

Investments: Beijing's Balkan backdoor in Europe

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China is investing heavily in countries that might one day join the EU.

BELGRADE — In the thick of a discussion about the future of the Balkans, Serbian President Aleksandar Vučić jumped from his chair, unfurled a wall-sized map and spread it across the thick mauve carpet in his private receiving room.

"You'll see what my real passion is," he said, kneeling next to a multicolored map of Serbia criss-crossed with planned highways and rail lines. "It's roads and economy."

Serbia is in the midst of a physical transformation that Vučić has promised his compatriots will end their isolation and open the door to the European Union. To turn his "passion" into reality, the Serbian president is relying not just on Europe, but on an old ally farther east — China.

With a population of just over 7 million, Serbia, one of Europe's poorest countries, may seem like an unlikely partner in China's drive to play a bigger role on the Continent. But longstanding ties between the two countries, combined with geography, have helped put Belgrade at the center of Beijing's European push.

For Serbia and its neighbors, the advantage is obvious: desperately needed investment in infrastructure with few visible strings attached.

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For China, the motivations are murkier. But this much is clear: Beijing is establishing a significant foothold on Europe's southeastern doorstep — increasing its influence in countries that will likely one day be full-blown members of the European Union.

'They have the money'

China has loaned Serbia money in recent years for everything from a €170 million bridge over the Danube in Belgrade to a €700 million thermal power plant. A Chinese company also bought Serbia's only steel plant, promising to revitalize the troubled operation without cutting jobs.

Yet the centerpiece of Beijing's engagement in the country is a nearly €3 billion high-speed rail link between Belgrade and Budapest. In addition to passenger rail, the 350-kilometer project includes a separate track for freight, a key piece of Beijing's strategy to connect the Greek port of Piraeus with Central Europe.

The new railway is expected to cut travel times between the two cities from eight hours currently to less than three. "It would be a real game changer, regarding our EU path, regarding our closeness

to Central and Western Europe,” Vučić said.

What makes Chinese financing particularly attractive are the terms. In contrast to the international development lenders such as the World Bank, China is often willing to fund projects with questionable economic returns at below-market rates.

Take the planned highway linking Belgrade with the coastal city of Bar in Montenegro. The project is expected to cost about €600 million. With the economic impact expected to be modest, convincing European lenders to support the project would be impossible, Serbian officials said. But China agreed.

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Indeed, with the EU’s structural funds out of reach for non-members, China is the only alternative for countries like Serbia. Belgrade generally pays between 2 and 2.5 percent on its Chinese loans, which usually run from 20-30 years.

“It’s not easy to get credit from Western states,” said Serbian Transportation Minister Zorana Z. Mihajlović. “When we speak about this with European countries, they say ‘why China?’ Because they have the money, to be honest.”

Win-win

In addition to the money, China also provides the engineering expertise, ensuring that Chinese companies get a slice of the pie. On the Serbian rail project, for example, the agreed split between contractors from the two countries is 50-50.

In May, Vučić, accompanied by a large delegation, traveled to Beijing, where he met with Chinese Premier Li Keqiang in the Great Hall of the People. Li stressed China’s commitment to deeper cooperation with Serbia, already its closest partner in the region, “for the sake of mutual benefit, win-win and multi-win results.”

“Aleksandar Vučić said that Serbia is a trustworthy friend and partner of China,” the official Chinese readout of the session said.

If Russia’s sway in the region is felt through its military and the EU’s through the carrot of accession, China’s presence is apparent in public works with seemingly few conditions.

“The advantage is that they are very efficient,” said Vučić, whose country has been the primary beneficiary of Chinese largesse. “You have no problems with the Chinese.”

The European Bank for Reconstruction and Development, itself a major funder of infrastructure projects across the region, recently described China’s role in the Balkans as “no longer tentative,” predicting further increases in investment in the coming years.

That said, for Serbia at least, the relationship with China is not purely transactional. Beijing is one of the few countries to support Serbia’s position on Kosovo, refusing to recognize the breakaway region. China also stood by Belgrade during NATO’s 1999 bombing campaign against Serbia. The Chinese embassy was hit during the bombing raid, an incident Washington insisted was an accident but that many Chinese and Serbs continue to believe was intentional.

Last year, Chinese President Xi Jinping traveled to Serbia on a state visit. Xi and his wife were greeted by a troupe performing a Serbian folk dance in traditional garb. The official visit by the

Chinese leader to one of Europe's poorest countries underscored Belgrade's strategic importance to Beijing.

"Both sides have enjoyed firm mutual political trust, colorful and fruitful practical cooperation in all sectors," China's foreign office said in a statement at the time.

There's no sign the good feeling is waning. In January, the Bank of China opened a regional hub for the Balkans and Eastern Europe in Belgrade. The two countries recently agreed to waive visa requirements for one another's citizens. In the coming months, China's Hainan Airlines is expected to begin nonstop flight services from Beijing to Belgrade, a potential boon for Serbia's fledgling tourism sector.

"We have a very friendly relationship with the Chinese," Vučić said.

Roads and rails

For China, the investments carry both economic and political significance. While the Balkans form an important corridor along Beijing's "One Belt, One Road" — a seemingly quixotic plan to blaze new trade routes around the globe — the strategy also promises to further China's influence in European politics.

Last year, Chinese shipping giant Cosco finalized a deal to acquire a controlling stake in Greece's Piraeus port, the country's largest. The Chinese have already invested about €600 million in modernizing the facility, turning it into one of the world's top 50 ports in terms of container volume.

That was only the first step. China wants to transform Piraeus into a European beachhead.

For Europe-bound Chinese ships, which usually travel through the Suez Canal before heading to a northern port such as Rotterdam or Hamburg, Piraeus' relative proximity makes it a more attractive option — if the Balkans can be provided with modern roads and rails on which the freight can travel.

Winning better access to EU markets is only part of the story, however.

China likely intends not just to send cargo to Europe, but from it as well, said Jacopo Maria Pepe, an analyst with the German Council on Foreign Relations who has studied China's involvement in the region.

Beijing's longer-term aim may be to build its own industrial manufacturing base to serve not only European markets, but also "new emerging markets along the Eurasian rim stretching from the Eastern Mediterranean to the Middle East and further to India," he concluded in a lengthy study for the Edwin Reischauer Center for East Asian Studies at Johns Hopkins University, published earlier this year.

Germany and Europe seem unsure what to make of Beijing's incursions. "Germany positively regards the so-called Silk Road initiative, which is directed at building connections — inter-connectivity, as it is called today," German Chancellor Angela Merkel said after meeting with Chinese President Xi in Berlin last week. "We will gladly participate in such projects."

China's model would appear to be Germany. Since the accession of the Visegrad countries (Hungary, Poland, the Czech Republic and Slovakia) to the EU in 2004, German industry has integrated the countries into a seamless supply chain, helping companies from Volkswagen to Siemens benefit from lower labor and production costs.

As Chinese wages converge with those in Southern Europe, the case for local production will become more compelling. In Berlin, officials are worried about a recent string of Chinese takeovers in key industries, including robotics and industrial equipment.

A seat in Brussels

If China's ultimate goal is to take on Germany in Europe, improving the infrastructure through the Balkans is a crucial first step.

To that end, China set up a €10 billion investment fund in November to help finance infrastructure projects in countries stretching from the Baltics to the Balkans. While the headline value of Chinese investments is usually modest, they often have an outsized impact in a region that continues to lag well behind Western Europe in terms of wealth. Serbia, nestled in the center of the region, is the linchpin of China's plan to create a land bridge to Piraeus.

Nearly two decades after the end of the Balkan wars, much of Serbia's infrastructure remains in disrepair. With financing from the EU, the EBRD and others, Belgrade has modernized some of its transportation links but considerable work remains to be done.

Some of the country's train tracks haven't been refurbished since they were built in the late 19th century. The €3 billion high-speed rail link between Belgrade and Budapest highlights the advantage China has in the region — and the reward its involvement there could one day bring.

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Even as work begins on the Serbian side of the tracks, the European Commission has raised questions about whether the project complies with EU rules on public tenders.

For many in the region, the implication is clear. Justified or not, Brussels' extra scrutiny leads to delays and bureaucracy. Beijing, meanwhile, acts.

The regulatory disparity on the two sides of the border is another reason China's investment in its relationship with Serbia looks like a smart one.

China has yet to exert its political influence in the Balkans. Despite its growing role, it hasn't been invited to participate in gatherings such as the Western Balkan summit, an annual regional forum hosted this year by Italy in Trieste.

But even Beijing's partners say they're not sure of China's long-term aspirations. "It's difficult to tell," said Montenegrin Foreign Minister Srdjan Darmanović, adding that so far there has been no "meddling in the affairs" of the region's governments. "They just want to make good business."

There's no question, however, that the investment flows — unimpeded by oversight or bureaucracy — provide Beijing with influence, goodwill and leverage in the region.

With several Balkan countries in line to join the EU in the coming years, China could have several more close friends at the leaders' table in Brussels.

That could help Beijing fend off criticism over its human rights record and other knotty issues, a role Greece has recently taken on. Just last month, Athens blocked the EU from issuing a statement condemning a Chinese crackdown on activists.

For some in Europe, the episode illustrates why the EU should start paying more attention to Beijing's activity in the region. Some German diplomats warn that China, like Russia, could quickly become a threat to stability in the Balkans.

"The Chinese are already here," Pepe of the German Council on Foreign Relations said. "It's up to the EU and Germany to come up with a strategic response."

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P.S.

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<http://www.politico.eu/article/china-serbia-montenegro-europe-investment-trade-beijing-balkan-back-door/>

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