

# CORPORATE CHINA IN WESTERN BALKANS

## Seminar Report

*Prepared by: Cooperation and Development Institute – CDI*

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The report is a written version of the contributions made during the international seminar organized by the Cooperation & Development Institute (CDI), in partnership with Hanns Seidel Foundation (HSS) and the Southeast Europe Association (SOG), held under the title “Corporate China in Western Balkans”, on 16-17 May 2019 in Tirana, Albania.

The report has been prepared by Ardian Hackaj, Research Director at Cooperation and Development Institute based on seminar notes and recordings, and enriched with additional data provided from the participants after the seminar, and / or references of their previous research and / or publications. Special thanks go to Mr. Plamen Tonchev for its extensive contribution in form and in content.

For more detailed information or data on China in Europe, the websites affiliated with seminar participants are provided at the annexes of the report.

## INTRODUCTION

**by Mr. Klaus Fiesinger, Regional Director of Hanns-Seidel-Foundation (HSS) in South-Eastern Europe**

The growing engagement and influence of China in the Western Balkans as a strategic regional element of its global “Belt and Road Initiative” (BRI) provides opportunities and benefits for local stakeholders. Chinese investment can help develop local infrastructural network and connectivity. But this growing engagement and influence of China in the Western Balkan countries, characterized by stagnating reforms, regular political crisis, weak infrastructure and challenging business climate, can also lead to some increasing dependence on China in the economic sector (transport, energy, supply chains) and also indirectly in political affairs. There are already obvious warnings and criticism on the international scene about China’s regional Western Balkans approach of “debt trap diplomacy”.

BRI and the “16 plus 1 Initiative” (17+1 since the Dubrovnik Summit in April 2019 where Greece acceded as the 17th member) - which comprises among others the Western Balkans -, combines various investing methods and focuses on filling up gaps, which are not yet covered by activities and investments through European Union Structural Funds.

In Tirana, Albania, on 16-17 of May 2019 CDI, HSF and SOG gathered distinguished experts from the EU and the region to discuss and debate the engagement of Chinese companies in Western Balkans. The main issue related to future scenarios: growing competition among China and the EU in the Western Balkans, or mutual benefits.

During the seminar it became clear that EU in the Western Balkans - differently from China’s approach - combines investment, technical assistance and bilateral cooperation with the precondition of the rule of law and the enforcement of democratic principles, and is based on the future integration of the Western Balkans in the EU bloc. The “Belt and Road Initiative” remains focused on markets and Chinese economic interest.

Positive trilateral synergy between the Western Balkans, the EU and China in the region, or a “win-win-win-situation”, might be possible only if each side deepens the mutual knowledge, and competes with clear-cut rules to avoid or at least reduce risks and rivalries.

All seminar participants, including the organizing partners, underlined the importance of this event and expressed their commitment to follow it up.

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## I. CONTEXT

The Belt & Road Initiative has spurred the production of a large number of data, information on and research into Chinese endeavors in the Western Balkans (WB). This existing body of knowledge has created the base from where further and more focused research can be carried on, and relevant information needed for decision-making can be produced.

In the EU, member countries are looking for a comprehensive and unified approach vis-à-vis China. Between the privatization of certain portions of energy grids or strategic EU ports, to more rigorous screening of investments or sheer exclusion of Chinese companies from certain sectors, Europeans are struggling to find a common approach.

In the Balkans, the main challenge of the region remains the ever-lasting transition towards European standards of democracy, institutional efficiency and a market economy, as well as the gaping need for significant investment in infrastructure and production facilities.

Lately, Chinese companies have been increasing their investment and involvement in the region. For the second time (after the Polish – COVEC contract), a Chinese company has won a public works tender issued and managed by an EU member state, and co-financed (85%) by EU funds - for the Peljesac bridge in Croatia. Meanwhile, in the first semester of 2019 two huge investments were announced in Serbia, each of them close to USD 1bn: a Greenfield investment from Shandong Linlong for tire production and an M&A from Zijin Mining for RTB Bor in mining and ore processing.

The main pull factors in the Balkans are the region's huge investment needs in infrastructure, re-industrialization and the improvement of public goods and services, exacerbated by the lack of access to the EU Structural Funds. The main economic push factors for China relate to the availability and competitive prices of Chinese technology; the Western Balkans geographical location on the BRI road- and maritime corridors; a decent return on investment (ROI) rate; and the WB access to EU market quotas. The existence of a functioning Rule of Law and political stability (or even strong support in certain WB countries), complete the tableau.

Can Chinese capital fill the structural investment gap encountered by the region? What does that mean for the Western Balkans? Can the Western Balkans be the place where the EU meets China; where TEN-T meet the Silk Road? After five years of BRI in the Balkans, it is the right moment to take stock of Chinese companies' involvement in the region and highlight their impact and interaction with local economies.

## II. SOME COUNTRY PROFILES

### II.1. North Macedonia<sup>1</sup>

North Macedonia's (NM) engagement with China is marked by visible swings. Following the recognition of Taiwan in 1999 and its subsequent annulment in 2001, the bilateral relations between Skopje and Beijing slowly got back to normal. Meanwhile some governments were labeled "too close" to China, others have been avoiding any type of cooperation with China. Today, NM still lacks a structured, comprehensive long-term and strategic China policy.

Chinese involvement in NM may be qualified as a precursor of BRI. It started successfully with the Kozjak hydropower plant constructed (between 2002 to 2004, and brought to full operational capacity of 100 MW in 2009) by China International Water and Electric Corporation (CWE). The project was the biggest Chinese project in the energy sector in Europe at the time. Its follow-up phase - the Vardar Valley hydro-power project of 12 hydro-power plants worth €1.5 billion - did not materialize, though.

In 2010, Zhengzhou Yutong Similar was awarded a \$47.5 million contract for the procurement of 202 double-decker buses. The deal is currently under investigation by the Special Prosecutor Office for "abuse of power" from NM government officials regarding the procurement procedure.

Currently Sinohydro is the main contractor for the project financed by a concessional loan granted to the NM Government by the Chinese Export Import (Exim) Bank to the tune of €574 million.<sup>2</sup> It envisages the construction of a section of the European Corridor VIII Motorway between the cities of Kichevo and Ohrid (57km), and the construction of a section of the European Corridor X Motorway linking the capital, Skopje, to the city of Shtip (50km). The project has been the target of extensive criticism about the way it was awarded to Chinese contractor (signed in 2013), and has allegedly suffered from corruption.

China IPPR International Engineering Co. Ltd. was selected by the Chinese Government to implement the first China-aid project in Macedonia: the construction of a primary school in Skopje. After its delayed completion and a significant cost overrun, the next phase with two schools and two kindergartens was cancelled.

While it appears that the relations of Chinese companies with NM government have suffered from irregularities, the contractual arrangements procured or supervised by non-state entities seem to have proceeded swiftly. Examples include Huawei, present in NM since 2010. On top of its regular retail business activity, Huawei has been a partner

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<sup>1</sup> Input provided by Ms. Ana Krstinovska, Programme Manager at the Center for Research and Policy Making in Skopje.

<sup>2</sup> Over 20 years, with 2% interest rate and 5 years grace period.

of the Macedonian Telecom Company in ensuring broader network coverage and preparing for a 5G roll-out.

Also no problems have been reported on CRRC Zhuzhou Locomotives Co. Ltd., which was awarded two contracts in 2017 by the Macedonian Railway Company to supply four electric locomotives worth €8 million, and was funded by EBRD.

This situation raises several questions. First, looking at the diversity of interventions and sectors, is there a Chinese strategy for North Macedonia (or for the Western Balkans for that matter)? Second, how can WB countries attract Chinese capital where needed, and not where the Chinese companies want? And third, the problems are caused by WB institutions or by the way Chinese companies operate?

## II.2. Albania

Chinese support for Albanian economy was crucial during the 1970s and '80s. In 1973 and 1974, Albania sent 24% of its exports to China, from where it received 60% of total imports (in investment goods and financed through Chinese financial support).

The years 1971-1975 were the golden years of bilateral economic cooperation. There were 132 capital investment initiatives in all the economic sectors. Major investments, such as Fierza HPP, the Metallurgical Combine in Elbasan, Ballsh Refinery, etc. have been financed with Chinese money, while the technology and the know-how was brought from China

In stark contrast with those close historical ties, nowadays no public works contract seems to have been awarded yet to any Chinese contractor in Albania. However, sizeable Chinese investments in the country have been carried out through indirect acquisition of shares of Albanian companies owned by non-Albanian entities, such as:

- in May 2014, a subsidiary of Ekin Maden Ticaret ve Sanayi A.S., a Turkish-based company, sold a 50% stake in Beralb Ltd for \$65 million to the Jiangxi Copper Company Ltd. of China;
- in September 2016, the Chinese-owned Geo Jade company acquired the management rights for the largest oil field (operated by Bankers Ltd - a Canadian company) in Albania for USD 575 million;
- in October 2016, China Everbright Limited acquired 100% of the shares of the Tirana International Airport, from AviAlliance GmbH (formerly HOCHTIEF AirPort GmbH), DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) and the Albanian-American Enterprise Fund (AAEF)

Meanwhile, Huawei is the long-term subcontractor of Albtelecom, a Turkish-owned company, and of Vodafone.

At the Dubrovnik Summit in April 2019 it was decided that Tirana would host the China-CEEC Youth Development Center. This development, together with a bilateral

discussion between both PMs on supporting cooperation in education and research between China and Albania, is expected to increase the visibility of Albania in China and also promote the country profile as a people-to-people (P2P) destination.

### II.3. Serbia<sup>3</sup>

According to Li Manchang, the former Chinese ambassador to Serbia, the 16+1 platform has been occasionally, and only half-jokingly, referred to as 15+1+1, due to the high number of agreements and projects agreed upon and implemented by China and Serbia over recent years. Serbia on its own has attracted more Chinese capital than the rest of the entire WB region.

First, thanks to its geographical position, Serbia is very close to and very well connected to the Ports of Piraeus, Thessaloniki) and of Constanza, important hubs on the BRI trade routes.

Secondly, Belgrade and Beijing have elevated their relationship to the status of comprehensive strategic partnership (following the visit of President Xi Jinping's to Serbia in June 2016). The recent introduction of a bilateral visa-free entry regime for visits lasting up to one month - the first of its kind for any European country -, signed among a raft of other bilateral agreements in November 2016, also illustrates the strong ties between two nations.

According to the Serbian Minister of Infrastructure Z. Mihajlovic, currently Serbia is implementing projects worth EUR 7 billion in cooperation with China. The underlying explanation lies in the match between Serbia's development needs on the one hand and China's resources.

Initially Chinese companies were active in public works, and then lately in M&A and Greenfield investments. In infrastructure, after the completion of the Mihajlo Pupin Bridge in Belgrade for EUR 240 million (85% financed by EximBank), Chinese companies have been constructing the Serbian portion of pan-European corridors<sup>4</sup>, such as:

- Corridor X: (i) Surcin - Obrenovac, for 17.6km for USD 103 million financed by EximBank: ongoing; (ii) Obrenovac - Ub, for 26.2km for USD 301 million financed by EximBank, implemented by the Shandong Hi- speed Group: ongoing; (iii) Lajkovac-Ljig for 24km for USD 301 million implemented by the Shandong Hi-speed Group;
- Corridor XI: (i) Central Serbia - Montenegrin Border (modernization) for 107 km for EUR 106 million (re-structuring of suburban station in Zemun was completed by

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<sup>3</sup> With significant contribution from provided by Mr. Milun Trivunac, State Secretary at Ministry of Economy of Serbia.

<sup>4</sup> On top of energy sector involvement such as Thermal Power Plant Kostolac, CMEC I Phase currently being executed: EUR 350 million, II Phase - in progress: EUR 700 million.

end of 2017); (ii) Belgrade - Stara Pazova (modernization) for USD 319 million implemented by CRI-CCCC;

- Corridor X Belgrade - Budapest railway, Serbian cost estimated at circa EUR 1 billion for 184km in Serbia (for a total Belgrade - Budapest of circa EUR 3,2 billion) partially financed by EximBank, implemented by China Railway International Company Ltd.

Regarding the Mergers & Acquisitions (M&A), there is an impressive list of endeavors:

- HBIS has acquired a bulk of production assets of Železara Smederevo (EUR 54 million)
- Zijin has acquired Mining and Smelting Basin Bor (RTB Bor), recapitalization for USD 350 million and planning for investments worth USD 1.26 billion over next 6 years
- Linglong Tire has agreed to build a tire factory worth EUR 870 million
- Mei Ta Industrial has invested in Auto Industry (EUR 60 million)
- EverRest production - Danish/Chinese JV
- Johnson Electric, Hong Kong (EUR 20 million)
- Wolong Group has acquired the Sever company
- Belmax Center (EUR 35 million)

In June 2019, minister Mihajlovic indicated that Serbia aimed to launch with China joint investment projects with a total value of EUR 8 billion. To advance economic cooperation between Serbia and China and support the launch of joint projects in third markets, in April 2019, Serbia's government signed a Memorandum of Understanding (MoU) with China for the establishment of a joint investment cooperation working group.

### III. MAIN FEATURES OF CHINESE INVESTMENT IN WESTERN BALKANS

Chinese companies' involvement in Western Balkans features anchor investments that serve as catalysts, break the ice, and serve as a pole of attraction for other upcoming Chinese investments. This may create clusters of investments observed in transport, as illustrated by the acquisition – total or partial – of port infrastructure (in Greece, Bulgaria), bridge building (Croatia, Serbia), or power generation and / or transmission grids in the energy sector.

**Table 1. China's Maritime Port Investments in Europe<sup>5</sup>**

Country	Year	Chinese Company	Investment
<b>Egypt</b>	2007	Cosco	Suez Canal Container Terminal
<b>Greece</b>	2009 + 2016	Cosco	Port of Piraeus
<b>Turkey</b>	2015	Cosco	Kumport Ambarli coast of Istanbul
<b>Germany</b>	2016	Rail & Shipping	Duisburg – Duisport*
<b>Italy</b>	2016	Cosco	APM Terminals Vado**
<b>Italy</b>	2019	Various	Trieste Maritime Hub
<b>Netherlands</b>	2016	Cosco	Euromax Terminal Rotterdam
<b>Belgium</b>	2014 + 2017	Cosco	Port of Zeebrugge
<b>Spain</b>	2017	Cosco	Majority stake in Noatum Port Holdings Container ports in Valencia and Bilbao
<b>Bulgaria</b>	2018	China Harbor Engineering Company	Upgrade freight transport capacity in Black Sea ports of Varna and Burgas

The BRI's financial footprint in the Western Balkans remains loan-driven. Its expansion can be illustrated by the increasing lending amounts from Chinese policy banks to countries in southeast Europe through infrastructure financing. Lately, and since the entry of China in the EBRD shareholder structure in January 2016, Chinese banks have been reaching out to IFIs for financing diversification. Another way of weathering local sensitivity while entering WB markets has been the creation of joint ventures.

<sup>5</sup> Tables 1 and 2 and subsequent analysis have been prepared by Mr. Jens Bastian, Independent Financial Sector Analyst & Economic Consultant.

**Table 2. China's Investments in Europe's Energy Utilities**

Country	Year	Chinese Company	Investment	Acquisition/ Shareholding
Portugal	2011 + 2018*	CTG	Energias de Portugal	23.3 % + Take over offer
Portugal	2012	State Grid Corp.	Redes Energéticas Nacionais	25 % Shareholding
Italy	2014	State Grid Corp.	Rete Elettrica Nazionale (TERNA) via CDP Reti	35 % Shareholding
Greece	2017	State Grid Corp.	ADMIE	24 % Shareholding
Albania	2016	Geo-Jade Petroleum	Acquisition of Canadian Banker's Petroleum	€ 384.6 million

Brought to evidence by the “high number of Chinese workers brought to implement Chinese-contracted works”, the additionality of Chinese investment to local economies has become a key issue while negotiating new contacts. Increasing attention to environmental and social standards is being paid particularly to Chinese investment in coal-powered plants.

While the involvement of Chinese companies is shifting from tender acquisition and project implementation towards operational responsibility, the challenges have also shifted from obtaining contracts (issues with procurement, alleged corruption, increase of public debts) to implementation and operational components of project cycle (including industrial and labor relations, enforcement of environment standards, local management practices, etc.).

### III.1. Emerging patterns of Chinese investment in Western Balkans

After the consolidation phase, in the last couple of years we can identify some main emerging features of investment by Chinese companies, as below:

1. *Scaling up and/or branching out* in a country or the larger Balkans 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 rules 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.
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.
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 the 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. *Emergence of large industrial zones* developed, promoted and intended to be populated mainly by Chinese companies – either set up as greenfield in Borca or Cuprija, or attached to big Chinese investments in Smederevo, Zrenjanin or in Bor (however, according to Serbian researchers, those industrial zones are "not picking up" yet).

One of the conclusions at that stage is that Chinese state owned companies (regional or state ownership) invested where nobody else could, or wanted, to go. Smederevo Steel Mill and RTB Bor are a case in point. On the other side, Chinese privately-owned companies will prefer entering in highly profitable sectors as illustrated in the case of Albania (oil extraction and especially the national airport).

Secondly, BRI infrastructure projects are among the very first ones that WB governments have procured and contracted themselves, without the technical assistance of the EU, the EBRD, the World Bank or other western donors. This may explain the relatively high number of issues impacting those projects. The next challenge would be to capitalize on this experience and build up on lessons learned.

### III.2. The image of China in the larger region<sup>6</sup>

What matters is the expectations! The acceptance of corporate China in the West Balkans is warmer than in the EU member states, because of two main factors. First and foremost, the Western Balkan countries cannot access the EU Structural Funds to

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<sup>6</sup> Input provided by Plamen Tonchev, Head of Asia Unit, Institute of International Economic Relations in Athens, Greece.

finance their infrastructure. Being very close to their fiscal ceiling, quick and “easy” funding from China is very welcome.

Second, Chinese companies brought with them the reputation of a seasoned economic actor, experienced in operating in difficult areas, and having that “can-do-attitude” that allows them to go where no Western investor would. China’s achievements in terms of development constitute the most valuable feature (or “asset”) of its image. Controversial aspects, such as environmental pollution, “white elephants” or allegations of unfair competition are overshadowed by the general perception of China’s rapid, indeed spectacular, economic development over the past four decades.

However, if flag projects under way in the Balkans do not deliver, or even if they do not meet the high local expectations, some disenchantment will be highly likely.

**In Serbia**, the survey “*Attitudes and knowledge of young people in Serbia towards China’s development*” carried in Nov. 2018, found out that for 93% of respondents, China’s political and economic influence was growing. An impressive 79% had heard about the 16+1 Initiative, and exactly half of the people polled considered the privatization of Železara Smederevo the most important Chinese investment project in Serbia. For the respondents, the importance of cooperation between Serbia and China depends on the cooperation sector, where the highest scores were recorded in industry (89%), transport (89%) and construction (75%).

**In North Macedonia**, the survey “*Examining the representations of (China’s) development in Macedonia*” showed the acknowledgement by the respondents of China’s achievement in development, however concerns about the quality of its development model were expressed. There is a limited knowledge of 16+1 and the BRI, and interestingly enough, China is seen as complementary to the role of the EU in the specific Balkan country. That image fits the involvement of China as “gap filler”, especially in the sectors and projects where EU Structural and Cohesion funds are normally used by the member states.

**In Greece**, the survey “*China’s Image in Greece, 2008-2018*” conducted by IIER, identified job creation as the top priority for Greek respondents, thus explaining their expectations vis-à-vis Chinese investment. In the wake of the severe fiscal and economic crisis in the country – Greece has the highest unemployment rate in the EU – China is seen as a major source of capital investment. However, unless Chinese investment projects yield tangible benefits as soon as possible, a “China fatigue” effect cannot be precluded.

There is a generally positive attitude towards China in the Balkans, either in the EU member states or the countries outside the EU as “the Chinese must be doing something right”. This attitude is largely attributable to China’s spectacular growth over the past forty years.

At the same time, as the introductory period and the accompanying honeymoon are coming to an end, potential variations in the perceived image of China and expectations management are significant factors to be reckoned with.

#### IV. THE WESTERN BALKANS, THE EU AND CHINA

EBRD estimates the annual infrastructure investment needs of the region to 8-10% of GDP over the next 5 years to cover the huge gaps in physical infrastructure density indicators, as compared to its EU-CEE peers. Western Balkan is FDI starved and urgently need zero-priced capital.

Logically, in the Balkans region EU has "met" China through the Connectivity Agenda in infrastructure projects in transport and energy. Un-planned and un-coordinated but concrete under way Chinese investments in TEN-T include:

- (i) EU TEN-T Corridor X (or the Balkan Silk Road) from Port of Piraeus, through Skopje to Belgrade then to the Hungarian border;
- (ii) EU TEN-T Corridor VIII (that joins Adriatic Sea from Albania, through Macedonia with Bulgarian Black Sea), where Sinohydro is working on two sections in Macedonia; and,
- (iii) EU TEN-T Corridor XI Bar – Belgrade highway in Both Montenegro and Serbia. By financing large infrastructure works, in the Western Balkans the Chinese development banks are filling the gap created by the impossibility of WB countries to access EU structural funds.

EU has somehow included Balkan territory in its EU-China Connectivity Platform (EU-ChCP) since 2016. In concrete terms:

- in 2016 EU "offered" to China to get involved in Serbia (Orient/East-Med Corridor) and BiH (Corridor 5c Highway)<sup>7</sup>;
- in the 2017 EU-ChCP list of projects where China was invited to get involved there was no section that went through Western Balkan countries<sup>8</sup>;
- in the EU-ChCP 2018 figure the: (i) Belgrade -Budapest railway, and; (ii) the part of Orient/East-Med Corridor, that goes through the Western Balkans<sup>9</sup>.

In April 2019, following a vague European connectivity strategy for Asia<sup>10</sup> produced in September 2018, the EU-China Summit reaffirmed the willingness of both sides to improve Europe-Asia connectivity and continue to forge synergies between the EU strategy on Connecting Europe and Asia as well as the EU Trans-European Transport Networks and China's BRI. The EU-Connectivity Platform was mentioned as an important instrument to enhance communication and identify cooperation projects.

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<sup>7</sup> 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.

<sup>8</sup> 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.

<sup>9</sup> List of projects to be considered in the framework of the EU-China Connectivity platform, 2018.

<sup>10</sup> "Connecting Europe and Asia – Building Blocks for an EU Strategy" 2019.

In 2018 the EU Commission released an agreement with EU member states on a framework for stronger FDI screening. The proposal was meanwhile endorsed by the European Parliament and can be seen as a tool to find a more coherent and unified approach on FDI policies and thus a more qualified response to China's FDI in Europe. The screening mechanism was officially endorsed by the Council in March 2019.

In the Western Balkans, it can be safely stated that until now Chinese engagement in the region has not been in direct competition with EU companies. Even in Croatia's Pelješac bridge tender the direct competitor of the Chinese winner was a Turkish - Italian consortium, while the (dismissed) complaint for unfair competition was logged by a Russian - Austrian competitor.

Also, the Smederevo Steel mill was bought back after a failed privatization (and no subsequent show of interest from EU companies), and in the privatization of RTB Bor there were no EU bidders. In Montenegro, the Bar-Boljare highway was presented twice to EU financial institutions and was turned down on feasibility grounds. In Albania, it was a western consortium of shareholders that sold Tirana Airport to the current Chinese owners, while the oil-extraction rights were sold to the Chinese investors by a Canadian-registered company.

An instrument that has come to the fore lately is the "Third Party Market Cooperation - 3PMC", in the form of bilateral agreements with China. Austria or Switzerland (as well as Japan) have signed 3PMC with China taking into account the assertiveness and preeminence of China in 3<sup>rd</sup> country markets. France has signed many agreements in 3PMC, especially concerning Africa, while the UK has been interested in cooperation in finance sector.

EU can use elements of 3PMC logic in its Balkans backyard by identifying the needs of the region and matching it with what EU (and its MS) and China can offer, in a harmonious way. WB can be a test-case for the reverse use of BRI by supporting EU companies to participate in Chinese-funded projects in the region. That would be a test of the reciprocity willingness replicating the case of Pelješac Bridge.

EU big companies and business associations can and should project business alliances between EU and Balkan companies outside their comfort zone. They can team up and engage in many business opportunities along the BRI railway routes all the way to China in clusters that combine EU technology and Balkans features of adaptation, versatility and resilience. The current EU-ChCP 2018 offers a real opportunity as it contains 16 projects in China where EU companies are invited to participate (6 rail; 1 multi-modal water; 1 highway; 4 airports; 7 metro and tram; etc.).

#### IV. CONCLUSION

Studying China in the Balkans requires a multi-dimensional analysis. From the view of the WB countries, Chinese investment is filling a gap that the EU has been unable to address. But the region needs able institutions and a comprehensive strategy to get the best of Chinese funding. For China, the Balkans offer relatively profitable and secure investment opportunities. On the local level, the WB institutions and local economic actors need a better understanding of the cooperation possibilities and the Chinese way of doing business, as well as new ideas and a proactive attitude.

While China is filling an investment gap in the Balkans contributing to local growth and employment, WB actors should possess a clear blueprint of their investment needs, a realistic assessment of their institutional capacities, and improve their regional cooperation.

On the other side, building on lessons learned, China vision of BRI is evolving from an open end, almost free-style enterprise spearheaded by SOEs, towards a careful and detailed planning approach. The metaphor used by Xi Jinping in the opening ceremony of the Second Belt and Road Forum for International Cooperation in April 2019 of *xieyi* (寫意): the interpretive and freely expressive painting style; vs. *gongbi* (工筆): the careful realist technique; illustrates this strategic shift.

In that context, the seminar identified a need for better preparation of WB institutions and other Balkan stakeholders when negotiating with Chinese companies. Project identification, clearer rules of engagement, regional coordination approach, exchange of experiences amongst Balkan countries, strengthening of WB6 institutional capacities, participation in “3rd Party Market Cooperation” mechanisms, more and better communication, and greater attention to the language and discourse of each partner, are areas that WB countries must work on to get the best possible deals for their citizen.

EU should include the region in its EU-China Strategy as any development in the EU – China relationship also impacts the Balkans, being it in the regional infrastructure investment priorities, or the inclusion of the region in the global value chains. A tri-lateral mutually beneficial co-operation requires intense communication, regular and structured exchanges, and empathy.

## ANNEXES

**List of relevant websites with information on China in the Western Balkans used for the seminar report.**

Center for Research and Policy Making	<a href="http://www.crpm.org.mk">www.crpm.org.mk</a>
Chamber Investment Forum (WB6CIF)	<a href="http://www.wb6cif.eu">www.wb6cif.eu</a>
Cooperation and Development Institute	<a href="http://www.cdinstitute.eu">www.cdinstitute.eu</a>
European Bank for Reconstruction and Development (EBRD)	<a href="http://www.ebrd.com">www.ebrd.com</a>
European Commission	<a href="http://www.ec.europa.eu">www.ec.europa.eu</a>
European Movement in Montenegro	<a href="http://www.emim.org">www.emim.org</a>
European Union External Action	<a href="http://www.eeas.europa.eu">www.eeas.europa.eu</a>
European Western Balkans	<a href="http://www.europeanwesternbalkans.com">www.europeanwesternbalkans.com</a>
Ferrara University - Italy	<a href="http://www.unife.it">www.unife.it</a>
German Eastern Business Association	<a href="http://www.oaoev.de">www.oaoev.de</a>
German Society for International Cooperation	<a href="http://www.giz.de">www.giz.de</a>
Hanns Seidel Foundation - Zagreb	<a href="http://www.hss.de">www.hss.de</a>
Institute of International Economic Relations (IIER)	<a href="http://www.idos.gr">www.idos.gr</a>
Ministry for Europe and Foreign Affairs of Albania	<a href="http://www.punetejashtme.gov.al">www.punetejashtme.gov.al</a>
Ministry for Protection of Entrepreneurship in Albania	<a href="http://www.sipermarrja.gov.al">www.sipermarrja.gov.al</a>
Ministry of Economy Serbia	<a href="http://www.privreda.gov.rs">www.privreda.gov.rs</a>
Ministry of Foreign Affairs - Slovenia	<a href="http://www.mzz.gov.si">www.mzz.gov.si</a>
National Youth Congress of Albania	<a href="http://www.krk.al">www.krk.al</a>
Southeast Europe Association	<a href="http://www.sogde.org">www.sogde.org</a>
Institute of East Asian Studies, University of Duisburg-Essen	<a href="https://www.uni-due.de/in-east/">https://www.uni-due.de/in-east/</a>

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(WB6CIF)

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Mirela Muca	Prime Minister's Office
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