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The Belt and Road Initiative in the Western Balkans: Investments and Politics

DISSERTATION

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By

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Abstract

The Belt and Road Initiative in the Western Balkans resulted in many debates over China's intentions and the extent of its influence in this region. To grasp the reasons for an increasing economic presence, this paper proposes to unpack the main components of this initiative, as well as its significance in terms of political economy for participating countries. Specifically, the question of a Chinese model of economic development being exported is discussed. Through the prism of the developmental state, and grounded on a multidisciplinary review of different papers, I argue that the BRI through the large-scale projects it promotes, enables emerging economies to develop in their own way. In the context of a rising populism reaffirming national interests, and manifesting itself through economic interventionism, complementarities are found with Chinese economic policies rather than a model being imported. Thus, a radical conception of development and an illiberal elite seeking to solidify its power jointly contribute to the erosion of the liberal democratic model.

Abbreviations and Acronyms

BRI – Belt and Road Initiative

CCP – Chinese Communist Party

CEE – Central and Eastern Europe

EU – European Union

MoU – Memorandum of Understanding

NBS – National Bank of Serbia

OBOR – One Belt One Road Initiative

OECD – Organization for Economic Cooperation and Development

PRC – People's Republic of China

FDI – Foreign Direct Investment

SEE – Southeastern Europe

SNS – Serbian Progressive Party ("Srpska Napredna Stranka")

SOE – State-Owned Enterprise

SORS – Statistical Office of the Republic of Serbia

TFP – Total Factor Productivity

WB – Western Balkans

"Socrates and Confucius: An Encounter"

I took this picture during a stay in Athens, the cradle of democracy. These statutes are located in the ancient Agora, a central economic, political, and cultural place during Antiquity.

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1. Introduction: The Belt and Road Initiative

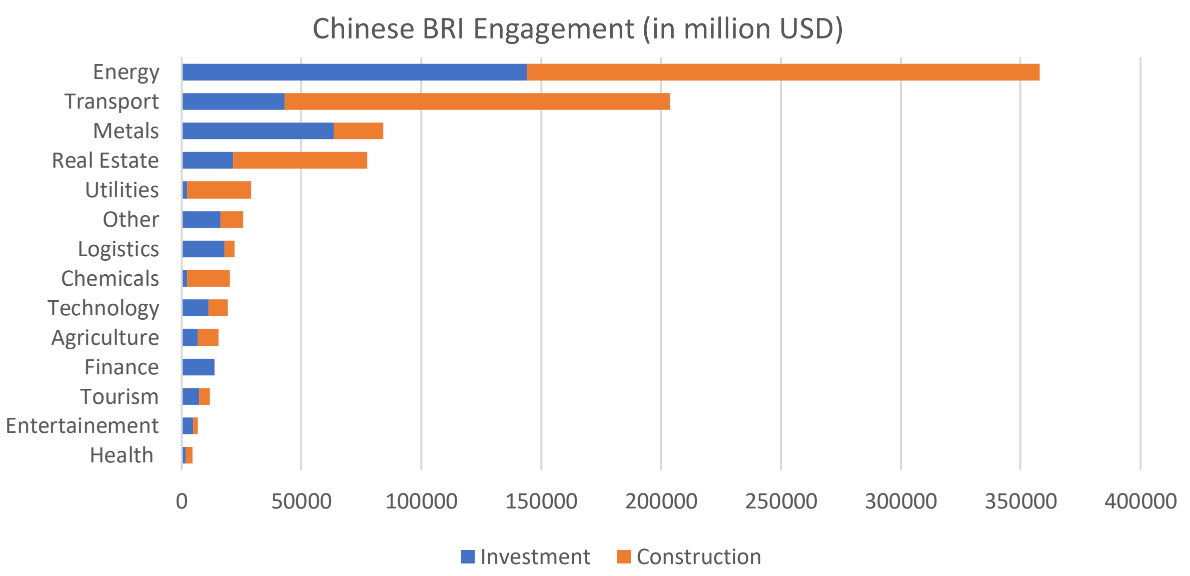
This dissertation studies the implementation of China's Belt and Road Initiative (BRI) in Serbia, in an attempt to define its significance for the country by examining the projects it covers, the types and forms of investments, and explain a growing Chinese interest in the region. Through this topic broader issues will be discussed as well, such as the relationship between capital and illiberalism, the reasons for Chinese geographical expansion, or the question of the emergence of a new international order.

First, it is necessary to define at least in broad terms what this initiative reminiscent of the old silk road officially is. The latter, which is also referred to as the One Belt One Road (OBOR) initiative was adopted in 2013 by the Chinese government and is described as a global infrastructure development strategy with two major components providing the country with a transcontinental connection. One first component is the Silk Road Economic Belt, which consists of the creation or modernization of road infrastructures. The second is a New Maritime Silk Road, intended to connect the country with South-East Asian region, the Gulf, African countries, and Europe by sea (see Figure 1).[1] Later, this initiative expanded to include a ‘Digital

[1] “Belt and Road Initiative.”

Silk Road' aimed at constructing communication networks and advance digital economies.[2] To implement this ambitious initiative, an increasing cooperation with countries around the world and their active participation was required and is reflected by an increasing number of cooperation agreements and Memorandum of Understanding (MoU) signed with countries across all continents. In March 2022, the number of countries that signed a MoU reflecting an intent to collaborate on this initiative with China reached 146.[3] It should be noted, however, that not all endorsing countries are directly hosting projects. This initiative defines five cooperation priorities: policy coordination, infrastructure connectivity, unimpeded trade, financial integration, and connecting people, and the investments to carry out BRI-related projects are financed through various channels such as BRI bonds, private capital investment, public-private partnerships, and state-owned enterprises investments. Regarding China specifically, during the 2013-2021 period its BRI engagement was estimated to be around 891 billion US$ in the form of investments and construction contracts (see Figure 2), with a large part of construction costs financed through loans originated from Chinese entities.[4] This engagement since the official launch was mainly directed towards the energy and transport sectors, and to a lesser extent metals.

Figure 2 Chinese BRI engagement in different sectors (2013-2021)[5]



[2] "Digital Silk Road in Central Asia."
[3] Nedopil Wang, "Countries of the Belt and Road Initiative (BRI) – Green Belt and Road Initiative Center."
[4] Nedopil Wang, "China Belt and Road Initiative (BRI) Investment Report 2021," 7.
[5] Source: Green Finance & Development Center, FISF Fudan University

1.1. The Belt and Road Initiative in the Western Balkans

In the Western Balkans, the economic belt will connect the port of Piraeus to Budapest with development opportunities for countries across the region also referred to as the 'corridor economies'. Concretely, the project is materializing in the region through various projects such as the acquisitions of ports, opening of bank branches, lending for road and railway infrastructures, power plant renovation, the establishment of a logistics network, company takeovers.[6] Nonetheless, such investments should be interpretated as anchor investments intended to subsequently attract follow-up investments in different sectors.[7] To promote the cooperation across the region necessary to carry out this project, China has created the 16+1 initiative, which is an important platform to develop projects and strengthen political ties with Central and Eastern Europe (CEE) countries.[8]

Serbia is part of the 16+1 initiative and is considered as a key strategic partner in the Western Balkans.[9] In fact, along with Greece, the country has accounted for the larger part and the most strategic new investments in the region.[10] This is not really surprising since the country is the largest economy in the Western Balkans and has recently developed good relations with China. This project of a new silk road is raising enthusiasm in the region about the possible benefits that a cooperation with a dominant actor on such a large-scale project could bring to local economies. It is argued that this initiative represents a huge opportunity for a better future, with projects that could foster economic development and cooperation for participating countries.[11] On the Chinese side, the government has qualified this initiative as an opportunity for a win-win cooperation with a participatory approach that promotes dialogue, coordination, and shared benefits.[12] China through this initiative is seeking to improve its access to resources and markets abroad, while at the same time, an increasing connectivity would benefit to all actors along the road.[13] However, this initiative also raises many debates about the real intentions of China in

[6] Bastian, "What China's 'Belt and Road Initiative' Means for the Western Balkans, EBRD," 2.
[7] Bastian, 32–37.
[8] 16+1 Initiative Participating countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Latvia, FYR Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia.
[9] Bastian, "What China's 'Belt and Road Initiative' Means for the Western Balkans, EBRD," 20–22.
[10] CSD, "The Chinese Economic Footprint in Central and Eastern Europe."
[11] Dimitrijević, "Chinese Investments in Serbia—A Joint Pledge for the Future of the New Silk Road."
[12] More on this win-win doctrine could be find below:
Yi, "Toward a New Type of International Relations of Win-Win Cooperation."
[13] CCP, "Belt and Road--An Initiative for Win-Win Cooperation."

the region, with a particular worry that this actor will gain more influence in different parts of the world, and that it will mean a new, less liberal model of economic development will be exported.

Thus, this dissertation examines the BRI’s economic and political significance for Western Balkans countries. A particular focus will be put on the Serbian case in particular, the country having hosted a large share of BRI-related projects in comparison with its neighboring countries. The BRI encompassing multiple dimensions in terms of cooperation with China, the focus will be on the type of projects that involved the largest amount of funds, namely infrastructure construction and modernization projects with the associated construction contracts, and to some extent direct investments from Chinese firms. Specifically, this work will try to apprehend the reasons behind an increasing Chinese economic presence in this region, and its significance for the political economy of these participating countries. Through this topic, the issues of the erosion of the liberal model, a relationship between illiberalism and capital, and the question of the revival of a developmentalism will be discussed.

2. Considerations on the BRI

This section proposes a review of the different considerations on the BRI and its implications, following an order consisting of perspectives on this subject on different scales. First on a global scale, then progressively evolving towards a more regional point of view and ultimately reaching a local scale. Thus, the themes of the promotion of an economic model, the emergence of a new hegemonic power in the international order, Chinese influence in the Western Balkans region, and finally the role of the local context and actors in the development of projects related to this initiative are discussed.

2.1. Economic considerations underpinning the BRI

At the outset, this vision of a new silk road, with Chinese-led infrastructure construction and reduced trade barriers would enable the country to export its products continuously by railroads and sea lanes. However, it is not only a matter of facilitating trade and promoting exports. This initiative has further economic considerations that it is necessary to apprehend in order to understand Chinese motivations behind the BRI. The latter is in the continuity of a 'going-out' strategy formulated in the early 2000s by the Chinese government aiming at the expansion of Chinese companies' activities abroad.[14] At that time, the Chinese government planned to transition its model of economic development shifting from an export-oriented to a new model based on domestic consumption and outward investments.[15] The world's factory model that drove economic growth during the previous decade also brought inflation and rising wages, with the constant need to devaluate the domestic currency to keep Chinese exports competitive.[16] There was this consideration that this export-model that initiated economic growth and was based on the production of low added value goods would not be sustainable in the long run. The country needed to innovate, and its industries had to move up the value chain.[17] Therefore, the BRI should be also understood in those terms, reflecting an economic

[14] "La Belt and Road Initiative : enjeux et défis pour la Chine."
[15] Casarini, "When All Roads Lead to Beijing. Assessing China's New Silk Road and Its Implications for Europe," 98; Xing, *Mapping China's "One Belt One Road" Initiative*, 29.
[16] Passi, "Unpacking Economic Motivations and Non-Economic Consequences of Connectivity Infrastructure Under OBOR."
[17] "China's 'Going Out' Strategy."

transition strategy intended to escape a middle-income trap, industries seeking to further integrate the global value chain and take over the higher end by becoming innovators.[18]

The BRI emerged out of the context of an overcapacity crisis with the necessity for China to find new markets to address a huge excess of manufactured products and construction capacity,[19] with huge current account surpluses due to the specificity of its economy as the world's manufacturing powerhouse. With slowing economic growth and a slowdown in Total Factor Productivity (TFP) gains, this increasing overaccumulation would have forced the Chinese government to seek for solutions beyond its borders, which is also formulated by some according to David Harvey's famous conceptualization as a search for new 'spatial fixes'.[20] Nevertheless, the BRI is not only intended to make foreign countries absorb the excess of production and capacity, but rather to migrate whole production facilities. The latter migration would enable a relocation of production sites in places with competitive labor costs[21] or closer to where goods are needed.[22] The international expansion would not be merely an accumulationist project but part of this broader strategy of moving up the value chain.

This revolution through innovation includes supporting leading Chinese companies to invest abroad in order to obtain new technologies through the acquisition of companies or by investing in joint ventures in advanced economies. For instance, these government incentives can take the form of loans at preferential interest rates granted to firms. Also, through the establishment of national enterprises abroad, it is an opportunity to promote Chinese technological standards and thus help open new markets for Chinese products and facilitate the transfer of lower technologies and spare capacities to BRI participating economies.[23] Operating abroad means facing different constraints and methods as well, thereby representing an opportunity of gaining knowledge and new capabilities that flows even to firms back home. For example, in the context of foreign railroad projects, Yang demonstrated using network and patent data, that firms having a network proximity with BRI firms implementing these railroad projects disproportionately boosts their innovation performance.[24] Moreover, BRI-related projects

[18] Cai, "Understanding China's Belt and Road Initiative."
[19] Yu, "Motivation behind China's 'One Belt, One Road' Initiatives and Establishment of the Asian Infrastructure Investment Bank."
[20] Gonzalez-Vicente, "Make Development Great Again?," 491; Carmody, Taylor, and Zajontz, "China's Spatial Fix and 'Debt Diplomacy' in Africa."
[21] Xing, *Mapping China's "One Belt One Road" Initiative*, 178.
[22] Cai, "Understanding China's Belt and Road Initiative," 13.
[23] OECD, "OECD Business and Finance Outlook 2018: China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape," 25–29.
[24] Yang, "The Belt and Road Initiative and Cascading Innovation in China's Domestic Railway Ecosystem."

represent an opportunity to export Chinese high-end industrial goods such as power generation or telecommunication equipment.[25] The latter could be also linked to the above-mentioned pursuit for an international adoption of Chinese technological standards, which is central in this strategy of becoming an innovation leader for Chinese policymakers. This willingness to spread Chinese standards and technology can even lead Beijing to engage in a potential loss-making venture.[26] In other words, the BRI is also designed to break into new markets, especially for top-tier products.

This geographical expansion of capital would have transformative aspects insofar as it could reshape spaces in which it is located. For example, Gonzalez-Vicente argues that state-coordinated investment partnerships underlying most of BRI-related projects allow the transnationalization of features of Chinese political economy into these new spatial fixes.[27] Beside a potential transformative dimension, he argues that the BRI is intended to export China's developmental model to the world with its ideology that conceives connectivity and urbanization as the main pillars of economic development.[28] In fact, through the promotion of massive investment state-led projects in infrastructure assets, the BRI push *de facto* the state at the forefront with a developmental dirigiste role.[29] Beside this, the involvement of the Chinese government in the BRI is an example of the use of state power, for example by leveraging its credit capacity to create favorable conditions for Chinese investors and business opportunities for Chinese firms.[30] Hence, it is necessary to avoid a conception of the projects as discrete components of this initiative but rather seeing them as part of a broader strategic vision, and also consider political and geo-strategic dimensions underpinning the BRI. More broadly, it reflects China's ambition to gain a greater leadership role on the international scene, or even become a new norm maker.[31] Within this initiative, political and economic considerations are intrinsically linked and are influencing this Chinese engagement with the Central and Eastern Europe region.[32]

[25] Cai, "Understanding China's Belt and Road Initiative," 19.
[26] Cai, 9–11.
[27] Gonzalez-Vicente, "Make Development Great Again?," 491.
[28] Gonzalez-Vicente, 489–90.
[29] Casarini, "When All Roads Lead to Beijing. Assessing China's New Silk Road and Its Implications for Europe," 98–99.
[30] Cai, "Understanding China's Belt and Road Initiative," 9.
[31] Wang, "Offensive for Defensive."
[32] Song, "Logic of the Chinese Developmental State and China's Geo-Economic Engagement with Central and Eastern Europe."

Thus, this geographical expansion, of which the BRI would only be one formal manifestation, results from the necessity of transforming the 'old' Chinese economic model which would have reached its limits. This necessity is not, however, specific to the uniqueness of the Chinese politico-economic model, but rather is reminiscent of the spatial dimension of any capitalist system constantly seeking for new vectors of growth in face of overaccumulation, as conceived by the Marxist economic geographer David Harvey.[33] Facilitating trade and promoting exports would only be one dimension of this initiative, opening new trade lanes would also be intended to create new market opportunities for Chinese firms which are expected to benefit from these projects not only by exploiting temporarily their spared capacities, but also by upgrading their technologies and innovating while getting foreign countries to adopt Chinese standards and high-end products.

2.2. The BRI disrupting state-relations

The BRI is the subject of much debate in the political arena as well as in the academia about its real significance. Among such discussions, there are many speculations about the real intentions of the Chinese authorities, with some that not only see a desire for this emerging power to establish itself as a dominant figure on the international scene but also disrupt the existing world order.[34] In particular, there is this idea that this emerging actor pursuing its global integration would become a norm-shaper and a rule-settler, an idea notably supported by the academic Yiwei who has written extensively on this topic.[35] Only, this Chinese rise as a potential norm-maker also generates fears that it would influence the developing world by proposing an alternative model differing from liberal values.

According to Rogelja and Tsimonis, researchers in international politics, this conceptualization of China as a threat endangering western values has been fueled by papers emanating from European think tanks and has resulted in the securitization of Chinese economic presence in the world.[36] The authors criticize a conceptualization of the Chinese Communist Party (CCP) acting as a mastermind to implement its 'grand' strategy with little agency for other actors. This would be misleading in that it oversimplifies the complexity of such an initiative, with an assumption

[33] Harvey, "Le « Nouvel Impérialisme »."
[34] Ferdinand, "Westward Ho-the China Dream and 'One Belt, One Road'"; Beeson and Li, "China's Place in Regional and Global Governance"; Callahan, "China's 'Asia Dream.'"
[35] Xing, *Mapping China's "One Belt One Road" Initiative*, 7.
[36] Rogelja and Tsimonis, "Narrating the China Threat."

that Chinese foreign policies are shaped supposedly in a top-down rigid and uniform manner, rather than seeing a defined strategy with a loose framework through which various interests emanating from different actors compete and thus shape the BRI design and its implementation. This reflects the view of Jones and Zeng, two international studies scholars who notably wrote about competing interests among Chinese actors that "*projects like BRI are not meticulously planned by top leaders; rather, they are loose 'policy envelopes', whose parameters and implementation are shaped by internal struggles for power and resources.*"[37] Accordingly, there could be a wide difference between the formulation of a foreign policy strategy and its implementation for which the involvement of different actors, including State-Owned Enterprises (SOEs), are influencing the outcomes. In contrast, Song, political scientist, consider that the BRI, and more extensively the 'Going out' policy adopted are typically a strategy formulated in a top-down fashion reflecting a process of recentralization in terms of policy design and modes of governance in China observed in the last few years and characterized by the election of Xi Jinping.[38]

Chinese involvement in the Central and Eastern Europe (CEE) region does not escape debates on CCP's strategy. For instance, Pepermans, political scientist, consider that behind the win-win rhetoric promoted by the Chinese government, there is a strategy which combines positive economic statecraft and the cultivation of soft power through cultural exchanges and high-level diplomacy, with an influence gained without real economic benefits for the participating countries.[39] This increasing Chinese influence would be reflected in both political and economic terms, notably through a certain favoritism towards Chinese firms, as well as the statements made by politicians and positions taken on the international scene.[40] Moreover, the author points out the huge trade deficits vis-à-vis China to support this view of a zero-sum relationship with China.[41] Conversely, Matura, researcher in international studies, does not consider trade deficits as a problem because most of the imports from the People's Republic of China (PRC) would be spare parts, accessories, or other inputs for domestic industrial production and would therefore end up being re-exported mostly to EU countries.[42] In addition, the latter argues that

[37] Jones and Zeng, "Understanding China's 'Belt and Road Initiative,'" 1416.
[38] Song, "Logic of the Chinese Developmental State and China's Geo-Economic Engagement with Central and Eastern Europe"; Ahlers, "Introduction."
[39] Pepermans, "China's 16+1 and Belt and Road Initiative in Central and Eastern Europe."
Economic statecraft: using actual or potential future economic incentives and rewards to achieve foreign policy objectives
[40] Pepermans, 190–97.
[41] Pepermans, 186–89.
[42] Matura, "China–CEE Trade, Investment and Politics," 391.

claims that China has a substantial political leverage over CEE countries is overstated and that there is not much empirical evidence supporting such claims at least when considering voting habits of the CEE countries.[43] Such ideologized debates reveal an increasing tension that emerges from this Chinese presence in this region located at the crossroads between the West and the East.

According to Cottela and Berisha, researchers in spatial planning and governance, the BRI-related investments should not be conceived as an alternative to EU membership, even though they warn that continuous delays in the accession process for those CEE countries could further increase Chinese influence and potentially trigger a de-Europeanisation in the region with countries turning eastward.[44] Indeed, they argue that the current context would be favorable to such outcomes with EU accession processes that slowed down due to the different consecutive crises that Europeans members had to face, and with EU membership candidates that are still struggling to meet the EU requirements. The BRI here appears as an appealing alternative source of funds that suits current local investment needs.

In contrast Zuokui, researcher in international studies, argues with an economic pragmatism by considering that having those countries integrating the EU and its single market is in China's best interest because the country is primarily benefiting from the stability and prosperity of this EU single market, not to mention that strengthening relations with EU as a main economic partner remain the priority to China. In addition, he adds that investments realized in the Balkans would benefit from an EU integration.[45] Pavlićević, for his part, considers that given the lack of breadth of this CEE-China relation in comparison with EU's far greater importance in economic, political, and security terms, as well as the recent Chinese behavior suggests, the latter prioritize increased relationships with EU rather than trying to disrupt an 'European order'.[46] Such views are in line with those of the liberal scholars that tend to see China increasingly integrating rather than disrupting the current world order *"because its economic growth and wealth accumulation are generated from within and not without the capitalist world system"*, as Xing puts it.[47]

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[43] Matura, 399–403.
[44] Cotella and Berisha, "The Impact of China's Belt and Road Initiative on the Western Balkan Region: An Erosion of EU Conditionality?," 182.
[45] ZUOKUI, "China's Investment in the Balkans under the Belt and Road Initiative."
[46] Pavlicevic, "A Power Shift Underway in Europe?," 270–71.
[47] Xing, *Mapping China's "One Belt One Road" Initiative*, 5.

According to Pavlićević, a Chinese studies scholar, the CEE region is conceived as a space part of a triangle China-EU-CEE where geo-economic competition is played out between EU and China.[48] This opposition is notably illustrated by the EU's response to this Chinese expansion in the region with the launch of its own connectivity project: the 'Global Gateway'. EU members were very critical of this CEE-China relationship denouncing investments that lack transparency, a lax attitude of towards environmental issues, and the non-fulfillment of certain quality standards, with a stated concern regarding an increasing Chinese influence across the Western Balkans.[49] This European initiative is described as an alternative to the BRI with a stated objective of promoting sustainable investments.[50] Moreover, the BRI seems to have triggered a competition in development aid, with the US having also launched their own 'Built Back Better World' initiative shortly before the European Union.[51] The emphasis on a 'sustainable' quality of the investments that these two above-mentioned initiatives claim is interesting to note, because it could be seen as a veiled critic of the BRI for a supposed lack of long-term vision. Furthermore, presenting such initiatives as alternatives implicitly suggest a lack of complementarity with the BRI, and reflects this opposition between two different visions of development.

2.3. Beyond the Chinese threat paradigm

The BRI through the 'threat' paradigm is too often regarded only in terms of Chinese foreign policy, but little attention is paid to the role of the local governments not to mention other sub-state actors. Such a view inevitably presupposes a certain passivity on the part of participating countries, or a tendency to see these countries primarily as being instrumentalized due, for example, to the weakness of their institutions. Thus, the influence of local states and other local specificities on economic policies adopted and thereby on the outcomes of the projects tend to be neglected. Within the state capitalism literature, Alami and Dixon have pointed out a certain 'othering' process, where there is a tendency to geographically oppose a Western democratic free market capitalism with an Eastern opaque, corrupt, illiberal, and threatening capitalism.[52] On one hand, this allows to attribute increasing authoritarian practices and the erosion of other liberal values to an influence from the East. On the other hand, it neglects the fact that some

[48] Xing, 252.
[49] European Parliament, "Texts Adopted - 2019-2020 Reports on Serbia - Thursday, 25 March 2021."
[50] "With Its 'Global Gateway', EU Tries to Compete with China's Belt and Road Initiative."
[51] Widakuswara, "US to Offer Alternative to China's Belt and Road Initiative."
[52] Alami and Dixon, "State Capitalism(s) Redux?"

similar elements have also been recently observed in Western countries with the rise of far-right populism.[53] Also, in our case, such a binary conception regarding the type of capitalism tend to assimilate and compare current developments within the CEE region to one of the two models from the East/West poles, and thus obfuscates the uniqueness and complexity of the capitalist and political system of each country in this region. In other words, with the BRI and its propensity to promote a Chinese economic model and the fears it generates of seeing illiberal regimes develop, the idea of a political-institutional model to emulate or challenge as part of an ideologized contest is back in force.

The consequences of this are that the countries that are taking part to this initiative are often trapped between two proposed perspectives reflecting this East-West opposition. One example of that is the way the growing Chinese presence in Serbia is understood. Pavlićević criticized the way these current developments are considered through what he qualified as a 'bifocal lens'. Accordingly, the views on this BRI project can be divided into two camps. On one hand, there are unrealistic expectations and enthusiasm of those who consider these projects as a great opportunity for a better future and anticipate benefits that may not be realized, or at least not to the extent envisioned, the latter enthusiastic narrative being notably promoted by the Serbian government and Chinese officials. While on the other hand, there are those who see this presence mainly as a threat endangering the relations with the EU and eroding liberal norms and values, as well as a win-lose relationship with China being the sole beneficiary.[54] These opposing beliefs are not necessarily representative of the reality. A good understanding of this initiative and its consequences would benefit from a nuanced better-informed view that avoids the pitfalls of the proposed narratives.

Furthermore, it is perhaps not enough just to consider these projects at the international/national level, as suggested by Rogelja and Tsimonis, a better understanding of the impacts and influences exerted through these projects would benefit from analyses that leave more room for local actors, not only governments but also other sub-state actors.[55] Furthermore, there is a necessity to reconceptualize China's global integration and its growing presence outside its borders by an analysis of the actors that work in intentional/unintentional ways and affect

[53] Nölke, "Brexit."
[54] Pavlićević, "'China Threat' and 'China Opportunity.'"
[55] Rogelja and Tsimonis, "Narrating the China Threat."

China's overseas initiatives, as well as rescaling state, capital, and elite interests.[56] Rogelja, lecturer in global politics, proposed such an analysis with a multi-stakeholder approach on a smaller scale for infrastructural projects in the Western Balkans. The former conceptualized such projects as dynamic disentanglements/entanglements to describe the process in which Chinese SOEs, banks, and governments agents contribute to create favorable conditions for Chinese actors while at the same time binding them in relations with local political and economic actors, and the local socioeconomic systems. The configuration resulting from a given project in that sense would be the product of what he calls an assemblage to qualify these interactions among different factors, including non-human actors, rather than simply believing that it is *«the Chinese way of doing things"*.[57] Such perspective allows room for a more complex understanding, and rehabilitates the role of other actors as well as that of a local context.

That is not to say that the emergence of China as an important actor in the region should be put aside, nor that the latter would not have any influence on the host economy and its politics. Since the beginning of the 2010s, it is argued that Chinese capital transfers have increased significantly enough to affect certain aspects of national politics and political economies.[58] Nevertheless, this should not overlook other dynamics that are influencing these projects part of the BRI and thus reshaping the trajectory of the development agenda. The point is to recognize the coexistence of Chinese government interests, those of the Chinese SOEs, the influence of the local political and economic elite, and the role of other subnational actors, not to mention the specificities of the local economy. By doing this, it is also an opportunity to take a step back from a linear reading of project implementation suggested by the top-down approach with which the BRI and this 'Going out' strategy was formulated, by showing that there are competing interests that may be divergent and not systematically in line with the objectives of the Chinese government. A more complete picture of the current developments that the BRI implies in the region requires moving away from a state-centered perspective to better capture the complexity of the dynamics at play and avoid seeing the outcomes as fixed and predetermined.

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[56] Klinger and Muldavin, "New Geographies of Development."
[57] Rogelja, "Concrete and Coal."
[58] Rogers, "Illiberal Capitalist Development."

3. Capital inflows and illiberalism

One reason why the BRI has generated so much debate about China's supposed intentions and generates an atmosphere of mistrust with the emergence of this actor on the international scene is the fear of seeing this order based on liberal values eroded through the influence of an authoritarian regime. In this context, the proliferation of infrastructure projects financed by loans originated from Chinese entities and takeovers of state-owned companies by Chinese groups are viewed with suspicion. With the BRI, countries such as Serbia are attracting from China large amounts of capital in the form of investments or loans in an environment considered to be prone to elite capture, thereby threatening democracy.

The local political landscape is often subject to accusations of corruption with a current government criticized for its grip on state institutions.[59] The country is governed by the "Serbian Progressive Party" (SNS) with an ascent to power of the current president Aleksandar Vućič that coincides with a regression of the various democracy indexes showing a certain democratic backsliding to a form of electoral autocracy, and a freedom of the press that has been increasingly threatened in recent years. The ruling party is accused of using its electoral strength to dominate and even politicize institutions and exploits state resources to hinder the opposition.[60] Pavlović, political scientist, argues that the current ruling party has maintained, if not reinforced, some extractive institutions inherited from past regimes such as the institutions of contracts with confidentiality clauses, non-transparent budgets, large economic subsidies without proper oversight, and a party patronage in the public sector that continued and remained subject to substantial extractions.[61] According to Transparency International, corruption in Serbia is "*closely linked to political dynamics, resulting in state capture, political control over public institutions, the judiciary and the legislature*".[62]

Non-transparent practices are particularly apparent in major infrastructure projects where 'special laws' are used to circumvent standard procedures. One example is the urban development project 'Belgrade Waterfront' developed in cooperation with investors from the United Arab Emirates, for which such special law (Law No34/2015) establishing special procedures of expropriation and issuance of construction permits for the realization of a project

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59 "Serbia: Overview of Corruption and Anti-Corruption Changes in the Last 10 Years," 6.
60 Castaldo, "Back to Competitive Authoritarianism?"
61 Pavlović, "The Political Economy behind the Gradual Demise of Democratic Institutions in Serbia."
62 "Serbia: Overview of Corruption and Anti-Corruption Changes in the Last 10 Years," 4.

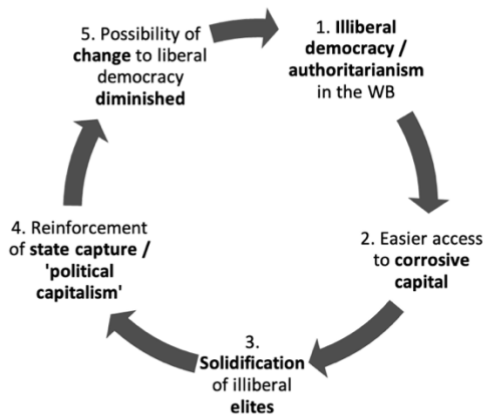
considered to be of national interest was adopted in 2015.[63] This urban construction project highlighted the capacity of foreign capital to reshape domestic legislation to accommodate investors. Indeed, the contract obliged the country to "*implement changes to the legislative framework to ensure the execution of the deal: Art. 9.3.1. sets out that the Republic of Serbia "pledges to carry out all the changes in its laws and regulations... that are necessary or desirable in order to ensure the full legal execution of the stipulations in this contract.""*[64] Transparency International qualified this urban development project as an illustrative example of state capture, where political decisions are made to benefit private interests.[65] The non-transparency of the contract, the top-down decision-making, and a limited citizens' participation were, among other things, harshly criticized and led to many citizens' protests.[66]

It is argued that such large-scale projects through opaque deals bear the potential of reinforcing the political elite in power and undermining political competition, thereby reinforcing the authoritarian shift that characterizes Serbian politics in the last few years. Prelec, researcher in European politics, argued that in the case of capital influx from UAE and Russia, such investments can undermine democratic institutions through a system of patronage and clientelism which can be stimulated by opaque deals of projects designed at the top. The author adds that this can lead to a vicious circle because by reinforcing illiberal practices it would also increase the ability to attract 'corrosive' capital, a term used to designate its capacity to exploit and exaggerate governance gaps, and thus influence economic, political, and social developments in recipient countries.[67]

[63] "Belgrade Waterfront - Tailor-Made Laws in the Western Balkans And…."
[64] Prelec, "The Vicious Circle of Corrosive Capital, Authoritarian Tendencies and State Capture in the Western Balkans," 82.
[65] "Serbia: Overview of Corruption and Anti-Corruption Changes in the Last 10 Years," 6–7.
[66] Zeković and Maričić, "Contemporary Governance of Urban Mega-Projects."
[67] Prelec, "The Vicious Circle of Corrosive Capital, Authoritarian Tendencies and State Capture in the Western Balkans."
'Corrosive' capital: term used to describe financing that lacks transparency, accountability, and market orientation. (Definition from CIPE.org)

An illiberal tendency of the actual Serbian regime coupled with a capital originating from an authoritarian Chinese regime makes the BRI even more subject to controversy. European think tanks contribute to fuel such controversies, for instance, one report from the Center for the Study of Democracy accused China of exploiting investments needs in the region, by taking advantage of laxer regulations and rule-of-law standards, undervalued assets, with governments willing to engage with authoritarian non-transparent deals.[68] Furthermore, Chinese-state investments are often described as being characterized by a lack of transparency, low accountability, and inhibit the role of the civil society in shaping development targets and processes.[69] Such descriptions are found in the very elements used by some to define a 'corrosive' capital.

Figure 3 The Vicious Circle of Corrosive Capital, Prelec (2020)[70]



However, this prism of a corrosive capital also tends to otherize the influence of capital on the erosion of the liberal model. More broadly, the pursuit of a neoliberal agenda with its economic reforms, in other words, these transformative periods carry the risk that the political and economic elite will use their power to reconfigure the state to their advantage. In particular, state-business relations in an environment prone to cronyism can enhance illiberal practices.[71] Hence, a more general link could be made between capital inflows and illiberalism with a further transition to economic neoliberalism potentially opening up new avenues for the generation of power. According to Günay and Dzihic, this has already been observed in the last

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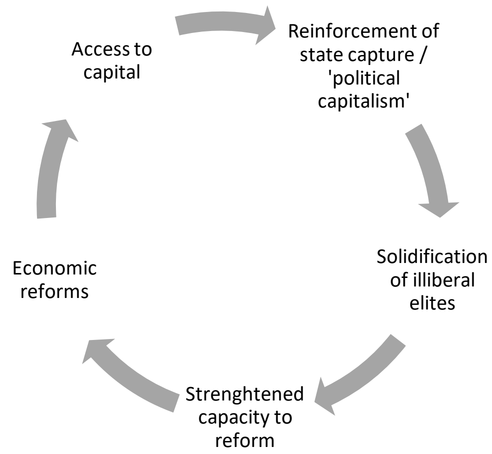
[68] CSD, "The Chinese Economic Footprint in Central and Eastern Europe."
[69] Gonzalez-Vicente, "Make Development Great Again?," 503.
[70] Illustration from Prelec (2020) "The Vicious Circle of Corrosive Capital, Authoritarian Tendencies and State Capture in the Western Balkans" p.176
[71] Rogers, "Illiberal Capitalist Development," 5.

few years in Serbia, the mobilization of foreign funds that accompanied liberal reforms and were part of the EU accession process allowed the creation of new power circles that cemented and strengthened, notably through clientelist practices, the position of the ruling party. While at the same time, supporting the liberal reforms that were promoted by the EU and other international institutions such as the IMF functioned as a legitimizing device for the newly elected government.[72] In this case, as in the previously mentioned case of capital emanating from illiberal regimes, it is rather an institutional weakness not insulated from elite capture that is apparent rather than the origin of capital. Moreover, the notion of a corrosive capital makes an implicit assumption of the existence of capital that does not erode democratic institutions even when it promotes accumulation.

Figure 4 'Revised' Vicious Circle of Capital and Illiberalism[73]



Therefore, when analyzing these BRI-related projects, it is important to consider the relation between foreign capital and local elite interests, as well as the change in the legislation they induce. Nevertheless, this aspect should be conceived only as one dynamic exerted throughout these projects, recognizing different interests, those of the Chinese and the local elite, which may in some cases be concordant. In addition to that, one should resist the idea of systemically assimilating these projects only to a desire for the local elite to solidify its power and extract private gains, nor consider political capture necessarily as an end in itself.

The literature on the developmental state and variety of capitalisms offers an alternative perspective on that because it also conceives the recentralization of power in a few hands as a

[72] Günay and Dzihic, "Decoding the Authoritarian Code."
[73] Author's illustration based on the findings of Günay and Dzihic, "Decoding the Authoritarian Code"

mean to overcome resistance in adopting developmental policies. For instance, the South Korean economic transition, a case much studied in the developmental state literature, illustrates this with an authoritarian state that justified an expansion of its power to pursue neoliberal economic reforms thereby reducing the political space for non-state actors.[74] This did not prevent the subsequent democratization of the country. An important distinction, however, is made among authoritarian states, a 'predatory' type with an elite that monopolize power to benefit them rather than society at large, and the 'developmental' type that resist short-term and narrow interests of the different actors to implement a long-term vision.[75] In reality, it is not unusual to find characteristics of the former in the latter, for instance, many Asian countries were praised for their economic success but with state agencies not really insulated from any political influence.[76] For such reasons, within the developmental state literature, scholars shifted their focus from the regime type to state capacity and business-state-society relations.[77]

3.1. Reflection on the notion of illiberalism

Seeing the BRI through a developmental state perspective allows for a reflection on the very conception of illiberalism. The BRI, as illustrated above, is criticized for its top-down approach, untransparent practices excluding competing claims, inducing legislative and institutional changes to attract capital, and thereby leading potentially to the reinforcement of an elite threatening democratic institutions. The BRI is thus a source of tensions which take the form of ideological confrontations arising from fears of seeing countries deviate from the liberal path, a departure from this liberal model described by the term illiberal, notably popularized by Fareed Zakaria with his essay on illiberal democracies.[78] In this essay, illiberalism is conceived as a deviation from liberalism manifesting itself through the erosion of democratic institutions such as the rule of law, the separation of powers, and the protection of civil liberties. Marlène Laruelle, a historian, while arguing for an understanding of liberalism and illiberalism as two relational phenomena in tension with each other, deplores the way illiberalism is conceived merely as a departure from liberalism. In that way, the latter would be only considered through

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[74] Hundt, "Neoliberalism, the Developmental State and Civil Society in Korea."
[75] Sallai and Schnyder, "What Is 'Authoritarian' About Authoritarian Capitalism?," 1317.
[76] Haggard, "The Developmental State Is Dead," 48–49.
[77] Haggard, 59–60.
[78] Zakaria, "The Rise of Illiberal Democracy."

an erosion of liberal values, democratic norms, or even directly assimilated to a regime type rather than seeing it as a distinct political philosophy.[79]

In the economic realm, however, Laruelle defines illiberalism as a backlash against today's liberalism that proposes to restore national sovereignty by denouncing neoliberal orthodoxy and promoting protectionism at the nation-state level, although the author concedes that such regimes when in power sometimes implement neoliberal reforms as well.[80] In Serbia, the current situation seems to contradict this idea of illiberalism mainly opposing neoliberalism, either in practice or simply as an element present in the political discourse. In fact, the regime is accused of having illiberal tendencies and promotes neoliberal economic policies in an authoritarian manner.[81] Such recent developments are more in line with what Hendrikse argued, namely an illiberalism that participated in the revival of neoliberalism post-2008 rather than opposing it.[82] Through the reaffirmation of national sovereignty that characterizes illiberalism, it is rather an increasing active role of the state in the economy that is put forward in contrast to the post-2008 period of austerity policies. The state does not hesitate to intervene to defend what is considered to be of national interest, including promoting authoritatively a market-based economy. In other words, it is not necessarily an interventionism indicating a retreat from the 'market-rule', but rather its restoration or reinforcement by a visible heavy-hand.

To get back to the BRI, it is not so much the fear of having countries adopt a model based on the Chinese politico-economic one that would be the source of tensions. But perhaps the spread of the idea of 'doing it your own way' in terms of economic development instead of following the traditional architecture of liberal democracies, as Xing notes in the introduction of his book "Mapping China's One Belt One Road Initiative".[83] This is perhaps where China's real normative power lies, through the reaffirmation of state sovereignty encouraging an interventionism in economic activities, which in turn could create complementarities with its 'way of doing'. This tension, therefore, would result from the fear of seeing a world order fragmented by a retreat towards national interests instead of gathering around shared liberal

[79] Laruelle, "Illiberalism," 318–19.
[80] Laruelle, 309.
[81] Examples of illiberal tendencies : Kapidžić, "The Rise of Illiberal Politics in Southeast Europe"; Piletić, "The Role of the Urban Scale in Anchoring Authoritarian Neoliberalism."
[82] Hendrikse, "The Rise of Neo-Illiberalism | Krisis | Journal for Contemporary Philosophy"; Hendrikse, "Neo-Illiberalism."
[83] Xing, *Mapping China's "One Belt One Road" Initiative*, 14–15.

values. Nevertheless, it would be misleading to attribute such influence on a Chinese presence, in fact this is a much more general trend that the Brexit and Trumpism illustrate well.[84]

Illiberalism as Laruelle argues, is mainly majoritarian, the latter tends to place national interests before individual interests but can still promote the latter when it considers that it would benefit the majority. Only, when a government qualifies the national interest through a productivist logic, would not be a democratic developmental state illiberal by nature? Leftwitch, a political scientist, wrote on this constant tension between the institutions of democracy and institutions of development: *"…under most circumstances, the rules and operational conditions of stable democratic politics will tend to restrict policy to incremental and accommodationist options. On the other hand, developmental requirements (whether liberal or radical) will be likely to pull politics and policy in the direction of quite sharp (and, for some, unpleasant) changes affecting the structure of wealth of the society and hence important interests within it. It is this structural contradiction between the conservative requirements of stable democratic survival and the urgent transformative imperatives of late development which makes the combination of democracy and development so difficult, […]."*[85] "*…development requires institutions that promotes radical accumulation, change, and transformation, […]"*[86]

This illustrates the importance of not considering illiberalism as a simple disregard or erosion of democratic formal institutions, a line could be clearly drawn between a developmental state and an illiberal one. The developmental state tends to recentralize state-power and strengthen its coercive capacity, can intervene heavily, impose its developmental policies, but does not subordinate the economic system to the preservation of the ruling elite, as it can be the case, for example, with the current Hungarian regime with an economic landscape populated by regime loyalists.[87] Beyond the debate about to which economic school of thought illiberals belong, attention should be paid to business-state relations, in particular to the dependency links between such actors, rather than focusing narrowly on democratic institutions and populist discourses.

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[84] Callison and Manfredi, "Introduction."
[85] Leftwich, "Democracy and Development," July 2002, 272.
[86] Leftwich, "Democracy and Development," December 1, 2005, 399.
[87] Xing, *Mapping China's "One Belt One Road" Initiative*, 14–15.

3.2. The BRI as a risk for democracy?

With the BRI, there is indeed the risk to see a further erosion of democratic institutions, whether to overcome resistance and pursue a development agenda or strengthen the grip on power of a local elite, not to mention the potential for rent-seeking. Nevertheless, a clear understanding and assessment of a potential democratic backsliding should not be limited to an analysis of the current state of formal institutions. For example, Dimitrova use a Tillyan perspective to assess a potential democratic backsliding in the CEE region that allows to consider other factors such as a social resistance.[88] Historically, political contention, this inherent feature of democracies, has resulted in periods of variations of a given current state of democracy inviting us to step back and consider a broader picture. As Cianetti et al. put: "*we ought not to read current developments in CEE simply as a period of "backsliding" evidenced by institutional erosion and illiberal populism. Rather, taking a process-oriented, Tillyan perspective focused on state-citizen relations, as Dimitrova does, may reveal not just negative but also positive signs in current developments in CEE*".[89]

In the same vein, attention should be also is given to other stakeholders influencing the outcomes of BRI-related projects on the local political landscape, namely recognize it as a dynamic rather than a linear process. The fact that BRI-related projects are formulated in a top-down way, with an initiative that may influence a state recentralization of power to push for the realization of those projects does not necessarily exclude them from any external influence or unintended effects, including an increasing political pluralism. For example, the proliferation of projects that caused environmental damages also induced an increasing ecological awareness among the population. The latter has been illustrated recently with many protests to denounce a lithium mine project and the movement even forced the government to cancel an agreement with the mining group Rio Tinto.[90] To return to Rogelja's conceptualization of infrastructural projects as dynamic disentanglement and entanglement processes,[91] the social mobilization would be a force, among others, entangling these elite actors with the specificities of the

[88] Laruelle, "Illiberalism," 319.
[89] Cianetti, Dawson, and Hanley, "Rethinking 'Democratic Backsliding' in Central and Eastern Europe – Looking beyond Hungary and Poland," 248.
[90] "Serbia Revokes Rio Tinto Lithium Project Licences amid Protests | Reuters."
[91] Rogelja, "Concrete and Coal," 1.
Dis/entanglement is a dynamic process in which Chinese SOEs, banks, and governments agents contribute to create favorable conditions for Chinese actors while at the same time binding them in relations with local political and economic actors, and the local socioeconomic systems

environment in which the investments are intended to be made. Another example is the above-mentioned urban infrastructure project "Belgrade Waterfront" that has unintentionally given rise to a political movement 'Ne Davimo Beograd' (Do Not Let Belgrade Drown) fighting for social justice.[92] The latter will later form a left-green coalition named 'Moramo' with other ecologist movements winning at the 2022 parliamentary elections 13 seats (4,7%) for their first participation.[93] That is to say, an understanding of the impacts of the BRI on democracy should not be limited to an examination of the top-down way in which projects are designed. In addition, short-term variations in the state of formal democratic institutions, although important, should not prevent us from seeing a bigger picture.

4. The BRI in the Western Balkans

Concerning the real extent of the BRI, as well as the real economic and political footprint in the region, the reality is difficult to capture and more nuanced that many articles and political statements would suggest. One report highlighted the fact that Chinese presence in CEE countries tend to be inflated even by the governments themselves of these countries. Politicians tends to present the loans obtained from Chinese state-owned banks as generous Chinese investments and announce substantial amounts of money invested in projects that are still in the planning phase, with figures that vary according to estimates, for projects that may never be realized. Even some papers that discuss Chinese investment and try to assess the real scope of this initiative use different criteria to qualify an investment. Moreover, the figures that circulate tend to vary according to the sources consulted. Indeed, statistical offices, central banks, Chinese embassies, national governments, all can offer substantially different data.[94] In addition, figures can vary within the same source over time, depending on the announcements and publications made available. For example, when I used data from the 'China Global Investment Tracker', it was not necessarily consistent with data used in previous academic papers for the same investment projects. Furthermore, the access to contracts and data is difficult to obtain, if not impossible for some projects.

[92] Piletić, "The Role of the Urban Scale in Anchoring Authoritarian Neoliberalism."
[93] Belgrade, "Serbian Elections."
[94] Matura, "Chinese Investment in Central and Eastern Europe: A Reality Check."

Many articles analyze the extent of China's economic and political influence through a comparative analysis with a different set of countries within the CEE region, as well as relying on different sources of data. Given this difficulty of obtaining a precise picture, which is beyond the scope of this dissertation, different academic papers, reports emanating from IOs, banks, state-agencies or think tanks will be used to grasp the reasons for an increasing Chinese economic presence in the Western Balkans.

In fact, the Western Balkans should be clearly distinguished from the broader CEE region extending to the northeast, as this increasing Chinese economic presence is mainly concentrated in this area and is reflected mainly in terms of imports and financial loans granted.[95] As Pavlićević points out, the main exception to this is the railway Budapest-Belgrade section on the Hungarian side. The author suggests two main reasons for a concentration in this area related to EU membership, not to mention a greater need for infrastructures in this area. First, EU members have access to financing with better terms, they would thus tend to resort to other institutions to finance their projects. Secondly, unlike EU members, Western Balkans countries (excluding Greece) do not have to comply with EU requirements such as an open bidding process to deliver public procurement projects.[96] These stringent EU norms surrounding infrastructure projects would have been notably illustrated by the delay in the construction of the railway section Budapest-Belgrade on the Hungarian side.[97] In comparison, works progressed rapidly on the non-EU Serbian side, with the opening of the Belgrade-Novi Sad railway section in March 2022.[98]

Furthermore, countries in the Western Balkans are part of the EU enlargement policy, which would make such countries attractive because through accession processes a facilitated access to European markets is developed, thereby representing a valuable opportunity for China to increase its own access to Western markets.[99] Beyond this argument of using this region as an EU's backdoor, the flexibility of this environment is also mentioned. Indeed, China would also

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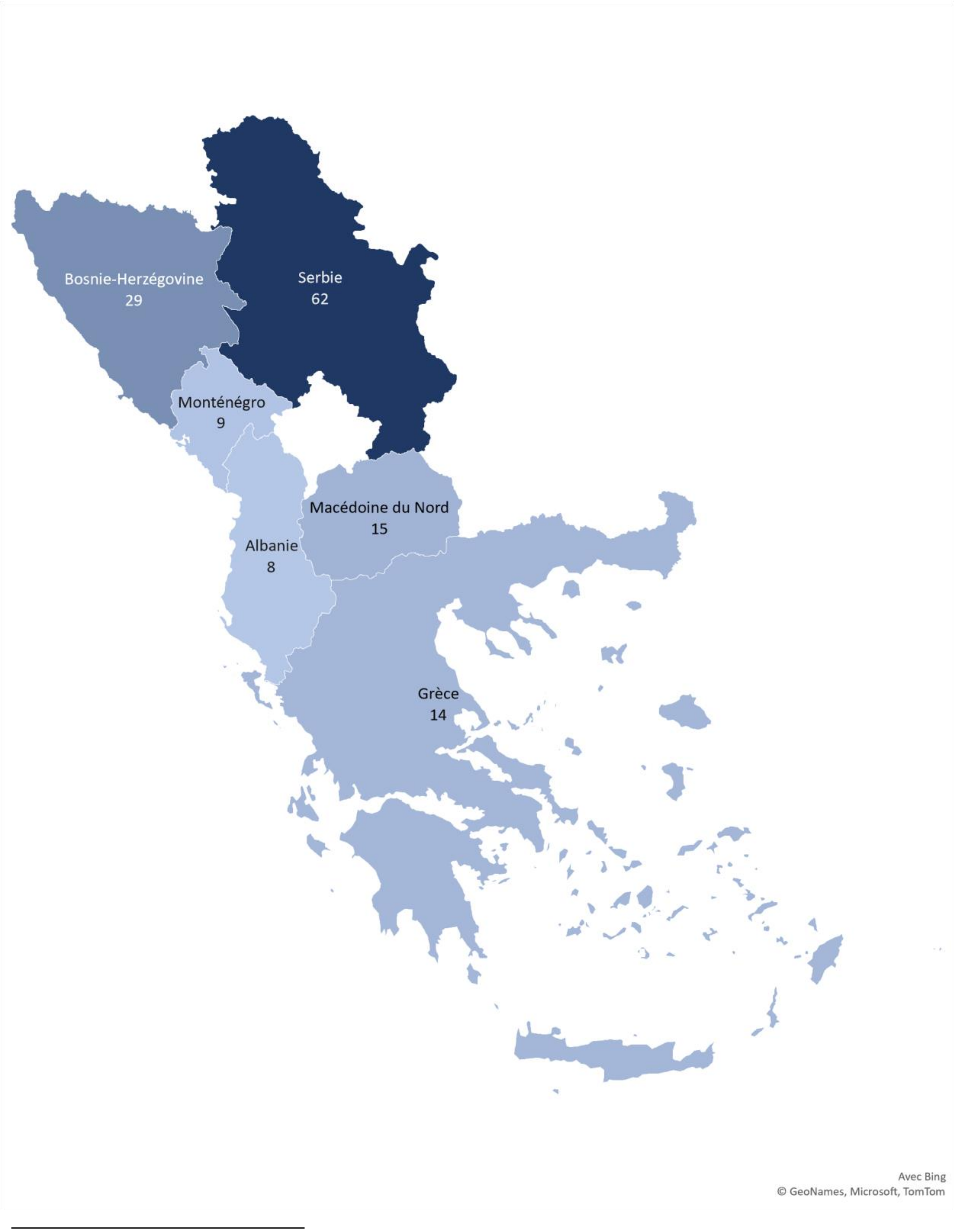
[95] Turcsányi, "China and the Frustrated Region: Central and Eastern Europe's Repeating Troubles with Great Powers," 67.
[96] Xing, *Mapping China's "One Belt One Road" Initiative*, 259.
[97] Csapó, "Funding of Transport Infrastructure in Serbia," 224.
[98] Rencz, "The BRI in Europe and the Budapest-Belgrade Railway Link"; Times, "Officials Inaugurate Section of Belgrade-Budapest Railway, a Flagship BRI Project - Global Times."
[99] ZUOKUI, "China's Investment in the Balkans under the Belt and Road Initiative," 93.

benefit from an environment with laxer norms, where Chinese actors would face less barriers to entry, without being subject to EU's strict transparency, competition, and environmental rules.[100] For instance, such flexibility would increase the ability of China to combine the loans granted for infrastructure projects with the realization of the works by its SOEs, thus directly responding to the overcapacity crisis that Chinese firms faced home in the last few years.[101] Also, this accessibility for Chinese construction firms would be an opportunity to demonstrate their ability to deliver infrastructure projects effectively. Accordingly, the Western Balkans would be an entry point enabling Chinese firms to obtain future contracts with EU countries.[102] Finally, through activities abroad fostering firms' innovations, which was one objective stated by Chinese authorities, and would have produced some encouraging results in the case of the railway industry.[103]

Overall, the Chinese presence in the Western Balkans materializes in the form of various projects such as infrastructure transport and energy projects financed by loans from Chinese state-owned banks, construction contracts awarded to Chinese groups, direct investments by Chinese firms, cooperation agreements, creation of free economic zones, cultural and academic exchanges, donations, security projects, among other things.[104] According to Balkan Investigative Reporting Network's (BIRN) non-exhaustive list of projects involving Chinese actors in the Western Balkan region, there are 136 planned, currently implemented, or already realized projects identified (see Figure 5). This figure should be taken cautiously, because some projects are certainly missing while others listed may never be implemented.

[100] CSD, "The Chinese Economic Footprint in Central and Eastern Europe," 5.
[101] "How Will the Belt and Road Initiative Advance China's Interests?"
[102] Csapó, "Funding of Transport Infrastructure in Serbia," 224.
[103] Yang, "The Belt and Road Initiative and Cascading Innovation in China's Domestic Railway Ecosystem."
[104] "Serbia – Mapping China's Rise in the Western Balkans – European Council on Foreign Relations."

Figure 5 Number of Projects in the Western Balkans, BIRN[105]



[105] Author's compilation, data extracted from the BIRN's interactive map https://china.balkaninsight.com/

Furthermore, the BRI being an umbrella term that encompasses different cooperative dimensions (policy coordination, infrastructure connectivity, unimpeded trade, financial integration, and connecting people) intended to pursue China's global integration, it is not clear whether all these projects listed are directly linked to the BRI. For example, it is difficult to establish a direct link between FDIs and this initiative. However, they take place within this CCP's broader strategy that encourage firms to invest abroad and expend internationally, the government notably incentivizing firms with loans at preferential interest rates, among other aspects that I will return to in a section dedicated to direct investments.[106] Overall, Chinese economic presence in the Western Balkans is mainly materialized through loans, construction contracts, and to some extent FDIs. Regarding direct investments in the Western Balkans, it should be noted that they are mainly present in Serbia and Greece. In this section, the focus will be on these three forms of Chinese economic presence. Of course, the BRI also encompasses other types of projects that should not be neglected, such as the establishment of soft infrastructures. Just to give an example, in major cities of the countries considered in Figure 5, Confucius institutes were created aimed at strengthening cultural ties.[107] Without denying the significance of such projects, I have chosen to focus mainly of these forms that brought most of the funds to the region.

4.1. China as an alternative source of funds

Contrary to what is often suggested even by the recipient countries, China's presence within this region is mainly in projects that are not strict investments.[108] The BRI in this region consists mainly of infrastructure projects such as the construction of railways, highways, or power plants for a large part financed through direct loans from state-owned Chinese banks to host governments. This is especially true for countries that are not members of the EU, which tend to attract much less capital in the form of direct investments.[109] These Chinese foreign investments often taking the form of loans generally follow a pattern that is quite similar for all countries in this region which consists of the following actors: Chinese state-owned enterprises, state banks, and a smaller participation of local companies, with investments secured by state-

[106] OECD, "OECD Business and Finance Outlook 2018: China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape," 25.
[107] BIRN, "China in the Balkans: Interactive Map."
[108] Turcsányi, "China and the Frustrated Region: Central and Eastern Europe's Repeating Troubles with Great Powers."
[109] Abu Dayeh and Janíčko, "Determinants of Chinese Foreign Direct Investment in Central and Eastern Europe."

guarantees or guarantees of the central banks of host states.[110] Generally, 85% of infrastructures projects costs are financed through loans and the rest is directly financed by the recipient country.[111] Regarding the specificities of China as a fund provider, unlike some others source of funding they are not made conditional on the adoption of a series of reforms or the acceptance of technical assistance.[112] According to a report from UniCredit, the rapid availability of funding and fewer prerequisites would have been the main incentives for Western Balkan countries to borrow from Chinese entities.[113]

The terms of such loans are usually with a maturity period of around 20 years with interest rates of around 2-3%, with a grace period for the first years.[114] Loans in this region are mainly provided by the Export-Import Bank of China (Exim Bank), a state-owned institution under the control of the PRC's State Council, whose mission is to promote Chinese exports through its lending activities.[115] Nevertheless, these preferential terms tend to be attached with specific conditions such as awarding contracts to Chinese firms to undertake the constructions, those firms often relying on their own workers, supplies, and thus relying less on local resources. In addition, some conditions would also include requirements to buy Chinese equipment and use Chinese labor.[116] This represents a major difference with the way EU members are contracting loans with open bidding processes required for public procurement projects that would not allow to attach such specific conditions.[117] Also, the fact that Chinese constructors tend to rely mainly on 'Chinese' resources tend to raise concerns about the potential spillover for local economies.

Before this initiative, China had a rather limited presence in the Western Balkans. There seem to be no doubt that this actor is starting to gain weight in terms of political, economic, and cultural ties in the region given the proliferation of different types of projects, agreements signed, and the multiplication of political visits.[118] Nevertheless, the extent of a Chinese

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[110] Dimitrijević, "Chinese Investments in Serbia—A Joint Pledge for the Future of the New Silk Road," 79.
[111] UniCredit, "Western Balkans: The Burden of China's Lending to Governments"; "Serbia – Mapping China's Rise in the Western Balkans – European Council on Foreign Relations."
[112] Gonzalez-Vicente, "Make Development Great Again?," 503.
[113] UniCredit, "Western Balkans: The Burden of China's Lending to Governments," 9.
[114] UniCredit, 3–4.
[115] Abu Dayeh and Janíčko, "Determinants of Chinese Foreign Direct Investment in Central and Eastern Europe," 25.
[116] Tonchev, "China's Road: Into the Western Balkans."
[117] Turcsányi, "China and the Frustrated Region: Central and Eastern Europe's Repeating Troubles with Great Powers," 69.
[118] "Serbia – Mapping China's Rise in the Western Balkans – European Council on Foreign Relations."

influence tends to be inflated, or at least the importance of other stakeholders tends to be widely overlooked. This could be notably due to this conception of China as a 'mastermind' deploying its 'grand strategy' attributing an excessive weight of Chinese interests in selecting and undertaking the projects to be realized. For example, the Center for the Study of Democracy, a European think tank, wrote in a policy brief that China 'exploited' the region's need for capital investment by taking advantage of institutional weaknesses.[119] In fact, recipient governments guided Chinese funds towards politically expedient projects that they were choosing themselves. For example, they choose road construction projects with no Western financial backing, or lignite power plants projects (such as the Kostolac power plant in Serbia) that Western institutions would refuse to finance due to the policy line intended to move away from coal dependency.[120]

Furthermore, although China is becoming a significant fund provider in the region, the latter still lags far behind Western institutions. If we take the example of Serbia which remains a main recipient of Chinese projects in the region, Western institutions are still the largest source of financing by far for transport infrastructure projects.[121] Also, the EU in addition to being its main trading partner and source of FDI, is also the largest provider of financial assistance in the country for projects mainly aimed at strengthening democracy, reforming public administration, fostering competitiveness and business development, and addressing environmental issues.[122] Moreover, this increasing Chinese presence will be further counterbalanced with the EU Balkan Investment Plan launched in December 2021, part of this broader 'Global Gateway' initiative, which could provide grants of 7% to 18% of GDP for the period 2021-2027.[123]

As seen above, the BRI is materializing in the Western Balkans mainly through infrastructure projects backed by Chinese loans. Nevertheless, China's lending practices are subject to a controversy, the latter being accused of practicing a 'debt-trap' diplomacy, namely burdening countries with debt to increase its political leverage. This suspicion on China has been notably promoted by the Trump's administration and echoed by different medias, but this idea was

[119] CSD, "The Chinese Economic Footprint in Central and Eastern Europe," 1.
[120] Rogelja, "Concrete and Coal," 3.
[121] Csapó, "Funding of Transport Infrastructure in Serbia."
[122] EU, "EU Factograph on the Status of Implementation in Serbia"; Vukmirović et al., "Foreign Direct Investments' Impact on Economic Growth in Serbia."
[123] UniCredit, "Western Balkans: The Burden of China's Lending to Governments," 8.

originally a ‘meme’ born in an Indian think tank and furthered by a paper written by Harvard students.[124] Lai et al. point out that such accusations are not new; in fact, other institutional actors such as the IMF and other states have historically been the target of similar accusations, for example, in the aftermath of the 2007 financial crisis, in the 80s with the Third World debt crisis, or even during de 1997 Asian financial crisis.[125] Recently, Montenegro has fueled such speculations, the country struggled to pay its first instalment of a debt worth around 1 billion USD owed to the China’s Export-Import Bank, notably due to the 2019 pandemic crisis that severely hit an economy depending heavily on the tourism sector.[126] The amount of this debt incurred for the construction of the country's first highway (Bar-Boljare motorway) intended to provide a direct connection with Serbia alone amounted to 18,8% of Montenegro’s GDP at that time.[127]

In 2021, Montenegro was the country with the higher contracted debt-to-GDP exposure (20.7%) to Exim Bank in the region, with estimated annual average repayments worth 77mn EUR for the 2021-2040 period, which represents approximatively an annual repayment of around 1,8% of GDP according to UniCredit’s projections.[128] In comparison, countries such as Serbia, Bosnia-Herzegovina, and North Macedonia had a much lower debt-to-GDP exposure to Exim Bank, with projected annual repayments lower than 1% of the GDP. The total contracted amounts as a share of GDP with this Chinese state-owned bank were respectively of 3,4% for Bosnia, 20,7% for Montenegro, 7,5% for North Macedonia, and 7% for Serbia which has by the way contracted the largest amount of debt (3’244mn EUR).[129] Such figures tend to show a more nuanced picture, with different levels of exposure to Exim Bank but that nonetheless increased significantly in the last few years. The Montenegrin case remain particular with a huge exposure mostly generated by a single loan, in the context of a small and not diversified economy relying heavily on tourism. In comparison, the total debt-to-GDP for example in Serbia, tend to diminish in the last few years. According to the National Bank of Serbia, the public debt went from 70% of GDP in 2015 to 52,8% of GDP in April 2022.[130]

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[124] Lai, Lin, and Sidaway, “Financing the Belt and Road Initiative (BRI),” 3.
[125] Lai, Lin, and Sidaway, 4.
[126] “Montenegro Narrowly Avoids Chinese Dept Trap, for Now.”
[127] UniCredit, “Western Balkans: The Burden of China’s Lending to Governments,” 3.
[128] UniCredit, 5–6.
[129] UniCredit, 3–4.
[130] National Bank of Serbia, “Macroeconomic Developments in Serbia,” 13.

4.2. Direct investments

As seen in the section on Chinese economic considerations underpinning the BRI, the willingness to invest abroad is an important dimension of China's economic transition to high value-added industries and services, notably through innovation. Also, Chinese ODI tends to boost Chinese exports as well as increasing imports and exports in the host countries.[131] However, China is still not an important player in terms of FDIs in the CEE region.[132] Turcsányi, international relations scholar, even calls it a 'forgotten region' to emphasize that the whole region is still not a priority for Chinese firms at least from an economic perspective.[133] In a report from the CEE Center for Asian Studies, Matura points out that investments are largely politicized, the Western Balkans governments themselves tend to inflate the figures showing that the 'real' FDI stocks are much lower than some suggest, with Central European countries remaining the prioritized investment destination for Chinese firms.[134] Nevertheless, according to a study conducted by the Center for the Study of Democracy, before the launch of the BRI in 2013, Chinese FDI stocks were relatively inexistant for Western Balkans countries and have dramatically grown since then. Still, Serbia and Greece accounted for the largest and most strategic new investments, with a whole CEE region that still receives only a tiny share of Chinese total investments in the world. Besides, the FDIs were mostly directed towards the transportation, energy, manufacturing, and telecommunications sectors.[135] In comparison with other non-EU Western Balkans countries, Serbia remained the main exception receiving significant levels of investments in the form of M&A, and greenfield investments.[136]

One should be cautious when interpreting investments variations, because they are not necessarily numerous in Western Balkans countries but in some cases involve huge amounts making it difficult to capture a general trend, especially with different periods considered. For example, the port of Piraeus in Greece acquired in 2009 for 4,3 billion EU (35 years-concession) tend to affect the result when comparing with the post-2013 period suggesting a slight decrease of investments in transportation in Balkan countries but shows an increasing trend when the

[131] Abu Dayeh and Janíčko, "Determinants of Chinese Foreign Direct Investment in Central and Eastern Europe," 22–23.
[132] Turcsányi, "China and the Frustrated Region: Central and Eastern Europe's Repeating Troubles with Great Powers," 69.
[133] Turcsányi, 67.
[134] Matura, "Chinese Investment in Central and Eastern Europe: A Reality Check," 11.
[135] CSD, "The Chinese Economic Footprint in Central and Eastern Europe," 3.
[136] Matura, "Chinese Investment in Central and Eastern Europe: A Reality Check," 11.

latter is excluded.[137] In an nutshell, what emerges from these different papers is an unevenly distributed increase in direct investments in the Western Balkans, the latter still receiving only a tiny share of Chinese total direct investments in the world. Moreover, Chinese firms tend to prefer EU countries and particularly those of Central Europe.

It was argued that comparing to other regions in the developing world, CEE region had several advantages such as a skilled labor force, a close access to Western markets, and a generally stable business environment.[138] Turcsányi attempts to explain why CEE's share of Chinese direct investments is still modest in comparison with other regions: *"The CEE countries are neither 'typical' developed nor developing countries, in the sense as these terms are commonly utilised. Indeed, at first sight, it is obvious that the position of these countries in the statistical rankings put them somewhere in between the Western European developed economies, on the one hand, and most of the developing countries in Latin America, Africa and much of Asia, on the other. The CEE economies are neither focused on agriculture production nor have abundant natural resources— something which is common for many developing countries and what has been, for a long time, one of the leading driving force of China's approach towards them (Eisenman and Heginbotham 2018). On the other hand, the CEE countries are clearly not at the level of technological savvy compared to the most developed countries in Western Europe, North America or East Asia. The peculiar 'middle position' of the CEE countries seems to lead to the situation when China struggles to find a clear economic sense of their relations. In a way, the niche of the CEE economies—the outsourcing location for the sophisticated manufacturing and not-so-sophisticated service and research—happen to be the sectors which China is trying to develop at home and is not primarily interested in moving out of the country. On the other hand, the region does not provide China with primary resources or cutting-edge technology. Hence, the two sides seem to be more of competitors when it comes to moving up the value chain, rather than complementary partners."*[139] Nevertheless, among the non-EU Western Balkans, Serbia remains the main exception receiving significant levels of FDIs, a case explored in more detail in the following section to grasp the reasons for this pronounced interest.

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[137] Zakic and Radisic, "China's Belt and Road Investment Projects in the Balkan Countries: Six Years After," 61.
[138] Song, "Logic of the Chinese Developmental State and China's Geo-Economic Engagement with Central and Eastern Europe," 389.
[139] Turcsányi, "China and the Frustrated Region: Central and Eastern Europe's Repeating Troubles with Great Powers," 72.

5. The BRI in Serbia

Due to the difficulty of obtaining consistent data and an exhaustive list of BRI-related projects, several alternative sources were used. These included the BIRN; a report from EBRD; Statistical Office of the Republic of Serbia; National Bank of Serbia; Serbian Ministry of Construction, Transport, and Infrastructure; UniCredit; different newspapers; reports from think tanks and international organizations. It is important to note that the amounts are not entirely accurate and tend to vary to some extent. In addition, the projects provided in the appendix tables from different sources offer non-exhaustive lists, although it appears that a large proportion of the projects have been covered based on a comparison with all the different sources accessed throughout this work.

As seen previously, there is a growing Chinese economic presence in Serbia with direct investments surging since the launch of this initiative in addition to the proliferation of infrastructure projects backed by loans originating from the Chinese Export-Import Bank (Exim Bank) (see tables in Appendix). As seen with the BIRN's non-exhaustive list of projects (see Figure 5), Serbia is hosting almost half of the listed projects involving Chinese actors in this region. By comparing different sources of data concerning the different projects in the country, in terms of the amounts, it appears that this Chinese economic presence is largely manifested through loans and construction contracts awarded to state-owned Chinese firms. Among the infrastructure construction projects, there are notably numerous motorways, the Belgrade-Budapest railway section, the Kostolac lignite power plant, and the future Belgrade metro network that should be partly funded by the French and Chinese governments (see Table 3 and Table 5 in Appendix).[140]

To facilitate and accelerate the implementation of large-scale construction projects, the Serbian government adopted the practice of bypassing standards procedures for projects of 'national interest' through '*lex specialis*'. In February 2020, the government formalized this practice and passed a Law "on Special Procedures for the Implementation of the Project of Construction and Reconstruction of Line Infrastructure Structures of Particular Importance to the Republic of Serbia" which provides a framework for the determination of public interest facilitating expropriation procedures, the financing for the implementation of projects, other provisions circumventing the bureaucracy (i.e., reducing requirements for permits and approvals) (Art. 1),

[140] "French, Chinese Firms Sign Deal On Belgrade Metro."

which applies for projects that exceeds EUR 50 millions (Art. 2). Among the controversial provisions, the present law is exempting a project or specific phases of a project from the regulations relating to the public procurement procedure by applying a special procedure for the selection of a strategic partner in case of urgency or jeopardy of project implementation. The latter selection in that case would be carried out by a working group appointed by the government itself (Art. 37 & Art.38).[141]

Notwithstanding this predominance of infrastructure projects, the country has still attracted a significant number of projects involving Chinese firms' direct investments (see Table 4 in Appendix). There are several possible reasons enounced for this emerging interest of Chinese firms. The geographical strategic position is often mentioned to explain the attractiveness of the country for investors.[142] The country has a strategic location, the latter being at the center of the road and rail transport corridor intended to connect the port of Piraeus to Budapest to ensure a seamless flow of Chinese goods to European markets. In addition to that, the country is the largest economy in the Western Balkans, the latter being relatively diversified with a substantial pool of skilled and relatively cheap workers. Third, over the last few years the government has undertaken different reforms aimed at establishing a business-friendly environment and thereby increased country's capacity to attract foreign investments. For example, economic reforms were implemented to shorten the time required for registering a company and issuing construction permit (issuing such permits requires only 11 days), or the establishment of Free Zones.[143] Also, a law on investments was adopted in 2015 that guarantees an equal legal status to domestic and foreign investors representing an important step in providing security for investors.[144]

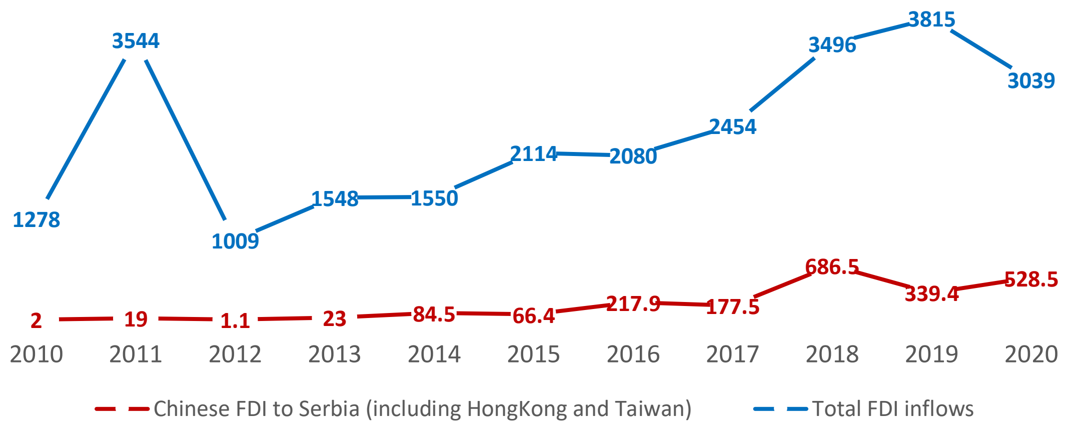
Regarding the legislation, some amendments to the law on expropriations were adopted and approved before the National Assembly in 2021, with controversial provisions that led to demonstrations throughout the country, and eventually forced the government to withdraw them. The Serbia's Government Anti-Corruption Council at that time stated that such amendments violated citizens' rights in favor of the 'big' capital by establishing special

[141] "LAW on Special Procedures for the Implementation of the Project of Construction and Reconstruction of Line Infrastructure Structures of Particular Importance to the Republic of Serbia | Ministry of Construction, Transport and Infrastructure."
[142] Marjanović, Jovičić, and Stojanović, "The Global Distribution of Chinese Investments," 50.
[143] Vasa and Angeloska, "Foreign Direct Investment in the Republic of Serbia," 175; fDi Intelligence, "Spotlight: Serbian Free Zones"; srbija.gov.rs, "Free Zones."
[144] Dimitrijević, "Chinese Investments in Serbia—A Joint Pledge for the Future of the New Silk Road," 78.

procedures of expropriation for certain projects, in addition of enabling large-scale corruption. According to this state-agency, this amendment would have enabled any foreign economic entity with which Serbia had concluded an interstate agreement to become a beneficiary of expropriation if the Government determines that there is a public interest in such a project.[145] These protests in the context of Rio Tinto's lithium mine project already mentioned in the section on "the BRI as a risk for democracy" emerged out of environmental concerns, but was triggered by these amendments that instilled a feeling of the country being gifted to foreign companies.[146]

5.1. Brief macro-overview of Sino-Serbian economic relations

Figure 6 FDI Inflows in Serbia (in millions EUR)[147]



According to the FDI inflows registered during the 2010-2020 period (see Figure 6), it can be observed that since the official launch of the BRI there is a significant increase of FDI from China (figures include Hong-Kong and Taiwan). Nonetheless, by comparing with total FDI inflows during the same period, a more general trend of increasing investments can be discerned. According to the National Bank of Serbia, during the 2019-2021 period, the bulk of FDI inflows came from EU countries (57%) but with an increasing share from China (with 15%, including Hong-Kong), as well as an increasing share for other non-EU countries such as

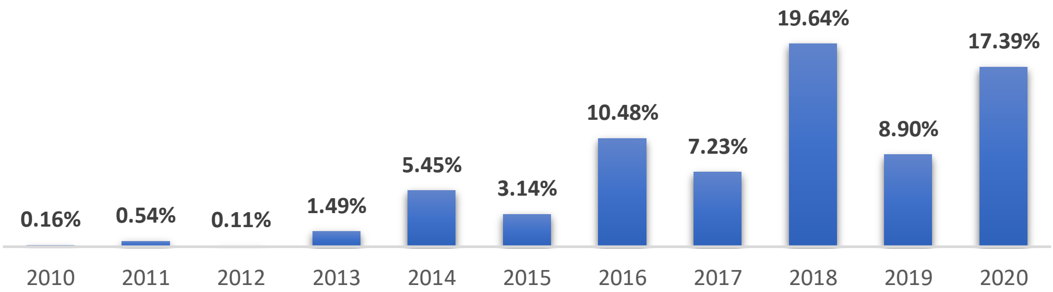
[145] "Serbia's Anti-corruption Council."

[146] Ladjevac, "Serbia Social Briefing: A Summary of 2021 Key Social Affairs in Serbia: Environment, Environment, Environment…."

[147] Author's compilation, data extracted from the National Bank of Serbia

Turkey, Switzerland, Russia, or the USA.[148] The main exception for this general increasing trend is a slight slowdown in 2020. The latter year being a particular one due to the pandemic crisis, FDI inflows from countries such as Hungary, Austria, Germany, Russia, or even the USA declined significantly.[149] Figure 7 shows a dramatic increase of Chinese share in total direct investments in Serbia since the launch of the BRI.

Figure 7 Share of Chinese FDIs / Total FDIs[150]

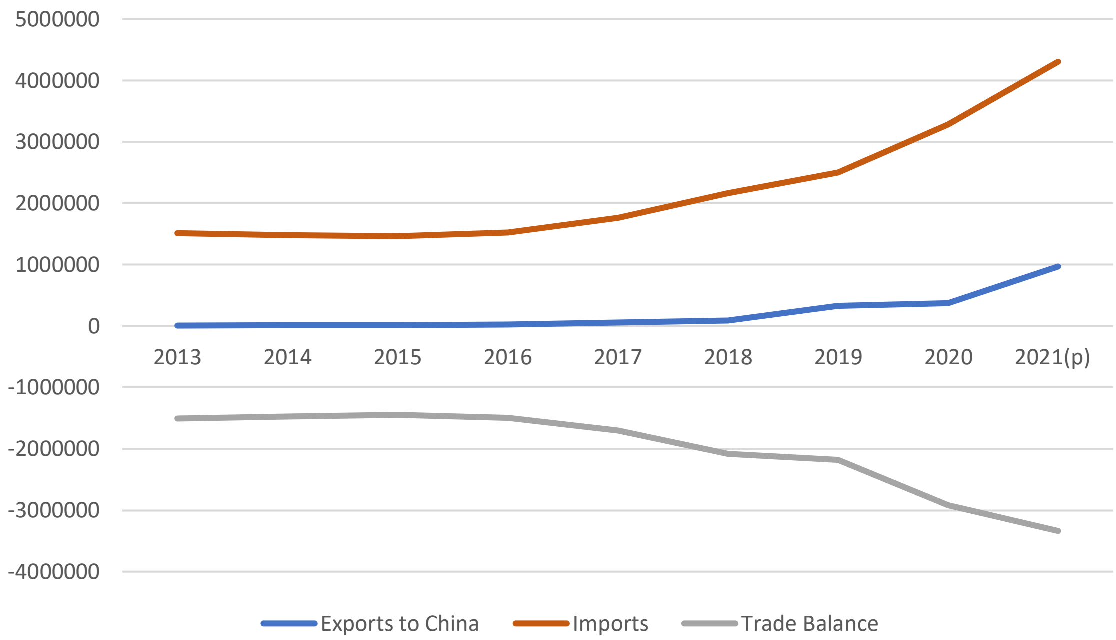


Regarding trade between the two countries, the latest figures I extracted from the Statistical Office of the Republic of Serbia (SORS) show that since the official announcement of the BRI in 2013, the general trend reveals an asymmetrical increase in trade with imports growing faster than exports to China, thus widening the country's trade balance deficit (see Figure 8). However, in another academic paper, the author calculates a Trade Intensity Index for the period 2010-2019, the latter index is also taking into account the economic size of the partners.[151] The results obtained indicate some improvements in the intensity of trade between those two countries, even though Serbia remains widely underrepresented in Chinese trade with an index still close to zero and rising during that period from 0.008 in 2013 to 0.152 in 2019. [152]

[148] National Bank of Serbia, "Macroeconomic Developments in Serbia," 7.
[149] "World Investment Report 2021 | CNUCED," 67.
[150] Authors' compilation, data extracted from the National Bank of Serbia
[151] "Trade Indicators."
The trade intensity index (T) is used to determine whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner. It is calculated as:
$T_{ij} = (x_{ij}/X_{it})/(x_{wj}/X_{wt})$
Where x_{ij} and x_{wj} are the values of country i's exports and of world exports to country j and where X_{it} and X_{wt} are country i's total exports and total world exports respectively. An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country's importance in world trade.
[152] Jovičić, Stevanović, and Beraha, "Serbia-China Bilateral Trade Relations," 139.

The large trade imbalances with China are primarily seen as a natural result of a large gap between those countries in terms of economic strength, reflecting a certain lack of capacity to meet Chinese market demand.[153] More broadly, it is a general trend that can also be observed with EU countries, the whole union having a negative trade balance vis-à-vis China which has also increased in recent years.[154]

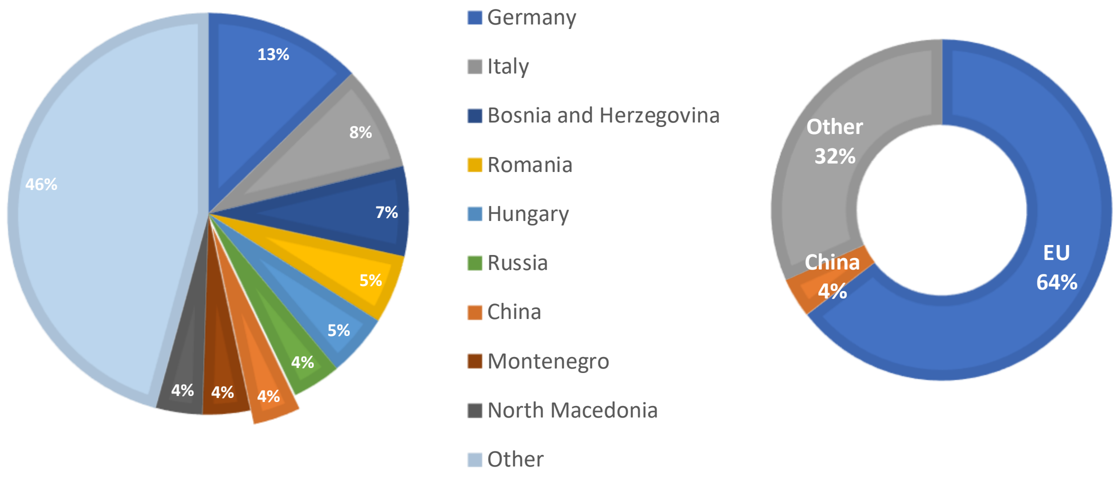
Figure 8 Serbia-China Trade Relations[155]



According to the latest official data released with provisional values for the year 2021, China was the 7th largest exports destination in terms of value of exports (see Figure 9). Between 2020 and 2021 alone, exports to China grew by 258%.[156] This is a significant advance compared to the previous year when the country was only the 17th largest export destination. This should be put in perspective with the fact that China was not even among the top 50 export destinations before the BRI, with bilateral trade surging since the official launch of this initiative. However, the EU remains the largest economic partner and represents 64% of Serbian exports.

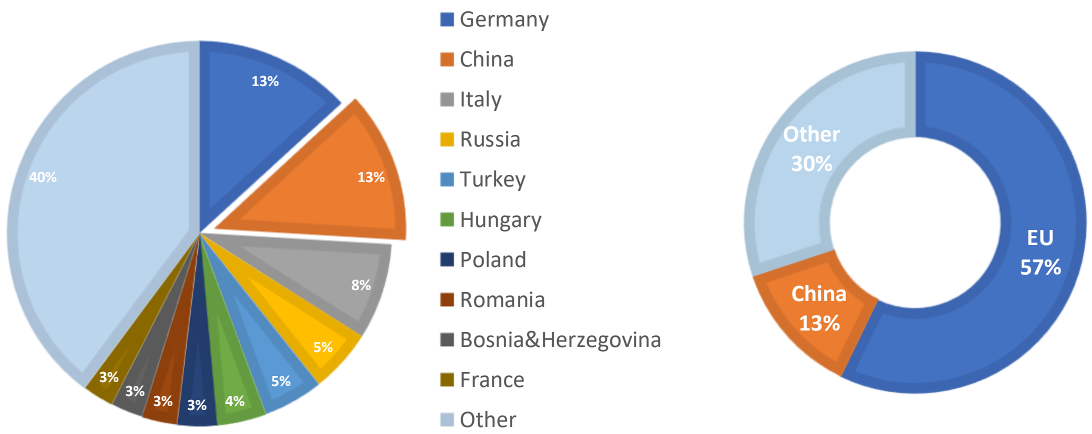
[153] Dimitrijević, "Chinese Investments in Serbia—A Joint Pledge for the Future of the New Silk Road."
[154] Eurostat, "China-EU - International Trade in Goods Statistics."
[155] Author's compilation, data extracted from the Statistical Office of the Republic of Serbia (with provisional values for 2021)
[156] Increasing from 377'027.8 in 2020 to 971'750.2 (p) in 2021 (in thousands of USD) according to the Statistical Office of the Republic of Serbia (SORS)

Figure 9 Serbia, Main Export Partners in 2021[157]



Regarding imports, China was already one of the main countries from which Serbia imports in 2013 (4th) and is already second in 2021 with exchanges that have almost tripled (~2.85) in value since 2013 (see Figure 10).[158] Still, Germany remains the main economic partner in terms of trade value. However, there are reasons to believe that in the medium-term China could take an even more important place with the arrival of a free trade agreement that is expected to be signed by the end of 2022.[159]

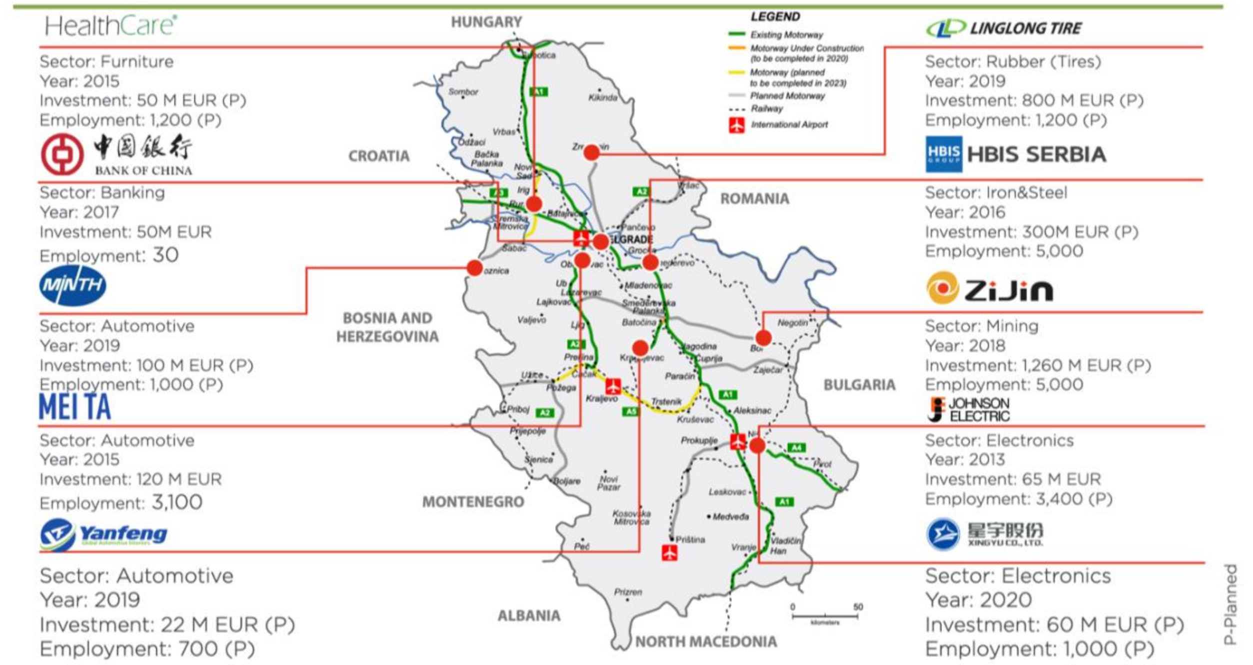
Figure 10 Serbia, main import partners in 2021[160]



[157] Author's calculations based on data extracted from the Statistical Office of the Republic of Serbia (provisional values for 2021)
[158] Increasing from 1'509'458.7 in 2013 to 4'308'792 (p) in 2021 (in thousands of USD) according to the SORS
[159] "Serbia Economy Briefing."
[160] Author's calculations based on the Statistical Office of the Republic of Serbia (provisional values for 2021)

5.2. Major direct investments in Serbia

Figure 11 Major Chinese Investments Planned in Serbia, NBS[161]



According to the National Bank of Serbia's (NBS) list of major Chinese investments (see Figure 11), Linglong Tire and Zijin Mining Group planned investments account for approximately 73% of these listed investments in Serbia. Interestingly, among these ten major investments, six are firms directly participating in the automotive industry, and to some extent HBIS Serbia could be added, the latter being a producer of steel, hot/cold rolled products, and tin plate commonly used in automobile.[162] The automotive industry in Serbia is an important and historical sector that successfully attracted foreign investments in the last decade. In fact, this sector accounted for more than 14% of the total FDI stock in 2019.[163] However, this thriving auto parts industry that revived through foreign investments offers few possibilities for local economic development. In fact, FDI firms tend to do little local sourcing, with actors that are mostly functioning as assembler of imported inputs, with final products being reexported

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[161] Illustration from the National Bank of Serbia "Invest in Serbia: Opportunities for investors from China 2020"
[162] National Bank of Serbia, "Invest in Serbia: Opportunities for Investors from China."
Among the two firms that are categorized in the electronic sector in (figure 11), Johnson Electric is a provider of motors, actuators, motion subsystems, for automotive, industrial, and medical applications. As for Changzhou Xingyu, the firm produces automotive lighting systems.
[163] Razvojna Agencija Srbije, "Automotive Industry Serbia 2019."

without a substantial value added. The result of this are fewer possibilities for spillovers and a reduced participation in the global value chain for local companies.[164] For such reasons, in 2019 the Serbian Development Agency shifted its investments promotion focus from activities with lower value added to projects related to innovation.[165] Actors such as Johnson Electronics that are more high-end oriented could bring positive perspectives for the future, but there are perhaps fewer opportunities with actors such as Linglong that are producing tires.[166] Given the nature of industry's activities, Chinese firms would as other foreign firms seek to take advantage of a cheap and skilled workforce in a developed auto parts industry, with a certain proximity to European markets.

5.2.1. HBIS Group Serbia

Among the investments listed (Figure 11) was the state-owned Hebei Iron and Steel Group (HBIS Group) which planned a total investment of EUR 300mn in the country. The latter was in 2021 the largest exporter in terms of merchandise value (EUR 725.7mn) ahead of Zijin Mining Group (EUR 750.3mn) according to the Serbian Ministry of Finance.[167] The presence of this state-owned Chinese group would be the result of a strategy that combines economic and political considerations. In 2014, Yu Yong, the Chairman of HBIS Group, announced a strategy of relocating production capacity around the world, in the context of a weak domestic demand and low profit margins stating that *"going global strategy is inevitable"*. That year, the group took 51% stake in a Swiss-based trading firm Duferco to improve its ability to sell steel overseas and gain a better understanding of market demands. However, the objective was not to boost Chinese steel exports, the industry being highly energy-consuming, the Chinese government has not encouraged steel exports but rather a relocation of some production activities. As noted by Zhang Changfu, vice-chairman of the China Iron and Steel Association, production at home targeted by the national sector was to cater to domestic needs.[168]

The highly energy-consuming dimension is rather a euphemism to refer to the pollution steel industry generates, mainly due to its important use of coal. HBIS Group's production activities in China are mainly located in the province of Hebei. This province is notably known for being

[164] World Bank, "Serbia's New Growth Agenda: Forging a New Future," 25.
[165] "World Investment Report 2021 | CNUCED," 68.
[166] Razvojna Agencija Srbije, "Automotive Industry Serbia 2021: Time to Advance," 26.
[167] "Kineske kompanije Ziđin i HBIS u 2021. bile najveći izvoznici u Srbiji - Ekonomija - Dnevni list Danas."
[168] "Hebei to Move Excess Industrial Capacity Overseas - Business - Chinadaily.Com.Cn"; "China Steel Company Takes Controlling Stake in Swiss Trader Duferco."

the largest contributor of air pollution in China, with its concentration of highly polluting industries with an annual average ambient PM 2.5 concentration of 112.9 μg/m3 in 2012, exceeding by far the standard set by the Chinese government of 35μg/m3. In 2013, the provincial government of Hebei announced a five-year action plan outlining a series of measures to reduce air pollution with the most stringent emissions standards in the country.[169] In the context of a declining growth at that time, an industry suffering from low prices as a result of overcapacity, steel mills were put under even more pressure with these stringent environment standards.[170] Thus, this HBIS Group's investment in Serbia with the acquisition of Smederevo's steel mill in 2016 could be understood as a shift of production activities abroad being part of this 'going global' Chinese policy intended to move old iron and steel capacity out along the Belt and Road, and associated with a whole Chinese metals industry *"moving up into cleaner, higher-tech, steel products and metal trading.",* as reported by the OECD.[171]

As seen above, Serbian geographical location was an important factor attracting strategic investments. However, being in the center of the corridor connecting the port of Piraeus to Budapest is certainly not the only advantage that motivated the acquisition of Smederevo's steel mill. On one hand, the Western Balkans countries since the launch of the BRI are investing in numerous infrastructure construction or modernization projects financed through loans originated from the state-owned Exim Bank. These loans systematically go hand-in-hand with the execution of at least a major part of the works by Chinese companies, the latter having generally a certain latitude in selecting their own suppliers of materials. On the other hand, Serbia has an important automotive sector with an increasing presence of Chinese firms in the last few years. This would have been a great opportunity for HBIS Group to locate the production where the resources are needed; As a matter of fact, the construction and automotive sectors are the most steel-consuming sectors, the former being by far the most steel-demanding according to a report from the European Steel Association (EUROFER).[172] Besides, this acquisition also emphasizes the way the BRI through the promotion of infrastructure projects creates business opportunities for Chinese firms. Also, it shows that the BRI is inseparable from this broader 'going global' strategy pushing for an internationalization of Chinese firms, illustrating why this initiative became an umbrella term used for all Chinese activities abroad.

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169 World Bank, "Breathing Easier."
170 Reuters, "China Cracks Down on Steel's Smog."
171 OECD, "OECD Business and Finance Outlook 2018: China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape," 20.
172 "European Steel in Figures 2021," 26.

5.2.2. Zijin Copper Mine

In 2009, the United Nations Environment Programme (UNEP) warned over environmental risks of mining activities in the Western Balkans, in which a great potential to boost local economies and attract foreign investment was recognized in this region particularly richly endowed with mineral resources.[173] In 2018, the copper mine formerly known as RTB Bor was acquired by a state-owned Chinese company, namely Zijin Minin Group, and was expected to result in the largest direct investments for the country (see Figure 11). This mine was previously owned by the Serbian state but the backwardness of its equipment and machinery and a poor management made it unprofitable with debts accumulating overtime. To cease operations was a politically untenable decision as the region in which the mine is located is heavily dependent on mining activities. The state had to find a new owner willing to invest in the modernization of the equipment while retaining jobs.[174] This acquisition attracted considerable attention from the public and the media. Since mining activities in Bor resumed and eventually increased, it brought back, if not worsened, the problem of pollution in this area. According to a study conducted by the Prague Security Studies Institute, the domestic regulatory framework that should constrain the producer to comply with environmental norms was ineffective and only able to distribute fines of a ridicule amount. Many citizens' protests took place in the last few years to denounce air pollution and a certain complacency of the Serbian government with the Chinese group which has not demonstrated a clear political will to force the copper mine to comply with the legislation in place.[175]

Through the multidimensional connectivity underpinning the BRI which goes beyond encouraging foreign trade and investment, one of the objectives was also to secure China's access to energy, resources, and food, notably through an increasing leadership role and strengthened ties with participating countries.[176] For China, copper is considered a strategic raw material of fundamental importance to economic and social development, guaranteeing an access to this resource is thus an issue of national security. As a matter of fact, the country is the biggest copper consumer in the world importing around 80% of its annual consumption,

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[173] UNEP - UN Environment Programme, "Mining and Environment in the Western Balkans," 7.
[174] Prelec, "Eco-Monsters & Eco-Fighters: China's Investments in Serbia's Heavy Manufacturing Industry as Seen through an Environmental Lens," 9–10.
[175] Prelec, 10–11.
[176] OECD, "OECD Business and Finance Outlook 2018: China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape," 10.

that represents more than one third of the copper market.[177] According to different studies conducted, China's demand for copper is projected to increase significantly by 2050. However, this is not peculiar to China, this demand is expected to increase in all parts of the world.[178] According to Dong et al., the total copper demand is expected to be six time higher in 2050 than it was in 2005, with the main end-use sector projected to be infrastructure accounting for around 50% of the total demand, followed by transportation (25-30%), buildings (5-10%), and consumer durables (5-10%).[179] Furthermore, this resource is only marginally present in China with an estimated share in 2015 of 4.29% of global reserves according to the United States Geological Survey.[180] Thus, the country has insufficient copper endowments to meet its increasing demand, resulting in a pressing need to secure an access to this resource.

Since the acquisition of Bor's copper mine in 2018, copper mining activities have substantially impacted Sino-Serbian trade relations (see Figure 12). Between 2013 and 2020, a broad evolution can be observed in the structure of the exports to China, although there has been some consistency over this period with a large predominance of low added-value merchandises. Interestingly, in the year following the acquisition, copper became the largest exported commodity with an approximate share of 80% of total exports to China. This is particularly impressive because before 2018, the share of this commodity among total exports was almost negligible.[181] In 2020, copper still largely dominated the commodity structure of exports with an approximate share of 72% only for the following two categories: "Refined copper" and "Copper ores and concentrates". Overall, exports regarding most categories have increased significantly and this trend is likely to continue in the coming years, but the fact that the commodity that mostly contributed to such increase in total exports to China is also raising doubts about the real benefits of these trade relations for the country once negative externalities are considered. Especially given the rather uncertain, or even in some cases negative impact of the FDI on growth in the primary sector with fewer opportunities for positive spillovers and prone to inefficient elite capture.[182] Of course such observations are contingent on domestic characteristics, and there are examples of countries that used certain primary industries as cash cows in order to reinvest and develop other promising industries.[183]

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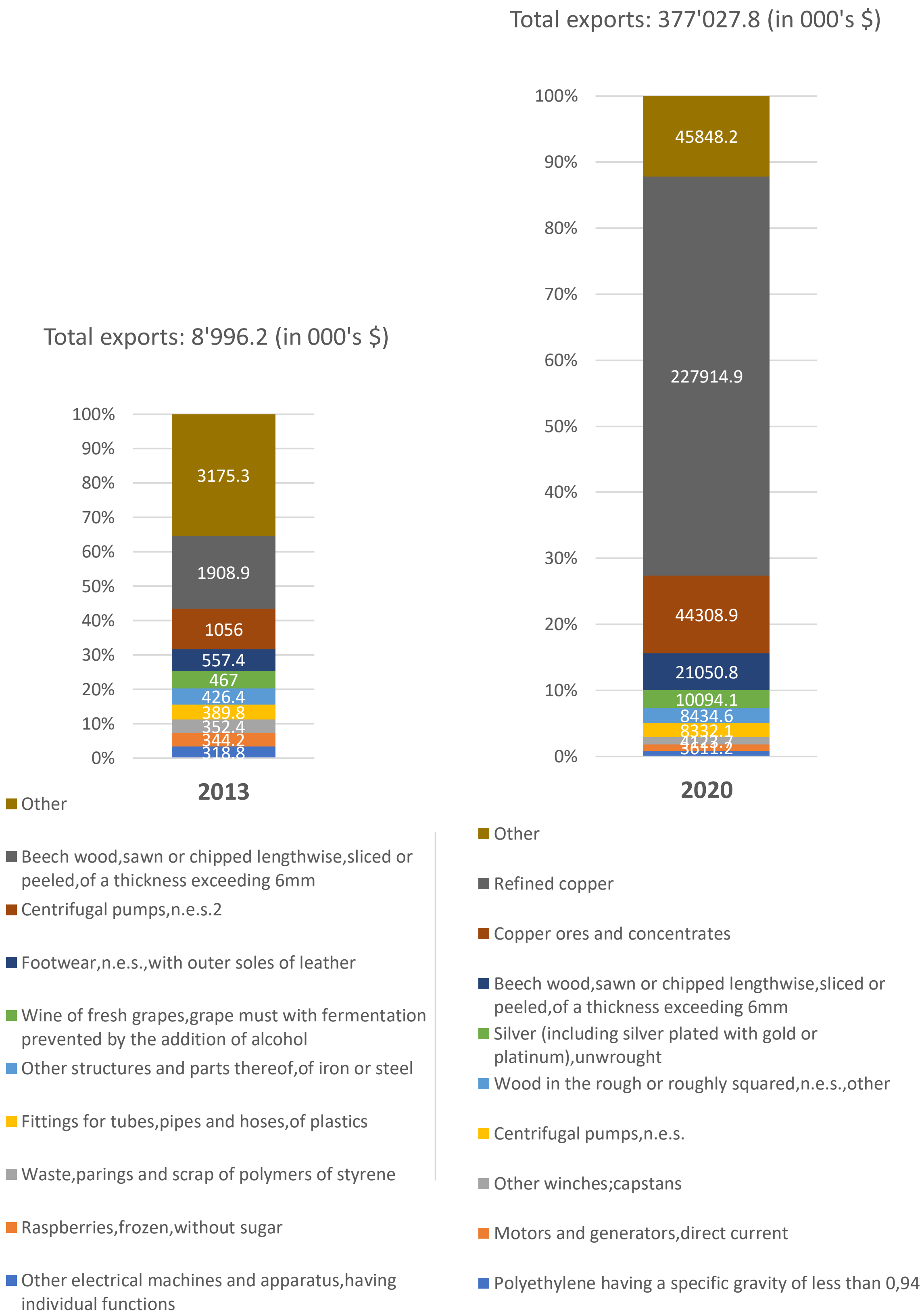
[177] "China's Blueprint to Stockpile Copper Expected in Five-Year Plan."
[178] Dong, Tukker, and Van der Voet, "Modeling Copper Demand in China up to 2050," 1373.
[179] Dong, Tukker, and Van der Voet, 1370.
[180] Li et al., "Patterns and Challenges in the Copper Industry in China," 1.
[181] Jovičić, Stevanović, and Beraha, "Serbia-China Bilateral Trade Relations."
[182] Alfaro, "Foreign Direct Investment and Growth."
[183] Alfaro, "Foreign Direct Investment," 4.

Figure 12 Commodity Structure of Exports to China (in 000’s $)[184]



[184] Author’s compilation, data extracted from the Statistical Office of the Republic of Serbia

6. Conclusion

BRI in the Western Balkan countries mainly takes the form of infrastructure projects in the transport and energy sectors. These Chinese investments in this region are made in the form of loans granted to governments by the state-owned Chinese Import-Export Bank which are systematically accompanied by the realization of the works by Chinese companies, the latter having a certain latitude in the choice of inputs required for the realization of the works. The Western Balkans countries have less stringent norms and standards in comparison with EU countries and would thus oppose fewer barriers to entry for Chinese firms. Through these projects, it is an opportunity for Chinese firms to exploit their spared capacities in a context of slowing economic growth, while at the same time promoting Chinese exports. It is also an opportunity for Chinese firms to demonstrate their ability to deliver projects effectively. For the Western Balkan countries, the rapid availability of funds with fewer prerequisites would have been the main incentives to resort to Chinese lenders.

In terms of direct investment, however, this economic presence is rather modest. The BRI, which is mainly aimed at opening up trade routes and strengthening ties with participating countries, is nonetheless still stimulating the implantation of Chinese firms in the region by creating business opportunities. The FDIs in this region have increased since the official launch of this initiative in 2013. However, the Western Balkans are still not a priority for Chinese firms which tend to prioritize investments in Central Europe. This difference could be explained by the fact that companies in this region operate more or less in the same segment as companies in China. In contrast, Central Europe with its advanced economies offer more opportunities in terms of innovation.

Also, the environmental dimension is fundamental to understand a growing presence of Chinese firms in the region. On the one hand, the Chinese context is less favorable to polluting industries with a willingness to respond to environmental issues by orienting firms towards less polluting activities or by encouraging them to improve their energy efficiency. In a context of Chinese economic slowdown, these constraints are pushing some companies to develop some of their activities abroad in a more favorable environment. On the other hand, countries such as Serbia and Bosnia-Herzegovina have taken advantage of lenders who are not reluctant to provide funds for the construction of coal-fired power plants. For these countries, it is an opportunity to secure their energy needs, while capitalizing on this resource that is relatively present in their soils.

A particular focus was put on the Serbian case, to grasp the reasons why the country hosts an important share of the projects involving Chinese actors in comparison with its neighbors. The country attracted the highest number of projects involving Chinese actors, including a significant number of direct investments. These firms' investments are mainly concentrated in the automotive industry. However, in terms of amounts, it is the mining giant Zijin that stands out with its activities revolving around the extraction and processing of copper. The latter has notably boosted the country's exports to China. However, this acquisition of the mine in Serbia also comes in the context of China's growing need to secure an access to this resource, whose needs for its economy are expected to increase significantly in the future. Regarding the proliferation of infrastructure projects, I propose an interpretation that emphasizes the complementarities between the objectives of these two nations:

In a global context with a rise of populism observed reaffirming national sovereignty, and manifesting itself through economic interventionism, would not the latter be conducive to a return of state developmentalism for emerging economies? In that sense, the BRI, rather than being the means by which China promotes its model of economic development, its real influence would perhaps lie in the degree of flexibility it grants to participating countries to develop in their own way. In turn, this recentralization of decision-making power that large-scale development programs require would create complementarities with Chinese economic objectives. However, these periods of great transformation also open up new avenues for the generation of power, with the risk that a local elite seeking political or private gain will reconfigure the state to its advantage. Thus, the growing strains increasing on democratic institutions would be exerted at several levels. On the one hand, the imperatives of radical economic development requiring the capacity to steer policies in the direction of net change. On the other hand, an illiberal elite that would seek to solidify its power through these transformative periods. These two dynamics are complementary in the sense that they would allow the ruling class to deliver visible results quickly and thereby gain a certain legitimacy strengthening its power. Such rapid visible results would be one aspect that these BRI-related infrastructure projects would offer.

However, this radical approach to development has its limits. In Serbia, legislative reforms aimed at facilitating and accelerating expropriations and the implementation of infrastructure construction and modernization projects have been met with strong resistance from citizens. In these reforms, it was the notion of national interest that was put forward to justify an increase in government's ability to develop its economic agenda at the expense of the bureaucracy. The promotion of a national interest, which was assumed to be the common interest, a frequent populist claim, was based on the promotion of private interests through a productivist conception of the territory. This vision, however, raised strong opposition from Serbian citizens, and has even managed to unite citizens around common interests such as the right to enjoy a healthy environment.

7. Appendixes

Table 1 Major Chinese Investments & Construction Contracts (2013-2021), CGIT[185]

Month/Year	Investor/Builder	Amount (in USD)	Investment/Contract
June 2013	Shandong Gaosu	$ 330M	Construction
November 2014	China National Machinery Industry (Sinomach)	$ 970M	Investment
June 2016	China Communications Construction	$ 230M	Construction
October 2016	Huawei Technologies	$ 170M	Construction
December 2016	Hebei Steel	$ 120M	Investment
October 2017	Shanghai Electric	$ 210M	Construction
November 2017	China National Machinery Industry (Sinomach)	$ 310M	Construction
November 2017	China Communications Construction	$ 520M	Construction
December 2017	Power Construction Corp. (PowerChina)	$ 230M	Construction
January 2018	Shanghai Electric	$ 140M	Investment
July 2018	Power Construction Corp. (PowerChina)	$ 220M	Construction
August 2018	Zijin Mining	$ 690M	Investment
September 2018	China Communications Construction	$ 260M	Investment

[185] Author's compilation based on the data extracted from the China Global Investment Tracker

December 2018	Shandong Linglong Tire	$ 950M	Investment
July 2019	Hebei Steel	$ 120M	Investment
November 2019	China Railway Engineering	$ 350M	Construction
November 2019	Zijin Mining	$ 380M	Investment
February 2020	Zijin Mining	$ 360M	Investment
June 2020	Shandong Gaosu	$ 180M	Construction
December 2020	China Communications Construction	$ 710M	Construction
April 2021	Power Construction Corp. (PowerChina)	$ 120M	Construction
April 2021	Zijin Mining	$ 410M	Investment
October 2021	Shandong Gaosu	$ 390M	Construction
October 2021	China Communications Construction	$ 3810M	Construction
November 2021	Shandong Gaosu, China Communications Construction	$ 1090M	Construction
November 2021	Power Construction Corp. (PowerChina)	$ 1370M	Construction
2013-2021		**Total 14.64B**	

Table 2 Major Chinese Investments and Lending in Serbia (2008-2017), EBRD[186]

Year	Chinese Company	Sector	Value in Million EUR	State of investment	Nature of investment
2008	Official lending	Retail	32	Completed	Belmax Trade Center
2011	Wolong Group	Motors and control systems	Not available	Completed	Sever Company
2012 **2014**	Official lending	Energy	293 608	Ongoing	Thermal Power Plant at Kostolac
2014	Official lending	Mihajlo Pupin Bridge over Danube	260	Completed	Bridge building
2015	Mei Ta Industrial	Auto Industry	60	Comleted	Obrenovac
2016	Official lending	Construction Corridor XI	350	Ongoing	Cross Border Highway Construction
2016	He Steel Group Investment	Steel mill Smederevo	46	Ongoing	Modernisation investment
2016	Official lending	Rail Reconstruction	Over 1B	Ongoing	Fast Rail link Belgrade-Budapest
2017	Bank of China	Banking	Not available	Completed	Greenfield investment Branch network
Total			**2,661**		

[186] Information extracted and compiled from:
Bastian, "What China's 'Belt and Road Initiative' Means for the Western Balkans, EBRD," 22.

Table 3 List of Chinese loans, BIRN[187]

Year	Sector	Project	Project value	Exim Bank loans	Contract	Contract value	Local/Other Partners
2010	Energy	Kostolac-B3 lignite power plant (Power Plant Package Project - Phase I)	261 083 333 EUR	239 000 000 EUR	China Machinery Engineering Corporation (CMEC)		Public Enterprise Elektroprivreda Srbije
2013	Infrastructure	E-763 highway construction project (Obrenovac-Ljig section)	257 263 193 EUR	225 000 000 EUR	China Shandong International Economic & Technical Cooperation Group	240 012 300 EUR	Energoprojekt - niskogradnja, Koridori Srbije
2013	Energy	Kostolac-B lignite power plan (Power Plant Package Project - Phase II)	529 016 042 EUR	507 000 000 EUR	China Machinery Engineering Corporation (CMEC)		Public Enterprise Elektroprivreda Srbije
2016	Infrastructure	Construction of highway E70/E75, Section: bridge over Sava near Ostruznica - Bubanj Potok (20,4km)	227 000 000 EUR	192 950 000 EUR	Power Construction Corporation of China		Consortium of local companies + Azvirt
2016	Infrastructure	E-763 Surcin - Obrenovac Highway (Corridor XI)	207 632 202 EUR	190 000 000 EUR	China Communications Construction Company		Public Enterprise Roads of Serbia
2016	Infrastructure	Modernization and Reconstruction of the Serbian railway (34,5km)	315 660 813 EUR	248 000 000 EUR	China Railway International / China Communications	315 000 000 EUR	Infrastructure of Serbian Railways JSC

[187] Author's compilation, data extracted from the BIRN's interactive map (https://china.balkaninsight.com) and completed with UniCredit's report "Western Balkans: The burden of China's lending to governments"

		(Section Belgrade-Stara Pazova)			Construction Company		
2017	Energy	Construction of district heating pipeline project Obrenovac-Novi Sad	193 748 000 EUR	165 000 000 EUR	Power Construction Corporation of China		Public Utility Company Beogradske Elektrane, City of Belgrade
2017	Infrastructure	E-763 Preljina-Pozega highway section (Corridor XI)	451 124 515 EUR	371 000 000 EUR	China Communications Construction Company (CCCC)	450 000 000 EUR	Public Enterprise Roads of Serbia
2018	Infrastructure	Modernization and Reconstruction of the railway section Novi-Sad-Subotica-state border (108,1km) (Pan-European Corridor Xb)	1 045 410 411 EUR	824 000 000 EUR	China Railway International / China Communications Construction Company	943 000 000 EUR	Infrastructure of Serbian Railways JSC
2020	Infrastructure	Iverak-Lajkovac expressway (18,3km)	158 000 000 EUR	134 300 000 EUR	China Shandong International Economic & Technical Cooperation Group	158 000 000 EUR	Public Enterprise Roads of Serbia
2020	Infrastructure	Fruska Gora corridor road (linking Corridor IV and Corridor X)	606 000 000 EUR		China Road and Bridge Corporation (CRBC)	606 000 000 EUR	Koridori Srbije
	Total		**4 251 938 509 EUR**				

Table 4 List of direct investments in Serbia, BIRN[188]

Year	Sector	Project	Project Value	Status	Chinese Partners	Local Partners
2012	Energy	Kovin Energy Complex (underwater coal exploration, 700MW coal power plant)	Unknown	**Stalled**	China Huadian Hong Kong Corporation Ltd. (CHDHK), Tianjin Dredging Corporation (CCCC TDC)	NIS Gazprom
2014	Automotive	Mei Ta car parts factory in Obrenovac	60 000 000,00 EUR	Completed	Mei Ta Industrial Co. Ltd.	Government of Serbia (35% participation)
2015	Farming	Abattoir Construction and Cattle Purchase Agreement in Kragujevac	Unknown	**Stalled**	China Machinery Engineering Corporation (CMEC)	City Council of Kragujevac
2015	Furniture	Healthcare Co, polyurethane processing plant in Ruma	50 000 000,00 EUR	Completed	HealthCare Co. Ltd.	
2016	Metals	Zelezara Smederevo steel mill acquisition	46 000 000,00 EUR	Completed	HBIS Group Co. Ltd.	
2016	Energy	Loznica Natural Gas Power Plant	230 000 000,00 EUR	**Stalled**	China National Electric Engineering Corporation Limited (CNEEC)	
2017	Industry	Production facility for Hardware/Sanitary Ware in Kula	32 800 000,00 EUR	**Stalled**	Zhejiang Kangyi Sanitary Ware	Istra
2018	Mining	Rudarsko-Topionicarksi Basen RTB Bor Doo	300 403 398,00 EUR	Completed	Zijin Mining Group	
2018	Automotive	Tire Factory of Linglong (construction in Zrenjanin)	880 000 000,00 EUR	Ongoing	Shandong Linglong Tyre Co. Ltd.	
2019	Automotive	Changzhou Xingyu Automotive Lighting Systems Factory in Nis	59 800 000,00 EUR	Ongoing	Changzhou Xingyu Automotive Lighting System Co. Ltd.	

[188] Author’s compilation, data extracted from the BIRN’s interactive map (https://china.balkaninsight.com)

2019	Automotive	Yanfeng Automotive Plant, Sumadija district	20 000 000,00 EUR	Completed	Yanfeng Automotive Interiors	
2019	Automotive	Privatization of Ikarbus (bus factory)	9 500 000,00 EUR	**Stalled**	Lanzhou Guangdong New Energy Automobile (LGNEA)	
2019	Automotive	Second Mei Ta Car parts factory in Obrenovac	90 000 000,00 EUR	Completed	Mei Ta Industrial Co. Ltd.	Government of Serbia (35% participation)
2019	Automotive	Car Parts Factory in Loznica	100 000 000,00 EUR	Completed	Minth Group Ltd.	Konstruktor Konsalting
2019	Metals	Zelezara Smederevo steel mill Sinter Plant Construction	107 719 928,00 EUR	Ongoing	HBIS Group Co. Ltd.	
2021	Automotive	Sulfur Factory in Zrenjanin (raw materials for tyre factory, supply to Linglong)	30 000 000,00 EUR	**Stalled**	Shandong Yanggu Huatai Chemical Co. Ltd.	
		Total (excluding stalled projects)	**1 713 923 326,00 EUR**			

Table 5 Other construction projects, BIRN[189]

Year	Sector	Project	Project Value	Status	Chinese Partner	Local Partner
2017	Infrastructure	Reconstruction of Rasputnica G-Rakovica-Resnik Line (Section of the Belgrade-Nis railway line)	23 700 000 EUR	Completed	China Civil Engineering Construction Corporation (CCECC)	Infrastructure of Serbian Railways JSC
2019	Technology	Smart City Project Nis	Unknown	Ongoing	Huawei Technologies	Telekom Srbija

[189] Author's compilation, data extracted from the BIRN's interactive map (https://china.balkaninsight.com)

2019	Technology	Smart City Project Novi Sad	Unknown	Ongoing	Huawei Technologies	Telekom Srbija
2019	Infrastructure	Belgrade - Surcin E-673 highway (Corridor XI)	63 651 137 EUR	Ongoing	China Communications Construction Company	Public Enterprise Roads of Serbia
2019	Technology	Smart City Project Belgrade	Unknown	Ongoing	Huawei Technologies	Telekom Srbija
2020	Infrastructure	Bubanj Potok - Vinca R251 bypass	500 000 000 EUR	**Stalled**	Power Construction Corporation of China	Azvirt (Azerbaïjan)
2020	Environment	Belgrade Central Wastewater treatment plant + Veliko Selo	271 000 000 EUR	Ongoing	China Machinery Engineering Corporation (CMEC)	Public Utility Company Water Supply and Sewage of Belgrade
2021	Infrastructure	Belgrade Metro Network	6 000 000 000 EUR	Ongoing	Power Construction Corporation of China	Alston; Egis (France)
2021	Infrastructure	Construction of bypass around Novi Sad with bridge over Danube	130 000 000 EUR	Ongoing	China Road and Bridge Corporation (CRBC)	Koridori Srbije
2021	Energy	Bistrica hydropower plant	600 000 000 EUR	**Stalled**	China Nuclear Power Engineering	SNC Lavallin (Canada)
2021	Environment	Project Construction municipal infrastructure (utility infrastructure and municipal solid waste disposal)	3 200 000 000 EUR	Ongoing	China Road and Bridge Corporation (CRBC)	

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