

Chinese presence in the Western Balkans: Rivalry, complementarity, cooperation

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Chinese presence in the region



Three Players

- WB6:
 - Disintegration, nationalisation, reintegration: BiH, Kosovo*, MNE, NMK, RS
 - 2 External built states (BiH, Kosovo*)
 - Political instability, corruption, rule of law, authoritarian
 - Adjustment, catching up. In the orbit of the EU: trade, FDI, accession programmes but waiting for Godot?
- EU:
 - Upcoming integration: strict conditionalities
 - The Balkan Common Market: a stepping stone, an airlock, a quarantine?
 - Numerous programs :Western Balkan Investment network, limited financial means

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

Three Players

- China: Why the WB matters?
 - A subset of a regional strategy: 17+1 within the New Silk Road.
 - New markets, building regional value chains?
 - Services providing: building infrastructures through loans
 - Looking for influence?
- A real economic impact? Strong asymmetries
- Trade offs
 - Complementarity with Chinese presence in the core Europe (DE, FR, UK,)? With Central Europe (more FDI)
 - Between trade, investments (FDI), loans..
 - Multiple entries in the South

Drivers

- The 17 area, a section of the New Silk Road
 - Southern maritime arrival (Greece) and North-Eastern land entry (Poland) meet
 - Connectivity projects (Greece-Budapest through North Macedonia, Serbia, Hungary)
- “The leninist drive”:
 - Chinese State firms with overcapacities, mainly in the infrastructure sector, steel, concrete
 - Supported by political banks (Exim), by swaps of bad debt against loans to operate abroad
 - Investments in sectors where China has expertise in medium and high technology (nuclear industry), in traditional and declining industries (steel industry in Serbia, coal mines in Bosnia and Serbia, chemicals in Hungary)
- Continue the growth model driven by exports by other means

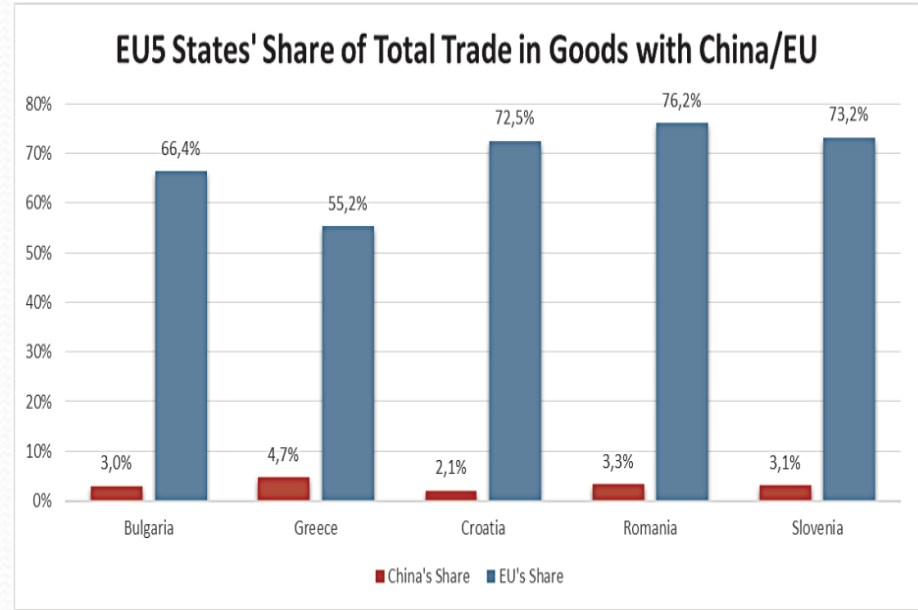
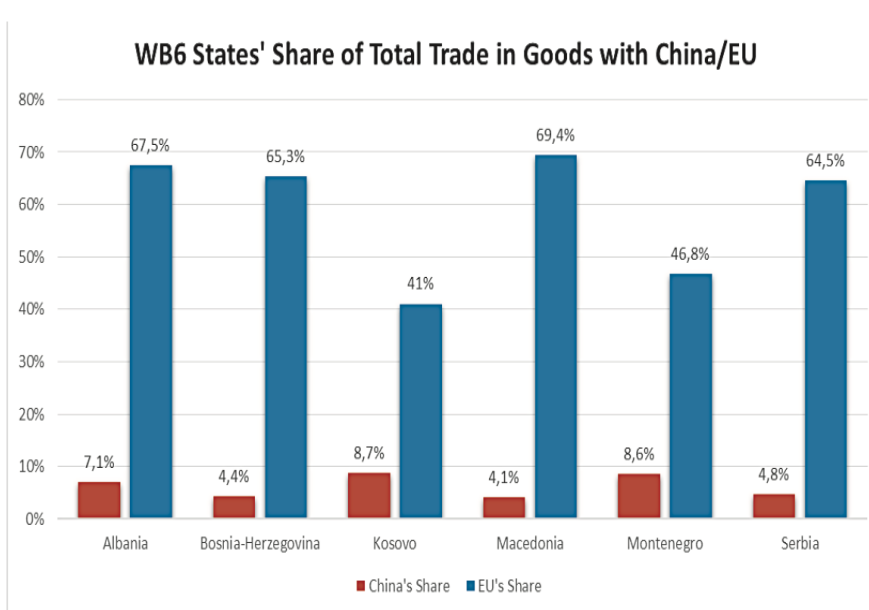
Implementing

- Setting up fundings: Specific funds, loans by Chinese (policy) Banks
- Bridging the existing void among the WB5 (Kosovo* not included), neglected by the EU, in infrastructures (motorways, ports, railways, roads), in sectors left by EU investors (energy)
- Attempt to create a regional value chain around some sectors: automotive industry in the region: Serbia, Croatia (batteries, components for electrical vehicles), ICT investment (Serbia)
- Taking advantage of not yet EU regulated and controlled in accessing economies to the EU A little for everyone? Except Kosovo* which is not recognized by China

EU, China & the Balkans

- The EU is the main trade partner for the Western Balkans, accounting for 73% of its trade. China's share of trade is much lower, accounting for 5.7% of the overall trade in the region. The countries from the EU are also the main investors in the region, with more than 60% of the total FDI. Chinese FDI in the region remains low for now, accounting for only 3% of the total stock to date. Serbia is the economy that has attracted sizable FDI from China.
- However, the trade between China and the economies for the BW and CEEC is constantly growing
- For example, trade between Guangdong province and CEEC reached 8.9 billion U.S. dollars in the first six months. 55.2 billion yuan came from exports from Guangdong to CEEC and 5.9 billion yuan came from imports, registering an increase of 15.4 percent and 14.1 percent, respectively. Poland, Hungary, the Czech Republic and Greece were Guangdong's top four trade partners in CEEC.

WB + SEE: Strong asymmetries in trade



Albania

Trade balance: Imports from China in 2018: 498,57 mil dollars/Exports to China 52,74 mil dollars, Deficit -445.83 mil dollars

- China is “rediscovering Albania”, long history of friendship in the time of Enver Hoxha
 - a) infrastructure:
 - Albania remains the only Western Balkan CEFTA party (with Kosovo*) where Chinese companies had not won any tender for public works in infrastructure.
 - b) Investments:
 - China Everbright Limited – a HONG KONG based company has taken over Tirana’s “Mother Teresa” International Airport in Albania.
 - In 2016, the Geo-Jade Petroleum Corporation of China acquired the Bankers Petroleum, which was formerly known as the Albanian National Oil Company <https://tradingeconomics.com/>

Serbia

Trade balance: Imports from China in 2018: 2,17 bil dollars/Exports to China 91,73 mil dollars, Deficit -2078,27 mil dollars

- Following the visit of President Xi Jinping's in June 2016 Serbia and China elevated their relationship to the status of comprehensive strategic partnership.
- Serbia on its own has attracted more Chinese capital than the rest of the entire WB region while in cooperation with China Serbia is currently implementing projects worth EUR 7 billion.
- As of 2018, Serbia owes almost 12% of its debt to China (MERICS)

Serbia

- Public works (infrastructure),
- Mihajlo Pupin Bridge in Belgrade for EUR 240 million (85% financed by EximBank), completed
- Corridor X: (i) Surcin - Obrenovac, for 17.6km for USD 103 million financed by EximBank: ongoing; Obrenovac - Ub, for 26.2km for USD 301 million financed by EximBank, implemented by the Shandong Hi- speed Group: ongoing; 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 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 EUR 1 billion for 184km in Serbia (for a total Belgrade - Budapest of EUR 3,2 billion) partially financed by EximBank, implemented by China Railway International Company Ltd.

Serbia

b) M&A and Greenfield investments:

- 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)

North Macedonia

Trade balance: Imports from China in 2018: 523.22 mil dollars/Exports to China 65.26 mil dollars, Deficit -457.96 mil dollars

- As of 2018, North Macedonia owes almost 20% of its debt to China (MERICS)
- The cooperation 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).

North Macedonia

a) Public works (infrastructure):

- 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 main contractor for the project is Sinohydro financed by a concessional loan granted by the Chinese Export Import (Exim) Bank to the tune of €574 million.

North Macedonia

b) Business:

- In 2010, Zhengzhou Yutong Similar was awarded a \$47.5 million contract for the procurement of 202 double-decker buses.
- Huawei is present since 2010 as a partner of the North Macedonian Telecom Company in ensuring broader network coverage and preparing for a 5G roll-out.
- CRRC Zhuzhou Locomotives Co. Ltd., which was awarded two contracts in 2017 by the North Macedonian Railway Company to supply four electric locomotives worth €8 million (funded by EBRD).

Trade balance: Imports from China in 2018: 808,11 mil dollars/Exports to China 22.36 mil dollars, Deficit -785,51 mil dollars

- As of 2018, Bosnia and Herzegovina owes almost 14% of its debt to China (MERICS)

Investments:

- Tuzla power plant - 614 million EUR loan provided by the Exim Bank of China.

- TPP Banovici - 305 million EUR. Around 85 % of the loan came from the consortium of Chinese banks

- TTP Stanari 550 million EUR, China Development Bank

Montenegro

Trade balance: Imports from China in 2018 302,22 mil dollars/Exports to China 16.57 mil dollars, Deficit -285,65 mil dollars

Public works (infrastructure):

- Bar- Belgrade, Chinese Road and Bridge Corporation, 1.3 billion EUR loan, 85% financed by China's Eximbank. Due to this investment Montenegro owes almost 40% of its debt to China (MERICS).

Some conclusions

- Regional industrial strategy or archipelago of Chinese firms
- Significant gaps between projects and their realization
- Loans versus Investments: risks for beneficiary economies (Montenegro, BiH): no string attached...New form of dependency (Montenegro build operated motorway)
- Shopping around? Few things to buy (already sold), recycling declining industries (Coal, Steel):
- Reducing asymmetries in trade: opening the chinese market to WB (and other) economies
- Political influence?
- Host economies: combining EU projects, EU membership prospect with Chinese offers: how it fits together?

Some conclusions

- Lack of transparency regarding financing, capital cost, profitability, Problem of compatibility with European standards (pollution, energy)
- Few spin-off effects in terms of job creations , outsourcing (80% of the workforce comes from China)
- For host economies, growing burden of debts, higher risks, increasing the control of Chinese lenders (Montenegro).
- EU-China future relations: cooperation, transparency, coordination: following EU rules and regulations
- EU commitment: more visibility, more money, faster..
- EU-China future relations: Impact of trade war, « systemic rival »