Can Europe Do Without a Geologistical Strategy to Face China?

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Summary

China’s interest in Central Europe and the Western Balkans has increased with the prospects of European Union (EU) enlargement, considering these regions as potential springboards for the deepening of relations with Western Europe, thereby rendering them more attractive.

In addition, China is also seen as an opportunity by these countries to develop their infrastructure networks but also to increase their room for maneuver in relation to the EU. During the economic and financial crisis, as the West was severely weakened, the ties between these countries and China were particularly close. For them, turning to China meant securing new markets for their exports and guaranteeing new investments.

Today, however, enthusiasm is giving way to disenchantment, resulting from the disappointment of broken promises, as well as the lack of concrete and tangible results. Skepticism toward China is growing, especially in Eastern European countries, which are closer to the United States on defense matters and do not wish to lose the support of the United States in the face of a growing Sino-American rivalry, and in particular against the backdrop of the war in Ukraine.

While the extent of the Chinese presence in these regions is in fact lower than that in Western Europe, it is more insidious because it circumvents the standards of the EU in terms of market allocations, results in excessive indebtedness and highlights corruption practices, all of which increase China’s ability to coerce beneficiary countries.

The EU must review its policy toward its neighborhood to counter the negative effects of Chinese influence. It cannot remain passive and must actively contribute to resolving the imbalances observed, by defining its own geologistics approach in order to counter China and to position itself with respect to the various challenges revealed by the Belt and Road Initiative (BRI) in terms of bridging development gaps in its neighborhood. It also needs to offer membership prospects to Western Balkan countries and clarify its policy toward China.

Due to its pivotal role within the EU, with a capacity for projection, through its trade relations, development cooperation and soft power, but also its economic clout, Germany can significantly influence policy in the EU’s neighborhood and internationally – notably in relation to China. If the EU wants to be a geopolitical actor, it must above all ensure stability and cohesion in its neighborhood, by creating levers in terms of energy security, value chains and infrastructure projects. This also applies to Germany, which is currently working on defining a “National Security Strategy” from which a “China strategy” will be derived.
L’intérêt de la Chine pour l’Europe centrale et les Balkans occidentaux s’est accru avec les perspectives d’élargissement de l’Union européenne (UE) qui faisaient de ces régions des points d’entrée potentiels pour approfondir les relations avec l’Europe occidentale et les rendaient donc plus attrayantes. De surcroît, la Chine est également perçue comme une chance par ces pays pour répondre à leurs besoins en infrastructures mais aussi pour agrandir leur marge de manœuvre par rapport à l’UE. Pendant la crise économique et financière, l’Europe a été affaiblie, ce qui a facilité un resserrement des liens entre les pays des Balkans occidentaux et la Chine. Se tourner vers la Chine répondait pour ces pays à l’objectif de s’assurer de nouveaux débouchés pour leurs exportations et l’accès à de nouveaux investissements.

Mais aujourd’hui l’enthousiasme cède la place à un désenchantement, marqué par l’impression de promesses non tenues, non accompagnées par des réalisations concrètes et tangibles. Le scepticisme s’accroît envers la Chine, notamment dans les pays de l’Est de l’Europe, qui sont plus proches des États-Unis sur le plan de la défense et ne souhaitent pas s’aliéner le soutien des États-Unis face à une rivalité sino-américaine croissante, surtout dans le contexte actuel de la guerre en Ukraine.

Si l’ampleur de la présence chinoise dans ces régions est en réalité inférieure à celle en Europe occidentale, elle est en revanche plus insidieuse car elle contourne les standards de l’UE en termes d’attributions de marché, se solde par des endettements excessifs et met en lumière des pratiques de corruption, qui accroissent la capacité de coercition de la Chine par rapport aux pays bénéficiaires.

L’UE doit revoir sa politique par rapport à son voisinage pour contrer les effets négatifs de l’influence chinoise. Elle ne peut rester spectatrice et doit contribuer à résorber les déséquilibres constatés, en définissant à son tour une approche géologique qui lui permette de contrer la Chine sur ce terrain et se positionner sur les différents défis révélés par les Nouvelles routes de la soie (BRI) : combler les écarts de développement dans son voisinage, offrir des perspectives d’adhésion aux pays des Balkans occidentaux ou encore clarifier sa politique envers la Chine.

Par son rôle pivot au sein de l’UE, avec une capacité de projection, du fait de ses relations commerciales, de ses coopérations au développement et des investissements réalisés, mais aussi de son poids économique, l’Allemagne peut aussi influencer de façon importante la politique dans le voisinage de l’UE et à l’international – notamment dans les relations avec la Chine. Si l’UE veut être un acteur géopolitique, elle se doit avant tout d’assurer la stabilité et la cohésion dans son voisinage, en se créant des leviers sur le plan de la sécurité énergétique, des chaînes de valeurs et des projets d’infrastructures. Cela vaut également pour l’Allemagne qui s’attelle en ce moment à la définition d’une stratégie nationale de sécurité dont découlera une « stratégie Chine ». 
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Introduction

Central and Eastern Europe and the Western Balkans have long been considered to be on the periphery of the European Union (EU), the former having joined the EU’s historic core only in 2004 (for the most part), while the latter are non-members but aspiring to join. Yet, this perception of a peripheral location is artificial, as demonstrated by the many economic and cultural links between Western Europe and these regions.²

Furthermore, the war in Ukraine has changed the terms of the debate on enlargement. With the granting of EU candidate status to Ukraine and Moldova, and the prospects of this status for Georgia, the question of the Western Balkans has been revived, following the example of Bosnia-Herzegovina, which was granted EU candidate status on December 15, 2022. At the same time, the war underlines the importance of Central European countries such as Poland, which is showing strong support for Ukraine, thus giving it greater political weight within the EU.

The EU’s heightened interest in these regions contrasts with developments over the past decade, which was marked by the influence of third-party players such as China which has attempted to increase its foothold in these regions, through the BRI, taking advantage in particular of the weak European presence.

China’s interest in these regions increased first with the prospects of EU enlargement, which made them potential springboards for deepening relations with Western Europe, thus raising their attractiveness. Then, it deepened with the financial and economic crisis that began in 2008, when these regions were looking for new outlets and investors. China intervened through the so-called “17+1” format, which included China and 17 other

² To cite a few figures on the Western Balkans: today, these countries already have a strong presence in the EU through immigration, with 1 million citizens who were born in the region actually living in Germany, 500,000 in Italy and 500,000 in Austria. It is also worth mentioning that every year 28% of the students enrolling at the University of Vienna come from the region. This proximity can be explained by the many historical, geographical, and economic links between the two areas. Many Western European companies are based in the region, with 500 Austrian companies generating 15,000 jobs in Serbia, for example. Also, an Italian company like Fiat assembles 400 vehicles a day in Serbia, while French companies are involved in the construction of the airport and metro in Belgrade. See “L’UE et les Balkans occidentaux : est-il insensé de parler d’élargissement en temps de crise ?”, Fondation Jean Jaurès, Youtube, April 2019, available at: www.youtube.com.
states from Central and Eastern Europe and the Western Balkans, as well as countries in Southern Europe.3

The BRI is a “geologistics” initiative, at the crossroads of flow management, interconnections, transport modes and geopolitics.4 The BRI beneficiaries hope that the sums promised, and the weight of the Chinese economy could rebalance international logistics circuits and rearrange them to their advantage. This has raised hopes. The American Enterprise Institute estimates that $838 billion was spent on infrastructure projects from 2013 to 2021, under the BRI.5

Some projects have been particularly high-profile, such as the Belgrade-Budapest railroad, the Bar-Boljare freeway section linking Serbia and Montenegro, the Pelješac bridge in Croatia,6 and, best-known of all, the port of Piraeus. Yet the results are mixed. Although the latter project is often presented by China as a success story, the Greek port having become the leading Mediterranean port since Chinese participation, in most cases there is a gap between ambitions and reality. In the worst cases, beneficiaries are subjected to the instrumentalization of the interdependencies created for coercive purposes.

The BRI combines physical connections (railroads, ports, energy networks and submarine cables) with digital connections (smart city projects and soft power via social networks). These sometimes fit together like a jigsaw puzzle, raising issues related to security and geo-economic risk, as well as issues concerning norms and standards.

China’s strategy can be better understood by looking at the ambitions of the BRI and their characteristics (modes of action, resources committed,

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3. However, this format is losing influence, with the three Baltic states having recently left it, and the Czech Republic expressing reservations. See S. Lau, “China’s club for talking to Central Europe is dead, Czechs say,” Politico, May 4, 2023, available at: www.politico.eu.
4. “Geologistics encompasses China’s Belt and Road Initiative’s emphasis on corridors, connectivity between places, and cross-border ties to create new markets. Associated with the rapid pace of global and regional integration, this notion contends that economic competition has eclipsed military confrontation at the center of relations between states. Battles between their competing supply chains are now paramount.” in P. J. Rimmer, China’s Global Vision and Actions – Reactions to Belt, Road and Beyond, 2020, Northampton, Massachusetts, Edward Elgar Publishing.
6. On January 12, 2018, China Road, and Bridge Corporation (CRBC) won the public contract to build the Pelješac Bridge in Croatia. CRBC came out on top with a bid of €279 million, compared to the Austrian company Strabag, which had offered €351 million. The European Commission had approved a grant of €357 million, or 85% of eligible costs estimated at a total of €420 million. This co-financing thus comes from the EU budget. Yet, as Thomas Bickl has noted, “the value added of the bridge project for the local economy in Croatia or European companies from the neighborhood is fairly low since CBRC brought along its workers who had to be accommodated on a former cruise ship turned into a hotel.” See T. Bickl, “Bridge over Troubled Waters: The Pelješac project, China, and the Implications for Good-Neighborly Relations and the EU,” Croatian Political Science Review, Vol. 56, No. 3-4, 2019.
scope of the initiative), but also by examining China’s interest in Central and Eastern Europe and the Western Balkans, with the benefit of hindsight. The risks for BRI beneficiaries are manifold, including subsidy policies that distort terms of trade; indebtedness resulting from loans granted; corruption; and lack of logistical strategy, etc. Identifying these risks is a prerequisite for formulating an overall and coherent response to China’s strategy, of which the BRI is just one aspect, and to the operating mode that characterizes the BRI in EU and neighboring countries, but also with third-party states (for example, the Hambantota port in Sri Lanka).7

The EU’s renewed interest in these regions can be explained by several developments:

- **Geopolitical developments**: with the war in Ukraine, enlargement is back on the European agenda, with Ukraine and Moldova granted candidate status and even Georgia being granted membership perspective. The creation of a European Political Community (EPC) at France’s instigation, as a complement to the accession process, underlines new partnership arrangements in the EU’s neighborhood.

- **Developments on energy**: the breakdown of Russian energy supplies has brought the search for alternatives back to the forefront and has underlined the need to adapt energy supply routes, with particular attention given to landlocked countries.

- **Reorganizing value chains**: the EU is currently rethinking its value chains. Various strategies, or a combination of several strategies are being put forward, such as: *reshoring* or *nearshoring* to shorten supply chains; or *friendshoring* (i.e., relying on trusted partners with whom the EU shares the same values or at least the same conception of the international order), but also diversification in terms of multiplying sources of supply and outlets to counter risks of disruption.

- **Strengthening ties can be a win-win situation**: the aim is to reduce economic disparities in Europe in order to strengthen political cohesion. Infrastructure projects can have a multiplier effect on economic growth, boosting productivity and opening up markets. The effects of such cooperation can foster trust and political cooperation in other areas. This, in turn, can lead to the establishment of common standards.8 Construction companies such as Strabag, Eiffage, Bouygues Construction, Hochtief and Vinci, etc. could benefit from these initiatives.

With its strong economic presence in these regions, Germany is aiming to redefine its relationship with China. In particular, this means defining an

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infrastructure approach to address the EU’s weaknesses, as highlighted by the BRI. The positioning of this approach as an alternative or complement to other similar initiatives (Blue Dot Network, Build Back Better, Partnership for Global Infrastructure and Investment, etc.) and partner countries (the USA, Japan, Australia, India, etc.) is crucial to its success. The longer the war in Ukraine goes on and the longer the US assumes leadership of the Western camp, the more pressure it will exert on the EU in its relationship with China. Hence the importance for the EU and its Member States, led by Germany, to clarify its policy toward China.

With its capacity for projection and the resources it can deploy through trade, development cooperation and its soft power, Germany represents the pivot of the EU. The country has the economic clout to make the EU’s voice audible on the international stage – and particularly with China.

Can the EU assert itself as a geopolitical player without a strategy for its immediate neighborhood? Will it be able to take advantage of this particular moment when it faces renewed expectations in the face of increasing challenges (energy and supply security, European cohesion, etc.)? Will the EU be able to bring Central and Eastern Europe and the Western Balkans within its sphere of influence, and build mutually beneficial partnerships?
China’s Influence through its Belt and Road Initiative (BRI)

The Belt and Road Initiative – also referred to as the New Silk Road – was launched in 2013 in Astana and is a multifaceted initiative (see Annex 1). The BRI may concern port, road or rail infrastructures, or energy networks such as oil or gas pipelines. But it can also go beyond this and involve telecommunications, as well as digital and space technologies.

China’s Interests in Pursuing the BRI

From China’s point of view, the BRI helps open up several regions in the center of the country that are relatively less integrated into international trade than the coastal areas of southeast China. Its aim is also to employ China’s surplus industrial production by securing new outlets. The BRI is part of China’s drive to internationalize, once domestic needs have been met, as well as to acquire the technologies needed by Chinese economic actors to move upmarket. This reflects the rise of an increasingly assertive China, as a middle-income power seeking to move further up the value chain to make high-value-added products.

Indeed, China is pursuing a strategy of moving upmarket, with “Made in China 2025” being a far cry from the low-end or low-cost “Made in China” of the past. The BRI is also a means of gaining access to the raw materials that are vital to China’s leadership ambitions, particularly in artificial intelligence, quantum computing, electric vehicles, and railways. From China’s point of view, this is a “win-win” vision, based on “harmony” and interdependence; and China likes to present these partnerships as “South-South partnerships”, between countries that have not yet reached the level of development of Western countries. It plays on the ambiguity of its status as an emerging country, which nevertheless ranks second only to the United States in terms of global gross domestic product (GDP).

A Geopolitical and Geologistical Reading of the BRI

An alternative reading, however, suggests there is a geopolitical desire to restructure trade flows and reduce China’s dependence on trade routes dominated by American forces. The aim is, therefore, to diversify trade

9. Statement by Xi Jinping at the opening ceremony of the BRI forum, in Peter J. Rimmer, China’s Global Vision and Actions – Reactions to Belt, Road and Beyond, op. cit.
flows to secure China’s resources and outlets, should relations with the United States become strained.

The BRI is thus a project at the crossroads of politics and economics, and which also involves logistics. The latter may be viewed through the prism of “geologistics” and hence the application of logistics to geopolitical aims. China is working to create networks, with *hubs* and *spokes*, secondary platforms to and from which goods transit.

Ninety percent of world trade is carried by sea, and it is estimated that China’s share of world shipping represents a fifth of total volumes. Hence China’s interest in having Chinese players invest in ports to influence more easily ports’ strategies in terms of trading destinations and frequency of service, the shipping lines servicing the ports, and the logistics platforms through which goods are moved to and from the ports in question. This is all about connecting port infrastructures to their hinterlands, which implies a strategy in terms of logistics. The above-mentioned hub and spoke system is built around a central platform through which exchanges take place, drawing resources or transporting resources to secondary platforms, thereby creating synergies.

The railways fit perfectly into this logic, connecting port and road infrastructures, in terms of intermodality, and enabling Chinese goods to be distributed to different parts of the globe. This is particularly true in Greece, where the port of Piraeus needs to be better connected to Central Europe, via the Belgrade-Budapest railroad, and hence to Western Europe. The China Ocean Shipping Company (COSCO) invested in the port, and then took it over entirely. Economically, the port has benefited greatly, as it has become the leading Mediterranean harbor.

**China's Different Ways of Increasing its Influence in Europe**

Three operating modes have characterized China’s rising influence within the BRI framework:

- **Firstly**, through financing, by using loans for infrastructure construction contracts, and even in investment and management contracts for strategic infrastructures such as the port of Piraeus;
- **Secondly**, through logistics, by supporting the flow of goods from China to Europe via subsidies (with the Northern route via the Baltic ports,

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Duisburg and whose extension reaches through to the major ports of Hamburg, Rotterdam and Antwerp; the Southern route running from Piraeus through the Balkans and Central and Eastern Europe; and the Central route stretching via the Danube states and whose extension runs through to the Rhine);

Thirdly, through takeovers of European companies specializing in niche fields, to use them both as entry points into the European market, to adapt to European criteria for awarding public contracts, while also drawing on their know-how and expertise, particularly with a view to establishing international standards. While the first two operating modes apply directly to the countries of Central and Eastern Europe and the Western Balkans, the third applies mainly to Western Europe.

The BRI is a vehicle for promoting China's interests, both geopolitical and commercial. To meet their stated ambitions, Chinese actors are employing a variety of operating methods, combining logistics, company and infrastructure takeovers, and loans. In this context, the countries of the Western Balkans and Central and Eastern Europe are of particular interest because of their geographical position and their links with Western Europe. Conversely, China is also seen as an opportunity for these countries to meet their infrastructure needs and increase their room for maneuver in relation to the EU.
Are Central Europe and the Balkans in China’s Sights?

The BRI is a sprawling strategy that adapts to the different regions of the world according to the interests they present for China (Annex 2). Following this logic, the countries of Central and Eastern Europe and the Western Balkans hold a special place for China. At the same time, these countries are receptive to the People’s Republic (PRC) for a variety of reasons.

China Distinguishes Different Areas of Influence According to its Interests

In the face of criticisms that its policy is to “divide and conquer” in the Western Balkans, China retorts that, on the contrary, it is accompanying states such as Serbia in their accession to the EU. Indeed, the integration of the Western Balkans into the EU would give China greater access to the entire European internal market. And this would be by guaranteeing greater legal certainty for its commercial and investment activities abroad once the Western Balkans are held to the same standards as the rest of the EU. However, Chinese players in the Western Balkans also benefit from lower standards in this region than those the EU strives to uphold. This gives them easier access to certain public procurement markets where barriers to entry into the EU remain high.

By contrast, the Balkans and Central and Eastern Europe are a springboard for China to gain influence within the EU. After all, Western Europe is a far more attractive outlet for Chinese surplus production than Central and Eastern Europe or the Western Balkans.

China takes advantage of various fault lines within the EU to forge privileged links with certain member states that serve its interests. In areas such as foreign policy, the EU is bound by unanimity, and countries economically close to China tend to be reluctant to condemn it in common European positions concerning international law or human rights. This is the case for Hungary and Greece, two countries where China has increased its influence in recent years. By way of example, these two countries delayed and weakened common EU positions by criticizing Beijing’s activities in

the South China Sea, in 2016. In another example, in 2017 Hungary refused to sign a joint letter denouncing cases of torture of lawyers in China.

These conflicting positions undermine the EU’s credibility. On top of this are internal fractures, which are becoming a vulnerability in the European approach.

**China Takes Advantage of the Various Fault Lines within the EU**

First, there are internal divergences exacerbated by the various crises of recent years: the economic and financial crisis in 2008, the “migration crisis” of 2015, the Brexit crisis in 2016, heightened tensions in transatlantic relations in particular from 2018 onward, and the Covid-19 crisis from 2020. Then there are the differences in sensitivity between Eastern and Western Europe on security and defense policy, and between Northern and Southern Europe on economic and monetary issues. These weaknesses make the EU vulnerable to interference from third-party powers like China.

Beijing has set up a regional forum – the “17+1” – to conduct a regular, privileged dialogue with these states, and promising close investment and trade links. The commercial benefits expected from the BRI are particularly significant for Europe’s landlocked countries, including some of the Central and Eastern European states (the Czech Republic, Hungary, and Slovakia). Meetings of heads of state and government are held annually between these 17 countries (the “17”) and China (the “1”). This format takes the form of a regional forum within the EU itself, prompting fears among Europeans that the EU is being bypassed. Others see it more as a discussion format enabling the “17” to benefit from a privileged and regular channel for discussions with China. China uses this kind of “diplomacy of grouped cooperation” for the sake of efficiency: saving time during Xi Jinping’s visits to the areas concerned, with joint summits and joint declarations.

The infrastructure projects discussed here are designed to bridge the gap between Eastern and South-Eastern Europe and Western Europe (see chart below). They include transport infrastructure, telecommunications, and energy projects, as well as mining and quarrying activities. For example, while Western Europe has a dense rail network, this is not the case for Eastern Europe and the Balkans. Beyond this, the BRI is also part of China’s drive to boost its soft power, including through the creation of

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16. In addition to China, the “17+1” initiative included: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Slovakia, Slovenia, Greece, Northern Macedonia, Albania, Bosnia-Herzegovina, Montenegro, and Serbia.

Confucius institutes and university cooperation. Although the EU is the leading player in these countries, both through its Structural Funds and through trade, as well as the integration of these countries into its industrial value chains, it is ill-equipped to compete in the battle for influence with China, which is better at communicating its successes and promoting its activities.18

### Bridging the gap between the Western Balkans and Western Europe 19

- The European Bank for Reconstruction and Development (EBRD) has estimated transport and energy infrastructure needs at 8% to 10% of regional GDP over five years for the Western Balkans. However, European financiers are difficult to attract. From 2014 to 2020, the countries of the region received €12 billion in pre-accession aid, but only €1 billion was allocated to infrastructure development.
- The Western Balkans have a GDP per capita which, despite an increase over the past twenty years, remains at the same level when compared to the average GDP per capita in the EU. Three times poorer than the European average, the economies of the region are barely catching up with those of the EU.
- Extrapolations using different growth rates indicate that 60 to 200 years would be needed for them to reach the European average.

### The Reasons Why Central and Eastern European Countries and the Western Balkans are Turning to China

China proved to be a credible partner during the economic and financial crisis from 2010 to 2012. In fact, China was attentive to the development needs of Central and Eastern Europe and the Western Balkans, taking advantage of the economic and financial crisis to extend its influence, while the EU has been focused on managing the implications of this crisis for monetary policy and the EU’s potential for fragmentation. China was only slightly affected and could therefore invest internationally. The BRI was an alternative to an EU in the throes of economic difficulties. For these

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countries, turning to China also meant securing new outlets for their exports and new investments.

But today, the predominant impression is one of broken promises and of many announcements made without concrete achievements. In the absence of results, the “17” have become the “14” (with the withdrawal of the Baltic countries: Lithuania left in 2021, as tensions rose with China following the opening of a Taiwanese representative office in Vilnius; Estonia and Latvia followed suit by leaving the forum in 2022). Skepticism toward China is growing, particularly in Eastern Europe. As early as 2017, Slovak researcher Richard Turcsányi noted that: “China’s economic presence [in Central and Eastern Europe] is minimal both in terms of foreign direct investment (FDI) and exports to China”. He reiterated these words in an article co-written with David Hutt in 2020 entitled, “No, China Has Not Bought Central and Eastern Europe.” As of 2018, the Central European Institute of Asian Studies (a think tank) noted that “any astute observer was already aware in 2012 that the expectations of European leaders were out of touch with reality.” He pointed out that the balance sheet after six years was marked above all by widening trade deficits with China and infrastructure projects that had barely got off the ground.

By contrast, the situation in the Western Balkans differs from that in Central and Eastern Europe. EU standards do not apply, so China benefits from lower standards in the Western Balkans, which facilitate its access to markets, and can be seen as the first step toward Western European countries. The EU is vague about how long it will realistically take the Western Balkans to join the Union, and this is fueling frustration in these countries.

European funds are more limited for candidate countries: these are pre-accession funds, smaller in volume than regional development funds and cohesion funds for member states. Their payment is often marked by bureaucracy and administrative slowness. The Western Balkans also suffer from a high level of corruption compared to other European countries.

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This situation encourages the conclusion of infrastructure construction agreements that lack any economic rationale, despite audits that advise against this type of agreement.\textsuperscript{25} The search for “easy” funding means these countries often turn to China, which benefits from them taking on debt.\textsuperscript{26} This has been the case of Montenegro, for a section of freeway between Serbia and Montenegro (the Bar-Boljare section), and today it suffers from having debts with China amounting to a considerable proportion of GDP.

According to Plamen Tonchev, “governments in the Western Balkans take advantage of the absence of the strict rules applicable within the EU to attract Chinese investment and do business the Chinese way. A mix of weak institutions, endemic corruption and a weak civil society clearly facilitates China’s advances in the Western Balkans sub-region. This is where China’s soft power strategy is particularly linked to the notion of economic gain, whatever the level of transparency characterizing transactions with Chinese companies.\textsuperscript{27}

\textsuperscript{26} Ibid.
\textsuperscript{27} P. Tonchev, China’s Soft Power in Southeast Europe, Friedrich Ebert Stiftung, Dialog Südosteuropa, 2020.
The Means China Deploys to Consolidate its Influence in these Regions

China is expanding into Central and Eastern Europe and the Western Balkans in a variety of ways. The Hungarian and Serbian examples help to document this. However, we also need to shed light on the reality of the scale of investment, lending and trade volumes between China and these regions.

China's Resources and Assets in Central Europe and the Balkans

BRI resources are deployed by various players, including the Bank of China, the China Construction Bank, the China Development Bank (CDB), the Industrial and Commercial Bank of China (ICBC), the China ExIm Bank and major state-owned enterprises. The PRC has also contributed to the creation of new international development banks such as the Asian Infrastructure Investment Bank (AIIB), capitalized with $100 billion and partly owned by the PRC, and the New Development Bank (NDB), which can mobilize financing from major international financial institutions.

The creation of specific financial organizations to finance BRI projects means that China can call on institutions that are independent of the Bretton Woods system.

The BRI also operates in a variety of ways: it may build or renovate infrastructure, as in the case of the Belgrade-Budapest high-speed rail line; it may support Chinese companies’ exports, notably through subsidies; or it may allow Chinese companies to buy up European firms as a means of gaining a foothold in the European market.

Compared with the EU, China seems to have the advantage of releasing funds quickly and imposing no conditions on loan recipients. This non-interference in the domestic politics of the recipient country makes financing seem more accessible. It gives the impression that “China is filling the gaps left by the EU in the Western Balkans.” This facilitates projects such as the railroad line between Belgrade and Budapest, or the section of

freeway linking Serbia and Montenegro, or even mineral projects for copper and steel production (Figure 1).

**Figure 1: Beijing’s presence in the Western Balkans**

The benefits of the Chinese presence are mitigated by the fact that the work financed by Chinese loans is carried out by predominantly Chinese workforces, which reduces the positive spin-offs for the recipient country.

The BRI creates political solidarity between China and the beneficiary countries, which tend to behave as obliged parties. Based on an analysis of Chinese diplomacy with Central and Eastern European countries over the last 15 years, Ivana Karášková has pointed out that China uses what they call the “carrot-and-stick tactic.” This diplomacy does not focus solely on
relations between states, but can also take place at regional and city level. As the table in Figure 3 illustrates, China may be led to promise the construction of transport lines, but this may be linked to conditions of support for the official political line of China and the Chinese Communist Party (CCP), failing which China may threaten, capriciously, to terminate a project. Potential revenues would then be lost to the beneficiary countries. Some regions are thus faced with complicated choices, particularly if they are landlocked and see the prospect of opening up and potential income evaporating, should China decide to withdraw support.

To better visualize China's influence in Central and Eastern Europe and the Western Balkans (Figures 2 & 3), Hungary and Serbia deserve particular attention.

31. The European Parliament’s Delegation for Relations with the People’s Republic of China dedicated a discussion on how to approach relations with China in European regions and municipalities, featuring several European researchers. See Exchange of views on how to deal with China relations in European regions and municipalities, European Parliament, December 1, 2022, available at: www.europarl.europa.eu.
Figure 2: The Balkans – a strategic region for Beijing

The Balkans, a strategic region for Beijing...

The Chinese loan of EUR 509 million granted in 2019 to construct section of the Bar-Budva Freeway (with Chinese workers and materials), which will link Bar and Belgrade. This led the country’s debts to rise by 8% of GDP, though the freeway’s use will not make the investment profitable. The country had to start reimbursing debt in the summer of 2021, and has been weakened by the Covid-19 pandemic.

...On the margins of the European Union

- Candidates for EU accession
- Potential candidates for EU membership

Source: J.-B. Chastand, “La Serbie, sas d’entrée vers l’Europe pour Pékin”, Le Monde, March 19, 2021, available at: www.lemonde.fr. N.B. Since this map was drawn up, Bosnia-Herzegovina has joined the EU’s candidate countries. Translated by the author.
Figure 3: States in the region are expanding projects with China

**States of the region multiplying projects with China**

**Main projects backed by Beijing as part of the Belt and Road Initiative**

- Security
- Industry and energy
- Transport infrastructure
- Freeways
- Bridges
- Railroads
- Subways
- Airports
- Ports

- Chinese projects on the “Land-Sea Express Route”
- Confucius Institute in the Western Balkan countries
- Chinese cultural centres built on the site of the Chinese embassy bombed by NATO in 1999
- Countries seeking to attract Chinese tourists by visa exemptions

The Examples of Hungary and Serbia

Serbia and Hungary are the object of Chinese attention, and they wish to demonstrate to the EU that they have alternatives, which strengthen their room for maneuver in European negotiations. This willingness to demonstrate the levers they are capable of activating illustrates the opportunistic nature pursued by certain political leaders in the region.

**The Example of Hungary**

Hungary joined the EU in 2004, along with nine other countries. It was a country on the eastern side of the Iron Curtain during the Cold War and became anti-Communist in its aftermath. China and the states of Central and Eastern Europe took opposing paths after the events of 1989. China and Hungary drew closer together after the economic and financial crisis of 2008, when Hungary was looking for new export markets and sources of investment. At the time, China was the only major economy to continue its development and experienced only a minor slowdown. In 2011, Chinese Premier Wen Jiabao used this “window of opportunity” by visiting Budapest, to meet representatives from 16 Central and Eastern European states.

Hu Jintao attempted to further improve bilateral relations by visiting Hungary in 2004. At the time, Hungary’s role as a hub for exporting Chinese goods to the EU was being considered. The regime of Viktor Orbán, who prides himself on being at the head of an “illiberal democracy”, has also suited China’s way of doing business, whereby trade takes precedence over human rights and the rule of law issues. However, this closeness needs to be nuanced. Today, while the close Sino-Hungarian relationship is much more widely publicized, Japanese investments in Hungary are, for example, far greater than Chinese investments. That said, major projects are being launched to emphasize Hungarian-Chinese cooperation. This is particularly true of the cooperation between the University of Budapest and China’s Fudan University, which is to set up a campus in the Hungarian capital, at the cost of debts to the University of Budapest that have drawn criticism, not least from the mayor of Budapest. In addition to projects for infrastructural and scientific cooperation, Hungary’s political stance, and its indulgence of China (when the EU wishes to condemn the regime’s violations of international law) both raise questions.

**The Example of Serbia**

Under Tito, the Yugoslav regime and China already enjoyed a certain closeness, with Tito skillfully jockeying between the capitalist and Soviet worlds, and then China, after the 20th Congress of the Communist Party of the Soviet Union (CPSU) in 1956, while remaining close to the non-aligned movement. Later, during the NATO bombardment of Belgrade, the Chinese
embassy was also targeted. In 2008, Serbia sought to forge ties with countries that do not recognize Kosovo, notably Russia and China. In 2009, Serbia entered into a strategic partnership with China. During Boris Tadić’s presidency, China was considered the “fourth pillar” of Serbian foreign policy, alongside the USA, the EU and Russia. The aftermath of the economic and financial crisis, which hit the EU particularly hard, precipitated a deepening of relations between Serbia and China.

Chinese companies are investing massively in Serbia, in energy and agriculture, taking advantage of the absence of very strict European standards. The Sino-Serbian Friendship Bridge, which crosses the Danube at Belgrade, and which was largely financed with Chinese capital, should also be mentioned.

Along with Bosnia-Herzegovina, Hungary and Serbia are the beneficiaries of almost two-thirds of the projected costs of the Belt and Road Initiative in the region, with roughly half going to transport and energy infrastructure projects.

Moreover, Hungary and Serbia are both involved in the construction of a high-speed line between Budapest and Belgrade, the main project in the region, which will establish a logistical connection from the port of Piraeus in Athens – managed by Chinese shipping company COSCO – and the center of Europe. Details of the contract have been kept secret for 10 years, which can pose problems in terms of transparency and democratic control. It also feeds the argument that China is particularly aggressive in using the BRI in countries that apply relatively low standards in awarding contracts, compared to the higher standards the EU is committed to enforcing. The European Commission slowed down the construction process in order to check whether the contract attribution complies with the rules applicable within the EU. The contract was subsequently canceled, and a public tender organized. However, the tender specifications were formulated according to criteria that favored the consortium in question, which did win the contract in the end.

However, the scale of China’s presence in the region needs to be viewed in a nuanced manner: although it is widely publicized, it is in reality smaller than China’s economic presence in Western European countries. On the other hand, this presence is more insidious, as it bypasses EU standards in terms of market attributions, thereby increasing China’s ability to coerce beneficiary countries.

**Perceptions and Realities of China’s Presence in these Regions**

While the number of countries wishing to invest in Central and Eastern Europe and the Western Balkans is limited for reasons of legal certainty, these regions offer China the advantage of being a springboard to Western Europe. In fact, other European countries are more in China’s sights than Central and Eastern Europe and the Western Balkans (Annexes 3 & 4).
Indeed, foreign direct investment (FDI) is far from being over-represented in Central and Eastern Europe compared to other parts of Europe. In 2021, only 7% of Chinese outward direct investment to the EU went to the 12 EU member states that are also members of the 17+1 format. By contrast, the Benelux countries, the UK, and Germany attracted the largest share of Chinese FDI to the EU.\(^{33}\)

China’s economic presence in the Central and Eastern European region is actually minimal in terms of both FDI and trade.\(^{34}\) Thus, in 2020 the PRC’s share of imports into Central and Eastern Europe did not exceed 15%, while exports were not above 4%.\(^{35}\) In the Western Balkans, the EU was the Balkans’ main trading partner in 2021, for both exports (81%) and imports (58%).\(^{36}\) Meanwhile, China’s share of Western Balkan imports was 12% and its share of exports was almost non-existent (3%).\(^{37}\)

Yet even if Chinese FDI is modest in Central and Eastern Europe and the Western Balkans, this may not be the most important criterion for measuring China’s influence in the region, especially as infrastructure is often counted as loan funding rather than FDI.

Loans disbursed by Chinese BRI players can lead to indebtedness on the part of beneficiary countries, which are unable to repay them. This is what some researchers refer to as a “debt trap.”\(^{38}\) This expression does not meet with unanimous approval, describing the fact that China makes funds available for infrastructure projects that are risky in terms of financing, so as to “trap debtor states in a debt trap that makes them vulnerable to Chinese influence” (see Figure 6).\(^{39}\) For Florent Marciacq, “[...] recourse to Chinese soft loans leads to a toxic increase in public debt and greater dependence on China, the most striking effects of which appear in the event of default (seizure of critical infrastructures, self-interested renegotiation of debt terms, etc.). [...] Of course, China does not force Balkan countries to accept its loans. But it offers their leaders the opportunity to ‘do what they want without interfering in domestic politics’.”\(^{40}\) Irrespective of this issue,


\(^{34}\) R. Q. Turcsányi, “No, China Has Not Bought Central and Eastern Europe,” Foreign Policy, May 27, 2020.

\(^{35}\) Author’s analysis based on data from Observatory of Economic Complexity (OEC), available at: www.oec.world.


\(^{37}\) Ibid.


the regimes of the countries benefiting from the loans are criticized for decisions that run counter *firstly* to the European rules applicable in terms of awarding public contracts (open, fair and competitive tendering) and *secondly* to the recommendations arising from prior feasibility and profitability studies. As part of the Montenegrin infrastructure project, the freeway was built despite warnings from the EU.\(^{41}\) The return on investment is questionable, and construction costs far exceeded initial projections. This example shows the weakness of standards for awarding public contracts in non-EU countries and raises the question of the transparency of attribution rules and the risk of corruption. This vulnerability to China goes beyond the question of debt.

Ivana Karásková, along with her coauthors, refer to the “carrot and stick” tactics “that China uses to achieve its goals in Central Europe”. They explain that the use of "sticks" was mainly linked to the question of China’s sovereignty, particularly on the issues of Taiwan and Tibet: “China’s tactic is to signal the intention to use ‘sticks’, and the consequences this might have, before implementing them, in order to induce the adversary to act in a certain way. The effectiveness of such ‘sticks’ depends on China’s credibility in using them, and the potential damage they can do to the country they are aimed at.” So, according to these researchers, China’s reprisals do not just target the government of the other country, but sometimes also lower echelons. Following this line of reasoning, coercion in logistics could mean that a destination is not or no longer served, thus potentially depriving it of trade revenues and essential supplies. In view of these factors, China’s influence on the countries of Eastern Europe and the Western Balkans is not only confined to an analysis of Chinese FDI committed to the region.

The BRI has highlighted a number of shortcomings within the EU. If the EU wants to assert itself in Central and Eastern Europe and the Western Balkans and address these shortcomings, it needs to implement a comprehensive approach, including: the development of infrastructure in these regions; reducing development gaps with Western Europe; and positioning itself more clearly concerning enlargement, while clarifying the rules governing its relations with China.
The EU’s Means to Meet the Highlighted Shortcomings of the BRI

The EU must be proactive, and not content itself to observe Chinese actions on its periphery and within its borders. It is legitimate for the EU to attempt to redress the imbalances it has identified, to define its own logistics strategy, and to position itself vis-à-vis the various challenges revealed by the BRI, at the EU level or beyond. This involves bridging the development gaps in its neighborhood, offering EU membership prospects to the countries of the Western Balkans, or reinforcing the rules of reciprocity between the EU and China.

Developing a European geopolitical strategy to diversify supply sources and outlets

China’s attempts to influence Central and Eastern Europe and the Western Balkans are prompting reflection on the EU as a geopolitical player, and the means it can use to defend its interests both inside and outside the Union.

The EU’s geopolitical role involves securing resources and markets to reinforce the security of supplies and outlets. It is therefore essential for the EU to look for reliable partners and opportunities for substitution and diversification to avoid concentrating dependencies.

The diversification of supply sources and outlets seems particularly important to reducing dependence on players who benefit from having dominant positions. Lithuania’s exclusion from Chinese trade following the opening of a representative office in Vilnius for Taiwan, for example, shows the vulnerability to which a state trading with a country like China is exposed, which does not hesitate to resort to coercive measures, and which can use its commercial weight to achieve political goals. Awareness of such dependencies is becoming even more acute in Europe with the war in Ukraine, given EU’s previous reliance on Russia for energy.

The EU’s own geopolitical strategy is therefore firstly inward-looking, aiming to ensure security of supply and protection of the EU’s productivity and industrial base. This is based on the relocation of activities within Europe (reshoring), or in its immediate vicinity (nearshoring), and also involves closer relations with trusted partners (friendshoring), as well as the diversification of supply chains. The “China+1” strategy, aimed at reducing dependence on China by finding alternative trade partners,
certainly carries costs and creates redundancies in supply chains. But it also makes these more resilient.

In addition to the restructuring of value chains that the EU could undertake by adopting a geological strategy, the Union could also meet the expectations of a number of countries to reduce development gaps, particularly in terms of infrastructure.

**Closing the Development Gap between Beneficiary Countries and Western Europe**

It is the EU’s responsibility toward third countries that drives it to develop a policy for closing the development gap between the recipient countries and Western Europe.

In 2019, it was estimated that the need for investment in infrastructure was $350 billion worldwide.42 There is a strong need for economic, regional and societal integration in certain countries that has to be met.

According to Vienna’s *Wiener Institut für Internationale Wirtschaftsvergleiche* (WIIW), “so far, Europe has been rather passive toward the BRI and has not implemented any means to counter [the Chinese initiative]. In the east of the continent in particular, there are major infrastructure deficits and income gaps to be bridged. In addition, it would also be in Western Europe’s interests to extend its access to markets in the Eastern neighborhood with the help of modern transport infrastructures. The market potential of this neighborhood is enormous.”43 For the WIIW, the expected benefits of “better connecting the industrial centers of Western Europe with those densely populated but underdeveloped areas in its immediate vicinity” are mutual. Apart from GDP growth and job creation, these benefits also include greater economic integration and political cooperation in Europe at large. The Vienna-based institute has assessed and quantified the infrastructure needs of the Balkans, the western part of the former Soviet Union and the Caucasus at between 40% and 80% of the GDP of the countries concerned. The needs for transport electricity infrastructures are especially important.44

The *Global Gateway* is an EU strategy, worth €300 billion over the period 2021-2027, to invest in a limited number of clearly-defined

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43. P. Heimberger, M. Holzner and A. Kochnev, *op. cit*.
44. *Ibid*. 
The aim is to better meet the needs of beneficiary countries, as well as to better integrate certain regions into the global economy and international trade, by building infrastructures that open up these regions and make them more dynamic. This strategy was announced by the President of the European Commission, Ursula von der Leyen, in September 2021.

Concrete projects have been proposed as part of the Global Gateway in the Western Balkans. These include, for example, a lithium mine in Serbia and wind farm projects in Bosnia-Herzegovina.

The Global Gateway aims to “create links – not dependencies!” in the words of the Commission President, who seemed here to be implicitly referring to the criticism leveled at the BRI for the resulting indebtedness of certain beneficiary states. The European approach, von der Leyen expanded, aims to promote the connectivity of beneficiary states, helping them to develop thanks to sustainable infrastructure projects, based on transparent rules, strict environmental and social standards, and guaranteeing their political and economic sovereignty.

Faced with the growing global polarization and a particularly virulent battle of narratives (about Covid-19, the war in Ukraine, etc.), a growing skepticism toward the West is emerging. This is why the positioning of the Global Gateway as a complement or alternative to other international initiatives, such as the BRI and the Global Development Initiative on the one hand, and the Blue Dot Network, Build Back Better, and the Partnership for Global Infrastructure and Investment on the other hand, and the choice of potential partners (China, the USA, Australia and Japan) are crucial to its acceptance by beneficiary countries, and ultimately to its success.

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48. Ibid.
50. In 2018, authors such as Mario Holzner, Philipp Heimberger and Artem Kochnev argued for the creation of a European Silk Road, which should not be seen as a project in competition with China’s BRI, but as complementary. See P. Heimberger, M. Holzner and A. Kochnev, “Die ‘Europäische Seidenstraße’”, Wiener Institut für Internationale Wirtschaftsvergleiche, July 11, 2018, available at: [www.wiiw.ac.at](http://www.wiiw.ac.at). Others like Alicia García-Herrero, perhaps also with the benefit of hindsight over the intervening years, consider that the “BRI is no longer limited to infrastructure and connectivity, but has evolved into a Southern-oriented concept with an anti-Western narrative.” This interpretation would leave little room for cooperation. See A. García-Herrero, “The Belt and Road Initiative transformation makes it a more – not less – useful tool for China,” Bruegel, March 15, 2023, available at: [www.bruegel.org](http://www.bruegel.org).
Offering Real Membership Prospects to the Western Balkans While Making the EU More Functional

The EU needs to re-establish its long-standing ties with the Balkans in order to address the shortcomings highlighted by the BRI in this region. Herein lies the importance of offering real membership prospects to the Western Balkans, while at the same time making the EU more functional. This follows from the recurring debate within the EU over deepening versus widening.

The fear of some Member States is that the EU, by bringing in more and more countries, will become an unmanageable whole, with decision-making made even more difficult than it is today. Some also see the difficulties in enforcing the rule of law within the EU, with Poland and Hungary regularly opposing foreign interference, as a warning against integrating any new member with less mature institutions.

Some proposals for gradual rapprochement envisage closer ties without giving full access to all the advantages enjoyed by a Member State. This could involve, for example, conditionality that would apply after accession (such as the cooperation and verification mechanism used for Bulgaria and Romania to support judicial reform and the fight against corruption), with the ability to resort to financial sanctions, or even to threaten to exclude offenders from access to the internal market, the Schengen zone or access to Structural Funds.51

Institutional reforms are being studied in return for opening up more realistic membership prospects for the Western Balkans. This is particularly the case for limiting the unanimity principle which applies in certain areas and prevents the EU from acting with the speed that certain situations require. In particular, a working group has been set up to make the European institutions more efficient.52 However, institutional changes are only possible if there is a revision of the treaties, which requires unanimity. For the time being, therefore, achieving such a revision seems unrealistic given the profound differences within the EU.53

While making these proposals, we must also recognize that convergence between the EU and the Western Balkans is becoming

51. F. Marciacq, "Reviving Solidarity - A New Regional Approach to Integrating the Western Balkans into a Stronger European Union", Friedrich Ebert Stiftung, 2019.
53. In addition, a number of European countries are opposed to the unanimity requirement, as the recent speech by Polish Prime Minister Mateusz Morawiecki at the University of Heidelberg recalled. See R. Müller, "Ohne Nationalstaaten kein Europa," FAZ, March 20, 2023, available at: www.faz.net.
increasingly difficult as the latter draw closer to other powers. Indeed, the growing presence of third-party powers, including China, in these countries complicates their compliance with the *acquis communautaire* (particularly on environmental issues, but also on questions of personal data protection, debt levels and labor law: see chart below).\(^{54}\)

### The difficult rapprochement between the EU and the Western Balkans

Compatibility with the *acquis communautaire* is being called into question by the rapprochement of some of the Western Balkans with third-party powers. This concerns environmental issues, but also questions of personal data protection, debt levels and labor law:

- **Environmental issues:**

  Environmental standards are being impacted by Chinese BRI initiatives. The construction of coal-fired power plants and copper mines is worsening air pollution in the Balkans and neighboring EU member states. Similarly, investments in hydroelectric and coal-fired power plants, as well as in transport infrastructure in the Western Balkans, are often detrimental to environmental protection and affect the EU directly and indirectly.

- **Protection of personal data:**

  Sino-Serbian digital cooperation (smart and safe cities) represents a challenge when it comes to Serbia’s compliance with the General Data Protection Regulation (GDPR). In particular, Belgrade’s collaboration with Huawei to develop the “Safe Society” biometric surveillance project is of particular concern to Western states.

- **Debt levels:**

  In accordance with the Stability and Growth Pact, the debt must not exceed 60% of GDP. For countries like Montenegro, it would be difficult to meet such standards, given that its debt/GDP ratio was 103.28% in 2020 (with a considerable debt owed to China).

- **Employment law:**

  In December 2021, the European Parliament passed a resolution condemning forced labor at the Linglong factory in Serbia. The Parliament recognized the growing number of Chinese-Serbian contracts, the subsequent “legal privileges” granted to China and the application of Chinese labor law in Serbia. The resolution called on the Western Balkan states to remedy the human rights violations, unsafe working conditions and

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human trafficking problems affecting 500 Vietnamese workers. Serbia was also asked to “better harmonize its labor law with that of the European Union” and to “amend the law on the control of inspections to bring it into line with the relevant International Labor Organization conventions, which have been ratified by Serbia.”

**Strengthening EU-China reciprocity rules**

To play a more assertive role on the international stage, the EU needs to strengthen the rules of EU-China reciprocity. One example is the comprehensive investment agreement between China and the EU, aimed at rebalancing relations between the two parties. But it was never adopted because the European Parliament refused to do so, following China's sanctions against European researchers, MEPs, and institutions. Other instruments exist which aim at rebalancing relations between the EU and third countries in terms of trade practices, market access and responses to coercive practices and provide the means for responding to China’s operating methods in the BRI, as shown in the following table.

| Finding 1 | China employs unfair competition-distorting practices. Through the BRI, various Chinese players benefit from subsidies to export their goods to Europe, thus leading to unfair competition with their European competitors who do not benefit from such subsidies. As a result, cheap Chinese goods are flooding the European market, with transport costs only marginally reflected in the price of these goods. How can the EU react to this? The risks to which the EU is exposed in the event of non-reciprocity show the vulnerability of European industrial sectors to competition from Chinese prices that defy all competition. Examples include the steel and photovoltaic sectors, in which Europe once excelled, and which have been greatly diminished in Europe since the arrival of competitive Chinese products.  
→ To protect its industry, the EU has developed anti-dumping and anti-subsidy instruments. |
| Finding 2 | The EU was marked by Chinese foreign direct investment into the EU in 2009 and 2013, particularly in strategic assets in the Member States most affected by the euro crisis, such as Greece (port of Piraeus) or Portugal (the energy network). How can strategic assets be so easily accessible to players close to the Chinese Communist Party? As a result of these experiences, the European Commission has set up an instrument to control FDI to the EU and from third countries. Several difficulties remain: firstly, not all EU member states have an FDI screening mechanism in place; secondly, the scope and thresholds that make the instrument applicable are open to interpretation, and application is therefore |
heterogeneous; and thirdly, the European Commission cannot compel states to cancel a deal or takeover.

The aim is therefore to strengthen the existing EU FDI screening instrument, and to raise Member States’ awareness of this instrument and its use.

In the context of the BRI in Europe, the awarding of contracts is sometimes done without public procurement and is associated with tied agreements and requests for services from companies with close ties to political elites. These practices sometimes highlight the weakness of the rule of law and the corruptibility of certain political leaders in recipient countries. So, how can the applicable contract award criteria and their effectiveness in the face of observed practices be improved?

In the case of construction projects, for example, a European Directive allows for “abnormally low bids” to be rejected (or at least examined), or requires that “at least 50% of the total value of a bid’s component products” originates from the EU. Similarly, the “MEAT” (most economically advantageous tender) principle allows contracts to be awarded on the basis of criteria that ensure compatibility between the expectations of the contracting authority and the quality of the executor’s performance, taking into account price or cost over the entire life cycle, the best quality-price ratio, with the possibility of restricting the choice to a simple assessment of price or cost. Furthermore, the adoption of an instrument on international public procurement makes it possible to establish reciprocity in market access. The fact remains that these systems do not cater for the types of agreements made via other channels than public procurement (notably over the counter).

In such cases, it seems that corruption and state capture need to be tackled more, to ensure that contracts are awarded in the public interest, and that to this end they are transparent and subject to democratic control. In this connection, the work of the European Parliament’s Committee against Foreign Interference, chaired by Raphaël Glucksmann, may be mentioned. Its scope of action is broad. But, among other things, it analyzes the proximity that may exist between European political and economic spheres and those of third countries, which thus exert an influence on the former. It should also be noted that the European Commission has proposed an anti-coercion instrument to protect the EU from economic and political coercion.


These are just some of the avenues the EU is pursuing to assert itself in Central and Eastern Europe and the Western Balkans, and to implement measures to address the shortcomings highlighted by the BRI.

The war in Ukraine makes the EU’s neighborhood all the more important: if the EU has for too long considered Central and Eastern Europe and the Western Balkans to be peripheral areas, these regions
should not be taken for granted, especially if the EU’s promises fail to materialize. This is particularly true of Serbia, whose proximity to Russia and China raises questions about the EU’s room for maneuver in this country. This is even though the EU remains Serbia’s most important partner by far.55

There are also French and German initiatives for Central and Eastern Europe and the Western Balkans. For Germany, Olaf Scholz’s Prague speech in August 2022 was particularly noteworthy.56 For France, the European Political Community (EPC), which aims to promote cooperation on infrastructure and energy with countries in the EU’s neighborhood, is worth mentioning, even if it remains largely an unidentified political object at this stage. However, efforts by France and Germany, alongside the United States, to stabilize relations between Kosovo and Serbia, which were severely tested at the end of 2022, are to be commended.57 Similarly, at the European level, the Global Gateway initiative seems crucial to boosting the EU’s credibility in its neighborhood, although it needs to be given substance,58 which Germany is doing more and more.

The EU is becoming increasingly aware of the importance of its neighborhood and the influence exerted by third countries, which is motivating it to propose alternatives to these regions, and to adopt a clearer policy toward China. Over the past few years, the EU has increasingly striven to reduce dependency by diversifying supply sources and export markets, a re-definition of the ecosystems in which the EU wants to play a major role, and by introducing instruments to protect against market asymmetries. But it is certainly the EU’s leading economy, Germany, that has the most leverage. However, developments over the last few months reflect German nervousness.

Olaf Scholz’s trip to China with a business delegation in the run-up to the 20th Congress of the Chinese Communist Party (CCP) at the end of 2022 caused misunderstandings in the EU. Criticism focused in particular on the fact that the head of the German government was not accompanied by European representatives, and that this trip resulted in a EUR 10 billion deal for the chemical company BASF. It was a sign that the Chancellor is

55 The EU accounts for almost 60% of trade, 75% of FDI and 80% of financial assistance to Serbia. See F. Marciaq, “La Politique Etrangère de la Serbie -Ruptures et continuités,” Annuaire Français de Relations Internationales, Université Panthéon-Assas Centre Thucydide, 2014. Similarly, 80% of trade with Central and Eastern European countries is with the EU. See M. Eckert, “China in the Eyes of European Politicians,” Central European Institute of Asian Studies (CEIAS), October 30, 2019, available at: www.ceias.eu.
pursuing a business-as-usual policy, despite geopolitical developments calling for greater caution concerning authoritarian players such as China. Contradictory signals are blurring the clarity of Germany’s policy toward China, as the country is torn between its desire to accommodate its most important trade partner, while at the same time pursuing a certain firmness.

Olaf Scholz’s green light for Chinese shipping company COSCO to acquire a 24.9% stake in a container terminal at the port of Hamburg by the end of 2022 has also caused quite a stir.\textsuperscript{59} At the same time, questions have been raised by decisions such as COSCO’s withdrawal from its 30% stake in the Duisburg Gateway Terminal in the port of Duisburg (the world’s largest inland port), in June 2022 for reasons that have not been announced to the general public, and the German government’s opposition to the Chinese takeover of semiconductor specialist Elmos, even though the technology employed was not particularly sensitive.

In addition, a German “national security strategy” is expected to be made public in June 2023. A “China strategy” should be derived from this. It remains to be seen whether it will finally be as ambitious as envisaged in the coalition contract,\textsuperscript{60} or whether it will be watered down as a result of intra-governmental negotiations.

While Germany is likely to adopt a more assertive stance toward China, the reluctance of business circles and the fear of opening up an additional “front” to the Russian one is also causing apprehension. Meanwhile, calls for Germany to be more assertive geopolitically are proliferating among its main partners. Such assertiveness is also crucial for the EU, everywhere in its neighborhood where China, considered a “systemic rival,”\textsuperscript{61} has extended its influence, starting with Central and Eastern Europe and the Western Balkans.

\textsuperscript{59} The fate of COSCO’s stake in a container terminal in the port of Hamburg was discussed after the Chancellor’s decision, with the Federal Office for Information Security (BSI), given that the terminal is considered to be a critical infrastructure, thus potentially casting doubt on the award process.

\textsuperscript{60} Mehr Fortschritt wagen-Bündnis für Freiheit, Gerechtigkeit und Nachhaltigkeit, German Federal Government, November 24, 2021, available at: \url{www.bundesregierung.de}.

\textsuperscript{61} EU-China - A Strategic Outlook, European Commission, March 12, 2019.
Annex 1: The Belt and Road Initiative (BRI) to create a global infrastructure network

Annex 2: The BRI involves infrastructure construction, investment loans, business cost reduction and the reduction of overcapacity, but there are other objectives specific to particular regions.

Annex 3: The UK and Germany attracted by far the most Chinese investment

Annex 4: The evolution of Chinese FDI in Europe by country

Benelux gains largest share of Chinese FDI due to Philips deal

Comparison by country groups, in percent share

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<th>Germany</th>
<th>UK</th>
<th>&quot;Big 3&quot;</th>
<th>Benelux</th>
<th>Eastern Europe</th>
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Latest Publications by Cerfa


