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The Pragmatic Engagement of China in the Western Balkans

Summary

In 2018, Chinese investment in the Western Balkans shifted from infrastructure towards mergers and acquisitions (M&A). Two such M&As took place in the mining and rubber sector while a Chinese-owned steel mill in Serbia jumped from bankruptcy in 2016 to the 66th biggest company in Southeast Europe in 2018.

Speedy loan procedures and the revitalization of "lost" cases characterize the Chinese involvement in the region. But Chinese companies are absent from regional cooperation thus limiting the expansion of "China Inc.". Moreover, when compared with investment volumes by the EU in the region, China's resource commitment still remains small.

The "Berlin Process" in the region focuses on connectivity and regional cooperation. This may provide the launching pad from which "China Inc." and corporations in Europe can connect. It could be a win-win-scenario starting from the Western Balkans.

The Pragmatic Engagement of China in the Western Balkans

■ Investment in connectivity infrastructure

The first Chinese companies to invest in the Western Balkans (WB) region after 2008 were mostly state-owned enterprises (owned by the central government in Beijing or provincial authorities). They were bidding in public infrastructure tenders in transport – in Serbia, North Macedonia and in Montenegro, as well as in energy in Bosnia and Herzegovina (BiH) and in Serbia.¹ By the end of 2018, we counted two dozen relevant Chinese companies (including Hong Kong based ones) that actively engaged in the Western Balkans, i.e. approximately three in Macedonia, four in Albania, seven in Serbia, four in BiH, and one in Montenegro), working primarily in infrastructure. Those projects – except the one in Albania – were funded through sovereign-backed loans issued by Chinese banks.

During project implementation, Chinese newcomers faced many problems including industrial relations, labour regulations, specific technical requirements, environmental standards, corruption allegations, accusations of undermining the market by offering low prices, increase of national public debt, etc. To understand and overcome those pitfalls, the Chinese authorities established learning feedback loops led by state research institutions, where the “16+1 network” and the Chinese Academy of Social Sciences are the most active.² However, the pipeline of mature Balkan infrastructure projects ready for financing is drying up. Moreover, given the concessional loan character of Chinese financing, the low fiscal ceiling of many Western Balkan countries and the EU and IMF-imposed rules, make loan financing of new big projects impossible. To keep the current pace of engagement in the region, corporate China needed to move towards other sectors of the economy beyond transport and energy and adopt new forms of engagement.

1 Data drawn from *Jens Bastian*, "What China's Belt and Road Initiative Means for the Western Balkans", report for the EBRD in London, July 2017, <https://www.ebrd.com/news/2017/what-chinas-belt-and-road-initiative-means-for-the-western-balkans.html>. See also the author's research on Chinese FDI in the Balkans.

2 An illustration is the research and publications under the China-CEEC (Central and Eastern European Countries) think tank book series, published by the Chinese Academy of Social Sciences.

The shift towards manufacturing

Motivated by the demand for natural resources and closer access to EU markets, the arrival of Chinese companies in WB's industry, manufacturing and services followed promptly. The Meita Group in automotive, Tirana Airport, HBIS in steel production or Zijin Mining in copper extraction and processing are telling examples where Chinese companies entered the region through mergers, acquisitions and greenfield investments.³ After the consolidation phase, we can identify a new pattern of investment by Chinese companies:

1. *Scaling up and/or branching out* in a country or the region. The China Road and Bridge Corporation (CRBC) started with the construction of the Mihajlo Pupin Bridge in Serbia in 2011, continued with the Bar-Boljare Motorway in Montenegro, and in May 2018 won an infrastructure tender in Croatia.
2. *Moving up in the complexity* of winning public tenders. While in 2011 the CRBC contract for the Pupin Bridge was funded by the Serbian state budget through direct procurement, in 2018 the Chinese company won a much more complex and internationally open tender as per EU PRAG rules⁴ in the EU member state Croatia.
3. *Increasing production capacity*. Two years after the successful takeover in 2016, HBIS is increasing its investment in the Smederevo steel mill in Serbia, mainly to raise the amount of steel for export to the EU market.⁵
4. *Developing along the value chain*. The Meita Group in Serbia is gradually enlarging its focus from production to setting up a logistic center for distribution and export in the Balkans and in the EU.⁶
5. *Diversifying funding sources* – by shifting from almost exclusively Chinese banks towards finance acquisition from international financial institutions such as the European Bank for Reconstruction and Development (EBRD) or EU budget.
6. Arrival of *large greenfield investments and M&A* (Mergers & Acquisitions) as illustrated by the venue of Shandong Linlong Tire Co, Zijin Mining and Minth Automotive. Those investments also serve as economic poles surrounded by and supporting clusters of smaller companies (specialized in steel in Smederevo, in mining in Bor or in rubber and tires in Zrenjanin).⁷

3 Chinese companies in ICT (Information and Communication Technology) solutions and products such as Huawei have been present in the region since 2005 in Serbia or since 2008 in Albania. Huawei operates as a sub-contractor of local telecom companies.

4 PRAG rules specify the contracting procedures for EU external aid contracts financed by the EU general budget and the European Development Fund. For a detailed info see https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/procedures-and-practical-guide-prag_en.

5 "HBIS to invest EUR 150 Mio in Smederevo steel mill by June 2020", retrieved at 17 Dec. 2018 at <https://steeltguru.com/steel/hbis-to-invest-eur-150-million-in-serbian-steel-mill-by-2020/513634>.

6 "Southeast Europe: the New Hot Destination of the Global Automotive Industry", SEENews, at www.seenews.com; and "Construction of second Meita plant starts in Obrenovac – Investment worth EUR 90 million, jobs for 1,100 people", retrieved on 15 Dec. 2018 at <https://www.ekapija.com/en/news/2082059/construction-of-second-meita-plant-starts-in-obrenovac-investment-worth-eur-90>.

7 The logic behind this is to establish "company incubators" where big companies create the conditions

7. Emergence of *large industrial zones* developed, promoted and intended to be populated mainly by Chinese companies – either set up as greenfield as in Borca or Cuprija, or attached to big Chinese investments such as in Smederevo, in Zrenjanin or in Bor (however, according to Serbian researchers, those industrial zones are "not picking up" yet).⁸

Serbia remains the main pole of attraction for Chinese investments in the WB, supported by an active economic diplomacy at the highest level. During the last visit of President Vučić in China in September 2018, agreements for more than USD 3 billion were signed.⁹ Chinese researchers put the volume of Chinese investment in Serbia at 79 % of the total stock of its Western Balkans FDI (Foreign Direct Investment; Kosovo not included). For the period 2009–2016 the stock amounted at USD 10,5 billion.¹⁰ It is interesting to note that Albania remains the only Western Balkan country (Kosovo excluded) where Chinese companies had not won any tender for public works in infrastructure as of the end of 2018.¹¹

The investment in transport supported by Chinese banks is welcomed as it "will improve regional connectivity (... and) will strengthen regional connectivity infrastructure that supports the deepening of the Western Balkans' internal market as well as its linkages with EU single market".¹² However, questions have been raised about the profitability (e.g. the need of the Belgrade-Budapest high speed train project), the impact on debt sustainability of the borrowers (e.g. financing of the Bar-Boljare Highway),¹³ or the compatibility with EU requirements of candidate countries, e.g. in energy transition (e.g. the coal-powered electricity generation plants in BiH and Serbia).¹⁴

Regarding the often-mentioned argument of political conditionality, currently there is a general consensus that Chinese business in the WB means only business. Even in the case of Serbia, where corporate China's involvement is the highest, the EU Parliament states that "in contrast to the EU and the US, China has not established any political conditionality on its aid, at least not in terms of movement towards a

for clusters of small companies to be set around them. Those smaller partners can solve their "problems" more efficiently and at a lower cost.

- 8 "Dragan Pavlicevic: Is China taking over Serbia and the Balkans?", Belt & Road Advisory podcast, 20 Dec. 2018 at: <https://beltandroad.ventures/podcasts/dragan-pavlicevic-is-china-taking-over-serbia-and-balkans>, retrieved on 7 Jan. 2019.
- 9 "\$3 billion Economic Agreements Boost China's Role in Serbia", by M. Zivanovic at BalkanInsight, retrieved on 15 Nov. 2018 at <http://www.balkaninsight.com/en/article/new-agreements-boost-china-role-in-serbia-09-18-2018>.
- 10 "16+1 Cooperation and Chinese Investments in CEEC", *Huang Ping / Liu Zuokui* (Eds.), China-CEEC think tank book series, 2018.
- 11 See A. Hackaj, "China and the Western Balkans" at <http://edinstitute.eu/web/wp-content/uploads/2018/03/China-and-Western-Balkans-Policy-Brief.pdf>.
- 12 "Public Infrastructure in the Western Balkans, Opportunities and Challenges", pp. 28, by R. Atayan *et al.*, IMF, European Department, 2018.
- 13 *Ibid.*, pp. 33.
- 14 Annual Implementation Report, Energy Community Secretariat, 1 Sept. 2018.

specific concept (i.e. 'rule of law'), preferring to disburse funds as an investment on Chinese interests rather than encouraging a specific behavior on the part of the Serbian authorities".¹⁵

Chinese comparative advantages: Low bids, fast procedures and "lost" cases

Regarding their involvement in connectivity infrastructure projects, the low cost is an important comparative advantage of Chinese bids. In the Peljesac Bridge tender procedure (the only one so far where a complaint about the price was logged by a competing bidder and verified by the Croatian authorities) the Chinese company provided the cheapest offer.¹⁶ Chinese bids have also been the lowest in highway tenders in North Macedonia as well.

To achieve low prices it has been argued that Chinese bids (as well as some mergers and acquisitions) profit from financial support offered by Chinese finance institutions.¹⁷ An illustration is the USD 10 billion Special Loans Fund announced at the China-Central and Eastern European Countries' (CEEC) Summit in Warsaw in 2012. Through "preferential loans" the Fund offers a credit line with a 1 % to 3 % interest rate, delivered by the China Import and Export Bank to companies that invest in Central and Eastern Europe. In case of finance blending, the Chinese company should implement at least 80 % of the project if Chinese funding constitutes the majority of the financing source.¹⁸

Combined with much speedier financing procedures as compared to the EU or other International Financing Institutions (IFIs), Chinese-supported infrastructure projects in the Balkans are among the largest by budget volume during the last decade. With their foray into industry and manufacturing, Chinese takeovers have succeeded in bringing back to profitability seemingly "lost" cases. The loss Zelezara Smederevo steel mill is a case in point: Sold to US Steel in 2003 it went bankrupt and was subsequently bought back by the Serbian government for one USD. The government sent 5,000 employees on un-paid leave and started looking for strategic partners. After talks with US and Dutch companies, it was finally sold to China's HBIS (Hebei Iron & Steel Group)¹⁹ in July 2016 for 46 million euro. Within two years HBIS

15 "Serbia's cooperation with China, the European Union, Russia and the USA", *European Parliament*, Directorate-General for External Policies, Policy Department, AFET, November 2017, EN (EP/EXPO/B/AFET/2017/09).

16 "Contract to Build Peljesac Bridge Awarded Today", published at *Croatiaweek*, 12 January 2018, retrieved on 2 Dec. 2018 at <https://www.croatiaweek.com/contract-to-build-peljesac-bridge-awarded-today/>.

17 "Export Finance Activities by the Chinese Government", *European Parliament*, Directorate-General for External Policies, Directorate B Policy Department, Briefing paper, 2011 (EN).

18 "16+1 Cooperation and Chinese Investments in CEEC", *Huang Ping / Liu Zuokui* (Eds.), 2018.

19 HBIS Group Serbia Iron & Steel is a subsidiary of China's Hebei Iron & Steel Group, or Hesteel.

managed to revive the company and promote it to the 66th biggest company in Southeast Europe in 2018. ²⁰

A similar success story is in play with RTB Bor, the biggest copper mine in Serbia: After five failed rounds of privatization Zijin Mining, the biggest gold miner and third-largest copper extractor in China, won the tender against competition from Russia (UGold) and Canada (Diamond Fields). The Chinese company paid USD 350 million through a capital increase. ²¹ It pledged to keep the 5,000 employees and invest an additional USD 320 million to increase the copper production from 80,000 to 150,000 units. As a sign of its environmental awareness Zijin Mining also committed to invest USD 136 million in environment protection. ²²

Special challenges: Local administrative procedures and the narrative

As previously mentioned, Chinese businesses have chosen to focus on mercantile and business areas, leaving aside investment in institution building or the rule of law. It can be argued that Chinese companies are profiting from market and institutional reforms being implemented by Balkan countries and heavily supported for the past 25 years by the EU and the US. The source of Chinese funding reflects a dominance of business loans and almost no resources allocated to public administration. By contrast, EU or US support for democratic reforms in the WB are funded exclusively through grants.

However, the absence of embedded external experts or consultants may be a significant problem for the advancement of different dossiers in the administrations of countries in the WB. In countries with low institutional and administrative capacity, external experts supported by private investors are used to "support the local and national administrations" during the completion of different procedures. ²³ In many cases, their absence impacts directly on the time spent in navigating permits and different local procedures, especially those at the level of local governments.

The next hurdle for corporations from China in the WB region is the narrative surrounding Chinese investment. In stark difference with investors coming from other countries, almost every story about Chinese involvement in the Western

20 "Top 100 Companies South East Europe 2018", 11th annual edition, SeeNews, 2018.

21 "Chinese Zijin takes over RTB Bor – USD 350 million for capital increase paid", eKapija retrieved on 19 Dec. 2018 at <https://www.ekapija.com/en/news/2343826/chinese-zijin-takes-over-rtb-bor-usd-350-million-for-capital-increase>.

22 "Serbia: i cinesi si comperano le miniere di Bor", Osservatorio Balcani e Caucaso Transeuropa, retrieved on 14 Sept. 2018, <https://www.balcanicaucaso.org/aree/Serbia/Serbia-i-cinesi-si-comperano-le-mini-ere-di-Bor>.

23 In the case of the Trans Adriatic Pipeline, TAP AG supported financially the placement of external experts in each of the local administrations in charge of the Land Easement and Acquisition procedures, as well as support with technical assistance in the Ministry of Energy of Albania.

Balkans starts with the explanation of what could go wrong. The best illustration is the corruption phenomenon.

To illustrate, it is impossible to study China in North Macedonia and not be concerned about the alleged corruption history of Synohydro for the construction of the Ohrid-Kičevo and Štip-Skopje highway portions.²⁴ However, this is not a phenomenon reserved to Chinese companies, The Greek construction company AKTOR is involved in the construction of the TEN-T Corridor X, specifically the portion between Demir Kapija and Smokvica. AKTOR has been accused of laundering 50 million euro and was charged in June 2017 for bribery by the EU Anti-Fraud Office (OLAF).²⁵

The regional cooperation context

By its sheer size, Chinese investment in the Balkans connectivity infrastructure and in the economy in general impacts the industrial structure and interacts with the countries' development policies. Most relevant are the National Strategies for Development and Integration and the Economic and Reform Programs.²⁶ Together with the list of priority investments²⁷ for each WB country, those policies and their funding are closely coordinated with the EU Commission and supported financially as well as the provision of technical assistance by Commission-funded vehicles (such as the Western Balkans Investment Framework).

Regional connectivity projects in transport and energy are also designed and coordinated in the regional cooperation platforms such as Southeast Europe Transport Observatory or the Energy Community. The Regional Cooperation Council (RCC) in Sarajevo is actively involved in the preparation of strategies regarding the Regional Economic Area (REA), the Regional Investment Reform Agenda (RIRA) or the Digital Agenda.²⁸ In short, any significant infrastructure investment in the WB region is part of an entangled web of policy-making regional cooperation arenas.

24 In 2013, the then Gruevski government took a credit from the Chinese Export-Import Bank to finance both highway portions. In one of the illegally wiretapped tapes published by the Macedonian opposition it was revealed what appeared to be the voices of Gruevski and his Transport Minister Janakieski discussing how to extort 25 million euro from Synohydro. In May 2017, the Special Prosecution of Macedonia launched an investigation codenamed 'Traektorija' on the construction of the highways. For more information see "Poor planning halts Macedonia highway projects", *S. Jakov Marusic*, BIRN, at Balkan Insight, 20 June 2017.

25 "Public infrastructure in Southeast Europe: In whose interest?", *P. Gallop et al.*, CEE Bankwatch Network, Balkan Monitoring Public Finances, Nov. 2017.

26 National Strategies for Development and Integration (NSDI) and Economic and Reform Programs (ERP) are policy documents that each WB country prepares and reports to the EU Commission. Together they serve as strategic roadmaps of each accession country's engagement in the EU accession process.

27 Otherwise called National Single Project Pipeline. This pipeline includes investment projects that are ranked according to its strategic importance.

28 For detailed information on REA, RIRA or the Digital Agenda see RCC at <https://www.rcc.int>.

In this context, the need of Chinese companies to know the regional and institutional environment and to fit in becomes paramount for their business operations. However, the emergence of China as an economic player in the Balkans during the last decade has not been accompanied by a similar foray into the existing multilateral regional cooperation architecture.²⁹ Chinese institutions are not members in any of the 71 WB regional cooperation initiatives as identified in the Observatory of Regional Cooperation.³⁰

Until now Chinese investments have been advanced through bilateral state-to-state negotiations. The cooperation between Chinese companies, banks and research institutions with the support of diplomacy has been a key component that explains Chinese progress in the WB. This "China Incorp." approach has allowed strategic projects to cut through the legal, administrative and political tangle that frequently characterizes public administration in the region.

Nevertheless, at least two recent developments indicate the willingness of Chinese authorities to cooperate more closely with international institutions active in the region:

- In December 2015, China officially became a member of the EBRD. This move offers the legal justification for China to participate in the financing and implementation of EBRD-funded projects in the Western Balkans.
- Secondly, in November 2017, "possibilities of cooperation among respective financial instruments with the Western Balkans Investment Framework" were included in the 16+1 Initiative Budapest Guidelines.³¹ This reference acknowledged the need for cooperation between Chinese and Western Balkan stakeholders in the Connectivity Agenda and other EU-backed projects in the Balkans.

Another feature of Chinese relations with Western Balkan countries is the total absence of Chinese actors in the countries' national policymaking cycle. Through grants or technical assistance projects in capacity building, different international institutions and partner countries (on top of the European Commission's IPA funded mechanisms) contribute in the design and implementation of administrative reforms in the Balkan countries. To date we have not noticed any formal presence of Chinese advisory services in the six WB states' (WB6) institutions, neither at a central nor local level.

29 "16+1 Coordinating Mechanisms / Platforms of Cooperation", *A. Hackaj / K. Hackaj* at "Berlin Process 2014-2018", retrieved on 12 Sept. 2018 at <http://cdinstitute.eu/web/db-iniciativa/?lang=en>.

30 See the database of regional cooperation initiatives at the Observatory of Regional Integration at <http://cdinstitute.eu/web/db-iniciativa/?lang=en>.

31 The Budapest Guidelines for Cooperation between China and the Central and Eastern European Countries, 28 Nov. 2017, part 6.7: "Financing", retrieved on 17 Dec. 2018 at https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1514534.shtml.

Relationship with institutional Europe: Connectivity and the “Berlin Process”

In the Balkans, the EU has “met” China mostly through the Connectivity Agenda in transport and energy infrastructure – concretely, in the framework of the EU-China Connectivity Platform (EU-ChCP):³²

- In 2016, the EU “offered” China to get involved in Serbia (Orient/East-Med Corridor) and in BiH (Corridor 5c Highway);³³
- In the 2017 list of EU-ChCP projects there was no Balkan participation;³⁴
- In the list of EU-ChCP 2018 projects two initiatives featured prominently: (a) the Belgrade-Budapest railway project, and; (b) the Orient/East-Med Corridor which crosses through countries in the Balkans.³⁵

Meanwhile, in the larger Southeast European region Chinese companies are simultaneously active in different initiatives:

- EU TEN-T Corridor X (or the “Balkan Silk Road”) from the Port of Piraeus through Skopje to Belgrade and onwards to the Hungarian border.
- The EU TEN-T Corridor VIII (that joins the Adriatic Sea from Albania through North Macedonia with the Bulgarian Black Sea.

Since 2014, the “Berlin Process” – focused on connectivity and regional cooperation in the Balkans – has put the spotlight on the region’s need for large investments in infrastructure. Through its political support and targeted financing it has managed to speed up the identification, design, financing and implementation of transport and energy networks in the WB region. In this context, the dynamics of the “Berlin Process” offer a platform that provides relevant points of reference for – potential – cooperation between the EU Connectivity Agenda and corporate Chinese activities in the Balkans.³⁶

From the EU point of view, shaping Chinese involvement in the region becomes all the more necessary as it “provide(s) a vital impetus for economic modernization, competitiveness, economic growth and connectivity in the region. (...) Beijing appears to be a stabilizer and hence an apparent ally of the EU, since China supports

32 In September 2015, the National Development and Reform Commission of the Peoples Republic of China and the European Commission signed a ‘Memorandum of Understanding on establishing a Connectivity Platform between the EU and China’. Main actions included strengthening synergies between TEN-T and the BRI.

33 See the list of TEN-T related projects presented in November 2016 in the framework of the Expert Group on Investment and Financing of the EU-China Connectivity Platform.

34 See the list of the TEN-T related projects presented in May 2017 in the framework of the Expert Group on Investment and Financing of the EU-China Connectivity Platform.

35 List of projects to be considered in the framework of the EU-China Connectivity Platform 2018.

36 For a detailed description of the “Berlin Process” see *A. Hackaj / K. Hackaj*, “Berlin Process 2014-2018”, retrieved on 12 Sept. 2018 at <http://cdinstitute.eu/web/db-iniciativa/?lang=en>.

the states' integration into European structures".³⁷ The EU Commission wants China to "establish priority corridors and develop those prepared for TEN-T" and "encourages the development of studies concerning the connection of specific TEN-T and BRI corridors in the framework of the EU-China Connectivity Platform" (BRI = Belt and Road Initiative, the "Balkan Silk Road").³⁸

Competition between Chinese and European corporations

Until now Chinese engagements in the WB region have not been in direct competition with EU companies. In the Peljesac Bridge tender in Croatia the direct competitor of the winning Chinese bid was a Turkish-Italian consortium while the (dismissed) complaint for unfair competition was filed by a Russian-Austrian consortium. The Smederevo steel mill was bought back after a failed privatization (and no subsequent show of interest from EU companies). In the case of the RTB Bor privatization there were no EU bidders involved. Also the Bar-Boljare Highway in Montenegro did not attract any interest from European companies. In Albania, it was a German company (Hochtief GmbH) that sold Tirana Airport to the current Chinese owners.

Regarding the penetration of EU businesses in the Balkans, the EU does not provide direct financial support to companies investing in the region. The higher risk-tolerance threshold of EU companies makes them slower compared to non-EU firms and more reluctant to advance in the difficult regional investment landscape. In conclusion, it can be argued that Chinese companies have entered the region in sectors in which there was little to no competition from EU companies. At the same time, this situation brings into focus the need to take appropriate measures – supported and financed by the EU in the framework of its Industrial Policy – to include industries and services of the region into the European value chain.

Can we have a win-win-win situation in the Balkans?

Notwithstanding the noise in the media, China is still small in the WB6 as regards FDI and trade volumes. But it does show the highest growth rate during the past five years. In 2019, Chinese companies will profit from the WB's stability, its geographical proximity to EU markets, the relative solidity of institutions and the rule of law. But any significant move of Chinese capital in the region must take into account the region's European engagement, EU integration dynamics, and the multilayered connection of the Balkans with Brussels. The Western Balkan region is FDI-starved.

37 *Florian C. Feyreband et al.*, "The influence of external actors in the Western Balkans", Konrad Adenauer Stiftung 2018, p. 6.

38 "Research for TRAN Committee: The new Silk Route – opportunities and challenges for EU transport", *European Parliament*, DG Internal Policies, Policy Dept. B: Structural and Cohesion Policies, 2018.

The EBRD estimates that annual infrastructure investment needs in the region correspond to 8-10 % of GDP over the next five years.³⁹

In this context, only a tri-lateral business approach can produce synergies and positive effects for all parties involved – the EU, the Western Balkans and Chinese businesses. In particular:

- Corporate China offers higher risk tolerance, fresh capital and badly needed funding to narrow the investment gap in the WB region and contribute to "speeding up the economic convergence pace with the EU". Moreover, the revitalization of "failed" industries is pouring new financial muscle into economies of the region.⁴⁰
- The Western Balkans offer geographical proximity to the EU, access to EU markets, local export markets for selected Chinese industrial capacity, and a training ground for Chinese companies seeking cooperation with the EU and IFI projects, institutional stability, the rule of law and a decent Return on Investment (RoI).
- For its part, the EU – through the enlargement dynamics and multilayered connectivity with the region – offers geo-political stability and a prosperous business climate, tried-and-tested models of EU management procedures⁴¹ (e.g. Tirana Airport), a European industrial relations model, advanced (though non-proprietary) technology, a stable regulatory context, and technical standards that allow access to nearby larger EU markets.

Thinking proactively, the EU can use its Balkan backyard to consider the reverse use of the Belt and Road Initiative by supporting EU companies to participate in Chinese funded projects in the region. EU expertise and EU-based companies together with WB partners can contribute to providing support services to Chinese companies interested to invest in the region.

Big EU companies and business associations could also engage in regional alliances with Chinese counterparties along the BRI routes. This may include the formation of clusters that combine EU technology and Balkan features of adaptation, versatility

39 M. Bonomi / D. Reljic, "The EU and the Western Balkans: So Near and Yet So Far", SWP Comments 2017, https://www.swp-berlin.org/fileadmin/contents/products/comments/2017C53_rlc_Bonomi.pdf, retrieved on 7 Dec. 2019; and Mario Holzner, "Tirana Connectivity Forum 2018", Tirana, Nov. 2018.

40 In early January 2019, Zijin Mining paid all RTB Bor debts amounting USD 200 million, almost all contracted to domestic actors such as the state budget (for mining fees), Elektroprivreda Srbije for un-paid electricity, sub-contractors, commercial banks, etc. For more information see "Chinese Zijin repays all debts of RTB Bor – Over USD 200 million paid" at <https://www.ekapija.com/en/news/2362933/chinese-zijin-repays-all-debts-of-rtb-bor-over-usd-200-million>, retrieved on 9 Jan. 2019.

41 Tirana National Airport "Mother Tereza" was sold by Hochtief GmbH to Chinese investors. However, the new Chinese owners did not change the management – a mixture of Germans and Albanians. Moreover, integrating EU management practices and industrial relations into Chinese business endeavours in the Balkans will allay concerns about the practice of non-market practices and rules (or *qian guize*) of Chinese companies. For more details see P. J. Kohlenberg / N. Godehardt, "China Global Connectivity Politics", SWP Comment, 17 April 2018.

and resilience. The current EU-China Connectivity Platform offers a real opportunity. It contains 16 projects in China where EU companies are invited to participate (six rail; one multi-modal water; one highway; four airports; seven metro and tram).

Conclusion

Chinese investment is necessary and welcome in the WB region if only to allow countries to keep up their growth targets and speed up their economic convergence with the EU. Until now Chinese companies have penetrated sectors where there has been little competition with businesses from the EU. There is a general consensus that Chinese business involvement has not translated into gaining political leverage.

But China Incorporated in the Western Balkans presents challenges and opportunities for the countries, for EU actors and last but not least for China itself. A tri-lateral cooperation platform between the WB, the EU and China could therefore produce conditions for successful business cooperation in the region.