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# The Western Balkans and Geopolitics: Leveraging the European Union and China

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## ABSTRACT

The European Union (EU) is the dominant political and economic influence in the Western Balkan (WB) region, but in the view of many of the region's citizens, EU integration is associated with strict and painful convergence criteria and burdensome reforms as well as the inertia of unfulfilled accession requirements. China's involvement in the region is focused mainly on much-needed but controversial infrastructure investments; accordingly, it has attracted increasing international attention over the past decade. At the same time, Turkey, the Arab States, and Russia have also shown heightened interest in the region. This paper addresses the important geopolitical question of whether a mutually-beneficial relationship for all participants is possible.

## KEYWORDS

EU; China; Western Balkans; geopolitics; growth; infrastructure; EU accession

## Introduction

The Western Balkans (WB) is a geopolitically strategic region facing competing partnerships with the EU, China, and other major players. Over recent years, EU members have been prioritizing matters at home such as the GFC, Syrian refugee crisis, COVID-19, and presently the conflict in Ukraine. These major distractions have resulted in delays in the accession process for Western Balkan (WB) countries. Furthermore, as Schimmelfennig observes “the weak political interest and concerns about state capacity and democratic backsliding keep the EU from making the (WB) region's membership a priority”.<sup>1</sup>

“When regional actors failed to develop effective instruments to prevent, mitigate or stabilize either political disputes” or economic issues, . . . Russia, China, Turkey, and the Arab States have” have underscored a more aggressive policy, filled the gap and strengthened their roles in the region. Since the Global Financial Crisis (GFC) of 2008, the presence of China has become increasingly visible through investment in infrastructure, notably in transport, energy, and industrial production, as well as the development of the Balkan Silk Road”.<sup>2</sup> The opening strategy supported by the Chinese government, with the lower labour costs and their depressed currency, has made China not only the largest exporter but also the largest foreign investor, in last decade.<sup>3</sup> China has moved from being the world's largest recipient of foreign direct investments (FDI) to the one of the

largest origins of FDI since 2000.<sup>4</sup> Russia, Turkey, and other powerful states also have strong historical, cultural, and religious ties with the WBs.<sup>5</sup>

The EU and the US have spent billions of euros and dollars encouraging democratization and economic recovery across the WB region following the dissolution of Yugoslavia in the 1990s. The EU remains the region's largest partner in trade and investment, and the principal provider of financial and technical assistance. Foreign direct investment is essential for the future of the WBs as<sup>6</sup> the main form of international capital with potential to drive economic growth.<sup>7</sup> Although the WB region is not among the leading global destinations for FDI,<sup>8</sup> the importance of FDI inflows to these countries cannot be overstated,<sup>9</sup> Peter Dicken argues<sup>10</sup> that FDI can lead to efficiency, employment, and other positive spillover effects, particularly in countries such as those in the WBs that lack sufficient domestic capital. However,<sup>11</sup> while the EU leads as FDI origin, the potential for FDI in the region remains unrealized.

Fundamentally, the region's potential to attract FDI and realize long-term growth depends on EU membership as well as infrastructure investments. To this end, China has emerged as an important infrastructure developer in recent years.<sup>12</sup> For Chinese firms, the EU has long been of great interest as a large and developed export market, and more recently as an FDI destination. Over time, the new and potential EU members have also attracted attention from Chinese investors as a gateway to the EU market<sup>13</sup>.

Citing historical evidence that well-developed infrastructure can facilitate economic growth, governments in the region seek modernization of their shoddy infrastructure. Although the EU has set aside funds for infrastructure investment,<sup>13</sup> such projects in the WBs are both technically and financially challenging due to geography. As a result, the EU's efforts have been insufficient. To some extent, China has filled the void by investing in proposed projects that had been left unsupported by the EU. One example is the Bar-Boljare highway in Montenegro. Following the formation of China's Central and Eastern European Countries (CEEC) cooperation initiative and implementation of the Belt and Road Initiative (BRI), a USD 10 billion credit line was established to support joint projects in CEEC, with a portion of the total being a concessional loan. China's BRI put additional financial tools in place to support investment in infrastructure.

Since the launch of the ambitious BRI, China has emerged as an important infrastructure developer in the WBs,<sup>14</sup> and it has also gained visibility in its economic engagement in energy and transportation sectors.<sup>15</sup> At the same time China has been repeatedly called out by Western media and think-tanks for its so-called 'debt trap diplomacy'<sup>16</sup> schemes, referring to Chinese involvement in costly infrastructure financing throughout the weak economic systems of the developing world.<sup>17</sup>

This paper seeks to explore the economic and political balance of power between China and the EU in the context of the WBs. The objective is to examine whether and to what extent an increased presence of China could impact the WBs' relationship with the EU, with special consideration for EU accession and broader integration prospects for applicant countries.

Thus, the paper asks three important questions: First, given the region's tense geopolitical realities, what are the possible impacts of power players on the access process of the WBs? Second, what rationale do WB leaders have for 'playing the geopolitical China card' to gain leverage with the EU? Third, does potential exist for a 'win-win-win' solution with reference to the EU-China-WB relationship?

The paper is divided into five sections: First, a historical overview of China's engagement with the WBs is provided. Second, the WB need for economic partnerships is addressed, examining trade and FDI as bellweathers for the region's orientation. Third, WB obstacles to EU accession are considered. Fourth, threats from outside partners are discussed. Finally, we conclude by examining whether a mutually-beneficial situation is possible for all three major parties under consideration here: the Western Balkans, the EU, and China.

## **China's Engagement in the Western Balkans – Historical Roots and Perspectives**

At the time of writing, China lacks an overall formal strategy towards the WBs. In fact, the descriptor 'Western Balkans' does not appear in its official documents and statements. Zuokui argues<sup>18</sup> that China adheres to the tradition of 'one country, one policy' for the entire Balkan region. Its relations with Europe have historically concentrated on large countries such as Germany, France, Italy, and the United Kingdom. The situation changed in 2012 with the formation of China-CEEC Cooperation, when China added Central and Eastern European countries to its overall formal European diplomacy. China is among the most strategically important partners of most European countries, although relations with the EU are complex and challenging at various levels. In different EU policy areas, China is a cooperative partner with shared goals, a negotiating partner with which the EU must find a balance of interests, an economic competitor in the race for technological leadership, and a systemic rival favouring an alternative governance model.

Although China's increasing involvement in the WBs has attracted significant international attention, it should be noted that its presence in the region is not new, and in fact it shows historical continuity. During the Cold War era, China maintained diplomatic relations with both the Socialist Federal Republic of Yugoslavia and the Socialist People's Republic of Albania. China established diplomatic relations with Albania on 23 November 1949. China's relationship with the Yugoslav federation had its ups and downs.

In the early 2010s, CEEC returned to the agenda of China's foreign policy after a long disengagement. The first meeting of Chinese and CEEC heads of government was held in Warsaw in 2012, forming a new arrangement for cooperation. Every WB country was included in the framework. Wen Jiabao, China's prime minister at the time, announced a special credit line of USD 10 billion from the Chinese government, with a proportion of preferential loans focusing on supporting bilateral cooperation projects for infrastructure, high technology, and the green economy. The EU member states in Central and Eastern Europe had difficulty accessing Chinese preferential loans because they were restricted from providing sovereign guarantee for the credit due to the EU's debt limit restrictions. Unconstrained by EU rules, WB states have been more receptive to these Chinese preferential loans. These loans have mainly been used to help develop inferior infrastructure in the region, which creates bottleneck for economic development. China's BRI Initiative focuses on infrastructure connectivity and will be instrumental in modernizing this sector.

At present, China's relations with WB countries are multifaced. They include political contact, economic cooperation, cultural exchanges, and high-level meetings. China

maintains formal diplomatic relations with most WB countries. The People's Republic maintains embassies in Albania, Serbia, Montenegro, Northern Macedonia, and Bosnia-Herzegovina. Although China does not recognize Kosovo as an independent state, its Belgrade embassy supports an office in Pristina.

Prior to the outbreak of COVID-19, within the China-CEEC Cooperation mechanism the Chinese prime minister met on an annual basis with his WB counterparts. China's economic presence in the region focuses on energy, transportation, and other infrastructure, although thus far, Chinese greenfield investment is rare. China has made strides in promoting of Chinese language and culture in the region, with seven Confucius Institutes being founded in West Balkan countries during the period 2006–2018, presented in Table 1.

At the time of writing, no Chinese think-tanks nor NGOs exist in the region, and academic exchanges are infrequent compared to Central European countries. In the second half of the 2010s, the facilitation of travel for Chinese citizens has occurred, as has liberalization of entry requirements for Chinese tourists. Chinese citizens with ordinary passports are exempt from visas when they enter Serbia and Bosnia-Herzegovina. Montenegro and Albania conditionally liberalized entry for Chinese citizens holding ordinary passports. For several years leading up to the onset of COVID-19, Chinese tourist inflows to the region had increased significantly Chinese tourists visiting Central and Eastern Europe increased from 280,000 in 2012 to 930,000 in 2016 reported by Xinhua News Agency in 2017.<sup>19</sup> The same outlet reports that over 1.4 million visits were made by Chinese tourists to the CEE countries in 2018. Of course, COVID-19 interrupted the growth of cultural exchange and tourism beginning in 2020.

China's partnerships within the WB region are unbalanced and dominated by Serbia, the region's largest and most populous state. Since 2009, Serbia has become China's key partner in the WBs, and even throughout the broader CEEC.

Although growing rapidly, China's trade relationships with WB countries remain relatively insignificant. In 2019, the trade volume between China and WB countries was USD 2.72 billion US dollars, including USD 1.99 billion in exports and USD 731 million in imports. China's resulting trade surplus was \$1.26 billion. The trade volume between China and CEEC (plus Greece) in 2019 was USD 95.41 billion, of which exports represent USD 70.59 billion and imports USD 24.82 billion. In 2019, the trade volume between China and the WBs accounts for only 2.85% of the total of China and 17 CEE countries. In 2019, total trade between China and Serbia as USD 1.33 billion, twice the value of 2011. The value of trade with each individual country is provided in Table 2.

**Table 1.** Presence of Confucius Institutes in Western Balkans region.

Country	Host University	Date of establishment
Serbia	Belgrade University	27 August 2006
Serbia	Novi Sad University	27 May 2014
North Macedonia	Ss. Cyril and Methodius University	3 September 2013
Albania	University of Tirana	18 November 2013
Montenegro	University of Montenegro	14 February 2015
Bosnia-Herzegovina	Sarajevo University	14 February 2015
Bosnia-Herzegovina	Banja Luka University	10 February 2018

Source: Authors' data.

**Table 2.** China's Trade with Western Balkan Countries in 2019 (USD mil).

Country	Total Trade	Export	Import	Balance
Serbia	1,392	1,031	360	672
Albania	704	601	103	498
Bosnia-Herzegovina	192	115	77	38
Montenegro	157	114	43	70
North Macedonia	282	133	148	-15
<b>Total</b>	<b>2,727</b>	<b>1,994</b>	<b>731</b>	<b>1,263</b>

Source: China's Customs Office (<http://english.customs.gov.cn/>).

Trade between the WBs and China remains dwarfed by trade with the EU. In 2019, the trade volume between EU and WB countries was USD 61.43 billion (EUR 54.88 billion), with USD 35.71 billion (EUR 31.9 billion) in exports and USD 25.72 billion (EUR 22.98 billion) in imports, resulting in an EU trade surplus of USD 9.98 billion (EUR 8.92 billion)<sup>2</sup>. For the WB countries, the EU is still by far the leading trade partner, accounting for almost 70% of the region's total trade<sup>7</sup>.

The traditional friendship between China and Serbia has been enhanced by more intensive economic cooperation at a bilateral as well as a multilateral level under the framework of cooperation between China and CEEC.<sup>20</sup> Serbia is located at the hub of China-Europe Land-Sea Express and provides an important strategic fulcrum for China to implement the BRI in the Balkan region<sup>19</sup>. China-Europe Land-Sea Express stretches from Greece's Port of Piraeus in the south to Budapest, Hungary in the north via Skopje, North Macedonia and Belgrade, Serbia. This new highway is regarded as a convenient route for Chinese exports to Europe and European goods intended for China. With construction expected to be complete by 2025, the Budapest-Belgrade Railway is considered the flagship project of the BRI.

The potential for Chinese investment in the transport and energy infrastructure of the WB countries is enormous. These sectors lag far behind their counterparts in the EU's new member states. China's current economic presence concentrates mainly on the infrastructure sector. Most of the infrastructure projects are supported by China's concessional loan, with China Exim Bank and China Development Bank as the main lenders. The total value of Chinese FDI in the region stands at USD 14 billion for the period 2005–19, with about half concentrated in transportation and 32% in energy, as presented in Table 3.

The data in Table 3 are rough think tank estimates in the absence of reliable statistics, so it is difficult to glean a full picture of China's economic presence in the infrastructure sector.

**Table 3.** Chinese investment and contracts in Western Balkans, 2015–19 (USD billion).

	Total FDI	Transport	Energy
Serbia	10.3	4.84	2.8
Montenegro	1.22	1.12	0.1
Bosnia-Herzegovina	2.5	0.74	1.8
North Macedonia	0.65	0.49	–
Albania	n.a	n.a	n.a
<b>Total</b>	<b>14.67</b>	<b>7.19</b>	<b>4.7</b>

Sources: American Enterprise Institute, China Global Investment Tracker.

**Table 4.** China's Major Investors in Serbia as of 2020.

Investor	Sector	Year	Investment (Million Euro)	Employment
Johnson Electric	Electronics	2013	65	3400
HealthCare	Hospital Furniture	2015	50	1200
Mei Ta	Automotive	2015	120	3100
Zijin Mining Group	Mining	2016	300	5000
HBIS Serbia	Steel and Iron	2016	300	5000
Bank of China	Banking	2017	50	30
Yanfeng	Automotive	2019	22	700
Linglong Tire	Tubber(Tire)	2019	800	1200
MINTH Group Limited,	Car parts	2019	100	1000
Xingyu Co. Ltd.	Electronics	2020	60	1000
<b>Total</b>			<b>1867</b>	<b>21,630</b>

Source: Government of Serbia 2020.

Serbia is the largest investment recipient in the WBs, having attracted about 70% of China's investments in the region. From 2013–2020, the total value of Chinese FDI is USD 1.867 billion with total employment of over 21,000. Table 4 features the major Chinese multinational enterprises (MNEs) present in Serbia at the end of 2020.

China participates in infrastructure projects in Serbia, from highways to railways. The Budapest-Belgrade Railway is perceived as the flagship project of BRI. The 62.5-kilometre section highway in Serbia built by Shandong Hi-Speed Group was opened in 2019. In June 2020, Shandong Hi-Speed Group and its Serbian partners started to construct the 18.3-km highway linking Valjevo to Milos Veliki motorway, valued at EUR 158 million.

Elsewhere in the WBs, Everbright Group and Friedmann Pacific Asset Management finalized acquisition of Tirana International Airport for a ten-year concession in 2016.<sup>21</sup> In the same year, Geo-Jade Petroleum acquired Albania-focused Canadian oil producer Bankers Petroleum for a price of EUR 384.6 million, with full rights to develop Albania's Patos-Marinza and Kucova oilfields. The Chinese Sinohydro Corporation finished the highway between Miladinovci and Stip in North Macedonia, which was opened in July 2019 with the Kicevo-Ohrid highway still under construction. China Exim Bank provided a highway project loan in North Macedonia. Chinese firms have also entered the energy sector in Bosnia-Herzegovina. Stanari Thermal Power Plant is regarded as a successful key-to-hand project using credit from the China-CEEC Cooperation framework. This project was Chinese designed and built, with equipment installed by a Chinese contractor. Together with three Bosnian civil engineering companies, Gezhouba Group Company Ltd. broke ground on a EUR 722 million (\$852 million) unit at Bosnia's Tuzla thermal power plant in August 2020. The loan of EUR 614 came from China Export-Import Bank. China State Construction Engineering Corp and a consortium including Azerbaijan's Azvirt MMC, China's Sinohydro Corporation and China Road Bridge Group signed the contract to build part of a pan-European north-south highway with Bosnian state motorways firm Autoceste FBiH in 2019, with the European Investment Bank providing funding for the project.

Bar-Boljare highway is the largest Chinese-financed infrastructure project in Montenegro. China Export-Import Bank provided a USD 1 billion loan for the project, with the China Road and Bridge Corporation (CRBC) hired as the main constructor. Notably, Bar-Boljare highway has been regarded by some in the Western media and think-tanks as a 'debt trap'. In addition to this major highway project, Chinese firms also

invested in Montenegro's energy sector. A consortium of Maltese state-owned power utility Enemalta and China's Shanghai Electric Power Company built Možura wind farm, with commitments for twenty years of operation following its 2019 inauguration.

Regarding cultural (people-to-people) exchanges, China maintains stronger relations with Serbia than with other countries in the region. Other types of cooperation have increased since the COVID-19 outbreak pandemic. China has provided masks, protective equipment, testing equipment, and vaccines to Serbia. In July 2021, Serbia signed a memorandum with China to build a factory for the domestic production of the Sinopharm coronavirus vaccine.

In recent years, China's engagement in the WBs has attracted greater attention both at home and abroad. In the context of great power competition, China's engagement in the WBs is increasingly viewed throughout the West in geopolitical terms. Rhetoric in the EU has recently grown more louder and more aggressive as the EU asserts itself as a geopolitical player against the backdrop of geopolitical tension between China and the United States. As a result, the High Representative for Foreign Affairs and Security Policy Josep Borrell points out that the 'EU should become a real geopolitical player or risk Europe becoming just a playground for other big powers'<sup>22</sup>. The EU increasingly regards China's presence in the WBs as a threat, introducing measures to counter China's influence. As a geopolitical issue of key relevance, Borrell supports stronger political engagement with the region.<sup>23</sup> His Chinese counterparts maintain that China's role in the WBs has been overstated. Zuokui argues that China's central policy towards countries in the region is to maintain friendly and cooperative relations and actively promote economic development, trade, and investment cooperation<sup>19</sup>.

Moreover, China is not alone as a powerful player with interests in the WB region. Notably, the soft power and economic presence of Russia, Turkey, the Gulf States, and Iran has also accelerated there. EU foreign policy chief Federica Mogherini stated in 2017 that the WBs risked becoming a 'chessboard' for geopolitical struggles between Russia and the West.<sup>24</sup> In the 2018 Konrad-Adenauer-Stiftung map of geopolitical players in the region, along with Russia, China is depicted as a significant actor.<sup>25</sup> One year later, EU Enlargement commissioner Johannes Hahn declared that the EU 'overestimated Russia and underestimated China' in responding to rival foreign influence in the Balkans<sup>2</sup>. In agreement with the data provided in the previous section, Shopov (2021) claims that China has become the most prominent third actor behind the EU and the US in the WBs, where China is slowly transforming its interactions with WBs countries in sectors such as culture, media, and politics into long-term and institutionalized relationships<sup>24</sup>.

## The Essential Role of Economic Partnerships

To better understand the context, it is worthwhile to examine the relative role of WB countries' trade and FDI partners. In this regard, WB countries faced many unique challenges since their independence in the 1990s.<sup>26</sup> Trade and FDI can potentially promote economic development and technology transfer, but the WB experienced a late start vis-à-vis the rest of CEECs.<sup>27</sup> This is associated with Yugoslavia's violent dissolution, as well as 'the US government's decision as early as 1989 not to include Yugoslavia in its policy of supporting post-socialist transitions in Eastern Europe.'<sup>28</sup> Throughout 1990, the institutional weakening of the federation came along with the



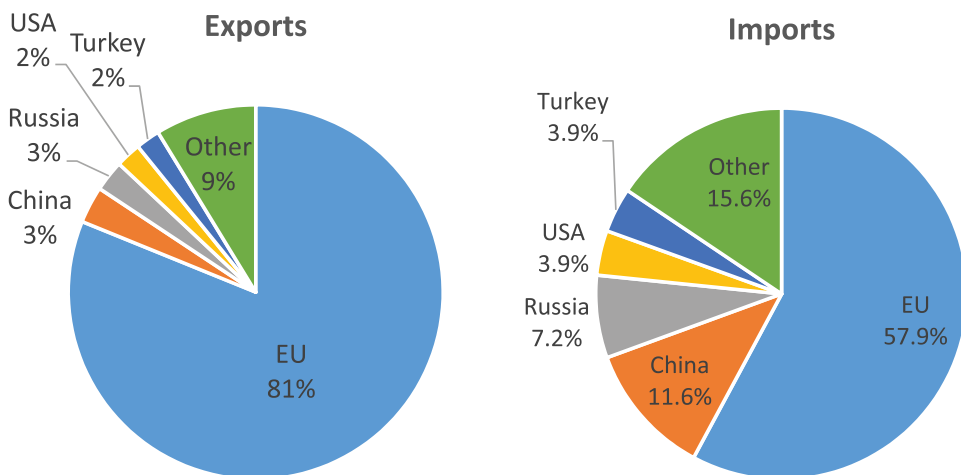
progressive delegitimization of Yugoslavia as a state<sup>29</sup>. Concerns about regional stability compounded a wide range of initial political and economic circumstances, privatization programs, and other government policies.

Gradually, the United States and other partners have engaged the successor states of Yugoslavia. Bartlett argues that the most important aspect of Balkan integration with the EU is economic security, which can be achieved through trade, FDI, and the inclusion of international supply networks.<sup>30</sup> Accordingly, EU member states are by far the best represented as partners of WB countries. Although Chinese trade with the region remains far less significant than EU trade, it is beginning to expand in terms of both exports and imports. While the EU continues to dominate as the main WB trade partner in 2021, China was the origin of 11.6% of imports to WB states, and the recipient of 3.2% of their exports (Figure 1).

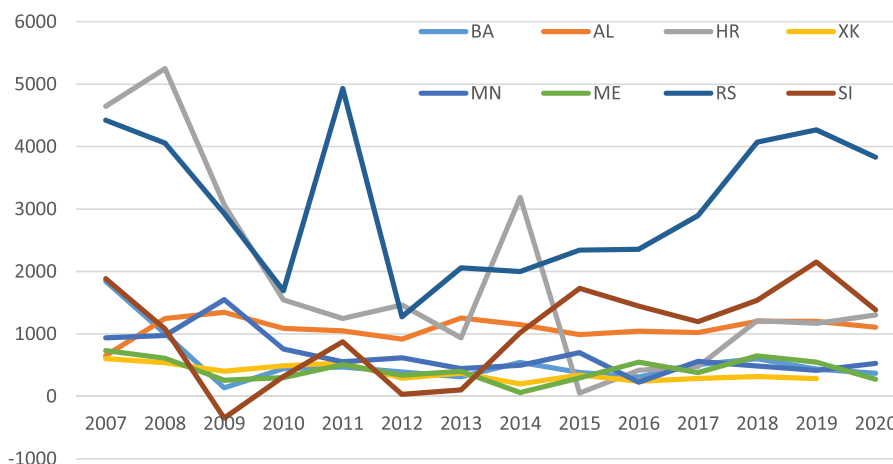
Figure 2 also shows the participation of other non-EU trade partners in the region, verifying growing interest in the region by Turkey<sup>3</sup>, Russia<sup>6</sup>, and others<sup>4</sup>. In 2021, the WB exported nearly as many goods to Russia (2.7%) and Turkey (2.1%) as to China (3.2%). China, Turkey, and Russia are also important importers of WB goods, although dwarfed in comparison to the EU.

Expanding trade requires improving infrastructure. In the Balkans, connectivity lags far behind other regions of Europe. The EU and China have both initiated projects that will make this region far more integrated into the global economy. Increasingly, major investments to the WBs are coming from Asia, and specifically China and the Arab states. Cosentino et al. argue that China's BRI has very positive implications for SEE.<sup>31</sup> Moreover, such investment will make the Balkans more accessible for MNEs from Asia. This project will especially improve accessibility in Croatia and Montenegro, which lie along the Adriatic coast, but will also extend into Bosnia-Herzegovina, Serbia, Kosovo, and North Macedonia.

Figure 2 shows cumulative FDI to the WBs since Montenegro's separation from Serbia in 2006, coinciding with the availability of full data for the region. The countries have



**Figure 1.** Leading Western Balkan Trade Partners in Goods, 2021. Source: Eurostat (2022) <https://ec.europa.eu/eurostat/statistics>



**Figure 2.** Total FDI flows to the Western Balkans, 2007–2019. Source: World Development Indicators <https://data.worldbank.org/> and UNCTAD <https://unctadstat.unctad.org/>

received positive flows of foreign capital nearly every year since that point, with some years characterized by a handful of major investment projects reflected as peaks in this graphic. More details on specific fluctuations can be found in Deichmann provided<sup>32</sup> by scholars from each successor state of Yugoslavia.

Figure 1 does not feature the origins of FDI. However, in the case of Serbia (the region's largest recipient) they were dominated by MNEs from Western Europe until the GFC, after which a flurry of projects from 'new' origins such as the United Arab Emirates and Turkey were realized through formal integration arrangements. At the end of 2020, Turkey is the seventh most important origin of FDI projects by number with 3.8%<sup>32</sup>. These treaties are supported by deliberate efforts on the part of Turkey, the Gulf States, and Iran to become more culturally, politically, and economically involved in the WB region. China has also emerged as major player, especially in Serbia, with 8.7% of the total value of FDI in the country<sup>32</sup>.

In Bosnia-Herzegovina, a similar GFC-related pivot is observed by Peštek, Lazovic, and Abdic,<sup>33</sup> with the withdrawal of some EU projects and acceleration of Russian FDI in Republika Srpska as well as Montenegro<sup>4</sup>. Considering the shared WB goal of EU accession, without exception the scholars contributing to this comparative volume urge policymakers to exercise prudence in screening FDI that meets long term development and integration objectives.<sup>34</sup>

Table 5 shows cumulative FDI stock as percentage of GDP at the end of 2020, reflecting the importance of foreign capital to each of the countries. Serbia, Croatia, and Slovenia have been the most successful in attracting FDI, attributable to their larger and/or more affluent markets and other factors. The table also reflects the level of dependency on FDI, which is highest in Montenegro at (98.3% of GDP) and Serbia (81.25% of GDP), and lowest in Slovenia at 38.6%. The difference in 2020 GDP as reported by the World Bank should also be noted, with Montenegro at USD 4.8 billion and Serbia at USD 52.9 billion.<sup>35</sup>

**Table 5.** Cumulative FDI data for the Western Balkans at the end of 2020.

Country	Current USD million	Cumulative Value/current GDP
Albania	10,024	68.43
Bosnia-Herzegovina	9428	48.3
Croatia	30,066	57.29
Montenegro	6513	98.3
North Macedonia	7306	50.48
Serbia	56,972	81.25
Slovenia	20,420	38.6

Source: UNCTAD (2021). Retrieved from <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>. Note: this UNCTAD data site excludes Kosovo, with disputed status following its 2008 claim of independence.

Investment agencies in the WBs court MNEs and often offer generous investment incentives. They then provide support in setting up the projects and arrange aftercare to the foreign enterprise (see, for example [waipa.org](http://waipa.org)). Based on a wide range of empirical findings,<sup>36</sup> it is argued here that the majority but not all FDI projects promote economic growth in the Balkans through<sup>37</sup> their effect on employment and productivity as well as other indirect spillovers.<sup>38</sup> The impacts of FDI are numerous and complex,<sup>39</sup> and often depend upon features including but not limited to investment origin, characteristics of the involved MNE<sup>38</sup>, industrial sector<sup>37</sup>, and the destination itself<sup>35</sup>.

Policies promoting FDI are implemented by all WB states, and two ongoing developments will help determine their ability to identify potentially beneficial FDI partners from abroad.<sup>40</sup> First, European integration; and second, the growing importance of ‘new’ sources of FDI such as China, followed by Turkey and the Arab states to a lesser degree. Since the GFC, MNEs from these origins have begun filling an opportunity vacuum in FDI left by companies from the previous leading origins in Europe and North America.

Further integration with the EU will be the primary enabler of FDI both from the EU and other countries seeking access to the broader European market. This is evident from the enormous flows of FDI that flooded into the EU accession states of 2004 (much of Central Europe), 2007 (Bulgaria and Romania), and 2013 (Croatia), particularly from existing EU members.

To conclude this section, it is worth reiterating that trade and FDI flows are inextricably linked to integration with the EU as well as relationships with other powerful economies such as China, the United States, Russia, and Turkey. Following a period of distractions including the GFC, Brexit, and COVID-19, the WB region experienced benign neglect by the EU and United States. As a result, the presence and quality of infrastructure remains a chronic problem in the region, that might be resolved in part by Chinese financing. In this regard, China’s involvement could be seen as compatible with the interests of the WBs, and even perhaps with the interests of the EU by enhancing connectivity and transferability across Europe.

### Obstacles to EU Accession and the Need for New Partners

According to Mišćević, important political and technical concerns related to the EU accession of WB countries remain.<sup>41</sup> Political considerations are linked to the obligation of EU candidates to align with decisions of the EU27 regarding their geostrategic relationship with China and other actors. As already established, WB governments are

increasingly frustrated by the lack of progress in EU accession, and have begun welcoming Chinese economic engagement in the region. However, despite the many advantages of China's economic engagement both for China, on the one hand, and the EU and WB countries themselves, on the other, the model of Chinese state-led engagement can run contrary to the EU's reform agenda.<sup>42</sup> Technical considerations are closely connected with the WB's obligation to accept and implement the EU *Acquis Communautaire*. Of course, such obligations typically wouldn't be of concern to China. However, bearing in mind the significant level of Chinese presence in the Balkans, it has already led to some concern on the part of the EU.

Another important EU requirement is public procurement reform, which is required to facilitate open market competition in a transparent way, open to all companies on the basis of non-discrimination and equal treatment. Chinese infrastructure development loans, in contrast, require the selection of Chinese contractors to implement projects. As a result, large Chinese infrastructure projects are initiated through inter-governmental agreements, opening the door for *lex specialis* (special law) procedures that bypass public procurement law.<sup>43</sup>

In addition, EU infrastructure development loans involve a host of conditions designed to guarantee financial feasibility, environmental sustainability. They also require minimum labour conditions and procedural transparency. With China present as an alternative lender, if EU institutions deny funding to a project for any of these reasons, WBs governments can turn to China for financing, as was the case with the Bar—Boljare highway in Montenegro.

Moreover, EU accession seekers are required to abide by the Stability and Growth Pact (SGP) on fiscal surveillance, which regulates budget deficits and maximum debt levels.<sup>44</sup> Small countries that assume relatively large amounts of debt risk are unable to abide by these rules, and sometimes fail to repay their debts. Owing a large share of foreign debt to a single country poses dependency risks. Montenegro's large debt to China, for example, could introduce undue geopolitical influence by China on the region. The main problem is not Chinese funding in and of itself, but the means through which the funding is provided (i.e., state-to-state engagement) and an absence of attached conditions if the loan does not meet EU standards.

With the continuing use of low-grade lignite coal for electricity production, the WBs region remains one of the most polluted regions in Europe. European investment banks scrutinize funding of projects based upon environmental sustainability, and the EU will not fund coal power plants. In contrast, China exports coal and provides funding for coal power plants. Although WBs countries remain thus far outside of EU environmental standards, their plants will need to be retrofitted if they are admitted into the EU.

Finally, the Stabilization and Association Process (SAP) and the Energy Community Treaty require WB countries not to introduce incentives that might distort competition with the EU. Incentives that favour industries such as coal over others are incompatible with the SAP.

### Concerns about Foreign Presence in the Western Balkans

This section assesses the perceived threat of foreign presence in the WB states, which has attracted significant attention from policymakers and researchers. From the perspective

of Balkan applicants, EU accession seems to be increasingly open-ended and potentially never-ending.<sup>10</sup> As a result, other global and regional players such as China, Russia, and Turkey recognize an opportunity to fill the vacuum. From each of these powers, economic, diplomatic, and political influence is greater than it was two decades ago. Russia shares historic, religious, and economic roots with WB countries and plays an important role in the region. Bechev argues that 'Russia is not returning to the Balkans, because it never left'<sup>45</sup>. However, Russia's influence varies significantly across the countries. Albania, Kosovo, Montenegro, and Bosnia-Herzegovina's Bosniak population have been critical Russian regional approach, while North Macedonia has never been high on the Russian agenda. In particular, Russian interference in Bosnian internal affairs is viewed very negatively. In contrast, Serbia and the Republika Srpska continue to perceive Russia (as well as China) to be reliable partners and helping hands, which also became obvious during the COVID-19 pandemic.

However, sanctions against Russia following its 2022 invasion of Ukraine have dramatically curtailed its economic involvement in the EU and potential new members and public opinion towards Russia has soured across the continent. This is important because Russian economic ties with Western Balkans have been weakening in recent years because of international sanctions over the annexation of Crimea reaching only 4.3 percent of total WB trade in 2019. Moreover, until recently, for Serbia, Bosnia-Herzegovina, and North Macedonia, Russia supplies 90 percent of crude oil and natural gas. In Montenegro, Russian investments represent 30 percent of GDP in the period 2005–2014 and remains single largest investor. Similarly, Russia has continuously been the largest foreign investor in Serbia as well as in Bosnia-Herzegovina, particularly Republika Srpska. Rajčinovska Pandeva argues<sup>46</sup> that 'Russian actions were aligned predominantly with its aspirations to exert influence over and dominate the Balkan region in political terms' This argument is in concert with Emini,<sup>47</sup> who observes Russia's 'solid cooperation with Western Balkan autocrats' However, Russia's soft approach towards region 'has been highly effective' in the propaganda media campaign, particularly during the pandemic in countries noted earlier. Indeed, with regard to soft power Russia is waging a quite successful hybrid war against the West in Montenegro and North Macedonia. In contrast, the EU was rather slow and ineffective in promoting its assistance. Still, Russian economic investment cannot compete with EU investment and development aid to the WB region.

The presence of China, in contrast, is relatively new, so further research is in order. China's recently accelerated engagement has drawn considerable criticism from officials, observers, and scholars in the West. Some observers claim the EU underestimates China's influence while overestimating that of Russia<sup>2</sup>. Other scholars<sup>6,4</sup> on the other hand, respectively argue that powers such as Russia and Turkey will continue to use soft power to fill the friendship vacuum created by WB frustration with the EU accession process, with Turkey empathizing as WB Euroscepticism grows. Some European politicians worry that China's economic engagement may transform into political influence, with particular concern surrounding the BRI. For example, Von der Leyen emphasized that the WBs are part of Europe and not just a stopover on the Silk Road<sup>47</sup>.

Researchers from US think-tanks hold that China's economic engagement in the WBs provides avenues for China to exercise political influence, and may lead to the crowding out the USA, EU, and potentially in the future, Russia. They argue that China's

heightened influence can only come at the cost of other players.<sup>48</sup> China maintains its specific model of governance known as ‘socialism with Chinese characteristics’, or market-led allocation of resources managed by the state<sup>48</sup>. From China’s official narrative, its model of governance paved the way for economic success, while the model of governance is in harmony with its national conditions related to history and culture. According to President Xi, just as China refused to import other political models, its policy is to refrain from exporting its governance system to other countries<sup>30</sup>.

China has moved towards a stronger regional economic presence in the WB, but shows no evidence of joining the political rivalry for the region. As stated by the Chinese Ambassador to Montenegro, ‘China has no geopolitical or other pretensions in Montenegro or the Western Balkans as a whole, nor does it want to compete with the European Union for influence in the region. China is open to cooperation with the EU in the direction of providing assistance to the countries of the Western Balkans’<sup>49</sup>. Xu highlights synergy between the BRI and WB EU enlargement strategy. China assumes that political future of the WB countries lies with the EU and contends that its economic engagement in the region contributes to EU integration. Unfortunately, China’s pursuit of synergy with the EU could be compromised if the EU resists China’s influence in the region as a perceived threat.<sup>50</sup>

In light of current geopolitical tensions in Central and Eastern Europe, European decision-makers are prudent to monitor Chinese influence, especially if a merely economic presence continues to expand into a more diversified presence. It is prudent to remain vigilant towards Chinese influence and how it might be manifested, as well as any impact it may have on EU-China relations. In short, the EU’s rules restrict government intervention in the economy. The Chinese state plays a much larger role in its economic model. However, it may be possible to reconcile the European desire for WB countries to participate in a Western political system while simultaneously benefitting from Eastern capital that also facilitates trade between China and the rest of Europe.

In official statements, China expresses its desire for pragmatic cooperation with the WB, similar to those established with North Africa or Middle East. Since China’s 2001 accession to the World Trade Organization (WTO), it has practiced its Go Globally strategy to encourage firms to find resources and markets offshore and expand business abroad. The Belt and Road Initiative (new silk road initiative) put forward in 2013 is regarded as Go Globally 2.0. On the one hand, BRI is driven by the requirement of domestic economic development, on the other hand, it is driven by the response to the geopolitical and geo-economic challenges facing China in international arena. The BRI is a geo-economic project rather than geopolitical project. From China’s perspective, the CEECs are important economic partners with great potential in term of trade and investment. The special geographic location of CEECs can facilitate trade flows between China and Europe. In addition, the interconnection of CEECs may present opportunities for infrastructure cooperation.

The WB countries share a European perspective with their neighbours in the EU, including concerns for the stability and prosperity of the region. Moreover, Albania, Montenegro, and North Macedonia are full members of NATO, again sharing common interests with the EU as well as the United States, although United States are not fully compatible with those of the European Union. Russia is also an important player in the WBs, although its actions in Ukraine especially since 24 February 2022 have been

detrimental to its relations with Europe. Officially, China does not pursue geopolitical goals in the region. From China's perspective, international relations in the WBs are quite complicated. Because the region is far from China, its consistent policy since 2012 has been pragmatic cooperation in the region while refraining from involvement in the regional geopolitical rivalry.

Reluctant to intervene in the internal affairs of other countries, China is committed to building a comprehensive partnership with WB countries. Specifically, China seeks cooperation in areas of diplomacy, trade, investment, science, and technology, as well as education and tourism. In addition, new areas of cooperation such as public health are possible as the world responds to the COVID-19 pandemic.

Finally, it is argued here that a mutually beneficial relationship remains possible as the WB region maintains political orientation towards Europe while utilizing capital from China and other countries through non-political cooperation such as loans, FDI, and trade. Working transparently to alleviate suspicions, the WB states, EU, and China, and others should foster cooperation to build better infrastructure and facilitate economic development across the region. In short, if the WB situation is managed carefully by all players, great potential exists for mutual prosperity through cooperation in the Western Balkans. Of course, the unfolding of events in Ukraine and further polarization between NATO and the supporters of Russian presence there will play a large role in determining whether the Western Balkans can leverage the potential advantages of cooperation with the EU, China, and other players.

## Conclusions

In conclusion, as the global political and economic environment evolves and unpredictable events occur, WB countries must adapt. In recent years, the GFC, Syrian refugee crisis, COVID-19, and currently the situation in Ukraine have dramatically impacted the global environment and altered government priorities. WB countries are primarily concerned with their own political and economic interests, many of which are linked to EU accession. Development financing is scarce and must be obtained from foreign sources. While the EU struggles with the aforementioned distractions, other powers such as China, Russia, Turkey, and other Muslim states continue to seek opportunities in the region. Accordingly, the need grows for research on the increasingly diverse foreign presence in the WB region, and the present paper helps to inform this discussion. Indeed, scholars caution against underestimating the presence of outside participants<sup>4,6</sup> in this "geopolitical chessboard where the big power games could be played"<sup>23</sup>.

Although the trajectory of WB states towards EU membership has been disrupted and delayed by unanticipated events, it remains unbroken.<sup>51</sup> At the same time, the region has become an arena of intensive geopolitical competition, with its constituent states affected to varying degrees by outside players. Among these ascendent global powers offering alternatives to the region are China, Russia, Turkey, and the Gulf States. Changes in the political and economic environment- not least the situation in Ukraine- further complicate the future.

Most recently, the role and position of Russia in the Western Balkans has become even more obvious with the beginning of the war in Ukraine. Russia's advantages include longstanding routes in WB financial and business interests, high dependence on Russian

fossil fuels and gas, enormous exposure to hybrid threats. In short, the new geopolitical situation puts the region in an extraordinarily vulnerable position. Without opening a valid and tangible European economic perspective to the countries of the Western Balkans, the door is wide open for Russia to extend its political influence and further leverage instability, as concluded by Kaeding, Pollak, and Schmidt, in their 2022 volume *Russia and the Future of Europe: Views from the Capitals*<sup>52</sup>.

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## Note

At the same time, Russia's actions in Ukraine will most likely continue to unify European institutions such as the EU and NATO and isolate Russia from participation in the WB region.

Given the widespread opposition to Russia's invasion of Ukraine, China's potential alignment with Russia would also be detrimental to the acceptance of its presence in the region.

Thus, this paper addresses three issues. Given the geopolitical situation in the region, power players are needed as partners for WB countries to facilitate constructive development through trade and FDI, best realized through the EU accession process. Indeed, the perceived "debt trap" threat of China, as well as Russia's actions in Ukraine are likely to provide leverage towards EU accession. Nevertheless, it is argued here that a "win-win-win" solution for the three main actors of the EU, China, and the Western Balkans as a region is indeed possible through the provision of accelerated infrastructure development that facilitates transferability and therefore expands trade, FDI, and the potential benefits they bring with them.

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