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A Report of the CSIS Europe Program and the Reconnecting Asia Project

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Contents

Executive Summary	1
Introduction	2
The Western Balkans' Strategic Value	3
Avenues of Chinese Influence in the Western Balkans	6
Headline and Sectoral Trends	12
Conclusion	18
Appendix: Methodology	19
About the Authors	21

Executive Summary

The Western Balkans is an area of geostrategic competition. Western Balkan countries have progressed somewhat on the path to Euro-Atlantic integration but still suffer from lax governance and economic standards, including corruption and inefficient state-owned enterprises (SOEs). China has recognized the region's potential and hunger for infrastructure financing and invested in the region during the past decade through its Belt and Road Initiative and 17+1 format. This report assesses Chinese economic activities in seven countries (Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia, and Serbia) from January 2012 to January 2020. It is based on open-source data collected by CSIS and available [here](#).

Key findings include:

- Energy and transportation are the top sectors, accounting for 64 of 102 Chinese activities in the region.
- State-owned enterprises dominate these activities, potentially at the expense of small and medium enterprises (SMEs), which are the main drivers of the region's economic growth.
- Completion rates are low, with only a quarter of the announced activities completed.
- Serbia is a hub of Chinese activity, accounting for more than half of announced funding in the Western Balkans since 2012.
- Digital infrastructure is emerging as a second wave of investment: of 15 information and communications technology (ICT) projects, 9 were started in 2018 and 2019, most of them in Serbia.

Introduction

This report, part of a two-year effort to track and analyze Chinese economic activities in the Western Balkans, has three parts. First, it examines the strategic value of the Western Balkans for the transatlantic community and for China. Second, it examines China’s main channels of economic engagement and potential avenues of influence. Third, it presents key sectoral trends from CSIS data on Chinese economic activities from January 2012—the official launch of the 16+1 format (now 17+1, with the addition of Greece in 2019)—through January 2020.

The Western Balkans have a complex and changing web of relationships with the European Union, United States, and China. The region includes one EU member state, Croatia, and the “Western Balkans 6” (WB6), consisting of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.¹ The WB6 member states have all signed Stabilization and Association Agreements with the European Union, and four (Albania, Montenegro, North Macedonia, and Serbia) are officially candidate countries and have formally opened accession negotiations (the EU decision for Albania and North Macedonia finally came down in March 2020). Albania, Croatia, Montenegro, and North Macedonia are NATO members.

In recent years, China has been making inroads. Croatia and the WB6, minus Kosovo, are part of both the BRI and the 17+1, which brings together 12 EU and 5 non-EU countries (all in the Western Balkans). Kosovo has neither joined the 17+1 format nor the BRI, as China does not recognize Kosovo’s independence, and Kosovo does not take part in annual China forums—nor has it been invited to join, given China’s explicit non-recognition position. Collectively, these seven countries and their various memberships in either NATO, the European Union, or the Euro area (or a combination of those three) present a variety of relationships with both the United States and the European Union, making the region a promising laboratory for examining China’s actions and interactions.

¹ While the United States recognizes Kosovo’s independence, five EU member states still do not (Spain, Romania, Cyprus, Greece, and Slovakia) and neither does China.

The Western Balkans' Strategic Value

A source of instability in Europe for centuries, the cartography of the Western Balkans is the result of the breakup of a multiethnic, post-World War II entity called Yugoslavia, a grouping of several independent nations that were assembled together on somewhat unstable ground. After this breakup, the region largely succumbed to ethnic conflict, migration, and humanitarian and security crises that were only resolved after U.S. and NATO military action in both Bosnia and Herzegovina and Kosovo, followed by frenzied transatlantic diplomatic activity (e.g., the 1995 Dayton Agreement and the 2001 Ohrid Agreement) and the unilateral declaration of independence by Kosovo in 2008. Because of Europe's inability to manage these crises on its own, the United States has been a necessary actor for stability in the Western Balkans, although it has not always been welcome.

Because the region provides access from the Mediterranean to the “inner core” of Europe, the Western Balkans have long been an area of geostrategic competition. Both the United States and the European Union have invested heavily in the region since the end of the post-Yugoslavia conflicts through military assistance, programmatic support, foreign direct investment (FDI), and pre-accession funds. The United States remains a strong supporter of Euro-Atlantic integration for the WB6 as a contribution to European peace and security, principally through NATO and encouragement for eventual EU membership. EU accession is a means to foster reconciliation and stability in the region by prompting economic and institutional transformation, enhancing security and energy security, and helping control migration flows. However, the focus and attention of EU and U.S. policy on the region has waned over the past decade, and the region's weak institutions, endemic corruption, and long-serving leaders have been largely unresponsive to Euro-Atlantic policies. At the same time, other state actors with long-standing interests in the Western Balkans, such as Russia and Turkey, have also invested in some sectors over the past decade and reinserted themselves throughout the region.

China has similarly reasserted itself in the Western Balkans over the last decade, leveraging the positive ties it built with Albania in the 1950s and 1960s and with

communist Yugoslavia in the 1970s and 1980s.² Beijing has recognized the economic and geographic potential of the region and, perhaps most importantly, understands the region's hunger for immediate infrastructure financing. In contrast, Western lenders have been hesitant to engage as strongly without corresponding reform commitments from the region's leaders. China also recognizes the Western Balkans as a key transit corridor that offers access to Mediterranean ports and the EU market as part of the BRI. Furthermore, China's economic activities coupled with its high-level diplomatic engagement provide symbolic recognition and respect for non-EU Western Balkan countries, despite being indiscriminately "packaged" in China's efforts (BRI, 17+1) with Central and Eastern European countries and even Greece. The 17+1 format also conveniently blurs the distinction between EU and non-EU countries, effacing boundaries that are key to the European Union's way of engaging with regional and neighborhood actors.

China's engagement in the region carries governance and economic risks. Chinese policy banks, namely the Export-Import Bank of China (China Exim) and China Development Bank (CDB), are responsible for almost half of China's funding to the region based on CSIS data, or around \$8 billion between January 2012 and January 2020. These banks are not subject to the same standards of transparency as similar export credit institutions in the United States that prevent corruption (e.g., the Foreign Corrupt Practices Act) nor is China party to any international rules on the provision of export credits.³ This increases the risk of China's economic engagements compounding endemic corruption among the Western Balkans' entrenched political players, who are eager to see large infrastructure projects completed for both their legacy and political legitimacy.⁴ In one prominent example, the former prime minister of North Macedonia, along with several other high-level officials, was implicated in a corruption scandal that alleged the loss of €155 million from the state budget in connection with the China Exim-financed Kicevo-Orhid highway project.⁵ While corruption risks are not unique to Chinese lending, they are exacerbated by the region's weak economic and governance structures and the lack of transparency common to BRI projects.⁶ With EU membership a distant and uncertain prospect, Chinese economic engagements in the Western Balkans continue to be seen as an attractive and efficient alternative despite their deleterious effects on governance and rule of law due to a disregard for international norms and standards designed to prevent corrupt behavior in public projects.

2 Horia Ciurtin, "A Dragon in the Powder Keg: China's Mercantile Quest in the Balkans," New Strategy Center, March 2018, 13, https://www.newstrategycenter.ro/wp-content/uploads/2018/03/NSC-Policy-Paper-China-in-Balcani-A4-_03.2018.pdf. See also: Jens Bastian, "China Reconnects with the Western Balkans: Belt and Road Investments Build on Historical Ties," CSIS, February 22, 2018, <https://reconnectingasia.csis.org/analysis/entries/china-reconnects-balkans/>.

3 Export-Import Bank of the United States, *2018 Exim Competitiveness Report* (Washington, DC: June 2019), https://www.exim.gov/sites/default/files/reports/competitiveness_reports/2019/EXIM2019CompetitivenessReport-final.pdf.

4 See Heather A. Conley, Jonathan Hillman, and Matthew Melino, "The Western Balkans with Chinese Characteristics," CSIS, *Commentary*, July 30, 2019, <https://www.csis.org/analysis/western-balkans-chinese-characteristics>; and Pippa Gallop and Sonja Risteska, "Public Infrastructure in Southeast Europe in whose interest?," Balkan Monitoring Public Finance, November 2017, <http://wings-of-hope.ba/wp-content/uploads/2018/04/Public-infrastructure-in-southeast-Europe-in-whose-interest.pdf>.

5 Michal Makocki and Zoran Nechev, "Balkan Corruption: the China Connection," European Union Institute for Security Studies (EUISS), July 2017, <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%202022%20Balkans.pdf>.

6 Michele Ruta et al., "Belt and Road Economics: Opportunities and Risks of Transport Corridors," World Bank, June 18, 2019, <https://www.worldbank.org/en/topic/regional-integration/publication/belt-and-road-economics-opportunities-and-risks-of-transport-corridors>.

China's growing economic engagement in the Western Balkans appears to follow a hub-and-spoke approach. Serbia, for example, is a strategic anchor for China in the European Unions' semi-periphery, where it can invest heavily without EU regulatory burdens and showcase its technological and infrastructure projects to neighboring states, which are eager for such investment. By focusing on the largest Western Balkan economy and population, China enhances its own market share while emphasizing its political and diplomatic priorities and natural affinities with Serbia: China does not recognize Kosovo's independence, while Serbia supports China's territorial claims relating to Taiwan and the South China Sea.⁷ Additionally, the 17+1 format potentially allows Beijing to pull 12 EU member states away from the remaining 15 in a different format, which makes it more difficult for the European Union to form a consensus position or policy against China. However, in 2019, the 17+1 summit did preview a closer alignment with the EU-China summits and efforts.

7 Dragan Pavlicevic, "The geoeconomics of Sino-Serbian relations: The view from China," in "China's Investment in Influence: The Future of 16+1 Cooperation," European Council on Foreign Relations, *China Analysis* no. 199 (December 2016), 12-13, https://www.ecfr.eu/publications/summary/chinas_investment_in_influence_the_future_of_161_cooperation7204.

Avenues of Chinese Influence in the Western Balkans

To understand if and how China uses its economic engagement in the Western Balkans in ways that undermine U.S. interests and regional dynamics, one must first identify where China focuses its efforts and highlight its points of entry.

Lax Governance, Economic, and Democratic Standards

Governance and democratic standards in the Western Balkans have lagged behind most European counterparts and have been in decline over the past decade. All seven countries are considered semi-consolidated democracies (Croatia, Montenegro, and Serbia) or transitional governments/hybrid regimes (Bosnia and Herzegovina, Kosovo, Albania, and North Macedonia) in Freedom House's Nations in Transit assessment.⁸ Serbia, which has received the highest levels of announced Chinese funding and investment since 2012, totaling over \$9.5 billion, is on the verge of becoming a "hybrid regime" due to democratic backsliding. Corruption levels have stagnated across the region but worsened in some (e.g., Serbia),⁹ while state capture remains a pervasive challenge in Serbia and Montenegro, with leaders who have been in power for years, if not decades.

⁸ Freedom House, "Nations in Transit 2018: Confronting Illiberalism," April 11, 2018, <https://freedomhouse.org/report/nations-transit/nations-transit-2018>.

⁹ Transparency International, *Corruption Perceptions Index 2019* (Berlin: January 2020), <https://www.transparency.org/cpi2019>.

Table 1. Governance Standards

	Democracy Score 2018 ^{*10}	Nations in Transit Corruption 2018 ^{**11}	Corruption Perceptions Index 2019 ^{***12}
Albania	4.11	5.25	35
Bosnia & Herzegovina	4.64	5	36
Croatia	3.75	4.25	47
Kosovo	4.93	5.75	36
Montenegro	3.93	4.75	45
North Macedonia	4.36	4.75	35
Serbia	3.96	4.25	39

*Scale from 1 to 7, where 1 means most democratic progress.

**Scale from 1 to 7, where 1 means least corrupt.

***Scale from 0 to 100, where 0 means highly corrupt.

In the economic sphere, the main issues impeding the Western Balkans' path to sustainable market economies (mostly WB6, given Croatia's more advanced economic development as an EU member) are: low productivity (including the "absence of appropriate incentives for high levels of long-term productivity"); weak institutions and rule of law; limited access to finance; corruption; and loss-making or inefficient SOEs.¹³ Poor infrastructure quality has also impeded regional businesses and economic development. These challenges are apparent in the WB6's Ease of Doing Business scores (see Table 2).

The state-driven economic approach shared by China and the WB6 leaders, however, misses the region's true engine of economic activity: SMEs. Of the 102 Chinese economic activities that CSIS identified, around 28 percent were implemented or operated by a SOE either from the region or from China, accounting for around \$3.4 billion of total funds. This number is very likely lower than the reality on the ground, given that data on project implementation and operations could only be confirmed for 65 percent of activities. While WB6 leaders expend enormous political and financial capital on the preservation of SOEs, SMEs account for over 70 percent of jobs in the region and around 66 percent of the annual value added, on which U.S. and EU assistance focuses in part.¹⁴ (There likely are differences in contribution across sectors; within the OECD, for example, large firms contribute more to employment and value added in the manufacturing sector than SMEs.¹⁵) With 7 of the world's 10 largest construction firms, China is eager to find

10 Freedom House, "Nations in Transit 2018."

11 Ibid.

12 Transparency International, *Corruption Perceptions Index 2019*.

13 Peter Sanfey and Jakov Milatovic, "The Western Balkans in transition: diagnosing the constraints on the path to a sustainable market economy," European Bank for Reconstruction and Development, February 2018, 3, 15-18, www.ebrd.com/2Fdocuments/2Feapa%2Fwestern-balkans-summit-2018-diagnostic-paper.pdf&usg=AOvVaw3CZn-CiusN-0W7W07zixUZ5.

14 Organisation for Economic Co-operation and Development, *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index (Paris: OECD, 2019); For example, see: "The Western Balkans Enterprise Development and Innovation Facility holds its second SME Forum" European Commission, May 7, 2019, https://ec.europa.eu/neighbourhood-enlargement/news_corner/news/western-balkans-enterprise-development-and-innovation-facility-holds-its-second-sme_en.

15 Organisation for Economic Co-operation and Development, *Enhancing the Contributions of SMEs in a Global and Digitalised Economy* (Paris: June 2017), <http://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf>.

new markets for its SOEs and industrial overcapacity. Both approaches serve short-term political interests at the expense of long-term economic fundamentals, unless SMEs are offered participation in and linkages with the larger firms involved in Chinese activities. Furthermore, if linkages between regional SMEs and SOEs are lacking, Chinese investment risks propping up inefficient entities (some of which are tied to political networks of patronage) and impeding economic growth.¹⁶

The energy and transportation sectors account for 64 percent of Chinese-involved activities in the Western Balkans and 79 percent of Chinese-funded or Chinese-invested activities.¹⁷ These sectors favor China’s large SOEs, which are often the BRI’s biggest direct beneficiaries. Many have outgrown their home markets and need to find opportunities abroad. The extractive industries, particularly mining, are also highly visible and some countries in the region have long relied on their revenue.¹⁸ Mining reserves in the Western Balkans, particularly metals, could provide additional revenue as global demand rises for aluminum, copper, and other metals, with an accompanying rise in FDI.¹⁹ However, this increase in investments comes with potentially high environmental costs.²⁰ Meanwhile, unemployment is high across the region, but the use of local labor for Chinese-funded or Chinese-involved projects is sometimes limited.

Table 2. Economic Indicators

	GDP Growth 2018 (% year-on-year)*	Unemployment 2018 (% of total labor force)*	Government Debt (% of GDP)** ²¹	Ease of Doing Business 2020 (% of GDP)*** ²²
Albania	4.1	16.1	71.8	82
Bosnia & Herzegovina	3.6	18.4	39.5	90
Croatia	2.6	8.4	77.8	51
Kosovo	3.8	29.4	21.2	57
Montenegro	5	15.1	67.2	50
North Macedonia	2.6	20.7	39.3	17
Serbia	4.3	12.7	62.5	44

*World Bank data.²³

**Estimates of public debt for 2017.

***Ranking for 2020 out of 190 economies.

16 “Captured States in the Balkans,” Heinrich Boll Foundation, *Perspectives* no. 3 (September 2017), https://ba.boell.org/sites/default/files/perspectives_-_09-2017_-_web.pdf.

17 CSIS data.

18 Christina Stuhlberger ed., *Mining and environment in the Western Balkans* (Nairobi: United Nations Environment Programme, 2017), <http://wedocs.unep.org/bitstream/handle/20.500.11822/7901/-Mining%20and%20environment%20in%20the%20Western%20Balkans-2009967.pdf?sequence=3&isAllowed=y>.

19 Organisation for Economic Co-operation and Development, *Unleashing the Transformation Potential for Growth in the Western Balkans* (Paris: OECD, 2019), http://www.oecd.org/south-east-europe/programme/Unleashing_the_Transformation_potential_for_Growth_in_WB.pdf.

20 Ibid.

21 “Public Debt,” CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/fields/227.html>.

22 World Bank Group, *Doing Business 2020: Comparing Business Regulation in 190 Economies* (Washington, DC: World Bank), <https://openknowledge.worldbank.org/handle/10986/32436>.

23 World Bank Group, “GDP growth (annual %),” <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>; World Bank Group, “Unemployment, total (% of total labor force) (national estimate),” <https://data.worldbank.org/indicator/SL.UEM.TOTL.NE.ZS>.

China's Western Balkans Entry Points: BRI and 17+1

Though institutionally separate, the BRI and 17+1 format are functionally complementary frameworks to channel Chinese capital export through investment and lending. They present similar traits and offer similar benefits to countries that participate.

Figure 1. EU and 17+1 Membership



Chinese projects remain attractive to countries in the region for several reasons. Above all, China often provides financing, and its project costs often appear low up front. Some Chinese lending and projects occur in locations with difficult economic conditions that have struggled to get financing for infrastructure projects from international financial institutions or Western investors. Additionally, Beijing does not require the same conditionality for investments that European or U.S. investors typically do. This translates

into faster deal-making (even if only a small portion of well-publicized signing ceremonies translate into actual construction), which is appealing to recipient countries with leaders facing electoral timelines or protected interests. And as Western Balkan countries do not export nearly as much to China as to their Western European counterparts, they are less likely to press for a level playing field when dealing with China.

These projects come with significant risks, however. Chinese financing often occurs under opaque conditions and through non-competitive contracts, reinforcing low governance standards and exacerbating endemic corruption, underscoring in several cases why Western investment was not present at the outset. Furthermore, Chinese initiatives tend to target specific industries or sectors (e.g., energy and transport) that favor Chinese SOEs and matter to local and regional elites—be it for the financial size of energy projects (including subsidies) or the importance of transport to regional connectivity.²⁴ Like most investors, China shows little interest in disrupting local power dynamics as long as its interests are protected.

China's activities have the effect of pulling recipients away from the European Union. For example, China's support for projects irrespective of international best practices undermines EU efforts to elevate environmental and governance standards in the region. Over the longer run, these developments could hinder the Western Balkans' European integration path.²⁵ Access to China's checkbook frequently correlates with recipient country endorsements of the BRI and support for other Chinese policy issues, such as Taiwan's status, the South China Sea, or China's actions in Xinjiang and other alleged human rights abuses.²⁶ For some of the Western Balkans' domestic economic and political actors, this may be an acceptable bargain. It is also possible that some domestic actors preemptively support these policy positions based on the assumption that China would require them, regardless of whether it actually does.

While the 17+1 format was meant to be a sub-regional diplomatic initiative, originally under the leadership of Poland, to foster economic and trade cooperation among its members, it has become a platform to support the infrastructure projects included in the BRI and a forum for members to sign bilateral investment agreements with China.²⁷ The 17+1 summit held in 2019 in Dubrovnik, Croatia, focused on logistics, transport, agriculture, and forestry—all sectors of economic importance in the Western Balkans.²⁸

24 Amanda Lee, "Western Balkans pump subsidies worth €1.2 billion into coal," Euractiv, March 27, 2019, <https://www.euractiv.com/section/energy/news/western-balkans-pump-subsidies-worth-e1-2-billion-into-coal/>; and Marja Novak, "EBRD urges western Balkans to work on infrastructure, legal systems," Reuters, September 5, 2017, <https://www.reuters.com/article/us-slovenia-forum-ebd/ebd-urges-western-balkans-to-work-on-infrastructure-legal-systems-idUSKCN1BG1TM>.

25 Maja Zuvel, "EU official criticizes Bosnia's backing of Chinese power loan," Reuters, March 13, 2019, <https://www.reuters.com/article/us-bosnia-eu-energy/eu-official-criticizes-bosnias-backing-of-chinese-power-loan-idUSKBN1QU1JD>.

26 Theresa Fallon, "The EU, the South China Sea, and China's Successful Wedge Strategy," CSIS, October 13, 2016, <https://amti.csis.org/eu-south-china-sea-chinas-successful-wedge-strategy/>; See also: Pavlicevic, "The geoeconomics of Sino-Serbian relations," 13.

27 Lucrezia Poggetti, "China's Charm Offensive in Eastern Europe Challenges EU Cohesion," *Diplomat*, November 24, 2017, <https://thediplomat.com/2017/11/chinas-charm-offensive-in-eastern-europe-challenges-eu-cohesion/>.

28 Jakub Jakobowski and Mateusz Seroka, "The Dubrovnik summit: the Europeanisation and enlargement of the 16+1 format," OSW, April 17, 2019, <https://www.osw.waw.pl/en/publikacje/analyses/2019-04-17/dubrovnik-summit-europeanisation-and-enlargement-161-format>.

The summit also laid out ways for the 17+1 efforts to align more closely with existing European initiatives, such as the Three Seas Initiative, thus integrating the format deeper into European dynamics.

Conquer and Divide the European Union

The integration of Greece, another strategic anchor, into the 17+1 format is economically important to China, as Greece's port of Piraeus provides a link to Central and Eastern Europe through North Macedonia and Serbia. Politically, however, it has greater significance, as stated in the conclusions of the Dubrovnik meeting: the 17+1 format will now complement the EU-China dialogue and eventual EU-China Summit slated for September 2020 in Leipzig under the auspices of the German EU rotating presidency. This parallel track is designed to ensure that the 12 EU countries within the 17+1 support a successful EU summit. In this way, the European Union must accommodate China's preferences—and not the other way around.

Headline and Sectoral Trends

The framework set in the first part of the report informs the analysis of the data collected during the project, including sectoral and regional trends and China’s apparent priorities and targets.

CSIS research has identified 102 Chinese economic activities in the Western Balkans between January 2012 and January 2020. For this analysis, “activities” are defined as either projects or deals in which China has been involved as a source of funding or investment, a contractor, or a supplier.²⁹ These activities, from those announced to those completed, total an estimated \$17.9 billion. Importantly, only 15 percent of projects could be determined in our research to have undergone a competitive bidding process, while 93 percent of projects with Chinese funding or investment also had a Chinese contractor or supplier.

Table 3. Total Funds and Investments Announced by Year

Year	\$ Million
2012	\$577
2013	\$1,381
2014	\$1,880
2015	\$1,378
2016	\$1,692
2017	\$3,519
2018	\$5,382
2019	\$1,988
2020	\$55
Total	\$17,855

Table 4. Total Funds and Investments Announced by Country

Country	\$ Million
Serbia	\$9,560
Bosnia & Herzegovina	\$4,011
Croatia	\$1,678
Montenegro	\$1,003
Albania	\$814
North Macedonia	\$786
Kosovo	\$0
Total	\$17,855

²⁹ More detail on the data collection and definitions of key terms can be found in the methodology section at the end of this report.

Chinese funding often consists of loans from Chinese policy and commercial banks, including China Exim and CDB, the terms of which are frequently opaque. This has made debt sustainability a worrying aspect of Chinese economic activities in the Western Balkans, an issue over which the European Union has voiced concern.³⁰ Three members of China's 17+1 grouping—Montenegro, Bosnia and Herzegovina, and Albania—have been identified as having high or significant debt sustainability concerns.³¹ Additionally, Serbia has been flagged as risky due to its high levels of Chinese capital inflows since the launch of the BRI in 2013.³² Three of the four countries of concern (Serbia, Bosnia and Herzegovina, and Montenegro) top the list of Chinese funding recipients (excluding investment deals) in the Western Balkans. As China announces new loans, lending to these countries should be monitored closely, particularly if they come with sovereign guarantees from recipients.

China is not the region's only lender, of course, or even the biggest lender in all cases,³³ but its lending practices are concerning. Its willingness to extend loans under the umbrella of the BRI to countries at high risk of debt distress has drawn warnings from the IMF about the risks of irresponsible lending that could create balance of payments challenges.³⁴ While not all the funding captured will add to public debt, some of the privately held loans are backed by sovereign guarantees and thus can add significantly to debt concerns in the case of default. Additionally, China's lack of transparency about its lending practices further adds to these concerns, as it does not make aggregated data on debt holdings from its policy banks publicly available.

Geographically, Serbia is a key node for China's activity (more than half of the 102 activities identified are in Serbia), while no activity was identified in Kosovo due to China's non-recognition of the country.³⁵

Status and Completion Rates

Despite billions of dollars of projects and deals being announced, a significant number lead nowhere or are delayed or interrupted. So far, about a quarter of the projects and deals announced have been completed overall. Notably, a smaller percentage of projects announced in the first half of the 8-year period have reached completion (26.6 percent from 2012 to 2015) compared to the second half (29 percent between 2016 and 2019).

30 Valerie Hopkins, "Brussels says EU has 'underestimated' China's reach in Balkans," *Financial Times*, March 5, 2019, <https://www.ft.com/content/4ba18efa-377b-11e9-b72b-2c7f526ca5d0>.

31 John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," Center for Global Development, CGD Paper no. 121 (March 2018), <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>.

32 Emre Tiftik, Khadija Mahmood, and Jadranka Poljak, "Global Debt Monitor Sustainability Matters," Institute of International Finance, January 13, 2020, https://www.iif.com/Portals/0/Files/content/Global%20Debt%20Monitor_January2020_vf.pdf.

33 Although it may be the single largest lender in some countries even if combined EBRD and EIB lending surpasses that amount.

34 See: Christine Lagarde, "Belt and Road Initiative: Strategies to Deliver in the Next Phase," International Monetary Fund, April 12, 2018, <https://www.imf.org/en/News/Articles/2018/04/11/sp041218-belt-and-road-initiative-strategies-to-deliver-in-the-next-phase>.

35 It is possible China lists its activities in Kosovo as taking place in Serbia, but the research is not able to identify such a factor.

Figure 2. Chinese-Funded Project Announcements Outstretch Completion Rates

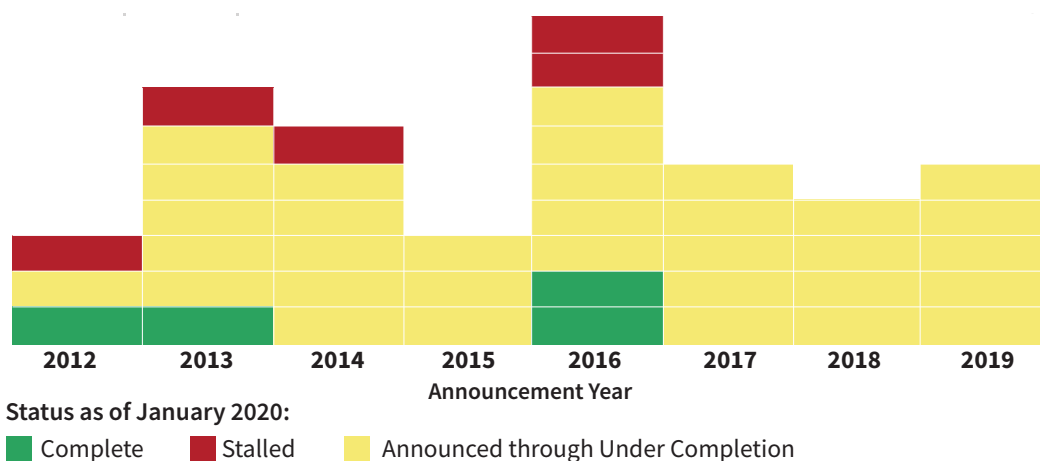


Table 5. Annual Project Completion Rates

Project Start Year	Projects Announced	Complete	Percentage	Average Rate over 4 Years
2012	5	2	40.0%	26.6%
2013	9	2	22.2%	
2014	13	2	15.4%	
2015	7	2	28.6%	
2016	14	5	35.7%	29%
2017	18	5	27.8%	
2018	14	4	28.6%	
2019	21	5	23.8%	
Total	101	27	26.7%	

Of the 102 activities identified, around 18 percent suffered a delay at some point during negotiations or implementation, based on media reports and other sources. This includes direct reporting of a delay or reporting of circumstances that de facto resulted in a delay (e.g., expected start of construction reported in multiple years, prolonged negotiations, or canceled project permits), and is likely a conservative estimate given that project dates are prone to shift after announcement and such changes are not always made public. Project disruptions have been due to a variety of factors, from legal and contractual concerns (e.g., Kostolac Thermal Power Plant Phase II project in Serbia) to fraud or corruption allegations (e.g., Kicevo-Ohrid and Miladinovci-Stip highways in North Macedonia) and environmental concerns (e.g., Kamengrad coal-fired power plant in Bosnia and Herzegovina).³⁶ Perhaps even more

³⁶ Peter Staviczyk and Phedon Nicolaidis, “Possible coal and energy State aid cases based on publicly accessible information,” CEE Bankwatch Network, June 2015, https://bankwatch.org/wp-content/uploads/2015/06/EnCom-state-aid-cases-08Jun2015_0.pdf; Michal Makocki and Zoran Nechev, “Balkan corruption: the China connection,” European Union Institute for Security Studies, July 2017, <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%2022%20Balkans.pdf>; and “Sanski Most: Ponovljeno ‘NE!’ termoelektrani Kamengrad!,” Centar za životnu sredinu, November 8, 2019, <https://czzs.org/opstina-sanski-most-ponovo-rekla-ne-termoelektrani-kamengrad/?lang=e>.

concerning is that, in the case of a dispute, some project contracts between China and recipients in the Western Balkans require settlement in Chinese courts.³⁷

The tables below break down the status of Chinese-involved or Chinese-funded activities, along with the sums involved for each category: a non-negligible percentage of the amounts pledged is associated with projects that are only started (i.e., have procured funding but are not yet under construction) or have been stalled.

Table 6. Funds and Investments at Each Project Stage

Status	Funding and Investments	Percentage
Started	\$5,033,927,809	28%
Preparatory Works	\$909,377,923	5%
Under Construction	\$5,836,049,693	33%
Complete	\$4,018,812,777	23%
Stalled	\$2,057,346,939	12%
Total	\$17,855,515,141	

Table 7. Current Status of Chinese-involved Activities³⁸

Current Status	All Activities		Projects Only	
	Count	Percentage	Count	Percentage
Announced/ Under Negotiation	15	14.7%	14	19.7%
Started	19	18.6%	16	22.5%
Preparatory Works	14	13.7%	12	16.9%
Under Construction	19	18.6%	15	21.1%
Complete	27	26.5%	7	9.9%
Stalled	8	7.8%	7	9.9%
Total	102		71	

Table 8. Status of Activities with Announced Chinese Funding or Investment

Current Status	All Activities		Projects Only	
	Count	Percentage	Count	Percentage
Announced/ Under Negotiation	8	11.9%	7	16.7%
Started	15	22.4%	13	31.0%
Preparatory Works	6	9.0%	4	9.5%
Under Construction	13	19.4%	9	21.4%
Complete	19	28.4%	4	9.5%
Stalled	6	9.0%	5	11.9%
Total	67		42	

³⁷ Matthew Goodman and Jonathan Hillman, *All Rise? Belt and Road Court is in Session*, CSIS, Commentary, July 2018, <https://www.csis.org/analysis/all-rise-belt-and-road-court-session>.

³⁸ Each status level is described in more detail in the methodology section at the end of the report.

Sectoral Trends

Chinese economic activities in the Western Balkans between 2012 and 2019 focused heavily on the transportation and energy sectors, including the development or refurbishment of roads, railways, powerplants, ports, and logistic centers, among other activities. Transport and energy are two important areas of economic activity in the region—important both for their high visibility and for the networks of patronage that are often associated with these sectors. This is particularly true when activities involve SOEs, as they often do in energy and transport projects.³⁹ In the last few years, industry (including energy production) has accounted for an average of 18.5 percent of GDP across the WB6, while trade, transport, and food services (lumped together in national statistical measures) have represented around 21 percent of GDP.⁴⁰ In Croatia, industry represented around 20 percent of gross value added in 2018, and transport (included in the same category as accommodation, food services, and distributive trades) accounted for 23 percent of gross value added.⁴¹

Figure 3. Projects and Deals Announced by Sector, January 2012- January 2020 (percentage)

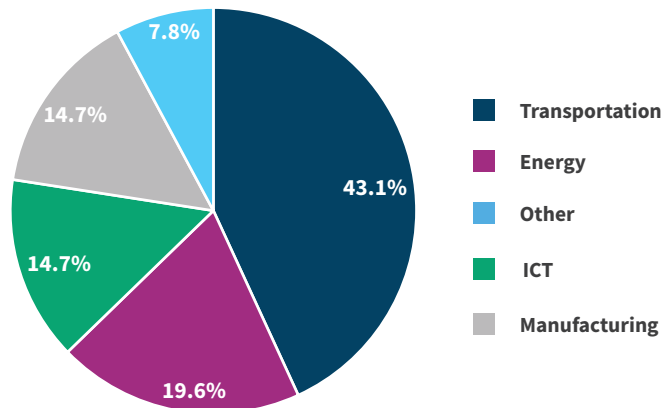
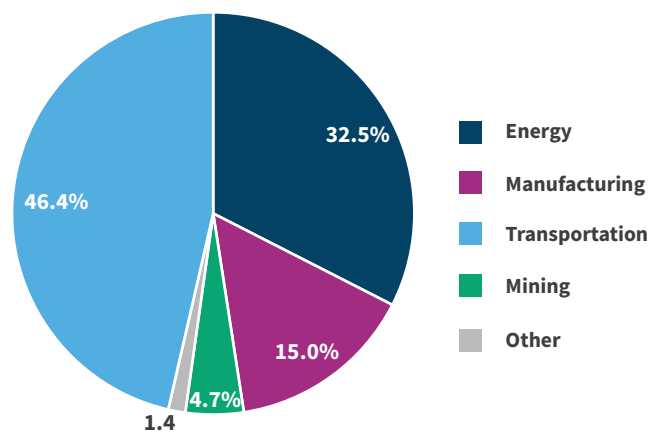


Figure 4. Funding and Investments Announced by Sector, January 2012- January 2020 (percentage)



39 Heinrich Boll Foundation, *Captured States in the Balkans*.

40 Sanfey and Milatovic, "The Western Balkans in transition."

41 "National accounts and GDP," Eurostat, August 2019, https://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP#Gross_value_added_in_the_EU_by_economic_activity.

The energy and transportation sectors account for 64 percent of Chinese-involved activities in the Western Balkans and 79 percent of Chinese-funded or Chinese-invested activities. Despite their high visibility, the completion rates of energy and transportation projects are lower than the total rate for all activities: the average annual completion rate for activities announced in the first half of the study period (between 2012 and 2015) was 17 percent, while the rate for the second half was 12.5 percent (between 2016 and 2019).

Table 9. Completion Rates for Transport and Energy Activities

Start Year	Announced	Complete	Percentage	Average Rate over 4 Years
2012	4	1	25%	17.0%
2013	7	1	14%	
2014	11	1	9%	
2015	5	1	20%	
2016	9	2	22%	12.5%
2017	12	2	17%	
2018	6	0	0%	
2019	9	1	11%	
Total	63	9	14%	

An increasing amount of Chinese attention and investments has been focused on digital infrastructure and ICT, in what could foreshadow a second wave of technology-focused Chinese investments in the region. Of 15 ICT projects, 9 were started in 2018 and 2019, most of them in Serbia. The actual ICT project count is likely higher, as sometimes these systems are installed in conjunction with linear infrastructure (e.g., laying fiber-optic cables alongside new roads and railways). They also carry lower price tags than large energy and transport projects, making them less financially risky. As China’s overall pipeline of BRI spending shrinks and its technology companies face greater scrutiny in Western markets, it may see an incentive to double down on these digital activities in emerging markets, including in the Western Balkans.

Conclusion

Chinese investments and projects in the Western Balkans appear to follow a hub-and-spoke pattern, with Serbia acting as a key node of investments in the region. Chinese investments across the region focus heavily on energy and transportation but are slowly moving into the technology sphere. Western Balkan energy and transportation projects and Chinese-directed investments both regularly engage SOEs, some of which are linked to non-transparent networks of political patronage for individuals and parties in power. Sustained financial support of such projects could feed these networks and prevent the improvement of governance standards as well as impede the development of transparent, healthy market economies. Furthermore, some of the energy and transport projects risk aggravating existing environmental issues in some countries (e.g., air and water quality in Serbia and Bosnia).

China's project completion rates underscore that not every announcement should be taken at face value and that a project, even when started, can often run into serious roadblocks (the other side of non-transparent governance practices). But if some Western Balkan governments can address legal, environmental, and corruption concerns when they arise, this will be a sign of resilience on the part of domestic actors or, should such concerns remain unaddressed, a red flag for both governance standards and Chinese investments.

Appendix: Methodology

Chinese economic activity covers a set of projects and deals including, among others, the development of: digital, transport, and energy infrastructure; manufacturing and industrial activities; special economic zones; natural resource extraction; mergers and acquisitions; and other deals and agreements spanning from January 2012 to January 2020, roughly corresponding with the announcement of China's "16+1" format. "Deals," for the scope of the project, involve: mergers and acquisitions, new business expansions or investments, purchase agreements, donations, and research and development pilots or tests (e.g., 5G tests). "Projects" refer to everything else, generally involving the construction of a physical infrastructure asset (e.g., roads or power plants).

The data presented in this report and used for analysis is collected from a set of open primary sources in both English and non-English languages, including the national government agencies of the recipient countries, regional development banks, and project documentation. The information is supplemented by reports from secondary sources such as local media, industry journals, and other think tank and academic publications. Data is then verified and de-conflicted, with decisions on the reliability and accuracy of sources made based on the best judgment of the research team.

To support the analysis, project-level data on Chinese activity is paired with other country-level economic, political, and social indicators (e.g., debt-to-GDP ratio, ease of doing business rankings, income levels).

"Chinese-involved" activities refer to activities in which a Chinese company or government actor is a contractor, a funder, or a supplier (or a combination of those). Chinese "funded" or "invested" activities refer to a Chinese company or government actor giving out a loan, a grant (monetary or in-kind), or investment for the project.

The status levels of Chinese economic activities are defined as follows:

- **Announced/under negotiation:** Chinese participation is expected, or negotiations are under way, but no signed or formal agreement could be identified.
- **Started:** A deal or project agreement has been signed, but no further action has been reported.

- **Preparatory works:** Feasibility studies, technical studies, or other pre-construction activities have been performed or are underway.
- **Under construction:** Construction has started, but no evidence of completion could be identified.
- **Complete:** The project or deal has been fully implemented.
- **Stalled:** Project negotiations have missed formal deadlines, or reporting about the project indicates that it is stalled.

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