

# WORKING PAPER

## **China in Southeast Europe: Detecting a Trend**

Senada Šelo Šabić

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping



# China in Southeast Europe: Detecting a Trend

## Abstract

*The aim of this article is to assess which policies and activities China has been pursuing in seven countries of Southeast Europe – Slovenia, Croatia, Bosnia and Herzegovina (BiH), Serbia, Montenegro, Macedonia and Albania. In which sectors is China interested to invest? What is a status of cultural and educational programs? Which diplomatic engagements have taken place? The analysis is placed within the framework of Belt and Road and 16+1 initiative to understand where this region is positioned within a broader context of China's foreign policy.*

*Taking into account that China wants to build stronger economic and people-to-people ties via these initiatives, this paper assesses up-to-date achievements in these sectors and identifies key challenges that lie ahead. Two out of these seven countries are EU member states, the rest candidates and potential candidates for EU membership. Chinese engagement in this region does not pass unnoticed and this paper will also discuss attitudes of the EU towards BRI and 16+1 with respect to this specific region.*

*In terms of the structure and the content, the article in the introduction briefly looks at Chinese relations with post-Yugoslav states (plus Albania), analyses key investment projects and areas of cooperation in the last 20 years. It identifies supporters and opponents of Chinese engagement in SEE. In conclusion, the paper looks beyond this region to understand Chinese engagement in a broader EU context.*

**Key words:** *China, 16+1 initiative, Southeast Europe, European Union*

## Introduction

Chinese global outreach strategy in the last decade has evolved into what is called a One Belt, One Road.<sup>1</sup> OBOR or Belt and Road initiative (BRI) is a development strategy designed by the Chinese government in 2013. BRI does not follow any clear geographical line but serves more as a roadmap for how China wants to further integrate itself into the world economy. This roadmap includes creation of an economic land belt that includes countries on the original Silk Road through Asia, the Middle East and Europe, as well as a maritime road that links China's port facilities with the African coast, and through the Suez Canal with the Mediterranean.

Proposed by Chinese President Xi Jinping in 2013, BRI is imagined as a cooperation initiative between countries from Asia, Europe and Africa. It accounts for sixty percent of global population and one-third of global GDP (Pethiyagoda 2017).

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<sup>1</sup> One Belt, One Road Initiative (OBOR) is also referred to as a Belt and Road Initiative (BRI) and also described as a New Silk Road and a Maritime Silk Road projects.

This initiative is set to reinvigorate the seamless flow of capital, goods and services between Asia and the rest of the world, by promoting further market integration and forging new ties among communities. By building transport infrastructure (investments in roads, railways, bridges, ports) China contributes to the development of global trade. Yet, trade is only one aspect of the BRI.

BRI certainly facilitates Chinese exports and imports of minerals and other materials. In a border sense, it is a flexible and open-ended project with a goal to generate long-term benefits for Chinese economy. By some estimates, China plans to pump USD 150 billion into BRI projects each year and there are already USD 900 billion of worth in planned projects. There are plans for pipelines and a port in Pakistan, bridges in Bangladesh and railways to Russia (Philips 2017).

The 16+1 initiative of the Chinese government just slightly precedes the BRI. It was officially launched in 2012 and includes 16 countries of Central, East and Southeast Europe.<sup>2</sup> Seven countries in Southeast Europe (SEE) that participate in this initiative and are analysed in this paper are Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Macedonia and Albania. The reason to choose these countries as a focus of the research is to shed additional light into a specific group of countries, geographically coherent, and historically linked. Six out of them are Yugoslav successor states and thus share a common historical legacy in reference to membership in the former Federation. The majority of them along with Albania make what has been termed in Brussels a Western Balkan group of countries – countries in SEE that have signed a Stabilization and Association Agreement with the EU and have expressed commitment to join the Union.<sup>3</sup> China does not recognize Kosovo, thus Kosovo is not included among these countries as it is not a member of the 16+1 framework. However, China and Kosovo are trading partners notwithstanding the issue of non-recognition. Another reason why it is interesting to look at this group of countries is that one can follow different dynamic in Chinese approach to these countries – some are EU member states – Slovenia and Croatia – while the remaining ones are prospective members. Four are also NATO members – Slovenia, Croatia, Albania and Montenegro – while officially BiH and Macedonia express to join NATO when conditions are met. Serbia wants to join the EU, but not NATO insisting on its position of a militarily neutral state. The diversity within this selected group of states offers more possibility for inference about Chinese activities within the 16+1 and Europe in general.<sup>4</sup>

The main purpose of the 16+1 is to facilitate economic cooperation. Chinese side, of course, explains that these initiatives benefit all participating states. At this stage of cooperation, there is no reference to institutionalization of the 16+1. However, a Secretariat of the 16+1 has been established in Beijing which coordinates and facilitates different activities and contacts among various institutions from participating states. In April 2017, a China-CEEC Institute of the Chinese Academy of Social Sciences opened its door in Budapest as the

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<sup>2</sup> Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.

<sup>3</sup> The rest of the countries participating in the 16+1, apart from these seven, are all EU member states.

<sup>4</sup> However, this does not exclude differentiation that exist among all sixteen countries in terms of historical legacy, economic challenges, political allegiance and cultural preferences.

first Chinese think tank registered in Europe. The goal of this think tank is to strengthen partnerships with academic institutions and think tanks within 16+1 framework in order to promote mutual understanding and intellectual cooperation (Xinhua 2017).

Despite the fact that we do not see institutionalization of the 16+1, closer cooperation will be promoted. In the theoretical concept of neo-institutionalism (Keohane 1984, Keohane and Nye 2011) this would mean that China, as a rational and primary state actor in international politics invests in cooperation with other states, considered also as rational and primary actors, to nurture mutual trust and enhance their cooperation.

If Chinese interests are clear, a question arises what is in here for others to participate? As the most populated country on the planet and the world's second largest economy, China bears enormous asymmetric power in such cooperation. Realists would describe China as a hegemon crafting relations and navigating cooperation with other states on the basis of its unquestionable might and in pursuit of its own interests. Yet, if complexity and interdependency also describe our world, then hegemony is not a sufficient condition for advancing one's interests. As Keohane puts it "...although hegemony can facilitate cooperation, it is neither a necessary nor a sufficient condition for it (1984: 12). In other words, even hegemons require some form of cooperation to advance their interests, noting that "...cooperation is evidently not a simple function of interests (Ibid.). What is it then? Why both powerful and weak states engage in cooperation?

This is a broader theoretical question than is the scope of this paper which is focused primarily on generating empirical evidence and describing relations that exist between China and SEE countries. Therefore, this paper analyses what kind of relationship China is building with the states in Southeast Europe taking into account, however, the reality that there is a huge asymmetry of power between them. This approach takes states as primary actors in international politics although being aware that there are other definitions of actors and nature of international system. Willingness to cooperate in 16+1 initiative relies on Keohane and Nye's (2011) notion that states cooperate if they share some common interests judging they can advance these interests through cooperative, cost-effective behaviour.

It would be interesting to delve deeper into the nature and effects (both short-term and long-term ones) of Chinese global outreach strategy, 16+1 initiative being one of them. This may come in subsequent work by students of international relations and other related topics. The content of this paper feeds into a broader research on Chinese role in shaping current world affairs and, more locally, in influencing developments in the European Union (EU).

Methodology is desk research using available analysis in the form of documents, papers, policy briefs and journal articles. It is also based on a couple of interviews conducted in Zagreb, Croatia with a Chinese and Croatian diplomats in October 2017.

### **16+1 Initiative**

What are the interests of Southeast European countries to take part in the 16+1 initiative? The answer is almost self-evident. They are all small, recently created, countries that grapple with multiple transitions and search for venues for their economic development and a position on the international scene. The population of Slovenia, Croatia, Bosnia and Herzegovina,

Serbia, Montenegro, Macedonia and Albania combined is 23 million compared to 1,379 billion in China (CIA The World Factbook). The population difference is huge and it should never be forgotten in discussing relations between China and this region.

With lowest amount of GDP per capita USD 11.000 in Bosnia and Herzegovina and Slovenia with highest of USD 32.100, an approximate GDP per capita in those seven countries is USD 17.600. The average in GDP per capita China is USD 15.400 (CIA The World Factbook).

As already noted, all countries analysed in this paper, except for Albania, were part of the former Yugoslavia before it broke apart in the 1990s. China enjoyed friendly relations with the former Yugoslavia and continues so with newly created states.<sup>5</sup> During the rule of Albanian leader Enver Hoxa at the time of the Cold War, Albania crafted special relationship with the People's Republic of China. However, this relationship was severed in the 1970s followed by China building stronger ties with then Yugoslavia (Poulain 2011). Although Albania made a stark shift towards the West since the end of the Cold War, during the last decade China and Albania concluded several projects that enhance their economic cooperation.

The outreach strategy of the Chinese government has been a logical step for a rapidly growing world economy. Parts of Europe in its center, east and southeast, which are less economically developed, do not belong to the first tier of Chinese economic interests. However, it is a logical conclusion for a global power to leave out no regions out of its zone of influence.

The CEE and SEE countries have specific characteristics which define their attractiveness for investment from Chinese perspective – a majority are EU member states (or in the process of accession) which means that building relations with them, China is at the same time building relations with the EU.<sup>6</sup>

All of them are former communist countries which also bears some resonance though vaguely and distantly. However, Chinese economic success within the communist political system and state-managed capitalist economy has come to question a liberal market economy model as the only model for development. Moldicz (2017: 25) writes that some CEE countries are re-evaluating the benefits of the “Western European recipes for economic catchup” as they did not result in expected growth and “the gap between Western and Central European (countries) has not diminished since 1990. For this reason, these countries are looking at what China is doing right. They see a benefit of a strong state that is able to intervene in the market, create strong institutions and ensure macroeconomic and political stability that are necessary preconditions for economic development.

There is appeal to a strong state, resting on romantic notions of communist days when more people seemed to be equal and when a powerful state took care of most needs of a society. Authoritarian tendencies, renationalization of politics, inward looking are not

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<sup>5</sup> This does not refer to Kosovo which gained independence 2008. China does not recognize Kosovo. The same applies to Serbia and Bosnia and Herzegovina, as well as five EU member states.

<sup>6</sup> The EU-China 2020 Strategic Agenda for Cooperation ([http://eeas.europa.eu/archives/docs/china/docs/eu-china\\_2020\\_strategic\\_agenda\\_en.pdf](http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf)) is an expression of a commitment to further develop relations between the two sides.

reserved for countries in the European center and east. The idea of a strong state, however, resonates particularly strong where liberal democracy is not fully entrenched and nostalgia of the past days when people were more equal and the state leadership steered the course of development for the benefit to all. Appeal for building a stronger state, thus, looking at Chinese economic success, may grow in the future “since only a strong state is able to convince people and firms that painful political adjustments are necessary to make an economic breakthrough.” (Moldicz 2017: 24).

### **Political relations**

There are no open bilateral issues between China and any SEE country. This comes as no surprise as there have been limited historical links between the two sides, the distance between them is also reducing a potential for conflict, the asymmetry in power renders almost impossible a challenge to China to come from any of these countries and China itself never fails to stress the importance of mutual respect, peaceful coexistence and principle of non-intervention in internal matters of sovereign states.

During the wars that followed the disintegration of Yugoslavia in the 1990s, China generally took a neutral standpoint. As a member of the UN Security Council it either voted with other four members or abstained. This attitude changed during the NATO attack on the Federal Republic of Yugoslavia (Serbia and Montenegro).

During one of the NATO raids on the Yugoslav capital Belgrade in early May 1999, NATO bombs hit and severely damaged the Chinese Embassy. Three Chinese nationals were killed and more than twenty people were injured. NATO officials blamed outdated maps and other technical details, but the Chinese government was not convinced. Large scale protests took place all over China and in some other cities in the world in condemnation of what was seen as an unprovoked aggression by NATO. However, there were other theories about this tragic incident. One article explained that Serbian communications unit occupied the basement of the Chinese Embassy. When NATO intercepted communication, they decided to hit (Sweney *et al* 1999). The rift between the West and China ended in a way that Americans apologized and China allowed protests to die off.

Sino-Serbian friendship is, however, viewed with reservation from Croatia. China-Croatia's good bilateral relations date back to Croatia's independence. However, pledges to develop more intense relations have not materialized in a form of any large scale economic project. A part of the reason lies in the fact that Croatia, sometimes even unconsciously, keeps distance from friends of its eastern neighbor. The other explanation for a relatively low economic cooperation, at least in terms of large infrastructure projects that China is implementing in most other SEE countries, is membership in the EU. The table in the next section of this paper shows economic activity of China in SEE countries. Slovenia and Croatia record almost no rise. A reason for this lies largely in the fact that the two are EU member states unlike the rest of the SEE countries analyzed in this paper. Of course, EU membership does not prevent some other states participating in 16+1 to nurture extensive economic relations with China. In the case of Slovenia and Croatia, however, their status in the EU impacts relations with China. Both Slovenia and Croatia are small, newly created

states that relatively recently joined the EU. Both, despite dissonance between them, have had governments that are oriented towards the EU. None of them has had any intense relations with China in the past, i.e. they do not know China well. With pro-European governments and no tangible counter-argument in terms of historical friendship or clear economic interests, both Slovenia and Croatia take note of EU’s criticism of China. Unlike some other countries, Croatia refrains from making concessions to Chinese investors. Former Croatian Prime Minister said, for example, that China, as well as anyone else, should respect Croatia’s laws when trying to penetrate Croatia’s markets. There are clear, transparent and predictable terms for public tenders, rules are clear and there are no exceptions (Tportal.hr 2012).

This last point is indeed one of the reasons why some observers of Chinese expansion claim that its global economic strategy has been successful – China requests no political preconditions to conduct business with any government if it is economically beneficial to China. Unlike Western countries and international financial institutions which require a set of political and economic reforms in order to conduct trade, grant financial assistance and distribute aid, China makes no such requests. Itself being criticized for the human rights record and media freedom, it makes clear that its trade and investments come with ‘no strings attached.’

However, it is this aspect of Chinese activities in SEE countries that makes Brussels and EU countries wary. In all states of SEE (with the exception of Kosovo) gross government debt has been rising since 2008 and all states, without exception, have been witnessing setbacks in political transformation (BTI 2016). In other words, declining democracy indicators, high corruption indexes and weak economic outputs raise concerns that Chinese presence would further decline reforms in the region, particularly among the countries which are candidates or potential candidates for EU membership (Makocki 2017).

<b>2016 Rank</b>	<b>Country</b>	<b>2016 Score</b>	<b>2014 Score</b>	<b>2012 Score</b>
<b>31.</b>	Slovenia	61	58	61
<b>55.</b>	Croatia	49	48	46
<b>64.</b>	Montenegro	45	42	41
<b>72.</b>	Serbia	42	41	39
<b>83.</b>	Albania	39	33	33
<b>83.</b>	Bosnia and Herzegovina	39	39	42
<b>90.</b>	Macedonia	37	45	43

Source: Transparency International, Corruption Perception Index 2016

EU rules require complex, but transparent public procurement procedures. Non-EU states in SEE such as Serbia, Macedonia, Albania, Montenegro and Bosnia and Herzegovina are not fully constrained by such rules.

The EU is observing Chinese presence in the region with some discomfort. Although they support economic growth and financial stability of the SEE region, it is not clear if

Chinese type of infrastructure investment is benefiting these countries or the EU in the long run. However, these countries desperately need investment and boosting of their economies. Short of the eligibility to access EU structural funds, they are turning to the available capital. Yet, there is concern that more Chinese presence in the region, would mean even slower accession to the EU of non-members. It remains to be seen what Juncker's team will propose in a strategy to have Serbia and Montenegro join the EU in 2015 as announced in the State of the Union address in September 2017.

### **Economic relations**

The Chinese economy advanced an annual 6.9 percent in the second quarter of 2017, compared to a 6.8 percent expansion in the previous period and more-or-less in line with market expectations. A somewhat lower growth rate of the Chinese economy in the last few years (GDP annual growth rate in China averaged 9.71 percent from 1989 until 2017 according to Trading Economics 2017) is attributed to an expected slow-down of middle size economies explained in literature. However, the resilience visible in the quick recovery justifies China's position as the second world economy and perhaps a single champion of globalization leading *The Economist* (2017) to recently dub Mr Xi Jinping 'the world's most powerful man'.

The seven countries in SEE face, however, considerable economic challenges.

<b>Country</b>	<b>Population</b>	<b>GDP per capita 2016</b>	<b>Economic growth rate</b>	<b>Unemployment rate 2016</b>
<b>Albania</b>	3,047,987	11,800 \$	3,4 %	14,5 %
<b>Bosnia and Herzegovina</b>	3,856,181	11,000 \$	2,5 %	28 %
<b>Croatia</b>	4,292,095	22,800 \$	2,9 %	15,8 %
<b>Macedonia</b>	2,103,721	14,600 \$	2,4 %	23,1 %
<b>Montenegro</b>	642,550	16,600 \$	2,4 %	17,1 %
<b>Slovenia</b>	1,972,126	32,100 \$	2,5 %	11,2 %
<b>Serbia</b>	7,111,024	14,500 \$	2,8 %	13,8 %

Source: CIA The World Factbook

Until the strong impact of the global economic crisis, the SEE countries registered relative growth rates, declining inflation, expansion of foreign trade and increasing FDI. Many economic reforms, required by the transition to market economy, were implemented (Uvalić 2017). The global economic crisis severed these modest growth indicators.

EU countries as the main donor and IFIs as the main creditor demand comprehensive political and economic reforms in these countries. Two EU member states aside, the remaining five need to strengthen institutions, pass laws and apply rules that make them rule-based societies. These are preconditions for their EU membership, but also preconditions for



growth. Traditional investments are risk-averse and shy away from insecurity leaving the space for risk-tolerant, speculative investments.

This does not mean that Chinese investments are speculative. But what EU resents with respect to Chinese investments is that they are ready to make deals with individual SEE countries to realize their goals sometimes downplaying EU-supported procurement rules and disregarding interests of the region as a whole and that of the EU. Of course, the EU cannot force China or, for that matter, non-members into compliance. Yet, it can breed resentment and play back when in a position to do so. And there are plenty such opportunities – China and the EU are strategic partners in terms of trade, but more recently also in the area of climate change. Trust is not an abundant commodity and needs to be fed and protected if expected to grow.

Therefore, nobody can object that China is willing to invest in infrastructure in Southeast Europe. Chinese interest is to transport goods from Piraeus, a port acquired in Greece, across Macedonia, Serbia and Hungary further to the north and west of Europe. But if it is concluding large scale infrastructure projects, they should be, in view of the EU, conducted according to EU rules if implemented in countries that are either members or prospective EU members. An image of a country with ready-available funding willing to disregard such rules may undermine China's ability to conduct business in EU member states that are not as weak as some within the 16+1 framework. On the other hand, it is a challenge for the EU if it has members that are willing to undermine rules of the very organization they are members of.

#### Transport infrastructure

As a result of its own development, China possess technological know-how and financial assets to invest overseas. In Southeast Europe it is willing to invest in building transport infrastructure when there is little interest of Western companies to do so with the lack of funding from donors and creditors and governments of these countries short of cash. China is engaging its know how and available capital in a market that express need for such investments. As a second and perhaps more important outcome of infrastructure investment, China is creating a gateway to Western Europe for its commercial activities (Zeneli 2014, van der Putten 2016).

Serbia is the main recipient of infrastructure project. China has already completed the Zemun-Borča bridge in Belgrade, the total project worth around EUR 260 million (FPI 2014). It is building a high-speed passenger and cargo railway between Budapest and Belgrade worth over one billion euros, part of its transport link from Piraeus to the north of Europe (Bastian 2017). It built highways in Macedonia worth EUR 574 million (Bastian 2017) and in Montenegro worth EUR 809 million (FPI 2014). China build a stretch of a highway in Albania worth EUR 200 million, in March 2016 A Chinese Geo-Jade Petroleum bought controlling rights in two Albanian oil fields and in April 2016 two state-owned investment funds announced they were buying Tirana International Airport in a concession deal for the next 10 years (Rapoza 2016).

These projects create a new transport corridors seen as been able to alter existing transport routes. As a spill-over effect, they can generate construction and opening of new

business along their route. A criticism that is raised refers to business justification of some of the projects. For example, the cost of building a stretch of the highway in Montenegro rose to one quarter of the total GDP of the country leading to IMF to temporarily suspend its activities in the country. The question arose how Montenegro would repay the debt in case of financial troubles (Bastian 2017)? Another concern about these transport projects is that projections of their rentability in terms of passenger and cargo traffic may be over optimistic when approved. Trade imbalance, regulatory practices and the region's dependency on Chinese capital are also voiced (Bastian 2017). Drifting away from foreign policy alignment of these countries with that of the EU is also being closely watched (Makocki 2017).

These concerns are summed up in three key areas: these projects employ few locals; the companies serve as proxies to the Chinese state, and they burden government with huge debt obligations (Bastian 2017). As much as they offer potential for economic development of the region, they may push it further to trade imbalance and dependence on Chinese capital.

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2009-2014 growth	Share of total Chinese investment in CEE (2014)
Albania	-	50	51	51	51	435	443	443	443	703	703	61.61%	0.41%
Bosnia and Herzegovina	401	351	351	351	351	592	598	601	607	613	613	3.55%	0.36%
Croatia	-	75	75	784	784	810	813	818	863	831	1187	46.54%	0.70%
Macedonia	-	20	20	20	20	20	20	20	26	209	211	955.00%	0.12%
Montenegro	-	-	-	32	32	32	32	32	32	32	32	0.00%	0.02%
Serbia	-	-	-	200	200	268	484	505	647	1854	2971	1008.58%	1.75%
Slovenia	-	12	140	140	140	500	500	500	500	500	500	0.00%	0.29%

Source: Tianping and Zuokui quoted in Kratz

### Energy infrastructure

Another field of Chinese investments in SEE regards the energy production. It has invested in coal thermal plants in several countries along with windmill and hydro power plants. In BiH China invested in Stanari and Tuzla thermal power plants worth EUR 550 million and EUR around 800 million respectively. In Serbia China invested in Kostolac thermal power plant worth between EUR 715 and EUR 970 million. In 2011 Macedonia signed a Memorandum of understanding with China International Water and Electric Corporation for construction of 12 mini hydro power plants to be built over a period of 10-15 years and estimated to cost EUR 1.5 billion (FPI 2014). Chinese companies also can provide

state-of-art solutions in wind energy. 100 MW wind turbines operate at Serbia's first-ever wind farm (Mancheva 2014).

A problem that is seen is that investments in coal thermal plants is not a preferred path from the EU point of view committed to clean energy solutions. Although coal thermal plants in BiH and Serbia replace outdated ones polluting the air, reduction of emissions is required by EU environmental standards. Debt increase due to investment in coal-burning plants may prove costly in the medium run. However, governments in the region are driven by short-term needs for investment and job preservation. Keeping coal thermal plants running means for them preservation of jobs of coal miners, an important fact in economies that record high unemployment rates.<sup>7</sup>

Another example of probably socially motivated investment is believed to be steel maker Smederevo in Serbia. The previous owner was US steel but they withdrew for the lack of profits. Serbian government eager to keep the steel production going offered it to the Chinese (Bastian 2017). By lending its hand to Serbia, China also is entering the European market resistant to dumping prices of Chinese steel exports. Investments in production of any kind in this region also opens a way to China to circumvent trade restrictions and access a market of 800 million people via free trade agreements that SEE countries have with the EU, Russia, Turkey and other states (Zeneli 2014).

Yet, China as a growing global actor subscribes to Paris Accords and reduction of pollution globally. It has developed green technology and is one of first producers of solar panels and windmills in the world. Thus, replacement of polluting technology with green one has China prepared. If there is investment in energy, then both the EU and environmental NGOs in the region call for adherence to stronger pollution standards and investments in renewables and clean energy (Chan 2014).

Agriculture and tourist industry offer another area of interest to Chinese investors. These countries would prefer green field investments which would create new jobs while Chinese, if they are investing and not lending, prefer merges or acquisitions of existing companies, rather than opening new ones.

Electric cars and high-speed trains, online shopping and green technology are more advanced technologies that China has already started to offer to more sophisticated European markets. Tourism is also an attractive field. In Croatia, for example, in 2017 China made investments in an electric-car local high-tech company (Rimac) worth EUR 30 million and another EUR 30 million into a thermal spa Krapinske Toplice, a health tourist destination.

### **Cultural relations**

China is largely unknown to SEE countries and vice versa. The geographical distance and lack of language knowledge kept them apart through history. Globalization has started changing this. To enhance this trend, China has made a policy of people-to-people contacts one of its key priorities. It is channeling considerable funds to invite people from various professions to visit China, to support two-way student exchange programs and scientific

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<sup>7</sup> A social aspect of contracts for coal thermal plants was brought in a interview with the Ministry of Foreign Trade of Bosnia and Herzegovina in Sarajevo in October 2017.

cooperation, and different activities in the fields of culture. Personal contacts matter, all good salespeople would say. A personal contact creates emotion and emotion feeds our decision-making. Soft power of a country increases with the increase of a positive image it can project onto others. This is a whole logic behind tireless work of all modern ambitious states – to get others to know them and to like them once they know them.

Apart from invitations to visit China, people are able to learn more about China through cultural, artistic, science and education programs carried out by Chinese embassies worldwide. Chinese embassies in SEE countries organize public events such as celebration of Chinese New Year, Spring Festival and a National Day. In addition to these, embassies organize or sponsor gastronomy, film and music festivals, performances, concerts, exhibitions, workshops and fairs. Chinese diplomats are also increasingly supporting different charity events, publishing projects, conferences. All this leads to the perception of China in the eye of the public creating a positive impression.

The first Confucius Institute, a flagship institution of the Chinese government, was established in 2004. Their number grew to more than 500 Institutes after the first decade. The webpage of a Confucius institute describes its mission as aiming to contribute to a better understanding of Chinese language and culture between members of other nations, to develop friendly relations between China and the rest of the world and to promote development of multiculturalism on a global scale (Ki.unizg.hr). In 2006, the first Confucius Institute in the region was opened in Belgrade. It was followed by Institutes in Ljubljana, Zagreb, Tirana, Skopje, Sarajevo, Podgorica and Novi Sad as the second Confucius Institute in Serbia (Hanban.org 2014).

Yugoslav war movies were popular in China. *Valter Defends Sarajevo* has become a cult movie in China. Out of 1.3 billion people living in China, it is estimated that half of them have seen this movie whose remake was undertaken by a Chinese film company (Jukic 2014).

More and more Chinese citizens can afford overseas vacation travels. Many are visiting countries in Southeast Europe recording a steep upward trend. 100.000 Chinese tourists visited Croatia in 2016 with the 60% increase in the first half of 2017 (Zhaoming 2017). National tourist agencies are designing programs that cater for needs to Chinese tourists, often leading them to cooperate with neighboring countries in creating attractive travel plans.

Through people-to-people contacts China is not getting to know other nations and is giving them an opportunity to meet and get to know China. Personal contacts are indispensable in building relations. As China is set to carve out space for its long-term presence in different parts of the world, it can achieve it only if it, as an expression would have it, wins peoples' hearts.

## **Conclusion**

Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Macedonia, Montenegro and Albania are all participating in Chinese-led 16+1 initiative. Power relationship between China and these countries is hugely asymmetric. Yet, both sides find interest in mutual cooperation although SEE countries differ in their proclivity to China. Serbia is the champion of cooperation. It has attracted the most of Chinese investments leading one of Serbia's analysts

to dub the initiative 15+1+1 (Pavlicevic 2016). Serbia has officially made China one of four pillars of its foreign policy, on equal footing with the EU, US and Russia. No other country in this region can match Serbia's bent towards China. On its part, China regards Serbia a friendly state and a transport hub, willing to make large investments in transport and energy infrastructure, as well as in other industries.

The EU is observing with keen eye Chinese activities in SEE. Examples of '...politicisation of investment, subsidy, and contract decision, rejecting the EU's model of open and transparent bidding procedures' undermine EU's governance reform agenda (Makocki 2017). Political concessions to China and drifting away from EU foreign policy objectives may become a norm with more investments. This has led the German Chancellor to offer these critical remarks:

On this occasion I would like to make a remark: we see that China sometimes forms groups within the European Union, with which it then forms special forms of cooperation - sometimes in Central and Eastern European countries, sometimes in southern European countries, partly in countries that are still are not members of the EU, but only candidate countries. I just want to say that you can also talk to the whole European Union. However, it is interesting for me, as I believe, to get to know the different accents of the Europeans again and again. But we are also to blame if we can not speak with one voice in Europe. (Bundesregierung 2015).

Chinese presence in Southeast Europe, as that in Central and Eastern Europe is long-term. Via SEE markets it can access a market of 800 million people through contracts and agreements that these countries have with the EU, Russia and Turkey (Zeneli, Bastian). Chinese investments in transport infrastructure create hubs for Chinese exports. Implementation of infrastructure projects also create references for other similar projects that may be implemented elsewhere in the EU. The same applies for energy projects, especially in the area of green energy technology. References for successfully implemented projects will be used for future bids. China is learning to play by the EU rules.

In order to dispel some of resentment from SEE countries, China recognizes that significant trade imbalance does not work in its favour and will try to amend this problem in the future. Therefore, to call back theory, a hegemonic relationship where one side feels disadvantaged creates resentment and does not help hegemon secure its long-term. Too much power can scare away. Thus, the cooperation, as indicated at the beginning of this paper, has to weave in interest of both sides. Only then will small states feel less threatened by Chinese activities.

China and SEE share tangible interests noting that the EU is still the primary player in SEE. If it wants to build successful relations with the EU, China could use SEE to dispel doubts and concerns about its ulterior motives and questionable methods. China profits from stability in SEE generated primarily by the EU. It does not play into Chinese long-term interests to undermine the rule of law and support authoritarian tendencies which may destabilize this fragile region. EU and Chinese interests can converge in SEE. China, as a relatively new player in the region, will need to demonstrate that it is willing to support long-term peaceful development of this region, if for nothing else, then to secure its economic

interests. People-to-people contacts via tourists, student exchanges, scientific collaboration and cultural relations will make China better known in this region. Personal contacts are still an indispensable element of any productive relationship. From friendship, as Chinese say, business can start.

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#### **About the author**

Senada Šelo Šabić, Phd, is a senior scientific associate in the Institute for Development and International Relations (IRMO) in Zagreb, Croatia. The author would like to thank Antonija Gajda, a trainee at IRMO, for her assistance in production of this paper. The views expressed in this paper are that of the author only.