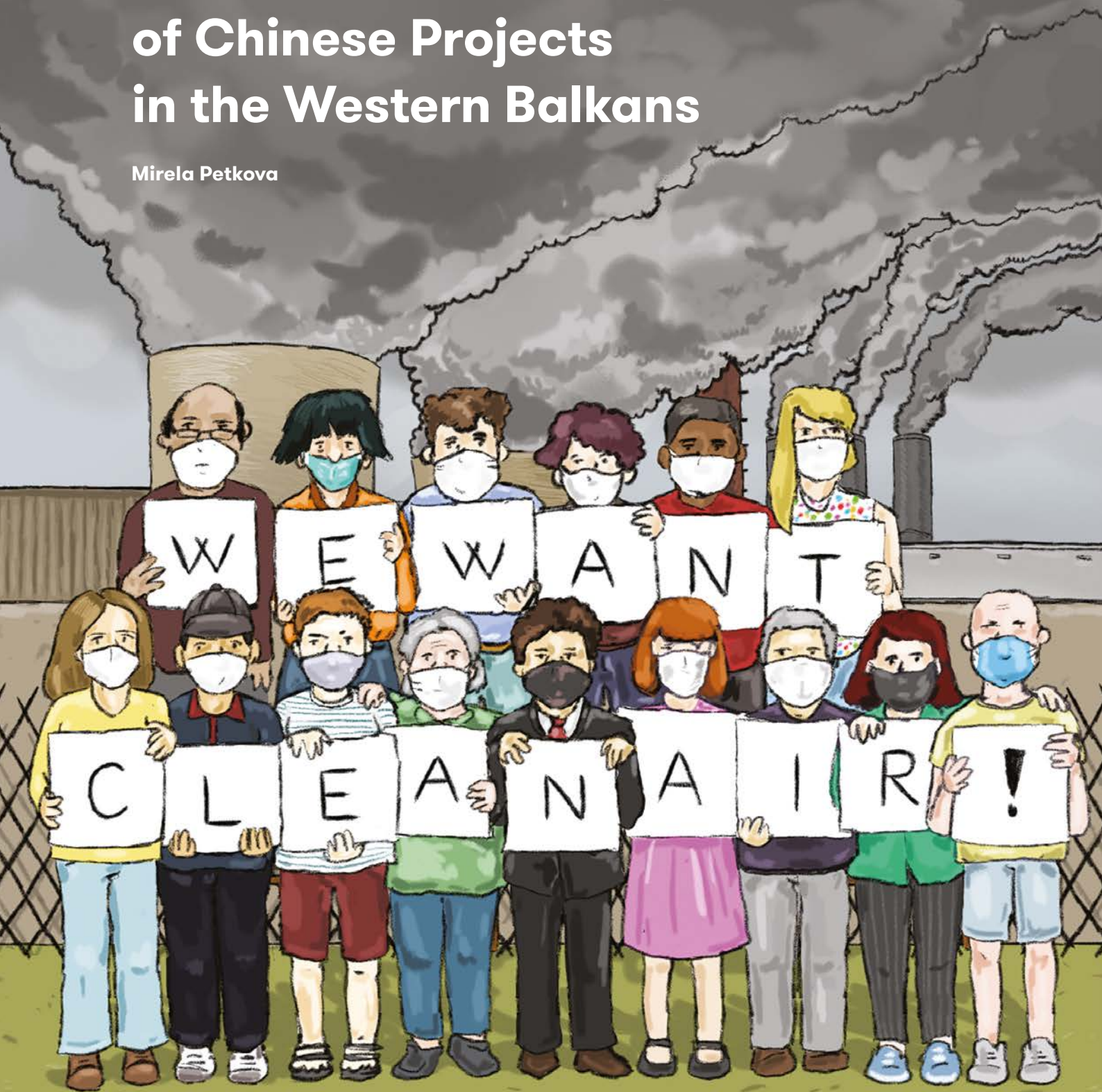


POLICY PAPER

The Environmental Impact of Chinese Projects in the Western Balkans

Mirela Petkova



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Policy paper

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Summary

- Chinese economic activities have been criticized globally for governance shortcomings. In this regard, the Western Balkans are no different, especially as Chinese foreign direct investment (FDI) encounters far less environmental scrutiny relative to domestic projects. This means that unless the host state enforces its own environmental laws, there are no mechanisms to review and sanction environmental damage.
- This policy paper examines projects which have damaged or could potentially damage the environment in the Western Balkans. The paper also surveys the situation on the ground concerning the health and quality of life consequences on communities and provides recommendations to local, national, and international stakeholders. Projects examined include the Tuzla and Stanari thermal power plants in Bosnia and Herzegovina, the Bar-Boljare highway in Montenegro, the Serbia Zijin Bor Copper complex, the Hesteel Serbia steel manufacturer, and the Linglong tire factory in Serbia.
- Even though governments are the ultimate facilitators of the legal environment, Chinese companies that operate factories, build highways, or dump waste and directly pollute the environment are often unconstrained. While Chinese legislation governing outward investment does not require them to conduct environmental impact assessments (EIAs), the local law does. This means that Chinese companies have disregarded local legislation knowingly.
- Chinese companies have also actively challenged existing environmental legal requirements and have, for the most part, remained silent when serious concerns about violations have occurred during project development.
- Civil society stakeholders have been key actors in terms of monitoring of the consequences of Chinese loans and investments. With local governments being accommodating to Chinese economic activity, non-governmental organizations (NGOs) are often the first obstacle Chinese companies meet with in the host country.
- Most local activists and citizens put the blame decisively on their own government. In all cases examined there is legislation in place that would allow the state to seek effective compliance with environmental regulations, but there is a lack of enforcement.
- Chinese actors have remained mostly removed from discussions about projects with local stakeholders, beyond government representatives. Notably,

citizen and NGO-led protests have not been addressed at all. Nonetheless, pressure and investigative work of the civil society has proven instrumental in raising awareness of detrimental effects of Chinese projects on human health and the environment, both nationally and internationally. In turn, such investigative work has put pressure on the governments in the region to address growing concerns.

- Chinese companies have engaged in a debate about the environmental damage of a project or put forward remediation proposals in two instances – the Bar-Boljare highway and the Serbia Zijin Bor Copper complex. In both cases, taking action was to a great extent a response to government stakeholders taking note of the environmental consequences of projects and following suit with legal action.
- A key development to follow is the extent to which Chinese companies' pledges on environment compliance are fulfilled. Local activists have expressed concerns that current commitments are merely aiming to comply with legislation which should have been respected since the beginning of operations and essentially amount to green-washing.
- Members of the European Parliament have alarmed European institutions about the impending environmental damage of Chinese companies' industrial projects in Serbia. Those efforts failed to take notice of developments in neighboring countries and have so far not resulted in concrete actions, leaving the EU as a peripheral actor to the environmental governance issues in the region that involve China.

Recommendations

FOR THE EU:

- The EU must strengthen its enforcement toolbox when it comes to environmental pollution in the Western Balkans. Enforcing accountability for misconduct can easily be achieved through existing channels. Such an approach includes granting more powers to the Energy Community to mandate rollbacks of air emissions and introducing additional legislation in directives that deal with environmental pollution.
- The EU must act swiftly on the issue of bad environmental governance in the region with an approach that is not rooted solely in sticks. Instead, it should recognize that economic development is the paramount starting point. Any attempt to counter negative effects of the Chinese influence must be accompanied by economic alternatives.
- For the EU to counter political elites' unsound governance practices and Chinese influence, it must put local communities and citizens at the heart of its approach to environmental and climate issues. The EU must minimize reliance on the government-to-government model utilized by China.
- The EU must recognize the role the NGO sector plays in monitoring Chinese projects and pressing for the enforcement of regulations which enhance good governance in the Western Balkans. Further, it is imperative that the EU ramps up its support for the civil society in the region. This is best done by engaging actively with organizations on the ground, taking note of their testimonies, and above all providing funding and training opportunities for activists.

FOR THE NATIONAL GOVERNMENTS:

- Western Balkan governments must consider the long-term economic consequences of Chinese projects and recognize that pollution can have debilitating effects on the economy and offset previously acquired economic gains.
- Governments must strengthen their environmental monitoring and enforcement capabilities so they can bolster their negotiation position vis-à-vis investors through evidence and thus facilitate better governance.

- Governments must act on making information behind deals publicly available and increasing the transparency behind projects of national interest. Public bodies must urgently improve the enforcement of existing laws and comply promptly with access-to-information legislation.
- Governments must take consistent steps and take action to include local communities in the discussion surrounding foreign investment, recognizing that community support is crucial for the successful development of a project.

FOR THE LOCAL NGOS:

- Local NGOs must make efforts towards getting the public involved in the process of monitoring and discussing projects. This can be done by fostering consultations with the authorities, public discussions of EIAs and pushing for public dialogue meetings with the Chinese companies.
- Local NGOs must dedicate increased efforts to publicize information they uncover, which will increase pressure on government stakeholders and, in turn, force action to be taken.
- Local NGOs must continue raising awareness in local communities about the effects of the projects as concentrated civic discontent has the capacity to pressure local governments to act.

Introduction

This policy paper researches the environmental impact Chinese projects have had in the Western Balkans and the governance architecture that has enabled it. As much of the documentation behind projects has remained closed to the public, key information and wrongdoings have been brought to light by NGOs. Furthermore, NGOs have also been the main actors taking legal action against legal trespassing. For this reason, next to local governments and Chinese companies, this paper looks at the role of NGOs as key actors in the environmental governance of Chinese projects. Activities examined cover the three Western Balkan nations of Bosnia and Herzegovina, Montenegro, and Serbia.

Relying on official government documentation, international organizations' monitoring, and local media reports, the policy paper discusses the dynamics of local politics, Chinese business practices, and the nexus between the two. A key pillar of the research is the interviews with representatives of the NGO sector. They were conducted in June and July 2021. It is important to note that for each project examined, the author has attempted to cover the viewpoint of the Chinese companies involved and the national government. However, out of 15 entities contacted, none were available for comment.

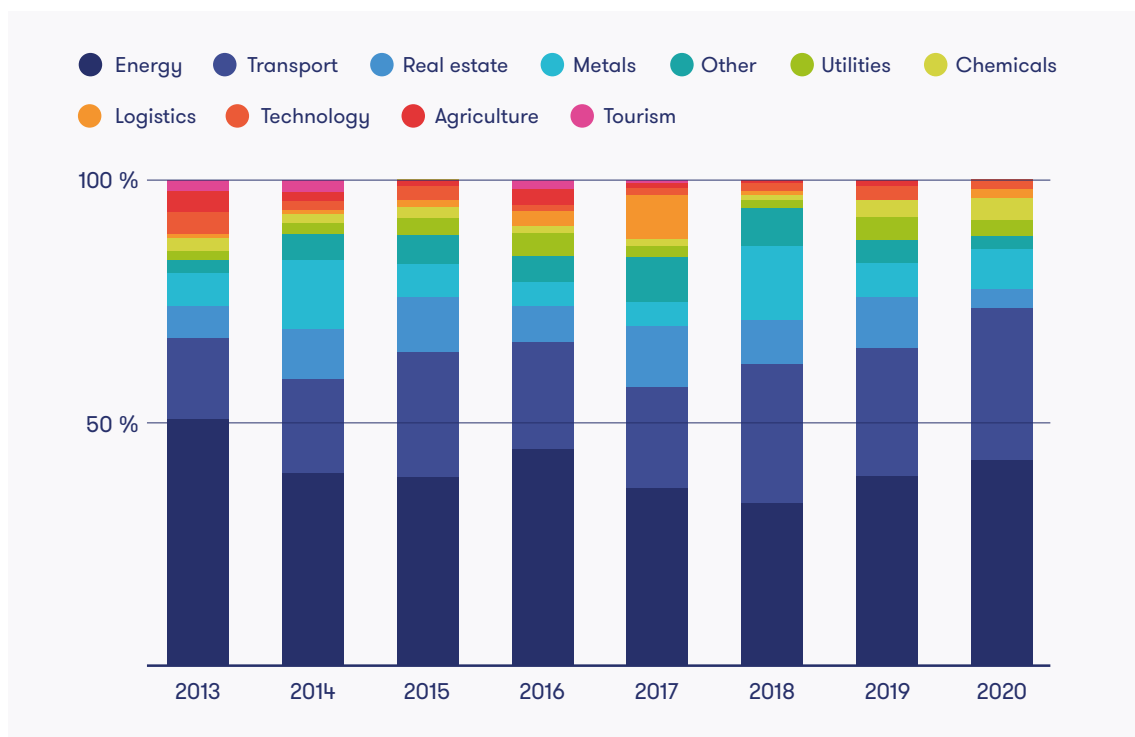
The first chapter looks at China's policies and frameworks behind the environmental impact of its investments and loans abroad. The second chapter gives a brief overview of the six projects in the Western Balkans examined in this paper. Chapter three analyzes the local circumstances and practices that have shaped the environment in which the Chinese projects evolved in detail. Chapter four examines the behavior of Chinese companies in the Balkans and its evolution (or lack thereof). In conclusion, this policy paper prescribes a set of recommendations for national governments in countries of the Western Balkans, for local NGOs, and for European institutions and countries.

China's Lax Position on Environmentally Sound Economic Practices

China's Belt and Road Initiative (BRI) has become the key catalyst for Chinese FDI around the globe. In 2020 alone, Chinese investments in 138 BRI countries reached approximately \$47 billion, despite the economic fallout from the COVID-19 pandemic.¹

Data from the Green Belt and Road Initiative Center shows that in any given year since the inception of the BRI, investments in energy have topped transport investments by far. When combined, the two sectors have accounted for anywhere between 60 and 70 percent of China's FDI under the BRI.

GRAPH 1: SECTOR SHARE OF BELT AND ROAD INITIATIVE INVESTMENTS, 2013-2020



Source: Visualization based on data from the Green Belt and Road Initiative Center.

Against the backdrop of how many environmental consequences stem from energy and transport projects, it comes as puzzling that China's overseas investments are not extensively conditioned by environmental or climate-related regulations as of July 2021. While Chinese leadership has been vocal about 'greening' the BRI since

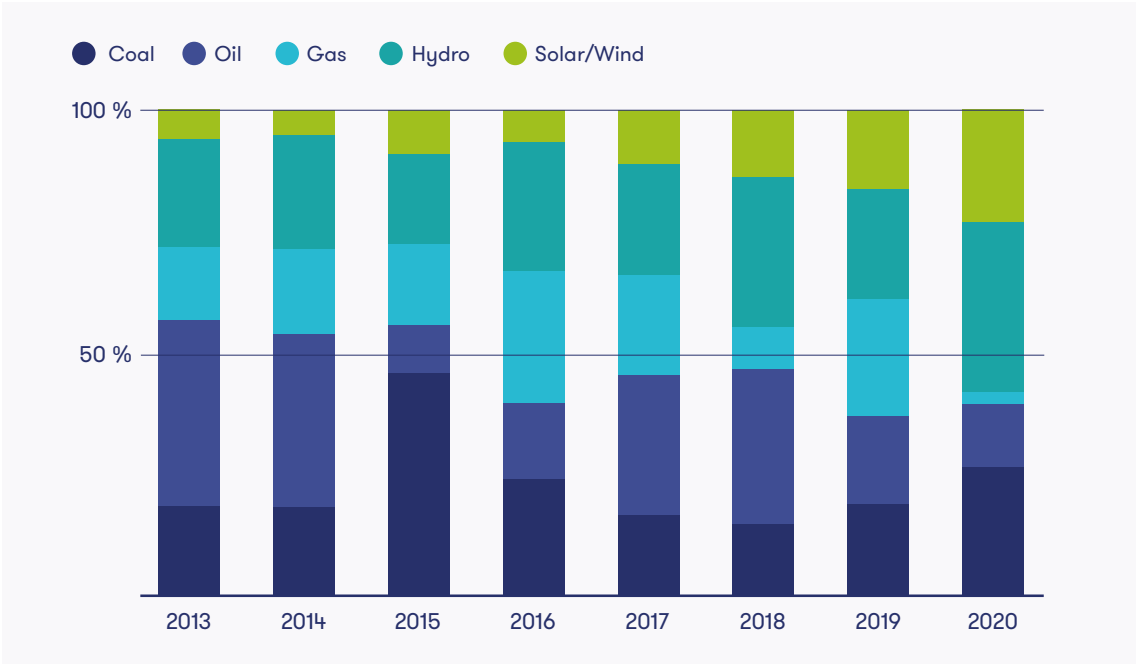
at least 2017, those calls have not been followed by adequate legal frameworks or policy guidelines.²

Policy documents that govern the BRI such as Visions and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road are voluntary in nature and do not include enforcement mechanisms.³ Furthermore, such documents are at odds with domestic policy regulations on the environment and investments. The Guidelines on Environmental Protection in Overseas Investment and Cooperation encourage companies investing abroad to perform EIAs but do not require them to do so.⁴ At the same time, companies operating in China have been required to conduct an EIA for projects with potential environmental impact since 2003.⁵

In essence, Chinese FDI is subject to much less environmental scrutiny relative to projects at home. Companies must comply with host country regulations, but unless the host state enforces its environmental laws, there are no enforcement mechanisms to review and sanction environmental damage. As previous research has put it, the greenness of the BRI rests on the shoulders of corporate voluntarism and the host state's willingness to protect its own environment.⁶

Most recently, in December 2020, the BRI Green Development Coalition produced a report by five researchers from China's environment ministry and six from international NGOs.⁷ First of all, the report recommends that every project must obtain an independent EIA. Moreover, it creates a traffic light system, where red projects require stricter supervision and regulation (coal-fired plants, mining, metal smelting), and green projects are encouraged (wind, solar). Further data from the Green Belt and Road Initiative Center shows that 2020 was the first year in which China's investments in renewable sources of energy combined (hydro, wind, solar) overtook investments in coal, oil, and gas.

GRAPH 2: CHINESE ENERGY INVESTMENTS IN THE BELT AND ROAD INITIATIVE, 2013-2020



Source: Visualization based on data from the Green Belt and Road Initiative Center.

In 2021, China did not finance any new coal projects under the umbrella of the BRI in the period from January to June, making it a first since the initiative launched in 2013.⁸ Combined with China's 2060 carbon neutrality target, it seems that a change in the BRI's course is on the way. However, it is happening much slower than it should and it is uncertain if it will yield results along the intricate net of BRI financiers and sub-contractors and whether it will also impact existing projects.

Loans by Chinese policy and development banks such as The Export-Import Bank of China (China Exim Bank), the Agricultural Development Bank of China (ADBC), and China Development Bank play an indispensable role in financing BRI projects. While commercial banks have accumulated growing importance in the last years, policy and development banks remain the key players for China's outbound loans. Categorizing the agency of such banks is not an easy task but it is crucial for understanding their role in enabling polluting projects.

In the period between 2013 and 2018, China Exim Bank and China Development Bank alone accounted for 50 percent of global public finance for coal.⁹ In turn, China became the largest public financier of overseas coal plants globally. When looking at the broader picture of total finance – public and private combined – China funded only 13 percent of overseas coal plants. The rest of the finances behind the 87 percent of projects have been largely supplied by Western and Japanese commercial banks and institutional investors.¹⁰ In May 2021, the G7 committed itself to put a hold on international thermal coal power generation by the end of 2021.

As for the financing of overseas coal plants, while the West and Japan seem to be driven by market forces, China's market is undeniably defined by the state's dominant role. Previous research on the topic has argued that policy banks are on the borderlands of following the party-state's policy agenda and fulfilling market-oriented goals. In regard to the BRI specifically, it was the top leadership of China that outlined the concept of the initiative and its key buzzwords, such as connectivity and cooperation. Given that there has not been a detailed roadmap on how to achieve those, the implementation has been largely left to the many state and subnational actors, like the policy banks.¹¹ Pinpointing their exact agency is impossible, but it is safe to say that the government's guidance is what regulates and has the power to penalize or promote loan practices. A halt to lending for fossil fuels will have to come from China's top leadership if polluting practices are to end.

Economic Development at What Cost?

In the last decade, China has managed to become one of the most prominent foreign actors in the Western Balkans. Beijing has entered Southeastern Europe economically, politically, socially, and culturally, but its main lever of influence is found in the economic realm.

China's economic weight has been the main driver of its image in the region as Western Balkan governments have hoped Chinese capital can help them fill the investment gap that divides them from the rest of Europe. While relations started budding through the Cooperation between China and Central and Eastern European Countries (China-CEE) framework, also known as the 16+1, most of the investments and loans have been negotiated on a bilateral basis. There has been no diversification effort since the early 2010s – infrastructure, energy, and heavy industry have remained the dominant sectors of cooperation.

After all, China's motivation for pursuing a more active role in the region is in line with the BRI's objectives – such projects can facilitate an increase in trade and connectivity. The narrative used by China's top officials has been one of “win-win cooperation” and “shared benefits”, but after almost a decade of interaction, this is not the sentiment most local activists feel. “It's a win-win situation for China and it's a lose-lose situation for Bosnia,” says Denis Žiško from the Tuzla-based NGO Center for Ecology and Energy.¹² China's economic footprint in the Balkans has resulted in economic gains for the Asian country through loan repayments and profits from investment, but it also fostered political relations with local elites.

In order to single out projects to review in this paper, a number of considerations were used. First, in order to look at timely developments, the project is either completed or undergoing development and has gone beyond the announcement phase. Second, there is credible data pointing towards that environmental harm has occurred or is very likely to occur. Third, the NGO sector has been actively involved with the project. The role of civil society is taken as an important factor. With local governments being accommodating to Chinese economic activity, NGOs are often the first obstacle Chinese companies meet with in the host country.

Hence, this paper looks at projects in three countries – Bosnia and Herzegovina, Montenegro, and Serbia. Those are the Tuzla and Stanari thermal power plants, the Bar-Boljare highway, the Serbia Zijin Bor complex, the Hesteel Serbia steel manufacturer, and the Linglong tire factory. There is an equal representation in terms of form of China's involvement – while the first three are financed by loans by Chinese policy banks, the following ones are investment projects. While the scope of this policy paper does not allow for a review of all China-related economic activity, it has to be mentioned that there is Chinese involvement in renewable energy projects, such as for example the Možura Wind Farm in Montenegro.

The project was developed by a consortium of the Maltese state-owned power utility and China's Shanghai Electric Power Company.¹³ Besides this, Chinese involvement in renewable energy projects is virtually non-existent. Other projects, such as China Road and Bridge Corporation (CRBC) constructing 26 wastewater treatment plants across Serbia, are only in their initial phase of development and cannot be properly assessed.¹⁴ Hence, green projects cannot showcase the predominant type of Chinese activity in the region and are not discussed in depth in this research.

MAP 1: THE ENVIRONMENTAL IMPACT OF CHINESE PROJECTS IN THE WESTERN BALKANS



Some of the projects are investment-related, while others involve loans and construction work being done by Chinese actors.

Source: Author's compilation

BOSNIA AND HERZEGOVINA

STANARI AND TUZLA THERMAL POWER PLANTS

Construction of the Stanari thermal power plant started in 2013 by China's Dongfang Electric. The project was financed by a €550 million loan from China Development Bank and it was concluded in 2016.¹⁵

The original EIAs outlined that despite the new technology installed the air pollution from burning coal will be two to three times higher than what is allowed in EU legislation under the Large Combustion Plants Directive. While Bosnia and Herzegovina is not an EU member, in 2018 the Directive entered into force for the whole Energy Community and its contracting parties, Bosnia included.¹⁶ While the construction was ongoing, the Center for Environment, a Banja Luka-based NGO in Republika Srpska, has filed complaints to the Energy Community Secretariat signaling the issue. Based on those complaints the Energy Community initiated a dispute settlement, which resulted in the review of the permit.¹⁷ Nonetheless, by the time Stanari started operation in 2016, the plant was already out of date and did not comply with legislation on allowed levels of emissions. While the capacity of the plant was reduced from 420 megawatts to 300 megawatts, the cooling was changed from a wet system to a dry one, rendering Stanari much less efficient.¹⁸ In violation of the law, Republika Srpska has not demanded a new EIA after this critical change in operational procedures.¹⁹

Bosnian authorities and state-owned electric utilities seem to not have been bothered by the reduced efficiency of the plant and the consequential violations of legal obligations the country has under the Large Combustion Plants Directive. On the contrary, they pursued further cooperation and have signed a construction contract with China Gezhouba, a subsidiary of China Energy Engineering and Corporation, for the construction of unit seven at the Tuzla power plant, near Tuzla, in the Federation of Bosnia and Herzegovina.²⁰ China Exim Bank is providing 85 percent of the total costs for construction, €722 million, via a loan to the Bosnian government. The remaining 15 percent appear to be released as a loan guarantee by the Bosnian government, which is a violation of state aid rules under the Energy Community treaty.²¹

Despite numerous legal troubles, the key issue regarding the Tuzla power plant is the health effects of burning coal. Center for Ecology and Energy has produced research based on World Health Organization (WHO) methodology claiming that in a single year, the operation of the coal plant near the city of Tuzla causes more than 170 hospitalizations due to respiratory diseases and the loss of 131,000 working days.²²

While preparatory works on the ground have been completed, construction has been hindered by the COVID-19 pandemic as well as the fact that the main supplier of the equipment, General Electric, pulled out of the deal in June 2021. This is in line with the company's policy from the autumn of 2020 which aimed to discontinue equipment sales for new coal-fired power plants.²³ While the development of unit seven is uncertain, both China Gezhouba and the Bosnian government are silent on its future.

MONTENEGRO

BAR-BOLJARE HIGHWAY

In 2014, the Montenegrin government signed a construction contract with CRBC to design and build the first section of the Bar-Boljare highway, Smokovac-Mateševo. Construction work began in 2015 and it is 85 percent financed by a €809 million loan Montenegro took from China Exim Bank. Podgorica-based NGO MANS has stated that costs for environmental protection were not included in the cost calculation.²⁴

While an EIA took place, assessment of the plant and animal life and protected species has not been adequate.²⁵ In 2018, MANS conducted an aerial investigation that demonstrated that huge amounts of waste are being deposited in the riverbed, instead of designated landfills.²⁶ As a result, the riverbed of Tara has been altered, which is in stark violation of the EIA. Later, in June 2019, MANS further discovered that CRBC had opened an illegal landfill for disposal of waste at a tributary of the Tara River, Drcka. Lastly, it became apparent that the CRBC has discharged untreated wastewater generated during the construction into the Tara River.

As the Tara River basin is protected as a UNESCO World Heritage Site, UNESCO has also conducted research to determine the scope of destruction. Their conclusions corroborate MANS' investigative work – disposal of gravel and sand in the riverbed, using unauthorized landfills, and dumping water in the basin has had devastating consequences.²⁷

After obtaining the aerial evidence in 2018, MANS has filed criminal charges against the Ministry of Transport, the Ministry of Sustainable Development, the Directorate for Inspection Affairs (part of the Ministry of Ecology), and CRBC. The Basic State Prosecutor's Office of Montenegro has rejected charges without an explanation.²⁸ While MANS is in the process of an appeal, the Prosecution in Montenegro has surprisingly launched the first state investigation into the damage by the CRBC.

SERBIA

SERBIA ZIJIN BOR COPPER

China's Zijin Mining Group acquired 63 percent in RTB Bor, a copper mining and smelting complex, in August 2018, pledging to invest €1 billion and increase the capacity of the smelter.²⁹ Zijin officially took over in December 2018 and the promises of increased output materialized in a short amount of time. Production in the first half of 2020 was almost 28 percent higher compared to the same period in 2019. Furthermore, the company's chief engineer has declared that the goal is to achieve a 258 percent increase by 2024 compared to the 2020 values.³⁰

While air pollution was a serious problem prior to the Chinese acquisition, the increased capacity has clearly exacerbated the situation. A study by the Institute of Public Health of Serbia has found that citizens of Bor are much more likely to be exposed to all types of malignant tumors and exhibit higher rates of cancer mortality due to the levels of pollution of industrial origin.³¹

In particular, the city has recorded staggering amounts of sulfur dioxide (SO₂) pollution. While the legally allowed values are 350 micrograms per cubic meter, values recorded at Bor have ranged from 1,969 micrograms to 3,800 micrograms on August 4, 2020, or 11 times more than the norm.³² When the information reached the public, massive demonstrations occurred in the city. Renewables and Environmental Regulatory Institute (RERI), a Belgrade-based NGO, has had a critical role in pursuing officials and Chinese representatives and uncovering crucial information, such as that an EIA study for the plant was most likely not conducted, despite that the agreement concluded between the Serbian government and Zijin Mining Group obliged contracting partners to do so.³³

Considering the skyrocketing values of SO₂ in Bor, RERI has filed criminal charges against Serbia Zijin Copper on the grounds of breaching Serbia's Law on Air Protection with large-scale environmental pollution. The NGO states that the violation was known to the Ministry of Environmental Protection, but no criminal charges were filed against the Chinese company.³⁴ Representatives of Zijin Mining have been obviously aware of the issue since the very beginning when they acknowledged that measures have to be taken to curb pollution.³⁵

Despite the inaction on part of the Ministry of Environmental Protection, the City Administration of Bor filed criminal charges against Serbia Zijin Bor Copper in September 2020, signed by Bor Mayor Aleksandar Milikić.³⁶ While the state of the criminal proceedings by the Municipal Public Prosecutor's Office is still unclear, in April 2021, the company declared it would develop an action plan at the request of the Ministry of Environmental Protection that tackles the problem in the short-term. The Deputy General Director of the branch in Serbia, Xu Weidjin, has vowed to Bor that clean air will become reality by August 2022.³⁷ As of July 2021, the City Assembly of Bor has adopted the short-term action plan which states that when excessive air pollution occurs due to the smelter, the ecology department of the Bor's administration will inform the Ministry of Environmental Protection, the Ministry of Mining and Energy and the Chinese owner.³⁸ It remains unclear what steps are then to be taken by the institutions in the cases of excessive pollution and what enforcement mechanisms are there to ensure action.

LINGLONG TIRE

In August 2018, the Chinese company Shandong Linglong signed an investment memorandum with the Serbian Ministry of Economy for the construction of a tire plant near the Serbian city of Zrenjanin.³⁹ China Energy Engineering Group, CRBC and Serbian subcontractors began construction work in April 2019.

RERI and a Zrenjanin-based NGO, Građanski preokret, have reported that the Serbian government has given away 96 hectares of arable land for the construction of the factory, free of charge. Furthermore, the Ministry of Economy has allocated approximately €75 million in state aid for the project. Neither Linglong Tire nor the Ministry of Economy reported the total amount of aid in documentation released to the public.⁴⁰ In March 2020, the City of Zrenjanin issued the location conditions on which auxiliary facilities can be constructed and a construction permit for the first

phase of the project, with ten construction permits being issued for the factory later in the year, without an EIA taking place, which is a violation of Serbian law.⁴¹

It appears that as of May 2021, the Provincial Secretariat for Energy, Construction, and Traffic has already sanctioned Linglong Tire, ruling that the supplementary buildings must be removed. However, based on interviews conducted with local actors, Linglong continues to operate and has not respected the decision.⁴² As of August 2021, RERI reports that the authorities have not undertaken a follow-up inspection to control whether the decision has been implemented.

In May 2021, Građanski preokret discovered documents that reveal that back in 2020, the city of Zrenjanin paid approximately €3.4 million for connecting the water supply and sewerage to the factory.⁴³ Such developments are just as concerning as established worries about air pollution, especially as there are grounds for assuming contamination of water might take place. Ivan Živkov, a member of the board of Građanski preokret, has declared that even though the tire factory is connected to the public water system, it has not provided guarantees of filtering solutions to maintain water quality. The city of Zrenjanin does not have a wastewater treatment plant, meaning that wastewater from the factory will end up directly in the Begej River.⁴⁴ In addition to that, there are concerns about the level of air pollution from the production of tires. The production forecast for the plant is 35,000 tires daily, or 13 million tires yearly.⁴⁵ Such a high output is to bring a rise in the concentration of zinc oxide in the air. What adds to the environmental concerns is that a part of the factory, the auxiliary buildings, was constructed without an EIA being conducted.

Based on those violations, RERI has submitted fourteen claims to the Administrative Court requesting an annulment of construction permits and the EIA decisions, and two criminal charges against Linglong Tire for pursuing construction without a permit. Građanski preokret has filed lawsuits on the lack of EIA against the City of Zrenjanin as well as a criminal complaint to the Basic Public Prosecutor's Office. The NGO is in the preparation of filing a lawsuit against the Provincial Secretariat for Construction in Novi Sad, on the basis that they have prevented citizens from participating in the public debate of the assessment study. None of the mentioned cases has seen resolution and Linglong Tire's construction continues.

HESTEEL SERBIA

Hesteel Group Company Limited, a Chinese iron and steel manufacturing state-owned enterprise, acquired 98 percent stake in Železara Smederevo, a steel factory in the city of Smederevo, Serbia. The company bought the stake for €46 million back in 2016 and has subsequently invested around €150 million into renovation, including an upgrade of emission-reducing equipment.

The factory is perhaps the best example of the 'iron-clad' Sino-Serbian friendship, literally and figuratively. While the plant operated prior to the Chinese acquisition, it was in a neglected state, generating a loss of approximately €130 million a year. Following the purchase and renovation, Železara Smederevo started generating revenue and it became Serbia's biggest exporter in the first half of 2019.⁴⁶ Along with modernization, the production also rose, leading to rising emissions, with activists claiming that the main problem is outdated technology and the lack of filtering equipment.

According to a 2020 report of the United Nations Development Program, Smederevo is one of the Serbian cities that can be classified as over-polluted due to concentrations that exceeded the limit values of suspended particles PM10 and PM2.5.⁴⁷ It has gotten so severe that the pollution is visible – local NGOs have reported red and black dust falling over the city.⁴⁸ Activists emphasize that this is not regular dust, but a by-product of steel smelting.

A 2019 report by the WHO outlined that the main sources of air pollution in Serbia, aside from the energy and transport sectors, are industrial activities.⁴⁹ Specific documented sources of air pollution include the steel complex in Smederevo. According to another WHO report, 223 people die annually in Smederevo as a result of air pollution.⁵⁰ For context, the total city population is around 60,000 people.

Work by RERI has shown that while the investor had the obligation to establish air pollution measuring stations, it did not honor these commitments. The country's Ombudsman Zoran Pašalić, who is appointed to investigate citizens' complaints and aim to resolve them, has uncovered that the Ministry of Environmental Protection has not undertaken the due diligence to monitor the course of implementation of air pollution measuring stations.⁵¹

In response to the worrying levels of pollution, protests have been organized in the city, the most notable of which took place in August 2020, wherein citizens blockaded the port and railway connecting the city. Pokret Tvrđava, a Smederevo-based NGO, has had an instrumental role in spreading awareness about the health impacts through the local community and organizing protests.

A Toolbox to Attract Investors and Intimidate Activists

Still, a key question remains: Why are political leaders banking on coal and heavy industry when there is sufficient evidence these projects are likely to be financially unviable and harm the health of both the local population and the environment? “Fear of changes and fear of losing whatever grip they have over certain interests,” says Sonja Risteska, Project Manager Southeast Europe at Agora Energiewede.⁵² Procurement corruption is prevalent in the energy and industry sector in the Western Balkans and considerable economic interests run deep.⁵³ Forward-looking politicians are in short supply and the result is that local elites found themselves in a weak negotiating position, afraid of chasing investors away.

It is not only governmental bodies and public officials that refuse to challenge polluting companies. Local people also fear scaring investors away – workers employed in Chinese projects such as Hesteel Serbia, are afraid that if pollution is put under scrutiny, the Chinese investor might leave, and they might lose their jobs.⁵⁴

When asked whether there has been pressure on the workers not to attend protests against the pollution in Smederevo, Nikola Krstić, Coordinator of Pokret Tvrdava, simply replied: “You cannot imagine. You cannot imagine what pressure [they feel]. They call their wives, their kids... people have some strong feelings of fear, real fear. Not just fear to lose your job. Not only that. But physical fear, [that they will] be beaten by someone.”

There appears to be a blueprint to how activists and workers are harassed, as the methods from Smederevo are corroborated by activists in Zrenjanin as well. “I received the threat via SMS, and the police and the prosecution did not reveal who sent it, although the phone number from which it was sent was not hidden, and I reported the threat on the same day when it arrived,” Ivan Živkov, member of the board of Građanski preokret said.⁵⁵ The SMS read “Stop barking and blackmailing or we will send you to the Paralympics.” To clarify, such threats have been made exclusively by Serbians and there has not been a resolution on who is behind any of the instances that have occurred. An important amplifying factor is that all Chinese projects examined are situated in what can be considered small- to medium-sized cities. Local activists have highlighted that this plays a big role in feeling daily pressure and an atmosphere of self-censorship.

Anonymous threats aside, activists report that the government’s aggressive behavior towards them has encouraged pro-government media to attack them in public.⁵⁶ For example, *Informer*, one of the highest-circulation daily newspapers in Serbia, that is notoriously pro-government, has targeted Građanski preokret and RERI. The NGOs have been accused of being foreign mercenaries paid by George Soros, have hidden motives and base their claims on political and not scientific methods, in order to exaggerate the danger to the environment.⁵⁷ While one can be quick to

dismiss the article as sensationalist and far from serious reporting, it is important to understand the local context of severe tabloidization of political discourse – such outlets have a wide reach, which paves the way for disinformation and fake news into the mainstream view.⁵⁸

The methods described above show that even through inaction, local governments are instrumental to the atmosphere in which a project develops. This becomes even more apparent when one considers the three key proactive measures public institutions in the region have taken to mold said atmosphere.

First, governments have classified documentation regarding projects on the basis that the information is a state or a business secret.⁵⁹ This is specifically observed in the case of the Bar-Boljare highway where the Montenegrin Ministry of Transport has put the veil of secrecy over almost all highway-related documentation. Data on financial conditions, dispute settlement, design of the highway, administrative acts, environmental control, and more is not public despite the fact that the loan for the highway is paid by public funds. As for the argument that some of the information is a business secret, MANS has argued this puts the Chinese construction company in a much more favorable position than competitors to build other parts of the highway. Chiefly, it puts private interest ahead of the public one.

Second, the Serbian government has classified projects as ones of national interest, which has resulted in legal loopholes and preferential treatment of Chinese investors. All three Serbian projects examined in this paper are labeled as fulfilling the national interest.⁶⁰ Legal flexibility applied in these cases has taken many shapes. Examples include investors receiving land without paying compensation, being exempt from paying applicable fees for the redesignation of the land and making the required investments into environmental standards compliance following an EIA. Furthermore, the special status of those projects allows government agencies to decline most Freedom of Information requests filed by organizations like RERI.

Third, citizens have been actively barred from participating in public debates and public hearings on the studies of EIAs, as seen in the case of Linglong Tire in Zrenjanin in September 2020 and in Novi Sad in February 2021.⁶¹ The main justification has been anti-pandemic measures.

In conclusion, these investments would have looked very different without the direct intervention of legislative bodies, the drafting of new legal frameworks that accommodate projects, and the lack of enforcement and institutional will from the judiciary and environmental agencies. Public bodies are willing to violate their own legislation in order to provide an undisturbed investment climate by not performing proper monitoring and creating legal loopholes. Such behavior is in turn not disciplined by higher bodies, that are authorized to perform enforcement measures or pursue criminal charges against the Chinese companies as there is a lack of will to do so. When pollution is uncovered, enforcing measures becomes even more difficult politically as this can not only create disputes with the investor, but also signal to the public that the state turned a blind eye to violations of the law in the first place. The result is a perpetual cycle of law breaches by both the government and Chinese companies.

Co-Governance of Pollution: Whose Fault Is It, Anyway?

The environmental governance architecture of Chinese FDI is shaped by a complex set of actors, not limited to host governments – namely Chinese companies, Chinese regulators back home, local municipalities and NGOs, host country’s judicial system, citizens, and transnational institutions. In combination with the impeded access to information, attributing blame for the environmental damage and the harm to human health and quality of life is an impossible task.

However, that is not the sentiment local activists and citizens from nearby the projects feel, as the majority have decisively put the blame on their own government.⁶² It is clear, at least, that government officials and agencies are fully aware of the problems as specific laws are created to lower the standards, so that pollution can go on. The damage done is overwhelming and it is uncertain if there is going back for some of the projects like the Tara River in Montenegro, but also in terms of people’s health. In certain cases, like the air pollution in Smederevo, activists have classified the pollution as an “ecological disaster”.⁶³ A major consequence of the secrecy enabled by the governments is that damage is most often discovered only after it has occurred, and activists can see it with their own eyes and prove it without needing to request information from the government. Unfortunately, by then, the project is most often operating and stopping it is much more complicated bureaucratically.⁶⁴ On one hand, halting a project when work on the ground is in progress would equal machinery and personnel (at times both partly having come all the way from China) idling away while environmental inspections are ongoing. On the other hand, stopping projects that are already operating might have consequences for either the energy supply of the country or its industrial output. If the possibilities of environmental damage are thoroughly discussed before work on the project starts in a public debate, and proper EIAs are conducted, both disruptions to projects and environmental damage can be mitigated.

Even though the governments are the facilitators of the legal environment, it is the Chinese companies that operate the factories, build the highways, or dump waste and directly pollute the environment. While their national legislation does not require them to conduct EIAs, the local law does, meaning they have disregard local law, either due to little knowledge and understanding of them or as a calculated and negotiated move. Given the context that some of the Chinese companies have faced similar situations in China, it is highly unlikely that the environmental scope of their activities is foreign to them. To illustrate briefly, Zijin Mining Group has faced significant backlash back in 2013 in its home county of Shanghang due to increasing citizen concerns about pollution.⁶⁵ Even when given the benefit of the doubt, companies had plenty of time to adapt their practices, but they have continued to not comply even when it has become apparent that they are violating the law. Such is the case

with Linglong Tire where the Provincial Secretariat for Energy, Construction, and Traffic has determined that the eight facilities constructed without a building permit must be removed.⁶⁶ Local activists have likened this behavior of companies to them possessing extraterritorial rights.⁶⁷

In other cases, Chinese companies have actively and publicly tried to persuade the government against following the well-established legal procedures. Such is the case of Zijin Mining Group in Bor, Serbia. The company has requested the Ministry of Environmental Protection to conduct EIAs on individual constructions and parts of the project and not on the whole smelting complex, claiming that a study would not be necessary for the expansion of the smelter. After appeals from RERI and the Association of Young Researchers from Bor, the government refused the request. Such artificial fragmentation or as local organizations have called it “salami slicing” is not in line with existing regulation.⁶⁸ It is in line, however, with previous research on Chinese business practices, where it is argued that Chinese companies are likely to approach the environment as a matter of negotiation, rather than a strict compliance.⁶⁹

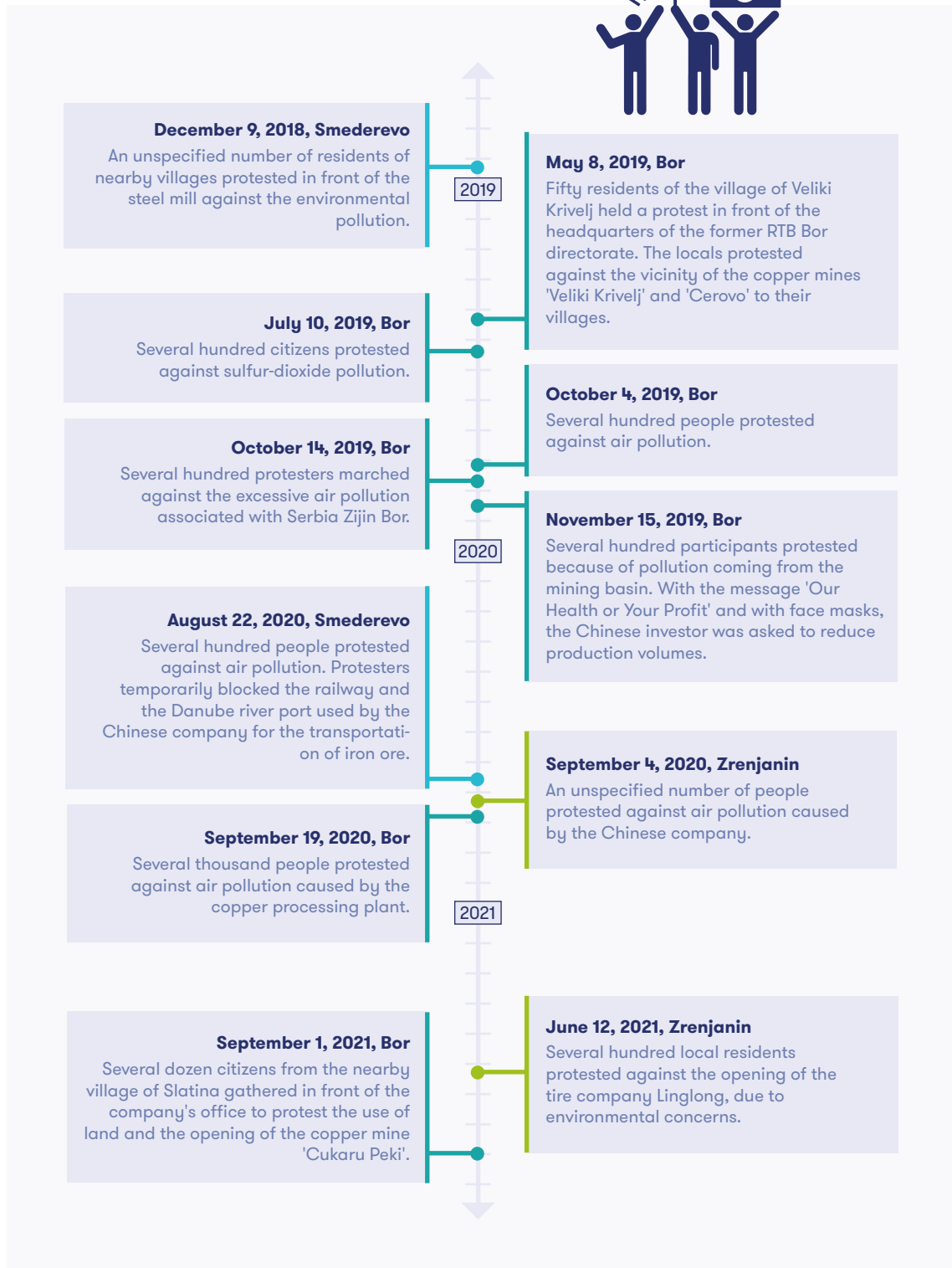
Chiefly, what all Chinese companies have in common in the Western Balkans is that they failed to engage with communities surrounding their projects. In fact, this goes beyond keeping a low profile – it transcends into being an irresponsible investor and not communicating information even when deadlines are missed as in the case of the Bar-Boljare highway. In more worrying cases, Chinese personnel have actively tried to stop journalists from broadcasting from outside the construction site of projects.⁷⁰ Such instances have occurred in Zrenjanin and in Smederevo.

What further corroborates that companies are aware of the damage done is the narrative used in Chinese state media. In an article about the Tuzla power plant, Xinhua specifically outlines that countries in the Balkans have been very content to receive Chinese funding considering that they were “frustrated by strict European environmental regulations.”⁷¹

As for Chinese government stakeholders’ stance, there is little indication whether they are aware of the environmental violations. During the course of this research no data was found on Chinese diplomatic personnel or China’s leadership’s position or press releases that address pollution in particular. Denis Žiško recalls that during a discussion at the Chinese embassy a few years ago the question of why China is not providing loans for renewables was raised. The answer went along the lines that it is the local authorities that are requesting loans for coal – if they request loans for renewables, the Chinese side would be happy to provide that.⁷² This is not necessarily a false statement, it was after all the public electric utility that decided to pursue the expansion of Tuzla power plant and seek developers, but this argument skirts the responsibility and agency the Chinese lenders have.

Almost a decade has passed since China’s deeper engagement with the region began. Yet, there is little indication to show that Chinese companies are adapting their practices to local regulations or that they are seriously concerned by the data that shows their projects are harmful. Next to civil society’s concerns, there have also been a number of protests aimed at the pollution stemming from projects. At times, such demonstrations have been organized by NGOs like Pokret Tvrđava, but in other occasions they have been a result of citizens gathering on their own. Attendance has varied between several dozen to several thousand people.⁷³

VISUALIZATION 1: CITIZEN PROTESTS IN SERBIA AGAINST POLLUTION CONNECTED TO CHINESE-LED PROJECTS, 2018-21



Includes only the protests where a clear connection to the Chinese projects has been established. Only covers protests on which reliable information is available.

Source: Author's compilation based on data from Armed Conflict Location & Event Data Project (ACLED), Ist Media, N1 Info, Bor030, Balkan Green Energy News

To be clear, there is a sentiment shared across different countries and projects – citizens are not protesting against the Chinese projects, they are protesting against the pollution.⁷⁴

Of all the cases examined, companies have taken some notable steps to show concern in only two instances. Namely, the cases of the Bar-Boljare highway and the Serbia Zijin Bor Copper smelter. In the former, the CRBC proposed to rehabilitate half a kilometer section of the riverbed of Tara. In the latter, Zijin Mining has pledged to work on a plan upon the request of the government that will tackle air pollution by August 2022.

The concessions have mainly come due to pressure from local stakeholders. In the case of the highway, Montenegro's State Prosecutor's Office had decided to investigate the impact of highway construction shortly before CRBC proposed to rehabilitate a section of the Tara River. Similarly, in Bor, despite several lawsuits by NGOs, it was the City of Bor's lawsuit that preceded the announcement of a concrete deadline for a decrease in air pollution. In other words, Chinese companies are not concerned with public complaints, but are willing to admit there is damage being done and reconsider their approaches when government stakeholders, be it the judiciary or the local administration, take serious note of the misconduct.

In discerning how Chinese projects can be more environmentally sound, there is also the question of whether companies should take care of the damage they have inflicted. "I do not think CRBC should be the one that dictates what should be done with the Tara [River]. I do not believe it is correct or moral for the CRBC to estimate what went wrong with the Tara because they were directly involved in its devastation," says Dejan Milovac, Deputy Executive Director of MANS.⁷⁵ Going forward, it has to be considered that allowing companies to perform restorative work can simply result in greenwashing to appease the public.

In both cases where a Chinese company has expressed will to resolve damage, activists have been skeptical. In the case of Bar-Boljare, the damaged section is significantly bigger than the 500 meters acknowledged by the CRBC, classifying the proposal as a "bad joke".⁷⁶ As for the water management and air protection action plans Serbia Zijin Bor Copper has pledged, RERI asserts that those do not go beyond existing legal requirements the company should have respected since the beginning of its operation.⁷⁷ In other words, companies are, at this point in time, addressing environmental problems superficially but presenting them as solutions to civil discontent. While Montenegrin activists believe that the authorities have not taken up on the CRBC's proposal, in the case of Serbia, the government officials are playing along with the narrative that progress is being made.⁷⁸

Conclusion

Considering the open arms with which governments have welcomed Chinese companies, NGOs have become the most significant source of scrutiny in the region and the largest obstacle to problematic Chinese capital in the last few years. Such organizations have had an instrumental role not only in monitoring and filing lawsuits against illegal activities, but in engaging local communities and raising environmental awareness. As far as including communities goes, both governments and Chinese companies are guilty of complete disregard of communication on the local level. There are no meaningful public consultations, but also access to basic information is hampered.

Unfortunately, the problem runs deeper and goes beyond Chinese projects – take, for example, the Green Agenda, the part of the European Green Deal that is dealing with environmental and climate issues in the Western Balkans. There is no translation of the document into the local languages.⁷⁹ Excluding citizens and community from the dialogue is endemic of how accountable, democratic and transparent the climate in the region is, with or without the Chinese actors.

Summarizing the effect of Chinese projects examined in the Western Balkans, the impact has been broadly negative. In the short- to mid-term, they have contributed to increased industrial output and job creation. In the mid to long-term, however, Chinese companies have been active participants in the weakening of the rule of law in the region and the pollution of local environment.

Against the backdrop of China's lax environmental enforcement and the consequences on local governance, it comes as shortsighted that the strategic implications of China's economic involvement in Europe tend to be discussed mainly through the lens of geopolitics and threats stemming from the security and technology sectors. Evidently, China's environmental practices constitute a strategic sector with long-term effects on human health, good governance practices, and the global race to net zero. In January 2021, a group of Members of the European Parliament alarmed the European Commissioner for Neighborhood and Enlargement about the impending environmental damage of Chinese companies' industrial projects.⁸⁰ The letter focused solely on projects in Serbia and called for the EU to scrutinize the activities and act on calling upon the Serbian government to provide an action plan that deals with the pollution and lack of transparency that surround the projects. As of August 2021, no such actions have been taken by European institutions.

If the EU is truly to act on helping to put an end to bad governance and limiting Chinese influence in the region, support for the civil society sector should be at the forefront of efforts. While NGO efforts alone have not conditioned Chinese companies to change, envisioning governmental action without their whistleblowing and advocacy efforts is hard to imagine, given the details on how institutions have closed their eyes from illegal activities prior to civic awareness building up.

Supporting NGOs goes hand in hand with aiding media plurality, enshrining stricter environmental and climate responsibilities and enforcing them, and understanding the key investment needs of the region. In the end, the answer to a better governance model in the Balkans lies in China's shortcomings – instead of government-to-government proceedings, engaging with local communities, focusing on a bottom-up approach of investments and economic development, and fostering enough pressure domestically to push political elites in the direction of sustainable development. As the EU has not taken an active enough role yet, swiftness is key – the environment and human health are not issues on which action can wait.

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About CHOICE

The publication was prepared within the China Observers in Central and Eastern Europe (CHOICE) collaborative platform. CHOICE monitors and evaluates the rising influence of the People's Republic of China in countries of Central and Eastern Europe. CHOICE strives to build a multinational platform for open discussion, experience-sharing and critical assessment. CHOICE is run by the Association for International Affairs (AMO), a Prague-based foreign policy think tank and NGO.

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Footnotes

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