

POLICY PAPER

# China's Aid in the Western Balkans: Supporting Development, Undermining Good Governance

Ana Krstinovska





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## **Policy paper**

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ASSOCIATION FOR INTERNATIONAL AFFAIRS (AMO)

Žitná 27/608

CZ 110 00 Praha 1

Tel.: +420 224 813 460

info@amo.cz

www.amo.cz

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# Summary

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- This study analyzes the Chinese economic presence in the Western Balkans through the prism of development assistance, a concept used by Beijing itself to classify most of the projects it funds in the region. The research examines the development assistance provided by China to five Western Balkan countries (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia) and its influence on democratic governance and decision-making in each of these nations in the years 2000–2022.
- The data for each analyzed project is verified against official statements and press releases, available project agreements, and media coverage. Additionally, the research builds upon data from numerous interviews across all the five countries, as well as the author's professional experience in the coordination of donor assistance in the Macedonian government (2014–2017).
- China has a long tradition of using development assistance as a foreign policy tool to achieve diplomatic, political, and economic goals. All these characterize the objectives driving China's development assistance to the Western Balkans.
- China has provided development assistance to all the countries that make up the Western Balkans since the break-up of Yugoslavia and, in the case of Albania, as early as the 1950s. Western Balkan states receive Chinese grants in the amount of €1–2 million per year and, with the exception of Albania, concessional loans which indebt them to China's Exim Bank: Montenegro – €975 million, North Macedonia – €909 million, Bosnia and Herzegovina – €1.32 billion, Serbia – €7.76 billion. The reception of Chinese development assistance differs significantly in the respective countries.
- For the Albanian authorities, the Chinese loan-based model of infrastructure project implementation is not acceptable because it undermines EU rules and leads to rising public debt. Further clouded by the Sino-American tensions, Albania's cooperation with China remains limited to minor projects without strategic importance.
- Bosnia and Herzegovina's complex politico-administrative structure complicates the implementation of China's development assistance and many projects remain at the level of pledges.
- While Montenegro tried to reduce the dependence on China by reprogramming its biggest debt with the help of Western financial institutions, provi-

sions in the loan agreement make such a goal very difficult, even impossible to achieve.

- Given numerous encountered issues in the implementation of works contracts, leading to increased project costs and delays, North Macedonia has opted to receive future China's development assistance in the form of donations/supplies only.
- The intensity of China's development assistance to Serbia, namely through concessional loans, surpasses that of all the other countries combined. This fact, amplified by some domestic media and the attitude of the governing parties, especially during the pandemic, has created an erroneous public perception that China, and not the EU is the biggest donor in the country.
- Chinese development assistance is usually very visible, at least for the local communities, and is associated with the (re)construction of infrastructure and the procurement of equipment, especially in the areas of education and healthcare. As such, it is complementary to the efforts of Western donors who have directed their funds mostly to support political and socio-economic reforms.
- China's development assistance can contribute to an improvement in the socio-economic development of beneficiary countries. However, it can also have a direct negative impact on the political criteria to join the European Union (EU), specifically democratic governance, and on the recipients' potential alignment with the EU's foreign policy positions.
- The risks often stem from poorly devised and implemented procedures related to the disbursement and management of the assistance as well as the domestic agency of Western Balkan political elites which use the assistance to pursue their narrow political interests.
- Neither China nor national authorities in the Western Balkans publish information related to development assistance in a timely and comprehensive manner. Decision-making procedures are opaque and do not provide for a broader debate related to the identification of specific needs and funding instruments, sometimes leading to soaring public debt levels.
- This lack of transparency and accountability also leaves room for conflict of interest and corruptive practices. Further, questions about the efficiency and effectiveness of the assistance instantly emerge.
- In the Western Balkans, China is the only financing option for some projects with low financial and environmental viability. Project selection is based on political decisions and does not always take into account project maturity

and strategic impact. Poor project preparation sometimes leads to challenges during the implementation phase, delays and additional costs.

- While Western Balkan countries play an important role in project selection and preparation, they have very little space to influence the implementation procedures, including the selection of project contractors which are always Chinese companies.
- Whereas China's development assistance is often understood as coming without any conditionality, many loan and grant contracts contain provisions that put the beneficiary country in a subordinate position in the case of a dispute. Reviewed agreements reveal an option for China to influence national policies by threatening to suspend grant projects or cancel the loans and ask for immediate repayment, which could lead some countries to default.
- China's development assistance is an important instrument in China's 'transactional' diplomacy and can be a powerful foreign policy tool allowing China to control and influence Western Balkan countries' attitudes on issues of interest to China.

# Recommendations

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- Both the EU and Western Balkan national authorities should acknowledge the impact of China's development assistance on specific aspects of the region's EU accession process and develop appropriate mitigation mechanisms.
- The EU should invite China to channel its development assistance through the established mechanisms of the Western Balkans Investment Framework. On one hand it would increase the pool of funding available for the region's most pressing needs and contribute to reducing the infrastructure gap. On the other hand, it would strengthen the governance of Chinese-funded projects throughout the entire project cycle, leading to a better value-for-money proposition for Western Balkan citizens.
- Western Balkan authorities should strengthen the ownership of donor coordination mechanisms and invite China and other non-EU donors to join in these consultations.
- In order to honor their commitments to good governance principles, the national authorities in the Western Balkans should proactively publish information on China's bilateral assistance via their Central Donor Databases or similar platforms.
- Western Balkan authorities should abandon the practice of deviating from national public procurement procedures through bilateral contracts and tailor-made laws for large infrastructure projects.
- Western Balkan national authorities should coordinate among themselves to raise the issue of development assistance within the framework of broader China-CEE cooperation in order to present a coordinated approach. In doing so, these governments should also ask China for higher standards and alignment with the EU acquis and OECD Development Assistance Committee (DAC) best practices.
- For the purpose of needs identification and project selection, Western Balkan authorities should organize regular consultations with civil society and social partners.
- Civil society and media must strengthen their watchdog role over development assistance. This includes holding their governments accountable and enhancing their capacities to monitor and understand development assistance as a foreign policy instrument.

# Introduction

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China has provided development assistance to all the countries that make up the Western Balkans since the break-up of Yugoslavia and, in the case of Albania, as early as the 1950s.<sup>1</sup> However, China's presence in the Western Balkans has seldom been analyzed from the point of view of development assistance. As such, China is not usually perceived as a donor, although this changed when China provided masks and protective equipment during the pandemic.

The usual approach is to consider China-funded projects in the region as “Chinese investments,” which raises several challenges: it portrays China as an important investor in the region and overstates its economic influence; it neglects the fact that most of the projects are loans which need to be paid back by Western Balkan's taxpayers; it fails to shed light on development assistance as one of the key instruments in China's foreign policy towards the region.

Yet, according to China's preferred terminology, most of the projects it has funded in the region fall under development assistance or “development cooperation”. Hence, understanding the basic principles, priorities, and drivers of China's development cooperation could contribute to a more nuanced and precise understanding of its activities in the Western Balkans.

The overall focus of this policy paper is to examine the development assistance that China provided to five Western Balkan countries (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia) and its influence on democratic governance and decision-making in each of these nations. Given the availability of data collected through a comparative methodological approach, the analysis covers the period 2000–2020.

It is important to note that China is not a member of OECD's Development Assistance Committee (DAC) and, as such, does not abide by its definitions, rules, and principles. Instead, China's development assistance is designed and implemented following its own concepts. Under these auspices, China's assistance includes both grants and concessional loans with interest rates subsidized by the Chinese government and disbursed through the Export-Import (Exim) Bank. As a result, the research covers both instruments which are administered through the national and, to a lesser extent, local governments. It will not cover the projects implemented with official finance through loans under conditions and interest rates close to the market rate, usually disbursed through China Development Bank and the commercial banks. While technical assistance (provided through dispatching Chinese experts) and the human resource development programs (in the form of trainings in China) do fall under the scope of China's development cooperation, they are not to be considered given that the entire program, project, and financial management are conducted by the Chinese side and there is very little publicly available data on these specific instruments.

When it comes to development assistance, China officially publishes only aggregated data by region, category, or type of project. Therefore, in this paper, the data for

each project and the amount of overall assistance is collected and calculated by triangulating open-source databases including AidData's Global Chinese Official Finance Dataset, American Enterprise Institute's China Global Investment Tracker, Central and Eastern European Center for Asian Studies' (CSIS) Chinese Investments in CEE project and Center for Strategic and International Studies' Reconnecting Asia Project. The data for each project included in this research is verified against official statements and press releases by Western Balkan national and local authorities, available project and loan agreements,<sup>2</sup> and media articles. Additionally, a series of 20 interviews were conducted by the author across the five Western Balkan countries with relevant civil servants, analysts, and diplomats during the period March–October 2021. Besides, the author has worked on the coordination of donor assistance (including China's bilateral aid and EU funds) in North Macedonia in 2014–2017 which informed this paper with empirical insights on many of the observed procedural and institutional aspects related to China's development assistance.

The first chapter examines the main features of China's development assistance and its role in China's foreign policy. The second chapter sheds light on the overall donor landscape in the Western Balkans as the broader context for China's donor activities. The third chapter looks into the specific situation in each of the five analyzed countries – Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia. The fourth chapter provides an analytical overview of the impact of China's development assistance on democratic governance and illuminates the domestic factors shaping different outcomes and results. Finally, the last chapter draws conclusions and provides recommendations based upon the analysis provided in prior chapters.

# China's Approach to Development Assistance

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China's development assistance dates back to the establishment of the the People's Republic of China (PRC) and is based on China's key foreign policy principles.<sup>3</sup> China insists on the term "development cooperation" instead of aid in order to present itself as being on equal footing with the recipient countries, emphasizing the fact that until recently it was itself an aid recipient. Moreover, it is thus putting forward its own development model as an example for other countries to follow.

During its first phase (1950–1978) China's development assistance was allocated to its neighbors and communist countries (North Korea, Vietnam, Mongolia, Albania, etc.) and aimed to promote Chinese ideological dominance within the Communist camp as well as China's strategic interests.<sup>4</sup> The diplomatic strategy which was largely based on expanding the pool of recipient countries and providing aid to the newly independent states, especially in Africa, helped China secure recognition of the PRC as an official Chinese representative in the UN in the place of Taipei in 1971.

During the second phase (1978–1994) of development assistance, which followed China's reform and opening-up process, aid obtained a more pragmatic dimension and was gradually replaced with economic cooperation through different instruments.

The third phase started in 1995 with the creation of the Exim Bank and has been marked by the dominance of loans, instead of grants. The ideological component is also present, stressing the solidarity and mutual non-interference, as well as presenting an alternative to the assistance provided by Western donors.<sup>5</sup>

China's development assistance reflects Chinese priorities and philosophy which in many respects differ from the principles of the OECD DAC. For instance, while Western donors put forward the idea that political and economic development should go hand in hand and introduce conditionality of the assistance with the fulfillment of certain governance reforms, China's conditionality is related to the adherence to the "One China Policy" and the non-interference in its domestic issues, such as human rights.<sup>6</sup>

In line with the non-interference principle, China claims that national authorities bear sole responsibility for a country's development, allowing them to select the projects to be funded, and not assuming the obligation to measure the efficiency or the impact of its assistance in line with the Paris principles.<sup>7</sup> However, one of the explicit objectives of China's development assistance is to share its state governance experience with recipient countries in order to help them develop their own governance capacities.<sup>8</sup>

Since the 18th Chinese Communist Party Congress in 2012 and the election of Xi Jinping as party secretary, China's development assistance has been complemented with his vision of a "global community with shared destiny", the Belt and Road Initiative (BRI) and the goal to establish a new and fairer model of international relations.<sup>9</sup>

Unlike the established official development aid mechanisms of Western donors, China has only recently begun the process of aid professionalization by developing aid programming, implementation, and monitoring mechanisms through the newly established China International Development Cooperation Agency (CIDCA) in 2018.<sup>10</sup> CIDCA is expected to help improve the management of China's aid and increase its overall efficiency by establishing and streamlining procedures related to project selection, preparation and evaluation.<sup>11</sup>

# Donor Landscape in the Western Balkans

During the post-Cold War transition and the break-up of Yugoslavia, some of the Western Balkan countries suffered inter-state or internal armed conflicts, while others avoided the war but fell prey to shady privatization deals, weak institutions, corrupt elites, and difficult state-building processes. Against such a backdrop, many donors provided aid to the region aimed to support its reconstruction and to anchor the countries in the Western camp by promoting democratic values and market economy. As the Balkan countries improved their socio-economic parameters and (some of them) started to join NATO and the EU, there was a reduction in the aid amounts and a shift in priorities from infrastructure and equipment towards “soft measures,” including alignment with the EU *acquis*, support for civil society and regional cooperation.

But, unlike their neighbors, the Western Balkan countries have remained outside the EU and, instead of the EU structural funds, only received access to the Instrument for Pre-accession Assistance (IPA) which amounts to approximately 10 times less than the envelope they would receive with EU membership.

The infrastructure development gap has remained significant, as well as the mismatch between the needs and the available funding for infrastructure investments.<sup>12</sup> In such a context, at the beginning of the 16+1 cooperation in 2012, all the Western Balkans states welcomed the Chinese initiative to provide a credit line for infrastructure funding in the amount of \$10 billion in concessional loans.<sup>13</sup>

However, not all of the countries have used Chinese loans to finance large infrastructure projects. To the contrary, all Western Balkan countries have received similar amounts of Chinese grants through bilateral Technical and Economic Cooperation Agreements (TECA) signed between the governments on regular basis. These funds are usually intended for the supply of Chinese equipment, and are seldom used for construction or renovation projects.

**TABLE 1: VALUE OF CHINA'S DEVELOPMENT ASSISTANCE TO THE WESTERN BALKANS (2000-2020)**

Value of China's assistance (mil.EUR)	Albania	B&H	Montenegro	N.Macedonia	Serbia	Total
Signed grant agreements	16.38	22.2	15.6	33.4	35.8	123.38
Grant projects	10.75	16.77	13.41	18.81	23.42	83.16
Loan projects	0	1322	975	909	7759	10 965

# Overview of China's Aid per Western Balkan Country

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## ALBANIA

From a historical point of view, Albania is one of the first countries in the world that benefitted from China's development assistance, receiving a total of \$10 billion in interest-free loans and \$7.5 billion worth of donations in food, machinery, construction projects, and technical assistance up to 1977 whereafter the bilateral relationship deteriorated.<sup>14</sup> After the re-establishment of diplomatic ties in 1989, China's development assistance continued but at a significantly lower value, similar to the other Western Balkan countries. These grants amount to €16.38 million in signed TECAs.

In terms of concessional loans, Albania is the only country in the region that has not implemented large infrastructure projects underwritten by Chinese loans. China has expressed its interests and there have been negotiations on several projects, such as the Arber Road along Corridor 8, the "Blue" (Adriatic-Ionian) Corridor, or the hydropower plant Skavica. The only signed contract for the Bushat hydropower plant was canceled immediately after the start of the works and the project was ultimately finished by an Austrian company.<sup>15</sup>

One potential explanation could be the fact that for Albanian authorities, the Chinese loan-based model of infrastructure project implementation, which involves Chinese contractors, workers, and materials is not acceptable because it undermines EU rules and leads to rising public debt levels.<sup>16</sup> The think tank community additionally points out a certain level of prejudice that the Albanian population feels towards the quality of Chinese projects and the fear that China may be expecting something in return.<sup>17</sup> Moreover, Albania considers itself to be the key US partner in the Balkans and both the political elites and ordinary citizens are strongly pro-American.<sup>18</sup> Hence, in the light of heightened Sino-American tensions, Albania's cooperation with China remains limited to minor projects which do not have strategic importance.

At the same time, there are numerous symbolic donations of lesser value, consisting of books, trees, martial arts equipment, New Year lighting, and computers from the twin city Beijing for Tirana, as well as humanitarian assistance after the earthquake in 2019. China was the first country to offer medical supplies during COVID-19, aimed to demonstrate China's solidarity with Albania and highlight the traditionally friendly ties.<sup>19</sup> However, China does not enjoy the reputation of a donor in the country. The Chinese grant-funded projects, while important for the local communities, are not very visible even for the institutions and the expert community monitoring China's presence in Albania.<sup>20</sup>

**TABLE 2: CHINA'S DEVELOPMENT ASSISTANCE TO ALBANIA (2000-2020)**

Project type/name	Year	Sector	Value (€ million)	Fin. instrument	Contractor (if determined)
Improving the electricity supply of Tirana and Lezhe	2000	Energy	1.3	Grant	
1.400 computers and high school equipment	2007	Education	1.3	Grant	
Construction machinery donation	2008	Construction	1.3	Grant	
Customs scanners for the port of Durres	2008	Customs	1.3	Grant	Nuctech
Donation to the Red Cross	2010	Humanitarian aid	0.02	Grant	
Computers for the Government	2010	Administration	0.8	Grant	
Computers	2012	IT	0.7	Grant	
School equipment	2016	Education	0.13	Grant	
Equipment for the National Opera and Ballet	2017	Culture	2.6	Grant	
Agricultural equipment donation	2017	Agriculture	1.3	Grant	

## BOSNIA AND HERZEGOVINA

Unlike in the other countries in the Western Balkan region, in Bosnia and Herzegovina, China's development assistance is distributed in a scattered way through the entities and the municipalities that have jurisdiction and decision-making power in different areas, due to the complex politico-administrative set-up of the country.<sup>21</sup> However, in line with its state-centric approach, China prefers to have the federal state involved and sometimes asks for federal approval, which leads to additional 'red tape' and significant project delays.<sup>22</sup> The total value of signed TECAs amounts to €22.2 million. While education, agriculture, and healthcare are the priority grant areas, there are occasional donations of military equipment.

Bosnia and Herzegovina also contracted two projects funded with concessional loans from the Exim Bank in the amount of €1.3 billion. The construction of an additional block of the Tuzla thermo-power plant which started in 2019 has been stalled because General Electric, as a key supplier of equipment, decided to withdraw from coal-fired projects. At the moment of writing, Bosnia's federal parliament is expected to publish a decision on whether it will amend the agreement and allow the Chinese contractor to procure equipment from another supplier or it will terminate it and ask for penalties to be paid. The latter result will be to the satisfaction of environmental activists who had been vocal for years saying that the project contained serious flaws in terms of environmental standards and financial viability, violating EU legislation and Energy Community rules.<sup>23</sup> The second project related to highway construction in Republika Srpska has not started yet, possibly because of changes in the design asked for by the Bosnian side and not accepted by the Chinese side.<sup>24</sup>

In Bosnia and Herzegovina, China does not have the reputation of a donor in the traditional (Western) definition, but rather that of an opportunity – deserved or not.<sup>25</sup> It is considered a 'deep pocket', a potential source of capital, investments, and jobs. The political elites do not consider the bilateral cooperation to be a threat, but an opportunity to fill in gaps and a partnership without conditionality, unlike those with the West.<sup>26</sup> This view is more widespread in Republika Srpska whose leadership has aspired to follow Belgrade's example in pushing for ties with Beijing. It is further reinforced by the numerous projects which have been discussed or announced, creating an impression of a very intensive bilateral cooperation. However, not many projects have moved beyond pledges and photo ops. There are at least 13 large infrastructure projects which have been stalled before being contracted, without any likelihood of future implementation (hydropower plants, coal plants, windmills, railway, and a highway).

**TABLE 3: CHINA'S DEVELOPMENT ASSISTANCE TO BOSNIA AND HERZEGOVINA (2000–2020)**

Project type/name	Implementing period	Sector	Value (€ million)	Financial instrument	Contractor (if determined)
Agricultural equipment donation to Republika Srpska	2001	Agriculture	0.5	Grant	
Construction of a school in Novi Grad, Sarajevo	2005	Education	2.5	Grant	
Office equipment and training for civil servants	2006	Administration	1	Grant	
Office equipment donation	2007	Administration	0.12	Grant	
Furniture and computers for 36 schools	2010	Education	2.4	Grant	
Donation of medical and agricultural equipment	2013	Agriculture	2.5	Grant	
Donation of agricultural equipment	2014	Agriculture	0.5	Grant	
TPP Tuzla bloc 7 (Elektroprivreda)	2014 contracted, 2019 started	Energy	722	Loan	Gezhouba, Guangdong Design Institute, China Group for Energy Engineering
Donation of medical equipment	2015	Healthcare	No Data	Grant	
Donation of nine armoured vehicles	2015	Defense	No Data	Grant	
Donation of equipment to the University of East Sarajevo (Republika Srpska)	2016	Education	1	Grant	
Banja Luka-Mliništa (Autoputevi RS)	2016 contracted (not started)	Transport	600	Loan	Sinohydro
Customs scanners donation	2017	Customs	5	Grant	Nuctech
Reconstruction of the gym, football field and donation of sports equipment to the municipality of Buča Potok, Sarajevo	2018	Education	No Data	Grant	
Equipment for Sarajevo Clinical Center (geriatrics)	2018	Healthcare	No Data	Grant	
Donation of engineering machinery and army vehicles	2020 contracted, 2021 implemented	Defense	1.25	Grant	

## MONTENEGRO

China's development assistance to Montenegro is implemented both through grants and concessional loans. The grant component amounts to a total of €15.6 million in signed TECAs, mostly spent in the area of education and municipal infrastructure. They are usually donations of equipment and supplies, with the exception of the announced reconstruction works of the Đurđević Bridge on the Tara River.<sup>27</sup>

The concessional loans amounting to approximately €975 million broadly cover two projects – Bar-Boljare, Smokovac-Mateševac and the renewal of Montenegro's shipping fleet through the acquisition of four ships. Both projects have sparked controversy in terms of financial viability and the procurement procedure which instead of an open and competitive bid included direct negotiations between the authorities and the Chinese contractors. Moreover, the highway construction contributed to soaring public debt, environmental damage on the Tara River UNESCO heritage site, and persistent allegations of corruption.<sup>28</sup>

Despite the problematic implementation, China enjoys a reputation of a country that helped Montenegro secure development financing for a project that no other (Western) partner was willing to fund due to the lack of financial and economic viability.<sup>29</sup> Instead, the EU offered to finance the reconstruction of the existing road network in order to improve road safety and bolster tourism.<sup>30</sup> However, the highway, which has been in the pipeline since Montenegro's independence, is considered an important project because it connects the Northern, poorer part of the country, to the capital and enhances internal cohesion.<sup>31</sup> The shortcomings in the project implementation are usually associated with the lack of integrity and/or capacity of national authorities and not with the Chinese entities involved in financing and implementation.<sup>32</sup>

In July 2021, Montenegro's newly elected government negotiated a potential refinancing deal with Western banks aimed to lower the interest rates for the highway project and include a currency risk hedging agreement.<sup>33</sup> However, according to the loan agreements with the Exim Bank, China's consent is needed before any refinancing or pre-term payment takes place. China already agreed to extend the grace period for an additional year and the deadline to withdraw funds from the loan in order to match the extended deadline for the highway construction.<sup>34</sup> It also did not activate the bank guarantee when Montenegro defaulted on its obligation to pay installments for the ships.<sup>35</sup> Such actions indicate that China may not be willing to agree to a refinancing option.

In case of a dispute, it is China International Economic and Trade Arbitration Commission that has jurisdiction and, as a result, Chinese law applies. These conditions clearly put Montenegro in a rather subordinate position in the event that it decides to undertake actions contrary to the loan agreement provisions. Moreover, the agreement foresees a sovereign immunity waiver which means that theoretically, the arbitration commission could award the Exim Bank with Montenegrin state property. While this possibility has been largely discussed in the media, in practical terms it is difficult, if not impossible to enforce.<sup>36</sup>

However, the highway loan agreement introduces another controversial provision allowing for China to request immediate loan repayment if there is a change in the laws or policies of the beneficiary or host country. A similar provision exists in the

contract for the reconstruction of the Đurđević Bridge which allows for the contract to be terminated for “political or diplomatic reasons.”<sup>37</sup> While such provisions have not been invoked by the Chinese side until the present day, they do provide it with particular leverage over the beneficiary country and its policies vis-à-vis China.

**TABLE 4: CHINA'S DEVELOPMENT ASSISTANCE TO MONTENEGRO, (2000-2020)**

Project type/name	Implementing period	Sector	Value (€ million)	Financial instrument	Contractor (if determined)
Procurement of four ships	2010–2014	Transport	89.5	Loan	Poly Technologies
IT equipment for schools and kindergartens	2012	Education	No data	Grant	
A donation to the primary school Ivović in Plevlja	2013	Education	No Data	Grant	
894 computers for pupils in Northern Montenegro	2013	Education	No Data	Grant	
Solar street lighting in Kotor	2014	Municipal infrastructure	1.4	Grant	
Solar street lighting in Cetinje	2014	Municipal infrastructure	2.2	Grant	
Customs scanners for the port of Bar	2014	Customs	1.7	Grant	Nuctech
Highway Bar-Boljare, section Smokovac-Matešev	2014–2022 (expected)	Transport	975	Loan	CRBC
Construction of bike lanes in Podgorica	2015	Municipal infrastructure	0.2	Grant	
Donation for children from socially disadvantaged families and a day center in Cetinje	2015	Social policy	0.01	Grant	
Reconstruction of a street at Freedom Square in Nikšić	2017	Municipal infrastructure	No Data	Grant	
Reconstruction of school facilities and gyms	2017	Education	0.1	Grant	
Medical equipment and ambulance vehicles	2017	Healthcare	0.6	Grant	
Bridge Đurđević on Tara	2017 contracted, ongoing	Transport	7.2	Grant	CCCC – feasibility study, Chengdu Consulting and Supervision – project

## NORTH MACEDONIA

China has been providing development assistance to North Macedonia since its independence, with the exception of the period following the recognition of Taiwan (1999-2001) when diplomatic ties were discontinued.<sup>38</sup> The total value of signed TE-CAs amounts to €33.4 million and the priorities include education and healthcare. North Macedonia was the first country in the region where China pledged, funded, and implemented a turnkey project by building and equipping a primary school. However, due to a number of issues, the construction took three times longer than planned, and cost tripled. Therefore, in 2017 national authorities abandoned the idea to continue with the other turnkey projects in the pipeline and opted to receive development assistance in equipment donations instead.<sup>39</sup>

While there have been donations in the area of defense as well, in recent years there has been heightened awareness among national policymakers about the potentially sensitive areas where cooperation with China is to be avoided. Especially since its NATO accession and with the rising Sino-American tensions, North Macedonia has become warier about cooperation with Chinese vendors on 5G, and the tender announced in the fall of 2021 indirectly excludes Huawei and ZTE from bidding. As a result, China has put on hold the implementation of the second phase of the E-education project, the biggest single grant-funded activity implemented by Huawei.<sup>40</sup>

In terms of concessional loans, North Macedonia was the first country to express interest and use funds from the \$10 billion credit line made available for CEE countries.<sup>41</sup> The loan was used for the construction of two highway sections in a total length of around 100 km. Despite the fact that the highways have always been a part of national strategic planning documents, the government could not secure funding from Western donors and lenders due to their low financial viability and the burden on the national public debt.<sup>42</sup> Thus, Skopje decided to accept the Chinese way of large infrastructure project implementation and set aside national legislation which is largely harmonized with the EU *acquis* by adopting a special law for the construction of the two highways.<sup>43</sup> According to this law, the Macedonian side selected a Chinese contractor among several pre-selected companies through closed-door negotiations, which led to a high-level corruption scandal.<sup>44</sup> The contractor committed to using locally produced construction materials amounting to up to 49 percent of the contract value and Macedonian workers amounting to 51 percent of the total workforce.<sup>45</sup>

While the highway section Miladinovci-Štip became operational in 2019, at the time of writing, the section Kičevo-Ohrid is still under construction and the new deadline is set for the end of 2023.<sup>46</sup> The poor quality of the project planning phase, obsolete technical documentation dating to 1999, old engineering standards, insufficient geological examinations, and environmental risks, led to a total of 147 shortcomings and issues that had to be corrected, requiring additional time and funding.<sup>47</sup> Hence, with the subsequent annexes signed to the original contract, the cost of the project rose to €909 million.

**TABLE 5: CHINA'S DEVELOPMENT ASSISTANCE TO NORTH MACEDONIA (2000–2020)**

Project type/name	Implementing period	Sector	Value (€ million)	Financial instrument	Contractor (if determined)
Computers for the Army	2004	Defense	0.4	Grant	
Donation of computers for the schools	2006	Education	2.2	Grant	Haier
Computers for the Ministry of Defense	2009	Defense	0.25	Grant	
Reconstruction of a primary school in Prilep	2010	Education	0.5	Grant	IPPR
Donation of 23 school buses	2011	Transport	1.23	Grant	Zhengzhou Yutong brand
Construction of a primary school in Kisela Voda, Skopje	2013–2019	Education	4	Grant	IPPR
Highway sections Miladinovci-Štip and Kičevo-Ohrid	2013–2023 expected	Transport	909	Loan	Sinohydro
Rescue equipment	2015	Crisis management	0.23	Grant	
E-education project	2016–stalled	Education	6.1	Grant	Huawei
104 ambulance vehicles and medical equipment for home visits	2020 contracted, ongoing	Healthcare	3.8	Grant	
Equipment for the Institute for Microbiology	2020 contracted, ongoing	Healthcare	0.08	Grant	
Medical equipment for the clinic in Šuto Orizari, Skopje	2020 contracted, 2021 implemented	Healthcare	0.02	Grant	

## SERBIA

Serbia is the uncontested leader in the Western Balkans in terms of the amount and diversity of Chinese development received. In addition to the official aid received from the Chinese government on the basis of signed TECAs amounting to at least €35.8 million, Serbia has been receiving various donations from other Chinese entities active in the country as part of their corporate social responsibility (Zijin Mining, Bor, Huawei, Nuctech, Bank of China, etc.) or via twin city ties (Belgrade and Beijing, etc.). Serbia is also the only country in the region which has signed a Memorandum for cooperation with CIDCA in May 2019, although at present there is no evidence whether and to what extent it has an impact on the established procedures and disbursement of China's development assistance to the country.

Serbian authorities consider information on China's assistance to be classified, provoking a significant discrepancy between the values of the signed TECAs and the implemented grant projects with publicly available data.<sup>48</sup> The priorities of the development cooperation include healthcare, education, and IT equipment for Serbia's administration, but unlike other countries in the region, donations to the Ministry of Defense and the Army also represent an important aspect of the assistance.

Serbia is the biggest destination of concessional loans in the region with a total of €7.76 billion of contracted projects, most of them in the transport (highway and railway) and energy sectors. With this amount, Serbia's public debt level at the end of 2020 increased to 57 percent of GDP, above the upper threshold set in the national legislation at 45 percent.<sup>49</sup> However, with the last budget amendments and the most recent project agreement signed in February 2021 worth over €3 billion, the total amount of contracted projects is expected to go beyond €10 billion and lead to a public debt of around 70 percent of GDP.<sup>50</sup>

There seems to be a general consensus in Serbia that all the projects funded with China's development assistance are needed and justified, but the procedure and impact remain a point of concern for civil society.<sup>51</sup> Namely, Chinese projects are often associated with the lack of transparent and competitive public procurement, allegations of corruption, exaggerated unit costs, environmental risks, and a proclivity to award Chinese companies with contracts that could be implemented in a more cost-efficient manner by domestic contractors.<sup>52</sup> On the other hand, national authorities highlight the technology transfer and the opportunity for Serbian companies to learn while working as subcontractors with their Chinese counterparts as an important benefit of the development cooperation for local companies.<sup>53</sup>

In Serbia there is a widespread and erroneous belief that China (and not the EU) has been the most significant donor country during the pandemic.<sup>54</sup> This perception has been sometimes amplified by the domestic media which tend to emphasize that China, unlike Western donors, offers assistance with no strings attached.<sup>55</sup>

Indeed, China's development assistance projects are not conditioned with specific requirements regarding project preparation or the implementation of specific governance reforms as is usually the case for EU-funded projects. But, an analysis of ten loan agreements reveals some obligations for the Serbian side which go against the EU *acquis* and best practices related to development assistance and could be interpreted as conditionality. Namely, China's consent is needed to return the unused funds or

to ask for refinancing or restructuring by other bilateral or multilateral donors or lenders; the agreements signed after 2014 contain a confidentiality clause, subject to national legislation; through a non-comparability clause China has a privileged position in comparison to other creditors; the Exim Bank has the right to cancel a loan or ask for its immediate repayment in case of modifications to the domestic laws or policies on either side which could affect contractual obligations; Chinese legislation is applicable and dispute resolution is entrusted to China International Economic and Trade Arbitration Commission; there is a sovereign immunity waiver.

Serbia has already shown an inability to repay its debt to China. Thus far, the Chinese side has proven quite lenient. In 2004 Sinochem forgave a debt of \$70 million to Serbia's National Oil Industry and reprogrammed the remaining \$196 million over a period of eight years.<sup>56</sup> In 2009, the Exim Bank forgave a debt of \$75 million to Serbia's Central Bank, \$18.4 million to Serbia's government, and reprogrammed obligations in the amount of \$100 million.<sup>57</sup> However, the amounts borrowed in recent years have been unprecedented and it remains to be seen how both sides behave in the next few years when the grace period of most loans expires.

**TABLE 6: CHINA'S DEVELOPMENT ASSISTANCE TO SERBIA (2000-2020)**

Project type/name	Implementing period	Sector	Value (€ million)	Financial instrument	Contractor (if determined)
Donation in computers and office equipment	2007	Administration / IT	No Data	Grant	
Equipment for Belgrade University	2008	Education	1.27	Grant	
Military equipment	2008	Defense	0.5	Grant	
Customs scanners	2009	Customs	25.4	Loan	Nuctech
Ultrasound devices	2009	Healthcare	0.15	Grant	
X-Ray equipment for the Ministry of Health	2009	Healthcare	0.7	Grant	
Phone equipment for the Ministry of Industry	2009	Telecommunications	0.15	Grant	
Pupin Bridge (Belgrade)	2009-2014	Transport	170	Loan	CRBC
Equipment for the Ministry of Interior and the military-medical academy	2010	Defense	0.5	Grant	
Military equipment	2011	Defense	2	Grant	
Acupuncture equipment for the Ministry of Defense	2011	Defense	1.8	Grant	
Donation of various goods for state institutions	2011	Administration	1	Grant	
TPP Kostolac, bloc 3	2011-2022 expected	Energy	711	Loan	Sinomach
Demining equipment (Ponikve airport)	2012	Defense	0.5	Grant	

X-Ray equipment for the Ministry of Health	2012	Healthcare	No Data	Grant	
Ambulance vehicles for the Ministry of Defense	2012	Defense / Healthcare	1.8	Grant	
Miloš the Great Highway (Corridor 11 – sections Preljina-Požega-Boljari-Valjevo)	2013, 2016, 2018, 2019 contracts, finished	Transport	798.5+1830 =2628.5	Loan	Shandong Hispeed Group, CCCC
Rescue equipment for the Ministry of Defense	2014	Crisis management	2.7	Grant	
Liquid security system for the Customs	2014	Customs	0.55	Grant	
Modernization of the Belgrade-Budapest railway (sections Belgrade-Stara Pazova and Novi Sad-Subotica)	2014, 2017, 2019 contracts, ongoing	Transport	1155	Loan	Chinese International Railway, CCCC
Military equipment	2015	Defense	1	Grant	
Office equipment for the Ministry of Foreign Affairs and hospital incubators	2015	Administration / Healthcare	1.4	Grant	
High-capacity pump for Elektroprivreda (for Kostolac TPP)	2015	Energy	No Data	Grant	
Military equipment	2016	Defense	4	Grant	
Modernization of fixed network, Telekom Serbia	2016–2017	Telecommunication	128	Loan	Huawei
Military equipment	2017	Defense	0.9	Grant	
Belgrade bypass (Ostružnica-Bubanj Potok)	2018–2021	Transport	184	Loan	Sinohydro
Belgrade bypass (Novi Beograd-Surčin)	2019	Transport	70.5	Loan	Sinohydro
Data center in Kragujevac	2020	IT	1.7	Grant	
Military equipment	2020	Defense	0.8	Grant	
Belgrade bypass (Bubanj Potok-Pančevo)	2020–2022 expected	Transport	500	Loan	Sinohydro
Heating pipeline (Obrenovac-Belgrade)	2020 contracted, ongoing	Energy	164.6	Loan	Sinohydro
Modernization of railway sections along Corridor 10	2020 contracted, ongoing	Transport	760	Loan	CRBC
Belgrade wastewater treatment plant	2020 contracted, ongoing	Environment	271	Loan	China Machinery Engineering Corporation
TPP Kolubara B (Ub)	2020 contracted, stalled	Energy	385	Loan	Sinohydro
Highway along the Fruška Gora corridor (Novi Sad-Ruma)	2020–2024 expected	Transport	606	Loan	CRBC

# Impact on Democratic Governance and Decision Making

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China's development assistance for the Western Balkans is implemented through grants and concessional loans. It is used to procure equipment from China (mostly grants) or construction works carried out by Chinese contractors (mostly concessional loans). Grants are allocated on the basis of TECA and amount to a total of at least €123.38 million. Concessional loans, which amount to almost €11 billion, are provided by the Exim Bank on the basis of agreements signed with the national Ministries of Finance and approved by national parliaments, including 4–7 years grace period, a repayment period of 15–20 years and an interest rate of 2–3 percent.

Some of the signed TECAs contain a reference to the purpose and the specific project to be funded, while others remain vague. Sometimes one TECA is used to fund several projects and sometimes the funds of several TECAs are combined to fund bigger projects (such as the E-education in North Macedonia, the National Opera and Ballet in Albania, or the Djurdjević Bridge in Montenegro). This complexity, teamed with the lack of transparency of the Western Balkan national authorities and China's policy not to disclose disaggregated data per country or project makes it very difficult to determine the overall scope of China's assistance to the Western Balkans.

Most projects are considered to be useful and beneficial for the citizens, but some procedures related to different stages in the project cycle are a point of concern.

First, project selection is usually based on political decisions adopted by national authorities and does not always overlap with the priorities defined in the EU-sponsored national Single Project Pipelines. The beneficiary government has a lot of room for maneuver and the decision-making process is nontransparent and closed from the broader public. While this is in line with China's policy of non-interference and state-centric approach, it violates the principles of good governance stipulated in the EU's acquis that the Western Balkan governments as candidate countries should respect.

Second, when it comes to project preparation, selected projects sometimes do not meet the criteria for maturity and viability from a financial, economic, or environmental point of view, which undermines their success and impact, as in the case of Tuzla or Kostolac thermopower plants. Sometimes China is the only source of funding for projects which are not mature or viable but receive political backing by Western Balkans national authorities, like the highways in Montenegro and North Macedonia. This is often due to the short-sightedness of political elites in search of political gains within a four-year political cycle. This short-termism tends to exploit the fact that Chinese projects initially require less time, effort, and cost to begin implementation in comparison to EU-funded projects, which have strict requirements in terms of project preparation. However, in many instances, Chinese projects end up consuming more time, effort, and funds in the implementation phase in the long

run as poor project preparation necessitates costly repairs and add-ons to shore up glaring omissions.

Third, in terms of tendering, the general rule which implies that all the projects and donations are to be implemented by Chinese companies undermines domestic and EU legislation in the area of public procurement. It also raises concerns as to whether Western Balkan citizens obtain the best value for money and reduces the development prospects of the local economy, especially in cases when goods and services of comparable quality and cost can be procured in the host country. In such circumstances, the role of Chinese companies remains under-investigated. For instance, almost all the countries in the region used Chinese grants (or in the case of Serbia a loan) to obtain mobile customs scanning equipment from Nuctech, raising a question whether or not all the governments had the same priority, or if it was offered to them by the Chinese side. Moreover, many big state-owned enterprises that have already started or implemented projects remain active in the region through their representatives and some have opened branch offices (e.g. Sinohydro, CRBC, Dongfeng), which allows them to establish information and lobbying channels.

China's development assistance model does not take into account the intrinsic vulnerabilities of beneficiary countries which include rule of law issues, widespread corruption, lack of institutional capacity, disregard for environmental protection standards, etc.<sup>58</sup> Its disbursement and management procedure does not envisage any coping mechanisms, which is often to the detriment of project quality and positive impact.<sup>59</sup> On the contrary, Western donors and lenders impose strict rules and criteria that beneficiary countries must abide by. They also directly endorse reforms aimed to address these vulnerabilities. While this does not make their projects graft-proof or challenge-free, it mitigates the risks related to the host country agency.

China tends to portray its approach as reflective of the principle of non-interference in the internal affairs of other nations. On the other hand, Beijing still introduces conditionality related to potential changes in the beneficiary country's laws and policies. While this provision which is included in most recent grant and loan agreements is vaguely formulated, it puts the borrowers in an asymmetric position because it opens a window for transactional bargaining across issue areas and an instrument for coercion in case the host country adopts decisions and policies which may go against China's interests. The standstill in the implementation of the E-education project by Huawei in North Macedonia after the country decided to join the Clean Network Initiative is an example of how such provisions could be put into practice. Admittedly, the outcome could be much worse for the Western Balkan countries if China were to terminate a loan agreement and ask for immediate repayment, potentially leading to the borrower's default on payments. This raises a dilemma to which extent the assistance provided by China allows Western Balkan countries to maximize their own interests and meet the obligations stemming from the EU accession process, especially in terms of good governance and alignment with EU's foreign policy positions.

# Conclusion

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China has a long tradition of using development assistance as a foreign policy tool to achieve its own goals. These goals are sometimes diplomatic and geopolitical, such as gaining allies and influencing policies globally. At other times, they are economic, such as securing market opportunities for its own banks and companies and building infrastructure in corridors of importance to China. All of the above characterize the objectives driving China's development assistance to the Western Balkans.

A large portion of China's development assistance, or cooperation as Beijing prefers to term it, does not correspond fully with either the OECD or standard Western definition. Rather, it represents the equivalent of development finance under conditions more favorable than those on the market, but less favorable than those offered by the Western development banks. Western Balkan states receive Chinese grants in the amount of €1-2 million per year and, with the exception of Albania, concessional loans which indebted them to China's Exim Bank: Montenegro – €975 million, North Macedonia – €909 million, Bosnia and Herzegovina – €1.32 billion, Serbia – €7.76 billion.

Chinese development assistance to the Western Balkans is usually very visible, at least for the local communities, associated with the (re)construction of infrastructure and the procurement of equipment, especially in the areas of education and healthcare. As such, it is complementary to the efforts of Western donors who have directed their funds mostly to support political and socio-economic reforms. While donations tend to be implemented without major challenges, construction works usually end up in delays and additional costs due to poor project selection and planning.

Moreover, in conjunction with the domestic agency of Western Balkan political elites, China's development cooperation undermines good governance principles that Western Balkan countries should uphold as countries aspiring to join the EU. This is due to the fact that China's development assistance is guided by the principle of non-interference, does not acknowledge the existence of beneficiary country issues related to democratic governance, and does not envisage any coping mechanisms.

While concessional loans contribute to an unsustainable increase of public debt levels in almost all the countries, China's history of debt forgiveness and reprogramming practices in combination with the difficulty to enforce sovereign asset seizures contradict claims about the debt trap. However, both loan and grant agreements reveal an option for China to influence national policies by threatening to suspend grant projects or cancel the loans and ask for immediate repayment, which could lead some countries to default. Thus, China's development assistance is an important instrument in China's "transactional" diplomacy. Essentially, it aims to reward countries that maintain friendly ties and to control and influence those countries which are likely to be (come) hostile towards China.

## Author

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**Ana Krstinovska** is the Founder and President of ESTIMA, a North Macedonia-based think tank. Previously she worked as State Secretary for European Affairs in the North Macedonian government and advisor to the Prime Minister. She wrote her doctoral dissertation on China's presence in the Western Balkans at Ss. Cyril and Methodius University in Skopje and her master on EU-China relations at the College of Europe in Bruges. She is fluent in Chinese and finished her specialization in Sinology at Beijing Foreign Studies University. In the CHOICE platform, she focuses on the relations between China, the EU and the Western Balkans, covering predominantly economic topics.

✉ [krstinovska@estima.mk](mailto:krstinovska@estima.mk)

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## About CHOICE

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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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- 1 China does not recognize Kosovo as an independent country and subsequently does not provide it with any development assistance, hence Kosovo will not be covered in this paper.
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