des Balkans.

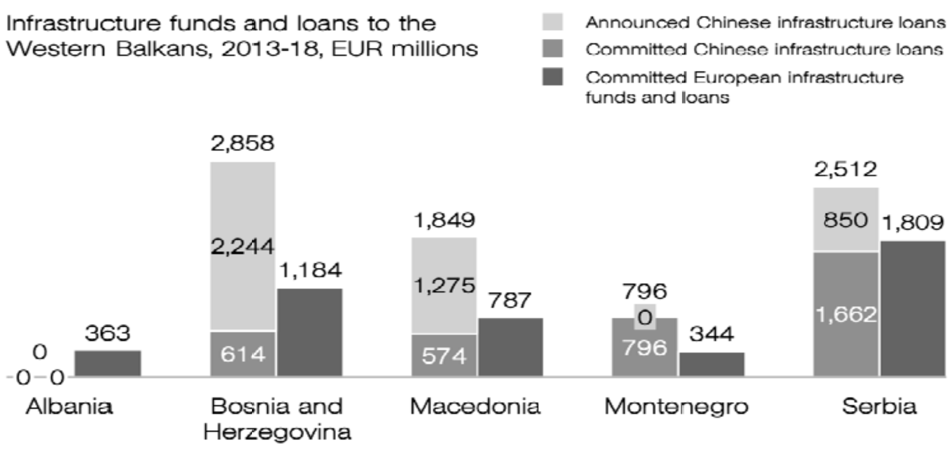
At this stage of the implementation, it is too early to assess the effect of the Chinese presence in the region on the economic level, the fallout in terms of increased trade, on growth. Today's projects are converging with those of the European Union, in particular with infrastructure projects.

Rivalry or complementarity? Chinese investments are helping to meet the obviously underdeveloped infrastructure needs in the region in the area of transport; they supplement those planned by the European Union already present with the supply of loans and grants which match those achieved by the China (Figure 11). The criticisms, levelled against the Chinese strategy, are of different orders:

- The support of projects whose economic justification is not necessary in terms of response to local demand and questionable feasibility with regard to operating costs, train filling rate, use of motorways, and credit repayment.
- The methods of allocating resources and distributing credits, in particular the weak conditionalities concerning the granting of credits with the risk of developing a "Malaysian syndrome" on the part of over-indebted countries which seek to reduce the volume of borrowing and wish to review downward their commitments. Some countries see their debt dangerously rise following loans contracted with Chinese financial institutions.
- Investments in sectors, causing environmental damage (thermal power plants), slowing down energy conversion.
- The low impact in terms of jobs, spin-off investment, in particular, the weakness to date of greenfield investments creating activities

Figure 11

China-European Union rivalry in building infrastructure in WB5



Source: Mercator Institute for China Studies (MERICS)[27]

Table 3

The implementation of infrastructure diplomacy

	Action	China		Receiving country	
		Benefits	Risks	Benefits	Risks
1	Definition of needs	Extension of the activities of Chinese firms along the Route, Support from central government, provinces (China)	Country risk analysis modelled on investment planning in China, supply-side oriented	Development of missing infrastructure Complementarity with other investments made with other funding (EU).	Asymmetric relationships in negotiation. Compatibility/ incompatibility with other funded projects (EU) Constraints of European regulations (environment) Acceptance of projects not necessarily useful
2	Credit supply	Significant availability Several funding channels Soft budget constraint. Role of political banks. Beneficiary engagement up to (80%) No environmental or social constraints to respect	Repayment capacity of beneficiaries. Meet third party (EU) requirements for investments involving EU member states (Hungary) Not all credit lines exhausted	Alternative / complementary source of funding. Easier to mobilize, soft conditionalities to obtain credits. Favourable borrowing conditions, rate (2%), duration (20 years)	Contribution the financing (25-30%) Search for collateral (Central Bank, third-country banks: EBRD, EIB) Over-indebtedness risk (Debt / GDP) Compatibility with European procedures European credits exist, also even more competitive
3	Signature of MoU	Security provided by the authorities. Opacity, imprecision, adaptability of contracts. Possible litigation before Chinese courts	Respect of commitments by partners. Revise – or even interrupt – projects due to funding difficulties (B-H) corruption (North Macedonia)	China's rapid commitment to carry out the project	Capture/corruption of local decision-makers (Macedonia) Consideration in case of difficulties: renegotiation, Chinese courts, takeover of assets.
4	Construction	Mainly made by Chinese and even foreign firms and labour. No payment of VAT, customs duties on entry on imported equipment (Montenegro)	Technical reviews on project preparation Deadlines in the start of construction	Speed of implementation when there are no administrative constraints	Criticism for a low economic impact of projects in terms of activity, jobs. Stop of construction sites (North Macedonia)
5	Implementation, operation	No operating constraints after completion	Low economic impact of the project, risk of repayment delays	Tax receipts Repayment spread over time	Increased pollution Underutilization of infrastructure, low profitability (highway)

	Action	China		Receiving country	
		Benefits	Risks	Benefits	Risks
6	Spin-off	Positive image of China, Soft power Entry in other sectors, Attraction of Chinese firms (greenfields), of Chinese products Political influence?	Low potential for the WB5 market, limit of bilateralism, no regional vision Serbia: a future regional hub? Limited leverage toward EU markets to EU-15 Arbitration China-EU agreement / non-agreement WB5 progress towards membership	Catching up, upgrading infrastructure, contributing to European connectivity projects Growing trade flows	Real convergence with European projects? A limited alternative? Limited profitability/ reimbursement charge

4. Beyond the economic presence, a political influence?

Geopolitically, does China's presence pose a threat to the EU? Is China seeking to influence governments from the periphery, to interfere in the internal affairs of the Union, to circumvent European regulations (Godement, Vasselier, 2018; Benner, 2018)? For China, the challenge, in addition to its implantation in the region, lies in its articulation with its global European strategy, which is not yet assured due to the pending questions about the absence of bilateral EU-China agreement on investment, on the non-recognition of China as a market economy within the WTO. In addition, recently, the tightening and control of equity investments by Chinese firms in sensitive high-tech sectors.

Cooperation or competition? Does China have the means or does it seek to interfere in the affairs of Europe, at its margins? How can it seek cooperation with the EU, particularly in this period of "economic war", of protest against Chinese high-tech firms (Huawei, ZTE) as operators in sensitive areas affecting security while driving a wedge into the EU meadow? It can do so marginally (neutralization of the vote of Hungary, of Greece on questions concerning human rights in UN agencies). But for many countries in the region, especially among the "illiberal" of the Visegrad Group 4 (which includes Hungary, Poland, the Czech Republic, Slovakia) the limits of the Chinese contribution is beginning to be noticeable.

Note that China is not alone in being present in the region, at the margins – and almost on "future lands"? – from the European Union or to seek influence, in one form or another: Turkish "soft power" (Kosovo, Albania, Bosnia) in cultural and religious fields (construction of places of worship), Russian political interferences sometimes muscular in the democratic game in Montenegro, in North Macedonia (against the membership to NATO) and economic via the *Turkish stream*, investments of the countries of the Gulf in Serbia. China, however, in terms of volume of trade, investment and the provision of services (infrastructure) largely dominates the others. Among the countries of the region, Serbia is particularly distinguished both by the volume of trade, investment, military cooperation both with Russia and China, by the signing of free trade treaties with the latter two, treaties which will have to be denounced in the name of the acquis when integration into the EU becomes clearer and closer together.

For several analysts (Guichard, 2014; Godement, 2018; Miller, 2017), the deployment of the Silk Road on different continents which is accompanied by the internationalization of Chinese state and private companies contributes to the hegemony of the Middle Kingdom by combining the development of trade, foreign direct investment, major works paving the way, ultimately, to the conclusion of security and military agreements.

By observing the methods of entry and the development of the Chinese presence in several countries of Latin America and Central Europe, Horia Ciurtin (2018) offers a model describing the different stages of the penetration of firms in these countries in these economic spaces.

Box 1

A model of entry and penetration of China

Phase 1: Trade:
Chinese firms enter the market and gradually take increasing market shares. Until making China the main economic partner of the country. China controls the financial flows that enter the country. The country becomes sensitive to any change in trade and financial policy on the part of China.

Phase 2: Foreign direct investment
Trade relations open the doors, FDIs keep them open for a long time. First of all, we observe the realization of investments by state enterprises in the sectors concerned by trade (raw materials first, then other sectors.
These sectors become formally controlled by Chinese firms. Economic and political risk factors are not taken into account by investors. Host countries remain sovereign but become dependent on a single source of income and investment.

Phase 3: Infrastructure
Investments in infrastructure linked to the industries concerned and to other sectors (roads, ports, railways) are undertaken. They are financed by long-term Chinese loans provided by Chinese state banks and reimbursed by recipient countries.

Phase 4: Military and security cooperation
Signing of military and security agreements, purchase of military equipment, joint maneuvers

Does this model reflect the Chinese strategy in Eastern and Southern Europe?

It does not seem to be able to apply to the Chinese presence in central and south-eastern Europe. The level of trade remains low and even in the future could not be reversed to the detriment of the European Union, which remains the main partner of the countries of the region. The volume of FDI is also very low and cannot grow in particular in its current form (acquisitions). In addition, FDI practiced by China has – up to now – very little, if any, spin-off effect. Only greenfield investments could reverse this trend.

The building of infrastructures in the countries of the region can represent a form of dependence as regards their reimbursement (high level of debt for certain receiving countries such as Montenegro, Bosnia and Herzegovina).

As for military cooperation, it is limited and does not seem to be able to develop in the future, including in Serbia. All other countries are members or future members of NATO.[9]

Conclusion

The *17+1 Format*, of which its WB5 component, is a part of the *Initiative* which is deployed in the east and south-east of the European Union. It is part of the larger project of Chinese strategy in Europe, a differentiated strategy which should allow Chinese firms to achieve several objectives: market research, asset research, resource research. WB5s, both by their endowments in natural resources and by their significant infrastructure needs, attract Chinese firms. The BRI initiative is both a gateway for Chinese firms in search of new markets, a complement, if not an alternative, for host countries which are emerging slowly from a long transition marked by their opening, the reorientation of their exchanges, institutional changes.

Investments in infrastructure, despite various criticisms of the funding methods, the opacity of the rules for awarding contracts, the way they are designed and carried out, should contribute to opening up the countries of the region. However, several questions arise: the financial burden borne by the receiving countries and the risks that could arise from this (over-indebtedness), the creation of overcapacity in certain sectors by perpetuating technologies that go against environmental regulations that China is committed to respecting (Paris Climate Agreement). Another question concerns the efficiency of these investments in terms of the level of use and therefore of the income generated to repay the loans contracted.

The question of the spin-off of these investments arises: will the construction of these infrastructures be followed by greenfield investments from China (and elsewhere)? This is the weak point of the Chinese presence within the *Format* and in the rest of Europe where the companies of the Middle Empire massively favour acquisitions.

The fact remains that the future of this presence depends on other factors: the (rapid) evolution of the decoupling of economic relations between the United States and China, the contraction and fragmentation of globalization, the decline in Chinese growth that heralds a reduction in the available resources allocated to financing the Initiative.

[9] In "brain dead", Paper Tiger, NATO no longer seems to be a big threat if we consider the behavior of free rider of one of its members, Turkey, in Syria, in Libya, in the Mediterranean sea.

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