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GESELLSCHAFT

Stabilitätspakt für Südosteuropa
Gefördert durch Deutschland
Stability Pact for South Eastern Europe
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REALITY CHECK SERIES

# SOURCES, TOOLS AND IMPACT OF EXTERNAL NON-EU-ENGAGEMENT IN SOUTHEASTERN EUROPE
# PART III – **CHINA**

## CONFERENCE REPORT

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*© Photo shows shows entrance to the construction site "Novi Beograd railway station" with a slogan in Serbian "When two friends join together, a dream-railway will be finished" and in Chinese "China and Serbia are joining together to build a railway that realizes dreams", courtesy of Sara Marencic.*

## INTRODUCTORY SESSION AND KEYNOTE SPEECH

The conference held in Berlin on the 28th and 29th of November 2019 by the Southeast Europe Association in cooperation with the German Federal Foreign Office funded by the Stability Pact for South Eastern Europe is the concluding session in a series of expert meetings that have addressed the involvement of non-EU external actors in Southeast Europe. This event has not only dealt with Chinese engagement within the region, but also compared and contrasted it with Russian and Turkish modes of involvement in Southeast Europe.

Although deliberations about the impact and meaning of the Belt and Road Initiative as well as 17+1 network took centre stage during the conference, participants also discussed the instruments of Chinese cultural diplomacy in the region, for example the spread of Confucius Institutes, as well as the growing attractiveness of Southeast Europe as a destination for Chinese tourists. Regardless of the different standpoints taken by participants as to how greater Chinese activity in the region can be interpreted, all agree that the appearance of this new trend obliges the EU to rethink its own engagement not just with (prospective) candidate states from Southeast Europe, but also with China itself. The Chinese presence in Southeast Europe reflects a major qualitative transformation in world politics, raising the question as to which modes of governance (liberal or more authoritarian ones) can best secure development in the new international environment. Coupled with unclear enlargement perspectives, the rising attractiveness of the Chinese political and economic model in Southeast Europe implies that the countries from the region will be challenged to uphold and defend EU values and standards.

Comparing Chinese, Russian and Turkish engagement with Southeast Europe, one particular feature becomes visible. While Russia and Turkey have the benefit of alluding to historical heritage and long-lasting special relations with particular ethnic and cultural groups in the region, China's strong point is the ability to provide direct and tangible economic benefits. Furthermore, in contrast to the EU, China provides a much less bureaucratized and complicated channel of funding, which is nevertheless often too easily characterized as 'no strings attached'. Some participants highlighted that benefits of such economic cooperation are occasionally not spread evenly, while also de facto creating political dependencies as countries in the region become less vocal on human rights issues in various UN fora. Finally, China is also largely absent as a policy mediator and political stakeholder in the region: the US and the EU are still key actors in sustaining the Serbia-Kosovo dialogue, for example. Hence, for the EU, the key concern with Beijing's growing presence is not just the fact that some Chinese projects in the region have violated its rules, for example in the domain of public procurement. It is the increasing difficulty of speaking with one voice in relations with China that presents the EU with an unprecedented challenge.

The keynote speech by Jens Bastian, a member of the board of the Southeast Europe Association, further elaborated on Beijing's growing involvement in the region and its impact on EU-China relations. The launching of One Belt One Road (OBOR) – or more often termed the Belt and Road Initiative (BRI) - are part and parcel of Beijing's strategy of reshaping global infrastructure networks and establishing new financial institutions. Chinese authorities couch these projects in the rhetoric of mutual prosperity, multiculturalism and democratization of international relations. Moreover, the new official Chinese narrative stresses that synergy between, for example, OBOR and the Trans-European Transport Network (TEN-T) is both desirable and possible. Such rhetoric, however, raises expectations and there are concerns that not all of them can be met.

On the one hand, funding various projects in the region is seen by China as a springboard for economic contacts with the EU. Massive investment in the Greek port of Piraeus, which in 2019 became the largest container port in the Mediterranean, are an example of Beijing's commitment to this strategy, leaving Southeast European countries vying for attention of Chinese businessmen and political leaders. Moreover, the European Investment Bank (EIB) has de facto started financing Chinese investment projects in the EU, be it the development of road networks in Bosnia-Herzegovina or the further development of the Piraeus port. Chinese funding has gone beyond infrastructure projects as the DeepBlue Technology – the largest AI application developer in the world – is already engaged in building a hub in Greece. Huawei is rapidly expanding its business in the region, for example exporting surveillance cameras and facial recognition technology to Serbia. This technology transfer raises concerns among many observers due to the total lack of public scrutiny of how these instruments are used by the Serbian Ministry of Interior. Nevertheless, Bastian argued that Chinese expansion in the region should not be seen as a sign of some grand strategy for Southeast Europe. On the contrary, Beijing identifies opportunities in Southeast Europe based on engagement with individual countries, not the region as a whole.

On the other hand, the **official documents of the European Commission** - uncharacteristically blunt in their wording - **name China as both a cooperation partner and a systemic rival**. Brussels stresses that EU member states (and implicitly accession candidate countries as well) should show unity of purpose vis-à-vis China, yet this often proves difficult in practice. China is very skilfully exploiting the fault lines that exist between EU member states and candidate countries from Southeast Europe. For example, Beijing does not recognize Kosovo, what may affect the EU's efforts to normalize relations among Southeast European states. Another example is the decision of Bosnia-Herzegovina's government to approve a 640-million-Euro loan guarantee to finance a coal power plant, a move that goes against norms and principles of the EU's Energy Community.

In addition, an approval of a loan guarantee (previously denied by the European Investment Bank as well as the European Bank for Reconstruction and Development) to a state subsidized Chinese bank can be considered illegal state aid and therefore in breach of EU subsidy rules. Other observers question the wisdom of building a highway from the Montenegrin city of Bar to Serbia with the help of a Chinese loan. Not only has the loan made the Montenegrin public deficit sky-rocket – the economic viability of the road project is highly dubious as well. Some experts are also suspicious of the fact that the same Chinese consortium was able to secure the contract for building the Pelješac bridge in Croatia, even after the initial public tender was re-run amidst allegations of subsidized prize setting. Ultimately, the EU is concerned whether reciprocity can be assured in cooperation with China: although Chinese companies have been able to amass a large investment portfolio in EU ports along OBOR maritime routes, EU companies have so far not been able to acquire a similar stake in Chinese maritime infrastructure.

Among all the fascination and confusion that Beijing's arrival into the region has triggered, one aspect is clear: **China is playing a long-term game in Southeast Europe**, both in terms of economic activity and cultural diplomacy. This will have a profound impact on the EU's engagement with the region.

### PANEL I: UNDERSTANDING THE BELT AND ROAD INITIATIVE IN SEE: ORIGINS, OBJECTIVES, MEANS OF IMPLEMENTATION

The first panel focused on the ability of the Belt and Road Initiative (BIR) to create synergies between China and the EU as well as its effect on the economics and politics of Southeast Europe. The discussion highlighted that balancing concerns and interests of the EU, China and countries from Southeast Europe is essential, yet challenging as they often have very different interpretations of the international context and each other's actions. Moreover, the discussion has shown that China and the EU differ in their understanding of the acceptable and desirable mix of political and economic goals in their cooperation. Experts had vibrant debates about the nature and impact of Chinese funding in the region.

The discussants unanimously agree that the presence of BRI in Southeast Europe encourages the EU to rethink its own policies in relation to these countries. Participants stressed that conceptual clarity is essential for understanding Beijing's engagement with the region. For example, **while commentators often use the term 'Chinese investment', such funds are in reality more often loans rather than FDI**. This is also especially relevant when talking about Chinese money as a 'no strings attached' alternative to EU funds. In contrast to Chinese loans, EU funding normally comes in the format of grants for development and hence doesn't have to be paid back. A particularly controversial issue that divided experts are the sovereign guarantees for Chinese loans. Not all Southeast European countries have signed them (tellingly, Serbia is such a case), yet where it has been done observers speak of China creating economic (and potentially political) dependencies. Other experts have stressed that it's not accurate to reduce all Chinese lending to sovereign guarantee loans and to forget that Beijing is active in debt reduction and debt relief in relations with the Global South. One should not simplify and mistakenly label all Chinese economic activity as 'predatory'. China goes out of its way to portray BRI as a project devoid of any political content, while raising its concerns that the launching of a new 'geopolitical' European Commission would harm its global connectivity projects by contaminating a purely economic agenda with political controversies.

Experts have unanimously cautioned that using the term 'integration' to describe Southeast Europe's involvement in the Belt and Road Initiative creates misperceptions: **BRI is not meant to integrate or transform its participants in any particular way**. The only integration project that is relevant for the region is EU membership, not some Beijing-led regional organization. It is important to bear in mind that BRI is not focused on Southeast Europe as such, the region is an element of China's global outreach strategy and the attempt to shape, if not set, global standards.

The question whether **Chinese lending and investment creates competition for the EU divided the participants**. One line of reasoning highlights that Beijing supports the region's integration into the EU as it would enhance the quality of the business environment in which Chinese companies will operate. It was argued that using the narrative of competition in the region makes little sense as China provides loans that are complementary to EU funding. Currently the EU provides more than 70% of the FDI in the region and China's growing economic activity cannot offset this. Even if the terms of several Chinese loans may be questionable, China has no obligation to ensure the transparency and quality of an internal political debate about whether such loans can be accepted – this is the obligation of the regional governments.

Moreover, China has warned its partners in Latin America and Africa about the sustainability of their public debt and urged them to follow the IMF's advice: there is no reason to think that in Southeast Europe Beijing would adopt a different line of reasoning. The same participants claimed that any breaches of EU rules that Chinese companies may commit reflect the fact that China is still learning to operate in the complex regulatory environment of the EU and the developing markets of Southeast Europe. A participant argued that vocal concerns about Chinese presence in the region may have more to do with the attitude of German businesses – and their allegedly nearly monopolistic position in Southeast Europe – than with the objective assessment of Beijing's policies. Growing Chinese presence in the economies of the Southeast European countries is a phenomenon that dates back to the 2008 economic crisis when Chinese companies saw attractive opportunities in an investment-hungry region. In this regard, growing Chinese ownership of assets in the EU and EU ownership of assets in China is a likely scenario for the future when mutual learning brings experience and understanding.

In contrast, another line of reasoning offered by other participants is more critical, highlighting that conditions under which China provides loans are not very good for recipients in Southeast Europe. China does have legitimate economic interests but it is clear that, for example, the leasing conditions of the Hambantota port in Sri Lanka for 99 years (in case of default on the loan) bear little resemblance of the principle of 'equality' that Beijing tends to emphasize. Effectively, Chinese loans can increase the risks of a debt trap for recipient countries. In addition, China may talk about democratizing international standards, yet it has not fully cooperated with the OECD Development Assistance Committee and fails to comply with the WTO rules on public procurement. Moreover, in practice Chinese projects within the Belt and Road Initiative rarely refer to the Asian Infrastructure and Development Bank, something what would be an obvious choice for promoting global South-South cooperation. In several occasions, the legitimate Chinese attempt to shape international institutions has in practice side-lined international agreements.

## PANEL II: CHINESE LENDING AND INVESTMENT

The second panel addressed the issue of Chinese lending and investment in greater detail. Interestingly, the exact statistics of Beijing's investment in the countries of Southeast Europe were highly disputed. The extent to which China opens its own market to products from the region as well the EU was also a matter of debate. Participants note that the new Chinese investment law that will soon come into force addresses some of the EU's concerns about 'reciprocity' in opening markets and investment in strategically important economic assets. Several experts reminded the audience that apart from focusing on the interests of the EU or (potential) candidate countries, one needs to bear in mind also legitimate Chinese interests. In this respect, there can be nothing reproachable in Chinese attempts to reshape international supply chains through the Belt and Road Initiative in the context of economic competition.

Presentations held during the 2nd panel demonstrated that **the port of Piraeus remains the key hub of Chinese economic activity in the region.** However, it is noteworthy that in the opinion of several experts the Budapest-Belgrade railway project is not likely to substantially boost operations in Piraeus: 80% of its activity is transhipment. When it comes to Greek domestic politics, there are some concerns that a pro-US stance of the Mitsotakis government may in the long-term affect relations between China and Greece. Still, there has recently been a flurry of diplomatic contacts across all levels between Beijing and Athens. In addition, the Greek Copelouzos group and China Energy have signed a memorandum of understanding, expressing their wish to jointly participate in tenders. Beijing's support for returning the Parthenon Frieze to Greece is a stance very much welcomed by Greece. The potential controversies surrounding Chinese investment, for example funding a coal combustion plant or developing 5G networks, hardly feature in the Greek public debate.

**Participants observed that not all infrastructure projects financed by China seem economically viable**. A side-effect of several projects may be the rise of public debt in some countries of the region, yet experts disagreed on whether this is a conscious strategy of Beijing or more a reflection of the region's structural limitations. Attempts by Brussels to ensure compliance with EU rules may in practice be rather ineffective as well. For example, the Budapest-Belgrade railway project is extremely expensive with an average cost of €10 million per kilometre, although the construction is conducted in a region with no complicated landscape features. In addition, although the EU ordered the public tender for the railroad's construction to be re-run, it's the very same Chinese companies which initially received the contract that were again awarded the tender. Several experts stressed that some Chinese projects in the region may have a strong corruption component. They allude to the fact that although Beijing has on numerous occasions stressed that EU competition and public procurement rules must be obeyed, a string of controversies about the conditions of Chinese companies' involvement and victory in public tenders across Southeast Europe raises concerns. Some participants went as far as to say that the Chinese governance model – emphasizing closer cooperation between the government and economic stakeholders – in practice condones corruption. Moreover, they raised doubts about the EU's anti-corruption policies' ability to limit such practices in the region. It should be noted that China is aware of the reputational damage such corruption allegations bring and attempts to be more transparent in its current economic activities in Southeast Europe.

Some participants stressed that **China does influence political decisions within the EU, yet it is the old EU member states that are primarily subject to such influence**, rather than countries in Central and Eastern or Southeast Europe. The scale of investment or lending is what could provide Beijing with leverage – the focus of Beijing's activity is UK, Germany and France, not the countries of Central and Eastern Europe. Discussants have stressed that counter to popular perception, there is little evidence that control over the port of Piraeus has given China a measure of political leverage in Greece. 'New' EU member states have comparatively little Chinese investment (according to the official statistics, Hungary, for example, receives just 4% of its FDI from China, Romania receives 1%). Ultimately, as one of the participants has noted, Chinese investment to Central and Eastern Europe secure just 1.5% of all Chinese investments in the EU. **Some experts have stressed that the claim about Serbia being the Chinese gateway to Europe is rather questionable**. In practice, Beijing's investment in Serbia is nowhere close to the amount of €9-10 billion that has been mentioned in the public debate, and Chinese FDI is significantly smaller than investment from the EU (even if compared against individual member states) or the US.

Although Chinese investment and lending is attractive, **the positive spill over effect on the local economy in Southeast Europe is a matter of debate**. Almost all materials and technologies necessary for executing the infrastructure projects come from China, while it remains unclear whether they meet environmental standards and whether any taxes are levied on them. In order to have a more direct positive effect on the local economy, Chinese activities in the region must shift from lending to investment and greenfield projects. Such a scenario is highly desirable, yet unlikely, as many experts conclude. China needs technology, brands and large markets and Southeast Europe can offer none of these. As long as China mostly wants to outsource its manufacturing overcapacity – a major component of the BRI – little technology transfer to Southeast Europe is taking place. In addition, the ownership structure of the economy in Central and Eastern Europe and Southeast Europe may paradoxically limit the positive effect of any Chinese FDI. For example, some major Chinese investment into Hungary has in practice meant that funds are transferred to the British and Austrian owners of a particular Hungarian company, having little lasting effect on the Hungarian economy as such.

## PANEL III: CHINA IN EUROPEAN AND DOMESTIC POLITICS

During the third panel, discussions centred on the political implications of Chinese investment programs, Beijing's soft power tools in the region, and the impact of these measures on the EU's position in Southeast Europe. The debate highlighted that addressing these issues requires dealing with an even more fundamental question, namely whether liberal values or efficient governance practices are crucial for comprehensive economic and political development. One of the participants illustrated this by referring to public opinion surveys, according to which China consistently ranks low on values such as 'voice' and 'accountability', while scoring high on overall government effectiveness. Many of the Central, East European, and SEE countries show a directly opposite picture – strong presence of liberal values but dismal quality of governance. Within this context, discussants stressed that **due to the limited ability of the region's political elites to provide economic growth and public goods, the Chinese model of managing economics and the public sphere becomes a point of attraction**. In other words, while the popular disenchantment in the democratic decision-making system has decreased the EU's legitimacy, **China's legitimacy is based on 'output'**, thus its ability to secure tangible economic benefits. This reflection has to be put into the context of the impact of the global financial crisis and the necessity – as one participant put it – to awake from the 'Fukuyama coma' with its assumptions about the attractiveness of the 'Western world'. Without reflection and reform of the foundations of the 'liberal capitalist model', the EU's influence will remain precarious.

Experts stressed that any reflection on the impact of China on domestic policies in the region must first address the interests and behaviour of local political elites. Crucially, the notion that they are willing to uphold EU norms and values is ill-founded. Many of the authoritarian leaders of the region see engagement with the EU on a purely quid-pro-quo basis and pay lip service to the EU's normative commitments. **The influence of external (and illiberal) actors in the region, including China, is based on the EU's inability so far to address this fact adequately in its policy approach towards the region.** It has been dragging its feet in recognizing state capture in Southeast Europe, while the new strategy of president Macron fails to mention this challenge at all. The EU's penchant for creating stability is in practice undermining comprehensive development and democratization of the region. While Russia and Turkey, for example, operate through direct contacts with local leaders and simultaneously try to develop supportive constituencies in Southeast Europe, China as well as the Gulf States are focused almost exclusively on elite-to-elite contacts, minimizing even the slightest opportunity for public, non-state scrutiny. The Beijing approach of externalizing its development strategy and using 'expeditionary capital' is squarely based on government-to-government relations, leaving little room for any other policy stakeholders. This ultimately results in the collusion of interests between the region's rent-seeking political elites and Chinese investors. In other words, as discussants have put it, **China is by some seen as an alternative both due to advantages of its strategy in Southeast Europe, as well as due to the failings of the (arguably more difficult to implement) EU approach.**

According to participants, **speaking about the diversification of Chinese economic activities in the region seems ambiguous**. On the one hand, Beijing moves away from focusing exclusively on infrastructure projects to telecommunications as well, even if this may lead to political controversy. For example, although Huawei is one of the key players on the Romanian smartphone market and telecommunications sector, development of 5G networks has become a hot political topic and the Romanian government has publicly sided with the US concerning potential security risks of Chinese involvement in this domain. On the other hand, diversification of Chinese projects does not necessarily imply a technological boost or development of high-tech industry in SEE. For example, attempts of the Greek authorities to bring Chinese investment beyond the sectors of energy, telecommunications and transport into the industrial sector or agri-business have so far led only to cooperation agreements. Ultimately, any diversification would primarily pursue Chinese interests and would not particularly cater for the reindustrialization of its regional partners in Southeast Europe.

Furthermore, the discussions have underlined that China's growing presence in the region has implications for the local media market as well. For example, experts shared the observation that the **creation of Beijing's positive image in the region is done primarily through local media, not Chinese broadcasters directly**. Given the challenges that free press faces in the region and the political elites' level of control of the media market, critical questions about China's involvement in the region find it hard to be taken up by mass media. In this respect, it is highly symbolic that BIRN (the Balkans investigative reporting network) found it extremely complicated to identify media outlets that would be willing to report on its investigative projects related to Chinese investment in the region. On the other hand, given the widespread scepticism about foreign involvement that prevails among the general public of Southeast Europe, efforts to create a substantial pro-China constituency in the region are not likely to be effective. Panellists have shared the observation that **China does not seem to directly invest a lot in the local media landscape**. Some observers have noted that Beijing would have little benefit in further directly engaging the regional media as currently the imago that the local press creates of China is largely positive, even if rather shallow. This could be the result of China launching a programme of country visits for regional journalists and editors as well as recent agreements between Xinhua and local news agencies.

During the third panel, the discussion evolved further to consider the tools of Beijing's cultural diplomacy. Participants mentioned that **China's soft power strategy of developing a network of cultural centres and creating possibilities to study language is nothing new** – both EU member states and US have done the same for decades. Experts agree that so far, **the effect of the Chinese cultural diplomacy leaves a lot to be desired**. For example, there is no transparent system for notifying potentially interested parties about grant opportunities as well as submitting applications: the agenda of opening calls is not systematic but is basically at the discretion of individual embassies or cultural centres. This is a stark contrast to the working methods of EU and US cultural institutions. Activities of the Confucius Institute tend to attract the 'usual suspects' and do not effectively expand into new audiences. The fact that Beijing mostly earmarks government affiliated think-tanks for collaboration often harms its image as often such organizations do not have the best analytical credentials and public standing. Discussants agree that somewhat paradoxically, it's not the network of the Confucius Institute or a particular set of cultural policies that promote China's image in the region but rather the public perception that Beijing has funds that can be attracted for solving economic problems in Southeast Europe.

## Panel IV: The China-Led 17+1 Network – Creating Dialogue and Cooperation or Establishing new Spheres of Influence?

Within the framework of the fourth panel, experts focused on China's regional cooperation initiative, namely the 17+1 network. Participants largely downplayed the initiative's ability to diminish the EU's presence in Southeast Europe as well as stressed the challenges that this cooperation format is facing. In the discussions it was noted that in practice the **17+1 network is China's regional approach to engage with SEE and Western Balkan countries on a bilateral basis**. Ultimately, the 17+1 format ensures that the region has a distinct place on Beijing's political radar. However, several observers noted that China struggles to fill this cooperation format with meaning that could be relevant for all participants. Experts agree that in this regard closer involvement between the 17+1 network and the Regional Cooperation Council (RCC) is unlikely to provide a major boost.

**During the panel several challenges that the 17+1 network faces have been identified.** First, it is the de facto hub-and-spoke model where countries from CEE and SEE are competing for Chinese attention. It is highly conspicuous that when three years ago China suggested to have meetings with several delegations from SEE states at once, these countries protested and opted to keep strictly bilateral meetings. Participants noted that a focus on bilateral activity severely limits the potential benefits of the network as countries tend to accept whatever China offers, denying ownership of the bilateral projects. Secondly, there is also a high degree of information asymmetry between the partners. While China tried to understand the region and train experts with the necessary language skills, it is questionable – potentially apart from Serbia – whether SEE countries have enough expert support in their dealings with China. For example, the 2011 Chinese investment catalogue provides companies with a great amount of detail about investment options in the EU. To the experts' knowledge, SEE countries cannot match this detailed level of information. North Macedonia was provided as an example of an SEE country where few members of the civil service speak Chinese, obviously affecting the country's ability to make the most of initiatives like the 17+1 network. The third challenge of the 17+1 format is the lack of civil society involvement: without civil society being able to contribute to the agenda, the politico-economic transformation that Southeast Europe desperately needs is less likely to happen. Nevertheless, some observers have noted that inclusion of civil society organizations in the 17+1 network is not a panacea for making this mechanism more effective. In order to illustrate the challenge, participants alluded to the unfulfilled expectations of integrating representatives of Western Balkan civil society into the Berlin process.

**Experts have agreed that the development of the 17+1 network is not meant to offset the EU presence in SEE and the Western Balkans**. The reason is not just the multiple operational challenges that the network faces but also the fact that Chinese leadership firmly sees the 17+1 initiative as being complementary to the broader framework of relations with the EU. Nevertheless, some participants noted that Beijing's attempt to establish international fora with regional groupings of EU member states may be a cause for concern. On the other hand, as some participants argued, Chinese attempts to develop such additional formats may reflect the situation that the larger EU-China cooperation platform is not working well and needs more specific content. Searching for regional groupings may be an attempt to identify common interests and more practical cooperation formats. While concluding that **the 17+1 network provides no direct alternative to the EU-led transnational governance structures**, discussants identified reasons why concerns about the impact of this Chinese initiative repeatedly appear in the public discourse. First, such views reflect an understanding that China can use its great power status to reshape international institutions and make them less 'West-centric'. Second, policy stakeholders share an understanding that within the framework of EU-China relations Beijing has a distinct advantage of acting cohesively, while Brussels often struggles to coordinate the broad coalition of EU member states and supranational institutions. Experts also cautioned against exaggerating the level of 'disunity' in the EU's approach towards China, stressing that as long as it's not a big member states that pursues a unilateral stance, the EU's ability 'to speak with one voice' is not substantially compromised.

In addition, discussants concluded that Southeast European countries do not necessarily have to choose between developing ties with Beijing and upholding EU values. No government in Southeast Europe can afford to prioritize contacts with China at the expense of ties with the EU. Rather, cooperation with China is attractive for SEE states in areas where the EU has fallen short of their expectations. As an example, panellists noted that the Belgrade-Budapest railway project is not a Chinese initiative: Beijing became involved at a later stage when the project found no support in the EU. Another example referred to by the discussants is that access to EU structural funds remains a very distant prospect for SEE states, hence Chinese funding provides a welcome and much quicker alternative. In this respect it is noteworthy that Serbia and Bosnia-Herzegovina have provided Chinese citizens with visa-free access, something what North Macedonia could not do (allegedly) due to pressure from the EU. Participants recalled that overall China tries to uphold EU regulatory standards in the region as doing otherwise would negatively affect its credibility. Moreover, it was noted that the EU could also benefit from greater cooperation with China for the sake of accelerating the modernization of the region's infrastructure. Potentially, the inclusion of Japan and South Korea in the 17+1 mechanism is an interesting policy option, yet it would make the network less Beijing orientated and could duplicate other international fora.

### PANEL V: CHINA IN DIFFERENT POLICY SECTORS

Chinese cultural diplomacy, investment in the energy sector, and tourism in Southeast Europe have been at the forefront of discussions during the fifth panel of the conference. Panellists agree that behind the façade of the expansion of Chinese cultural and educational institutions in the region, the overall effect of such diplomatic measures remains limited. On the other hand, the growth of Chinese tourist numbers is largely seen as a welcome opportunity, yet fully embracing it requires a certain adaptation and learning on the side of the SEE tourism sector. In contrast, Chinese investment into telecommunications and energy seem much more controversial. For example, although Huawei can contribute to developing communications and infrastructure facilities in Southeast Europe, experts raised concern about its willingness to provide surveillance equipment to the semi-authoritarian regimes in the SEE. However, in the panellists' opinion Chinese investment in the coal energy sector is by far the most ambiguous. While potentially providing financial support and employment opportunities to distinct regions and social groups, such projects have very high environmental costs and are not economically viable in the long-term.

**The Confucius Institute and Chinese cultural centres have been expanding in Southeast Europe.** Paradoxically, some of the existing offices of the Confucius Institute are not listed on the homepages of Chinese mother organizations, raising questions about their real status and activity. Nominally, there are 19 branches of the Confucius Institute across eleven SEE countries. Another format of cultural exchanges and education are the so-called teaching points – many of them are spread in Romania and North Macedonia. Surprisingly, in North Macedonia many of these teaching points are located on the premises of the ministries of interior, justice and EU affairs, raising questions about the focus of their work. The third format, the so-called Confucius classrooms, are particularly popular in Montenegro, Romania and Serbia, yet their precise numbers as well as efficiency are quite difficult to gauge. Chinese cultural centres have been established in Sofia, Bucharest and Athens, while Tirana and Belgrade will be hosting such facilities soon. Regardless of the obvious substantial investment in cultural diplomacy, the effects of these measures seem to be rather modest, as most of the experts noted. **None of the two known surveys of attitudes to China in the region have detected anything akin to an overly 'pro-Beijing' mood in either mass media or public attitudes**. In practice, Chinese culture is not very much known or reflected upon, while the country itself is associated primarily with potential investments and rising life standards. Hence, **concerns about China's influence through the Confucius Institute and cultural diplomacy may be exaggerated.**

**Southeast Europe is becoming an increasingly attractive destination for Chinese tourists**. In fact, there is nothing novel in the fact that China uses tourism as a soft power tool – other countries are doing the same. Unlike many countries, however, China has explicitly articulated outbound tourism as an element of its foreign policy. In this regard, the creation of the joint Ministry of Culture and Sport is an important milestone. Most Chinese tourists that visit the region do not go to individual countries but rather buy package tours across Central and Southeast Europe. Developing products adjusted and orientated to Chinese consumers could give the SEE tourist market a major boost, especially given the fact that many visit the region during the low season, between November and February. Panellists highlighted the fact that the rapid growth of tourist numbers from China brings not only economic benefits, but also creates some challenges, namely irritation of the local population due to overcrowding and the necessity to develop mobile payment platforms for the convenience of Chinese tourists. Participants have touched upon the emerging practice of establishing joint police patrols between China and SEE countries. Initially, such patrols appeared in the region as a confidence-enhancing measure for Chinese businessmen. However, at least in some instances, such patrols have moved beyond their initial role, leading, for example, to joint anti-terrorist police exercises between Serbia and Beijing.

Subsequently, the panel addressed the issue of Chinese investment in the region's telecommunications and energy sector. Discussants noted that **Southeast Europe remains a**

**good market for Huawei despite the US sanctions**. The company can expand in the region in order to offset the global downfall of revenues as well as establish itself as a major actor in modernizing the countries' outdated infrastructure. Huawei has launched projects with Albania and Serbia, will assist Croatia in developing a smart city strategy, and launches a programme to train a thousand regional young ICT talents and develop technological hubs. Serbia has by far the closest relations with Huawei, yet the delivery of surveillance equipment by the company has caused political tensions in Serbia. Namely, the location of surveillance cameras and the conditions of data use and storage remain unknown, although Serbian authorities are obliged by law to disclose this information. Recently, Huawei has also successfully concluded drone sales to the Serbian Ministry of Defence, a new development that has caught the attention of several observers. Experts have expressed doubts that close contacts between Serbian authorities and Huawei are driven exclusively by a market logic – the Serbian market of 7 million people is of little significance in comparison to the company's global outreach. On the other hand, Serbia may be a 'testing ground' for Chinese investment and policies in the region: The logic is, rightly or wrongly, that whatever succeeds in Serbia can be easily applicable in the whole of Southeast Europe. However, the future of the Belgrade-Beijing cooperation remains to be seen as - according to experts - a major worsening of the US-China relations would force Serbia to scale down its partnership with China.

Judging from the experts' remarks, **Chinese investments into coal energy in Southeast Europe are also very controversial.** The power plant in Tuzla in Bosnia-Herzegovina is symptomatic in terms of inadequate purification equipment and the negative impact on people's health from pollution and ash disposal sites. In fact, as one of the panellists noted, China is financing the building of the Tuzla plant through loans of which 70-90% will have to be repaid. The ability of Bosnia-Herzegovina to repay this loan is a major concern for local experts. For example, the country could potentially export electricity generated through coal combustion to the EU and generate extra revenues. Yet this may not be economically viable due to the necessity to pay emission taxes in order to be eligible for EU market access. Increasing energy prices would be another solution to repay the loan but experts say that in this case it would be cheaper to import electricity from abroad than to generate it from local sources. At the same time, the loan for the Tuzla power plant has a state guarantee from Bosnia-Herzegovina, so Beijing has close to no financial risks associated with the project.

According to local observers, China's interest in the SEE energy sector lies primarily in exporting the excess construction and labour capacity with little concern for environmental standards. In addition, the positive spill over effect on the region's economy is extremely limited as the lion's share of all equipment and materials are imported from China. Moreover, according to the internal documents of Elektroprivreda, a public utility company in Bosnia-Herzegovina, the funds that are brought by China are not helping the financial sustainability of the energy sector. Coal is generally considered to be cheap, yet without subsidies its extraction costs would not be covered. In the words of one of the discussants, deals similar to Chinese engagement with the Tuzla power plant provide a win-win situation for Chinese investors and the political elites of Southeast European countries, yet it's the region's population which ultimately pays the price with deteriorating ecological and health conditions.

In practice, funding coal power plants in the region delays and increases the price of the inevitable energy transitions to renewables which Southeast Europe needs, as well as creates an unnecessary complication for the region's accession to the EU as it de facto breaks several EU rules and regulations. For example, the expansion of the coal power plant in Tuzla goes against both the Energy Community and Espoo (EIA) convention principles: the latter implies that international consultations have to be conducted in order to address cross-border pollution and in the case of the Tuzla power plant this has not been done. Moreover, discussants stressed that the conditions for selecting subcontractors are such that local politicians can in practice nominate their affiliated companies and engage in rent-seeking. Experts expressed the view that political elites in Bosnia-Herzegovina as well as across the region in general tend to prefer the outdated model of running the energy sector in a centralized way through several major energy producers – this allows for a greater measure of control and manipulation.

## PANEL VI: WHO IS COMPETING WITH OR CHALLENGING CHINA'S ENGAGEMENT IN SEE?

The sixth panel attempted to delineate the broader context of EU-China relations as well as reflect on the format of their strategic cooperation in Southeast Europe. Participants considered how the EU enlargement policy will be affected by an increasing Chinese presence in the region. **Experts were largely unanimous in their assessment that it is not Chinese involvement with Southeast Europe that undermines the EU's influence in the region, but rather the EU's own incapacity to deliver on its membership promise**. Participants implored that understanding the processes in the region requires not only a reflection on the interests and instruments of the EU and Chinese policies – one has to consider the agency of the countries in Southeast Europe and their own interests, even if they seem to diverge from the policy stances that the EU or China expect them to take.

Discussants encouraged the audience to pay attention to the factors driving Beijing's foreign policy. **Ultimately, in order to grasp Chinese involvement in the region one needs to look at the strategic guidelines of Beijing's policy**. On its own, Southeast Europe is too small a market to warrant Beijing's attention. For China, panellists argued, the presence in Southeast Europe is mainly essential to learn how to operate in a regulatory environment which is very much aligned with the EU. Some representatives of the conference questioned the wisdom of launching costly global infrastructure development projects while there are huge socio-economic discrepancies in China. In contrast, China can export its industrial overcapacity as well as environmentally contentious projects. Contrary to the overly optimistic remarks, some participants warned that the growing imbalance between the projection of economic power abroad and the domestic community with its socio-economic grievances may substantially affect Chinese behaviour in the international arena and pose a challenge to the success of the BRI project.

Experts have stressed that the EU is concerned with the **Chinese potential to disrupt fiscal stability, rule of law, and environmental protection standards in the region.** For example, despite of Chinese rhetoric of supporting EU integration in Southeast Europe, the fact that the

European Commission has referred to China as its 'systemic rival' alludes to potential tensions. Yet it should be kept in mind that China is simultaneously a partner for the EU. This implies **that there doesn't have to be a zero-sum game between China and the EU in SEE**. In fact, the EU has started looking into cooperation options, for example exploring synergies between the Trans-European transport network and BRI. Nevertheless, **several participants shared the impression that the EU meets greater Chinese assertiveness in the region exclusively through introducing new regulations, not making any political decisions on how the broader context of EU-China relations should be addressed.** For example, some of the measures to counter Chinese influence relate to the adoption of the EU regulation on the framework for screening foreign direct investment or re-assigning significant amounts of pre-accession funds for infrastructure projects. However, panellists have pointed out a major limitation of such measures: it fails to offer a 'positive agenda' for engaging Beijing and lacks answers to the future of EU relations with accession countries in the region.

Experts have highlighted that both the EU and China have an interest in the stability and development of the region: none of the Chinese loans and investments will pay off if the region once again faces the destabilization it experienced in the late 1980s-early 1990s. Unfortunately, some discussants alluded that the repetition of such a scenario is possible, in no small measure due to the de facto breakdown of the enlargement process and the EU's lack of vision for the region. On the other hand, participants warned that the EU-China collaboration in Southeast Europe should not be captured by the same fetish of 'stability' as the EU-Western Balkans relations have been so far. Arguably, such an approach of the EU has only contributed to the political and economic misery of the region and persevering along this line of reasoning will only make Southeast Europe stagnate further. Many discussants expressed hope that von der Leyen's claim for leading a 'geopolitical Commission' will make the EU less inward looking and renew Brussels' engagement with Southeast Europe.

**The key message of the discussion has been that the de facto absence of a credible EU enlargement perspective provides external actors like China, Russia and Turkey with an opportunity to expand their presence in Southeast Europe**. In other words, external actors become increasingly assertive in the region not because they have the best plan, but since the EU cannot come up with a clear one. Ultimately, the EU badly needs 'out-of-the-box' thinking to deal with Southeast Europe and China. For the moment, however, this is lacking.

## Concluding Remarks

At the end of the discussion, four overarching points were made.

*First*, a metaphor that best captures the most beneficial scenario for EU policy towards China in Southeast Europe is 'taming the dragon', not 'fighting the dragon'. In this respect, the willingness of the European Commission to explore synergies between the Trans-European transport network and the BRI is a welcome change. While both the EU and SEE do not want to be merely rule-takers, they need to actively shape the conditions of their engagement with

China and both EU member states and (potential) candidate countries should work together to find a joint strategy.

*Second*, the arrival of China in the region generates pressure for other external actors to react. This relates not only to the EU, but to Turkey and Russia as well. China develops a new perception of its role in world politics and this must be considered.

*Third*, the Chinese presence is there to stay. Beijing's ability to play a long-term game and wait – partly because it faces few constraints such as the democratic electoral cycle – are its important assets. Judicious application of what one of the participants called 'expeditionary capital' coupled with an ability to learn from one's own mistakes make Chinese influence count.

*Fourth*, the lack of public debate on the terms of EU-China engagement in the region as well as the scope of relations between China and countries in Southeast Europe negatively affects all stakeholders. The opinions of not just the policy-makers, but the wider societal actors have to be taken into account for the trilateral engagement of the EU, China and Southeast European countries to be able to provide the maximum benefit for all the parties involved.