BEIJING’S ROAD TO SOUTHEASTERN EUROPE

Chinese infrastructural investments in the Balkans and the case study of the Highway Project in Montenegro

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TESI DOCTORAL UPF 2022

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DEDICATION

In memory of my father.

ACKNOWLEDGMENTS

This was a long journey; it started in Montenegro, went through Brussels, Berkeley, and Xiamen, to terminate in Barcelona. There were too many people who helped me to accomplish this work. First, however, I am grateful to Dr. Pablo Pareja, my supervisor, who helped me navigate the sometimes-confusing waters of academic research. I wish to thank him for his fast responses and precise suggestions. I am also indebted to the Faculty of Law of Pompeu Fabra, which accepted me when I found myself trapped in a place where my research found no understanding.

I am also thankful to my first supervisor, late Prof. Predrag Simić, from the University of Belgrade, who helped me break the ground and start this work.

I am grateful to my cohort at the University of Xiamen in China, where I got acquainted with Chinese culture, her glorious history, and her splendid people. Further, I am grateful to European Institute for Asian Studies (EIAS) where I worked with some amazing people, and to the Institute of East Asian Studies (IEAS) at UC Berkeley, where I benefited from an impressive research infrastructure that I could only dream of.

Finally, all of this would not have been possible without my family, my parents who believed in me when I did not, and my lovely fiancé and our little boy, who came just in time for the final rush.

RESUMEN

La tesis doctoral analiza los principales proyectos de infraestructura desarrollados por la República Popular China en la región de los Balcanes. En particular, la tesis pone el foco en los aspectos políticos y económicos de estas infraestructuras, y busca arrojar luz sobre algunas cuestiones controvertidas que acompañan a algunos proyectos. La investigación utiliza el proyecto de carreteras en Montenegro como estudio de caso para comprender las consecuencias políticas y económicas de los acuerdos de préstamos para infraestructuras impulsados por la República Popular China. Además, la investigación examina las iniciativas regionales chinas más destacadas, como la 16+1 y la conocida como Belt and Road Initiative. De manera más concreta, la tesis investiga si China se ajusta o aleja de los dogmas económicos y políticos promovidos tradicionalmente por los países occidentales, así como si promueve modelos de desarrollo propios en la región. En su estudio de caso, la investigación analiza las relaciones entre un Estado pequeño y una superpotencia, entre un país en desarrollo y en proceso transición política de Europa y una superpotencia remota que, a través de proyectos infraestructurales, ha encontrado la manera de convertirse en un actor importante en la región. Por último, la investigación analiza la relación de los procesos de (des)democratización en la zona con el creciente compromiso con China. La tesis se sitúa en el ámbito de la política económica internacional y complementa la literatura académica existente sobre las relaciones entre China y los Balcanes.

ABSTRACT

The dissertation analyses Chinese infrastructural projects in the broader Balkan region. It focuses on the political and economic aspects of infrastructure and sheds light on some controversial aspects of the projects. The research uses the highway project in Montenegro as a case study to understand the political and economic consequences of China's loans-for-infrastructure arrangements. Furthermore, the research examines the most important Chinese regional initiatives like 16+1 and Belt and Road. It investigates whether China is competing with Western economic and political dogmas and if she promotes its developmental models to the region. In its case study, the research analyses the relations between a small state and a superpower, between a developing country in the political transition in Europe and a remote superpower that, through infrastructural projects, found ways to become an important player in the region. Finally, the research investigates the relation of (de)democratization processes in the area to increasing engagement with China. The dissertation will contribute to the literature on Sino/Balkan/CEE relations while being placed within the realm of international political economy.

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LIST OF ABBREVIATIONS

AEI - American Enterprise Institute
BBR - Belgrade-Budapest Railway
BRI - Belt and Road Initiative
CEED - Central and Eastern Development Institute
CEEC - Central and Eastern European Countries
CEE - Central Eastern Europe
CCCC - China Communications Construction Company
CIETAC - China International Economic and Trade Arbitration Commission
CMEC - China Machinery Engineering Corporation
COSCO - China Ocean Shipping Company
CRCC - China Railway Construction Corporation
CREC - China Railway Group
CRBC - China Road and Bridge
CSCEC - China State Construction
CSSC - China State Shipbuilding Corporation
CELAC - China-Community of Latin American and Caribbean States
CELSEC - China-Europe Land-Sea Express Corridor
CCP - Chinese Communist Party
COVEC - Chinese Overseas Engineering Company
DPS - Democratic Party of Socialists
DW - Deutsche Welle
DEC - Dongfang Electric Corporation
EPC engineering, procurement, and construction contract
EBRD - European Bank for Reconstruction and Development
ECB - European Central Bank
ECFR - European Council on Foreign Relations
EIB - European Investment Bank
EU - European Union
EXIM - Export-Import Bank of China
FDI - Foreign Direct Investments
FCAC - Forum on China-Africa Cooperation
GVA - Global Value Chain
GPA - Government Procurement Agreement
GDP - gross domestic product
HRADF - Hellenic Republic Asset Development Fund
HP - Hewlett-Packard
IWG - International Group on Export Credit
IMF - International Monetary Fund
IPE - International Political Economy
KUKA - Keller und Knappich Augsburg
MERICS - Mercator Institute for China Studies
EPCG - Montenegrin state-owned electric company
NCCRC - National Council for Coordination with Russia and China
MANS - Network for Affirmation of NGO Sector
NGO - non-governmental organizations
NATO - North Atlantic Treaty Organization
OBOR - One Belt One Road
PCT - Piraeus Container Terminal
OLP - Piraeus Port Authority
GDDKiA - Polish General Directorate for National Roads and Motorways
PPP - Public-Private Partnership

RMB - Renminbi
RZD - Russian Railways
SPP - Serbian Progressive Party
SCG - Shanghai Construction Group
CSCL - Shipping Container Lines
SEETO - Southeast Europe Transport Observatory
SAAs - Stabilization and Association Agreements
SASAC - State-owned Assets Supervision and Administration Commission of the State Council
SOE - state-owned enterprises
TTN - Think Tank Network
TiVA - trade-in-value-added statistics
TEN-T - Trans-European Transport Network
TFEU - Treaty on the Functioning of the European Union
UK - United Kingdom
WSJ - Wall Street Journal
WB - World Bank
WTO - World Trade Organization

PART I: INTRODUCTION, LITERATURE AND THEORY

1. INTRODUCTION

Due to the prolongation of my Ph.D. studies, for various reasons, and later relocation from the University of Montenegro, in Podgorica, to the University of Pompeu Fabra, in Barcelona (and my research visits to the USA and China), I witnessed an evolution of Chinese studies in the broader Balkan/Central and Eastern European Countries (CEEC) region in the past decade.

Through my research and my professional career, I had the opportunity to observe the rise of China and its increasing engagement with the region. That is particularly true for Montenegro, where there was almost no Chinese presence when I started my research in 2010. Instead, the Chinese rise would pop up from time to time in news articles translated from international media, contributing to the myth about the exotic giant somewhere at the end of the world, whose relevance for a small Balkan country was almost null.

Chinese economic interest was just starting to be focused on the region, with Montenegro being too small to attract Chinese companies whose appetites exceeded Montenegro's potential. There was a joke often repeated by those involved in affairs with China, that when the Montenegrin president visited his Chinese counterpart, the former has asked how big the Montenegrin population was. When the President of Montenegro said there were more than 600,000 people in the country, the Chinese President suggested that they should all join them for dinner.

On the occasion of Chinese National Day, the Chinese Embassy in Podgorica would organize a reception, as other countries do for their statehood days. Some ten years ago, it was a modest event that I attended several times. There were the usual businessmen working with China, a few people from the government, usually on the level of the vice ministers, a few diplomats, and a short, if any, appearance by the Montenegrin premier or president. As the years passed, the Chinese National Day was attended by more and more officials, and with a queue in front of the Hilton Hotel where the gathering would take place. Recently, it would be more difficult to count those who did not come to the reception, rather the other way around. It was a sign of the growing importance of China and its ever-closer relations with Montenegro.

During the last decade, from nearly an outsider, China became a significant player in the small Balkan country. For example, China holds nearly 25% of Montenegro's foreign public debt; the country is often mentioned as one of the prime examples of how large Chinese infrastructural investments can drive a country to unsustainable indebtedness. In addition, the 16+1 initiative became a platform which helped intensify the regular meetings of high-ranking officials, making China more available and more present in the country.

A similar path was followed in academia as well. In 2011, when I started Ph.D. studies at the University of Montenegro, I was the only researcher to work on issues related to China. No professors were teaching or writing in Chinese studies (in the broadest possible interpretation of that term), there were no courses even indirectly covering China, nor was there a Confucius Institute. A visiting professor from the University of Belgrade was appointed as my supervisor for my program to continue. His name was Predrag Simić, a former Ambassador of Serbia in Paris, former Chief advisor of the Serbian President, and the author of many academic books, papers, and articles, among which was the book China, a brief history (Simic, 2003). However, in his biography, the Chinese expertise was rarely mentioned, and his work on China was rarely featured within his official bibliography. This distinguished political expert, who died suddenly in 2015, did readdress his focus elsewhere from Chinese politics since, he used to say, a Chinese expert was not of use to anyone in Belgrade (private interview). The European Union (EU) integration, the North Atlantic Treaty Organization (NATO) issues and, to a significantly lesser extent, Russian politics were the hot topics within post-Milosevic Serbia's academic and political circles. This explains the complete disinterest of Montenegrin or Serbian scholars in Chinese studies.

The same can be claimed for other regional countries, such as Croatia, Macedonia, Bosnia, Herzegovina, etc. There are several valid reasons the regional scholarship neglected the Chinese rise. First, after experiencing a turbulent end to the 20th century, the former Yugoslav countries saw their academic budgets decimated. Consequently, lacking resources to devote to different research fields and regions, they focused on the most relevant research. Secondly, after the collapse of Yugoslavia, which maintained a dynamic foreign policy toward various continents, the newly established states, while gaining sovereignty, lost their international importance. Thus, the global reach of these countries became limited. Finally, while the former Yugoslavia had dynamic and intense relations with the rest of the world (mainly through the non-alignment movement), her smaller heirs had no such ambitions nor finances to support similar endeavors. Instead, the academic communities focused on issues of practical use to/for the post-crisis Balkan societies, such as EU and NATO integration, and interpretation of the turbulent history of the '90s; other global issues were neglected. In addition, the relations of China – both economic and political – with Central Eastern European (CEE)/Balkan countries were minimal, to say the least. Therefore, the academic community did not recognize the need to devote already limited capacities to Chinese studies.

A similar situation existed in most CEEC, primarily preoccupied with EU accession and finding their place within the family of developed European nations. However, it seems that the financial crisis of 2008-2009 precipitated drastic political and economic changes which affected their openness towards third countries. This political momentum has coincided with China's inevitable expansion in Europe.

The Chinese regional strategy produced the 16+1 initiative, which gathered an interesting group of countries that shared a communist past and the current aspiration of exploring the economic benefits of engaging with China. Such a grouping has also provoked an unprecedented inflation of scholarly interest in Chinese studies. If not for this Chinese approach, this research would probably not have included so many countries and would have never labeled the region as CEEC, incorporating Balkan countries into such a grouping. The area's regional universities and research institutes, reformed to look like their peer institutions in the West, have devoted significant resources to researching China. However, as is the case when starting from zero, the research is still modest, leaving an immense variety of subjects and fields still to be explored.

1.1. Topic of the research

The topic of this research is "Chinese engagement in infrastructural investments in the region," with a particular focus on the highway project in Montenegro. The research starts by exploring Chinese strategies in the CEE region, later narrowing down to infrastructural investments, and finally ending with the case study. The research explores the Chinese engagement in infrastructure as a tool to understanding its political and economic consequences, and to present to the reader its internal drivers as well as the political and economic context in which China is engaging the region.

The title of the work and its focus on bilateral relations of Montenegro and China does not mean that those who are not principally interested in this region should not find the work interesting. Indeed, the project encompasses some important international political economy and international relations subjects. The research covers aspects of connections of a small state and a superpower, of a developing country in the political transition in Europe and a remote superpower that, through its loan arrangements, found ways to become an important player in the region.

Furthermore, the paper introduces the importance of infrastructure in international political dynamics. It offers an exciting read to all those interested in developmental studies, in particular those attentive to political obsessions with infrastructural investments. Finally, the paper explores a variety of economic models and how they interact with each other, with particular attention on the EU's loss of economic hegemony in its periphery.

By observing the development of Chinese studies in the region, I managed to narrow my research focus and emphasize a very specific issue that has attracted a significant amount of international attention – the highway project in Montenegro. However, such attention has been mainly inflated by geopolitical fetishization of the Balkan region, and its stereotypical analysis, which sees this European 'problematic periphery' as a battleground for superpowers, with China arriving just in time to revive the old spirits.

Thereby, most of the analysis of the subject is primarily informed by the realist theories, which simplify the actors and their interest on the state level and frame the subject within the geopolitical/geoeconomics context. This research will take a different road by analyzing the internal driver that facilitated Chinese engagement. We will try to understand the political environment in which China is engaging with these countries, and we will offer a broader context to help comprehend Chinese success in some countries and her failure in others.

We believe the research topic has not been covered thoroughly by the previous research, which makes this dissertation novel and ground-breaking. There are papers and articles which analyze certain issues covered by this paper, but none has delved as deeply and with such detail as this research. Thus, its contribution to the scholarship is clear and recognizable. The novelty of the topic makes it an interesting addition to existent literature covering CEE-China relations. In addition, it will also contribute to the broader subject of Chinese studies.

The research project includes topics such as Chinese regional strategies in Europe, with a concentrated focus on the 16+1 mechanism and the BRI initiative, in particular its Balkan route and its implications for China-EU relations.

Furthermore, the research analyzes several large infrastructural projects involving China in CEE countries. These are divided into two groups: (1) those which represent a lucrative business for Chinese banks and state-owned enterprises (SOE), and (2) those that have a strategic reach for Chinese regional/global strategies. This difference is to be approached with caution, as the line dividing them is very thin. However, it offers the reader a meaningful perspective to keep in mind as he or she reads the paper.

The reader will find very informative the descriptive parts of the analysis of the infrastructural projects. The intention is not to overwhelm the reader with information, but to present the very development of the ideas and projects which contributed to the research and, thereby, to understand its core economic, political and, why not, cultural drivers and specificities.

1.2. Research Question

There are four main research questions which I intend to address in the dissertation. These are the research questions that emerged during the preliminary research.

1) *What are the driving factors of the Chinese infrastructure investments in the Balkans, and what are the political and economic consequences for receipt countries and the region as a whole?*
2) *Are the Chinese investments driven by Chinese grand strategies ('One Belt One Road' and '16+1') or commercial interests?*
3) *Is China promoting a new economic model or is she simply using her vast resources to promote her own economic and political interests?*
4) *What are the implications for the region's integration process/relations with EU?*

1.3. Hypothesis

These are the hypotheses that I outlined after my preliminary research and the first round of readings.

1) *China is engaging the region with increasing investments in the field of infrastructure.*

During my initial research, I found that several authors pointed out China's increasing investments in the CEE region (Golonka, 2012), while others saw a similar trend in other European regions, like southern Europe – Italy, Portugal, and Spain (See: Godement et al., 2011). These observations led to very strong statements such as, "China is buying out Europe," and "China is entering the EU through the back door." However, with further analysis, we see that Europe is the object of the increasing attention of Chinese investments.

2) *Chinese regional strategies have allowed China to create a favorable environment for its investments and to desecuritize its global narratives.*

The regional authors (Jakóbowski, 2018; Kowalski et al, 2017b; Matura, 2019; Pavlićević, 2018; R. Turcsányi & Qiaoan, 2020; Vangeli & Pavlićević, 2019) have focused on Chinese regional engagement. However, they often found that Chinese political reach in the region remains limited. In this research, we will explore whether these platforms have had an impact on Chinese engagement with the region.

3) *There are strategic infrastructure projects in which China is engaged, as well as those that have less strategic relevance and represent a lucrative business model for Chinese stakeholders.*

Chinese stakeholders showed different approaches to various infrastructural projects. In some they were more flexible than in others, and even their performance varies from project to project. We will explore whether such a difference is instrumental in dividing them in 'strategic' and 'business-as-usual' groups.

4) *China promotes its own economic model in the region.*

The Belt and Road Initiative (BRI) and 16+1 represent platforms through which China can promote its own set of values and political and economic principles that have been modeled during the Chinese long rise. While trying to "desecuritize" (Jakimów, 2019) and to hide its interest, China has found a fertile ground in some CEE countries to propose a different model of development than the one promoted by the EU and the USA. Chinese promoted projects are often in collision with the core principles of the EU integration process and could slow it down. The research will test this hypothesis and these presumptions.

5) *China exercises limited political influence in the Balkans, however, its increasing engagement with the region could place Beijing as an important regional stakeholder and could bring Beijing favorable votes within the EU.*

According to Bryant & Chou (2016, p. 115), there is a fear that "countries under Beijing's sphere of influence will begin to see the appeal of autocracy, further shunning democracy in the process and precipitating what is known as a reverse-wave of democratization." It seems so far that China has showed no enthusiasm for taking part in the sometimes-complicated political processes in the Balkans. What China has often done is to declare its support for the EU's integration of the region. It has been logical to assume that it would be in China's interest to see those Balkan countries still outside the EU join the Union. In that way, many analysts argue, China would get more favorable voices within the EU, which remains the partner of utmost importance for Beijing. However, recent developments in the region show that China is more appealing to regimes inclining towards autocracy and statist economic models.

6) *Chinese infrastructural investments in Montenegro are profit-driven, with little strategic consideration. However, due to its size and way it has been carried out, the project could have important internal political implications for Montenegro.*

In the preliminary research, and in particular in the case study, I discovered that Chinese loans are being granted with almost zero financial risk. The Chinese companies are the only ones that offer a sort of 'all inclusive' arrangement – a loan and a company to build a highway. That means that Chinese companies are making profits both on the loans and construction while dividing the risks. As the loan provider is a different entity, it has no formal connection with a construction company. We will inquire further into whether there is a 'hidden agenda' within the business-as-usual approach. A comparison is needed in order to prove this hypothesis.

1.4. The structure of the thesis

The dissertation is divided in four parts and 10 chapters. In Part I, after this short introduction, the dissertation continues with a review of the literature, showcasing the most relevant publications in the field and those papers which are not as relevant but have contributed to the research by offering a theoretical perspective. The idea is not to just name the various papers and studies, but to also indicate their topics and relevance for the dissertation.

In subchapter 2.3 we introduce the alternative literature, including the works which were of particular importance to the research and which brought a unique perspective, thus warranting the title 'alternative.' In the last subchapter of chapter 2, we present the theoretical framework of the research.

Part II is divided into five chapters. We start with the Chinese great transformation and continue with Chinese engagement with CEE countries, where we pay needed attention to the 16+1 framework. Furthermore, we analyze the BRI initiative and its importance for China-EU relations, its Balkan section, and the infrastructural investments labeled as BRI. We conclude Part II with an analysis of the political consequences and the impact on trade and investment between the region and China.

In Part III, we analyze some of the most important Chinese sponsored infrastructural projects in the Balkans. We decided to divide them into two groups, those which are not strategic as much as lucrative for Chinese firms (in chapter 6), and those that are important to Chinese regional strategies (chapter 7). One must take care in parsing this division, however, as most of these projects are lucrative for Chinese state-owned enterprises, and at the same time they are all, at some level, important for Chinese regional and global strategies. In other words, it is very difficult to distinguish what is business as usual and what is a geopolitical project.

In Part IV, we come to the most important section of the dissertation, the case study. This part is divided in two chapters covering, respectively, China's relations with Montenegro and its first loan arrangements for purchasing ships, and the highway deal. In this chapter we analyze the most important aspect of the highway project. We start by presenting a detailed chronology of how the idea was conceived and how it developed before China's involvement. Subsequently, all important aspects are analyzed, including some technical details which are instrumental in understanding Chinese behavior.

2. LITERATURE REVIEW AND THEORETICAL BACKGROUND

2.1. Literature review

When this research commenced, the literature on Sino-Balkan studies was limited and the situation remains thus, despite an increasing number of publications covering the topic. However, in addition to works covering Chinese relations with the (Western) Balkans (including but not limited to policy papers, briefs, studies, academic research, books, etc.), this dissertation reviews the literature covering Chinese relations with CEE. After establishing the 16+1 mechanism, the Balkan and CEE have been merged in China's perspective, and it seems that the scholarship has followed that path. In addition, this research found various relevant studies analyzing the BRI, for which the Balkans and CEE are some of the crucial regions.

The literature remains sparse, however, and Chinese studies are a relatively recent discovery within the Balkan and CEE academia, and as one of the more prominent scholars stressed: "more research is urgently needed if we are to gain a better, more nuanced, and more comprehensive understanding of China-CEE relations, their evolution over the recent years, and the impact of it all on a national, regional, or broader international level" (Vangeli & Pavlićević, 2019, p. 363).

Interest in Chinese studies in the CEE region started to grow in the 2010s. In Serbia, Mitrović (2014), from the University of Belgrade, was one of the rare academics researching Chinese studies. Her numerous papers, offer interesting perspectives on Sino-Serbian relations. Further, since 2010, young academics have emerged who made Sino-CEE/Balkan issues their principal or at least one of their main themes for research and teaching (see: Pavlicevic, various papers, also co-authored: 2018, 2019a, 2019b). Jovan Čavoški (2011), writing from a historical perspective, shed light on some exciting moments from Sino-Yugoslav relations and the history of relations between Yugoslavia and Asia.

The same trends can be found in Croatia, where Zvonimir Stopić (2017, 2019) provided some interesting views on how China saw Yugoslavia during the Cold War. These articles might be of less relevance for our research here; however, they give a needed perspective on a certain continuity and the existence of tradition in Sino-Balkan relations. Furthermore, these articles are important because Asian countries have rarely been researched in the region, and their importance for global history is often downplayed or ignored in Eurocentric regional scholarship. What is shared by these academics is that they spent significant time (studying or teaching) in China through various Chinese Government scholarship programs. Indeed, the number of Chinese scholarships has increased exponentially since 2010, producing an increasing number of experts, scholars, and advocates of research and interest in topics related to China.

Ms. Jasna Plevnik (2016), another influential Croatian commentator on foreign relations, believes that regional countries have a 'historic opportunity' to enchase their ties with Beijing and attract much-needed investments. Plevnik co-authored one of the rare regional books about China, together with one of the most prominent political figures in the region, the former President of Croatia, Stjepan Mesic, who was the last President of the Presidency of SFR Yugoslavia. In one of his interviews, former President Mesic used an anecdote to explain how little importance China had for Croatia when, in 2009, he made a significant effort to convince Prime Minister Ivo Sanader to have lunch with President Hu Jintao when the latter visited Croatia. President Mesic, a well-known politician in the region, has often expressed his views on the importance of China for Croatia's foreign relations and those of the area as a whole.

Since 2010 and following China's increasing engagement with CEE/Balkan countries, the regional academia and think tanks have shown a growing interest in Chinese issues, particularly its foreign policy and relations with CEE/Balkan and Europe. Once the 16+1 mechanism was established, clearly showing Chinese intentions to institutionalize relationships and plant seeds for future cooperation, the attention of academia to Chinese studies and to relations CEE/Balkan-China relations also increased. The very establishment of the 16+1 mechanism raised awareness of China around Europe. Although China established similar institutions in other regions, the 16+1 "became the most sophisticated Chinese-led regional platform" (Jakóbowski, 2018, p. 660).

From their side, the CEE countries, struggling to recover from the 2008 financial crisis and facing severe deficits of Foreign Direct Investments (FDI), showed enthusiasm, hoping that the 16+1 could open doors for Chinese investments en masse. However, as a third party, but profoundly interested in its own "periphery," official Brussels was less enthusiastic and more concerned that the Chinese somehow disregarded the EU borders and cherry-picked the countries to create its region within Europe.

Indeed, while China had similar arrangements in other continents/regions, the 16+1 was the first time China neglected existing settings to create its group of countries (Jakóbowski, 2018). As a result, *divide et impera* became a thought-provoking phrase to describe Chinese intentions in the European backyard (Chiriu, 2014). Here, it is enough to acknowledge that the institutionalization of Sino-CEE relations had attracted the significant attention of academia and motivated various researchers to analyze multiple aspects of Sino-CEE relations.

The relevant research on CEE-China and OBOR includes various studies, policy papers, briefs, and analyses from regional and European think tanks. Such reports were beneficial for research, particularly when focusing on specific aspects and case studies, which reveal concrete examples of how China and its SOEs impact the local/regional political and economic realities. Worth mentioning is the Netherlands Institute of International Relations (van der Putten, 2014) report on the Port of Piraeus, one of the most known and visible Chinese investments in the Balkans. This research showed that Chinese investment could impact critical maritime routes and the shipping industry, giving China an essential strategic platform to continue its economic and political strategies in South-East Europe (van der Putten, 2014, p. 32). Later, van der Putten (2019) argued that while at the beginning the Chinese investments in European ports were praised for their commercial purposes, as Chinese engagement and perception of that engagement changed, the assets in ports started to be politicized.

The Mercator Institute for China Studies (MERCATOR) is another institution that produced relevant research on Chinese influence in European countries, with several references to the CEE region. In one of their analyses (Benner, Gaspers, Ohlberg, Poggetti, & Shi-Kupfer, 2018), experts argue that "China's rapidly increasing political influencing efforts in Europe and the self-confident promotion of its authoritarian ideals pose a significant challenge to liberal democracy as well as Europe's values and interests." Furthermore, all of this is happening while Europe is paying more attention to Putin's Russia than to the rising aspirations of Beijing. Therefore, the authors call for a bolder and more coordinated response from Europe, which must rediscover its unity to stop the Chinese political penetration, which is being carried out under the banner of increasing economic and cultural engagement. Similar fears were already expressed in 2011 by Godement et al. (2011) in the European Council on Foreign Relations (ECFR) policy brief. The authors blame European passivity in providing much-needed loans to its members, which subsequently opened doors to Chinese money.

Even before the large projects fueled with Chinese loans flooded the CEE region, the European think-tanks were sounding alarms in Brussels, averting Chinese penetration in the European backyard. Following their Western colleagues, various CEE institutes and think/tanks redirected their focus on Chinese political and economic engagement with CEE. For example, the Central and Eastern Development Institute (CEED) issued an interesting two-part report on Chinese investment in Poland, the first titled "Partners or Rivals? Chinese investment in Central and Eastern Europe" (Golonka, 2012), with a particular focus on the Chinese first attempt to build a large infrastructural project in Europe.

The Chinese Overseas Engineering Company (COVEC) was granted a lucrative tender for building a section of the A2 highway in Poland. The project showed the complete unreadiness of the Chinese company to engage with complicated and demanding rules in an EU country. The paper came to an important conclusion: "… if strong and high-quality institutions exist, the Chinese side will respect them. China abides by a well-written rule of law. However, if the institutions are weak, the Chinese will take advantage of the loopholes (Golonka, 2012, p. 29)."

In the second part of the report titled "China and CEE – Business and Ethics," the author is rather harsh regarding the Chinese way of doing business, which is rooted in Chinese hierarchical society and recognizes no partners (read equals); the rest should be prepared for a world ordered by non-Western rules. In our interviews with Montenegrin stakeholders working with Chinese counterparts, it was clear that the Montenegrin business community experienced problems understanding the Chinese way of doing business. Yet less than a decade since the failure in Poland, a Chinese consortium won a bid in a public tender for construction of a large infrastructural project in the European Union – the first phase of the Peljesac bridge and its access roads – "a major infrastructure project in Croatian history," which was to be 85 percent funded by the EU.

The abovementioned papers portray China as a threat to the EU and its unity more than as an actor to engage with cautiousness due to its different, often even incompatible, set of values. Very often, scholars "tend to nationalize capital" and link respective investments to the national interest of the country of origin (Klinger, 2015). Further, they instead see China as a unitary actor, making no distinction between Chinese SOEs and private companies. Contrary to such views, researchers have shown that different Chinese actors have other stakes in the game, as Liou (2009) finds out when analyzing Chinese state companies. We will query whether such an observation of China as a unitary actor is applicable and whether there is a political interest in every Chinese move.

The Carnegie Endowment for International Peace (Corre, 2018) analyzed four cases – Portugal, Greece, Czech Republic, and Serbia – where China took advantage of the crisis in 2008 to buy some strategic assets in the Southern European countries. In Serbia, the authors claim that European hesitation and disinterest in recent years encouraged Chinese engagement. Further, while the EU funds maintain the most significant portion of investment in the region and at a much lower price, the local politicians sometimes tend to favor China. The EU funds (very low-interest rates, if any, and primarily non-repayable loans) have hidden costs. These are conditioned on political reforms, the rule of law, implementation of a market economy, etc. These conditions are often more problematic for local corrupt regimes inclining to authoritarianism, and which use the foreign funds to redistribute the wealth among their supporters within the business community. Thereby, Chinese loans with higher interest rates but without procurement procedures are cheaper from a political point of view. They allow these systems to continue their redistribution mechanisms while maintaining their power over the political apparatus.

There are also those researchers who portray China as an opportunity for the region, praising the win-win nature of such relations and, more importantly, they do not see China as a threat to the EU. Instead, they claim China is primarily interested in this region because of nations' membership or future membership in the EU. Some of these voices come from various think tanks (often sponsored or close to Confucius institutes) or those cooperating with the Chinese Academy of Social Science.

Liu (2014), one of the most vocal voices of this current, believes that the lack of historical conflicts or disputes between CEE and China is a good departure point for avoiding any mistrust. Liu (2019) offers numerous reasons for increasing Chinese engagement with the Balkans including: (1) 'embedded in the EU markets' with advantageous 'geographical location,' (2) cost of production, (3) close to but still not fully Europeanized standards. Yet, what the author omits in his analysis is minimal greenfield investments in the Balkan region. Instead, the Chinese are mainly using vast infrastructural opportunities to offer advantageous loans with the condition that Chinese infrastructural companies be contracted.

Most of these authors believe that there is nothing controversial in the Chinese attempt to institutionalize CEE relations through the 16+1. On the contrary, where some of their European peers see potential to weaken the EU, the supporters of Sino-CEE institutionalization praise it for being based on: (1) equal partnership, (2) loose institutionalization, (3) comprehensiveness of cooperation, (4) multi-functional arrangement, and as a (5) well-planned framework (Tianping, 2015). These works with a positive attitude towards China have been strengthened by the foundation of the China-CEE Institute, based in Budapest, and under the patronage of the Institute of European Studies of the Chinese Academy of Social Science (https://china-cee.eu/structure/). The institute is one of the newest arms of Chinese soft power in CEE.

Some of the papers emerging from the mentioned institute are rather technical and liberated from the political burden which often characterizes European and regional scholarship. An example is Chen Xin and Yang Chengyu (2016), who tried, by using mathematical models, to assess the business environment for Chinese investments in the CEE region. In addition, there are numerous papers, books, and conference proceedings produced under the patronage of the China-CEEC Think Tank Network.

A growing number of researchers are trying "to make sense of the sudden development of China-CEE relations" and of the fast-growing Chinese engagement (Vangeli & Pavlićević, 2019a). However, it seems that more than the 'suddenness' of such relations, the regional observers were surprised with the speed at which the CEE-Balkan region, for two decades focused solely on Europe (and to the USA in the security field), found itself under the increasing attention of China. Naturally, exaggerations were expected, and the alarmist tones emanated from the Western capitals, the self-declared patrons of CEE and Balkans, which seemed surprised and unprepared to see their sphere of interest infiltrated by China. Something that, for example, the Russian Federation never managed to do in the post-Cold War period, due to its lack of economic power (outside of energy supply) and an attractive political model that is not perceived as a threat as is the case with China.

According to Vangeli & Pavlićević (2019a), the institutionalization of Sino-CEE relations further complicated already complex Sino-EU relations by adding another layer. Furthermore, it also enhanced intra-European divergencies and arguments. But, on the other hand, the hegemonic confidence with which the EU has approached CEE countries in the post-socialist period, and the lack of any alternative to the EU proposed reforms and democratization process, have hidden but not extinguished the unique political landscapes of CEE countries. On the contrary, the Chinese 'new wave' – whatever the meaning attributed to it – opened doors, and liberated existing frustrations, and offered fuel for "alternatives."

In 2019, Song (2019) edited the book "China's Relations with Central and Eastern Europe: From 'Old Comrades' to New Partners," which gathered various works by some prominent and young researchers on Sino-CEE relations. The articles are mainly covering the first period of rejuvenation of Sino-CEE relations between 2010 to 2015. The period is crucial as it mainly covers the time when all parties had huge expectations and much enthusiasm about future Sino-CEE engagement.

However, the authors did provide material for future research, individuating necessary fields and issues to be covered. While the CEE started receiving some sort of Chinese attention, the year 2008 and the global financial crisis were seen as a departing date for Chinese advances towards Europe and CEE. While China proposed an ambitious plan for engaging with the region, institutionalizing the relations, and devoting substantial funding for projects, it soon came across obstacles that remain a challenge for realizing what is often agreed and announced during multilateral and bilateral meetings. Ferdinand (2019, p. 5) identified various obstacles/challenges on conceptual, practical, and strategic levels that, it could be argued, have not been overcome. On the conceptual level, there is "a shortage of mutual understanding and trust between the two sides."

In contrast, at the practical level, the heterogeneity of the CEE region (that we will mention on several occasions) creates severe obstacles for China which is treating the region as a unified whole. Finally, in strategic terms, China is not a priority for CEE, and the region's interests might diverge from Chinese policies and strategies. They might have some temptation to deepen the relations; however, they have different interests in the game.

While finding useful and valuable literature that analyses China's geopolitical and economic impact on the region, we do also understand the limitation of such works. Imprimis, the area as grouped by China is far from being a cohesive group of connected countries in which what happens in one of them might affect the others. Such an interdependence could be true if we consider subgroups within the 16+1, like Visegrad countries, former Yugoslav countries, etc. Other than that, the Chinese economic and political engagement has been limited compared to the impact of Western countries. Therefore, analyzing it by simplifying and speculating on potential implications is not of much use in understanding its importance for separate nations' political and economic dynamics.

2.2. Most relevant literature

The "China issue" initiated intra-European debates and serious discussions within the CEE countries like the Czech Republic and Hungary (see: Jacoby & Korkut, 2015; Karásková et al., 2018; Meunier et al., 2014). It added to existing divisions between liberal and conservative political spectrums, between pro-Western and pro-Eastern forces, and between those seeking more independence from the EU and firm pro-EU supporters. In Serbia, China is seen (by more conservative and nationalistic circles) as a natural ally (together with Russia) in defending the national interest (read:

Kosovo). Thus, China is often being mystified by various commentators (often including high-ranking politicians). At the same time, its self-centric and economically-driven policies are seen as a resistance against the old enemy of Western liberalism. This is the environment in which the regional scholarship operates.

Pavlićević (2019) analyses the structural power of China in the region. Using the definition provided by Keukeleire (2003), he inquires about the reach of a power such as China, particularly in light of the 16+1 mechanism. The author reminds the reader about the increase in the number of articles and analyses among Western European observers, and those who can be categorized as pro-Western (pro-EU/NATO) voices about the risk of significant Chinese engagement, which could eventually influence the 'shaping' of Balkan political dynamics. Pavlićević (2019, p. 455) divides the papers threatening Chinese behavior in the Balkans according to their perception of power.

Firstly, some tend to perceive the power classically as "an ability of A to make B do things that otherwise it would not (Dahl 1957), which rests on the hard and soft power capabilities." The second group is made up of those who follow Bachrach and Baratz (1962), who wrote that the "social and political values and institutional practices that limit the scope of the political process to public consideration of only those issues which are comparatively innocuous to A."

Unlike these papers, Pavlićević (2019) uses the notion of structural power, which, he believes, "allows one to integrate both dimensions of power." Using this concept, he challenges the previous views that see increasing Chinese influence as harmful to the EU. Instead, he claims that the EU "by strengthening and exercising its structural power through a combination of institutional, policy, regulative, and financial means" has created a setting where other forces have limited space to maneuver. The author (Pavlićević, 2019b) claims that the Berlin Process (introduced in 2014, covering essential aspects of foreign policy and infrastructural investments) is de facto affecting the relations of the Western Balkans with the EU.

It would be misguided from my side to claim otherwise, as the EU indeed created a structure (economic and political) that generates a sort of dependency relation of Western Balkans countries and the Union. Such a system, composed of norms based on market economy, proved to be an obstacle to the Chinese railway project connecting Belgrade and Budapest when Hungary had to calibrate the project to follow EU standards and procedures.

However, the situation in non-EU Balkan countries is a bit more complicated than that. The Balkan regimes showed their ability to implement cosmetic reforms which were then to be showcased to EU bureaucrats. At the same time, under the surface, they kept an entire system based on partocracy and clientelism that allowed for deeper penetration of Chinese interests. Through investments in the infrastructure and energy sectors, the Chinese money provides an essential path for authoritarian/hybrid regimes in the Balkans to continue simulating reforms towards EU integration while keeping their authoritarian contours undamaged. Researchers Markovic Khaze & Wang (2021) have questioned whether the Chinese influence could affect the EU integration process of the Western Balkans. They concluded that the EU is still by far the most important economic partner of the region. However, the Chinese influence is growing. The authors believe that countries will remain on the integration course despite the temptation to engage further with China.

Vangeli (2018, p. 676) analyses the Chinese influence in the region through the concept of 'symbolic power' – "the power to affect the thinking and behavior of others through the use of language itself and through speaking from a particular position within the constellation of power, in a way that obscures the nature of the power relationship.” The paper is departing from a “fundamental question: to what extent, in what ways and by what mechanisms does China influence the thinking and behavior of others?”

Under the theoretical umbrella of symbolic power, the author also applies participatory observation by joining in several high-level meetings at China/CEE events, making this research particularly interesting for the scholarship. The author clearly explains the theoretical framework and the difference with soft power to avoid confusion. Soft power, the author argues, requires likeability and respect in the eyes of others. Symbolic power is liberated of such conditions. Instead, it exists where the counterpart is engaging China on its terms “and whether they start expressing their interests using the concepts generated by China, all of which results in extending the universe of what is thinkable, sayable, and perceived as legitimate” (Vangeli, 2018, p. 677).

The source of Chinese symbolic capital, the author argues, lies in its economic miracle. Indeed, the economic success of a country that developed without Western liberal prescriptions gave China immense credibility in former socialist countries with varied success in transitioning from a socialist to a market economy. However, such a transition, which never ended in some Balkan countries, left an army of ‘losers,’ perceived as victims of liberal capitalism.

The author uses the 16+1 mechanism to examine the reach of Chinese symbolic power. Although its existence is undoubted, as the author supports his claims with solid theoretical works, the very possibility of constituting new regions, and creating new classifications while disrupting existing groupings and boundaries, is an indication of symbolic power. The countries which emerged after the collapse of the Eastern communist bloc were cherishing anti-communism as one of the dominant themes in political discourse, and yet, they accepted Chinese ‘communism’ rhetoric to become part of 16+1, which is, as Vangeli, (2018) concludes, a clear exercise of Chinese symbolic domination.

In another paper, Vangeli (2019) studied the cooperation of CEE-China think-tanks. The study departs from a “reflexivist perspective on diffusion,” in an asymmetrical process, where China dictates the rules; the author is inquiring about the diffusion of ideas among think tanks. As in his previous work, the author uses his vast experience with regional think-tanks, which allows him to implement observation as a method. As the author notes, the Chinese think tanks differ from their Western peers in that the former are more associated with the official foreign policy apparatus. Thus, their importance in spreading the ideas and policies of Chinese diplomacy is more nuanced. The 16+1 gave birth to Think Tank Network (TTN), which represents one of the main, if not the central agora for interaction and cooperation between Chinese and CEE think tanks. The author has no doubts that “16+1 TTN is an asymmetrical form of interaction, which is initiated, founded, predominantly funded, and managed by Chinese institutions, but is well utilized by CEE participants for their own goals.”

The analysis of Think Tanks gives us another opportunity to understand the very differences between Chinese and CEE institutions, which might create obstacles to Chinese efforts to institutionalize the relations with the CEE region. Yet, the fact is that through 16+1, BRI, TTN, and other institutions, there is more cultural, political, and economic interaction. At the same time, China seems more tangible for regional scholarship and more visible.

Jakimów (2019, p.370) for his part, analyzed ‘desecuritized narratives’ within its CEE policies, arguing that “desecuritization is a key strategy in

China’s soft power politics in the European region”: “The language emphasizing economy (rather than politics), culture (rather than norms), and sovereignty (rather than supranational commitments), alongside such negative soft power counter-securitization serves to desecuritize China and achieve a successful soft power engagement.” The author (p. 381) argues that through its “promises of economic investments and continuous promotion of its norms” wrapped in desecuritized language, “China seeks to create a receptive environment for its growing economic and political presence.”

However, he adds that such narratives also depend on CEE countries and their internal political dynamics. In other words, CEE countries are using Chinese desecuritizing discourses in relations with their negotiations with the EU or within a power struggle at home. Finally, the success of Chinese rhetoric is influenced mainly by the relations of the EU core countries and its periphery (read CEE countries). Thus, it is a “co-production” rather than a one-way street where Chinese-produced concepts are sent to the CEE audience.

By studying the Chinese academic literature, the author reveals that Beijing’s desecuritizing narratives are more likely tools in achieving some strategic goals of China in the region. The author notes that such assertiveness among some CEE countries to accept Chinese desecuritization language coincided with the rise of populist regimes inclining towards authoritarianism instead of liberal democracy. The relationship between authoritarian tendencies in the region and assertiveness towards China is of particular interest for my study here.

Kavalski (2013) elaborates the concept of normative power, where he uses Manners’s definition that “normative powers are only those actors that can ‘shape what can be “normal” in international life.’” The concept of normative power has been mainly limited to Western and European countries and has only recently begun to be applied to the Chinese reality. According to

Parker and Rosamond, the author (p. 260) suggests that the EU became a "neoliberal 'normative/cosmopolitan' power," while China is its antipode. However, the difference between the two is also found within the very nature of their normative powers: "As explained, the EU has elaborated a rule-based model of normative power, while China develops a relationship-based model." The author gives a valuable comparison and expands to China concepts previously limited to Western entities.

In another article, the same author (Kavalski, 2019) inquires what is behind the increasing Chinese engagement with the CEE countries and institutionalization of such engagement through 17+1, which comes under the BRI umbrella. The author concludes that motives are not purely economic, as many would claim. Instead, he identifies three strategic narratives motivating CEE engagement with China through the 17+1 mechanism.

The author believes that China is bringing something novel to these countries, or in his language (p. 412): "opportunities for creative foreign policy entrepreneurship." Indeed, he builds upon these claims by defining already mentioned three narratives: (1) Through BRI, some CEE countries saw an opportunity to reclaim/regain their "Europeanness," a value that inevitably aligns with anti-Russian feelings and which is contraposed to it; (2) it might sound in contrast to the first narrative, but the second is focused on the independence of CEE from the EU, which is often perceived as too invasive (both culturally and economically) in CEE countries, which showed growing sympathies for conservative statism, juxtaposed to EU liberalism. In this narrative, China offers an alternative model for 'rebellious' countries (Poland and Hungary, among others). (3) Finally, the BRI initiated a certain degree of competitiveness among the CEE states.

Some countries were keen to show their more significant strategic value than their counterparts, as defined by the number of Chinese investments.

Kavalski presented some interesting points, and while the offered narratives might vary in importance from country to country, they provide essential material for further inquiries. The BRI and Chinese engagement, in general, unleashed specific forces which were, perhaps, hidden during the EU's hegemony of the 1990s and 2000s and which came about once there was another important player in the game.

Kowalski et al. (2017) , through analyzing "South-South" narratives, searched for a political dimension within 16+1 institutions, often portrayed from China as a win-win mechanism oriented towards exclusively mutual economic benefits. The author finds a resemblance of current Chinese engagement with CEE countries within the Chinese foreign policy history, where he finds examples of Chinese identification with 'oppressed' and emerging countries. The Chinese interest in the region is mainly economic, and geographical position and a favorable economic environment are probably the main drivers of Chinese investment. However, with the growth of such assets, there are concomitant political implications.

The author recognizes that, while Sino-EU relations are placed within the North-South dichotomy in Chinese foreign policy, it seems that Sino-CEE relations are tailor-made to resemble the South-South narratives. CEE officials, though, do not appreciate such narratives. Although primarily driven by economic goals, the author concludes that the Chinese engagement brings a degree of political influence, most evident with the Czech Republic and Hungary. Further, the "growth of Chinese investments in the Czech Republic and Hungary is clearly due to the excellent political relations facilitated by the antiliberal positions of their governments" (p. 15). Finally, the Chinese investments were most generous in those countries with which China maintains 'special' political relations, or in the author's words, in those countries willing "to offer China political concessions."

This research and its conclusions are valuable, as they are reluctant to accept the 'Chinese way' concerning minor investments. The inevitable question that we are left with is whether, with continued Chinese growth and its increase in power (and maybe further polarization), such a correlation of politics and investments/economic relations will deepen?

The already mentioned Jakóbowski (2018) studies the 16+1 mechanism, in his words, "the most sophisticated Chinese-led regional platform," which includes several layers of cooperation between various institutions and governmental and non-governmental levels. The author explains how the multilateral character of these mechanisms is used as a platform for setting a general plan. However, the concretization of such cooperation is then carried out within the bilateral relations with specific countries.

The article uses comparative analysis with other Chinese-led platforms in the world: The Forum on China-Africa Cooperation (FCAC), the China-Community of Latin American and Caribbean States (CELAC) Forum. Such an approach is a valuable tool for understanding whether the Chinese approach to CEE countries is different from other regions and whether it has higher politico-strategic implications. The author raises one crucial question in the article: whether the Chinese-led platforms and regional initiatives are multilateral, or such multilateralism is just in name only. Jakóbowski (2018 p. 660), notes that while nominally multilateral, the Chinese are using these platforms as a tool to facilitate bilateral relations and exchanges with single countries. In his words, the "Regular high-level forums and sub-forums are used as intergovernmental dialogue mechanisms, aimed to develop the general agenda and instruments of China's cooperation with a given region."

For Vangeli (2017, p. 102), "The establishment of the BRI reflects that China has moved beyond what has often been referred to as a "business as usual" and "no strings attached" approach towards a form of cooperation promoting a common global vision, which involves aligning policy frameworks and agreeing on global governance issues." Following such a finding, Vangeli (2017) examines the importance of the 16+1 and the region for Chinese global strategies. The region was surprised by the sudden Chinese interest and focused on material gains and possible expansion of Chinese investments in times of long-lasting crisis and political turmoil within the union. For its part, China projected its vision and way of development in the very heart of liberal political experiments. As a result, China found itself involved in the region with which she had limited or no relations and where neoliberal economic narratives had reigned for more than a decade. The author concludes that Chinese cooperation with CEE is a prime example of China's global vision and the expansion of its political reach.

In establishing the 16+1 mechanism, China used its almost standard narrative with 'third' or 'southern' countries – the post-socialist past and shared frustrations of exclusion from the 'rich' world. In addition, the more a given country has similar internal political discourses – globalists vs. anti-globalists, west vs. east, etc. – the more China tends to highlight such narratives. However, Turcsányi & Qiaoan (2020), by analyzing "socio-cultural aspects of China-CEE relations," question the usefulness and impact of such reports. The same study gives another view of Chinese engagement with the region and then not so evident success of the 16+1 mechanism.

The authors reveal that "massive" diplomatic efforts did not improve the Chinese image within these countries. The CEE countries expected to improve their trade balance with China, hoping to increase their exports while also wishing to attract Chinese investments in the region. However, such hopes and expectations did not materialize till today and, thus, the Chinese diplomatic rhetoric started to fade. As the authors note, the region does not identify itself as a 'Global South,' the foundations on which Chinese diplomacy tried to build the ‘anti-hegemonic’ narrative and solidify relations with the region. Furthermore, the people of the area do not identify themselves with such a narrative. Instead, after being considered an underdeveloped part of Europe trying to catch up with the West, these countries are starting to join the developed part of the continent, rather than presenting themselves as the eternal poor.

Finally, the authors conclude “the experience and memory of the Communist past in the CEE may create significant historical baggage which in the context of perceived shortcomings in the economic and political spheres further problematizes the relations with China” (Turcsányi & Qiaoan, 2020, p. 3). It seems that the more China insists on shared (communist) history, the more the CEE countries perceive China as being part of the other block, and the authors question the efficiency of such narratives no matter the good intentions behind them. These diplomatic strategies are based on the rhetoric of praising traditional friendship as a way of easing the potential discomfort with China’s rising power. However, such efforts are often too weak to desecuritize the international environment.

Turcsányi (2020) dismisses both extremes – those worrying about uncontrolled Chinese engagement in the region and those who hoped that Chinese engagement would create an alternative to dependency on the West – and says both poles are to be reassured. According to the author, the Chinese-CEE relations are to remain limited for the time being, and there is no evidence of possible uncontrolled trends in that field. Turcsányi analyses the information on the economic exchange of China with the region, and he finds that often the fears of growing dominance of China are unfounded, and also that Chinese initiatives often prove to have no substantial impact on the situation in the field. The constant growth in the percentages of trade and investment is often hidden behind meager starting points. When put in perspective, only then does it reveal the minimal change we have seen thus far.

Other authors have analyzed the perception of China following her engagement in the CEE region. Anna Grzywacz (2020) analyzed academic papers covering China's issues in Poland, finding exciting ways to perceive China. Chen & Hao (2020) conducted an interesting survey among Czech students, finding that China is not gaining a positive perception among this population despite her efforts through investing in soft power. Instead, the views of China are somewhat balanced, but without attracting intense negativity as Russia and the USA do. Others (Karásková et al., 2018) analyzed the coverage of China in the media in Hungary, Czech Republic, and Slovakia, and found that increased engagement followed the more significant presence of China in the media in these countries.

The rejuvenation of relations of Sino-CEE countries was followed with enthusiasm from both parts, and this positive reception of China in the region did raise concerns in Brussels and other Western European capitals. However, as time elapsed, it became evident that ambitious expectations were not satisfied and that the two (or rather, many) sides had different interests and motivations. Thus, we see the result that was noted by the already cited Turcsányi (2020, p. 62): "While people in the region repeatedly held hopes when initially meeting great powers, they ended up being frustrated most of the time."

Matura (2019) analyzed correlations between trade, investments, and bilateral relations of CEE countries in China. Some of his findings are confirmed by this research. The most important conclusion regards a potential positive impact of good bilateral relations with China and her investments in the given country. The same author (Matura et al., 2020) edited a book titled "China and Central Europe: Success or Failure?", gathering regional scholarship and covering the relationships among several countries in the region with China. Furthermore, his research on China-Hungary relations tries to demystify the intense political relations supported by the pro-Chinese rhetoric of Victor Orban and its actual impact on economic realities and bilateral trade and investments (2017).

The above papers reflect the growing enthusiasm for Chinese studies in the CEE/Balkan region in the past decade. Moreover, they give us an analysis of growing Chinese engagement with CEE countries, showing a reaction of regional scholarship to the new player in the region. Finally, they draw a portrait of China in the area, and they provide us with tools to understand Chinese engagement. There are several layers and dimensions in which Chinese forces interact with the CEE region. More research is needed to predict further (if such a thing is possible) the future of Sino-CEE relations and understand its political implications.

These investigations and papers, produced in a decade, are not enough; there is much more to be done to flesh out this scholarship. We find several limitations in these papers (which I believe are inevitable and regular). Firstly, the grouping by China, which influenced the scholarship to wrap up all these countries into one bucket, is not 'natural' (here a huge disclaimer of the word 'natural') and does not follow a pattern or logic that substantially combines these countries. Yet, they are – until Greece joined – all post-socialist countries and they do represent a 'periphery' (again, a disclaimer on this word, as it is unjustly used for countries which do represent – both geographically, but for sure culturally – the very pinnacle of Europe) and they are, at least most of them, developing (fewer states). This grouping pushed scholarship to treat the region as a unit and to search for common patterns and similarities. This, I believe, often led scholarship to fast conclusions and vague generalizations.

These countries have different ‘communist’ histories, different experiences with transition, and culturally they are very different one from the other; they are similar to each other to the same extent that they are similar/different to other European countries. I will not elaborate further, but the point is that it is difficult to observe these countries and make conclusions on a group basis. Or, more precisely, it is not fruitful to make general observations without analyzing single cases/projects in single countries/sub-regions and then trying to deduce a logic from that analysis.

The very motivation for this paper is founded on the belief that each country/project/investment has its own story worth telling if we want to find a pattern and logic connecting them. Having an in-depth analysis of specific projects and cases is always valuable as we attempt to draw reliable conclusions, social sciences permitting.

Second, the papers above take limited interest in internal drivers that support and later interact with Chinese investment. Often, the internal political dynamics are primary motivators for significant infrastructural investments. At the same time, China is only a money provider, and its rhetoric or grand strategy is not of much interest for the host country initially. The international relations scholarship often assumes the potential political implication of massive foreign investments. However, the host countries are keen to accept that rhetoric to attract investments. Often, these countries are not interested in big game politics but rather in capturing foreign investment opportunities seen as a *conditio sine qua non* for economic growth.

Finally, there has been only a decade of more intense Chinese interaction with the CEE countries, and where we see the parties showing an enthusiasm for cooperation. In the world order, which is changing, the USA is often reluctant to engage China in remote areas, and the European Union fails due to its inability to rediscover unity, what with the United Kingdom (UK) leaving the union. The relations of CEE with China have more appeal than was the case two decades ago.

2.3. Alternative literature

This research has included an analysis of processes that were happening during the investigation. Thereby, the core of the material has come from primary sources, newspapers, governmental documentation, contracts, interviews, etc. Furthermore, we used the most relevant literature on CEE-China relations that were mentioned above. However, it would be unfair not to mention the literature that inspired the initial work and offered a theoretical background for our research. While some of these works might not be quoted in the coming chapters, they deserve to be mentioned in the literature review.

In his epic work titled *Development Projects Observed*, Albert O. Hirschman, (2011) has analyzed big projects in developing countries. Often, the difficulties of such complicated public works were ignored or were just unknown to initiators—such a lack of knowledge allowed for unexpected creativity, which otherwise would never have happened. Through the concept of Hiding Hand, a way of "inducing action through error, the error being an underestimate of the project's costs or difficulties," Hirschman explains the emergence of positive creativity from ignorance and gives an alternative approach to large projects (2011, p. 27). I will probably suggest different motivations behind the investments in the highway in Montenegro (the case study in this dissertation), however, the works of this notable author were of immense inspiration for my dissertation.

In another outstanding piece, *Railroaded: The Transcontinentals and the Making of Modern America,* Richard White (2011), offers us a tale of a project that will define the socio-economic contours of an emerging United States. Far away geographically and placed in different historical spaces, these books have a narrative that we found helpful for the case study in this dissertation, as it explains how the connection between politics and emerging capitalists, between public money and private business, can be interrelated. Both Hirschman and White leave us an exciting narrative of the infrastructural projects and give a more in-depth analysis, which is not so common for purely political or economic papers.

In addition to the great works mentioned above, I found myself immersed in the vast literature of anthropology, while also trying not to derail from my field of international political economy. While researching the motives and drivers behind the Montenegrin highway projects, I realized the story is more profound than economics and politics could explain; thus, an anthropological view must be introduced. The "roads have meanings that go well beyond their physical functionality" and deserve to be treated accordingly (Harvey and Knox, 2015, p. 7). Their political importance is so vital that, as the authors note, Fujimori, the pariah president of Peru, still has supporters even after he was found guilty on several corruption charges, and this is, according to Harvey and Knox (2015), due to his infrastructure projects. The mantra these authors mention in their work on Peru applies perfectly for Montenegro: "he might have stolen, but at least he did things" (Harvey and Knox, 2015, p. 145). Yet, while probably aware that they will be remembered for the devastation of industry, failed privatizations, the erosion of education and health care systems, and rampant public debt, they will try to make sure to be also recognized as those who "at least did things."

Larkin‘s (2013) ‘fetish-like aspects' of the roads give us an essential tool to understand what seems incomprehensible when using language of economics and political science. By reading Dalakoglou (2010), we tried to understand the similarities between the roads without cars in socialist Albania and the ‘Chinese’ highway from nowhere to nowhere in Montenegro. Larkin (2013, p. 334) quotes De Boeck: “Yes, we’ll be the victims,” one fisherman says, “but still it will be beautiful.” This was the same comment we heard from an old peasant selling fruit on a small stand by the old motorway, which even new will most probably be deserted, and the new thoroughfare will jeopardize his economic activity. However, he was bold in his statement: “Yes, it might create debt for the country, but it will be magnificent, look at it,” he was saying while pointing to a truly astonishing bridge over the Moraca river, just outside of the capital city. While dependent on the existing road for their economic survival, the local community has no problems ‘scarifying’ themselves for the greater good – and what greater good can there be than a ‘magnificent’ highway. These voices from the field help us understand the temptation of the politicians to scarify the stability of public finances to build impressive infrastructural projects that most probably have more symbolic than practical use.

Other anthropologists have tried to offer a more comprehensive picture by placing the Chinese investments in a political context. They analyze the impact of Chinese financial engagements in developing countries. African states' experience is even more relevant here than comparing the Balkan region with the western developed countries. Following those tracks, we use the work of Ching Kwan Lee, (2014, p. 36), who finds that Chinese SOEs are as profit-driven as their Western counterparts; however, “between profit optimization and profit maximization lies the space for achieving other types of return—political influence and access to raw materials.” When analyzing Chinese investment in Zambia, Lee (2014, p. 41) argues that Chinese loans are more expensive than similar loans from the World Bank, and the same can be claimed in the CEE/Balkan region when comparing Chinese loans to EU grants. However, as Lee (2014, p. 41) points out, “The reason these loans are eagerly snapped up, according to Zambian Finance Ministry officials, is because the priorities of Western lenders have shifted to capacity building—social services, education, health, and poverty alleviation—rather than physical infrastructure, which is still sorely needed in many developing economies."

The nature of the ruling power in Montenegro is not democratic; the democratization process in the smallest of Balkan countries was not bottom-up. Instead, it was a top-down approach. The ruling elite has initiated democratization processes under international pressure in order to attract foreign support to remain in power, as opposed to the autocratic rule of Slobodan Milosevic in Serbia. The ruler turned to different stakeholders whenever the international stakeholders pushed for more in-depth reforms and a more concrete fight against corruption and organized crime. Between 2005 and 2010, Russia was the leading cash provider (not through state loans but rather through crony capitalists and tycoons who flooded Montenegro with their money). The Russian capital was subsequently used to create a business elite that would allow economic control despite privatization and free markets. When the EU and Russia clashed, Milosevic turned against Russia to regain trust and support from the West, and the country resumed its cosmetic reform process.

The outcome of these processes is a sort of 'mafia state,' as explained in Csillag & Szelényi (2015): "In such a system the prime minister acts as a Godfather, (capofamiglia, the Don) and uses public authority to pursue his economic interests and the economic interests of his real and "adopted" families (composed of all loyal followers) in an unpredictable (un-orthodox), illegitimate and un-ideological way (2014:10 and 14)." These quotes best describe the nature of the political system ruling Montenegro for more than 30 years.

Yet, as in Mbembe's (2001) Africa, in Montenegro too, we need to consider the following: "Where material incentives were not enough to induce unconditional submission, 'spontaneous' obedience, or evidence of 'gratitude' on the part of those subjected, there was massive resort to public coercion." The Chinese loans and investments are to be placed in that framework, and their 'no strings attached' character makes them more potent than their actual financial size.

This area of literature is here to help us go beyond the geopolitical/geoeconomics narrative in which authors often fall. It gives us another perspective to prove or dismiss our claims and to have a broader picture of the situation. It will help us (1) escape the CEE/Balkan region and find similar patterns in other remote and not-so-apparent models for comparisons. However, we need, and would appreciate, understanding how the pattern of behavior regarding Chinese engagement in the CEE region differs or is similar to that of other areas and models. (2) It will allow us to go much more into detail when analyzing the case study. The intention here is not to just mention the facts and data and use numbers to prove or dismiss the eventual hypothesis. Instead, we wish to examine the root of an idea for which the Chinese institutions offered financing and construction expertise.

2.4. International Political Economy

The research presented here will be placed within the literature on Sino-CEE/Balkan studies and, without a doubt, this dissertation will contribute significantly to the existing bibliography. However, the banner under which this research is conducted, and its more general theoretical background, is International Political Economy (IPE).

The IPE emerged as a discipline that combines economic and political aspects into one, where the political and the economic interact and coexist. As a relatively novel discipline, it has proved to be somehow more flexible and 'highly interdisciplinary,' opening its doors to political science and '(incorporating) research from economics, sociology and other social sciences' (Schwitzner & Kahl, 2012, p. 49). This dissertation shall not claim any theoretical purity. As could be deduced from what is outlined above, it will be deliberately engage with various fields, unleashing the full potential of what Dickins (2006), called the 'promiscuity' of the IPE.

The Chinese investments in the Balkans raised the question of 'an alternative economic/developmental model' challenging the Western widely accepted model of economic development and political norms leading towards liberal democracy. Therefore, the IPE, which is by its nature concerned with this "structural change in the global economy" (Roden, 2003, p. 193), (I hope I did not misuse here the author's concept, as I have extracted it and placed it in a different context), becomes as an obvious theoretical background for the research.

The reader will find this interaction between the political and the economic most visible in the case study analysis. In the Balkan countries with, their enduring economic and political transition process, nothing is more appropriate than Gilpin's "Politics determines the framework of economic activity" (quoted in Cohen, 2008, p. 16). The economic, political, and even anthropological issues merge and meld and must be considered if we want to provide an adequate analysis. This research will argue that politics hold such a firm grip over the economy in these countries that a purely economic analysis – particularly the part of the economy that believes it can apply mathematical formulas to explain economic phenomena – cannot be adequate. We accept the concept of Susanne Strange, that IPE should be "about justice, as well as efficiency: about order and national identity and cohesion, even self-respect, as well as about cost and price" (quoted in Cohen, 2008, p. 56), and not only about economy.

This research juxtaposes two competing developmental and economic theories which I, perhaps somewhat inadequately, summarize within the concepts of the Washington Consensus (or the Western model) and the Beijing Consensus (or the Chinese model) and their political motives. Further, I try to understand if they are driving factors behind political interactions and the dynamics of respective political forces in our region of interest. Finally, we are obliged to engage in a short theoretical discussion of some of the terms mentioned above, such as neoliberalism, the Chinese model, post-socialist transitional societies, and EU integration. All these terms are crucial to understanding the political processes happening in the region and the Chinese role within it.

In the case of the Balkan countries, it is less easy than sometimes appears to define the economic and political paths of countries' political systems. Namely, these countries combine a strong Western influence, which came as a mutation of neoliberalism, and which interacts and mixes with their statist heritage as former socialist states. Thus, the result is not what logic would expect – a middle way – instead, we have a strange form of extreme aspects of both forms combining with each other. In parallel, the Chinese influence comes as another force that fuels statism and this unique native economic path, and inevitably clashes with the Western-style neoliberal model. Consequently, a question shall be raised whether China promotes and pushes its model of capitalism (someone has even called it Sino-capitalism, see: McNally, 2012).

The tendency of contemporary IPE scholars (Leiteritz, 2005) is not to follow a particular theory blindly but rather to address its specific aspects. I intend to take the same approach and not be too impressed by one particular model. The reader will appreciate a sometimes-central role of the state (a central idea for the American school of IPE) in these economic processes. On the hand, the dissertation will tend to reveal other/alternative forces imposing themselves within political and economic arenas (which is something that would incline toward the British/European IPE school, see: Cohen, 2008). This is to say that this research does not fully bound to any of the schools.

However, I believe that the complexity of contemporary international relations and economic models challenges the state-centric view. Even in the case of traditional state actors (as state-owned companies), we find other motives in addition to the (geo)strategic. Neo-Gramscian theories thus provide us with essential tools for making sense of and interpreting these complexities.

In addition to the political/economic forces mentioned above, competing in the region of interest, another vital force plays an essential role within all these processes: The EU integration process, which is a set of economic/political/legal rules that regulate almost every sphere of a receipt country. Unfortunately, it sometimes seems that American scholars neglect these typically continental political forces which lie in between technical matters and political goals.

We decided to use the case study method to answer the research question better. Odell (2001) gives an exhausting review of the advantages and disadvantages of using the case study in IPE. The statistical method shall not be neglected, and it will help compare Chinese engagement in the region to Chinese investments elsewhere. However, I believe the quantitative method is not enough to provide the answers we seek. Hence, the case study and qualitative methods are there to complement each other.

The case study that I chose – Chinese infrastructural investments in Montenegro – offers an ideal example of the interaction of various economic models and political paths that are interacting/competing. Thus, again, IPE here seems an obvious theoretical framework. Montenegro, a country in transition from socialism to a liberal economy, and which experienced political turmoil and conflicts that are less known to the broader public, was characterized by neoliberal postulates used as the principal tools in creating a market economy. However, the former communist party, which changed its name and modernized its structure, and which has ruled since 1990, never entirely gave up its control over spheres that are typically de-politicized in the Western liberal societies. This means that the economy never manages to escape politics. Consequently, analyzing one without the other is almost impossible. While challenged by new agencies that have their own voices within society, the state has tried to maintain its dominant position.

This could lead us to realist theories that see a centric role for the state, with political processes subordinated to the primary goal – survival of the state. Yet, here we enter a very sensitive field, as the regime is older than the state in Montenegro. Namely, the same rebranded communist party was one of the leading advocates of remaining in Yugoslavia when other Yugoslav republics decided to split. At the time, it negated the very identity of Montenegrins as a nation. Later, the same political elite decided that independence was a core priority; suddenly, the Montenegrin national identity became enhanced while the regime distanced itself from the unionist ideology. The same U-turn happened from anti-European and anti-Western rhetoric towards a pro-EU, pro-NATO politics. It means that the regime that was pursuing its own survival modeled the state and nationhood according to its interest. Thus, while someone could assume that Montenegro followed realist trajectories, where actors follow their interests, we have a political elite ready to subordinate the state to its survival. Here, one of the core ideas of realism – the centrality of the state – is challenged.

Another fundamental reason for dismissing realist theories is a non-state political force – the EU integration process. Such a process is a novelty, at least in its current form, as it has the power to re-shape the institutional setting of a given country and influence changes that are not always welcomed by the regime, as this process can lead to the establishment of independent (sometimes semi-independent is the only possible outcome) institutions that turn by default against the ruling elite. In addition, EU integration also has a direct influence on the international relations of a given country. For that reason, actors that appear to be stronger than the state–realist theories would imply are not adequate for framing Montenegrin's case.

Finally, we find agreement with Gramsci's ideas, later re-formulated by Robert Cox (see: Roden, 2003), the father of the so-called British school of IPE, where a concept of political society challenges the state. Here we see that the political society (and a political elite within it) defined the concept of the state according to their interests/ideas.

2.5. Methodology

The research is rather contemporary, and has followed the processes which were evolving during the very research, and even on the eve of its publication. Covering such current processes means having limited literature available; thus, the research has heavily relied upon (at least in its case study) primary resources, using various governmental and legal documents. In the case study, the research used many documents that were declared secret by the government at the time but were made available by whistleblowers and people who believed that some aspects of the project should be published.

As the research winds to a close, Montenegro has experienced the first democratic regime change in its history, ending a 30-year monopoly on power by the former communist party. The new government has declassified many legal documents and governmental decisions which were mostly kept secret in the past. However, even before the new government's actions, various whistle-blowers and interviewees were brave enough to share data that had been (unjustly) classified. The opportunity to analyze feasibility studies, contracts and documents that were kept secret, has offered us the potential to understand the true motives behind the highway project in Montenegro. If not for those who were ready to share these papers, our knowledge would have relied on the government's official narratives and the limited information discovered by the press.

The interviews with people who participated in the highway project since its beginning were an essential source of information that has helped produce an accurate chronology of the events and offered a solid analysis for readers. Newspaper articles often provided novel information and represent another primary source for our research. Using the primary resources and interviews was essential in helping to produce novel research that could be used in further scholarship of Chinese studies. While the primary resources were mainly used in case study part, the secondary resources were mostly used for other parts of the research. Wherever needed, we consulted legal documents and analyzed them diligently.

PART II: CHINESE REGIONAL STRATEGIES IN CEE COUNTRIES

3. CHINA AND CEE REGION

The 16 (17)+1 and other regional initiatives like the Forum on China-Africa Cooperation (FOCAC), the China-Arab States Forum, Latin America and the Caribbean (China-CELAC Forum or CCF), and South-East Asia (Mekong-Lancang Cooperation) play an essential role in establishing the links between China and distant regions. Moreover, these mechanisms strengthen and routinize the exchanges with regional countries and create a cluster where Beijing can promote its political and economic interests.

The New Silk Road initiative (later in the text, Belt and Road Initiative - BRI) has a more complex purpose as it offers something more tangible to the international community. It represents a vision of connectivity for developing countries and a sense of purpose to regions often neglected by the international community and that existed as a distant periphery of the developed world. The BRI gives hope to developing countries that they might become subjects that participate in the third wave of industrialization and are not just simple objects and consumers of economic processes designed by developed countries. China initiated the 16+1 mechanism before the launching of the BRI; however, it put it to good use in the BRI, as a "regional approach is logistically convenient for the Chinese government" (Okano-Heijmans & Lanting, p. 61).

The BRI is a tool for China to offer its economic model to the world and promote its values. The platform that serves to continue China's economic growth and to fulfill yet another step in its economic transformation (expand trade, encourage the service sector, export materials like steel and iron through infrastructure projects, unleash its large SOEs, and use its reserves to promote its expansion). However, the question is not only economical, and as German Foreign Minister Sigmar Gabriel said at the Munich Security Conference, "China is developing a comprehensive systemic alternative to the Western model that, in contrast to our own, is not founded on freedom, democracy and individual human rights” (Federal Foreign Office, 2018).

These two mechanisms – 16+1 and BRI – are the leading platforms through which China is developing its relations with CEE countries. This research analyzes the connections between CEE and China through these political initiatives to understand their economic and political implications.

3.1. The Chinese Great Transformation

In the early stages of the economic reforms initiated in the late 1970s by Paramount Leader of China Deng Xiaoping, the Chinese state-owned enterprises (SOEs) were allowed to invest abroad. Still, such activity was modest, and it was primarily focused on the field of natural resource exploration. In the 1990s, continuing the path of the great economic transformation, the SOEs were reformed and modernized to allow foreign capitalization and to be able to compete abroad with their Western counterparts.

In the nineties, the Chinese leadership, led by Jiang Zemin, launched the “going out” strategy, which encouraged Chinese companies, whether the SEOs or private enterprises, to invest abroad (E. C. Economy, 2014). Initially, the SEOs were the leading investors; the main destination was the Asian, Latin American, and European markets, while there were also significant investments in North America and Africa (MOFCOM, 2010). However, in the early stages of the going out strategies, the Chinese investments (USD 2,7 billion in 2002, USD 68,81 billion in 2010, MOFCOM, 2010) were limited compared to those of the USA (USD 1,32 trillion in 2000, USD 3,74 trillion in 2010, (statista.com, n.d.), or the leading EU economies (USD 122,41 billion in 2000, USD 203,08 billion in 2010, statista.com).

At the time, and this research refers to the period before the 2010s, China was a world factory. The developing infrastructure, cheap labor, and the potentials of an enormous market of nearly 1,4 billion people attracted large foreign enterprises. Nevertheless, unlike the other world factories (those in Eastern Europe or Southern Asia), China was preparing to elevate its status and explore an ever-complicated global value chain. Thus, for example, instead of allowing the US-based internet giants like Google, Facebook (and other social network platforms), Amazon, and YouTube to take over the Chinese markets, official Beijing, under the pretext of security issues and its internal particularities, significantly restricted the domestic market. In parallel, it encouraged internet giants like Baidu, Weibo, Youku and Weixin, which took over the Chinese market. Something similar has happened with Alibaba, an equivalent to the US-based Amazon.

Instead of only producing vehicles, China made sure to acquire the leading Western-based companies (see Volvo, in Ambler, 2018) and use its know-how to allow her car industry to flourish. Following that pattern, the Chinese company Qianjiang Group Co. purchased the Italian-based motorcycle producer Benelli previously owned by Merloni Group. As a result, it is now constantly increasing its market share, aiming to create the leading motorcycle producer in the world (New Europe, 2005). Many post-socialist countries in CEE Europe opened their markets to international corporations soon after the collapse of communism. However, China was opening its markets gradually while insisting on technology transfer. In the early 2010s, China adopted policies that required foreign companies to transfer their know-how, provide programing codes, and store data within China (Godement & Vasselier, 2017). In addition, China used its status as a ‘developing’ nation to restrict foreign investments in 11 sectors (Godement and Vasselier, 2017). In this way, it allowed its companies, like Huawei, Xiaomi, and Tencent, to become champions of their industries.

The decades of substantial investments in infrastructure, often attractive and sophisticated, were produced by Chinese companies, which subsequently gave rise to international construction companies such as China State Construction Engineering Corporation (CSCEC), China Railway Construction Corporation (CRCC), China Communications Construction Group (CCCC), Shanghai Construction Group (SCG), etc.

Thus, it was not the case that at the beginning of the third decade of the 21st century, China was preparing for another step to diversify and transform its economy to a service-based and start producing sophisticated high technology products. The Chinese economic strategy went hand in hand with a change in its political paradigm as well, which Holslag (2017) defines as a shift from defensive mercantilism (protecting domestic market) to its offensive form (proactively exploring markets abroad). The intention is to transform the "labor-intensive factories" into "capital-intensive high-tech producers." At the same time, the intensive manufacturing, currently outsourced abroad, should become integrated into the Chinese value chains, or in Holslag's words: "China wants to have a Chinese alternative to today's multinationals" (Holslag, 2017, p. 56). Hence, while trying to conquer Chinese markets, the Western companies have played the "Chinese game," as they offered their know-how to Chinese companies, often state-owned (or state controlled through the the Chinese Communist Party (CCP)), which were in turn acquiring the technology needed to conquer the Western markets.

The labor unions and various so-called "populist" parties in Europe and the USA often accused their large corporations of "stealing their jobs" because they were outsourcing to China. However, now the Chinese companies are becoming competitors of those corporations that once saw China as just a perfect place to outsource.

The Western stakeholders are complaining that China never allowed for equal treatment in its market (businesseurope.eu, 2020). Instead, under the banner of a developing country and a non-market economy, China managed to protect its industries from foreign competition. In parallel, it created a system in which, once it opens, there will not be a need for Western corporations and goods. Instead, Chinese companies will satisfy their market demand while also becoming competitive in foreign markets. It seems that China simulated the "opening up" process for its own advantage.

China's economic success unavoidably created political implications: putting the country in a hotspot of international politics. Deng's approach summarized in his words: "Hide brightness, cherish obscurity," was not an option for the Chinese leadership (E. Economy, 2010), as the country has entered a developed stage of economic transformation. The international community has recognized her political and economic importance, and she cannot hide it anymore. To maintain internal stability, due to its political and social characteristics, China requires a steady annual gross domestic product (GDP) growth, an unobstructed flow of resources, and the availability of new markets. However, the international environment is becoming more and more assertive towards China and the Western powers are often becoming hostile towards Chinese-led initiatives. As a result, the Chinese engagement with other countries and regional initiatives is starting to face resistance from its main competitors, while her desecuritizing strategies have dubious results.

Foreign relations play a crucial role in creating a friendly environment for accommodating China as a global economic leader. Chinese diplomacy must ensure that China is accepted and avoid potential resistance backed by the USA and EU (as the parties most concerned with Chinese economic upgrade). Thereby, the narrative of China as a benevolent superpower, a country primarily interested in economic cooperation and cultural exchange and a strong promoter of sovereignty and not interference in the internal affairs of others, needed to be promoted actively and not just declaratively. The period when it was enough to stay aside and not interfere seems to be over, and Chinese status requires a more complex set of international relations.

The Chinese political strategies were carefully designed to better serve China's silent rise. After the Maoist period and Deng Xiaoping's leadership, the CCP managed to create a political system which allowed for peaceful transitions in leadership, and gradual ascendence to power of the chosen candidates. The contenders for the top leadership posts were the fruit of a consensus reached through a contained struggle between various political groups. Such a peaceful transition has offered political stability and prevented the rebirth of a Mao- like strongman. According to Shirk (2018), such a system was possible due to a systemic approach initiated by Deng Xiaoping who believed that Mao was the fruit of a system dominated by a concentration of power that he was determined to transform into what is now known as 'collective leadership.' The political transformation has allowed China to implement its various stages of development without being disturbed by the international environment. The internal political system has been instrumental in achieving a friendly international context, where China was seen as a purely economic player, without much interest in involving itself in complicated international crises.

The collective leadership approach has worked for China through the leadership of Jiang Zemin and Hu Jintao, and it was hoped that it would be resistant to future strong leaders. However, Chairman Xi, since the beginning has shown a willingness to acquire more power than his predecessors. The observers have no doubts that he "is taking China back to personalistic leadership” (Shirk, 2018, p. 23). He has taken control of almost every aspect of leadership and every institution, including the military (Shirk, 2018).

Thereby, the transition to the next stage of economic transformation, which required a more assertive political agenda, has coincided with a political transformation. In his now famous three-hour speech, analyzed by Shirk, (2018, 29), Xi repeatedly uses the phrase “new era.” The era in which Chinese politics will follow its economic path, showing more assertiveness and initiative in the realm of international politics. According to Z. Lin (2019), Xi has approached domestic and foreign policy in a more coordinated way, which is unprecedented in modern Chinese history. Lin (2019, p. 32) argued that “Xi managed to elevate diplomacy to the same height of that of domestic policies and invested sufficient amount of his political capital to drive home that point with vigor and breathtaking speed.”

Furthermore, Xi’s leadership began during a very particular time for the global politics, when the world started to feel the political consequences of the terrible financial and economic crisis of 2009. The rise of right-wing political forces that started in the aftermath of the crisis, reached its peak when Donald J. Trump was elected President of the United States of America. His foreign policy was unique, and it was focused on downsizing the US presence in various regions. However, China was at the top of his agenda, and it was often blamed for taking advantage of the West’s liberal economic policies. Thus, Trump was determined to put an end to China’s ‘stealing of jobs’ and ‘make America great again’. His anti-globalist policy agenda has created disputes even with the USA’s traditional allies in Europe and elsewhere. Within the EU, Trump found reliable partners within those forces that nurtured similar political goals. It came as a paradox, but China started to act as a promoter of open trade and international cooperation. It seemed that Chinese international role started to fulfill the vacuums created by the American retreat.

Accordingly, China intensified its cooperation with CEE countries at a very particular moment for its global positioning. Namely, just as it was starting to become too big not to be noticed, in the early 2010s. In parallel, the CEE countries that were members of the union were feeling anxious inside the EU, which was blamed for a soft response to the crisis. They were looking to ways to diversify their economic dependency through a more assertive foreign policy toward third countries. Furthermore, the Western Balkans started to face a stagnation in the EU integration process and were desperately seeking new ways of financing for their infrastructural needs.

3.2. Institutionalization of China-CEE Relations

In June 2011, in Budapest, the Hungarian Ministry of National Development hosted the China-Central and Eastern European Countries (CEEC) Economic and Trade Forum. Chinese Premier Wen Jiabao and his Hungarian counterpart, Viktor Orban, attended the forum, along with more than 600 "senior government officials and business representatives" (Embassy of the People's Republic of China in the United States, 2011). As a result, the parties decided to institutionalize the summit and meet at the highest level once a year; this created the 16+1 mechanism as we know it today (later to become 17+1). However, according to Okano-Heijmans & Lanting (2015), the CEE countries perceived the summit as a single event, while China guided it immediately towards institutionalization and, in a rather unilateral way, proceeded with the publication of "China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries."

In his meeting address, Premier Wen Jiabao reminded the crowd about the history of relations between CEE countries and China, dating as far as 2,000 years ago, and the historical Silk Road linking these distant regions. Furthermore, Premier Wen recognized the significant changes that most of these countries had experienced during the previous few decades, asserting that they always preserved "mutual respect, mutual trust, mutual understanding, and mutual support" (China Daily, 2011). Finally, Premier Wen outlined what will later become guidance for improving Sino-CEE relations: increasing bilateral trade, promoting investments, cooperation in infrastructure development, increasing fiscal and financial cooperation, and expanding cultural, educational, and other non-economic spheres (China-CEEC.org, 2015).

At the time of the Budapest Forum, the relations of CEE countries with China were relatively modest. Thus, the countries involved saw an opportunity to improve their relations with China, especially in economic cooperation. The timing of the Chinese 'arrival' is essential to understand the enthusiasm in CEE countries for welcoming a new player in the region. The financial and economic crisis of 2007-2008 was recently over, but its devastating consequences continued to affect the CEE economies, which had been severely affected by the crisis. While they held fewer complicated financial products than Western economies, their dependence on foreign capital flows and Western financial institutions caused severe damage to their systems (Martin et al., 2010).

Indeed, in 2012, the data from the European Bank for Reconstruction and Development (EBRD) showed the outflow of capital from the CEE economies and low growth, actually lower than previous more optimistic predictions (Golonka, 2012). The ownership of the banks is another field where the CEE countries show (except Poland) an evident dependency on the foreign capital. The large Western European banks own ¾ of the banks in the region. Such a dependency means that their decisions at home directly affect their business strategies in the CEE countries (Golonka, 2012, p. 18). Following that premise, Popov & Udell (2012) found that credit restrictions caused by financial turmoil in the West have caused restrictions on banks' lending in central and eastern Europe. Thus, the crisis showed that CEE political elites need to find other funding sources and strive for more financial and economic diversification.

The crisis had its effect on political dynamics as well. The social turmoil created by the crisis strengthened the right-wing parties around Europe, which often showed less enthusiasm for EU values. Funke & Trebesch (2017) summarized the political implications of the crisis: "Two-party systems that had been stable for decades were swept away, long-ruling parties saw their vote share drop to single digits, and populist parties gained new political space. Right-wing populist parties in particular thrived, as they entered parliaments and, in some cases, government."

The CEE region was experiencing an identity crisis in relations with the EU while often blaming Brussels for a light approach to the financial and economic crisis of 2008. These countries also felt overshadowed by the EU. Finally, they started to take a more active approach towards other great powers like China, sometimes to a minimal extent, even with the Russian Federation. In the aftermath of 2008, Hungary and Poland started developing "a distinctive populist economic program," which later spread to other countries in the region (Orenstein & Bugarič, 2020).

While the CEE countries mainly kept a solid relationship with the USA in the post-socialist period, those relations were primarily limited to the security and defense fields. Washington seemed disinterested in economic engagement with the region. Thus, through their cautious approach towards

Russia, the CEE countries found a perfect escape from their foreign policy routine in China. Although the CEE-China relations were in their early engagement stage, there were already those warning that China uses European openness and disunity to gain a foothold on the continent. Godement (et al. l. 2011) argued: “A kind of ‘scramble for Europe’ is now taking place as China purchases European government debt, invests in European companies and exploits Europe’s open market for public procurement.”

Chinese engagement in the region provoked political repercussions as well. According to Song (2019b, p. 397), “China’s economic expansion into the CEECs has led to several important divisions within individual countries, between countries in the region, and between the CEECs and their Western allies.” Initially, the Chinese engagement sparked competition among CEE countries to win Chinese attention and attract more Chinese investments. However, it also seemed that China had its own favored countries, which she identified as potentially strategic for her engagement in the region. Poland was seen as the champion of successful development, and due to its size and political weight, as the most preferred strategically. However, Poland refused to be a passive partner and often found difficulties in developing relations with China, which, some have argued, was also influenced by the turbulence in the Sino-US relations, as Poland has maintained strong bonds with the US (Przychodniak, 2021).

Later, Hungary and the Czech Republic emerged as crucial for Chinese regional policies, with the former the most strategic and reliable of China’s CEE partners the EU members. In the case of the latter, the relations depended on the political forces gathered around President Zeman as “the most vocal pro-Chinese voice in the Czech public discourse” (Karásková et al., 2018, p. 12). Thus, the ties between the two countries hung on the actual power of those political forces, making the relations unstable.

In Hungary, the long-lasting rule of Victor Orban made Hungary China's most important partner in the region among the EU members. Serbia is a similar case, where Aleksandar Vucic's continuity as the leader helped solidify China relations. These regimes showed no reluctance to praise the Chinese economic model and its efficiency.

The very motivation of CEE countries to engage China, besides the new economic opportunities and hope for FDI inflows, is a sort of search for alternatives to economic and political dependency on the EU. As a result, countries like Poland and Hungary started turning to more rightist and conservative political pools, raising dissatisfaction with the EU's political dynamics. Hungary, for instance, took a different approach in tackling the effects of the financial crisis of 2008. While the countries around the EU were introducing severe austerity measures, Prime Minister Victor Orban was lowering taxes to create new jobs and stimulate investments (Riegert, 2010).

The countries outside the EU saw in the Chinese economic miracle focused on infrastructure, a sort of medicine that might be appropriate for them after the eternal transition that showed fewer results in improving the living standards of their populations. Nevertheless, their political elites saw opportunities to take on ambitious infrastructural projects that no international financial institutions were ready to support and, thus, raise their political ratings regardless of adverse effects on public finance.

The Chinese engagement stimulated internal political debates, where liberal elites often see closer relations with China as a signal that the country is turning to more autocratic leadership and is changing its ideological matrix. However, China's closeness with the region did not improve the image of China in these countries (Chen & Hao, 2020). On the contrary, the corruption scandals, like the one in Northern Macedonia (Kristinovska, 2019), created terrible publicity for Chinese companies and the Chinese government, often targeted by non-governmental organizations (NGO) for their misbehavior.

3.3. The 16+1 Summits

The first official 16+1 Summit was held in Warsaw in 2012. It was attended by the prime ministers and presidents of China and 16 countries (11 EU Member States and five Western Balkan countries): Slovenia, Poland, Romania, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia, Montenegro, Albania, Bosnia and Herzegovina, Serbia, and Northern Macedonia).

Premier Wen Jiabao outlined 12 principles on which the future cooperation of China and CEE will be based (China-CEEC.org, 2015):

1. Establishing a secretariat for cooperation between China and CEE (each CEE country is to appoint a coordinator as a member of the secretariat).
2. A US$10 billion credit line for various projects related to infrastructure, technology, and green economy. Several Chinese banks were appointed as a credit institution.
3. Creating a financial platform with the aim of raising an additional US$500 million in the first phase.
4. Establishment of trade promotion missions to work on bilateral cooperation with the 16 countries to increase total two-way trade to US$100 billion by 2015.
5. Working together to establish at least one economic and trade zone in each member country in the next five years.

6. China to work actively in creating financial cooperation aimed at currency exchange, facilitating cross border trade with local currency settlements, opening bank branches.
7. Establishing an expert body under the patronage of the Chinese Ministry of Transport to work on transportation networks in the region and possibilities of joint ventures, joint contracting in building regional highways and railways.
8. To hold a forum on cultural exchange between China and CEE.
9. To provide 5,000 scholarships for students from CEE countries in the next five years. In addition, giving support to Confucius Institutes, support inter-academic exchange and cooperation.
10. Promote tourism between the two regions with the help of the Chinese Tourism Administration.
11. Establishing a research fund on relations between China and central and eastern European countries.
12. China to host a first young political leaders forum, and to invite young leaders from both sides and in that way enhance mutual understanding and friendship.

The 12 measures represented the foundations on which future Sino-CEE relations were to be built. The summit directed a secretariat within China's Ministry of Foreign Affairs to coordinate the future cooperation and the organization of future meetings. The eye-catching principles were numbers 2 and 3, where China promoted the US$ 10 billion unique credit line to be managed by the Chinese financial institutions, together with an investment cooperation fund with an initial aim of raising US$ 500 million. China also pledged to work on the improvement of trade relations to increase the trade between China and CEE to US$100 billion by 2015. The initiative also included cooperation on establishing economic and hi-tech zones, financial collaboration, cooperation and coordination on infrastructural projects, scholarships for the region (5,000 scholarships), cooperation and promotion of tourism, creation of a research fund, and organization of a young leaders' summit. Some of these initiatives were to be regularly repeated during the subsequent conferences but did not materialize.

The next summit was held in Bucharest in November 2013 and confirmed the continued improvement of cooperation between the participants. This time, the countries made concrete steps toward more tangible projects after China signed the agreement with Hungary and Serbia to develop a fast railway connecting Budapest and Belgrade. The railway is of particular importance for China's regional connectivity strategies and the Belt and Road Initiative. It should shorten the travel time of goods destined for the EU market. In addition, hundreds of Chinese entrepreneurs made the pilgrimage to the summit, showing Chinese resoluteness to highlight the economic aspects of the meeting.

The Summit came a week after the EU China summit was held in Beijing, on the 10th anniversary of establishing the EU-China Comprehensive Strategic Partnership in 2003 (European Commission, 2013). There were already adverse reactions in Western Europe regarding the Chinese engagement with CEE countries and whether the Chinese aim was "to divide and conquer" (Reuters, 26 November 2013).

It was clear that the EU has less enthusiasm for Chinese engagement with the CEE than its Eastern members and candidates. A year earlier, in June 2012, EU Commissioner Karel De Gucht already warned that China was creating obstacles for foreign investors. Such a strategy provoked the voices calling for the restriction of Chinese investments in Europe (European Commission, 2012). It seems that the Chinese refusal to promote reciprocity was the main reason for frustration in Brussels. The newly arising enthusiasm of single countries (and regions like CEE) to engage with China mainly for economic motives was undermining the EU's united front in seeking reciprocity and better conditions for European investors in China and, as well, more protection from Chinese investments in strategic sectors.

During the EU-China summit, Li Keqiang pointed out that "China and the EU are different in respect of the history, the culture and the stage of development and they may have different views on some issues," suggesting that the parties to focus on common interests (Embassy of the People's Republic of China in Serbia, 2013). However, five days later, on the eve of the 16+1 Bucharest summit, Li Keqiang (Ministry of Foreign Affairs, 2013) delivered a speech in front of the Romanian Parliament, stressing, "The friendship between China and Romania has a long history and is deeply rooted in the hearts of the people." However, Chinese officials used different rhetoric towards the EU and its Eastern member, showing that Beijing sees them differently. Jakimów (2019) notes that such a path is often followed by Chinese scholars who see CEE "as a post-colonial space suspended between Russia and the EU, manipulated by Western media, and only recently 'Westernized'" (Jakimów, 2019, p. 375).

The Chinese tailor-made approach towards the CEE countries appeared to some observers as if China "equated the "16+1" relations with the level of cooperation between the countries of the Global South, *ergo* developing" (Kowalski et al., 2017). Indeed, the very dialogue and rhetoric used in CEE-China renewed relations has been similar to the ways China approaches other developing and former socialist or non-aligned countries (in Africa, Asia, and Latin America).

The Romanian Summit produced the Bucharest guidelines in which the parties pledged to continue their cooperation while observing "respective laws and regulations, and in the case of EU member states, relevant EU legislation and regulations" (The Bucharest Guidelines, 2013). Unfortunately, however, some of the Chinese-sponsored infrastructural investment in the region was conducted under the Chinese rules, often disregarding EU standards. Furthermore, the Chinese companies showed no constraints in breaching national laws, often being accused of corruption, as was the case in Macedonia (Makocki & Nechev, 2017), while taking advantage of the weakness of national institutions in the EU candidate states.

The summit covered many fields: economy, trade, infrastructure, agriculture, and culture. The meeting also gave fruit to a new wave of events, like the one in Riga, in 2014, the High-Level Conference on Transport, Logistics and Trading Routes.

A year later, in December 2014, Premier Li Keqiang arrived in Belgrade for the third 16+1 Summit. In a 'historic' visit, the first of a Chinese premier to Serbia in 28 years, the two premiers inaugurated the first infrastructural investment built by a Chinese construction company in Europe, the bridge 'Mihajla Pupina' (Deutsche Welle, 2014). The visit to Serbia has symbolic political implications.

China was one of the rare supporters of SR Yugoslavia during the turbulent 1990s, during the rule of Slobodan Milosevic, when the country was under an international embargo imposed by the Western coalition. In the opening ceremony, the Chinese Premier reminded the audience of the collective communist history, recalling a famous Yugoslav Partisan Movie and Italian song Bella Ciao, and repeating a Serbian proverb that 'friends are the fruits of time' (Xi, 2016). Many citizens colorfully attended the ceremony by waiving the Chinese and Serbian flags, a tradition during the important state visits in former communist Yugoslavia. The Serbian government granted a similar reception in Belgrade to the Russian President Vladimir Putin, which was even more magnificent (Marc & MacFarquhar, 2019).

During the Summit, Li Keqiang intensified the talks with his Serbian and Hungarian counterparts regarding the Belgrade-Budapest Railway (BBR), which produced a memorandum of understanding for the 370 km long railway (Xinhua, 2014). The parties announced the beginning of the works in 2015 and completion in just two years (Vasovic, 2014). The BBR project is a section of the Land-Sea Express, connecting the Greek Port of Piraeus Greece to Budapest, via Skopje and Belgrade (respectively Northern Macedonia and Serbia). Once it is finished, the line "will open up a new and convenient channel for China's export to Europe and European commodities," and will also connect a population of more than 32 million (Ministry of Foreign Affairs of the PRC, 2014).

Serbia also signed a $600 million credit arrangement with the Export-Import Bank of China (EXIM Bank) to construct a new power plant in Kostolac, for 20 years, including a 7-year grace period and a 2.5 percent interest rate (Euroactive, 2014). The deal means that the Chinese bank financed 85%, while the rest was funded by the Serbian state company managing the network.

The Belgrade Guidelines (2014) reconfirmed the "readiness to expand cooperation in accordance with their respective laws and regulations, as well as in the case of EU member states, the EU legislation, regulations and policies stemming from their membership." The document stressed on several occasions the need to 'take note' of the EU regulations.

The 16+1 yearly summits produced more targeted initiatives at conferences and meetings, which were more focused on specific topics. Some of these are the China-CEEC Agrotrade and Economic Cooperation Forum in Hungary in 2015, the CEEC-China Forum during the European Economic

Congress, the High-Level Conference on Tourism Cooperation, China-CEEC Education Policy Dialogue, the China-CEEC Local Leaders' Meeting, the China-CEEC health ministers' meeting, etc. These events opened new arenas for cooperation, and while many might suggest they did not bring any concrete outcomes, they certainty contributed to mutual understanding. In addition, it made China more accessible to bureaucrats from countries with interaction with China in the past.

In November 2015, it was China's turn to host the Summit 16+1, titled "new beginning, new domains, and new visions," a title that might have appeared curious to observers considering the countries were entering the fourth year of the 16+1 platform. Nonetheless, enthusiasm was already beginning to wane among the participant states, as the mechanism did not show visible improvements in investments (preferably greenfield) or trade (at least did not reduce the trade deficit between the CEE countries and China). The CEE-China trade volume failed to reach USD 100 billion by 2015, as planned, leaving to the CEE region a modest 10 percent share of the total China-EU trade (Jaklič & Svetličič, 2019). Moreover, there was a dominant impression that intense political engagement gave fewer economic results (Jaklič & Svetličič, 2019). Thus, the host proposed a title that would symbolize a new (re)start and a new hope for CEE countries.

The Chinese engagement with CEE countries brought significant attention from international media outlets and various observers and experts in the field. At the same time, the regular summits were occasions for intense coverage of this new phenomenon in international politics. The Chinese press was very supportive and followed the Chinese official political guidelines by giving primarily positive reports. However, the Western media were skeptical voices, searching for 'ulterior' motives for Chinese engagement with CEE countries (Sieren, 2015). Some notable observers from the region started noticing that the platform fell short of results (R. Q. Turcsányi, 2015). Indeed, after almost five years of endless meetings and conferences, some would have expected more tangible results. The CEE countries intensified relations with China after showing an improvement in trade relations between 2009 and 2013. They hoped this trend would continue as it was still far behind trade relations between China and Western European countries (Tamas Matura, 2019). However, the numbers were stagnating, which might have triggered dissatisfaction.

The satisfaction level varied from state to state, according to their own expectations and goals. The non-EU members found a valuable source for ambitious infrastructural projects, for which the Western financial institutions showed no enthusiasm. The launch of the BRI initiative gave these projects an international purpose and motivated China to commit even more to resources to such projects.

For instance, a bilateral meeting between Montenegrin Premier Djukanovic and Chinese Premier Keqiang was an opportunity to reconfirm the Chinese interest in developing infrastructure and connecting it within the BRI initiative (Ministry of Foreign Affairs of the PRC, 2015). Montenegro, considering its size, became one of the countries with the most intense financial engagement with China. The Chinese side allegedly mentioned interest in developing the Adriatic and Baltic ports within the initiative (The Government of Montenegro, 2015). The countries that expected to see an increase the Chinese greenfield investments and improved trade imbalances could have been disappointed with the 16+1. However, those most eager to get Chinese loans for ambitious infrastructural projects and create certain leverage to reduce EU dependency in their foreign policy could have been satisfied.

In Suzhou, following the symbolic title of the conference, the parties adopted a novel document: The Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries. The Agenda (Ministry of Foreign Affairs the People's Republic of China, 2015) aimed to "further unleash its potential by setting out directions and priorities for 16+1 cooperation from 2015 to 2020," without, however, binding participants, but rather giving them space to keep doing whatever they found opportune and in their interest (Ministry of Foreign Affairs the People's Republic of China, 2015). The agenda welcomed the EU leaders or their representatives to attend the China and CEE meetings. The agenda also called for regular twice-a-year meetings of national coordinators and many other conferences and gatherings. The agenda did not bring anything substantially different than the previous documents of its rank. Instead, it narrowed (slightly) an extensive set of cooperation fields outlined in the earlier papers.

In the Suzhou Guidelines (2015), the parties called for a second working group on facilitating the customs for the goods in transit between China, Hungary, Serbia, and Macedonia, showing how summits are used for bilateral or limited multilateral purposes. The route, aimed to transport the Chinese goods from Piraeus port, through Macedonia and Belgrade, to Budapest (and then elsewhere in Europe), has been identified as one of the strategic routes for the BRI initiative (Van Der Putten et al., 2016). The logistic and transport corridors in the Balkans, funded by Chinese financial institutions and built by Chinese construction companies, were labeled as a Balkan Silk Road (Bastian, 2017a).

As became the tradition, the guidelines mentioned achievements between the summits (The Suzhou Guidelines, 2015). These comprised various events in different fields, and workshops and conferences on different levels and cultural exchanges, making China more accessible to the CEE countries.

However, the Suzhou Summit marked a significant milestone, after which the countries called for more concrete outcomes. Moreover, China had another surprise; they inaugurated the BRI initiative, which was just beginning to take shape, with more precise goals and ideas, enough, it seems, to calm the spirits.

In November 2016, the 16+1 Summit was held in Riga, the capital of Latvia, and titled: "Connectivity, Innovation, Inclusiveness, and Common Development." The participants signed declarations and adopted new guidelines for cooperation. The Declaration focused on seaport cooperation, where the parties reaffirmed their commitment to exploring Adriatic-Baltic-Black Sea Seaport Cooperation, and to supporting 'industrial clusters' within the ports and to "Encourage cooperation in infrastructure development." This could indicate that the 16+1 mechanism was put in use for the implementation of the BRI initiative. A year before, the Government of Montenegro had indiscreetly 'offered' to Chinese companies (China Ocean Shipping Company (COSCO) most probably, as it was interested back in 2012) that they purchase the Port of Bar. Chinese companies refused, however, while the Montenegrin Port struggled to redirect some of the goods produced in Serbia to Port of Bar, losing against Ports of Rijeka and Thessalonica (private interviews).

China once again promoted the China-Central Eastern Europe investment fund of EUR 10 billion. However, this time it was revealed that China's Industrial and Commercial Bank will take the lead in the project (Reuters, 2016). The Summit was yet another occasion for numerous bilateral meetings and the signing of bilateral agreements.

The Serbian Prime Minister Aleksandar Vucic expressed gratefulness for the Chinese purchase of the Smederevo steelwork factory: "Without your support, we would not have managed to overcome the difficulties. Your role in taking over the Zelezara Smederevo steelworks saved Serbia" (B92/Tanjug, 2016).

The Chinese partners were presented as saviors after US Steel, the previous owner that purchased the factory in 2003, decided to withdraw following the collapse of the steel market. However, the President of Serbia, Tomislav Nikolic, a firm supporter of the closer alliance with Russia and China, expressed his gratitude with quite strong words: "I marked this day in my calendar; you should mark it, too. Today is a holiday and a day to remember, not only for more than 5,000 Zelezara workers and their families whose future is [now] better, and not only for Smederevo, whose industrial giant has again begun to live, but for the whole of Serbia" (Nikolic, 2016).

The Serbian and Chinese representatives signed several important contracts on road construction with the Chinese companies to be funded by the Exim bank. In addition, the two signed an agreement on mutual abolition of visas, making Serbia the first CEE country to make such a move.

In The Riga Guidelines (2016), the parties stated that "The Participants encourage and support progress in the ongoing EU-China negotiations over an ambitious and comprehensive investment agreement, which will contribute markedly to the development of the China-CEEC investment cooperation and will create a mutually favorable investment environment and market access for all companies." Furthermore, the Guidelines (2016) mentioned some concrete routes and projects as (7) "the modernization of Bar — Belgrade track section and further development of high-speed railway network under the framework of 16+1 cooperation, to improve the connection of Port of Bar to the modern railway network in Central and Eastern Europe."

As in the previous Guidelines, there was a mention of all activities fulfilled since the last meeting in Suzhou. Again, there was an endless number of events, gatherings, conferences, and fairs between various levels of representation of the participating countries.

In November 2017, the 16+1 was held in Budapest. Again, the Summit was an occasion for signing and advertising the bilateral agreements and infrastructural projects, like the one signed between the City of Belgrade and the Chinese company called China Machinery Engineering Corporation (CMEC) for the construction of the waste-water plant and heating pipeline for the total value of EUR 260 million. The news reported that the two sides signed a contract with construction aimed to start in the second half of 2018 (Ralev, 2017). The media reported almost the same information in 2020, when the Minister of Construction, Transport and Infrastructure, Zorana Mihajlovic, attended the signing of the contract between the director of the CMEC and the director of the Belgrade municipality-owned water company JKP "Beogradski vodovod i kanalizacija" (City of Belgrade, 2020). It would be a task for a journalist to inquire whether the news of a memorandum signing was delivered to media in a manipulative way, presented as more concrete than it was, or if the media wrongly interpreted it as a contract rather than a memorandum. It is to be noted that governments of the Western Balkans often, in conjunction with their media, present meetings or signings of simple memorandums of understanding as a tangible achievement, particularly true during election years.

The Serbian Republic of Bosnia and Herzegovina, through its state-owned Railway operator Zeljeznice Republike Srpske, signed a EUR 241 million contract for the reconstruction of the Banja Luka-Novi Grad railway line with China Shandong International Economic & Technical Cooperation Group (See NEWS, 27 November 2017).

On the eve of the summit, there was an increased interest in Sino-CEE relations from the international community. The 16+1 summits are always an occasion for international press and observers to write about Chinese engagement in CEE, putting both CEE countries and China in the hot seat. The skeptical voices coming from Western Europe followed promptly, presenting China's presence as their entrance into the EU through its ‘back door’ (Godement & Vasselier, 2017). Others highlighted an increasing failure of the mechanism to bring anything substantial to the table (Turcsanyi, 2017).

Some observers started noticing that Chinese investments are only focused on non-EU countries “where EU funds are not available, and EU regulations are not applicable” (Bayer, 2017). However, China did what Western companies and financial institutions were reluctant to do in the Western Balkan countries – the financing of unfeasible projects and the purchase of failing and often environmentally unfriendly industrial giants. From a political perspective, the 16+1’s fulfilled and unfulfilled promises gave another opportunity to leaders like Viktor Orban from Hungary, Aleksandar Vucic from Serbia, Milos Zeman from the Czech Republic, often labeled as populists, to show their opposition to Brussels.

Aleksandar Vucic, the former Prime Minister, while the President of Serbia, gave a bold statement regarding China: “There are no problems in our economic and political relations, we are always on the same side, and when China has something to say, we are always on the side of China.” From his part, Hungary’s Prime Minister Viktor Orbán had something to say regarding the criticism coming from the Western countries: “It has become increasingly offensive that a few developed countries have been continuously lecturing most of the world on human rights, democracy, development and, the market economy” (Bayer, 2017). Hence, China comes as a relief, as it has no interest whatsoever in countries’ internal political orientation.

The criticism and concerns coming from Western Europe were often perceived as hypocritical in the Eastern European capitals. The CEE countries were blamed for undermining the united front approach with China and allowing Chinese companies to enter some strategic sectors. However, the Western European countries were still a leading destination for Chinese FDIs and often allowed for mergers and acquisitions that could be perceived as problematic from the geoeconomics point of view.

Among the deals that attracted attention were the purchase of the Port of Piraeus, cooperation between Fincantieri and China State Shipbuilding Corporation (CSSC), and German robot maker Keller und Knappich Augsburg (KUKA) acquisition by Midea Group. From their perspective, the CEE countries were not doing anything different than the Western EU members. For example, as Matura (2019) points out, trade between CEE countries and China had positive trends in the period 2004-2015; however, while the CEE countries increased the Chinese share of their total world exports from 0.33% to 1.57%, the leading Western EU member states like France, Germany, and the UK, increased those numbers from 2.86% to 5.96% in the same period (Matura, 2019, p. 396).

The concerns coming from the EU were mainly unfounded, at least if considered in strictly economic terms. The Chinese engagement and 16+1 platform produced close to nothing during the five years of relations, "and it is difficult to speak of a Chinese economic presence in the region that could play any significant influence, or that has been at a considerable rise" (Turcsanyi, 2017).

The Budapest Summit marked the fifth anniversary of the 16+1, allowing reviewing what has been achieved and what has been missed. Once again, the parties repeated principles on which the parties will base their relations. China used the opportunity to obtain support for her adherence to the Government Procurement Agreement (GPA) within the framework of the World Trade Organization (WTO), and to the International Group on Export

Credit (IWG) (The Budapest Guidelines, 2017). In the Guidelines, the parties stressed the importance of synergies among various platforms and connectivity initiatives. Further, the parties called for extending current networks and connecting them with other corridors. In the report of what has been done, there were more than 40 concluded meetings, conferences, summits, and other gatherings in various fields.

The Sofia Summit was held in July 2018, only seven months later. There were also 250 Chinese firms and 750 business executives from CEE at the summit (Mazumdaru, 2018). The EU reacted adversely to Premier Li Keqiang's visit to Sofia and his meetings with CEE representatives. One observer suggested that if China does not calm its aspirations with CEE, it will switch from supporting European cohesion to engaging with separate countries according to its interests and needs (Weidenfeld, 2018). The Financial Times (Peel, 2018) warned that "Investments by Chinese companies have often helped raise public support for pro-Russian politicians and parties in eastern Europe, where the Chinese investment does not carry the political stigma that Moscow-backed investment would."

While the Russian economic reach is mainly limited to the energy sector and in the hydrocarbon field, where Russian SOEs have played an important role in the region, there have also been important investments in the banking sector and real estate (Stronski & Himes, 2019). Recently, Moscow showed open support for certain political elites and was assertive in backing the political forces that have sympathies toward Russia; however, its political power is intimidating and has left little room to navigate the political realities of the Western Balkans influenced by the EU integration process and close security relations with the USA through NATO (see: Stronski and Himes, 2019).

After the meeting in Sofia, Li Keqiang visited Berlin, where the Chinese companies signed several important agreements with their German counterparts, including BASF, BMW, Siemens, Bosch, Continental, Thyssenkrupp, etc. (Reuters, 2018). For example, the German conglomerate BASF signed a USD 10 billion agreement to construct a chemical complex in Guangdong province. The German company will keep the entire ownership of the company, "the first foreign company in China to have such an arrangement" (Kowalski, 2018). Those were the deals CEE countries were hoping to close through their engagement with China, but still they were not as successful as their Western European counterparts.

In the Sofia Guidelines (2018), the parties recognized the importance of synergies among various European transportation initiatives. In that spirit, point 9 of the guidelines states: "The Participants are willing to foster synergies between the Belt and Road Initiative and the Trans-European Transport Network (TEN-T) and its extension to the Western Balkans and the relevant neighborhood initiatives, which would be of benefit to European integration."

The pre-Covid 19, 16+1 Summit was held in Dubrovnik in April 2019, nine months after Sofia. Some questioned whether the Dubrovnik Summit would be the last one in such a format (Kowalski, 2018), however, the ability of China to stimulate the dying relationship proved effective even this time. The 16+1 in Dubrovnik was transformed into 17+1, with Greece becoming the group's new member and, instead of 'dying,' the participants decided to expand the mechanism.

Greece's accession to the China-CEE initiative is not a surprise due to its geographic position. Furthermore, the country hosts one of the most important Chinese investments in the region related to BRI, and it desired close ties to China. The novelty with Greece is that it is the only country in the group without a communist government in its past.

The acceptance of Greece (conducted in an ad-hoc fashion without any procedural reasoning or further explanations) could have been interpreted as another Chinese move meant to antagonize its relations with the EU. However, the Summit in Dubrovnik, while overshadowed by the accession of a new member, signaled the point where China became more assertive towards the EU, when negotiations in some crucial sectors within the EU-China format were derailed, at least with regard to EU members of the 17+1.

3.4. The institutional framework of the 16+1 Initiative

The leading institution of the 16+1 mechanism is its regular summits organized once a year since the initiative's establishment. The event gathers the highest political representatives from the member countries, including presidents and prime ministers, although on occasion, countries have sent officials who were not of the highest rank.

At the 2018 Summit in Sofia, the Deputy Prime Minister Jaroslaw Gowin represented Poland instead of the Prime Minister (Kowalski, 2018). Such absences were often perceived as a political statement of discontent with the 16+1 mechanism. As the largest CEE economy and an early advocate of engagement with China, Poland was disappointed with the economic outcomes of the relationships with China. At the same time, the trade deficit continued to rise despite an intense political engagement.

In addition to the yearly summits, the 16+1 initiative gave birth to a Secretariat within the Chinese Ministry of Foreign Affairs, and 17 secretaries/coordinators in each country were tasked to coordinate their cooperation and facilitate the organization of the gatherings.

There are also various coordinating secretariats, conferences, meetings, centers, etc., formed under the patronage of the member states of the initiative.

In 2014, in Budapest, the China-CEEC Tourism Coordination Center was established to enhance tourism cooperation between China and CEE countries (www.ceenter-china.com). The tourism sector is an essential part of some participating countries' economies. The regional governments hope to attract the growing number of Chinese tourists traveling to Europe. In 2018 there were a little less than 14,5 million arrivals of tourists from China to the EU countries, the majority of which have visited the Western European countries. Only the Czech Republic and Greece figured among the countries with a significant percentage of Chinese tourists, with little more than 2 percent in 2016 (statista.com, 2016). Thus, the potential of exploring and developing the tourism sector is vast, and it is particularly crucial for traditionally touristic countries like Croatia, Greece, and Montenegro.

The Coordinating Secretariat for Maritime Issues (www.ceec-china-maritime.org) was established within the Ministry of Maritime Economy and Inland Navigation of the Republic of Poland. This body is mainly used to facilitate dialogue among political and business subjects on maritime transport, essential for broader Sino-CEE cooperation. In addition, the Secretariat should be issuing various papers which will gather data from CEE ports. This (sub) Secretariat is to hold regular annual meetings and it aims to organize a Maritime Forum every three years where the parties can share their experiences and enhance further cooperation.

In the Suzhou Summit, following the summit guidelines, the parties supported Slovenia and its Ministry of Agriculture, Forestry, and Food of the Republic of Slovenia, to create a Coordination Mechanism for Cooperation in Forestry (www.china-ceecforestry.org). The principal purpose of the cooperation is "promoting sustainable and multifunctional forest management, protecting wetlands and wildlife, developing a green economy and ecological culture, and make joint efforts to accomplish the 2030 Agenda for Sustainable Development, in particular, the goal to manage forests sustainably."

During the Suzhou Summit and the Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries, the parties agreed to set up in Romania a Center for Dialogue on energy-related (Ministry of Foreign Affairs the People's Republic of China, 2015). Under the patronage of Romania's Ministry for Energy and Ministry for Foreign Affairs, the Center's primary goal is "becoming a dynamic networking platform for the business environment in Central and South-Eastern Europe and China, which could advance the cooperation in the field of energy between the two regions on the principles of the 16+1 cooperation format."

A center for cultural cooperation and coordination was opened on the 1st of March in Skopje, in Northern Macedonia. The center should facilitate and coordinate cultural exchange between China and 16 CEE countries.

In September 2018, the representatives of 17 countries met in Podgorica, the capital of Montenegro, to talk about environmental protection. The conference gathered Ministers of Environment of the member countries, and parties agreed to establish a cooperation mechanism in Podgorica. Environmental protection is one of the sensitive areas, in particular, relating to China's increasing infrastructural investments in the region. Chinese companies are often criticized for their lack of sensitivity in protecting the environment, which is often devastated by the large infrastructural projects. One of the prime examples is the highway in Montenegro, which enraged environmentalists after the river Tara, one of the best-known rivers in Europe, was allegedly damaged by the construction. Furthermore, the EU is against existing coal-powered power plants, asking for their gradual closure, while China is continuing to invest in the region's coal industry (Simon, 2021).

Another crucial area where the 16+1 created a devoted platform is finance. During the Summit in Dubrovnik, it was agreed that the Ministry of Finance of the Republic of Lithuania and the Bank of Lithuania would organize a high-level conference devoted to financial services and new technologies in the sector, including blockchain.

All of the platforms, summits, centers, and mechanisms mentioned above represent new opportunities for the representatives of respective countries to meet in a more technical format and exchange ideas on particular subjects. Thus, while normatively multilateral, 16+1 cooperation is instead an instrument to help strengthen bilateral relations between China and individual countries.

The meetings mentioned above, as well as political bodies, initiated many conferences and gatherings treating various sectors of interest to China and the adhering states. Thus, the very success of the 16+1 initiative is creating a platform where regular meetings, on a high level and on lower political levels, are held regularly. Moreover, the regularity of the panels is significant for the smaller states of the initiative. In the past, they had only rare occasions where their respective leaders could meet with their Chinese counterparts. Finally, as R. Q. Turcsányi (2020, p. 70) points out, even if they lack substantial outcomes, "the once-a-year photo opportunity with the Chinese Premier and fellow regional leaders still has its value for most leaders."

3.5. A multilateral platform for bilateral affairs

The 16+1 initiative was not a novelty in Chinese foreign policy; instead, it was just a continuation of similar efforts to build regional multilateral platforms around the world: the Forum on China-Africa Cooperation (FOCAC), China-Arab States Forum, Latin America, and the Caribbean (China-CELAC Forum or CCF) and South-East Asia (Mekong-Lancang Cooperation (Vangeli & Pavlićević, 2019a). The aim was to (1) routinize relations with distant countries, (2) create one place to meet with all regional countries, (3) boost economic and political cooperation, and (4) promote its political and economic agenda.

Such efforts are in line with the China's status as an ever-growing political and economic superpower or, using Rajczyk's (2019, p. 6) words: "intended to build Beijing's global image of a contemporary superpower that aspires to develop a peaceful international partnership." While not novel per se, the 16+1 platform "became the most sophisticated Chinese-led regional platform" among many initiated around the world (Jakóbowski, 2018, p. 660).

The China-CEE gathering brought more attention than any other Chinese-sponsored regional multilateral instruments. The main reason is that China has engaged a region that is under the almost exclusive patronage of the EU (politically and economically) and the USA (security and defense). Furthermore, to make it more complicated, China approached both the EU countries and those still outside the union in creating a platform that ignores the EU borders and predefined spheres of influence.

The same grouping of the countries was curious to many observers. Namely, the 16 countries have little in common except a communist past – the common denominator was lost when Greece joined the platform in 2019. However, even their communist history has been characterized by different experiences influenced by the ties that each country desired with the Soviet Union, and their various understandings of the global socialist movement. It means that some countries have experiences that, in the aftermath, created deep trauma and an aversion towards the heir of the Soviet Union, the Russian

Federation. Others have enjoyed more freedom from the Soviet Union and thus have a less painful experience, a weaker aversion towards Russia, and almost positive memories of the socialist past.

From the economic point of view, given the varieties of capitalism we see, the regional countries are different one from the other, each having their own particular needs and financial interests (Oehler-Şincai, n.d.). In a nutshell, the region is not cohesive. Instead, it is an ad hoc Chinese creation, gathered around a common interest of attracting Chinese investments and exploring possibilities of exporting to China. Nevertheless, it is a grouping that might make sense for Chinese diplomacy and its efforts to keep the relations with various regions more efficient and, why not, more economical.

The 16+1 is structured as a multilateral platform; however, bilateral relations between China and the member states have been prevalent. There were only occasional multilateral collaborations in ad hoc subgroups on specific projects. That was the case with the facilitation of trade between Serbia, Macedonia, and China, or the railway project between Hungary, Serbia, and China. According to Jaklič & Svetličič (2019, p. 83), “The platform encouraged more intense diplomatic exchanges which have evolved into deeper, though unbalanced economic relations, resulting in the net trade deficit and high concentration in trade and investment.”

Jakóbowski (2018), while analyzing the nature of the 16+1 platform, concluded that it could be considered ‘nominally’ as a multilateral; however, he underlines that China uses such platforms to enhance its bilateral relations with countries. The intergovernmental summits are used to set the general agenda, whereas the very implementation and concretization of policies is reached on a bilateral level (Jakóbowski, 2018). However, the fact that some countries are members of the EU and others are not, de facto leans towards bilateral agreements. The reason is that EU countries have more constraints in managing foreign relations compared to non-EU countries. Namely, some vital fields like trade and customs are under the jurisdiction of Brussels and, thus, there is not much to be negotiated bilaterally.

The name of the initiative 16+1 could indicate a sort of a block of countries on one side, and China on the other. However, the platform does not create a united front of 16 members from one side and China from another side. On the contrary, the very capability to unionize and dictate the agenda of the CEE countries is limited. Thus, China tends to 'compartmentalize,' in the words of Jakóbowski (2018), the relations by dragging them towards the bilateral channels.

Finally, China uses its dominant position to set the agenda, while the other member states have only a limited ability to shape it. The summits are usually the place where China communicates the agenda, as Jakóbowski notes (2018, p. 663): "Such 'hub-and-spoke'-type cooperation, though *nominally* multilateral, should be considered as a form of *qualitative* bilateralism."

3.6. The EU and 16+1

The Chinese engagement with CEE or using the language of Deutsche Welle (DW)'s journalist - the Chinese "knocking at Europe's back door," has been perceived with skepticism in Brussels since its birthing phase (Stefanescu, 2013). Prior to Chinese engagement, the EU had already detected an authoritarian pattern in the behavior of certain CEE countries. Thus, they started becoming concerned that a Chinese "combination of capitalism and a political dictatorship" might sound more appealing than the abstract offer of EU integration for the countries still outside of the EU, and also attractive to EU members who were showing signs of an increasing EU skepticism (Heath & Gray, 2018).

There were two groups of countries that were particularly under scrutiny: the CEE states led by the so-called populist elites like Hungary, Poland, and the Czech Republic, and the Western Balkan candidate states, in particular Serbia, Northern Macedonia, Bosnia, and Herzegovina, and Montenegro, who were on troubling paths towards creating Western-style democratic systems.

Indeed, the cocktail made of autocracy and state-led capitalism has always been a temptation for political elites in the Western Balkans. The only obstacle to fully adopting such a potent mix was that the EU remained the undisputed trade partner, a leading investor, and aid donor. Finally, the region's citizens show a high approval of the EU integration (Europeanwesternbalkans, 2020). Thus, these political elites are constantly balancing between the two – EU integration and Chinese temptations. Whereas Brussels was afraid that Balkan regimes could turn to the 'dark' side – towards Russia and China, these regimes were actually most comfortable in the middle, where they pretended to adopt EU standards while threatening to turn towards China (or Russia in some cases). This 'playing in the middle' has been a widely accepted game in Western Europe, which often showed reluctance in openly determining the dates for new members. Further, the EU often changed previously determined timelines.

The former diplomat and opposition leader in Montenegro, Miodrag Lekic, described this situation as a 'double bluff' – the EU says it will accept the Balkan countries, but it will not, while the Balkan countries say they will implement the reforms, but they will not (*Način isto, 2017*). This pragmatic relationship where the EU supports autocratic regimes of the Western Balkans has been labeled 'stabilitocracy' (Bieber, 2018). However, the very word is misleading, as these regimes did not create stability within the respective countries; instead, they created an uncertain and unpredictable political environment characterized by non-inclusive institutions and complete mistrust in the system. As one of the authors who coined the term, Professor Srdjan Pavlovic, has argued, this situation "will likely produce anything but stability for the region" (Pavlovic, 2017).

Since the rejuvenation of Russia as a global and regional player under the guidance of Vladimir Putin, the EU and the Western European powers were mainly concerned with limiting the Russian engagement with the region. According to Stronski & Himes (2019, p. 1), official Moscow "plays up shared cultural ties and supports Russian commercial efforts to deepen economic and trade relations in the key strategic sectors—like energy, banking, and real estate—to create Balkan political and economic dependence." Furthermore, it also acts as a disrupting power trying to obstruct the Euro-Atlantic integration processes in the Balkans (Stronski & Himes, 2019). The European Commissioner Johannes Hahn explained to Politico (Heath & Gray, 2018) that such a focus on Russia and its malign influence allowed China to infiltrate and represent a threat to initiated processes in the region.

In the case of China, however, the EU showed itself as more assertive by adopting a firmer policy towards the Western Balkan countries, best reflected by the Berlin Process (started in 2014), which was a sort of reaction to Chinese engagement with the region. The initiative (re)covered the areas China seems keen to penetrate – foreign policy, infrastructure, finances, and investments (Song, 2019). Thus, it appeared that once other countries show interest in the region, the EU apparatus seems to reactivate its interests and trigger its structural powers.

The fears that China could shape the political environment of the Western Balkans were not unfounded. Dragan Pavlicevic (2019, p. 454) summarized those fears: "By deepening diplomatic ties, promoting its model of economic cooperation and channeling significant funds to the region, Beijing is increasingly capable of shaping preferences and policies of the Western Balkan states." However, the author, a well-known observer of China-CEE relations, concludes in his paper that such worries seem exaggerated (Pavlicevic, 2019).

The risk the Western Balkans could detour from the EU integration process exists, but it depends more on the internal political dynamics in these countries than on Chinese engagement. However, China's regional strategies could offer "an effective way for the regional nationalist governments to rely on the example of the economic success of China to justify their grab on power to their constituencies" (Jakimów, 2019, p. 380). This is particularly true with the massive loan arrangements, which can create severe economic repercussions in the Western Balkans that might have political implications.

Nevertheless, some regional leaders have welcomed the Chinese rise. They value Beijing's non-interference in internal affairs and significantly appreciate that its influence does not impose its 'superior ideal and culture,' as does the Western approach (Jakimów, 2019).

However, the Chinese engagement with the region provoked a prompt response from the EU, which strengthened its undisputed structural power "through a combination of institutional, policy, regulative, and financial means" (Pavlićević, 2019a). Consequently, the EU managed to limit the CEE countries' room for maneuvering in dealing with China.

In his paper, Pavlicevic (2019) juxtaposes the two structural powers of the EU and China to offer a valuable analysis of the Chinese structural reach, where the 16+1 mechanism is an essential instrument of China to exercise such structural power. It is a forum to meet and interact with regional countries regularly. However, it also allows China to set an agenda for the meetings, reflecting the BRI initiative's goals, the most important Chinese foreign policy platform. In this way, it is China that guides the relationship in the direction that suites its interest and allows her to "set the agenda which aims to establish its policy goals as priorities in the relationship with the Western Balkan countries and for them" (Pavlicevic, 2019, p. 458).

Following the same path, Pavlicevic (2019) identified an exercise of Chinese structural power in the Serbian creation of the National Council for Coordination with Russia and China (NCCRC). Finally, to support these efforts, China has provided the resources for the implementation of priority projects. It is important to note here that the Russian Federation, a player always considered second only to the EU in the Balkans, has never proposed any similar initiative to the region, nor has it ever shown a coordinated move like China's. Instead, Russia played a spoiler, trying to block EU and USA structural power. At the same time, economically, it relied on energy acquisitions through its state-owned energy companies, while its tycoons invested in other industries where it was allowed to do so, mainly in real estate sector. For its part, China, as a newcomer, managed to exercise a specific structural power in the fields of foreign policy, infrastructure, finance, and investment (Pavlicevic, 2019).

The Chinese structural power is new to the region. At the same time, the EU's structural power is undisputed, and through the EU integration process it reaches all possible spheres of economic and political life. The integration process allows the candidate countries to adopt the same values and rules and pass a part of their sovereignty to Brussels. This leverage of the EU is strong during the negotiation process, but it disappears after the country's accession. Commissioner for Enlargement Johannes Hahn explained: "We have some leverage before starting negotiations; we have much leverage during the negotiations. And we see, unfortunately, we have almost no leverage after accession" (Wesel, 2018).

However, the EU's structural power has decelerated as the countries face uncertainty regarding their integration. Moreover, it became evident that some key member states do not favor further accession before the integration process is completely reformed (BBC, 2019). This vacuum, created by a lengthy integration process, has accelerated de-democratization processes in the region and led to a rejuvenation of relationships with China, Turkey, and Russia. Thus, the EU had to reestablish its structural control in the sectors where China showed significant interests. One of these initiatives is the Berlin Process, "an initiative aimed at stepping up regional cooperation in the Western Balkans and aiding the integration of these countries into the European Union," initiated in August 2014, under the patronage of the German Chancellor Angela Merkel" (www.berlinprocess.info).

The Berlin Process came after the President of the European Commission, Jean-Claude Juncker, revealed a five-year break on EU enlargement. Such a move came as no surprise; instead, it was an inevitable outcome of the crisis in which the EU found itself. The Process gave new 'homework' to candidate members. At the same time, it aimed to keep China away or under control in sectors where she showed significant interest – infrastructure and regional connectivity. The Process was sponsored by Germany, one of the loudest critics of engagement with China, and probably the most authoritative European voice, and the leading economic partner in the Western Balkans. With this institution, the EU expanded its structural power to reconnect with the regional countries and strengthen ties among them in the areas where it felt the most need to do so.

In 2018, in its communication to EU institutions, the EU Commission (European Commission, 2018) emphasized that "the Western Balkans must also speed up their alignment with all EU foreign policy positions, including restrictive measures.” However, the emphasis remains on the three main fields: the rule of law, economy, and relations among neighbors.

In January 2018, the EU Commission set a new deadline for enlargement to 2025, which was an improvement after the discouraging words of Jean-Claude Juncker in 2014 (Rettman, 2018). However, the deadline could be considered ambitious knowing the true level of integration of even the most advanced candidates. Countries like Montenegro and Serbia, which are actively negotiating accession, are still far from ready in the most crucial fields like the rule of law and creating a functional market economy. Furthermore, Serbia and Kosovo are still a long away from a normalization agreement that would be acceptable to the EU. Finally, the regional countries are regressing in many areas. Freedom House downgraded these countries from democracies to hybrid regimes after an evident deterioration of democratization, human rights violations, and free press suppression (European Western Balkans, 2020).

Foreign influences have always been an essential impulse in developing a more assertive EU policy towards the Western Balkans. In 2017, the Western Balkans adopted The Western Balkans Regional Economic Area (REA), aimed at “developing an area where goods, services, investments, and skilled workers can move without obstacles” (Commission, 2017). The REA is another project to enhance regional cooperation “based on EU rules and principles,” which will subsequently facilitate tying it to the EU.

In the field of infrastructure, the EU wanted to limit Chinese ‘loan for infrastructure’ arrangements. It should be noted here that the EU had already funded an enormous number of infrastructural projects. However, some of them have been invisible to the broader public as they often represent projects that are not as grandiose as the eye-catching highways and bridges financed and built by the Chinese companies.

The EU recognized the basic needs for infrastructure in the Balkans. The Commissioner for Neighborhood and Enlargement Olivér Várhelyi emphasized in his statement: “Six capitals of the Western Balkans, at the heart of Europe, but traveling and trading between them and to other capitals of Europe takes twice as long as between cities much further apart” (Várhelyi, 2020). In the same document, Commissioner Várhelyi announced raising “up to €9 billion of funding for investment flagships in the areas of transport, energy, green and digital transition, to create long-term growth and jobs” together with hoping to boost investment by introducing the Western Balkans Guarantee Facility to rise to EUR 20 billion (Várhelyi, 2020).

The EU showed reservations towards Chinese ‘loans for infrastructure’ arrangements because they are problematic for several reasons other than purely technical ones related to roads and connectivity. If analyzed simply from the standpoint of connectivity, the EU could welcome Chinese financial help in building sometimes essential infrastructure that connects these countries with the rest of Europe. However, the ‘loans for infrastructure’ affect some of the core areas of the EU integration process and harmonization of legal and economic systems of the candidate countries with the EU. In the first place, the very rule of law is infringed as the bilateral agreements with China often abolish the public tender procedure, which is one of the core instruments in creating a functional market economy and preventing corruption in the public procurement sector. Second, the credit arrangements for ambitious projects, which are often unfeasible, increase the public debt and could drive countries further away from debt levels prescribed by the Treaty on the Functioning of the European Union. Related to this are also state guarantees that non-EU countries use to get Chinese loans. These are forbidden in the EU and could create an additional burden on the public budget.

In conclusion, the EU has an undisputable structural power among the candidate countries in the Western Balkans. However, the current political situation in the region, and the long integration process, followed by the reluctance of some member states to admit the new members, create enough space for new actors to enter the scene and promote their interests. If someone assumes that these countries are looking for alternatives and that China is offering one, the EU will probably prevail.

However, this research argues that these countries are not turning their backs to the EU, nor are they looking to China for alternatives regarding their political and economic systems. Instead, these countries use China for a different purpose – to preserve their hybrid regimes and use the Chinese loans for yet another distribution of wealth from the state to private stakeholders. Furthermore, Chinese loans are important to allow for economic policies which are dictated by political choices rather than market conditions.

These countries could not care less about the Chinese economic system, as they are not interested in anything else except preserving a status quo and maintain their power. Significant infrastructural investments have always been an essential tool to meet that end. They also allow for the strengthening of private construction companies, which the party informally controls.

4. BELT AND ROAD (BRI) INITIATIVE

According to the official narrative, Chinese President Xi Jinping announced the "Silk Road Economic Belt" in a speech given at the Nazarbayev University in Kazan in 2013[1]. A month later, in Indonesia, President Xi revealed the 21st Century Maritime Silk Road plans. Since then, the initiative has been rebranded several times to be adapted to Chinese official political rhetoric, and it was modeled and readjusted regularly. Initially, President Xi Jinping referred to the "economic belt along the Silk Road" (Xi, 2013). Observers soon coined the initiative as a New Silk Road due to its direct reference to the ancient Silk Road. Later, the Chinese administration named it One Belt One Road (OBOR) and the Belt and Road Initiative (BRI).

There were also several interventions in the defining part of the term, where the Chinese government tried to soften the term and avoid strong words like 'strategy' or 'plan' etc., and to use more neutral and inclusive terms such as 'initiative' or even a 'proposal' as it sometimes called.

Initially, the proposal had no defined contours or clear goals. Its abstract and general nature was there to be modeled by its stakeholders and shaped into a strategy. However, since the beginning it was clear that the initiative, with its political and economic aspects, could transform the Chinese foreign policy from a "business as usual" and "no strings attached" approach towards a form of cooperation promoting a common global vision, which involves aligning policy frameworks and agreeing on global governance issues" (Vangeli, 2017, p. 102). Furthermore, the BRI represents "Xi's

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[1] In Chan and Lee (2016, p. 170) the authors mention the sources which claim that Wen Jiabao, revealed the idea of the New Silk Road already in 2011, at an impromptu summit of 22 heads of government from CEE countries, which included some of the former Commonwealth of Independent States (CIS) republics. The source is the Finance Minister and Deputy Prime Minister of Bulgaria from 2009 to 2013, present in that summit.

determination to build a Chinese-led network of deals, projects and institutions that will place China in a far stronger position in competing against the USA and its-led world order" (Lin, 2019, p. 35).

The initiative is composed of the Silk Road Economic Belt and Maritime Silk Road Initiative. The word belt stands for railroads departing from China, passing through Russia, Central Asia, and reaching Europe. At the same time, maritime roads represent a vast network of ports and shipping routes connecting Asia to Africa and Europe (Morgan Stanley, 2018). These are attached to various land ports, highways, and smaller land links that connect Asia and Europe.

In 2015, in his speech at the 16+1 Summit in Suzhou, Li Keqiang stressed the "need to promote synergy between the Belt and Road initiative and the development strategies of CEECs and conduct cooperation on infrastructure development" (Li, 2015a). Thus, it could be claimed that the 16+1 mechanism has been de facto incorporated within the BRI initiative, and it has been put to use. With the BRI initiative, the 16+1 mechanism received an entirely new purpose (or finally started to have its purpose).

Currently, the BRI project remains vague and not fully defined. However, it is one of the most ambitious plans in history for developing infrastructure in order to improve trade and connectivity between East Asia, Africa, and Europe, through Central Asia and the Middle East (Chatzky & McBride, 2020). The infrastructural projects listed under the BRI include railways, roads/highways, border crossings, power plants, networks of energy pipelines, airports, ports, and in addition, fifty special economic zones (EBRD). The authors identified primary maritime and land roots generating a collection of projects without a definitive list or a clear and defined plan. Instead, it is a dynamic initiative opened for new suggestions and proposals, where many projects are labeled as a "part of the New Silk Road," even if their scope is purely local and regional. This ambiguity allowed China to insert any adventuristic national project along its route, although sometimes these projects have not had much impact on the regional connectivity strategies (see the highway in Montenegro).

The initiative is reaching around 65 countries and it could cost $1.2-1.3 trillion by 2027, as estimated by Morgan Stanley (2018). In its primary rationale, the Chinese investments and loans are meant to improve poor and underdeveloped infrastructure in the regions connecting Europe to China. The hope is that the countries on the route will generate growth and alleviate poverty. At the same time, the "long term, the initiative could accelerate China's transformation into a high-income economy and cement the country's position as a global economic power" (Morgan Stanley, 2018).

Motivations for such a massive and ambitious initiative are mainly economic: (1) exploring new markets for Chinese goods while improving connections and interconnectivity with existing markets; (2) substantial infrastructural investments in China created large infrastructural companies which are forced to go abroad to keep themselves economically sustainable and profitable; China uses the large budget surpluses, through BRI, to finance infrastructural investments that will employ the Chinese companies; (3) enhancing financial cooperation and increasing use of its currency, the Renminbi (RMB).

However, there are also political motivations. One of these is related to soft power, and it is aimed at creating a benevolent image of China in the world. An image of a country focused on development and win-win cooperation. The hope is that such an image will help to avoid securitization of the ever-rising multilateral international environment. The New Silk Road is also part of a greater Chinese geopolitical reality, defining China as a superpower. During the era of Xi Jinping, China has been less reluctant to show its splendor and assess its power and importance. The ECFR's experts (Duchâtel & Duplaix, 2018, p. 3), warn that "Economics may be its main driver, but the Maritime Silk Road is also about naval power and international influence and forms part of Xi Jinping's broader national strategy."

The Silk Road strategy contributes to Chinese narratives of a 'return' rather than a 'rise' to the position of a world-leading superpower. The ancient Silk Road evokes the historical splendor of China and reminds Western countries that China was one of the most advanced and prosperous economies of the last two centuries (Jacques, 2012). It also sends a message to the United States that world trade and cultural exchange is returning to the Asia-Europe route, where the Indian Ocean and the Mediterranean Sea threaten to overshadow the Pacific and Atlantic oceans (de Soyres et al., 2019).

The ancient Silk Road was primarily a trading route, facilitating an immense cultural exchange that influenced the ancient road's economy, science, art, and thinking. The trade allowed Western trade powerhouses of the time to build some of the most advanced societies of their times (see Italian city republics), while most commodities were arriving in Europe from China (Frankopan, 2016). While having a vital trade component, the New Silk Road allows China to use its massive financial capabilities and its large construction and energy companies to build the infrastructure in its own way.

Nevertheless, the physical infrastructure is prominent but not the essential component of the Silk Road. Chan (2019, p. 106) notes: "The roads and sea navigation channels have always been there once they were used for trade and transport, but markets for the circulation of commodities (plus silver as international currency) might not always be in good shape and function smoothly, and access to the markets could be denied by political segregation." Indeed, the success of the ancient silk road was guaranteed by strong rule in China and its capacity to make the trade safe both physically and financially.

Francopan (2016) writes that trade laws and safety were admired in the West, while one of the most well-known Islamic travelers stated, “China is the safest and the best country for travelers.” China’s current status implies that she needs to rebuild such a reputation and improve/maintain stability in the regions through which the New Silk Road passes. This challenging mission will require a more assertive foreign policy that might provoke fierce resistance by other great powers.

While trying to hide any political implication, the New Silk Road – at least for its magnitude and ambition – inevitably brings numerous political implications as the projects promote the Chinese set of both economic and political values and rules. The very proposal of infrastructural investments, as it is conceived, creates a collision between the EU standards (and regulations) and the Chinese financial proposal. The infrastructure is being prioritized in such a way as to disregard the market conditions and pure financial and economic feasibility of the projects. The politics leads the way and makes decisions regardless of the purely financial or economic aspects of the project.

Hence, the Chinese sponsored projects often involve circumvention of tender procedures (one of the most crucial legal areas for EU integration), which are tailor-made to respect various criteria dictated by the financial markets. Furthermore, they often carry deficient environmental standards, disregard for labor rights, and a (re)introduction of state guarantees. Thus, there is a well-founded anxiety that these practices can derail candidate countries from their EU integration path. Further, the projects often involve severe accusations of corruption at the highest level. In some instances, Chinese companies are complicit in breaking some of the fundamental corporate laws (shown in the case study in this research). In addition to these political implications, which are to do with countries’ internal political dynamics, the Chinese investments have the power to shape, if not change, the trading routes, revive or harm the local and regional economies, and, thus, have geopolitical implications.

For example, the purchase of a strategic port by a company like COSCO (as is the case with Piraeus port) could have severe implications for trade routes in Europe: “they have become capable of breaking the domination of the Atlantic coastal ports by investing and operating ports in [the] East Mediterranean region and moving containers overland to other inner European destinations” (Chan, 2018, p. 116).

Though announced as win-win cooperation, where all the nations are to cooperate and gain something from that cooperation, the BRI is also a strategy that reveals China as a competitor to Western Europe, in both economical and geopolitical spheres. The ECFR (Duchâtel & Duplaix, 2018) study is clear on that: “China’s Maritime Silk Road is about power and international influence,” yet, while it can be perceived as significant competition for Europe, it also allows cooperating and gaining from ambitious Chinese strategies. However, the ECFR (Duchâtel & Duplaix, 2018) report concludes that there is more competition than cooperation possibilities.

Indeed, what has started as an initiative has soon become a strategy. It could be argued that it is not entirely formed and could appear unclear, but this does not dismiss its importance or its implications for global politics. Its scale has the power to undermine the Western-promoted liberal order by offering a different model of development that has not been defined fully by the creators, but this makes it adaptable to national models.

4.1. BRI and EU

The BRI initiative was not received with enthusiasm in some, if not the most, Western European nations, especially in the leading European economies. For instance, France, the UK, and Germany refused to sign the BRI memorandum, showing their skepticism regarding the project (Parker et al., 2018). The several Western stakeholders were warning that the BRI initiative could be a Trojan horse carrying a Chinese set of values somewhat incompatible with Europe's (Heath & Gray, 2018).

Italy figures as the largest economy and the only founder of EU among the signatories. However, Italian acceptance of BRI also has to do with her internal political dynamics. The unstable government had an essential Eurosceptic component and advocated for a more independent foreign policy. Moreover, the Italian signature is vital from a symbolical point of view for China – it is the first G8 member country to sign the memorandum. From a more historical perspective, the ancient Silk Road is difficult to imagine without the Venetian Republic and its splendor built upon trade with the Orient and its merchant fleet. Therefore, the Italian Government expressed high expectations regarding the project. The Deputy Prime Minister, Luigi Di Maio, said that the deal would "allow *made in Italy* to colonize the world," hoping that new markets would be open for Italian goods (Perrone, 2019).

The Italian aspiration is to reverse a trade deficit by increasing exports to China. Hoping to escape the long-lasting problems with economic stagnation. On the other hand, China's power to shape world trade routes could mean that staying outside of the BRI might cause a change in a maritime power's strategic position. Indeed, China's interest in the Balkans and its trade ports helped Italy revive its main strategic port in the Adriatic, the Port of Trieste, which had lost its splendor after the fall of the iron curtain. The Chinese initiatives in the Balkans indirectly helped Trieste to rediscover its strategic role, in the words of its President: "the port of Trieste is returning to the logistical role for Europe that it had for the old Austro-Hungarian empire" (Horowitz, 2019). Finally, after the Chinese showed serious interest, the

German Hamburger Hafen und Logistik Ag (Hhla) was chosen as a partner of the port (Paudice, 2020).

In the EU-China Strategic Outlook (European Commission, 2019a), it was stressed that China "has also increasingly become a strategic competitor for EU." The language has evolved. It seems that the EU is increasingly aware of the competition coming from China in all spheres of industry, with a closing gap in technology, and with increasing competitiveness in some of the most delicate industries (De Decker, 2019)

The BRI received diligent attention in Western capitals. Although the initiative is still far from becoming a clear strategy and many goals remain unclear, numerous observers note its potential to change geopolitical and geoeconomics realities in Europe. Instead, the initiative is perceived "as a geopolitical project about power and influence" (Duchâtel & Duplaix, 2018, p. 7). The soft Chinese narratives and promotion of a win-win nature of the initiative where everyone is welcome, and everyone is benefiting did not receive positive feedback in most EU capitals.

In their report on Maritime Silk Road, Duchâtel and Duplaix (2018, p. 4) note that "Chinese actions already affect European interests, in five main areas: maritime trade, shipbuilding, emerging growth niches in the blue economy, the global presence of the Chinese navy geopolitics and the global competition for influence." By the same token, the land-based routes, as the one that should connect the Port of Piraeus to Budapest via Skopje and Belgrade, could reduce shipping time and decrease the strategic importance of Western European ports (Bastian, 2017).

China is expanding in all industrial sectors, and it is reducing the gap in many areas where it lies far behind developed nations. To achieve this, China relies on technology transfer, and it uses its size to force Western companies to 'cooperate' in such an endeavor. One of the prime examples is a move by the Italian shipbuilder Fincantieri to partner with Chinese CSSC Baoshan, and de facto undermine its advantage in producing sophisticated vessels such as two VISTA Class cruise ships (Duchâtel and Duplaix, 2018). The move was influenced by Fincantieri's largest partner, the US-based Carnival, which was, for its part, influenced by its contract with Chinese partners, which was supposed to open the Chinese market for the company (Duchâtel and Duplaix, 2018).

In 2018, 27 of 28 EU Ambassadors to China signed a paper criticizing Chinese Silk Road strategies. The signers claimed that EU companies are in a disadvantageous position with Chinese SOEs. Further, they believed that the Chinese agenda "runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies" (Heide et al., 2018).

The EU's increasing assertiveness is creating a resistance to Chinese grand strategies in the European periphery. It becomes even more complex for China to promote its desecuritizing narratives in such an environment. However, due to solid disintegration currents within the Union, China is having success in some countries. It could be observed that Beijing's strategies are finding fertile soil within the Eurosceptical regimes that nourish a particular political and economic model which is opposed to Western liberal models.

4.2. Balkan Silk Road

Due to its geographic position, the CEE region could play an essential role in the New Silk Road strategies. For both of its components – the maritime and land belts, they represent a 'linking market' between Asia and Europe (Liu, 2014). The Balkans' southern region represents Europe's land-based transportation and energy infrastructure and the first port for the maritime silk road route.

Chinese engagement with the region started a few years before the BRI was announced. At the same time, the initiative gave further importance and a sort of strategic positioning to China-CEE cooperation (Liu, 2019). In his speech in Suzhou in 2015, Premier Li Keqiang stressed the "need to promote synergy between the Belt and Road initiative and the development strategies of CEECs, and conduct cooperation on infrastructure development" … "Located at the east gateway to Europe and along the routes of the Belt and Road initiative, CEECs enjoy a distinct advantage for enhancing connectivity" (Li, 2015b).

Within the CEE, the Balkans represent the most strategic region through which the new roads need to pass to shorten the traveling times of Chinese goods to Europe. According to Liu (2019), there are three main reasons for China to engage the Balkans: (1) its market advantage (due to its embeddedness within EU markets), here it also names the geographic position, which means the products are quickly shipped to other markets; (2) the cost of production is still at a competitive level, while the region remains politically stable; (3) finally, there are significant opportunities in the infrastructural sector, where the Chinese companies can practice and acquire skills that can be subsequently used within a more regulated EU market.

These reasons sound logical in theory; however, the reality is different. The Balkan countries (non-EU members) are adopting the EU standards, and their economies are being more and more integrated with the European Union with respective FTAs – referred to as the Stabilization and Association Agreements (SAAs). However, the Western Balkans have a trade deficit with the union. This is because most countries export primary goods to the EU while importing finished products. In contrast, those products that are eventually exported to EU countries are mostly manufactured as the industries were incorporated within the value chains of EU corporations (European Commission, 2021)

The Western Balkans have 70 percent of their trade with the EU, with China in the second position with 6.5 % (European Commission, 2021). The geographic position could appear as an obvious advantage, but again, the reality is different. It is approximately 1160 km from Podgorica to Milan, and it would require some 11 to 12 hours to arrive by car (mostly highway once you reach Croatia); while from Podgorica to Bulgaria it is some 570 km, and it would take at least 10 hours by car. Furthermore, to arrive in Milan, a traveler will also have to pass through one border crossing while still passing through 3 countries, while in Bulgaria, a traveler would have to pass through 4 (doubled for 2) border crossings. Thus, the Western Balkans, due to the physical frontiers and underdeveloped infrastructure, are not as integrated as a map would suggest.

The cost of production might be lower than in CEE countries, and in Serbia and Albania, many EU countries opened their production lines, using advantageous stimulation packages for FDIs. Nevertheless, the Western Balkans still provide migrant workers for Germany and other EU countries. Workforce recruitment in the Western Balkans is becoming difficult, as most would prefer to move to Germany rather than be underpaid in their own country (Reuters, 2020b). Thus, with limited capacity to become incorporated into Chinese value chains, the most lucrative field for China in the Western Balkans remains infrastructural development. However, the opportunities are mainly exploited because the governments are ready to circumvent the EU norms and avoid institutions (for example public tender) created through the EU integration process. Further, the governments are ready to concede state guarantees to build massive unfeasible infrastructural projects. This gives

Chinese companies an opportunity to practice and, as we will see later, empowers them to win tenders within the EU – as in the case of the Peljesac bridge in Croatia.

The EU-Balkan trade imbalances are similar to Balkan-China trade data. In both relationships, it is primarily a one-way street, and Balkan countries have limited export reach in China. Most of the trade is happening within the borders of the Balkan countries. These might be considered reasons to invest, but China has shown reluctance in investing in industry and production (Matura, 2021). The main target of Chinese companies is in the energy sector and infrastructure. In both cases, China is exploring the legal/integrational loopholes. The loose environmental standards and weak rule of law combined with the spread of corruption facilitates Chinese investments in the Western Balkans. There have also been industrial projects that have attracted Chinese investments, in particular in Serbia. However, these are focused in sectors characterized by high environmental risk and social implications that make them unattractive to other foreign companies.

The BRI has helped China to complement other regional initiatives. Namely, the BRI, with all its ambitious splendor and promises of unprecedented investment, had kept alive the 16+1 mechanism, making it de facto its instrument, even if the former was initiated before the BRI was announced and designed. One of the well-known Chinese scholars researching CEE-China relations (Liu, 2014) believes that the 16+1 mechanism is the most important regional cooperation mechanism for implementing the New Silk Road. He believes the CEE has an important role in implementing the 'equal development' between East and West, which, it is assumed, should be one of the outcomes of the BRI initiative (Liu, 2014). In such a grandiose plan of lifting some countries from poverty while upgrading others from developing to developed status, the CEE region has its geographical specificities, repositioning the region as the central hub for trade between Asia and Europe. Further, the Chinese engagement with CEE countries should make them allies in negotiating FTAs and investment agreements between China and the EU; finally, the region could be a penultimate destination for Chinese products before being 'fully Europeanized' (Liu, 2014).

The Chinese infrastructural ambitions and proposal of improving connectivity address CEE's problems with underdeveloped infrastructure (in particular in the Balkan countries). The infrastructure gap is significant even between the Western EU members and the CEE EU members, while it is even more significant in the non-EU CEE countries (Pepermans, 2018). The EU funds are not enough to cover the needed improvements, especially in non-candidate countries.

However, China's infrastructural agenda could be colliding with the interests of many other stakeholders in Europe. For example, creating a hub in the Southeastern Mediterranean ports (read Piraeus), connected through the Skopje-Belgrade-Hungary railway link, could increase the strategic value of these countries, and shorten the shipping time of goods to Central and Western Europe. Nonetheless, such plans will not be seen as win-win cooperation in Rotterdam, Antwerp, or Hamburg, as they could seriously diminish their maritime importance (van der Putten, 2014).

Further, the engagement with the CEE countries did not bring, at least not everywhere, the same political synchronization, and it is doubtful the majority of the countries will become firm lobbyists of Chinese interests in the EU. Although some countries are already obstructing the EU's united front against China, it is to be seen whether such choices are influenced by a promise of more investments from China or due to the internal political dynamics of given countries.

Finally, China seems to intend to create a hub for Chinese products and incorporate CEE countries into Chinese production chains (complicated due to particularities of CEE industrial development). This move would inevitably put Chinese industries in direct competition with Europe, which has already incorporated these economies within their value chains. The CEE countries predominantly still 'specialize in fabrication activities with low value-added content' (Pellényi, 2020). In engaging China, the CEE countries hope to escape such a position within the Global Value Chain (GVA) and elevate their economies and make them more independent from the EU, not to transfer dependency from the EU to China. Thus, the expectations of CEE countries might be in conflict with Chinese aspirations in the region.

Whatever the outcome, the BRI has complemented the 16+1 initiative by giving it a more solid component. In that way, China gave strategic importance to certain countries which received another impetus to engage China and to strengthen bilateral relations.

4.3. Investments in infrastructure through BRI in the Western Balkans

The infrastructural projects with Chinese participation in the region commenced before the BRI was announced, though the initiative gave a definitive rationale to the infrastructural projects in the Balkans. It offered a politically viable narrative to justify the massive and often financially unfeasible projects.

The entire rhetoric surrounding the large infrastructural investments in the Balkans is based on a wrong assumption that these are "the Chinese investments." China's state-owned financial institutions indeed often finance such projects, but that does not make them *per se* "Chinese." Instead, the investor is a government that takes the loan, giving substantial state guarantees, and employing Chinese infrastructural companies to carry out the project.

The definition of an investor is the one “who commits capital with the expectation of receiving financial returns” (Investopedia, 2021). In this case, the Chinese side is not gaining returns from a project, but an interest rate guaranteed by the state and from profits made by the contractor. The Chinese financial institutions expect no gains from the project’s actual outcome, and they are not interested in whether such a project is feasible or not; they have almost no risk in the process. These could be considered Chinese subsidies to their construction companies instead of investments.

The most common model is the one in which the projects are divided into financial aspects (the loan agreement) and a design and build contract (where the Chinese companies are hired without tender procedures but through direct negotiations). These contracts are separated, and a financial contract does not depend on whether the contractor will fulfill its obligations. Putting it simply, the Chinese financial institutions will get their returns even if the project ends up unfinished. Thus, China is less of an investor and more of a one-stop-shop offering financial and construction services. In return, the Chinese SOEs and institutional banks, such as the EXIM bank, rely on the solid state guarantees conceded by the host government. The process has evolved over time and after practicing in projects mainly funded by Chinese banks, the Chinese construction companies are now applying (and wining) in tenders for large projects funded by other parties (like the EU in the case of the Peljesac Bridge in Croatia).

The projects like the highway in Montenegro, the fast railway line Belgrade-Budapest (later redefined as ‘faster’ rather than fast), the highway sections in Serbia and Macedonia, etc. are often labeled as BRI. Nevertheless, while some of these (the mentioned railway and related highway routes) are indeed strategically important (or they could become important), other projects have no particular strategic value. Moreover, even if they had, they are not built by China, nor do Chinese stakeholders have risks in the game. Instead, they are built by the respective countries for national purposes, with the hope that they might become internationally important.

The BRI, no doubt, gave meaning to such ambitious infrastructural projects, which are more visible in the CEE countries that are still not EU members. Such contractual investments are already high in CEE countries compared to the rest of Europe, while they are more significant in the non-EU CEE countries: "Infrastructure projects, whose number and value are higher than the number of foreign direct investments, have been implemented mainly in the Balkans, aimed at improving the transport of Chinese goods from the port of Piraeus in Greece to the countries of Western Europe (Bieliński et al., 2019, p. 15)."

In one perspective, the BRI offers a platform for China to promote a dream of a new economic vision where certain countries will become hubs/bridges/nodal points of interconnectivity between Asia and Europe. However, such dreams might have to wait a few decades to be realized; until then, the respective countries will have to endure the weight of massive loan arrangements for unfeasible projects and their economic and political implications.

4.4. Political consequences of BRI - Promotion of autocracy and state-led development

Many countries initially welcomed the BRI initiative as an economic opportunity to bring much-needed Chinese greenfield investments to developing nations. However, in Western Europe, many feared the initiative and everything that followed would inevitably carry the Chinese set of values and standards, which might collide with European values and norms. This anxiety that is best summarized in a speech delivered by the Foreign Minister Sigmar Gabriel (2018) at the Munich Security Conference, where he warned that BRI is far from being a romantic rebuilding of the ancient road, instead: "China is developing a comprehensive systemic alternative to the Western model that, in contrast to our own, is not founded on freedom, democracy and individual human rights."

Bryant & Chou (2016, p. 115), argued that "the fear is that countries under Beijing's sphere of influence will begin to see the appeal of autocracy, further shunning democracy in the process and precipitating what is known as a reverse-wave of democratization." This is particularly dangerous considering that such autocratic inclinations developed long before the Chinese engagement with the CEE region. In this research we will argue that such inclinations have helped Chinese penetration in the region. However, so far, and it is too early to say, most of the authors agree that China appears reluctant to export or promote its autocratic system (Bryant & Chou, 2016; Nathan, n.d.). Nevertheless, Jakimów (2019) believes the EU member states in the region use China as leverage in trying to gain more liberty from Brussels, while the non-EU countries use China as leverage to accelerate the integration process (Jakimów, 2019).

European think tanks, those following Chinese foreign policy, have raised suspicion that there is a hidden agenda behind the business of building roads and bridges. They fear that behind the scenes: "Beijing's offer of alternatives to established standards of governance and labor rights, for example, weaken fundamental values that took European countries decades to develop" (Okano-Heijmans & Lanting, 2015, p. 43).

Indeed, such fears are well-founded, as the leading player in the initiatives is the SOE, which emerged from an autocratic political system characterized by a dominance of one party where there is no clear division of powers. Thus, it is expected that such a regime promotes different political and economic institutions with different sets of values than those of the West. Okano-Heijmans & Lanting (2015, p. 12), explain the nature of the Chinese political-economic system and its different nature compared to their Western counterparts: "(1) major Chinese companies are dominated by national capital and not transnational financial investors, and these companies raise money through loans from national banks at favorable rates; (2) the patent rights system in China is significantly weaker than in other parts of the world, and foreign companies' patents and innovation are not carefully protected; and (3) China selectively integrates into the global economy and continues to protect domestic markets from foreign investment."

The Chinese financial institutions have different standards than those that are Western-based. The institutions like EBRD, European Investment Bank (EIB), World Bank (WB), and International Monetary Fund (IMF), which emerged from a liberal Western hegemony, first and foremost consider the substantiality of the public debt with a set of standards and rules that need to be adopted by a loanee. Furthermore, the infrastructural projects applying for funds need to be feasible in such a way that they do not create a future debt burden. For its part, the Chinese financial institutions require no such things, nor do they suggest to the loanee which projects are acceptable and which are not. The countries have the liberty to prioritize projects they believe serve their national interests. Such an approach imply inevitable political choices rather than economic ones, which creates political consequences that are primarily internal but could also have foreign policy implications. According to Lee's (2014) research of Chinese investments in Africa, the advantage of Chinese loans is the fact that national leaders are free to choose the project to prioritize. This is particularly important knowing that "Politicians intent on securing votes in the next election are eager to sign up for Chinese loans that will deliver infrastructural projects to their constituencies in record time" (Lee, 2014, p. 41). This, however, does not mean that Chinese loans have no conditionality; instead, the countries are required to employ Chinese companies to build the projects and, as we will see, they tend to adapt the project work to the preferences of those very Chinese companies.

This research found out that Chinese engagement with CEE and its 'loans for infrastructure' arrangement was decisive in allowing Montenegro to pursue its hybrid economic model of state-led development combined with neoliberalism. Montenegro's decision to build the most expensive highway in Europe created internal political consequences, as it gave enormous political leverage to the ruling regime. However, it also has created a public debt that has its international consequences (Grgić, 2019). The control of the public deficit of the member states is regulated with the Treaty on the Functioning of the European Union (TFEU), and it imposes "a deficit to GDP ratio and a debt to GDP ratio not exceeding reference values of 3% and 60%, respectively" (Eurostat, n.d.).

It might seem like a paradox, but the 'loans for infrastructure' approach by Chinese financial institutions might also play against Chinese grand strategies like the BRI. Undoubtedly, such financial arrangements are profitable for China, which gains both on interest rates and on loans backed by strong state guarantees, while its construction companies are profiting from realizing such enormous projects. However, allowing countries to choose the projects means that these countries will decide according to their national priority (in the case of democratic and semi-democratic regimes) or even, according to the preferences of a ruling elite or a single ruler (in the case of hybrid or autocratic regimes). Therefore, it could turn out that such projects have no value for the BRI strategy and might be a massive waste of resources, which attracts negative publicity (see the Port in Sri Lanka, the highway in Montenegro, etc.). Further, due to their negative impact on public finance, they could limit more worthwhile projects in the future. Thus, these projects could be of short-term profit for Chinese banks and construction companies, with fewer impacts on BRI strategies.

The BRI initiative encouraged other countries along the route to make their contribution to the revival of the ancient silk road. While these projects are built by local companies and founded in those respective countries, they are very dependent on China. For example, the grandiose bird-shaped project of the International Airport Ashgabat, which receives not more than 100,000 tourists per year, serves more as a means for its unemployed citizens to leave the country, when the immigration service allows, than as a BRI initiative (Baumgartner, 2018). The Turkmenbashi Sea Port won an unusual award for being "the largest harbor port below sea level," and having "the largest artificial island below sea level" (Eurasianet, 2018). These projects are often presented in the Western media as an example of unsustainable planning and result in bad publicity for China and its partner countries.

The BRI initiative gives China yet another platform for soft power promotion. The win-win narratives aim to present China as a benevolent giant primarily focused on cooperation and development. It shows that while other great powers (in history and the present) have used their powers to force their interests, Chinese power is used wisely and in an altruistic manner to boost global development and growth (Jakimów, 2019). Differently than Western military interventions, sanctions, and interference in internal affairs, the Chinese investments in infrastructure, connectivity, and trade through BRI and regional initiatives have helped create "a narrative of China as 'rescuer' and its investments as ‘reviving’ Europe (Jakimów, 2019, p. 375). It is questionable whether such communication strategies have helped China to win the hearts of peoples of the region. Some research that will be mentioned below, showed that China’s image did not improve because the nation and its narratives mostly depend on global perceptions.

The most important result of BRI and Chinese engagement with the region, is the possibility for regional countries to have another source of massive financing to pursue their development goals. Before China’s arrival, the regional countries were mainly relying on Western based financial institutions and various EU funds to develop their infrastructure. However, these resources were always given according to priorities outlined, formally, by the government, but under the strict supervision of the institutions conceding the credits. China offered a lifeline to regional countries in following their own economic paths. This, it turns out, has stimulated statist economic behaviors in the region, in particular in countries with obvious autocratic inclinations, and increasing confrontation with the EU on some of the EU’s founding principles.

4.5. Trade and Investments – nothing new on the Eastern front

Before analyzing trade data, a disclaimer is needed. Namely, the information available for EU countries and other European countries is quite substantial. Most of it follows high statistical standards and uniformity; it still does not give an accurate picture, as the data could show significant discrepancies. According to (Semerák, 2015), the statistics of EU members suffer from the so-called 'Rotterdam effect[2]'; furthermore, imports often consist of components inserted in final products that will be exported to other countries and are not used for consumption.

While not as thorough as in the case of trade, the FDI statistics are even more inaccurate. The main problem that arises is that it is difficult to track, and often the data available is more misleading than helpful. For example, it often shows investments only coming from PR China while excluding or separating investments from Hong Kong. It was estimated that 72 percent of Chinese outward FDIs in the world at the end of 2017 were focused on Hong Kong, Cayman Islands, and Virgin Islands (Y. Lin, 2018).

While this phenomenon could be avoided by including both Hong Kong and China, some data is more challenging to put into good use. For example, the tracking of the ultimate investing country is not a standard in most countries, which usually name only the most proximate investor. If gathered in such a way, the data could show significant discrepancies. To take the example of Slovenia, according to the (Bank of Slovenia, 2020) the difference is shown in the table below:

[2] "The *Rotterdam effect* (also known as the Rotterdam-Antwerp effect) refers to errors in the way trade is calculated when trade flows through ports on its way to final destinations outside of the country or trading block. In the case of Rotterdam and Antwerp, a large proportion of goods are simply unloaded from one ship and reloaded onto another in a relatively short space of time."
https://www.economicsonline.co.uk/Global_economics/The_Rotterdam_effect.html

Tabela VI: Tuje NN v Sloveniji glede na državo investitorja ter izvorno državo lastnika — **Po državah**

Table VI: Foreign DI in Slovenia - immediate and ultimate country presentation — *By countries*

Države / *Countries*	2018		2019	
v milijonih EUR / *EUR million*	Država investitorja / *Immediate partner country*	Izvorna država lastnika / *Ultimate investing country*	Država investitorja / *Immediate partner country*	Izvorna država lastnika / *Ultimate investing country*
Nemčija / *Germany*	1.364,5	2.282,0	1.354,8	2.276,0
Avstrija / *Austria*	3.657,0	2.056,7	3.961,4	2.275,4
Italija / *Italy*	1.188,5	1.320,8	1.263,0	1.505,0
Združene države / *United states*	80,8	1.483,3	172,3	1.484,1
Švica / *Switzerland*	1.592,6	1.227,3	1.825,6	1.340,4
Združeno kraljestvo / *United kingdom*	407,1	766,6	438,4	811,1
Hrvaška / *Croatia*	992,3	765,4	1.041,1	784,3
Nizozemska / *Netherlands*	1.134,0	520,5	1.242,5	552,3
Madžarska / *Hungary*	59,3	89,9	422,3	445,1
Luksemburg / *Luxembourg*	2.098,8	240,2	2.084,9	433,3
Ruska federacija / *Russian federation*	189,9	472,6	114,3	414,5
Slovenija / *Slovenia*	-	355,2	-	390,3
Japonska / *Japan*	41,4	342,5	38,5	361,3
Francija / *France*	550,0	676,7	170,7	336,0
Kitajska / *China*	3,9	356,4	4,3	325,4
Ciper / *Cyprus*	311,2	205,3	408,6	232,9
Mehika / *Mexico*	-0,2	207,5	0,0	206,5
Češka republika / *Czech Republic*	305,2	203,3	302,6	205,8
Nerazporejeno / *Unallocated*[1]	42,2	136,1	45,5	70,5
Ostalo / *Other*	1.235,6	1.546,1	1.116,8	1.557,6
SKUPAJ / *TOTAL*	**15.254,2**	**15.254,2**	**16.007,8**	**16.007,8**

Vir / *Source:* Banka Slovenije

[1]Vrednosti postavke "Nerazporejeno" vključujejo (i) neposredne naložbe lastnikov, katerih deleži v slovenskih podjetjih presegajo 10%, a skupna bilančna vsota ne presega praga za poročanje v višini 2 mio EUR ter (ii) nerazporejen delež nepremičnin. / *Value of item 'Unallocated' represents (i) direct investment shares in Slovenian companies that surpass 10%, however the total assets do not surpass the threshold of reporting obligation (2 mio EUR) and (ii) unallocated share of real estate.*

Figure 1 FDI in Slovenia

Thus, statistics are to be taken with caution.

4.5.1. Trade – failed goals

China and the EU are the world's leading exporting regions, and Sino-EU trade is the most dynamic in the world.

Data extracted on 19/07/2021 17:58:48 from [ESTAT]									
Dataset:	**Extra-EU trade by partner [EXT_LT_MAINEU__custom_1157418]**								
Last updated:	16/07/2021 11:00								
Time frequency									
External trade indicator									
Standard International Trade Classification (SITC Rev. 4, 2006)									
Geopolitical entity (reporting)									
TIME	2011	2012	2013	2014	2015	2016	2017	2018	2019
PARTNER (Labels)									
China except Hong Kong	-158.331,4	-147.774,7	-131.798,2	-137.612,3	-180.712,8	-182.469,9	-177.753,0	-184.638,1	-195.971,5
Hong Kong	19.787,8	23.176,3	25.534,5	23.905,0	21.088,3	21.593,0	25.777,0	26.653,5	25.455,4

Figure 2 EU trade with China and Hong Kong

The table above shows the trade balance between the EU and China (with a row presenting the trade with Hong Kong).

Trade between the two entities has grown during the decade 2010-2020, making China and the EU the main trading partners, as seen in pic 1 and 2.

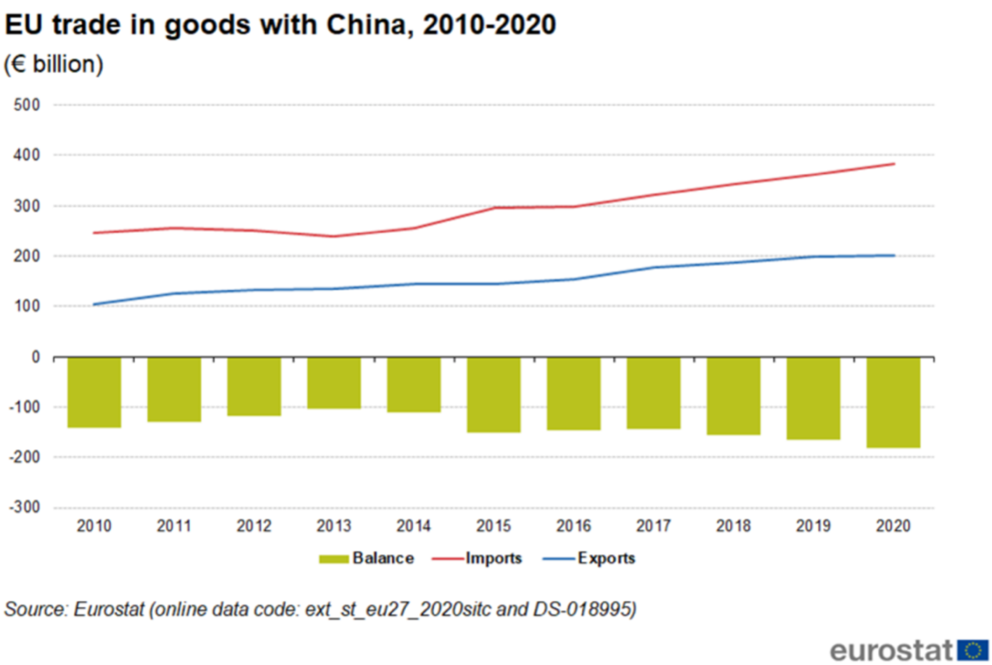

Figure 3 EU Trade in goods with China 2010-2020

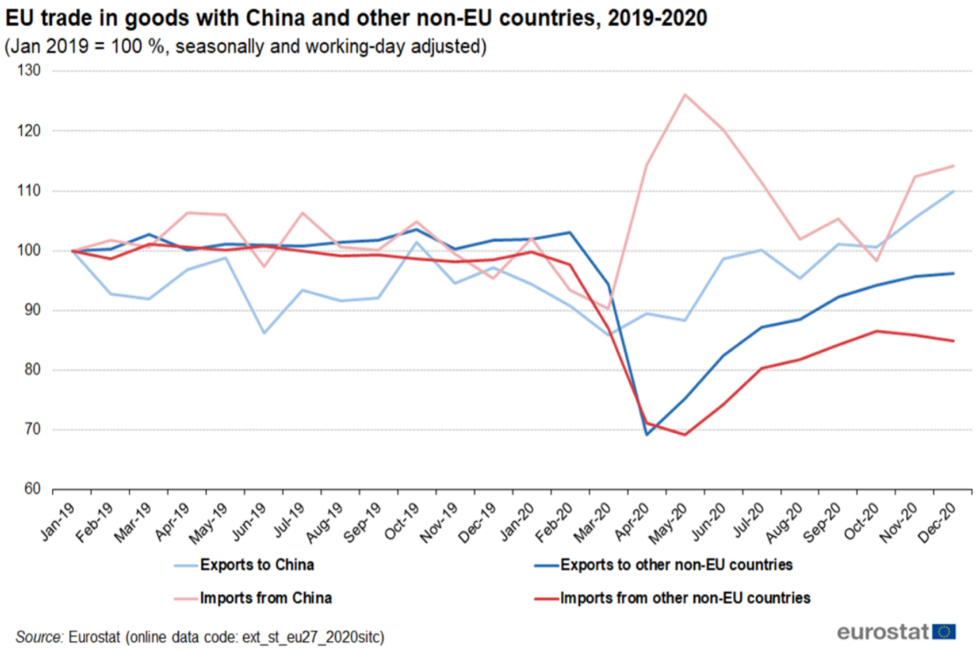

Figure 4 EU trade in goods with China and other non-EU countries 2019-2020

The CEE countries mainly occupied the lower part of the table when analyzing the trade between the single countries and the EU. However, what is more concerning for the CEE members is that these countries have much-limited export volumes to the vast Chinese market (see the table below).

EU exports of goods to China, 2020

	€ million	% of China in extra EU exports
Germany	96 426	16.8
France	17 493	8.8
Netherlands	15 692	7.8
Italy	12 887	6.1
Ireland	9 861	10.6
Belgium	8 541	6.5
Spain	8 167	7.8
Sweden	7 458	11.5
Denmark	5 590	12.2
Austria	4 019	8.7
Finland	3 068	11.6
Poland	2 974	4.8
Czechia	2 260	6.6
Slovakia	2 040	12.8
Hungary	1 518	6.7
Bulgaria	919	9.7
Greece	855	6.5
Romania	646	4.0
Portugal	568	3.7
Slovenia	452	3.5
Lithuania	316	2.5
Estonia	245	5.1
Luxembourg	200	8.4
Latvia	160	3.0
Cyprus	87	4.9
Croatia	86	1.8
Malta	41	3.5

Source: Eurostat (online data code: ext_st_eu27_2020sitc and DS-018995)

eurostat

Figure 5 EU exports of goods to China 2020

The EU members participating in the 16(17)+1 initiative have exported together to China, as Italy did, for example. An aspiration to expand this limited export activity was one of the reasons for the countries to engage China (R. Turcsányi & Qiaoan, 2019). However, it seems that their expectations were not fulfilled.

The 16+1 mechanism that started in 2013 did not improve, or it seems it had limited effects on trade balances between the region and China. As a result, the CEE countries keep a negative trade balance with China, with a trade deficit that continued to grow in most countries, or it remained relatively stable.

Some countries managed to increase their exports two- or threefold. Serbia, for example, increased its exports to China ten times between 2010 and 2020. However, her trade deficit increased as well, as her exports were minimal to begin with, while its imports from China grew constantly.

To avoid eventual misleading conclusions due to distortions in data, Semerák (2015), uses trade-in-value-added statistics (TiVA) to understand the trends in CEE – China trade. Using these trends, she concludes that CEE China trade is "Imports from China are attracted to the CEE because the CEE countries export to the EU, while the EU and other CEE countries help their neighbors by selling their commodities to China indirectly."

Furthermore, "CEE exports to China will increasingly result from collaboration between Czech, Slovak, German and other producers. This also means that CEE countries will attract Chinese investors (and trade activities) if they are well-connected to similar international value "chains."

Thus, the Chinese approach is much welcomed as its future trade relations could depend on regional integration and cooperation. In the table below we find the trade data for each CEE member state with China in the period 2010-2019.

Poland	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
exports to China	1.700.000.000 USD	1.930.000.000 USD	1.820.000.000 USD	2.230.000.000 USD	2.340.000.000 USD	2.100.000.000 USD	1.970.000.000 USD	2.380.000.000 USD	2.590.000.000 USD	2.980.000.000 USD
imports from China	12.500.000.000 USD	14.000.000.000 USD	14.500.000.000 USD	15.500.000.000 USD	18.000.000.000 USD	17.800.000.000 USD	18.600.000.000 USD	21.600.000.000 USD	25.200.000.000 USD	26.900.000.000 USD
Balance	**- 10.800.000.000 USD**	**- 12.070.000.000 USD**	**- 12.680.000.000 USD**	**- 13.270.000.000 USD**	**- 15.660.000.000 USD**	**- 15.700.000.000 USD**	**- 16.630.000.000 USD**	**- 19.220.000.000 USD**	**- 22.610.000.000 USD**	**- 23.920.000.000 USD**
Hungary	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	1.640.000.000 USD	1.810.000.000 USD	1.960.000.000 USD	2.130.000.000 USD	2.330.000.000 USD	1.950.000.000 USD	2.400.000.000 USD	2.850.000.000 USD	2.510.000.000 USD	1.790.000.000 USD
imports from China	6.810.000.000 USD	6.840.000.000 USD	5.990.000.000 USD	5.810.000.000 USD	5.720.000.000 USD	5.300.000.000 USD	5.400.000.000 USD	5.890.000.000 USD	6.690.000.000 USD	7.060.000.000 USD
Balance	**- 5.170.000.000 USD**	**- 5.030.000.000 USD**	**- 4.030.000.000 USD**	**- 3.680.000.000 USD**	**- 3.390.000.000 USD**	**- 3.350.000.000 USD**	**- 3.000.000.000 USD**	**- 3.040.000.000 USD**	**- 4.180.000.000 USD**	**- 5.270.000.000 USD**
Serbia	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	41.500.000 USD	88.600.000 USD	72.400.000 USD	177.000.000 USD	52.500.000 USD	127.000.000 USD	148.000.000 USD	126.000.000 USD	196.000.000 USD	401.000.000 USD
imports from China	676.000.000 USD	850.000.000 USD	796.000.000 USD	864.000.000 USD	858.000.000 USD	870.000.000 USD	784.000.000 USD	964.000.000 USD	1.220.000.000 USD	1.490.000.000 USD
Balance	**- 634.500.000 USD**	**- 761.400.000 USD**	**- 723.600.000 USD**	**- 687.000.000 USD**	**- 805.500.000 USD**	**- 743.000.000 USD**	**- 636.000.000 USD**	**- 838.000.000 USD**	**- 1.024.000.000 USD**	**- 1.089.000.000 USD**
Croatia	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	69.600.000 USD	89.900.000 USD	77.200.000 USD	97.900.000 USD	109.000.000 USD	103.000.000 USD	154.000.000 USD	170.000.000 USD	220.000.000 USD	147.000.000 USD
imports from China	1.490.000.000 USD	1.600.000.000 USD	1.450.000.000 USD	962.000.000 USD	767.000.000 USD	750.000.000 USD	799.000.000 USD	927.000.000 USD	1.110.000.000 USD	1.020.000.000 USD
Balance	**- 1.420.400.000 USD**	**- 1.510.100.000 USD**	**- 1.372.800.000 USD**	**- 864.100.000 USD**	**- 658.000.000 USD**	**- 647.000.000 USD**	**- 645.000.000 USD**	**- 757.000.000 USD**	**- 890.000.000 USD**	**- 873.000.000 USD**
Slovenia	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	151.000.000 USD	159.000.000 USD	228.000.000 USD	231.000.000 USD	246.000.000 USD	210.000.000 USD	349.000.000 USD	418.000.000 USD	418.000.000 USD	362.000.000 USD
imports from China	1.470.000.000 USD	1.660.000.000 USD	1.580.000.000 USD	1.660.000.000 USD	1.870.000.000 USD	1.890.000.000 USD	2.020.000.000 USD	2.430.000.000 USD	3.280.000.000 USD	2.850.000.000 USD
Balance	**- 1.319.000.000 USD**	**- 1.501.000.000 USD**	**- 1.352.000.000 USD**	**- 1.429.000.000 USD**	**- 1.624.000.000 USD**	**- 1.680.000.000 USD**	**- 1.671.000.000 USD**	**- 2.012.000.000 USD**	**- 2.862.000.000 USD**	**- 2.488.000.000 USD**
Montenegro	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	2.960.000 USD	12.100.000 USD	13.900.000 USD	5.400.000 USD	3.114.000 USD	9.670.000 USD	21.200.000 USD	63.300.000 USD	18.100.000 USD	43.300.000 USD
imports from China	112.000.000 USD	148.000.000 USD	180.000.000 USD	180.000.000 USD	162.000.000 USD	206.000.000 USD	194.000.000 USD	240.000.000 USD	274.000.000 USD	114.000.000 USD
Balance	**- 109.040.000 USD**	**- 135.900.000 USD**	**- 166.100.000 USD**	**- 174.600.000 USD**	**- 158.886.000 USD**	**- 196.330.000 USD**	**- 172.800.000 USD**	**- 176.700.000 USD**	**- 255.900.000 USD**	**- 70.700.000 USD**
Romania	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	525.000.000 USD	657.000.000 USD	608.000.000 USD	804.000.000 USD	929.000.000 USD	747.000.000 USD	812.000.000 USD	982.000.000 USD	1.040.000.000 USD	1.010.000.000 USD
imports from China	3.280.000.000 USD	3.510.000.000 USD	2.740.000.000 USD	2.700.000.000 USD	3.180.000.000 USD	3.210.000.000 USD	3.700.000.000 USD	4.100.000.000 USD	5.000.000.000 USD	4.920.000.000 USD
Balance	**- 2.755.000.000 USD**	**- 2.853.000.000 USD**	**- 2.132.000.000 USD**	**- 1.896.000.000 USD**	**- 2.251.000.000 USD**	**- 2.463.000.000 USD**	**- 2.888.000.000 USD**	**- 3.118.000.000 USD**	**- 3.960.000.000 USD**	**- 3.910.000.000 USD**
Czechia	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	1.300.000.000 USD	1.870.000.000 USD	1.770.000.000 USD	2.000.000.000 USD	2.150.000.000 USD	1.940.000.000 USD	2.020.000.000 USD	2.560.000.000 USD	2.770.000.000 USD	2.590.000.000 USD
imports from China	11.100.000.000 USD	13.200.000.000 USD	10.900.000.000 USD	11.100.000.000 USD	12.700.000.000 USD	13.500.000.000 USD	12.800.000.000 USD	14.500.000.000 USD	18.800.000.000 USD	20.400.000.000 USD
Balance	**- 9.800.000.000 USD**	**- 11.330.000.000 USD**	**- 9.130.000.000 USD**	**- 9.100.000.000 USD**	**- 10.550.000.000 USD**	**- 11.560.000.000 USD**	**- 10.780.000.000 USD**	**- 11.940.000.000 USD**	**- 16.030.000.000 USD**	**- 17.810.000.000 USD**
North Macedonia	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	92.300.000 USD	142.000.000 USD	167.000.000 USD	117.000.000 USD	96.500.000 USD	152.000.000 USD	55.600.000 USD	73.400.000 USD	77.400.000 USD	183.000.000 USD
imports from China	230.000.000 USD	292.000.000 USD	296.000.000 USD	294.000.000 USD	335.000.000 USD	318.000.000 USD	335.000.000 USD	339.000.000 USD	400.000.000 USD	412.000.000 USD
Balance	**- 137.700.000 USD**	**- 150.000.000 USD**	**- 129.000.000 USD**	**- 177.000.000 USD**	**- 238.500.000 USD**	**- 166.000.000 USD**	**- 279.400.000 USD**	**- 265.600.000 USD**	**- 322.600.000 USD**	**- 229.000.000 USD**
Bulgaria	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	299.000.000 USD	467.000.000 USD	820.000.000 USD	994.000.000 USD	871.000.000 USD	769.000.000 USD	671.000.000 USD	923.000.000 USD	1.060.000.000 USD	1.070.000.000 USD
imports from China	658.000.000 USD	979.000.000 USD	1.000.000.000 USD	1.060.000.000 USD	1.170.000.000 USD	1.070.000.000 USD	1.140.000.000 USD	1.240.000.000 USD	1.540.000.000 USD	1.680.000.000 USD
Balance	**- 359.000.000 USD**	**- 512.000.000 USD**	**- 180.000.000 USD**	**- 66.000.000 USD**	**- 299.000.000 USD**	**- 301.000.000 USD**	**- 469.000.000 USD**	**- 317.000.000 USD**	**- 480.000.000 USD**	**- 610.000.000 USD**
Albania	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	92.500.000 USD	62.000.000 USD	66.600.000 USD	125.000.000 USD	78.400.000 USD	69.200.000 USD	83.500.000 USD	101.000.000 USD	69.000.000 USD	94.300.000 USD
imports from China	285.000.000 USD	349.000.000 USD	338.000.000 USD	348.000.000 USD	304.000.000 USD	392.000.000 USD	448.000.000 USD	350.000.000 USD	452.000.000 USD	597.000.000 USD
Balance	**- 192.500.000 USD**	**- 287.000.000 USD**	**- 271.400.000 USD**	**- 223.000.000 USD**	**- 225.600.000 USD**	**- 322.800.000 USD**	**- 364.500.000 USD**	**- 249.000.000 USD**	**- 383.000.000 USD**	**- 502.700.000 USD**
Slovakia	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	1.350.000.000 USD	2.170.000.000 USD	1.850.000.000 USD	2.240.000.000 USD	1.910.000.000 USD	1.200.000.000 USD	1.340.000.000 USD	1.470.000.000 USD	1.870.000.000 USD	2.070.000.000 USD
imports from China	2.660.000.000 USD	3.230.000.000 USD	3.190.000.000 USD	4.010.000.000 USD	3.980.000.000 USD	3.890.000.000 USD	3.900.000.000 USD	3.740.000.000 USD	3.460.000.000 USD	3.750.000.000 USD
Balance	**- 1.310.000.000 USD**	**- 1.060.000.000 USD**	**- 1.340.000.000 USD**	**- 1.770.000.000 USD**	**- 2.070.000.000 USD**	**- 2.690.000.000 USD**	**- 2.560.000.000 USD**	**- 2.270.000.000 USD**	**- 1.590.000.000 USD**	**- 1.680.000.000 USD**
Estonia	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	177.000.000 USD	307.000.000 USD	153.000.000 USD	181.000.000 USD	228.000.000 USD	235.000.000 USD	224.000.000 USD	278.000.000 USD	244.000.000 USD	271.000.000 USD
imports from China	799.000.000 USD	1.280.000.000 USD	1.340.000.000 USD	1.280.000.000 USD	1.320.000.000 USD	1.110.000.000 USD	1.120.000.000 USD	1.230.000.000 USD	1.320.000.000 USD	1.180.000.000 USD
Balance	**- 622.000.000 USD**	**- 973.000.000 USD**	**- 1.187.000.000 USD**	**- 1.099.000.000 USD**	**- 1.092.000.000 USD**	**- 875.000.000 USD**	**- 896.000.000 USD**	**- 952.000.000 USD**	**- 1.076.000.000 USD**	**- 909.000.000 USD**
Bosnia and Herzegovina	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	15.200.000 USD	20.800.000 USD	17.900.000 USD	15.700.000 USD	24.900.000 USD	45.700.000 USD	34.500.000 USD	42.700.000 USD	56.700.000 USD	55.400.000 USD
imports from China	353.000.000 USD	436.000.000 USD	426.000.000 USD	505.000.000 USD	795.000.000 USD	475.000.000 USD	466.000.000 USD	518.000.000 USD	615.000.000 USD	621.000.000 USD
Balance	**- 337.800.000 USD**	**- 415.200.000 USD**	**- 408.100.000 USD**	**- 489.300.000 USD**	**- 770.100.000 USD**	**- 429.300.000 USD**	**- 431.500.000 USD**	**- 475.300.000 USD**	**- 558.300.000 USD**	**- 565.600.000 USD**
Latvia	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	40.300.000 USD	72.400.000 USD	68.500.000 USD	118.000.000 USD	145.000.000 USD	125.000.000 USD	137.000.000 USD	175.000.000 USD	201.000.000 USD	186.000.000 USD
imports from China	451.000.000 USD	656.000.000 USD	737.000.000 USD	742.000.000 USD	733.000.000 USD	645.000.000 USD	644.000.000 USD	707.000.000 USD	762.000.000 USD	725.000.000 USD
Balance	**- 410.700.000 USD**	**- 583.600.000 USD**	**- 668.500.000 USD**	**- 624.000.000 USD**	**- 588.000.000 USD**	**- 520.000.000 USD**	**- 507.000.000 USD**	**- 532.000.000 USD**	**- 561.000.000 USD**	**- 539.000.000 USD**
Greece	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
exports to China	444.000.000 USD	450.000.000 USD	568.000.000 USD	660.000.000 USD	459.000.000 USD	315.000.000 USD	425.000.000 USD	325.000.000 USD	814.000.000 USD	818.000.000 USD
imports from China	3.870.000.000 USD	3.660.000.000 USD	3.190.000.000 USD	3.090.000.000 USD	3.600.000.000 USD	3.130.000.000 USD	3.590.000.000 USD	3.660.000.000 USD	4.910.000.000 USD	5.550.000.000 USD
Balance	**- 3.426.000.000 USD**	**- 3.210.000.000 USD**	**- 2.622.000.000 USD**	**- 2.430.000.000 USD**	**- 3.141.000.000 USD**	**- 2.815.000.000 USD**	**- 3.165.000.000 USD**	**- 3.335.000.000 USD**	**- 4.096.000.000 USD**	**- 4.732.000.000 USD**

Figure 6 trade data for CEE countries with China in the period 2010-2019

4.5.2. FDI – unfulfilled hopes

In the decade from 2010 to 2020, China invested over USD 394.59 billion in Europe (American Enterprise Institute (AEI), n.d.), making it the favorite FDI destination for China, together with the USA. However, at the same time, the Chinese FDIs in the CEE region were quite limited, and their reach was often inflated (Matura, 2021). For example, according to the Mercator Institute for China Studies (MERICS)s' Report (J. Lee & Kleinhans, 2021), in the last two decades, Chinese FDIs in CEE countries (excluding non-EU member states), was approximately EUR 10,9 billion, on the same level as in Spain and Portugal, but much less compared to larger EU economies, like Italy for example, which received EUR 16 billion in the last two decades.

In his research of Chinese investments in CEE countries, Matura (2021), discovered significant discrepancies in data regarding Chinese FDI inflows in the region. The governments often showed inflated data compared to other sources (like Central Banks). The author (Matura, 2021, p. 7), explains inconsistencies in FDI data: "Figures presented by governments tend to include investment plans previously proposed but otherwise never implemented by the Chinese side. Others include the value of infrastructure projects constructed by Chinese contractors, even though the cost is borne by the national government itself."

Indeed, the infrastructural projects financed by Chinese banks and built by Chinese construction SOEs are investments by the national governments, not by China who is only the loan provider. However, if considering the infrastructural arrangements, the Chinese economic presence in the region, could be easily embellished. The volume of infrastructural engagement places Serbia among the Top Destinations for Chinese Construction Projects in North America and Europe (2005 – 2019), according to AEI and the Heritage Foundation sponsored platform, which tracks Chinese investments.

Country	Total Contracts (Billions of US$)	Global Ranking	Income Level
Russia	20.7	12	Upper Middle
Ukraine	10.0	28	Lower Middle
Serbia	6.1	43	Upper Middle
Belarus	5.6	45	Upper Middle
United States	4.3	54	OECD High

Source: AEI and Heritage Foundation, China Global Investment Tracker

Figure 7 Top Destinations for Chinese Construction Projects in North America and Europe (2005 – 2019)

However, it seems there are no relations between Chinese infrastructural engagements and FDIs. In other words, the fact that China is present in infrastructural projects does not ipso facto increase Chinese FDI inflows in that country. For example, in Montenegro, a country where Chinese infrastructural projects have a high value to GDP ratio, the Chinese FDIs remained modest and almost nonexistent in the past decade (except for 2020). However, Matura (2019) found that the quality of political relations does affect Chinese investments in the region.

Serbia registers the most significant capital inflows combined with infrastructural projects in the region, and enjoys an intense political relationship with China. The same is true for Hungary, which received significant FDI inflows from China.

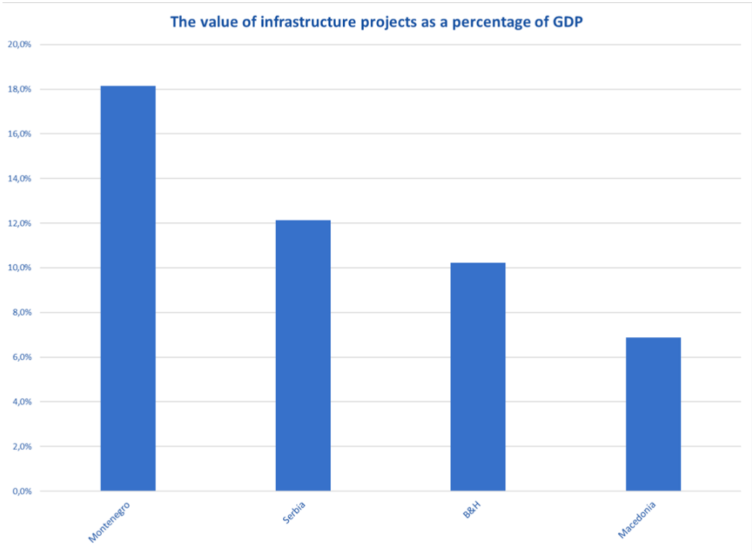

Figure 8 The value of infrastructure projects as a percentage of GDP

Thus, China's economic penetration into the CEE region is limited. The trade volume and FDIs did not go hand in hand with an intense political cooperation. Some countries did benefit from Chinese funds for infrastructure, however, most others did not.

This explains the dissatisfaction of some countries and their lesser enthusiasm for Chinese projects. However, the disappointment could be attributed to unfounded high expectations.

China promotes its own economic interests, which might be in conflict with the interests of CEE countries. Thus, if some countries expected a significant increase in exports to China and for the trade deficit to decrease, it might have been left disappointed with the outcome.

Further, the Chinese financial line of EUR 10 billion is not as attractive as the EU funds, which often come partly as aid and at very low interest rates. Thus, the Chinese funds were mostly used in the non-EU countries. Those countries with available EU funds and of EBRD and EIB, had no need to use the Chinese funds.

Finally, Chinese investments continued to go wherever they could serve Chinese economic interests. The countries that benefited the most, it seems, are those that maintained a close political relationship with China and were assertive in attracting Chinese investments. Some of this investment was concentrated in the industries where it is very difficult to find other partners, like in the steel industry and coal-based power plants. In other instances, Chinese companies just followed opportunities that presented themselves, and they acquired companies that could provide know-how.

In the end, however, it is very difficult to draw a conclusion that could be applicable to the entire region. Every country has its own story to tell.

PART III: CHINESE INFRASTRUCTURAL INVESTMENTS IN THE BALKANS

5. INVESTMENTS IN ROAD INFRASTRUCTURE – A CHINESE MODEL

In this section, the research covers some of the main infrastructural projects in the CEE region. It starts with the highway project in Poland, ending with the Peljesac Bridge in Croatia.

The period covered in the research is mainly the decade 2010-2020, when China started to engage the CEE region, and when her relations with the CEE countries were the most intense. The research includes two projects which are almost finished, the Peljesac Bridge and the Highway in Montenegro.

The projects analyzed here are by no means the only projects that China has built/financed in the region, however, they were chosen for examination because they are the most important for their size and political and economic effects on the host country, as well as for Chinese regional strategies.

The aim is to introduce the most representative Chinese projects in the region, their main drivers, and to narrate their progress and outcome. After that, we can derive conclusions and try to understand the development of Chinese infrastructural projects in the CEE region.

These projects differ in their size, their purpose, histories, methods of financing and their importance for Chinese regional strategies. Thus, the purpose is not to find a pattern of behavior but rather to show that it is, in fact, difficult to find one. Each project has its own story, and each is different for the way it is carried out, as well as its importance for the host country and China.

However, the reader will see that many of these projects were conceived before the Chinese engagement with the region, before the BRI initiative and Chinese credit lines for infrastructure. The research intends to present the internal political drivers of the projects, their political stories, the Chinese engagement in the projects, and to understand their economic and political consequences.

5.1. The COVEC affair – the A2 Highway project in Poland

"They are cutting prices, stealing our work and destroying the market, and we have to help them? Not on your life!"

In 2009, a Chinese company named Chinese Oversees Engineering Company (COVEC), a subsidiary of China Railway Group (CREC), figuring among Fortune Global's Top 500 enterprises, won a public tender for the two 50 km sections of the A2 highway in Poland. The COVEC is one of the 167 SOE flagship companies to enjoy preferential support from China's State-owned Assets Supervision and Administration Commission (Centre for Chinese Sfudies, 2006).

Poland planned to make infrastructural improvements with EUR 4.57 billion devoted to road projects in 2009 (mainly funded by the EU), a 35% increase compared to 2010 (World Highways, 2012). One of the reasons for such a substantial increase in infrastructure expenditures was the preparation for the 2012 Euro Cup in Football, which was a suitable occasion to engage in large infrastructural development throughout the country, mainly using EU funding. However, regardless of the demands of such a prestigious competition, the country was in desperate need of improving its road infrastructure, which did not follow its economic and industrial development in the post-communism and post-EU-membership period, according to Western European standards (IMF, 2020).

The A2 highway represented an essential link between Warsaw and Germany and a “symbolic gateway to western Europe” (Reuters, 2011). However, the project experienced numerous problems from the moment the tender procedure was initiated. The public tenders were recalled several times while the banks were hesitant to finance the project (Grzeszak, 2011).

Finally, there was more determination with the newly elected government (Donald Tusk was re-confirmed as Prime Minister). As a result, the government had no further obstacles in choosing the contractor. At the same time, the whole project was divided into smaller sections to allow for faster completion. In this way, the potential disruptive situations with contractors could not halt the entire project, as the deadline was very short due to the lengthy pre-tender procedure (Grzeszak, 2011).

Previously COVEC unsuccessfully bid in a tender for the 2nd line of the Warsaw metro, but the Chinese were not discouraged and tried again. The moment of the A2 tender was coinciding with increasing attention in Poland and the CEE from Chinese companies. The Euro Cup and the related infrastructural projects were ideal for Chinese construction companies to enter the lucrative EU market. They already showed their remarkable skills in preparing for the Beijing 2008 Olympic Games, representing “a major urban transformation project and new infrastructure development” (UN, 2008).

Moreover, the company had vast international experience, being one of the first Chinese SOEs to compete internationally. According to the Centre for Chinese Studies of the Stellenbosch University, the company had more than 1,000 projects in progress abroad, with USD 2.6 billion contracted and USD 2.2 billion in turnover. Furthermore, according to the prestigious US magazine Engineering News Records, it was one of the top 225 international contractors (Centre for Chinese Sfudies, 2006).

5.1.1. The perfect match

After several failures and delays with the project in the past, it seemed a win-win option for both sides – for the China to start its first project in the EU and to position itself in such a lucrative market. For Poland, an offer from a Chinese company was an opportunity to finish the much-needed projects for less money and on time, as they hoped the Chinese would deliver the project respecting stringent deadlines.

The Chinese company won the A2 highway tender after submitting a proposal with 50 percent lower construction costs (compared to calculations by the relevant Polish authority) and a 20 percent lower price than asked in the tender (Golonka, 2012). The price difference was too high and could have already indicated a sort of dumping activity of the Chinese company. However, others argued that it was just a 'normal' practice in China: "Offering a low price to win the customer and renegotiating the price afterward, very common business practice in China" (Golonka, 2012, p.29).

According to the World Bank (2011), the margin between contract values and estimated costs should be within 10 percent, meaning the contracted price is lower than the estimated costs, though this percentage could vary from country to country. After the tender, the President of the National Chamber of Road Management, Wojciech Malusi, complained to the National Chamber of Road Management, claiming the bidding was a 'poor dumping' (Grzeszak, 2011). Nevertheless, what has been presented as a dumping practice from the Polish stakeholders and press, Kanarek (2017) defines as "a strategy of gaining access to a new market." As we will see in the rest of the dissertation, this is an oft-repeated strategy that helped Chinese companies win lucrative tenders in the region.

In the period preceding the project, the COVEC had no operations in the region, and it had no machinery or equipment available. This means that the Chinese company had to purchase or transport its complex and massive machinery to Poland. This creates a disadvantage and increases costs for a construction company. Further, it had no relationship with local subcontractors, no acquaintance with EU legislation, or knowledge of the local market. Nevertheless, they submitted the lowest offer despite these apparent ambiguities, which caused outrage among the competing construction companies.

Winning the tender with such a low bid caused the first significant problem for COVEC. The Chinese company struggled to find subcontractors, as the local companies were unwilling to work for “close to nothing.” Furthermore, the locals were resolute about showing their Chinese counterparts that their strategy would not work in Poland (Grzeszak, 2011). A director of the local construction company was quoted by the media as saying: “They are cutting prices, stealing our work and destroying the market, and we have to help them? Not on your life!” (Grzeszak, 2011).

The Chinese company was experiencing problems at every turn. There were issues related to financing the project as the coordination and cooperation with the banks was inadequate, creating delays and discontent among the local partners (World Highways, 2012). The Polish and European regulations were another serious obstacle delaying the construction, including the strict environmental standards unknown in the other markets in which COVEC had gained its international experience (Godement, 2012).

The prices of primary resources suddenly increased; the machinery was too costly while the local workforce proved too expansive for COVEC to bring Chinese workers (World Highways, 2012). So, the Chinese company tried to import the machinery and workers to keep costs low. However, the machinery was blocked, as they did not have the required certification for the EU market, while bringing workers was stopped due to visa issues (Kanarek, 2017).

5.1.2. An inevitable failure

In Spring 2011, it was evident that the Chinese company would not deliver the project on time, while the estimated costs were significantly lower than those needed to, in fact, deliver the project. The company tried to renegotiate the terms and asked for more money, but Polish partners did not welcome such calls. The very re-negotiation of the contract won in a public tender was not compatible with EU regulations. Andrzej Majewski, the deputy director of the General Directorate for National Roads and Motorways, was quoted as saying that: "One has to finish the contract which was agreed, for the price that was agreed, with the conditions that have been described" (Cienski, 2011). In May 2011, the local subcontractors blocked the company due to the accumulation of credit granted to COVEC, which was having difficulty paying its local partners.

In June 2011, COVEC pulled out of the A2 project, reporting that the eventual construction costs would rise to $786 million, 76 percent higher than the original estimate (Bao, 2011). They blamed their Polish partner, who allegedly "imposed a higher construction standard and the price of building materials soared unexpectedly" (Bao, 2011). The Polish General Directorate for National Roads and Motorways (GDDKiA), which rescinded the contract, asked for EUR 200 million as compensation from the Chinese company for failing to fulfill its contractual commitment.

Although they tried to distribute the blame equally among the partners, the Chinese media took a cautious approach, mentioning that the Polish side somehow misguided COVEC as it allegedly ‘embellished’ valuable information on costs of labor and resources (See: Globaltimes.cn, 2011; Wang, 2011). However, the China Daily, a moderate voice, quoted Zhang Xiang, a spokeswoman for the China International Contractors Association, who stated that “Chinese enterprises should try to become familiar with international law and the market environment in foreign countries when expanding abroad” (Bao, 2011). Later, the South China Morning Post (Zuo, 2011) reported that Fang Yuanming, general manager of COVEC, was sacked after the failure of the company to deliver the project.

There are several intracompany reasons (internal problems, management, and capabilities) why COVEC failed to deliver the first Chinese infrastructural project in the EU. Undoubtedly, those reasons are difficult to address in this instance and are less of a concern for this research. However, according to (Golonka, 2012), the well-known speed train scandal that caused severe changes within the management structures of both China Railway and COVEC meant introducing new younger staff that was probably unprepared for a European adventure. Some reasons for failure could have been avoided had the management analyzed more diligently the price trends of some resources, such as asphalt, where the price significantly increased over one year.

However, COVEC’s failure in this venture seemed inevitable, knowing they entered the project with so many unpredictable risks. In the first place, the actual offer was too low, unusually low for such a large and complex infrastructural project. Whereas it made sense for COVEC to submit an offer with a limited profit to allow the company to enter a new market, such an endeavor proved too risky at the end of the day.

Furthermore, COVEC was entering the market for the first time and thus had no established relations with local contractors, which were disturbed by the allegedly "dumping prices" of COVEC. Furthermore, the Chinese company had no machinery or equipment in the vicinity and had no understanding of EU regulations and road standards. The spotlight and accusations from local companies brought even more attention from European and national watchdog institutions. Finally, the intention of COVEC to renegotiate the terms of the contract was prohibited in the EU. The experience Chinese companies had gained in Africa with a model that "relies on offering the lowest bid and then renegotiating contract" proved impossible in the EU (Kanarek, 2017).

The Chinese company received terrible publicity, and many stakeholders decried its unethical behavior, while COVEC was ill-equipped to deal with institutions like public opinion (Golonka, 2012). In addition, the company had to deal with environmental and labor laws, which are more complex than in emerging markets where COVEC had mainly gained its international experience. For example, construction was stopped for two weeks to remove endangered animal species from the road (Golonka, 2012). The report explains that all these problems were prevented by a good political relationship between China and Poland (Golonka, 2012).

The COVEC was entering an unknown field using tactics they would use anywhere else in emerging markets. They saw the tender procedure as just an entry point, after which everything (or most things) could be renegotiated. The executives of the Chinese company may have thought the political relations between China and Poland were heading properly towards a strategic partnership and, eventually, everything could be settled at the highest level.

However, in countries with an established rule of law (Poland was not a perfect example, but it is certainly more advanced than countries where

Chinese infrastructural companies had operated before), an excellent political relation between countries means nothing to independent institutions that do their job regardless of who the investor is. Furthermore, defeating competitors with dumping prices cannot go unnoticed because there is a strategic partnership with the host country. Therefore, independent institutions, even supranational, ensure the markets function in the fairest possible conditions.

In addition to the abovementioned reasons, Paulina Kanarek (2017), in her case study of the COVEC affair, explains that miscommunication between the two sides and narrow cultural approaches have misguided Chinese companies, and she concludes that both sides are to be blamed. For example, as she explains (2017), Chinese businessmen rely on the oral agreement and take it as seriously as a written one, if not more so, while the European legal environment relies on a written contract and gives the oral agreement no power once the written contract enters into force. This explains the lack of diligence in translating and signing the contract, further complicating the relationship.

The failure in Poland had a negative effect on the reputation of Chinese companies operating abroad; it added to the stereotypes of a 'cheap and unreliable' Chinese product. Certainly, it did not open doors for other Chinese companies to enter the EU market. However, the lesson was valuable, and it sounded a warning in Beijing – the 'going out' strategy needed to be revisited in the infrastructural sector. The Chinese realized that they would need more practice and preparation to enter the EU market, and maybe it would be better to try to enter through the back door – the Balkan countries.

The tactics for entering the European market were changed. In a new model, the Chinese banks will finance the projects through bilateral agreements if the Chinese construction companies are employed as main contractors. The condition for their employment is that most of the workforce comes from China, they are exempt from local social and tax contributions and various local benefits, and a blind eye will be turned to environmental issues and labor rights. Under such conditions, China found a model that would be unacceptable for the EU, but will be most welcomed in the candidate countries of the Western Balkans, a region with poorly developed infrastructure and thirsty for financing.

In Poland, the dispute between the General Directorate for National Roads & Motorways (GDDKiA), who awarded the job to a Chinese company, and China Overseas Engineering Group was settled in 2017 (Guthrie, 2017). By then, Chinese companies had already finished or initiated large infrastructural projects in the Western Balkans and were preparing to compete in public tenders for projects financed by EU funds.

5.1.3. Epilogue

The COVEC affair was an example of a genuine attempt by a Chinese company to expand its operations in Europe. The company had support from its government, but not at all costs, and once the company proved incapable of concluding the project, it was not backed by its government.

The whole deal was a learning process that could have indicated to Chinese companies that entering the EU market would be more complicated than expected. In the first place, the Chinese infrastructural companies must be present in the region to compete in lucrative EU tenders.

Further, the political relations with the host government are not enough to compensate for the unpreparedness of the company to operate in a given market. In countries with the rule of law and strict and sometimes complicated regulations, the companies need to be prepared to respond to such demanding conditions.

The Chinese company was overwhelmed in dealing with various institutions: private companies and their associations, public opinion, Polish state institutions, etc. All of these entities, acting independently, were unknown to COVEC in their previous ventures in Africa.

On this occasion, the Chinese companies bid in a public tender, and they won by submitting the lowest offer, but the Polish legal norms prevented them from implementing their usual way of doing business. In other words, the practice to offer the lowest price and later to renegotiate it was not admissible in the EU.

There were no significant political implications of the failure of the COVEC deal. At the time, China was yet to engage with the region, and its bidding in the tender was mainly observed from a purely business-economic point of view.

We can only speculate whether this deal had a substantial impact on the Chinese Government, due to the resulting bad publicity. However, the Chinese Government did create a model that will be implemented in the countries still outside of the EU's legal framework. The so-called 'loans for infrastructure' will be proposed soon afterward in the Western Balkan countries.

5.2. The 'Chinese Bridge' in Belgrade

"People are coming from the east, yellow people, and they will rule the world. They will drink water from Serbia's Morava River"

The above quotation (in Zivanovic, 2017), which was evoked by the President of Serbia, Tomislav Nikolić, in reception for the Chinese Prime Minister Li Keqiang in Belgrade (2017), is a 'prophecy' of an illiterate peasant who lived in 19^{th}-century Serbia. The quote resembles both the hopes and expectations of the Serbian ruling elite in their new endeavor with China. The Serbian President did not mind using possibly offensive words for Chinese, nor did the guests mind, at least not publicly. When a new political force, led by President Aleksandar Vučić, the most powerful political figure of the last decade, came to power, a new window of opportunity with China was opened.

The history between the two countries was intense and very much shaped by a symbolic event at the very end of the 20^{th} century. In April 1999, a US airplane that took part in NATO military intervention in the former Yugoslavia hit the Chinese Embassy in Belgrade. Although NATO tried to calm the situation by describing the event as a 'mistake,' the authoritative sources (see: The Guardian, Sweeney et al., 1999) claimed it was a 'deliberate attack' to punish the Chinese "after discovering it was being used to transmit Yugoslav army communications." Other sources speculated that China acquired the stealth technology from a US stealth plane destroyed by the Yugoslav army. This technology was allegedly used for developing a Chinese stealth program, which was later installed in China's J-20 stealth fighter (BBC, 2011).

To bomb a country's diplomatic facilities is an unexpected act even in the middle of an asymmetrical war like the one in Yugoslavia. Clumsy justifications and explanations from NATO's headquarters did not help to ease the situation. Instead, the protests around Beijing spread, with infuriated people protesting as the humiliation of the Chinese century had never actually ended. We can argue from this distance that those were the last moments of a 'weak' China after which the rise of China will be an accepted occurrence in international affairs.

At the time, China was almost the only ally of Yugoslavia, led by a defiant president Slobodan Milosevic (who later died in detention during the trial for war crimes before the International Criminal Tribunal for the Former Yugoslavia), when even the Russian Federation, weak as it was, left a ship that was inevitably sinking. China was there with its pariah ally, sending the message that China is always there for its partners. The accession to WTO, and its constructive role during the Asian Financial Crisis in 1997, elevated China in the elite club of great powers, with the possibility of further promotion. The bombing of its embassy symbolically placed China among the victims the vulnerable and further improved its image in the so-called Southern world.

Furthermore, the bombing of the Chinese Embassy in Belgrade represents a symbolic date that sealed the relations between China and Serbia. China promptly acknowledged even the fall of the pariah Serbian leader, and after the short period of transition, the new democratic government showed assertiveness in its relations with China.

5.2.1. Destined partnership

Thus, it is not the case that with the rise of a populist strongman, and former extreme nationalist leader and born-again Europeanist, Aleksandar Vucic, China saw Serbia as an asset in expanding to the CEE. The largest of the former Yugoslav countries and strategically located in the center of the Balkan peninsula, Serbia was exhausted by prolonged political turmoil, international embargos, and wars. On the other hand, the country was recovering economically and needed powerful friends abroad in a global environment that they often perceived as hostile to its national interest. Hence, the prerequisites for a good relationship were all there, and once the new establishment decided to diversify from strictly pro-Western policies, China was first on the list of potential partners.

Moreover, in certain aspects, China was more valuable as a partner than Russia, as strengthening relations with Vladimir Putin had more consequences for relations with Western Europe. During the term of Boris Tadic's, a pro-western and moderate leader, Serbia based its foreign policy on four pillars: Russia, USA, EU, and China; once he took power, Aleksandar Vucic just needed to find a perfect balance.

The Borca-Zemun Bridge has no particular importance for regional interconnectivity strategies, nor has it created political or economic consequences for the country that could be important here. However, the project has a significant symbolic relevance as the first successful Chinese infrastructural project in Europe. The project also paved the path for future infrastructural investments in the region, creating a pattern that works, labeled 'loans for infrastructure'.

In August 2009, the Serbian delegation led by President Boris Tadic took part in the Serbian Chinese trade and investment forum in Beijing. The two sides signed the Agreement on economic and technological cooperation for infrastructure projects in Serbia during the visit (The Government of the Republic of Serbia, 2009). The agreement prepared a legal framework for direct bilateral negotiations between Serbia and China for financing and building the infrastructural projects in Serbia. On the same occasion, the two sides agreed to a financial arrangement with Exim Bank to build the Zemun-Borca Bridge with estimated costs of EUR 200 million (The Government of the Republic of Serbia, 2009).

In October, the two sides signed a pre-contract for the construction of the Zemun-Borca Bridge. The contract value was estimated at EUR 170 million for a 1,507 m long bridge with 21,6 km of connecting roads. It was agreed that 85% of the investments would be provided by the Exim Bank, while the Serbian government would finance the rest (Ministry of Foreign

Affairs of PRC, 2009). The difference between the estimated price for the construction and the agreed loan with Exim Bank is evident. The Minister of Finance, Mladjan Dinkic, explained that the difference might be used to construct byways in Kragujevac, an industrial town 140 km distant from Belgrade (Politika, 23 October 2009).

The China Road and Bridge Corporation (CRBC) was appointed as the main contractor, while the Serbian companies handled 45% of the works. This funneled some EUR 70 million to local contractors and producers. The contract estimated three years to complete construction, which means the opening was supposed to happen in 2013. However, the issues with expropriation delayed the preliminary works and subsequently prolonged the estimated opening date to 2014. The expropriation issues were caused by the change of the government, where political counterparts accused each other of sabotaging the project, which was a joint arrangement between the capital city and the government. However, the political change did not disadvantage China, which intensified its relations with Serbia, relying on the most influential figure, Aleksandar Vucic.

The loan arrangement with Exim Bank valued at EUR 200 million, with a three-year grace period and an interest rate of 3 percent, was to be repaid over 15 years. The average interest rate in Serbia at the time was estimated at 11,7 percent (World Bank data, n.d.).

Unlike in the case of COVEC in Poland, the CRBC had no issues with local regulations and resistance from local companies. Direct bidding proved to be more suitable for the Chinese companies, which avoided pressure from the competition and had no need to use dumping prices. This time, the Chinese company complained of the local government's inefficiencies, particularly of a slow approval process. One of the CRBC's managers was quoted in the Global Times (Ling, 2013) saying: "When it comes to the approval process, the authorities of European countries usually follow strict laws and regulations and are sometimes considered inflexible by Chinese companies."

The Chinese employees might consider the procedures and regulations slow and inefficient; however, these are relatively normal processes where a regulated market and the rule of law exist. In Serbia, which is still in transition, the Chinese companies had an opportunity to practice operating in a more regulated system, however, with the knowledge that everything will be 'sorted out' in their favor through political means, differently than in Poland.

The Chinese officials always stress their full support for Serbian accession to the EU, and they always point out that their investments will help the country reach EU standards and improve infrastructure. However, those in the field understand that not being a member affords Chinese companies room to maneuver; if Serbia were in the EU, "there would be a lot of restrictive policies for Chinese companies in that case" (Ling, 2013).

5.2.2. A success story

The Borca Zemun Bridge, later named Bridge Mihaila Pupina, was the first bridge over the Danube River constructed in Serbia in 80 years. The capital city of Serbia had 432,028 inhabitants in the 1950s, and approximately 1,401,786 in 2021 (World Population Review) That number increases by half during the workweek, as most of the communities in a one-hour radius drive to navigate around Belgrade, and there is an ever-increasing number of commuting workers. However, the infrastructural development did not accompany this demographic expansion, as its infrastructure remained inadequate, with fewer investments in the period from 1990 to 2010. For instance, Belgrade is the only capital in Europe that "still discharges its untreated communal wastewater into river." And Belgrade is the only capital city in Europe with over one million people without a rapid public transport system, or to put it simply, without a metro (Global Construction Review, 2021).

Over the past 18 years, the EU provided EUR 3.6 billion in grants to Serbia, making her one of the largest recipients of EU funds globally. In addition, the EU is also the largest creditor to Serbia, allowing EUR 4.3 billion worth of credit arrangements (EU Delegation to Serbia, 2021). A significant part of these investments went to infrastructure development like bridges, border crossings, roads, and various other infrastructural projects. For example, the EU has built a total of three bridges in Serbia (EU Delegation to Serbia, n.d.). In addition, the EU funds cover various fields, including health care, administrative improvements, education, culture, and digitalization. However, investments in some of these fields are often not visible to the larger public or are just inadequate for ribbon-cutting ceremonies where politicians get in the spotlight and take credit (EU Delegation to Serbia, n.d.).

The EU investments are often less publicized because they are rarely politically manipulated. It is more difficult for local politicians to present the EU-funded projects as their own, a practice they often use when the infrastructure is financed with public money or through loan arrangements. Another issue regarding the EU funds in Serbia is that while Western partners did build three bridges, 38 bridges were destroyed during the NATO bombing. At the same time, 14 airports, 19 hospitals, 20 health centers, 69 schools, etc., were damaged during the bombing (Miladinovic, 2019). Public opinion often sees the EU infrastructural investments as rebuilding what they have already destroyed. That might be why the EU does not receive enough attention for these projects, nor do its grants receive the same attention as those of the Chinese.

There is no doubt that Serbia needs to intensify its investments in infrastructure and reduce the gap with the EU. To do so, the country would need more than just the EU funds. The average income in the Western Balkans is 30 percent of that of 15 EU countries, and it is catching up more slowly than other regions. According to the IMF's study, at the same time, the inadequacy of public infrastructure could be identified as one of the reasons for such a situation (Atoyan et al., 2018).

Both Serbian and Chinese officials presented the arrangements with Chinese financial institutions and construction companies as a win-win model. The Serbian officials cheered that they managed to secure 45 % of the works for the local sub-contractors, which is higher than the usual percentage left for local companies (see the highway in Montenegro, in Macedonia, and bridge Peljesac). In some countries that lack a workforce (like in Montenegro) or a sophisticated construction sector, that arrangement might be suitable. However, construction companies in the former Yugoslavia, and Serbia as its official heir, were very active abroad. They were engaged in building sophisticated projects in Eastern Europe, the Middle East, and Africa (Georgievski, 2020). The late Professor Predrag Simic, a pioneering sinologist in Serbia, criticized the economic relations between China and Serbia: "Today, our economic relationship has been reduced to China not only taking projects from our building companies in Tunisia, Libya, and other places, but they are also taking projects that are being developed in our own country."

The construction industry in Serbia was hit hard by the political and economic crisis in the 90s, and only recently has given signs of recovery. However, with the liberalization of markets, local companies have had difficulty keeping pace with Western companies, which have often taken positions as main contractors. In contrast, the local companies have had to be satisfied with being subcontractors. The locals have been the most significant workforce, and large projects have helped these companies acquire new standards and reduce the gap with Western companies. Chinese companies are different, as the majority of the workforce, as well as the most significant part of materials and machinery, comes from China. These aspects have raised doubts among some experts about whether such arrangements where China loans the money, brings in equipment and workers, with the Serbian companies taking a secondary role, is the most efficient way of developing infrastructure (Trivic, 2018).

The construction of the bridge went off without significant problems from the Chinese side. A few situations were more comical than controversial, like the placing of a marble sign, reminiscent of a tombstone, with an information panel for the bridge. The sign was made of black marble, typical of gravestones in Serbia, and brought a few negative comments, after which it was removed (Nikolic, 2014). It was an example of the cultural struggle of Chinese companies operating in Europe.

The original contract was amended to allow for additional payments which exceeded the agreed price in the amount of approximately EUR 1,8 million. However, nothing went above the limit of 10 percent of fluctuating costs predicted by the contract (Ekapija, 2 October 2014).

In December 2014, during the 16+1 Summit in Belgrade, Serbian Prime Minister Aleksandar Vucic and Chinese Premier Li Keqiang attended the opening ceremony of the Zemun-Borca Bridge. The bridge, officially named Mihajla Pupina, was nicknamed the Chinese Bridge, or as Serbian and Chinese politicians coined it, the bridge of Serbian Chinese friendship. The ceremony was attended by thousands of people, waiving Chinese and Serbian flags, giving a warm welcome to the Chinese Premier.

It could be argued that the Zemun-Borca Bridge project was a success for China. There were no significant issues during the construction, and the project was delivered on time (with delays related mainly to local political issues). Furthermore, the project was positively received by the public in Serbia. It could be argued that the reason for such positive feelings is the fact that the project is often presented as financed by China, as if it had been a grant rather than a loan (Spalovic, 2009).

The bridge could also be considered a political success as it was begun during the presidency of Boris Tadic, a pro-European political force in Serbia, and it was opened after the Serbian Progressive Party (SPP) took power and initiated a change in Serbian foreign policy. The latter sees China as a model to create a strong economy and influence the region after a 'decade of humiliation' in Serbia. Not surprisingly, the Chinese premier is welcomed with more enthusiasm than his European counterparts. It is almost as warm a welcome as that given the Russian President Vladimir Putin, who enjoys great popularity among Serbia's center and right-wing politicians and followers.

5.2.3. Epilogue

The Zemun-Borca project was an opportunity for Chinese companies to work in a semi-regulated market, a simulation of an EU environment. The very model – the Chinese loans backed by state guarantees and conditions that Chinese companies undertake most of the work – proved to be viable in the EU candidate countries. The initial step had been taken; the first machinery and workers operating on the Borca-Zemun bridge arrived in the region, which could now be advanced accordingly. Nevertheless, such a thing could have worried stakeholders in Europe, as Hollinshead (2015) warns that such a strategy could "become a serious concern for trade unions in the sector, and European Union policymakers in general when such projects proliferate in the future."

Overall, the relations between Serbia and China intensified, and both FDI and trade volume increased (with a rising trade deficit for Serbia). The Chinese investments in Serbia are much smaller compared to those prevenient from Western Europe (Germany *in primis*). However, some of China's investments are placed in strategic sectors in Serbia, like Iron Works Ltd. in Smederevo, an acquisition that saved the company from liquidation that could have left thousands of Serbian workers jobless. The deal could have an impact of 1 percent on the Serbian GDP while avoiding social turmoil in the small town caused by the closure of the most critical economic actor in that province (Dimitrijević, 2017). However, the deal created controversies regarding the environmental costs for the greater community to keep the factory open (Beta, 2021a).

Another important Chinese investment is the one made in the Mining and Smelting Combine Industry in Bor, where the Chinese Zijin Mining Group invested USD 1,26 billion in reviving the troubled company after acquiring 65 percent of its shares (Al Jazeera, 2018b). As in the case of Smederevo, environmental activists in Bor protested against the Chinese company, blaming its activities for increased pollution, which provoked action by the Ministry, which temporarily halted excavations in one of the mines (Gocanin, 2021).

The other international companies showed less interest in these environmentally sensitive businesses as they are often on the edge of profitability if high environmental standards are applied. In the case of Smederevo Iron Works Ltd, the American owner withdrew after the situation in the market had changed. Thus, Chinese companies could appear as a savior to governments, who might be aware of high pollution but also have to deal with thousands of workers and social turmoil in the case of the closure of these industrial giants.

The bridge project was initiated during the pro-Western government in Serbia, which saw in China a valuable source to finance much needed infrastructure. However, the new government, declaratively pro-European, while in reality conservative and inclining towards Russia (and China), has politicized the project and used it to re-launch more intense cooperation with Beijing.

The investments coming from China have offered a lifeline to otherwise dying industries. The abovementioned cases of the iron company and the mining and smelting combine, are of particular political importance for the regime in Belgrade, as they employ a large number of workers, and have a huge impact on local communities. To find a partner to revive or to just keep alive such businesses, which are also high polluters, is very difficult, and previous attempts had failed.

The Chinese acquisitions have been presented as the fruit of the government's engagement with China. The headlines of pro-government media outlets announced that the "Chinese are saving Smederevo." One of the leading print media outlets was writing that while the UK is forced to close the iron industry creating social turmoil, the Chinese are helping Serbia to save some 5,000 jobs (Teleskovic, 2016).

The whole deal was personalized and attributed to Serbia's discovery of a 'great friend' the 'biggest and the greatest friend,' referring to President Xi Jinping (Tanjug, 2019). The style of the Serbian leader Aleksandar Vucic is such that most of the successes are coming from his personal genius and sacrifice. He often plays to his voters' emotions, showing his suffering and sacrifice in achieving great things for Serbia. His political followers present him as almost a divine creature who is the most creditable for the recent economic growth, the opening of new factories and other achievements.

His rule is characterized by increasing autocratic inclinations, the personalization of power, and the discrediting of his counterparts through the tabloids, which are under his strict control. It is in such an environment that China found fertile ground for promoting its regional strategies and employing its infrastructural companies in large projects financed by Chinese banks.

The political background of Chinese investments in Serbia might be exaggerated for internal political purposes; however, Matura (2019, p. 405) found that "countries with better political relations do have better investment relations with China." Chinese companies have failed in Poland where they competed in a competitive and regulated market. In Serbia, they were successful as the politics have created a favorable pathway for them.

6. CHINESE STRATEGIC INVESTMENTS IN INFRASTRUCTURE

6.1. COSCO's acquisition of the Port of Piraeus

"At the beginning, we found it very hard. But now, the financial results have been very good. We must enhance win-win cooperation and we will provide the locals the chance of having good jobs, and we are giving them a good salary. So they are very happy together with us." (Su, 2018)

The purchase of the Port of Piraeus by the Chinese state-owned shipping giant COSCO is one of the most important founding stones of the BRI initiative. Moreover, some experts claim it is "the best example to date of a major BRI project that is economically beneficial for both the host country and China itself" (van der Putten, 2019, p. 14).

Although the Chinese initiative to engage the Port of Piraeus started before the BRI was officially announced, the project soon became the initiative's flagship. As Neilson, (2019, p. 562) argues, the "BRI builds on efforts of internationalization and logistical expansion pursued by subnational entities in China such as provincial governments and state-owned enterprises well before the initiative was formalized and centralized as a program of trade route building, infrastructural investment, development financing, and cultural exchange." Thus, the BRI was thought of as an initiative that gives meaning to already started infrastructural projects while also outlining a path to be followed in the future.

6.1.1. Crossing the river by touching the stones

The Piraeus Port is an important asset that represents a natural hub from which the Balkan Silk Route could be further developed to become the fastest connection for Chinese goods to Western Europe. The very purchase of the port has been a long and careful process that went through several phases before the Chinese company took control of the whole facility.

Firstly, in October 2008, COSCO won a tender for Greece's Piraeus Port (OLP) concession, precisely for Pier 2 and for rebuilding Pier 3, in a EUR 4,3 million valued agreement for a leasing period of 35 years. The second bidder was Hutchison Port Holdings, a private holding company incorporated in the British Virgin Islands, however, known as a Chinese company but with private capital, which submitted and offer nearly half that of COSCO.

COSCO is the world's third-largest shipping company by TEU capacity (ship-technology.com). At the same time, it was second in 2019 among the 'major marine terminal operators worldwide based on equity-adjusted throughput' (statista.com). COSCO acquired minority shares in Antwerp, Las Palmas, and Rotterdam container terminals while holding controlling shares in Valencia, Bilbao, and Zeebrugge (Merk, 2017). However, the Port of Piraeus deal is the first one in Europe that allowed COSCO to take a controlling stake of an entire port instead of just a container terminal, as was the case in previous arrangements with European ports (van der Putten, 2019).

At the time of the agreement, the state-owned Piraeus Port Authority (OLP) (74 percent owned by the state), had lost half of its value, while the performance was heading lower. The negative performance was due to the financial and economic crisis that devastated the Greek economy. However, even before the crisis, the Port operated below its potential. Nevertheless, its workers organized an active resistance against the privatization (Reuters, 10 October 2008).

The contract was renegotiated and adjusted after a change of government followed early parliamentary elections in Greece. Finally, however, it was signed and sealed, allowing COSCO to begin its decade-long acquisition process of the Piraeus Port.

The concession created the ports, with the smaller Pier 1 remaining under Greek ownership and management, while Pier 2 went to COSCO. Such a situation allowed the wider public to witness the efficiency of COSCO in a direct comparison with the Greek port (Meunier, 2015). The outcome of such competition was that Greek Pier 1 was eventually earning more from the concession given to the Chinese than from the actual shipping business (Spiegel, 9 April 2015).

COSCO's purchase of the Greek port was not a sudden spontaneous move, nor was it an occasional business. The Chinese company Shipping Container Lines (CSCL), later acquired by COSCO, had an agreement for transshipment with the Port of Piraeus already in the 1990s. And COSCO had already showed interest in the port in the early 2000s (van der Putten, 2019). Moreover, according to Ma and Peverelli (2019), COSCO had planned to manage a European port since 2005.

There was also interest from the Greek side for collaboration with Chinese companies, as the government showed a willingness to approach China and intensify cooperation in the shipping industry. In 2006, Prime Minister Kostas Karamanlis visited China with his entourage formed by the Minister of Foreign Affairs, the Greek Ship Owners Association chairman, and the President of the Port of Piraeus (Ma & Peverelli, 2019). The bilateral relations between Greece and China were evolving in the decade before the concession and were mainly driven by a mutual interest in the shipping industry (Skordeli, 2015). In 2006, the parties signed the Comprehensive Strategic Partnership, which allowed for other agreements to be concluded and boosted cooperation in the shipping industry (Skordeli, 2015). An increasing Chinese role in international trade and, as a consequence, in maritime affairs (China is the world-leading trade nation and a leading builder of affordable ships, Statista.com), could not overpass the Greek shipowners who possess the largest merchant fleet in the world (Institute of Shipping Economics and Logistics). Thus, closer bilateral cooperation between the two countries was a logical outcome.

The importance of the shipping industry in Greece, which has an important share in the economy at 6.8 percent of GDP in the period 2015-2018, makes it an important stakeholder in the overall economy (Glass, 2020). Such a size and the fact that it employs 4 percent of all workers in the country has created an almost controversial relationship between the government and shipowners. The very fact that Greece still figures as the leading shipowner nation is due to the generous tax policies of the Greek state towards its shipowners, who prefer to have someone in the government "who is leaving us (shipowners) alone" (in: Bergin, 2015). Therefore, the rapprochement between Greece and China, especially in the shipping industry, was influenced by prominent Greek shipowners (Huliaras & Petropoulos, 2014).

6.1.2. Financial crisis as an opportunity

The very geographical position of the Port of Piraeus, which is one of the most ancient ports in the world, makes it a prominent gateway to Europe for ships coming from Asia through the Suez Canal. The same advantage helped Greece to establish itself as a maritime nation, but it failed to elevate Piraeus to a place in the top fifteen merchant ports in Europe before Chinese engagement. Further, Piraeus has become the fastest connection with Central and Eastern Europe, given its potential to shorten the routes of the Chinese goods coming to Europe and to compete with the Western European ports like Antwerp, Hamburg, Rotterdam, etc. An opportunity that the Chinese company was willing to exploit: "COSCO could create its hub in the Mediterranean, which would facilitate developing transit service and reduce costs, improve the efficiency of logistics and expand the global network of container port business" (COSCO statement quoted in Ma and Peverelli, 2019, p. 55).

At the time of Chinese engagement, the port's performance was considerably below its potential, while the European companies showed no serious interest in acquiring the Port or acquiring the concession. As a result, in 2007, the port was ranked at 17th position among leading container ports in Europe, and was handling 1,373,138 TEU (the lowest in a three-year period), compared to 10,790,604 TEU handled in the leading EU port of Rotterdam (Directorate-General for Internal Policies, 2009).

When giving the concession to the Chinese companies, the government hoped to significantly improve the port's competitiveness and allocate to private stakeholders the much-needed investments to upgrade the port. However, according to the Chinese company, in 2011, the equipment in the port was outdated, while the workers lacked training, making the port very inefficient (Ma and Peverelli, 2019).

The workers' unions did not welcome the deal and soon went into a 6-week strike, showing a firm opposition to COSCO's plans. Nevertheless, before the acquisition, COSCO's condition was to have an empty pier, both from machinery and workers (Meunier, 2015). Therefore, COSCO was 'liberated' from unionized workers and thus without the burden of the benefits they acquired during the decades of state ownership. This allowed the Chinese company to hire the workers through an outsourcing human resources company, avoiding direct employment. At least COSCO, contrary to widespread fears, did not bring in Chinese workers but instead used locals under the working and financial conditions inferior to those of their predecessors.

There were reports of crane operators exceeding their working hours above the limit prescribed by the EU standards; a lack of training caused several accidents to remain unreported, etc. (Meunier, 2015). A Union leader, Vassilis Kanakakis, was quoted saying that "COSCO with its actions and inaction has united against it a wide spectrum of political and social actors in the city, this has never happened before" (Kastner & Seferiadis, 2020). The workers raised the allegations that unions are forbidden, and those who dare to initiate unionization are fired (Kakissis, 2018). In weakening the unions and creating a more flexible and liberal work environment, the Chinese company had strong support from the Greek Government (Papageorgiou, 2020).

The degradation of workers' rights was often seen as an inevitable result when conceding the asset to a Chinese company, believing that a Chinese company was to implement the very business model that made their companies successful – cheap labor was one of the main ingredients. Indeed, the conditions imposed by COSCO could be considered as a sort of reset of labor rights to a pre-EU time, as the Chinese investment interfered with one of the main achievements of the EU – the social welfare state.

However, as Neilson (2019) explains, the precariousness in Piraeus is a more complicated story than a simple cry "due to the Chinese acquisition." It has much to do with the same circumstances created by the "economic and political conditions of the crisis." After adopting the Euro as a currency, the Greek economy was revealed to be uncompetitive. Its growth was followed by a rising deficit, which created the enormous indebtedness of the country. The crisis has unleashed the cruelest neoliberal capitalist instruments to re-gain competitiveness by reducing labor benefits, cutting salaries, and initiating privatizations. The effects of austerity measures were covered elsewhere and it is not the intention of this paper to analyze those more in-depth. However, it could be claimed that Greece's economic and political situation, caused by the financial and economic crisis, acted as a facilitator to COSCO's deal. It created conditions that ended a unionized environment and overcame resistance to privatization.

In 2010, the Greek government was forced by the European Commission, European Central Bank (ECB), and IMF – the so-called Troika – to adopt austerity measures to reduce the deficit and repay its creditors. A recession has followed, while the 'reforms' created an environment which "undermined the enjoyment of human rights, particularly economic, social and cultural rights, in Greece" (Human Rights Council, 2014). As a result, the Greek economy experienced the most severe contraction among the countries hit by the crisis. The economy started its free fall in 2008, reaching the lowest point in 2011 with a GDP growth rate of minus 9,1 %, returning to positive numbers only in 2017 (World Bank). Consequently, the convergence towards the Western European average was similar to Greece's in the 1960s (Matsaganis, 2013).

The austerity measures were harsh and did not spare health and social services. However, at the same time, they increased unemployment, initiated labor market deregulation, causing the degradation of conditions for workers, and produced an environment for poverty (Matsaganis, 2013).

This short extract from the consequences of the crisis and the austerity measures that followed is essential to understanding the environment in which the privatization of the Port of Piraeus has occurred. It is questionable whether it would have been possible, while it would have been more difficult, for COSCO to acquire the stake in the Port if it had not been for a sort of chaos in which Greece found itself.

The very medicine for curing Greece's chronic problems coming from the Troika has indirectly allowed the Chinese to acquire one of the most precious assets in Europe. In 2011, under its directives, Greece was obligated to form a separate agency to manage the privatization process, an agency in charge of selling public assets (Directorate General Economic and Financial Affairs, 2011). In the Letter of Intent to the IMF in July 2011, the Government committed to a schedule in privatization, which included the privatizations of both the Port of Piraeus and the Port of Thessaloniki in the third and fourth quarters of 2011 (International Monetary Fund, 2012)

6.1.3. Making Piraeus great again

COSCO used a leasing period to get acquainted with the port and improve its infrastructure; however, from the start, the company had ambitions to acquire the port, or at least a majority share (Bastian, 2017). Meanwhile, the Chinese company made Piraeus a hub for the international relay, which was one of the reasons for the rapid success of Chinese management. However, such service in China is permitted only to Chinese companies and weasels, and thus the European competitors demanded that the EU implement a reciprocity measure (Nikkei Asia, 29 December 2020). In a nutshell, the Chinese company was exploring the openness of the EU market, while in their domestic market the company had a safe place where competition was not allowed due to the protectionist measures.

However, unlike many other Chinese investments in Europe, the Chinese investment in the Greek port saw a technology transfer from China to Greece. Namely, COSCO, possessing the most sophisticated technologies, implemented its know-how and transferred technology to the host country (Meunier, 2015). Although this is usually not the case as the Chinese companies often engage in investments to acquire technology, "there is great potential for true technological and know-how spillover into the Greek port management economy" (Meunier, 2015).

In 2016, COSCO was finally able to move with a previously reached agreement to purchase a 51 percent stake in Piraeus Port (OLP) for 280.5 million euros under a deal signed with Greece's privatization agency Hellenic Republic Asset Development Fund (HRADF) (Georgiopoulos, 2016). The deal had been reached earlier, but it was delayed due to temporary opposition after the change of government in Greece. The newly installed leftist government led by Syriza won the elections on a platform that went against many commitments taken by Greece through the austerity program imposed by the Troika. However, after taking power, the coalition led by Syriza softened their positions on various lines and gave the green light to continue the acquisition process. As a result, COSCO acquired 51 percent in the first phase and another 16 percent after investing at least EUR 300 million into the Port and subsequently paying an additional EUR 88 million to HRADF (Georgiopoulos, 2016).

It is worth mentioning that the Chinese endeavor with the Port of Piraeus lasted through 4 different governments, from the center-right, center-left, radical left, and finally the center-right government headed by Kyriakos Mitsotakis. The change of government often brought delays to the Chinese acquisition process; however, none of the changes – even those considered more radical, that were initially calling for a disruption in the process – at the end of the day, did not halt the project. Although showing (at least at the time) a 'Chinese political neutrality' has to do with Greece's complicated political and economic situation, and partially losing its sovereignty to the Troika, the Chinese investment by way of COSCO was seen as an excellent economic opportunity, while its politicization came only later (van der Putten, 2019).

Even when it came to power, the forces that could have hindered the deal were annihilated by the strong international forces pushing the country towards a complete liberalization of the economy. Thus, it could be argued that the Chinese company did not rely on a particular political force, nor did its engagement depend on a particular personality or group within the Greek political spectrum. Such a holistic approach has been facilitated by the particular political situation in which Greece found itself during the years of the Chinese acquisition.

COSCO fulfilled its commitments from the contract, which meant investing approximately EUR 800 million until 2020 into developing the port (van der Putten, 2019). At the time of purchase, COSCO had technology and resources, while Piraeus was in decline, without resources and technology to elevate its position significantly. Indeed, under COSCO's management, the port soon started to grow, and from a port that was not figuring among 15 leading ports in Europe in 2007, it climbed to the 8^{th} position in 2016, to currently occupy the 4^{th} position (Notteboom, 2020).

The Chinese recipe for success was primarily the fact that it is both a large shipping company and a port operator, which means it can direct the traffic of goods to its ports – a game-changer in the industry. The port grows through its sea-sea transshipment operations (Notteboom, 2020), while it still has room to expand its land routes by improving infrastructure. Further, except from the top managers, COSCO did not bring its own workforce. Instead, it relied completely on the Greek workforce, which helped to ease a hostile atmosphere created by the unions.

The fact that COSCO is a state-owned enterprise and acquired a very strategic asset inevitably opened a discussion of a potential political influence. COSCO relies on its various subsidiary companies in its operations and ventures abroad. In the Greek Port, the multinational is involved with several entities like COSCO Shipping, COSCO Shipping Ports, and COSCO Hong Kong, which through their proxies Piraeus Container Terminal (PCT) and Piraeus Port Authority (OLP), control the Port of Piraeus (van der Putten, 2016). The COSCO as a whole and its related firms are not a solely state-owned company. It also has an essential private stake within its ownership, increasing transparency and contributing to its profit-seeking nature (van der Putten, 2019).

However, the management of the Port of Piraeus is entirely in the hands of a company that is "fully owned by the [Chinese] State-owned Assets Supervision and Administration Commission of the State Council (SASAC). SASAC is a part of China's government, which is itself under the control of the Chinese Communist Party (CCP). Finally, the CCP controls COSCO not only via the State Council, but also directly, as it appoints the company's top executives" (Van Der Putten et al., 2016, p. 16).

Thus, the direct link with the Chinese communist party is evident. Song (2019, p. 390) reminds us that Chinese SOEs have 10 million party members and 800,000 party committees; he also quotes Chinese President Xi that China's biggest SOEs must "answer every call from the party." Chinese diplomacy has helped COSCO acquire the assets in Greece, and it made sure to create a favorable political environment for Chinese investments. COSCO plays a vital role within the most important of the Chinese foreign policy strategies – the BRI.

That the Chinese Communist Party controls COSCO does not make the company a non-market player that is purely a political instrument. Instead, the very importance of COSCO for China is that it is a very successful company that operates in the international market. However, paradoxically, it also limits the political use of such a company. Therefore, a significant implication of the party that could push the company to operate outside of the market rules could severely harm COSCO's position and undermine its international partnerships.

The company values the two strategic partnerships that indirectly contribute to its success story: Hewlett-Packard (HP) (American) and Foxconn (Taiwanese). These two relationships were particularly important for creating the land corridors within the BRI initiative (van der Putten, 2019). Thus, the Chinese company gave Piraeus a crucial international context beyond a purely Chinese story.

On several occasions, Greece (together with Hungary) was accused by its EU Western partners of going against EU unity by undermining a united front against China. Such was the case in 2016 when the two countries lobbied against a direct reference of Beijing in a statement regarding the South China Sea, and in 2017, when the same actors blocked a statement with a negative reference to China regarding human rights at the UN Human Rights Council (Benner et.all, 2018). These initiatives were often perceived as a direct influence of Chinese investments, and hence the political burden they carry.

As van der Putten (2019) observes, COSCO's leverage in Piraeus due to the importance of the port and its significance for the Greek economy is real. However, the author warns that the hypothetical situation where COSCO could use the leverage and redirect containers and manipulate their flows would damage its reputation. This could be argued for other Chinese companies trying to enter or maintain their presence in European markets; if they try to put politics before corporate interests, they might anger the European markets and reverse the successes of their decades-long going out strategy.

However, regardless of whether COSCO is keen to use the political influence of its massive and strategic investments in Greece, such a burden will exist in Greece. It is difficult to imagine a Greek government that will jeopardize its relationship with China while receiving beneficial investments from Chinese SOEs. As van der Putten (2019, p. 16) points out, "Port investments can make a recipient country more economically dependent on the investing country" … "this would mean that the more the Greek economy benefits from COSCO's activities, the more Greece becomes reliant on continued good relations with China."

To make it simple, Greece has an interest in maintaining good relations with China. However, when this interest collides with principles such as human rights, in times of de-democratization processes and a crisis within the EU, we could expect Greece to make decisions driven by its economic interest. This could be argued with other countries where Chinese investments emphasize the host country and elevate its periphery status.

It is important to note that COSCO's investment *per se* is not the source of Chinese political leverage. On the contrary, COSCO can redirect merchandise to the port, making it a game-changer and creating political leverage. However, at the same time, the acquisition of the Piraeus Port and substantial investments in it limit the Chinese company's maneuvers (van der Putten, 2019).

6.1.4. Epilogue

COSCO's acquisition of the Piraeus Port occurred without much resistance in Europe. Instead, the political and economic conditions created in the aftermath of the financial crisis have facilitated, if not outright made the deal possible. Moreover, deregulation and privatization have allowed a Chinese company to avoid resistance in a country that cherishes its strong social awareness and its influential labor unions.

The Chinese company did not compete with its European counterpart in acquiring the port. Instead, COSCO had no serious competitors in its endeavor. Furthermore, due to the financial crisis, European stakeholders saw the whole deal as much needed.

The idea of acquiring a port in Europe existed before BRI was conceived, and has more to do with the expansion strategies of COSCO than with China's grand strategy. However, with the acquisition of the port, COSCO has placed a founding stone for BRI strategy. Furthermore, the Balkan Silk Road Route concept, a link connecting Piraeus and Budapest (via Northern Macedonia and Serbia), has given strategical purpose to the region and provided further incentives to Chinese stakeholders to intensify relations with the region.

The case of Port of Piraeus is different than other Chinese infrastructural investments in the region. It is characterized by know-how transfer from COSCO to Greek partners, high efficiency, and the use of the local workforce. However, the deal's success creates a potential political bond between the two countries, which might have more serious political implications in the future.

Here, we can return to our first research question regarding the motives of Chinese investments in CEE countries. The initial drivers for COSCO's move were economic, representing a natural expansion of the company in Europe. The Port of Piraeus was neglected by European companies for decades, while the Chinese company saw it as the most strategic and logical nodal point for further facilitation of interconnectivity in the region.

COSCO's acquisition came at a very delicate time for the EU and its members. The countries were struggling with the crisis and were more oriented toward solving their increasing financial problems rather than thinking about geoeconomics. The Chinese rise at the time was perceived by many, if not most, as a purely economic endeavor with few political implications.

The political and economic environment before 2008 was such that any similar deal would have been complex even if made by European shipping companies. Simply, the social conditions provoked fierce resistance by national stakeholders *in primis* labor unions and leftist movements. For its part, COSCO had arrived at a time when it could use its accumulated surpluses to make acquisitions while European industries were struggling. Besides, the neoliberal cure to the Greek crisis had weakened potential opposition to the investment.

Finally, the economic consequences have been somewhat favorable for Greece, as it now hosts one of the fastest-growing ports in Europe. Moreover, the port has implied further investment in railway infrastructure to improve Greece’s connection with Balkan and CEE countries. Such activities create conditions that could be explored by Greek industry. However, these economic interests have inevitably led to increasing political engagement between Greece and China. While we discussed and dismissed the eventual ‘misuse’ of COSCO on behalf of China, the whole situation is creating a more careful approach by Greek politics when talking about matters regarding China. This is most visible in the cases when Athens has refused to align with European its partners in criticizing China.

For China, the Piraeus was a commercial opportunity not to be missed. Yet, it became one of the most important projects for her global and regional strategies. The regime in Beijing has an interest in further engagement with regional countries and in expanding infrastructure development in the area.

6.2. Belgrade-Budapest Railway

"We know you have much more significant countries to cooperate with in Europe, but you don't have a better friend than Serbia" (Beta, 2020)

"It is absolutely no exaggeration to say that relationship between China and Hungary is in its best form" (Rohac, 2021)

In 2013, during the 16+1 Summit in Bucharest, the Prime Ministers of China, Serbia, and Hungary agreed to join forces to renovate and upgrade the railway between Belgrade and Budapest (BBR), the first multilateral and the most significant project within the 16+1 cooperation initiative.

Rogers (2019, p. 3) argues that BBR is an unusual project "because of (a) the costs involved in the project, (b) the anticipation that Hungary becomes a storage and delivery hub for Chinese-made goods, and (c) the expected further enrichment of Fidesz-loyal actors." For the official Belgrade, the railway represents an opportunity to further position the country as a nodal point for trade between China and CEE while avoiding being marginalized by EU transportation strategies (*Regulation (EU) No 1315/2013*, 2013).

The reputation of the actors involved, from Hungarian strongman Victor Orban, his counterpart Aleksandar Vucic, to the two non-EU superpowers, China and Russia, caused concerns in some Western capitals. In the EU the worries were related to the "loans for infrastructure model" for carrying out the project, the very purpose of such connections are not so strategic for European connectivity strategies; and the biggest concern was the potential geopolitical consequences that such a massive Chinese involvement might have in the host countries, and consequently in their relations with the EU.

6.2.1. Multilateral project

The countries involved are often accused of illiberal tendencies and autocratic inclinations of their right-wing populist ruling elites who have already disturbed many in Brussels and around Western capitals (Stojanovic, 2020). Moreover, both countries have strong leaders who do not hesitate to step out of their constitutional limitations to achieve their goals. Both Aleksandar Vucic and Viktor Orban have a robust clientelist network that strongly supports their power-grip over all spheres of society. Besides, their political allies and supporters see them as pragmatic leaders who achieved a certain economic success for which their autocratic tendencies are to be tolerated.

Those valuing a pragmatic political approach and a statist approach to the economy, have found a strong inspiration in China, which is seen as an efficient economic model for bringing economic growth. This model is preferred over the traditional (neo)liberal economic prescriptions coming from the West.

The two leaders have established strong relations and often meet to discuss various issues: respective minorities, energy relations, infrastructure, migrant crises, and the Serbian European integration process (Bíró-Nagy & Hare, 2020). It seems that Vucic sees an essential ally in Hungary in their integration process; for their part, Hungary sees Serbia as an important ally within the EU in the future (whether it is realistic for Serbia to join the union with the current strongman in power is an open question). On one occasion, Victor Orbán stated that “Serbia is crucial. Without Serbia as an EU member, we cannot speak about security or the entire European identity. We need Serbia as an EU member more than Serbia needs it.” From his side, Vucic appreciated his country’s willingness “to be attacked and criticized for supporting Serbia's EU membership. There are not many friends like that. We will know how to value that and to return the favor" (Čačić, 2021).

In June 2021, Victor Orban Orbán took out a full-page ad in which he proposed his vision of the future of the EU, where, in the last of the seven points, he was clear and succinct: "Serbia should be admitted into the European Union" (*Jutarnji List,* 2021) This unusual open letter caused several harsh reactions around Europe, while some European media outlets refused to publish it (Beta/AP, 2021). It is a paradox that the political activity of Victor Orbán could reduce the Euroscepticism among the candidate countries, as those forces see in Orbán a leader of a 'new Europe,' where it is worth joining.

During the Covid-19 crisis, the two countries used their 'China card' to get vaccines in order to avoid shortcomings due to 'EU inefficiency.' Finally, both countries are open to cooperation with Russia and are less judgmental towards Putin's regime while being very hesitant to condemn the violation of human rights and political freedom in Russia, which makes perfect sense, as both countries have problematic records in those fields (Freedom House, n.d.).

In May 2013, precedent to the 16+1 Summit in Bucharest, the representatives of the State-owned Hungarian railway company MÁV and Serbian Railways JSC signed a declaration of intent on modernizing the line between Budapest and Belgrade (Budapest Business Journal, 2013). The intention was to make "the line a double, fully electrified one, capable of handling speeds up to 160 kilometers/hour" (Budapest Business Journal, 2013).

In November 2013, the Prime Ministers of China, Hungary, and Serbia, respectively Li Keqiang, Viktor Orbán, and Ivica Dacic, agreed to join their forces to modernize the railway between Belgrade and Budapest. The Chinese Prime Minister met his Serbian and Hungarian counterparts separately while they joined together for the big announcement. The plan was to establish working groups that would be engaged in the preliminary studies of the project. In June 2014, the Chinese, Hungarian, and Serbian delegations met in Beijing for the working group's first meeting for the BBR modernization project (Ministry of Foreign Affairs of PRC, 2017).

The project represented the first cross-border cooperation in developing infrastructure sponsored by China and under the patronage of the 16+1 CEE-China framework. Nonetheless, it was yet another Chinese attempt to finance and build an infrastructural project in the EU. After the failure in Poland, China was not giving up, hoping that in the railway sector, in which China in 2012 opened the longest high-speed rail route in the world (BBC, 2012), her companies might be ready to enter the European market.

During the 16+1 Summit in Belgrade, the Chinese Premier Li Keqiang suggested the "five proposals for further promoting China-CEEC cooperation in an in-depth manner," among which was also the 'new corridor of connectivity,' including the one connecting the Port of Piraeus with CEE countries and the modernizing Belgrade-Budapest railway (Ministry of Foreign Affairs of PRC, 2017). In the Guidelines of the Summit (2014), the participants welcomed "the signing of cooperation agreements on the railway connecting Belgrade and Budapest between China, Hungary, and Serbia."

The BBR is the first multilateral project under the auspices of the 16+1 initiative, and it has an important significance for Chinese regional and global strategies, the Balkan Silk Road Route and the Maritime Silk Road, respectively. Although it formally involves three countries (Hungary, an EU member, Serbia, a candidate to join the EU, and China), the project comprises two separate projects involving the bilateral agreements between Serbia and China and Hungary and China. Further, the project has another unexpected silent participant, the Russian Federation and its Russian Railways (RZD), which has been hired to build the Stara Pazova – Novi Sad section of the BBR.

For the 'Russian section,' the Serbian government signed a loan agreement with the Russian Federation for EUR 172,5 million to cover 75 percent of the works on Stara Pazova – Novi Sad (Krainačić Božić, 2019). The framework agreement between Serbia and Russia to improve the Serbian railway network was already signed in 2013, and it included a loan arrangement of USD 800 million (Martinovic, 2020). In addition, the Russian partner will also design and build an Integrated Traffic Control Center, which will manage all the traffic of the Serbian Railways (rzdint.ru). Therefore, it could be observed that the 'Russian deal' is somehow similar to the arrangement with the Chinese counterpart. In both cases, the loans for state or state-owned financial institutions are involved, and in both cases, the state-owned companies are engaged in delivering the project.

In April 2020, seven years after the project's announcement, the Hungarian Finance Minister Mihaly Varga signed a loan agreement with Chinese Exim Bank to finance the BBR railway project (Reuters, 2020a). Earlier, it was announced that 85 percent of the BBR project was financed by Exim Bank, while the Hungarian government provided the rest. However, in early April, the government submitted a bill classifying the data regarding the project under the pretext of defending national interests (Inotai, 2020). With this move, the Hungarian government pursued a similar practice – keeping information away from the wider public – typical for the large Chinese infrastructural projects in the Balkans. However, in the Hungarian case, it is the first time such a lack of transparency, where public spending is involved, was conducted in an EU member state. Often, countries like Montenegro, Serbia, and Macedonia were criticized for their lack of transparency, which is considered an essential EU principle; however, Hungary showed that similar winds are blowing within the EU.

The BBR project, in both its Serbian and Hungarian sections, experienced delays for different reasons. In Hungary, the initial plan was to avoid a complicated tender procedure and start the project in an 'old-fashioned' way, directly bidding with the Chinese side. This throwback in (pre-EU) time was halted as it was feared that the EU might initiate an investigation as such practice would go against EU norms.

The EU initiated consultation with the Hungarian government seeking clarifications on the matter; however, at the time, the EU avoided using the term 'investigation' (Delegation of the European Union to China, 2017). Thus, on this occasion, China was unable to pursue the same practices as an EU member in other countries, no matter the host country's consent. The lesson was learned, and the Hungarian government decided to follow the tender regulations and avoid further obstacles. The first tender was announced in November 2017, aimed at finding a partner for an engineering, procurement, and construction contract (EPC) where the "EPC contractor is made responsible for all the activities from design, procurement and construction, to commissioning and delivery of the project to the end-user or owner" (Budapest Business Journal, 2013). The contractor was supposed to deliver a 166-kilometer railway line between Soroksár and Kelebia (on the Serbian border), with a potential speed of 160 km/h, under the requirements prescribed within the EU TEN-T network (Budapest Business Journal, 2017).

The first tender was unsuccessful as the offer exceeded the tender proposal, forcing the government to publish a second call where the Hungarian Chinese consortium won the bid and claimed the tender. The new deadline for completion was set for 2025. Again, a Hungarian-Chinese group won the tender, the Hungarian side allegedly being connected to a close friend of

Viktor Orbán, Lorinc Meszaros, who partnered with a Chinese company to claim the lucrative project (Reuters, 2019).

6.2.2. Delays and controversies

In Serbia, already in 2015, Prime Minister Vucic, in a ribbon-cutting ceremony, placed the first stone of the future Belgrade Budapest Railway, making a bold announcement to the citizens of Serbia, saying they will be able to use this modern railway beginning 2018 (Tanjug, 2015). Unlike in Hungary, Serbia had no issues regarding the tender procedure, as the government was free to engage in direct bidding without organizing a public tender. The Serbian part of the project was split into three phases: (1) the first, from Belgrade to Stara Pazova, 34,5 km, was awarded to China Railway International and China Communications Construction Company, valued at USD 350,01 million; (2) the second, Stara Pazova – Novi Sad, 36,2 km, and valued USD 247,9 million, was contracted to the Russian RZD International, (3) and the third phase, Novi Sad – Subotica, 108 km, valued at an estimated investment of USD 1,16 billion, which should be completed in 2023, was to be constructed by the consortium of China Railway International and China Communications Construction Company (CCCC) (Novosti, 5 January 2020).

The railway link between Belgrade and Budapest is part of the China-Europe Land-Sea Express Corridor (CELSEC), which connects COSCO's Port of Piraeus with Central Europe. This connection represents a strategically important part of the maritime Silk Road strategy, shortening the present trading routes, thereby lowering transportation costs for Chinese goods.

The route is essential for the Port of Piraeus. It gives another window of opportunities to further expand its business beyond inter-maritime and relay services and genuinely engage in competition with Northern European Ports like Rotterdam, Antwerp and Hamburg. For the countries on the route (Northern Macedonia and Serbia), it would signify an opportunity to connect their industries to Europe while being in an important position within the trade routes between Asia and Europe.

The BBR project has its use for the internal political processes in the host countries or, in Rogers' words (2019, p. 11), it: "allows tacit Chinese support for the Hungarian political elites to accomplish increased longevity, building on their continued electoral success in return for market-entry points." It also plays an essential role in Orban's narratives of expanding Hungary's strategic reach outside the purely European context. For the Serbian strongman, Aleksandar Vucic, the project is yet another grandiose project to be added to future pre-election narratives and another public investment to fuel economic growth, regardless of the potential risk of increasing public debt. Finally, it increases Serbia's geopolitical value and, ipso facto, his own international reach.

Initially, the BBR was planned to be reconstructed as a high-speed railway. However, the plans were revised to a fast railway due to its limited potential for passenger transport (in Hungary, it connects fewer towns, with the largest having only 27,000 inhabitants; see Rogers, 2017), and its prime use as a trade route. The revision allowed investors to lower the costs of construction and accelerate the completion time. The aim is to reduce the transport time of goods from Budapest to Thessaloniki from the present 49 hours to less than 30 hours, while the passengers should arrive from Budapest to Thessaloniki in 9 hours (BBC, 15 January 2020). The primary purpose of the railway is the transportation of goods from the Port of Piraeus (and potentially Port of Thessaloniki) to Hungary (via Skopje and Belgrade), where a central distribution center (to be built) will serve as a logistic center for further transportation (Rogers, 2019).

The project will reduce the transport time between China and Europe by seven days once the entire route is finished. This link represents the first milestone in improving the whole route and lowering the transport time (Rencz, 2019). With the completion of the redistribution center and the faster link with Piraeus, Hungary will play an essential role in trade between China and Europe. For Serbia, the passenger side of the story is not insignificant. The railway will connect its two most important and cities, Belgrade and Novi Sad, and Subotica in the north.

While Belgrade is becoming a crucial corridor on transportation routes between China and Europe, it will also have a faster link to ship its products to EU markets. Serbia was attracting significant FDIs, and with improved infrastructure and lower average salaries than in Europe, she hoped to attract further investments. However, Káncz (2020) asked a logical question, whether, in the time of de-globalization (considering the effects of Covid-19 crisis for the global value chains) and efforts of the Western economies to redefine their supply chains and reduce their dependence on China, it is wise to invest in intensifying connectivity with China.

China did not discover the new corridors and routes; instead, it decided to revive the already existing routes, which represent geographically the fastest way to transport the goods from Piraeus to Europe. The infrastructure connecting Hungary and Greece by overpassing Serbia and Macedonia existed before and were part of the EU infrastructural strategies (Rencz, 2019). However, the EU has prioritized other projects and focused on linking Hungary and Greece through Romania and Bulgaria, as going through EU member states would facilitate cooperation (TENtec Interactive Map Viewer). While this could be understood for practical reasons – the already existing funding sources and legal framework within the EU, and, it could be argued, it is logical to prioritize the infrastructure within the EU – it leaves behind the neediest of the regions in Europe, the Western Balkan countries.

The countries remaining outside the EU urgently need to improve their infrastructure, which was neglected for decades due to military and political conflicts and persistent economic crises. Here, the Chinese initiatives present themselves as more inclusive for non-EU countries than those sponsored by the EU. Due to their simplified procedures, they can be administered with limited capacities and are, therefore, more appealing. Furthermore, and what is maybe fundamental, the Chinese projects offer yet another opportunity to redistribute wealth from public to private stakeholders. They are crucial for the maintenance of a crony capitalist elite connected with the government.

Once completed (hopefully by 2025), the BBR railway will reduce travel time between the capitals of Serbia and Hungary from 8 to 3-4 hours and will significantly improve connectivity between the two countries and cities along the route. However, the BBR project, like many other grandiose infrastructural endeavors, raised the questions of the feasibility and purpose of the whole venture. The current traveling time of 8 hours is the same as when the railway was built some 150 years ago (Inotai, 2020), the same is true of many Balkan railways, which were often neglected in the post-communism era. The reasons are many, with one being the lack of resources for such demanding reconstruction projects.

However, there are also reasons which were somehow crucial in a newly born market economy, namely the disruptions of connections and fewer potential passengers were excluding them from priority lists. Additionally, the devastation of industries also made their use less feasible, even for cargo transport. Finally, the priority was given to highways and road transportation which was seen as a greater sign of modernity than was the case with communist railways. Nevertheless, while the situation with potential passengers, except backpackers and tourists hitting the ‘exotic’ destinations in the Balkans, might not change, there is a growing need for faster movement of goods by rail. Such a new need has been mainly driven by China’s aspiration to revive the Balkan route and connect it to COSCO’s very successful acquisition of the Port of Piraeus.

The Hungarian newspapers quoted estimates that the repayment period of the project could be 130 years in the best-case scenario; in a less favorable scenario, it would take 2,400 years to repay the loan (Inotai, 2020). Such estimates sound astonishing and do create negative feelings regarding the project, which are further fueled by the fact that official feasibility studies were classified, together with the contracts and loan information (Káncz, 2020).

In Serbia, many (mainly from the opposition pool) raised the question of feasibility. The observers argued that fast railways are generally unfeasible, which will be the case in Serbia (Vlaovic, 2018), they claimed. The same voices argued that fast railways are mainly used by business people, meaning that the investment could be financially unfeasible with the current traffic volume on the Belgrade-Budapest line.

However, such a sizeable infrastructural project often shows unfeasibility and often provokes intense public debates (see the protests in Italy against the fast train TAV, La Stampa, 14 December 2020). Those who support the projects tend to disregard the studies as they believe that they have additional value. The MP Gabor Banyai from the ruling Fidesz Party explains in the Hungarian Parliament: “Hungary would still be in the Middle Ages if all infrastructure investments had been decided on whether or not they pay off” (quoted in Inotai, 2020).

The official Chinese narrative of its engagement with CEE and her sponsored projects is a win-win story (see: Ferchen et al., 2018), which often means a ‘double’ win for China and its companies. However, the win-win narrative is juxtaposed with a more negative storyline supported by those opposing Victor Orban and Aleksandar Vucic in their respective countries. It seems widely accepted within the EU apparatus and its leading member states that China uses its financial resources to fund projects that have dubious feasibility for host countries, while at the same time can cause a debt burden and increase China’s political influence in the host countries.

There are many wins and losses within the story, and there are more actors than just the two countries. However, to keep it simple, we can argue that for the Hungarian and Serbian sides, the win is for their crony capitalists, who will be able to have a piece of a large financial injection loaned from China to be repaid by their citizens. On the other hand, with regard to national interests, the two countries will represent an important, if not the most strategic, pathway on the transportation routes from Asia to Europe, and they will be in the position to use such a connection to strengthen their domestic economies and industries.

The Chinese win-win story is more straightforward. The first win is China’s primary beneficiary of the future railway connection between Piraeus (via Thessaloniki, Skopje, and Belgrade) and Budapest. A second win is that the host countries will pay everything through the Chinese loan arrangements, which have one convenient condition – the Chinese SOE will have to be engaged to build the infrastructure. Finally, the Chinese hopes are to use these upgraded connections to shorten the shipping time of its goods supplying Europe. However, if such a goal does not materialize, well, it already gained through an interest rate and profit achieved by its SOEs engaged in the project. To put it simply, there is a high potential and minimal risk.

The initial attempt by the Hungarian government to engage with direct bidding, and thus to avoid the public tenders, was halted as the government showed reluctance to go against the EU regulation after the warning from Brussels that might trigger legal procedures against them. However, the two sides, China and Hungary, have found a way to continue the project under the EU standards, involving a public tender which saw the Hungarian and Chinese companies that were 'preferred' partners of the Hungarian government win the bidding. The classification of the documents regarding the project showed that the Hungarian government has no concerns about doing everything in its power to obscure the project from the broader public. Making the documentation classified under the pretext that it "could endanger the enforcement of Hungary's foreign policy and foreign trade interests" did not convince many observers (Káncz, 2020). Such behavior by an EU member state could feed the arguments that Chinese companies, instead of improving their processes and adopting EU standards, indirectly force countries to adopt the Chinese rules of the game.

However, such an argument needs to consider the illiberal inclinations of the Hungarian leadership, which showed autocratic practices long before its engagement with China. Thus, China is just taking advantage of the political situation in the country, which facilitates the engagement of its companies due to more flexible rules and where governing processes are more centralized (see Hungary, Montenegro, Serbia).

The Hungarian way of doing business has other repercussions, more for the EU than for the country itself. The very image of the EU might change in the candidate countries. The calls from Brussels to the candidate countries to be more cautious with unfeasible mega projects under the Chinese patronage and financing, and cries for more transparency will be overwhelmed by terrible examples from Hungary. To make matters worse, if such behavior by Hungary is followed by an aura of a thriving economy, as it is often perceived in the regional countries, Hungary itself will serve as more of an example than an old, stagnant, legalist, and boring EU.

The BBR project experienced many difficulties, and it might not represent a showcase for regional cooperation under 16+1 sponsored by China. As mentioned in the introduction to this section, the very nature of the regimes within the countries involved is causing discomfort to some Western countries and the EU, and these concerns might be more nuanced during the economic crisis caused by Covid-19, which further undermined the image of the EU in the region. Moreover, the economic model offered by China found fertile ground in Balkan semi-autocratic states, which will represent a serious political problem for Europe.

The Chinese-sponsored infrastructural projects can negatively influence a country's public debt and increase it above the standards prescribed by European treaties. In the case of Hungary, the exposure could be considered even riskier; there is a significant debt owed to both Russia and China (Rogers, 2019). Among Serbia's external debtors we find Abu Dhabi state funds and both China and Russia (Danas, 2021). However, the Serbian public debt is less than 60 percent, which is much lower than other regional countries, giving significant room to the Serbian government to continue with the state-funded infrastructural investments in the near future.

6.2.3. Epilogue

In the previous chapter, we analyzed the COSCO's acquisition of the Port of Piraeus and highlighted the company's genuine business motivations for such a deal. However, the project was fully compatible with the BRI strategy. As a result, both interests are pushing towards its full implementation, creating a land-based connection between the port and Central Europe (read Budapest).

The BBR project was well received in Budapest and Belgrade, as both countries are interested in increasing their strategic importance and improving their transportation infrastructure. However, the game-changer was COSCO's ability to influence existing trade routes and create new nodal points for global shipment.

The internal political dynamics in Serbia and Hungary have facilitated the whole deal. It could be argued that such an agreement would be impossible without such a close political relationship of the two countries with China. Further, the statist economic orientation of both governments has been a critical component. In this instance, China has used its statist economic models in its favor to realize its regional strategies.

The EU regulations, which were an obstacle in the case of COVEC in Poland, have been successfully circumvented in Hungary due to a solid political connection with the government. EU regulations have derailed the BBR project and slowed it down; however, it was unable to halt it. In Serbia, the accession candidate, which only pays lip service to EU rules, there were no barriers to implementing direct project bidding.

To make things even more complicated from a geopolitical point of view is the involvement of Russia, which also participated in the Serbian part of the project with a similar economic model – loans for infrastructure.

In this chapter, we explored two research questions: one regarding the drivers of Chinese investments, and a second that questions whether China exports/promotes its economic model.

China does not promote autocracy, nor is she concerned with the nature of the regimes in the countries in which she invests. However, China's regional strategies are particularly successful in a specific type of regime, one which is less liberal and more inclined towards autocratic tendencies and a statist-led economic model. Chinese engagement allows countries to pursue their development path and be less dependent on EU financial arrangements, which come with conditions.

According to Ferchen et al. (2018, p. 4) the BBR arrangement "is a loan and construction package rather than an investment deal," and should be regarded as such. These countries have engaged in very ambitious projects with no market reasoning and thus would be difficult to finance with EU finds. Therefore, China offers a unique approach that uses the political and economic particularities of the countries to promote its interests, often with zero risk, as she receives strong state guarantees.

6.3. The Pelješac Bridge – EU funds for Chinese companies

"Chinese companies look at the big picture, taking into account the relations of China and Croatia in its whole" (Pleše, 2018)

The long Chinese march into the lucrative EU infrastructural market saw an important breakthrough when the Chinese CRBC won a tender for the Peljesac Bridge in Croatia. A decade-long journey started in Poland in 2009, where COVEC failed to deliver the project after winning its first tender in Europe. After that, Chinese companies found their safe place in EU candidate countries like Serbia, Macedonia, and Montenegro, and eventually arrived at the point where they could win a public tender in an EU member for a project financed by EU funds.

6.3.1. Connecting the nation

Southern Croatia is divided, with a small strip belonging to Bosnia and Herzegovina, which means the traffic connecting the country is disrupted as it passes through foreign territory. Thus, although the relations between the two countries are solid and the very strip does not represent a significant road connectivity problem, it de facto creates a physical disruption within the Croatian territory.

In 1996, the two countries signed the Neum Agreement (http://www.mvep.hr), which guaranteed passage through the Bosnian and Herzegovinian territory with fewer trade restrictions on goods. However, in 2013, and after Croatia joined the EU, the parties signed three additional agreements which, again, regulated the passage of goods and people through the Bosnian territory, but also regulated the passage of Bosnian goods from the Port of Ploce (in the vicinity) to their territory.

However, the Croatian government maintained its aspiration to avoid the Bosnian strip and (re)connect its territory. There were different options on the table, sometimes depending on the majority forming the government. They considered a closed road through Bosnian territory with a bilateral agreement regulating such a solution; or the introduction of large ferry boats connecting the mainland and the Peljesac Peninsula (Jelin-Dizdar, 2012). Finally; the bridge was an option that appeared as too ambitious (read expensive) a project to connect the divided lands.

Like many other grandiose projects covered in this research, the Peljesac Bridge has a long history of planning and failures. It has been exposed to public debates and political contestations for two decades. In the late ’90s, after Croatia reunited its territory (parts of it were under the control of the Serbian minority during the war between 1991 to 1995) and after the bloody war in the former Yugoslavia finally ended, policymakers were proposing ideas to connect its territories physically. In 2000 the bridge was inserted in the spatial plans and entered the design phase (Žabec, 2011). The former Prime Minister of Croatia, Ivo Sanader, who was later convicted for high corruption and sentenced to jail, participated in two ribbon-cutting ceremonies, in 2005 and 2007, respectively, announcing that the whole project would be finished in 18 months while the broader public speculated regarding the costs of the project (Žabec, 2011). In the meanwhile, the connection roads were constructed before the project entered a stalemate. In 2007, a proper public tender was held, and the project's construction was granted to the Croatian company Konstruktor. However, the construction was halted soon after it was started due to a lack of funds (Žabec, 2011).

As in other stories of large infrastructural projects in this research, the Peljesac Bridge was also followed by accusations of corruption and conflicts of interest involving the large construction companies and their clientelist networks. However, in 2007, those allegations came from nowhere else than from the Croatian President Stjepan Mesic, who warned of a possible conflict of interest and corruption involved in the whole process (Žabec, 2011).

The financial resources involved in the project were so crucial for Croatia that media outlets noticed that all other public works (the highway intersecting the whole country) were halted, as there were no funds available other than for the bridge (Tportal.hr, 2009). In 2009 the Croatian government ordered its agency to terminate all the infrastructural contracts for the project yet to be initiated (Šimatović & Biočina, 2009). The local media speculated that the crisis has drained resources for infrastructure. At the same time, institutions ready to jump in and finance the projects (EBRD and EIB) were lobbying the government to rescind the existing contract and initiate new public calls (Šimatović & Biočina, 2009). According to the same voices, the construction lobby, which was allegedly deeply connected to political elites, was in the habit of absorbing the vast public resources which it subsequently used for political purposes. Because of the financial crisis of 2008, the construction was slowed down by the government of Jadranka Kosor (Šimatović & Biočina, 2009). Finally, in 2012, the center-government led by the current president, Zoran Milanovic, decided to rescind the contract with three Croatian companies who were building the bridge, five years after the construction started, and after only 3 percent of the works had been concluded (Radio Slobodna Evropa, 17 May 2012).

The project, however, did not die, but it was delayed. The EU stepped in by granting EUR 200,000 for a pre-feasibility study, de facto restarting the whole project. The study showed that the bridge is the most efficient solution, and the project was to proceed again, but with more regard for the protection of the environment (European Commission, 2017). Subsequently, the European Commission allocated EUR 357 million of the Cohesion Policy Funds to construct the bridge (European Commission, 2017). As explained in the press release, the bridge will connect the southern coast, including Dubrovnik, with the mainland. At the same time, it will help "facilitate a smooth flow of goods and people, especially at the peak of the tourist season" (European Commission, 2017).

Such financial resources were good enough for 85 percent of the construction of the bridge and all "supporting infrastructure, such as the construction of access roads, including tunnels, bridges and viaducts, the building of an 8km-long bypass near the town of Ston, and upgrading works on the existing road D414."

6.3.2. An unexpected bidder

The tender saw the three bidders shortlisted: (1) the Chinese consortium led by CRBC, composed of CCCC Highway Consultants, CCCC

Second Highway Engineering, and CCCC Second Harbour Engineering, with an offer of EUR 278,8 million with a completion time of 36 months, (2) the Italian-Turkish consortium Ansaldi – IC Ictas, with an offer of EUR 341,8 million, and (3) the Austrian construction company Strabag with an offer of EUR 351,1 million (Al Jazeera, 2018a). The Chinese offer was the most favorable in all segments and financially significantly lower than the competition, while the completion time was six months shorter (Butković, 2018).

The Chinese victory in a public tender for the most important Croatian project was received with astonishment in Europe. Although the Government of Croatia was not the official organizer of the tender, they took over the decision while expecting reactions from Brussels (Al Jazeera, 2018a). Meanwhile, according to the influential regional press (Al Jazeera, 2018a), the European companies were lobbying in Brussels against giving the job to a Chinese company.

Strabag AG filed a 13-point complaint addressed to the organizer of the tender. Among other things, the Austrian company complained that the Chinese presented dumping prices for some project segments. Furthermore, they pinpointed the fact that the Chinese consortium was composed of state-owned enterprises, allegedly subsidized by the government in their European endeavor (Žabec, 2018).

Indeed, in some sections, CRBC and partners offered 3 to 10 times lower amounts than Austrian Strabag, which has 20 years of experience in Croatia and is well acquainted with the costs of labor and materials in the country (Žabec, 2018). The complaint was supported by the third bidder in the tender, Ansaldi, which was also raising doubts regarding the alleged dumping prices proposed by China (*The State Commission for Supervision of Public Procurement Procedures - UP/II-034-02 /18-01/64*, 2018; *The State*

Commission for Supervision of Public Procurement Procedures - UP/II-034-02 /18-01/59, 2018).

Responding to such critics, the Chinese Ambassador in Croatia, H.E. Hu Zhaominga, rejected the claims and warned that the Croatian government's decision will signal whether the Chinese companies are welcomed in Croatia or not (RTL, 2018). Ambassador Hu also explained that competitors in this project only focus on profit, while the Chinese companies have a bigger picture in mind. Namely, the Chinese are considering that this is the first large project funded by EU money to be executed by Chinese companies, and they value the potential for broader relations between China-Croatia (RTL, 2018). In other words, while Western companies were observing the project as a business, the Chinese side had things other than business to consider. Therefore, it should be understood that a potential financial loss in this endeavor will not be considered a tragedy, and the allegedly dumping prices should be interpreted in this spirit.

The State Commission for Supervision of the Public Procurement Procedures, with a decision made on 21 March 2018, rejected all the complaints made by the Austrian and Italian firms (*The State Commission for Supervision of Public Procurement Procedures - UP/II-034-02 /18-01/64*, 2018). Thus, there were no more obstacles for CRBC to sign the contract for building the Peljesac Bridge.

6.3.3. Epilogue

The Peljesac Bridge is not particularly important for Chinese regional interconnectivity strategies, nor does it significantly impact the regional trade routes. Therefore, it could be argued that it is mainly driven by national connectivity ambitions. Furthermore, the project would have been possible even without Chinese involvement, as the resources for the projects were secured by the EU funds. This bridge, then, could be classified among the commercial projects without much strategic significance.

However, the Peljesac Bridge project could have significant repercussions for the EU construction market. The Chinese companies that were 'training' for ten years in the EU neighborhood could create turmoil in the construction industry and related sectors, if such projects become common, as they might become a serious threat to European companies. The Peljesac Bridge could be a sort of Trojan horse that just entered EU's gates.

Those acquainted with the construction industry have been concerned that Chinese companies are not entering the market as genuine competitors. Instead, "directly or indirectly, CRBC is subsidized to a degree beyond the wildest imaginings of European companies" (Mardell, 2019). It is too early to draw such conclusions and resort to alarmism, but the resistance to the Chinese companies' presence is rising after the Peljesac Bridge, with many associations calling on the EU to respond to a potential threat (Mardell, 2019).

The CRBC's venture in Croatia has been followed by mostly positive comments from local and regional media outlets (Borovac, 2019). The main reason was the diligence with which the Chinese company approached the project. The efficiency of the Chinese company was commented upon in Montenegro, where the daily newspapers noticed the assiduousness with which the CRBC approached the project in Croatia, while in Montenegro, the highway project is still to be delivered two years after the deadline expired (Dan online, 2020). This indicates that the behavior of Chinese companies is influenced by the very strength of national institutions in host countries. If there are weaknesses, the Chinese companies will use them, as concluded in Central and Eastern Europe Development Institute (CEED)'s Report (Golonka, 2012, p. 30): "if strong and high-quality institutions exist, the

Chinese side will respect them. China abides by a well written rule of law. If the institutions are weak, however, the Chinese will take advantage of the loopholes."

6.4. Decade-long journey

The Chinese companies entered the EU market unprepared, failing to deliver the project in Poland, which caused high financial costs for the participating company. At the same time, it also brought negative publicity to Chinese entities. It was clear that they would need support from its financial institutions and the government in conquering new sophisticated markets.

The regional initiatives 16+1 and BRI created a platform to intensify the cooperation with the regional countries, which proved most effective in the field of infrastructure. However, the initiatives proved more fruitful in the candidate countries than in the EU. The Chinese 'loans for infrastructure' arrangements were costly for the EU members as the interest rates were higher than those of the EU funds. As well, state guarantees and bilateral agreements instead of public tenders are forbidden by EU regulations. These were welcomed by those countries that value a different economic model in which the state plays a pivotal role.

Furthermore, those countries showed high political commitment to engage China. Thus, the most significant number of Chinese infrastructural arrangements were conducted in the countries with authoritarian inclinations and a high level of corruption. In these countries, the political elites welcomed the Chinese 'no strings attached' approach, as they often used infrastructural investments to redistribute the wealth among their crony capitalists. The Chinese loans are different than those issued by Western based financial institutions like the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development, which are the most active in the region. These institutions favor projects that have at least some reasonable economic and financial justification, and prescribe a more diligent application process, slower time of implementation and set of steps that must be followed. The Chinese loans are free of such burdens, but come with a condition that Chinese infrastructural companies must be hired as the main contractors.

Infrastructural projects with Chinese participation are often presented as 'Chinese investments,' implying a potential Chinese political leverage in these countries. However, these are rarely China's investments, as the true investor is the host country that chooses a project, takes the loan from China, and hires Chinese companies to build it.

The Chinese company COSCO was particularly successful in its investment in the Port of Piraeus. The acquisition of the port was facilitated by a particular internal political situation in Greece and by the fact that it happened before China started to be perceived as a threat in the Western European economies. The acquisition of the Greek port was one of the crucial investments related to the BRI initiative. However, other interconnectivity projects, like railway links to connect the port with Budapest, met with more difficulties and faced resistance from EU institutions.

China always stresses support for EU integration and European cohesion. The reason is that China needs a strong European market for its exports. However, she uses a different approach in dealing with Western European countries and CEE countries. In the latter case, she uses language characteristic of South-South relationships. There is more assertiveness in the EU regarding the Chinese regional strategies, which often meet more and more resistance from European institutions. The completion of the Balkan Silk Route could change the intensity of the European transport route, putting more pressure on the Northern European ports

While stressing the need for cooperation with European countries, particularly in the field of connectivity and transport, Chinese projects are often in collision with EU interests.

Some infrastructural projects financed by Chinese banks and built by Chinese companies, are often labeled as BRI; however, some are primarily national projects with little, if any, importance for BRI. These are often classified under BRI due to their vague, flexible definitions, giving a political rationale to otherwise unfeasible projects.

The infrastructural projects with Chinese participation mentioned above are different, and it is challenging to elicit general conclusions. They are inspired by national connectivity strategies (Highway in Poland and Montenegro, Peljesac Bridge, Zemun Borca Bridge in Belgrade). Others have been influenced by Chinese global interconnectivity strategies like the Port of Piraeus and the BBR project. Most of the projects would have been impossible without Chinese participation, with the highway project in Montenegro being the most obvious example. Others would have been built even without Chinese participation, such as the bridge in Peljesac or the highway in Poland. However, China has displayed an increasing capability to influence regional connectivity strategies and create trade links that the EU does not prioritize.

China relied on the host countries' particular political situations to achieve its interconnectivity strategies in the region. For example, in Greece, the deal was facilitated by the austerity regime caused by the devastating crisis in 2008. In Hungary and Serbia, China relied on political elites inclined to statism in the economy and authoritarianism in politics. There is no evidence that China promoted or encouraged authoritarian tendencies in the region, but she was very resourceful in using the existing political deviations to her advantage. The Chinese loans and political engagement come with a different set of political and economic values, which are contrary to those promoted by the EU.

The so-called “Chinese infrastructural investments” often imply no risk for Chinese financial institutions. This has been achieved with solid state guarantees conceded by the host countries. In this way, China was using the political and economic situation in the region to promote its interests with little financial risk. There is no evidence to claim that China promotes its economic model. Still, it does help others to pursue their own economic models by offering loan arrangements that would have been otherwise inaccessible.

PART IV: CASE STUDY – HIGHWAY PROJECT IN MONTENEGRO

7. RELATIONS BETWEEN MONTENEGRO AND CHINA

The highway project in Montenegro brought unprecedented foreign coverage for the smallest Balkan country and, indeed, one of the smallest in Europe. A country with a population of 660,000 has rarely attracted the attention of foreign media outlets; an exception was the 2006 referendum for independence. Even on that occasion, the political processes leading towards independence were peaceful and, thus, too boring by Balkan standards.

However, the grandiose “project of the century,” financed by the Chinese financial institutions and built by Chinese construction companies, has put the country in the spotlight of the international press, think tank institutes, and interested parties around the globe.

The project showcased Chinese economic and political penetration in Europe’s backyard and was used as a case study of debt-trap diplomacy. The situation is often exaggerated, however, and China is often unjustly targeted as a villain. In this research, we believe this project needs in-depth analysis to shed light on all its controversial aspects.

The research will analyze the project starting from its conception. The analysis will reveal the main drivers for building such a risky project and analyze Chinese engagement. Further, it will try to understand its political, economic and foreign policy implications for Montenegro.

7.1. Distant friends

The Parliament of Montenegro made a formal Declaration of Independence on 3 June 2006, after acknowledging the referendum results held on the 21st of May. 55,5 % of voters choose 'Yes' out of more than 85% of those participating in the pools. Soon afterward, on June 14, China recognized Montenegro, while it elevated its diplomatic representation in Podgorica from a consulate to the embassy on July 7.

The relations between the two countries were relatively cordial before 2010, with not much substance or significant political or economic cooperation. In 2009 there was EUR 2,5 million worth of Chinese investments in Montenegro, the highest for the next decade. However, such investments were rather occasional and showed no consistency. In the table below, received from the Central bank of Montenegro, both FDIs from China and Hong Kong are represented, showing the modest interest of Chinese companies to invest in the country.

Total inflow of FDIs										***in 1,000 EUR***	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Hong Kong*	3.029	2.428	1.149	4.262	3.679	1.174	473	133	3.374	2.973	6.125
Kina	1.694	840	440	141	1.018	1.376	441	677	56	284	71.234

Figure 9 Montenegro's FDIs coming from Hong Kong and China (Central Bank of Montenegro)

Montenegro is a country that heavily relies on FDI inflow, and it has a very open approach to them, as can be observed in the table below, showing total Montenegrin FDI inflow from 2010-2019:

Total Inflow FDI in Montenegro								***in 1,000 EUR***	
2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
758.254	556.662	618.126	446.456	496.993	699.855	226.702	560.665	485.653	418.205

Figure 10 Total FDI inflow in Montenegro 2010-2019 (Central Bank of Montenegro)

The trade relations were also modest (see the table below, Monstat), with relatively marginal trade flows between Montenegro and China. The table below shows Montenegro's trade balance with China, the EU, Japan, and the USA.

Trade Balance Montenegro with EU, USA, China and Japan				
				In 1,000 EUR
Export	**EU**	**USA**	**China**	**Japan**
2005	202.294	529	0	4
2006	300.790	483	0	1
2007	320.683	1.769	62	34
2008	263.711	892	152	145
2009	142.951	7.407	95	12
2010	188.862	461	149	544
Import				
2005	507.548	15.898	33.326	13.451
2006	754.048	26.981	56.874	18.228
2007	1.025.281	37.534	100.464	41.571
2008	1.191.002	55.963	123.834	40.602
2009	701.508	17.604	90.343	19.685
2010	705.359	15.367	88.864	19.822
Balance				
2005	-305.254	-15.369	-33.326	-13.448
2006	-453.258	-26.498	-56.874	-18.227
2007	-704.598	-35.765	-100.402	-41.536
2008	-927.291	-55.071	-123.682	-40.457
2009	-558.558	-10.197	-90.248	-19.673
2010	-516.497	-14.906	-88.715	-19.278

Figure 11 Trade balance of Montenegro with EU, USA, China and Japan (MONSTAT)

There were no significant visits from the Chinese side to Montenegro, except for that of a deputy minister of foreign affairs in 2007. Montenegrin President of the Parliament Ranko Krivokapic visited China in August 2007, while the Minister of Foreign Affairs of Montenegro visited China in 2008. The Olympic Games held in Beijing were an occasion for both the President and the Parliament to visit China and meet with their counterparts. Furthermore, the Prime Minister of Montenegro, Milo Djukanovic, visited China during the World Economic Forum held in Tianjin in 2008, the so-called Summer Davos, where he had the opportunity to meet his counterpart on the margins of the summit.

The high-level meetings were mainly organized on the margins of other multilateral events and were rather protocolar, however, in line with the status of Sino-Montenegrin relations at the time, friendly and cordial but without major political or economic engagements.

The relations between the two countries started to heat up in 2010 when Montenegro entered into its first loan arrangement with China (explained in detail in the next chapter). The political relations intensified after the establishment of the 16+1 mechanism, which provided regular occasions for the Montenegrin leaders to meet their Chinese counterparts in bilateral meetings. As a result, Prime Ministers Djukanovic (in office 2012-2016) and Markovic (in office 2016-2020) regularly met Li Keqiang (and on one occasion XI Jinping), a total of six times in 8 years. This research uses the information on these meetings received directly from the Ministry of Foreign Affairs; however, there is no information regarding the duration and scope of those meetings.

China significantly increased its interest in Montenegro during the second decade of the 21st century. Between 2010-2018, China donated EUR 8.700.000 for infrastructural projects and EUR 6.435.000 for various equipment, which is more than Chinese FDIs in Montenegro in the same period.

However, the relations were mostly defined by the loan arrangements. In a summary of the history of the state of relations of Montenegro and China, received from the Montenegrin Ministry of Foreign Affairs, it was said that one of the most significant achievements of Montenegro within the 16+1 initiative was the signing of the contract with CCCC/CRBC for the construction of the highway. Furthermore, the purchase of the four vessels by the Montenegrin shipping companies through the loan arrangement with Exim Bank is also attributed to regional 16+1. Finally, the loan arrangement with

Exim Bank for the highway was made available through the China-CEE mechanism (RTCG, 2013c).

Montenegro and China developed the most intense cooperation in the field of infrastructure, which will be covered in the subsequent pages. However, collaboration was substantial in the energy sector as well. For example, in June 2020, the Montenegrin state-owned electric company (EPCG) chose a consortium led by Chinese DEC International and Montenegrin companies Bemax (the largest subcontractor in the highway project), BB Solar, and Permonte for the reconstruction of the coal power plant in Pljevlja, to make it cleaner and prolong its usage (Balkan Green Energy News, 2020b).

The smallest company in the consortium is owned by the son of the president of Montenegro and the most controversial and influential political figure of the last 30 years. His son's company was using significant state subsidies. It was involved in building small hydropower plants, which brought numerous protests by local communities that saw their rivers drained by the power plants. Both the president and his son were exposed in the "Pandora Papers," where it was revealed that they had formed various trust companies in offshore destinations.

In a public tender won by Dongfang Electric Corporation (DEC) and partners, there was another Chinese company bidding, the more famous Shanghai Electric. In total, there were three offers in the tender, DEC with EUR 44,9 million without VAT, Hamon-Rudis with EUR 59,9 million without VAT, and Shangai Electric with EUR 80,9 million without VAT (Kapor & Milošević, 2019). As told to this research by experts in the field, Shanghai Electric was a company everyone expected to deliver the best offer. However, the difference between the highest and lowest offers was almost double in favor of the winning consortium. While both contenders, Hamon-Rudis and

Shanghai Electric, complained during the opening of the offers about many errors in the DEC offer, they did not file an official complaint. Therefore, the tender process was finalized. This researcher has consulted an expert in the field who claims that the project cannot be fully developed for such a low price. To confirm such thoughts, the national media houses wrote that the consortium asked for an additional EUR 15 million to complete the works that were yet to start (Nikolić, 2021).

The Chinese companies were some of the leading partners in exploring coal energy in the region. The old coal power plants have a significant stake in regional countries' energy sectors, and though they are the biggest polluters, they are kept alive for socio-economic reasons. China emerged as the leading partner in the renovation and extension of the working life of these plants, often because there are no Western partners interested due to their focus on green(er) energies (Novakovic, 2020).

Consequently, the EU efforts to limit coal in energy production (and other industries) were complicated when the Chinese companies entered the regional market and were often well-received by the host governments. The Chinese companies offered a lifeline to save jobs and keep the energy sources intact before the countries were ready to move to greener solutions. This is particularly important for Western Balkan countries that, due to their political and social turmoil in the past three decades, have been unable to develop "green strategies." Often, their political reality is such that the ruling elites are focused mainly on the next elections, and all issues are approached with short-term planning.

The Chinese stakeholders are not exclusively focused on the coal sector. Instead, they also invested in green energies in Montenegro. For example, the largest wind farm in the South of the country, Mozura, was a joint project between the Maltese state-owned power utility Enemalta and

China's Shanghai Electric Power Company, worth EUR 90 million (Balkan Green Energy News, 2020a). However, the whole deal involved offshore companies that acted as brokers and were allegedly related to the highest echelon of the Maltese and Montenegrin governments. Moreover, the assassination of a well-known investigative journalist in Malta, Caruana Galizia, was also mentioned in relation to the project (Kajošević, 2020).

Although there is no evidence of direct Chinese involvement in any of these misdeeds, the international coverage placed Chinese investment in a controversial context, showing that Chinese state-owned companies have no issues partnering with whoever can bring business to the table.

China showed no reluctance in doing business with the controversial political figures in Montenegro. Earlier, China purchased a plot of 10,000 sqm in Podgorica for EUR 1 million to build the new Embassy. The property was purchased from the son of another controversial political figure, the former mayor of Podgorica, who was involved in several scandals involving an attack on a journalist in which his son, who is a diplomat, pulled a gun on the reporter, who was from the largest media outlet in the country. Although the case was documented with an audio record, they came away from it with almost no penalty. Finally, the embassy was built in another place; however, allegedly the mayor's family earned EUR 800,000 from the deal, according to newspapers (Peruničić, 2014).

7.2. New begining: loans for ships

Before the outbreak of the well-known turmoil that led to the dissolution of the former SFR Yugoslavia, Montenegro's commercial fleet counted 43 vessels and was one of the largest per capita in Europe (Tomovic & Vukićević, 2011). However, the fleet was dissolved entirely in 2007, when the last ship was sold. The media speculated about suspicious terms under which the fleet was traded during the crisis involving alleged embezzlement by the Montenegrin officials and intermediaries. However, there was never an official commission or investigation that could bring to light the final destiny of the fleet, nor was there much public interest in the subject (Gregović, 2016).

One of the reasons for little interest in the disappearance of the shipping industry was that Montenegro went through a deindustrialization period, and most industries were dismantled anyway. Following this trend, the former shipyards were converted to marinas and used for tourism.

However, at the beginning of the 2010s, in the time of a severe crisis in the shipping industry, the Government of Montenegro decided to renew its fleet by taking loans from the Chinese Bank to purchase the ships from Poly Technology group, a well-known state-owned company in the shipping industry.

As experts in the shipping industry have related to this researcher, no other financial institution would have granted such loans to Montenegro's shipping companies in that period. Moreover, they believed that neither of the two companies could have produced a business plan that could eventually justify such arrangements.

7.2.1. The credit arrangements

The first loan arrangement was signed by Crnogorska Plovidba AD, amounting to USD 47 million. The money was to finance 85 percent of the purchase of two ships produced by Poly Technology group, while the company itself would cover the remaining 15 percent (The Government of Montenegro, 2010b). The loans are to be repaid over 15 years with a five-year grace period and a 3 percent interest rate. The total value of the ships (bulk carrier) was USD 55,760 million (The Government of Montenegro, 2010b).

Barska Plovidba AD took a loan of USD 46,4 million to be repaid over 15 years plus the grace period of 5 years and a 2 percent interest rate. The loans were to be used to purchase two bulk carrier ships produced by Poly Technology group (Lukovic, 2012).

7.2.2. A loan in the middle of the shipbuilding crisis

The Montenegrin loan arrangements and subsequent orders for shipbuilding have come in the middle of a crisis in the transport sector caused by the financial collapse of 2007-2008.

In 2009, China Daily reported that Chinese shipyards had seen their orders drop by 70 percent, while some companies faced a drop in gross income of more than 70 percent (Moody & Xiaotian, 2009). In addition, news outlets dispatched discouraging data from the Chinese Ministry of Transport, saying that "container throughput into the country was down 7 percent from 126 million TEUs (container units) last year to 117 million TEUs this year" (Moody & Xiaotian, 2009).

These numbers were much in line with warnings coming from international institutions like UNCTAD that underlines in one of its regular reports that "The contraction in the global economy and merchandise trade during 2009 has changed the landscape of the shipping industry dramatically" (UNCTAD, 2010). It was reported that 10 percent of the entire merchant fleet in the world was anchored due to the lack of merchandise to transport (Jung et al., 2009).

Direct participants were warning that "There has never been a crisis like this before," and "The industry is looking at the edge of a deep abyss"

(Jung et al., 2009). German shipping companies were facing issues with newly ordered ships. Some of them canceled the orders, thereby sacrificing deposits that could amount to up to 40 percent of the vessel's value (Jung et al., 2009). Others were trying to postpone shipbuilding for when the industry started recovering.

However, ordering the new vessels in a time of crisis could be justified with decreased prices and increasing negotiation power due to the crisis in the shipbuilding industry. However, such a move could be considered legitimate only for a well-established company in the market that uses its surpluses for future gains. Unfortunately, the Montenegrin shipping companies were starting from zero, which is a challenging position in the industry due to the increased prices for insurance, without any strategic partnership with international shipping companies, and with untrained management (according to the local experts) (Canka, 2010c).

The decision to restore the commercial fleet was another example of state-led economic development. Once again, the market conditions were ignored, and the political decision that was taken at the very top of the government (read party) had to be implemented.

The Chinese banks acted as perfect partners in such an endeavor. The Chinese model was implemented: Loans for ships, aimed to help the Chinese shipbuilding industry in a challenging crisis and at zero-risk, as Montenegro gave strong state guarantees, which means Exim bank is not assuming any risk. In other words, if the Montenegrin shipping companies fail due to unfavorable market conditions, the Chinese banks will have their payments serviced by the government. In contrast, the Chinese shipping companies already had their orders paid.

7.2.3. A job gone wrong

Soon after taking over the vessels, both Montenegrin companies ceded the ships to a Turkish company in a charter arrangement. Thus, the idea to rebuild the shipping sector was limited to renting the ships to other companies. According to my interviewee from the industry, while having more than 80 employees (without having any ships in their possession), the two companies lacked a skilled workforce able to engage in the business of shipping agents. Thus, they had no option other than giving up the boats in the charter arrangement.

The state-owned companies are used to provide jobs to loyal party members and their families. The fact that two former shipping giants possessed no ships, did not stop the employment process which caused redundancy.

According to leaked audio coming from an assembly of the Democratic Party of Socialists (DPS) party, the head of the employment agency has explained how the misuse of public service works: “first of all, let us employ our people,” one employer means four secure votes (Kosović, 2013).

The purchase of the ships to rebuild the Montenegrin commercial fleet faced an obstacle by the very practice of the government, which led to having a shipping company with no shipping business. The payment received from the charter arrangement was almost the entire revenue for the Montenegrin companies. As the rent was lower than operational costs and credit rates, the companies were heading towards a negative performance. As soon as the grace period expired, the companies were unable to service their loans. The government, which conceded state guarantees to the Chinese bank, was forced to step in and service the debt. Until January 2020, the government has paid some EUR 26 million to the shipping companies for loan repayment.

7.2.4. Going against Montenegrin law and EU integration

The payments that were given to the shipping companies due to their liquidity problems were made without any legal justification. According to the testimony of the Minister of Transport and Maritime Affairs Osman Nurkovic, they were giving the money as they had no other option, otherwise, they would have lost the ships (Komnenić, 2021).

The Montenegrin hybrid way of economic planning has collided with the country's EU integration process. Namely, as soon as the government changed, the Agency for Protection of Competition, which was finally enabled to do its job independently, temporarily blocked the state aid (the payments of the loan by the government) until a final ruling (*Rješenje/Decision*, 2021). Markovic Khaze & Wang (2021) researched Chinese investments' influence on the EU integration process and concluded that, while such a relation could exist, the EU's presence is rather stronger and prevails over Chinese engagement. However, from the above analysis, it could be concluded that China's economic presence is entering in direct conflict with EU norms, and if such a presence is heightened, there is more potential for the negative impact on the EU integration process.

The misdeeds of the government are not only related to state aid; the decision to take the loans in the first place was in violation of the Law on Business Organizations. In 2018, the Minister of Transport and Maritime Affairs ordered a study to establish whether the purchase of the ships for the partially state-owned Barska Plovidba was legal. The study created by the experts has found that the agreement was illegal and probably null and void, as the proper procedure to take out the loan was not followed. Thus, according to legal experts, the shareholders could have asked to void the contract, which could mean restitution to the previous state. In this case, the Montenegrin shipping company and the government could be responsible for eventual damages to the Chinese counterpart.

The breach of the law lies in the very nature of one of the shipping companies, Barska Plovidba. While often labeled as just state-owned, the two Montenegrin shipping companies analyzed here are joint-stock companies (JSC) and have different ownership structures. Crnogorska Plovidba AD is 99,9726 percent owned by the state and 0,0274 percent owned by the Employment Agency of Montenegro, which has the status of a state fund. On the other hand, Barska Plovidba AD has a more complicated structure, as its shares on 31st of October 2011 were distributed as follows: State 18,64%, Investment, and Development Fund of Montenegro 16,16% (state-owned), State Fund for Pension and Disability Insurance 12,83%, Employment Agency of Montenegro 4,28%, Other legal entities 5,45%, and private stakeholders 42,64%.

This means that in Barska Plovidba AD, the government, following the Law on Business Organizations,[3] was obliged to consult other shareholders before entering into the loan agreement with a Chinese bank or any other arrangement involving than 20 percent of the current equity value. At the time of the loan agreement, the equity value was EUR 14 million, thus, any decision bigger than EUR 2,8 million had to be taken at the assembly of stakeholders. Today, after the purchase of the boats, the equity of Barska Plovidba is at minus EUR 2,4 million.

[3] Official Gazette of the Republic of Montenegro 06/02 of 8 February 2002, Official Gazette of Montenegro 17/07 of 31 December 2007, 80/08 of 26 December 2008, 40/10 of 22 July 2010, 36/11 of 27 July 2011

7.2.5. Against the market odds

The Union of Captains of Commercial Fleet has tried to discourage the government from purchasing the ships. According to Sinisa Lukovic, a journalist who follows maritime affairs, the Union held a round table sometime in 2008. It almost unanimously informed the minister that purchasing such ships would be wrong and unsustainable. According to the same person, several experts from the university repeated the same concerns to the government.

The resistance also came from the company itself. One of the board members, the acting CEO of Barska Plovidba, refused to sign the deal, saying that the feasibility study was fake, and the government would be responsible for eventual damages. According to one of the interviewees, there was an elaborate feasibility study; however, it was not signed, and it was done unprofessionally, just to fulfill a formal requirement.

This researcher made an official request to the Ministry of Capital Investments, which is now in charge of the sector, to send all the documents related to the purchase of ships, including the studies created by the ministry and the feasibility study. However, as of October 2021, the request has been ignored.

7.2.6. Political and economic epilogue

There is no geostrategic component in the deal to purchase the ships by Montenegrin state companies. However, it is a concrete example of the impact of Chinese engagement and its financial capability in the region.

If not for China, it would be rather complicated for any financial institution to grant the loans for purchasing the ships to companies with poor performance and severe structural problems. Further, such an arrangement would have been difficult in times of a severe crisis, particularly to companies that own no ships.

This dissertation argues that such a loan arrangement that disregards the law on business entities and skips procedures prescribed by favorable regulations was made possible only because of the very involvement of Chinese banks. Namely, any loan arrangement from Western-based financial institutions would imply severe due diligence that everything is conducted in respect of the national legal system. For their part, Chinese banks deal with the government and have no interest in whether the government did its side of the business correctly.

Moreover, the Chinese banks had different motives not conditioned by market circumstances but by the interests of the Chinese industry. Namely, by giving loans to foreign companies to purchase the ships from Chinese shipyards, they created new markets and helped Chinese shipbuilders to thrive.

The loans are secured by state guarantees, which made these risk-free loans for the Chinese side. However, the deal went against Montenegrin laws and the EU integration process, while aiding the government's statist aspiration and authoritarian inclinations and ignoring the rule of law.

8. THE HIGHWAY DEAL

The most important event in Sino-Montenegrin relations happened in 2014, when the Montenegrin Government loaned the Chinese Exim Bank to build a 41km long section of the highway, connecting south to north and eventually creating a road connection with Belgrade. The road is the largest project in the history of Montenegro, costing the equivalent of 25 percent of the Montenegrin annual GDP, and it was often referred to as the "project of the century."

8.1. A long dream

On Statehood Day, on July 13, 2005, in a ribbon-cutting event, Montenegrin Prime Minister Milo Djukanovic opened the tunnel 'Sozina,' the largest and most significant infrastructural investment in the post-communist Montenegro. The tunnel is 4,2 km long and cost approximately EUR 75 million (of which EUR 24 million was secured through the arrangement with EIB, while the Government invested the rest). The project shortened the travel time from the central port city of Bar and the capital Podgorica by at least 20 minutes, but most importantly, made the journey easier and safer.

The project was grandiosely opened in a pre-referendum for independence euphoria that was just starting in Montenegro. The opening ceremony was attended by the Prime Minister, the President of the Republic, the President of the Parliament, almost all ministers, the mayors of the two cities, the public prosecutor, diplomats, the Prime Minister of Bosnia and Herzegovina, and other notable guests (Petrić, 2005).

The newspaper's chronicles noted that a crowd of ordinary people also attended the event. They all rushed to pass through the tunnel while waiving

Montenegrin flags and shouting support for Montenegrin independence. The ceremony was soon transformed into a political display for the ruling party, demonstrating the roads' importance to the modernity of the future independent state. The media reported that the tunnel received no exploitation permit (or occupancy permit) due to a severe breach of safety measures, as the inspection commission, composed of 20 engineers, concluded in its report (M. Babović, 2006). However, the government opened the tunnel on a pre-scheduled date and allowed vehicular traffic through it, even though it did not receive a permit in time.

The tunnel's opening was an occasion for Prime Minister Djukanovic to announce the next 'historical' project – the highway linking Montenegro's most developed region, the South, to the poorer and isolated North of the country. The highway story was already almost a decade old. A state-owned company was established to manage the construction of highways; however, not a kilometer was built in a decade. The previous analysis and studies have primarily dismissed the feasibility of building highways in Montenegro. In 2003, in its study of the "Regional Balkans Infrastructure Study Transport," the European Commission advised that all the resources should be concentrated on reconstructing the existing road networks before making further investments in building new roads (REBIS, 2003).

However, the government rejected that advice based on studies of relevant institutions, as they were aware of the political value of the newly built roads. Government officials announced the commencement of the works on the priority section of the highway in March/April 2006. Sometimes, such announcements are made on the eve of elections, although there are no concrete steps taken nor documentation to start the construction. For example, on October 10, 2006, a day before the national elections, the CEO of the state-owned company in charge of road infrastructure, made a big announcement that the next year they would start construction of the notorious "Verige bridge," a project aimed to link two shores in the Bay of Kotor, a UNESCO protected area (MINA, 2006). Yet, once the elections were over, and although the same political forces claimed victory and formed the government, they did not start the works; everything seemed forgotten.

In that period, the government had no precise estimate of how much the highway construction could cost. However, it proposed using considerable financial resources from the privatization of public assets for that purpose (Perović, 2005). The IMF immediately alerted the government that money from privatization should be used elsewhere, not to build highways (Perović, 2005).

The highway story intensified as the referendum for independence approached, putting it to good use in daily politics. However, the officials were making sure to dismiss the allegations of politicization of the highway, as the CEO of the state-owned company in charge of carrying out the project said, without even being asked: "The highway is not a political or pre-referendum story. We do not do politics, we oversee construction, and it is up to us to organize the works and produce what has been decided by the government, and its highest officials have stated their resoluteness to start the construction of the highway" (M. Babović, 2005a).

The first government cost estimate was a lump sum, and they predicted that the Podgorica-Kolasin section (the same one being built now) would cost between EUR 120 and 150 million, one eighth of what was paid in the end (M. Babović, 2005a).

The opening ceremonies and announcements of the large infrastructural projects continued even after the referendum in which Montenegro reclaimed its independence, as the parliamentary elections were approaching soon after. In August 2006, Prime Minister Djukanovic opened a new road between Kolasin and Matesevo, a 9,5 km long two-lane that cost EUR 7.8 million and was finished in six months. The Prime Minister cut the ribbon while saying that the first phase of the future Kolasin-Podgorica highway, has been completed (Dan online, 2006b).

The highway narrative was intense, with grandiose announcements by the government and constant rebuffs by the international institutions. The former was resolute to 'modernize' the country, and the latter were firm in maintaining stability in the public finances. The government's narrative and its representatives were often inconsistent, with the highest public officials often giving vague estimations, conflicting statements, and promises that were impossible to maintain.

Interestingly, the highest government officials, including ministers and prime ministers, constantly referred to the highway when speaking about the new road connection between the capital and the country's north, particularly the prioritized section of the road, Smokovac-Matesevo. In contrast, the CEO of the state company in charge of the road maintenance had clarified that these were 'semi-highways,' and he apologies for the unfortunate lapsus of the officials when they referred to 'highways' (M. Babović, 2005b). Yet, such 'lapsus' continued whenever the prime minister publicly talked about the future road connection between Kolasin and Podgorica, which was quite often before the referendum and before the elections held in the aftermath of the referendum. The construction was announced for the 'next year' while no studies were being done, there were no preliminary designs or financial resources available. Things were being said just for political purposes, while little was done concretely.

The highway story endured, though, and government officials were meeting companies from various countries interested in building the highways in Montenegro. Each meeting was advertised adequately with positive statements that implied that construction could start anytime. In March 2005, the representatives of the Israeli company Solel Bone visited Montenegro to discuss their eventual engagement in building roads in Montenegro. The company representatives stated they believed the highway to the north was unfeasible and could not be built without a state guarantee (Vijesti, 2005). In August 2006, government representatives visited Madrid, where they talked with Spanish contractors about their potential involvement in building highways in Montenegro (Dan online, 2006a). In October 2006, representatives of the well-known US company Bechtel visited Montenegro, expressing their interest in building the highways. They were already engaged in Albania and Romania and were soon to build the highway in Kosova (Agency for promoting foreign investments, 24 October 2006). A year later, the former supreme commander of NATO in Europe, Wesley Clark, visited Montenegro as a representative of the US-based Rodman & Renshaw company that offers brokerage services, which was also allegedly interested in financing highways in Montenegro (Žugić, 2007).

In 2006 Montenegro regained its sovereignty in a referendum, while the leading coalition claimed a net victory in the parliamentary elections in the aftermath. Thus, it was perfect timing for the new/old government to take concrete steps towards accomplishing "the long-awaited dream." Unfortunately, the rhetoric is overpassing the technical and economic function of the road, and it places it as the final fulfillment of statehood: "Montenegro wants to show the beauty of its man and unique space that surrounds him. She wants to remind him that he is a citizen of the world, to inspire him to study and progress while returning to his birthplace from which he will send the message that you can be fully realized only if you live in the place you were born and that only those who truly learned the real values of civilization are welcomed" (The Government of Montenegro, 2010a).

In March 2007, a Council for highway construction was formed, a body in charge of overseeing the whole process, headed by the Prime Minister. A month later, the Deputy Minister of Transport and Traffic announced that construction for the two highways – Adriatic-Ionian, and South-North, estimated at EUR 2,7 billion – would start the next year, once the feasibility study and other documentation is ready (Rabrenović, 2007). Yet, according to experts, such studies and documentation would require on its own at least a couple of years, while to start the actual construction from that phase would require at least three-four years (private interviews).

In the summer of 2007, the French-based consultancy firm Luis Berger was chosen to create a feasibility study for both Montenegrin highways, 270 km long and estimated to be worth EUR 2,7 billion (Dan online, 2007). Although they submitted the highest bid, the French company was chosen to give "the best" offer due to its excellent reputation. However, the very title of the study was soon disputed, as the EUR 1,3 million seemed too low for such a demanding document. Not only this, but a feasibility study is normally done once there is a preliminary design, which had not been produced in Montenegro. Instead, the document to be created by the French company is of the level of a pre-feasibility study, as was confirmed by the Minister of Maritime Affairs, Transportation and Telecommunications when answering a question of an MEP regarding the status of the survey (Perović-Korać, 2007).

However, both the Minister and other members of the government continued to call Luis Berger a feasibility study (Lalatović, 2008). The classification is not a pure form, but it is essential in determining the project's phase. Thus, while the Minister has said openly in parliament that the study is a pre-feasibility study, the government continued referring to it and using it as a feasibility study, creating confusion and overstepping the phases of the project, at least in their political speech.

According to Southeast Europe Transport Observatory (SEETO) recommendations, a feasibility study is done once a conceptual project, a pre-feasibility study, and a preliminary design are completed. This was followed in the Law on construction and the Rulebook on producing technical documentation that was in force at the time (Official Gazette, 16 May no 22/2002).

Regardless of an obvious lower level of such study, its relevance was diminished even before being produced. In a congress dominated by the ruling party, its leader, Milo Djukanovic, commented to Prime Minister Zeljko Sturanovic that "(we) do not need a documentation on the highway, but the highway," and that they need to start building it before the end of the term (Perović-Korać, 2007).

In the Montenegrin political system, Milo Djukanovic, twice president and several times prime minister, derives his status from within the ruling party, where he is an unchallenged leader. Whatever his position was, being the prime minister (executive powers), president (no executive management), or retirement (2006–2008 and 2010–2012), he was always in charge of the state apparatus through his position within the party. Thus, when Djukanovic rebuffs the feasibility findings, it is clear that studies could not be an obstacle to constructing the highway.

The decision to build the highway was made at the very top of the ruling DPS party, where, according to its members, its Gensek Milo Djukanovic has absolute control. Therefore, any vital state decision is taken at the very top, or it needs to be approved by him. As a member of the party has said, "His control of the party is absolute."

The Minister of Maritime Affairs, Transportation and Telecommunications Andrija Lompar wrote an official letter to Prime Minister Djukanovic (an interviewee made it available to this researcher), explaining that building a highway is not financially feasible. In addition, the Minister noted that European transportation networks do not recognize any of the routes through Montenegro. Further, he writes that none of the neighboring countries consider road connections to Montenegro as a priority. Thus, building a highway for internal use only would be wrong. This letter was sent in 2003; however, soon afterward, the Minister became a firm supporter of the highway. In one public statement, he stressed that the highway has its internal importance even with no international connections (Marković, 2007).

The Montenegrin system, at least until the government was led dominantly by DPS in the period 1990-2020, was characterized by a centralized rule-making system. The decisions would be later communicated to the rest of the party, which will, from its end, make sure they are publicly defended and adopted. There are no records that any party member ever voted differently than his colleagues in the parliament, whether there is a social, economic, or political issue on the plate. Although the former communist regime was replaced by a parliamentary democratic system (on paper), the importance of the party and its hierarchies remained intact. When a different opinion within the part did arise, as happened in 1997 on whether to continue support for Slobodan Milosevic, one part of the party split and formed another political party. If there is no major schism but sporadic discontent, the "dissidents" are simply marginalized.

8.2. The study

In the draft version of the so-called feasibility study produced by Luis Berger and published in April 2008, the authors concluded that construction of the highway could start between 2015 and 2020, under the condition that the average daily traffic increases to something between 13,500 and 18,000 vehicles per day (Louis Berger, 2008). In addition, the authors argued that to make it financially feasible, the investors would need to offer subventions to the eventual concessioner. These subventions, conditional on the growth of the traffic volume, could range between EUR 25 to 48 million per year and, this is case if the construction is conducted in two phases, in other words, two lanes and later another two lanes. The study, both in its draft and final version, estimated the costs of construction to be:

Section	***Length (km)***	***Total estimate (in millions)***	***Per km estimate***
Smokovac-Mateševo	43,5	€ 640,8	€ 14,75
Highway South-North	182,3	€ 1.949,5	€ 10,70

Figure 12 Highway in Montenegro, priority section

In the study's introduction, it was said that estimating the traffic volume was the most challenging task for the study's authors. They pointed out that there are no roads with tolls in Montenegro, making the estimations difficult. Yet, in 2008, the tunnel Sozina had already been opened for two and a half years, and it is one of the busiest traffic routes in the country; thus, it is curious that authors did not use their traffic estimates.

The study estimated a very ambitious increase in traffic:

Year	**Number of vehicles per day**
2015	9.073
2020	12.566
2025	17.404
2030	20.987
2035	24.449
2040	28.480

Figure 13 Highway in Montenegro, number of vehicles per day estimate

The traffic volume through tunnel Sozina, however, shows that such an estimate might be too ambitious:

Year	Number of vehicles per day
2014	5.874
2015	6.166
2016	5.835
2017	6.497
2018	7.713
2019	7.760
2020	5.297

Figure 14 Tunnel Sozina, number of vehicles per day

The inflated estimates of the study are also due to the very ambitious economic prognosis for the country used as input. The authors used the forecast, which in the most pessimistic scenario, expect a yearly increase of GDP of 4 percent. In comparison, in the most optimistic scenario, the annual growth is expected to be as high as 7 percent between 2006 and 2020.

The reality was slightly below pessimistic expectations, with several significant contractions caused by the international crisis:

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
8,6	6,8	7,2	-5,8	2,7	3,2	-2,7	3,5	1,8	3,4	2,9	4,7	5,1	4,1	-15,2

Figure 15 GDP growth in Montenegro, estimate by WB

However, the more discouraging data is that Montenegrin GDP growth was followed by a disproportionate increase of the public debt and stagnation of salaries. Thus, its economic performance was much more negative than estimated.

The Luis Berger study was made classified and was never officially published. However, the authors made several corrections from the draft version after consulting a “group of prestigious engineers,” which helped make the project more feasible, at least economically. Previously, in November, the government formed a project team composed of engineers and presided over by the Minister of Maritime Affairs, Transportation and Telecommunications. The same group might have given suggestions to the Louis Berger team (The Government of Montenegro, 2010a).

The efforts to embellish the reality were unsuccessful, as the prioritized Smokovac-Matesevo section showed dubious economic feasibility and no financial feasibility. Moreover, the authors’ suggestion to offer substantial subsidies to a potential concessioner was against the newly adopted reforms that should lead the country towards a competitive market economy that limits state subsidies.

In parallel, in consultation with the Ministry, the World Bank published a tender for choosing a consultant to explore the public-private partnership options for the highway. The Holland-based ECORYS was selected to produce the study, on which they cooperated with the Ministry and Luis Berger (The Government of Montenegro, 2010a).

In May 2008, the government signed a consultancy agreement worth EUR 2 million (EUR 400 thousands of which was to be paid by the government while the rest was to be covered by the future private partner) with IFC as its partner in the project, which was proceeding towards a Public-Private Partnership (PPP) arrangement (The Government of Montenegro, 2010a).

8.3. Habemus contractor

The Luis Berger study was just a formality that did not slow down further efforts of the government to build the road to the north. In July 2008, the government organized a pre-qualification tender for the PPP arrangement to build the highway, on which there were 11 bidders (The Government of Montenegro, 2008a):

1. Strabag (Austria, Leading contractor) and Colas;
2. Alarko (Turkey, Leading contractor) and Babcock and Brown;
3. Alpine (Austria, Leading contractor) and PORR, Osijek Koteks;
4. Grupo Soares Da Costa S.G.P.S (Portugal);
5. Konstruktor (Croatia, Leading contractor), Institut za Građevinarstvo Hrvatske,Tehnika;
6. BBMP Consortium Arcadom Co., Arcadom (Hungary, Leading contractor), Vegyepszer, Societa Italiana per Condotte dAqua S.p.A;
7. Tekfen Construction and Installation Co. (Turkish, Leading contractor) and Phoenix Capital, TInvest;
8. BPI (Slovenia);
9. Housing and Construction Holding (Israel);
10. Bouygues Travaux Publics (France, Leading contractor), DTP TerrasSement, Interoll Europe;
11. Aktor Concessions (Greece, Leading contractor) and Aktor S.A.

Among these 11, the government chose only three qualified to bid at the final tender: Aktor (with Bouygues, Alpine/Porr, Housing, and Construction), Konstruktor, and Strabag (The Government of Montenegro, 2008b). In March 2009, a consortium led by the Croatian company Konstruktor won the tender for the PPP arrangement for the Bar-Boljare highway, with the priority section Smokovac-Matesevo. In June, after two rounds of negotiations (The Government of Montenegro, 2009b), the

Government of Montenegro signed a concession contract with Konstruktor (The Government of Montenegro, 2009a).

The contract was worth EUR 2,77 billion, for a total of 169 km of the highway, out of which EUR 1,74 billion is to be financed by the government, while the rest is to be funded by the concessioner, who is in charge of designing, building and managing the highway for the next 30 years (Poslovni.hr, 2009). The deal seemed sealed, and both sides were making positive announcements about the most significant project in Montenegrin history and the largest ever done by the Croatian company.

In October 2009, a big ribbon-cutting ceremony was organized in a small locality of Bioce, chosen as a site for starting the construction. The prime ministers of Croatia, Serbia, and Montenegro announced the inauguration of the works for the first Montenegrin highway, including a future connection with Serbia to be built by the Croatian consortium (Radio Free Europe, 2009). Unfortunately, the government and its newly chosen partners neglected pessimistic feasibility (or pre-feasibility) studies, which means finding an institution to finance the road would be difficult. And all of this was happening in the time of a severe international financial crisis.

The Croatian company experienced considerable problems in delivering the needed completion guarantees to the Montenegrin government. Konstruktor managed to provide some guarantees issued by the private banks; however, their main hope was to get financed from EIB or EBRD (MANS, 2010). Finally, after several failed efforts and delays, one year after winning the tender and six months after signing the agreement, the Government of Montenegro was forced to rescind the contract with Konstruktor in March 2010 (Canka, 2010b). According to media outlets, as the local elections were approaching and the ruling party was under pressure from the opposition and international partners for severe accusations of corruption and misdeeds, starting the highway construction as soon as possible was of particular political importance. Thus, they had to turn to other bidders as quickly as possible (Canka, 2010b).

After rescinding the contract with Konstruktor, the government approached the next bidder in the tender, Actor-HCH consortium, which offered a significantly higher price of EUR 3,92 billion for the entire highway. Yet, the Greek Israeli syndicate was also hoping to receive financing from EIB and EBRD (Canka, 2010a). Unfortunately, the EIB and EBRD rejected both potential partners of the Montenegrin government, and in 2011 the whole project seemed deadlocked.

In its failure to find a partner, the government returned to EIB for help. The bank was interested in the project, but under the condition that everything is done according to strict procedures (MINA, 2011). This meant a new feasibility study that would show what kind of infrastructure is feasible in Montenegro. The EIB was reversing the whole project, starting from the very beginning, making sure that steps that the Montenegrin government skipped were now completed. The government spent almost EUR 10 million on expropriations, studies, and other documentation, but without starting the actual construction (Miodrag Babović, 2011).

The grandiose project of the Montenegrin Government, a landmark of its state-led development aspirations, was being halted by the international financial institutions, which are market-oriented. In a world dominated by Western financial institutions, feasibility studies and market rationales were prioritized instead of ambitious political goals.

8.4. Chinese at the end of the tunnel

When the government was experiencing problems with potential concessionaires struggling to find financing for the project, the first rumors about contacts with Chinese companies began, although there was not much information regarding the negotiations with the Chinese, nor which companies were involved. The Chinese companies did make an official offer in May 2011 (Canka, 2011a).

From the few available comments by government officials in the newspapers, one might think that they were offered the same arrangement as with other companies – a concession model, partly financed by the government with a 30-year concession. However, the Chinese companies were hesitant, as they had no experience with concession agreements (MINA, 2011).

In November 2012, the government received a grant from EIB and chose URS Infrastructure & Environment UK Limited (in media often referred to as URS-Scott Wilson consultancy company) to create a study on whether the highway was feasible or there was a need for alternative solutions (MINA Business, 2012). Previously, the Prime Minister and head of the ruling party, a priory, dismissed the eventual negative opinion of the EIB, claiming they would find alternatives if they experienced obstacles (Canka, 2011b).

In September 2012, the European Commission, in its DG MOVE, hosted a meeting where the British firm's study the was presented. The survey, titled SEETO Road Route 4 Investment Plan, was presented before representatives of DG ENLARGEMENT, DG ECFIN, EBRD, WB, and EIB, showing their apparent interest in the outcome of the highway saga in Montenegro (Ministry of transport and maritime affairs, 2013). The study, once again, showed the unfeasibility of the highway and its prioritized section:

"The economic appraisal generally produces poor economic results. Looking at the Route overall (Scenarios S15 to S20), the low current traffic volumes and the weak economic forecasts mean that the economic benefits of the proposed Route do not provide an adequate return on the investment." The authors suggested "re-consideration of the "priority section" Section IV Smokovac – Matesevo, as a mixed single/dual carriageway link at an estimated cost of EUR 501m with benefits/km of EUR 5.14 as a candidate for investment."

The study closed all possibilities of eventual financial involvement of the European financial institutions, including EIB, EBRD, and EU funds.

However, the international situation had changed, and China started to engage the CEE countries. In April 2012, the Chinese Prime Minister Wen Jiabao announced in Warsaw "China's 12 Measures for Promoting Friendly Cooperation with Central and Eastern European Countries." Its most intriguing part was a EUR 10 billion credit line for infrastructure in the region. According to the Montenegrin Minister of Transport and Maritime Affairs Andrija Lompar, such an arrangement was presented to Montenegrin Prime Minister Milo Djukanovic, and while they did not know the exact conditions, there was mention of a 15-year repayment period and interest rates between 1 and 4 percent, depending on the country (Rudović & Babović, 2012). Furthermore, in September 2012, a Memorandum of Understanding between Montenegro and Exim bank was signed in Beijing (The Government of Montenegro, 2012).

In April 2013, the Minister of Finance and Minister of Maritime Affairs, Transportation and Telecommunications, Radoje Zugic and Ivan Brajovic, respectively, met with the president of the Chinese Exim Bank, Li

Ruogu. They explored the possibility of financing the construction of the highway project in Montenegro using the proposed credit line for CEE countries previously announced by the Chinese Premier in 2011 and worth EUR 10 billion (The Government of Montenegro, 2013).

In May, according to the pro-government national media outlet, Montenegro received an offer from the Chinese company, in which they offered to build 42 km for less than EUR 800 million, to be financed by the EXIM bank (RTCG, 2013b). In July, it was announced that the Government "have given the project to Chinese companies," and it will continue negotiations with CCCC and CRBC as the "first ranked" with their offer (RTCG, 2013a). Yet, there was no public tender, instead, the government was receiving the offers directly from construction companies, and Chinese companies had made the best offer. Another interested company was the US-Turkish consortium Bechtel-Enka, and the Turkish company Dogus Gulsan (Radio Free Europe, 2013). However, after all the (pre)feasibility studies showed negative results for the highway, it would have been impossible for other companies to find the financial resources in an eventual concession arrangement with the Montenegrin Government. Thus, the Chinese offer was the only one made with clear financial support, although it has changed the initial concept of the government involving the PPP.

The two countries previously signed an agreement on improving cooperation in the field of infrastructure, which gave a legal basis to the Montenegrin government to engage in direct negotiations with Chinese companies. As a result, in February 2014, the Government of Montenegro and its Ministry of Transport and Maritime Affairs signed a pre-contract with China Communications Construction Company as the main contractor and China Road and Bridge Corporation as the builder of the prioritized Smokovac-Matesevo section on the Bar Boljare highway.

The whole process was made possible due to the Chinese engagement with CEE countries through the 16+1 mechanism, which included a EUR 10 billion credit line for infrastructural projects in the region through its Exim Bank. Furthermore, the arrangement with Chinese banks was conditioned on employing the Chinese construction company. This was also facilitated by the fact that CRBC was already operating in the region (building the bridge in Belgrade) and intended to stay. Thus, one set of machinery and workers was already available in Serbia. Further, the company already had experience with legal frameworks as Serbia and Montenegro have almost identical legal systems.

8.5. The contract with CCCC/CRBC

The design and build contract between the Government of Montenegro, represented by its Ministry of Transport and Maritime Affairs, and CRBC was signed in February 2014. The two sides agreed that the maximum agreed price for the Smokovac Matesevo priority section, at 41 km long, was EUR 809.577.356 to be built in 48 months from the start of construction. In addition, the contractor is to allow 30 percent of the works to be built by the local contractors and producers. The penalty for eventual delays is set on 0,01 % daily of the accepted value of the contract in the first 90 days of delays, and 0,02 % after 90 days, but the maximum allowed for delays is 5 % of the contract's value.

The general conditions of the contracts are defined by the international standards established by the *Fédération Internationale des Ingénieurs - Conseils*, also known as FIDIC, with several corrections agreed upon by the parties.

One of the most debated points was 1.15, which exempted the Chinese contractor from:

A) *Value Added Tax;*
B) *Customs duties for import of construction materials, equipment, and Plant intended to be used for the Project;*
C) *Expatriate's income tax;*
D) *Corporate tax of the Contractor's company having its registered seat in Montenegro;*
E) *Social security contributions for the expatriate staff of the Contractor;*
F) *Fees related to the usage of quarry sites.*

In addition, the excise tax on motor fuel is set at EUR 169 on 1,000 liters for the period of the project; the regular excise is EUR 440 for commercial use, and EUR 259 for industrial use (RTCG, 2020).

The contract with the Chinese company, de facto, suspended the legislation related to public tenders, one of the most sensitive and crucial regulations in fighting corruption and making public procurement more efficient. The contract envisages that the contractor needs approval from the investor represented by the Ministry of Transport and Maritime Affairs; however, there are no tender procedures (Article 4.4, section A).

8.6. The loan arrangement

The loan agreement between the Government of Montenegro and the Export-Import Bank of China (Exim Bank) was signed on October 30, 2014, within the premises of the Chinese Embassy in Podgorica (Vlada i Eksim banka potpisali ugovor o gradnji autoputa, 2014). On Montenegro's behalf, the contract was signed by the Minister of Finance Radoje Zugic. The Chinese bank showed no concerns with the eventual feasibility of the prioritized section of the highway. Although, the Exim bank did sponsor a study prepared by local experts, which showed "a satisfying" economic feasibility of the project. The study, which was never fully published, stated that "*it is unambiguously concluded that this investment has a lot of social-economic, traffic and technological justification*" (Pogledi, 2015). The study, however, was instead a formality, as the actual outcomes of its findings did not condition the agreement with the Chinese institutions.

The loan is worth USD 943.991.500 (as defined in the contract in USD), with an interest rate of 2 percent per year, a processing fee of 0,25 percent, and a 0,25 percent yearly provision on used money; the grace period is 72 months. In contrast, the repayment period is 168 months (articles 2.1, 2.2, and 2.3). It was agreed that the sole purpose of the loan is the payment of the commercial design and build contract with CRBC (of EUR 809.577.356,14 agreed in euros) (article 2.4). Furthermore, it has been defined that "those services, goods, and technology purchased with the given loan" will be provided exclusively from China (Article 2.5). The lender is to make its first reimbursement upon fulfillment of several conditions, one of which is also that loanee has "paid to the Chinese Supplier the 15% of the first settlement as required under the Contract" (Appendix 1).

The part of the contract that received the most attention among the public opinion and political arena was the guarantees conceded to the lender. Due to this, the government of Montenegro rejected immunity for all its possessions, with exceptions to consular and diplomatic properties and military facilities, should there be an arbitration process of any kind (Article 8.1).

In article 8.3, it is stated that "this contract is independent of any relevant commercial agreement. Thereby, eventual disputes or lawsuits that may occur from the Commercial contract shall not affect the obligations of the loanee from this contract." Thus, while the very condition of the loan is to be used exclusively for the commercial contract – contract with CCCC and CRBC for designing and building a highway – the latter has no negative impact on the loan. In other words, if a Chinese construction company does not deliver the project, this by no means has any effect on the loan agreement.

In article 8.4, the two sides agree that the contract and the obligations and rights are to be interpreted according to the laws of China. Further, the eventual disputes that cannot be resolved in an amicable way shall be arbitrated by the China International Economic and Trade Arbitration Commission (CIETAC) in Beijing (Article 8.5).

8.7. Controversies surrounding the project

The highway deal, often called the 'project of the century,' provoked a lively discussion among the public and politicians. MANS, one of the leading NGOs in the country and the most active institution in fighting corruption and organized crime, have filed a criminal complaint against the Minister of Transport and Maritime Affairs and Minister of Finance for the offense of abuse of public office that put Montenegro in a position of "submission and dependency" in its relationship with China (MANS, 2014). However, this accusation was rejected by the state prosecutor.

The arrangement with Chinese financial institutions and construction companies created controversies widely debated in the Montenegrin Parliament, in public opinion, and among international stakeholders.

While the story attracted international media outlets for its potential geopolitical implications, its main impact was on its internal political dynamics and political and legal systems.

8.7.1. Avoidance of public tender procedure

The contract with the Chinese was arranged in direct negotiations. It arrived at a particular moment in the process when it seemed that the government would not be able to continue the project. Thus, due to their comfortable position, the Chinese companies completely changed the government's initial idea of looking for a concessioner, and ultimately modified the plan according to its needs and interests.

The public tender for the contractor was substituted with direct bidding, and the financial arrangement was such that it gave no option to the government in choosing a contractor. Further, the *lex specialist* law on the highway suspended the Law on Public Procurement in the case of local subcontractors. Article 13 of the Law on Procurement (Sl. list CG, 2021) does offer an exemption in the case of the international agreements, which was used to avoid complicated public procurement procedures.

The Exim Bank covered 85 percent of the project, while the rest was financed from the public budget; however, the Chinese company was put in a situation to choose the subcontractors after receiving consent from the Ministry of Transport and Maritime Affairs, even for the portion financed by the government.

Following the EU integration process, Montenegro has adopted its legislation to the highest EU standards in the field. In the European Commission (2019b), it was said that the public procurement sector amounts to almost 12 percent of the annual GDP (some EUR 608 million). This means that in the case of the highway, half of that amount was derailed from the standard procedure, and was done through the Chinese company.

Assigning public works to crony capitalists is a common practice in the country and one of the essential instruments in redistributing wealth from the public to private stakeholders. International institutions and local NGOs often signaled the misuse of public works. The potential abuse is not limited only to the highway; an interviewer who is an expert in the field of infrastructure explained that tax exemptions, lower excise on petrol, and no free exploitation of quarry sites, allowed local companies to use these conditions in other projects in the country, putting them in an advantageous position in the market.

In addition, companies in serious financial straits, like Cijevna Komerc, which was blacklisted for non-payment of taxes, were allowed to become subcontractors, which would have been impossible if the standard legislation had been followed. In this way, the troubled company took a lucrative project that could have saved it from failure (Kapor, 2016).

Below are the percentage of works completed by subcontractors as tracked by the Network for Affirmation of NGO Sector (MANS).

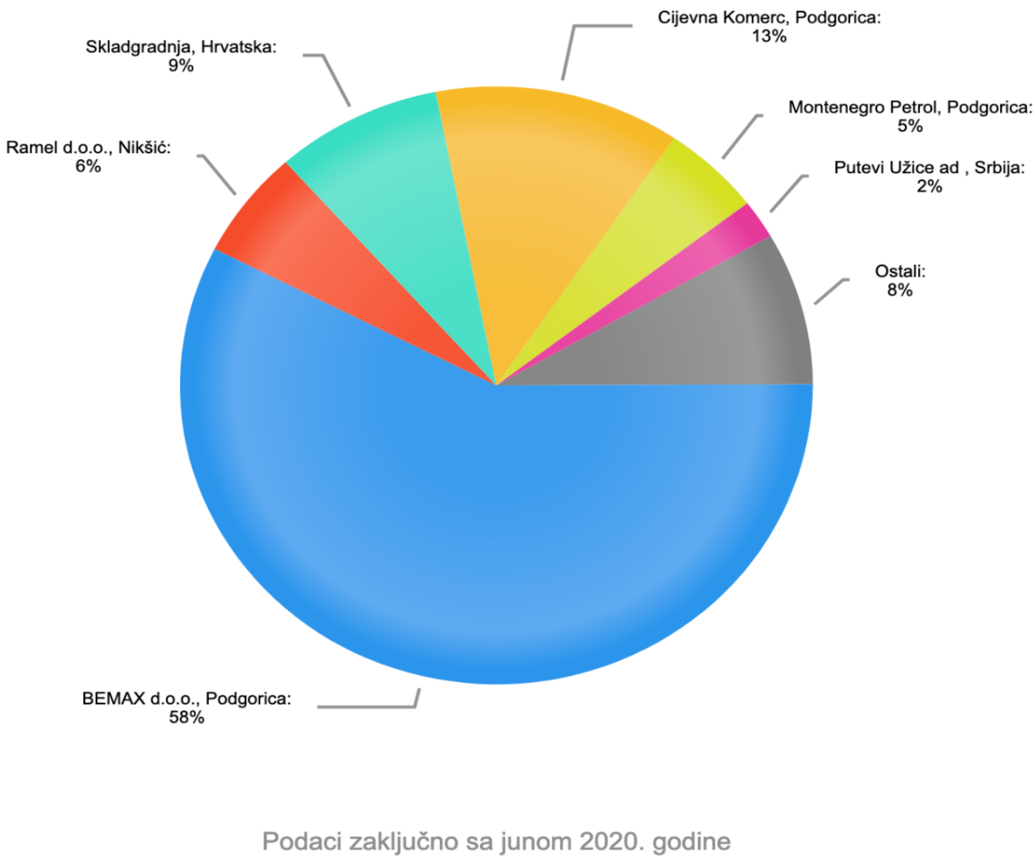

Figure 16 Sub-contractors on the Highway in Montenegro

8.7.2. State guarantees

The process of giving state guarantees to foreign investors created many controversies in Montenegro and had a negative impact on the public budget. These guarantees were often given to projects with pessimistic financial forecasts and with poor or no due diligence conducted. For example, the State Audit Institution, in the Annual Report for the period October 2012 – October 2013, says that guarantees given to Aluminum Plant (known as KAP) in Podgorica were conceded without any credible proof that they will be repaid due to “accumulated losses, deep indebtedness and obvious uncertainty regarding the repayment of commitments arising from loans taken based on its regular operations.” (*Excerpt from the Audit Report on State Guarantees of the Government of Montenegro Issued in 2010 and 2011*, 2013).

The misuse of the state guarantees led to the arrest of the former Minister of Economy and many other public servants (Kajošević, 2021a). Yet, while the prosecutor was investigating and arresting the Minister and lower-level public servants, the very decision to concede the state guarantees was taken by the Prime Minister and the government itself. The companies receiving the guarantees were KAP, owned by Russian tycoon Oleg Deripaska, who was allegedly close to the Prime Minister at the time. He was courted to lobby for the Montenegrin referendum for independence (Vijesti, 2019).

The state guarantees were often given without following any precise regulation, and to entities privatized in the controversial privatization process and frequently saved from failing by state guarantees meant to keep social peace. Usually, the government received no collateral for these guarantees, which led to the arrest of the public servants and businesspeople involved.

On some occasions the government took worthless assurances from the companies for which it was a guarantor before the international banks, as unurbanized land, or even a fake bank guarantee from a Russian Bank. In the decade from 2011 to 2021, Montenegro paid EUR 220 million to banks as a guarantor of other debts.

The government already gave state guarantees to Chinese banks to purchase the boats of two maritime companies. However, after being unable to service their credits due to an unfavorable market situation and lack of capacity to exploit the shipping business, these companies turned to the government to repay the loans.

The government's loan guarantees are forbidden in the EU, which has strict rules on state aid. This meant that Chinese companies were unsuccessful in finding similar arrangements in the EU market. However, the guarantees are crucial for unfeasible projects and it would be difficult for any financial institution operating according to market rules to finance such projects. The guarantees also make these zero-risk projects for Chinese banks.

8.7.3. Lack of transparency

The contract with the Chinese bank and CCCC/CRBC was published and made available to the broader public. However, the local NGOs have complained that many important aspects of the project remained secret. As previously mentioned, the feasibility studies remained classified and were not made available even to the members of parliament before voting on the law on the highway. The various appendixes subsequently signed for additional works were also classified and made available to the public only after the change of government in 2021.

The highway project was widely debated during the campaign for parliamentary elections held in August 2020, which saw a historical victory of the colorful opposition block. One of the promises of the future ruling majority was to publish all classified information regarding the highway project. The debate showed Chinese companies politically aligned with the government, which created negative publicity.

8.7.4. Environmental problems

In October 2018, MANS published drone footage of the basin of the river Tara on one of the construction sites of CRBC (Tomović, 2018). The video created a public outcry. The national environmental organizations accused CRBC and the government of damaging a river that is under UNESCO protection (MANS, 2018).

The issue was soon internationalized as the local NGOs alerted relevant international colleagues and invited UNESCO to weigh in. The European Parliament also requested that the government “assess the environmental effects of the construction of the highway alongside Tara River and to protect the most valuable areas better” (European Parliament 2019/2173(INI), 2019).

For its part, the Minister of Sustainable Development and Tourism, in charge of the environmental issues, has rejected the claims regarding the devastation of the Tara basin (RTCG, 2019).

The environmental issues related to the highway also include creating illegal landfill sites where they were not planned by the environmental impact statement (an important document to be submitted with the design project) (MANS, 2019).

The former government tried to minimize the impact of the project on the environment, often avoiding addressing the controversies exposed by the NGO sector. However, after the change of government, several initiatives came out of the relevant ministries to assess the damage and to file a lawsuit against the Chinese company.

8.7.5. Public debt

According to the IMF’s analysis, major infrastructural investments generate market demand and stimulate GDP growth (IMF Country Report No.

17/277, 2017). However, the potential negative outcome is that the loan arrangement for the highway exposed Montenegro to the severe risk of an unsustainable public debt. In its Macro-Fiscal and Financial Resilience Report (World Bank, 2017), the World Bank summarized what has been warned in the past:

"*In 2016-2018, the economy is expected to grow on average at 3.3 percent due to credit-driven consumption and public and real estate investments, yet once Bar-Boljare highway construction ends, growth is expected to fall below 1 percent. Public debt (including guarantees) stood at 79 percent of GDP in 2015 and will likely exceed 80 percent in the near term, with external debt double that size*."

In its regular reports, the European Commission continuously reminds the Montenegrin Government of the unsustainability of the debt in relation to the highway. While recognizing its benefits, it also stresses that "the cost of the highway risks challenging fiscal sustainability. Therefore, Montenegro should make efforts to reduce its public debt" (European Commission, 2015).

The IMF, as well, estimates in its report that "Montenegro's debt without the highway would have been sustainable, and the authorities would not have had to undertake such significant fiscal adjustment" … "as debt would have been 28 percent of GDP lower without the highway."

The impact of the loan (comprising 25 % of the Montenegrin annual GDP in 2017) is even more harmful because the loan was taken in USD while the construction contract was signed in EUR, creating a burden in eventual negative currency value changes (IMF Country Report No. 17/277, 2017).

8.7.6. Impossible to continue

Such an exponential increase of the public debt endangered the remaining sections of the highway. According to the IMF's estimate, Montenegro cannot afford to build the remaining two sections in the foreseeable future (IMF Country Report No. 17/277, 2017). Further, any other major project is in jeopardy, including larger repairs and renovations on the Bar-Beograd railway.

The government will probably face problems finding the resources for building the Adriatic-Ionian highway that was considered more feasible. This is particularly problematic as the coastline, which attracts more than 90 percent of the tourists in Montenegro, is experiencing continuous and unsustainable traffic jams during the high season.

In pursuing its state-led development policy and giving preference to political decisions instead of market instruments, the government, paradoxically, tied its hands for similar projects in the future.

8.7.7. Additional works

In 2017, Montenegrin media outlets reported that the main interchange connecting the capital Podgorica with the highway was not included in the contract. In addition, it was revealed that electrification and aqueducts are also not incorporated in the main contract (Investitor, 2019).

Initially, the Minister of Transportation and Maritime Affairs refuted such allegations and firmly stated that the interchange is in the project work, and has not been forgotten (MINA Business, 2017). Prime Minister Dusko Markovic confirmed the position and warned the Chinese contractor that the government was ready to ask for international arbitration if they refused to build the interchange.

The saga about the interchange and other forgotten works was resolved with new annexes to the contract and new costs for the Montenegrin government. As the newspapers quoted an official in the government, “Indeed the contract does not include electrification and aqueducts, nor the interchange in Smokovac. However, we need to move on; we cannot shoot someone because of that” (Kapor & Žugić, 2018).

Appendix	Extra works	Amount (EUR)
2	Temporary power supply	8.916.206
3	Smokovac interchange phase 1	30.456.569
4	Water supply project	14.203.431
5	Permanent power supply	4.830.000
		58.406.206

Figure 17 Extra works on Highway, estimate

For the interchange, the contract has been extended until 30th September 2020. In all cases, the contractor is exempt from taxes and VAT duties. These ‘forgotten’ works have threatened to extend the deadline for the project’s completion. Following those concerns, the government and CRBC have extended the deadline: In Article 5 of Appendix 3, the parties agree to extend the completion time from the main contract until 30 September 2020. With this appendix, the investor gave up the right to damages in the case of delay.

With Appendix 6, the parties agreed on a new deadline to complete all works by 30 November 2021.

8.7.8. Delays

The highway project was supposed to be finished in 2018, four years after the beginning of the works. However, the construction was delayed from the very beginning. The Chinese company did not receive permission on their highway design from the Commission for Technical Documentation, which delayed the commencement of construction (Grgić, 2019). Although the media immediately started speculating that the project might be delayed, the Chinese company and government reassured everyone that everything would be done according to the initial plan.

For this research, I interviewed an expert acquainted with road infrastructural projects who explained that no one he knew in the sector ever believed that such a project could be finished in four years. As he told this researcher, it was just impossible in both theory and practice, if you start from the given planning stage, to complete the documentation and all the works in only four years.

In 2018 it was clear that the highway would not be finished, while the officials were vague regarding the eventual deadline. The government did not use the clause in the contract which defined delay damages. The reason was the 'forgotten works,' which were used to amend the agreement and extend the deadline for completion with an appendix. However, due to the very long delay, it was questionable whether it would be convenient for the government to eventually enter into arbitration and ask the contractor for indemnities because the maximum amount of delay damages was set at "5% of the Accepted Contract Amount" (in 8.7 of the Sub-Clause of FIDIC General or Particular Conditions of Contract).

The delays created a severe problem, as the construction extended over the grace period of the contract, which meant starting repayment of the loan without having any revenue from the payment tools. The new government signed another annex to the agreement extending the deadline to 30 November 2021. However, no one is sure whether the highway will be finished in that time. The media were speculating that it will not be operational even if completed, as it will require the exploitation permit to be officially opened for traffic. These rumors were later confirmed, as until the closing of this writing in February 2022, the highway is not open and there is not a clear date when it will be opened.

8.8. Internal political implications

According to one of the most prominent intellectuals of postcolonialism, Mbembe (in Larkin, 2013, p. 334) the "function of awarding infrastructural projects has far more to do with gaining access to government contracts and rewarding patron-client networks than it has to do with their technical function." Such thoughts need to be considered when analyzing Montenegrin infrastructural projects. The actors involved will talk more about the nature of the project, than its technical function or economic purpose.

The highway project created significant political turbulence, both in the country and abroad. Internally, the whole arrangement has allowed for an uncontrolled redistribution of wealth as local companies implemented 30 percent of the project. Moreover, a de facto suspension of the public procurement legislation removed control systems and allowed direct bidding from the Chinese companies.

The largest construction companies in the country were often accused of their closeness with the highest echelons of the ruling elites. In addition, opposition parties and NGOs often accuse the use of the construction companies for money laundering by hidden owners. For example, the owner of the largest construction company, BEMAX, has publicly stated that he is just a formal owner, while there is at least one "informal" owner of the company. So far, there are no court sentences on the subject, nor is the author aware of any legal process begun in that regard.

This redistribution of wealth through public works is essential as it defines the very nature of the Montenegrin political system. The infrastructural works are misused in pre-election campaigns; and often the elections have been won through the severe abuse of public resources and the generosity of large private companies. The example of Montenegro is very similar to examples in Africa, covered by C. K. Lee (2014) and Mbembe (2001).

According to C. K. Lee (2014, p. 41), "Politicians intent on securing votes in the next election are eager to sign up for Chinese loans that will deliver infrastructural projects to their constituencies in record time." The focus of the politicians in Montenegro was not only on simple elections, but rather on more substantial political gains that come as the fruit of delivering such a large infrastructural investment. Dalakoglou (2010) analyzed road projects in Albania, and stressed that such projects are "the most proximate, visible, and tangible consequences of the otherwise abstract and distant processes of globalization and postsocialism." The same could be used to explain the political value of such projects in Montenegro.

Due to a complicated political situation in Montenegro caused by a severe health crisis due to the Covid-19 pandemic, which subsequently provoked an unprecedented economic crisis that coincided with an intense conflict between the government and the Serbian Orthodox Church (an increasingly important political actor in the state), the 30-year rule of DPS was finally ended. The highway has not been able to play a role for the incumbent government, but the misdeeds surrounding the projects did help the opposition, which won the elections.

8.9. Change of government and internationalization of the 'loan issue'

The highway project, particularly its credit arrangement, has received intense international attention. This has escalated since the 30 August 2020 elections ended DPS's 30 years in power.

The project was often covered by international media outlets, which mainly reported about its negative aspects. Reuters referred to it as a 'highway to nowhere' (Barkin & Vasovic, 2018), while most articles discuss its implications for public debt and its eventual geopolitical consequences. The Financial Times (Hopkins & Kynge, 2019) summarized the fears of those warning of the highway's destructive financial consequences in one headline: "Montenegro fears China-backed highway will put it on the road to ruin." James T. Areddy, from the Wall Street Journal (WSJ) (Areddy, 2018), writing on Chinese projects in the region, titled his piece "Trophy Infrastructure, Troublesome Debt: China Makes Inroads in Europe." There were many other titles, articles and observations, and the majority of these refer to an eventual "debt trap" (Pomfret, 2018).

The relations with China and the highway project were widely discussed during a turbulent election campaign. The opposition used international pressure and the misdeeds surrounding the highway to pinpoint the government's failures. The coalition claiming the victory in the election and ending the long-lasting rule of the DPS announced that it would publish all secret information regarding the highway (Janković, 2020).

In its conception, the highway was to be used for the government's political purposes, showcasing the progress of the country and the success of its ruling elite. However, due to its delays and various controversies, it has seen an opposite outcome; it was used as a weapon against the government.

The story received further internationalization in March 2021 when Deputy Prime Minister Abazovic, before the AFET Committee, openly asked the EU to help to switch the Chinese loans, saying: "I am asking you to help us replace the credit with [a loan from] some European bank" (Ralev, 2021).

This unusual request, which seemed a spontaneous gesture, could have passed unobserved. Yet, the European media outlets flooded their foreign policy sections with the unusual demand of the small Balkan country (Hopkins, 2021).

Montenegro's problems with credit arrangements with China were often exaggerated. They often portrayed a hegemonic China using its position of power to bully a small European country. It almost seemed that Montenegro was forced to take the loans, which were instead a fruit of disastrous political and economic planning and complete disregard for suggestions coming from EU and international financial institutions. Everything was summarized in the title of an article in the Washington Post, "Montenegro mortgaged itself to China. Now it wants Europe's help to cut it free" (Birnbaum, 2021).

The EU Commission at first rejected the possibility of helping its candidate country, as explained by EU foreign policy spokesperson Peter Stano: "The EU is already the largest provider of financial assistance to Montenegro, the largest investor, and the largest trade partner. We continue to stand by them, but we are not repaying the loans they are taking from third parties." Such an answer could have been expected, as it is uncertain what instrument the EU could use in helping a non-member country to repay loans to third parties. Moreover, the EU had already been harsh towards those countries (see Greece) that indebted themselves to the point of unsustainability. However, this statement came as a reaction to media coverage of the unusual request made in the European Parliament, as the official request from Montenegro was yet to arrive in Brussels.

After the first refusal, the Commission was under pressure from public opinion and various interest groups, including members of the European Parliament. Voices were explaining “Why the EU Must Deal with Montenegro’s Chinese Debt” (Vladisavljev, 2021). These voices reopened discussion regarding some controversies emerging from the loan agreement. For example, there were speculations that, in case of failure to repay the loan, China will take possession of the Port of Bar, or parts of Montenegrin territory: “Chinese state-owned company COSCO Shipping Lines already owns a majority stake in the Greek port of Piraeus; 47 percent of the Italian port of Genoa; and 35 percent of the Dutch port of Rotterdam. So, the question is: will Brussels embark on a mission to save the fourth port in a NATO state?” (Ruge & Shopov, 2021).

According to those speculations, the Chinese could take control of yet another port on the Adriatic Sea. It was enough to internationalize Montenegro’s issue with loans and put it in the geopolitical arena. The European media were calling on the EU to help “the first victim of China’s debt-trap diplomacy” (Xhambazi, 2021). The loan was creating terrible publicity for China, forcing the Chinese Embassy in Montenegro to make a statement, claiming that the highway project has no geopolitical implications (Radio Free Europe, 2021).

In April 2021, The Government of Montenegro seized the momentum and filed an official request to the EU seeking help to diversify the loan with China and build the remaining sections of the highway (Tuhina, 2021). This time, the EU softened its initial position and communicated that it is looking for a solution to Montenegro's debt problem involving several European banks (Jankovic et al., 2021).

Montenegro's problem with Chinese loans was vastly exaggerated, and the initial appeal of the Deputy Prime Minister Abazovic was rather impulsive. If not for the interest of the foreign media in Chinese engagement with CEE countries, it might have remained within the meeting of the AFET Committee. Indeed, the initial reaction of the Montenegrin Ministry of Finance, was to express surprise at Abazovic's comment. The Ministry of Finance immediately communicated that there was no request to the EU regarding eventual help with Chinese loans and that the budget for 2021 included repayment, and that the country is solvent and with no issues to repay its creditors (Beta, 2021b). Finance Minister Milojko Spajic, the former Goldman Sachs, was trying to reassure the media that the country was on the path to complete financial recovery. It needs no further loans, while it is open to arrangements to refinance debts where it can save Montenegro money, restating that the matter of the Chinese loan is not a geopolitical question, but rather purely a financial issue (Investitor, 2021).

However, once the question received such coverage and influenced the European Commission, they used the situation to create a favorable political environment and gain support from Europe.

Subsequently, Minister Spajic, managed to find an arrangement to erase the potential currency swap risk by signing a hedge agreement with two unnamed US banks and one from France, and, according to the Ministry, saved money by lowering its interest rate from 2% to 0,88% (Kajošević, 2021b)

At the end of the day, internationalization of the loan issue and the great interest shown by the foreign press and European stakeholders in China's influence in the region have favored Montenegro. As a result, the small country attracted the attention of the EU and faced a favorable international environment, which facilitated the hedging action and might help restructure the loan, and maybe continue with the highway's construction. It did not helped, thou, to its current credit rating nor to gain confidence of the international stakeholders.

8.10. Loan trap demystification

The 20-year credit with a 2 percent interest rate and a five-year grace period is not problematic per se. The fact that it is used for a project for which the studies showed no feasibility and whose costs might be higher than its benefits, is the source of all the problems for the country. In addition, the loan was made riskier and costlier because it was taken in USD (while Montenegro uses euros as its currency, and it pays the contractor in euros); however, this negative aspect has been removed with the hedging operation.

The main issue is that the project is yet to be finished, with (so far) three years of delays, meaning that three years of revenues have been lost, and the country started the repayments before the project was completed. This has more to do with the lack of preparation of the former government in drafting the contract with the Chinese than with the loan itself.

As previously mentioned, Montenegro showed a lack of diligence in conceding the state guarantees. Often, state guarantees were conceded to poorly performing companies or unfeasible projects, which meant that they were later paid from public funds.

Thus, Chinese banks were not the first to engage with Montenegro on these terms; however, it is the most extensive indebtedness for one project involving the state guarantees.

In its research, Rhodium Group (Kratz et al., 2019) reveals that Chinese banks are often faced with loan renegotiations due to their unsustainability. However, the study found that the loans are renegotiated in most cases, with asset seizures being a “rare occurrence.” They also found that Chinese leverage is not as substantial as one might expect, and often the renegotiation involved “an outcome in favor of the borrower.”

The experts and observers, both local and international, have often mentioned the case of Sri Lanka and its Hambantota Port, which was given in concession to Chinese companies after the country was facing problems in servicing the debts. Although the Hambantota case is a helpful analogy, it is unlikely that such an arrangement could be repeated in Montenegro. In the first place, as has already been said, the loan arrangement creates a burden on Montenegrin public debt, however, not so severe as to put the public finances in jeopardy.

Secondly, the Port of Bar does not have a great capacity or potential to compensate for such a large loan given to Montenegro. This could, thus, implicate the energy sector; however, the energy sector is unlikely to be given to the Chinese. The Rhodium Group research found another case where China seized property in Tajikistan, where allegedly the government ceded 1,158 square km of land to China in 2011. Some warned that such a land seizure could occur in Montenegro, mainly due to the attractiveness of its seacoast. Yet, such a situation is unlikely. First, it is doubtful that Chinese banks would accept entering an arrangement that even the local banks try to avoid. Furthermore, the real estate market is speculative in Montenegro, and the outcome might be that Exim bank ends up with a large property that is difficult to sell. For its part, Exim Bank is unlikely to want to engage in constructing a real estate project on the Montenegrin coast. Finally, the value of the land is such that China could easily acquire a good portion of Montenegrin territory. However, the urbanization would remain within the Montenegrin government. Therefore, it could be decided that the Chinese cannot build anything or even use it for agriculture; thus, any such arrangement could only be agreed upon with the government.

The loan's value is such that any deal involving the seizure of land could even be beneficial for Montenegro. Montenegrin arable land is largely uncultivable with exports dominating the food industry. To give away rich arable land to Chinese that could start mass production might have negative environmental implications but would not be such a bad outcome for the Montenegrin economy.

8.11. Foreign Policy Influence

In its research on Chinese loan renegotiations, the Rhodium Group (Kratz et al., 2019) argues that "Beijing could still use loan renegotiations to advance foreign and domestic policy objectives." Such political pressure, Rhodium speculates, might have happened in the case of Vanuatu, where China asked for specific sites on the South China Sea, or in the case of Tajikistan, where China might have asked for certain concessions in the energy sector.

There are several cases where countries that value close collaboration with China, like Hungary, Greece and the Czech Republic, have derailed European efforts to create a united front against China. On some occasions, these countries have voted against condemning China on human rights issues or rulings regarding tensions in the South China Sea.

However, such possibilities in the Montenegrin case are less likely due to its EU integration process, which creates foreign policy constraints. Yet, this remains a possibility, however slight, and will depend on Montenegro's internal political dynamics and the state of the union regarding the enlargement process.

The fact that Montenegro is in Europe, a NATO member and EU candidate, gives certain leverage to Podgorica to renegotiate the loan with Chinese banks. China has received a lot of bad publicity because of the highway in Montenegro. The eventual inflexible stand could bring even more attention from the EU and further reactions to limit Chinese influence in the region. A sort of reaction of the EU has already been put in place: The loan arrangement has been hedged to prevent adverse effects of the currency difference, and there has been willingness from the European side to restructure the loans by transferring them to European banks.

The relations between China and Montenegro have evolved in the past decade, and cooperation improved in all sectors, including culture and tourism. China opened the first Confucius Institute in Montenegro in 2015, which allowed for more intense educational collaboration. It was the first time in history that Montenegrin citizens had an opportunity to learn the Mandarin language in an official course.

The political relationship remained cordial and friendly, with regular meetings of high-level officials through the 16+1 initiative. Further, China showed great assertiveness during the pandemic when it was first to donate many anti-Covid-19 vaccines and other sanitary equipment to Montenegro (Russia also sent the vaccines). This happened when the EU closed its borders to the export of such equipment and showed reluctance to send vaccines to non-EU countries.

However, Montenegro never turned to China as an alternative for its foreign policy orientation or a strategic economic partner. An example is also COSCO's failed attempt to purchase the Port of Bar. At the beginning of the 2010s, COSCO was seriously interested in purchasing the Port of Bar. Although with big potential, the facility was underperforming due to poor management and lack of any vision of expansion. According to one study: "the weak domestic market and the poor hinterland connections place Bar in an unfavorable position as compared to its direct competitors the ports of Thessaloniki and, to a lesser extent, Koper and Rijeka particularly for lo-lo traffic" (REBIS, 2003).

The delegation composed of the company's top management visited Montenegro and inspected the port. They also sent an official letter of interest to the Montenegrin Minister of Maritime Affairs. According to interviews with those in the shipping industry who acted as intermediaries in the deal, the Montenegrin side did not bother to answer the email. Instead, one part of the port (previously divided into two entities) was sold to a Turkish company that is more focused on cruise ships. According to an interviewee, the government of Montenegro had no idea of the potential of the port that COSCO could exploit. They were utterly oriented towards their party's interests. The Turkish partner was chosen because the Minister of Maritime Affairs was coming from the minority Islamic party, seen in Turkey as a strategic partner of Muslim populations in the Balkans. Another source explained that the company's management has private connections with the Minster. Of course, it could be all speculation, but if Montenegro had any aspiration to make China a strategic partner, selling the port to COSCO could have been a significant step forward.

The Port of Bar has remained inaccessible to foreign investors (except for the Turkish purchase of one part of the Port) due to an illegal but lucrative cigarette business. Montenegro has often been labeled one of the main nodal points for cigarette smuggling in Europe and is constantly pressured by foreign partners to stop such activities. However, the halt on smuggling has only arrived after the change of government, which forbids the handling of cigarettes in the free zone in Port of Bar. These might be the reasons why the government has rejected offers from China, Poland, and even Germany, to acquire the state-owned part of the Port.

Finally, so far, there are no significant signs that Montenegrin foreign policy has aligned with Chinese interests in essential cases. It could be argued that due to its size and limited foreign policy reach, China has little interest in influencing Montenegrin foreign policy orientation.

8.12. Epilogue

Comparing Montenegro and China could seem inappropriate due to their size discrepancy in all imaginable areas – territory, population, economy etc. However, as mentioned previously, there are some interesting resemblances between the two political systems. For example, the largest Montenegrin party, DPS, which ruled the country uninterruptedly for 30 years, was created out of the Communist Party that ruled the country in the previous 45 years and was transformed into a democratic party once the socialist block had started to crumble.

Thus, the very infrastructure of the party was built on the solid foundations of the communist political movement. While it extracted the ideology of the communist party, it kept all the instruments that were handy for a political party to keep winning in democratic elections (although heavily manipulated with various techniques).

The foundations of a former autocratic party also modeled DPS, which never became democratic within the party itself. It was dominated by its leader, Milo Djukanovic, who managed to remove everyone who could ever become a threat to its absolute power. Further, the party was stripped of any ideology, which meant that it could adopt whatever orientation it found comfortable at a given moment to win elections and gain international support.

As a matter of fact, the party supported Slobodan Milosevic and supported his military endeavors in Croatia, Bosnia and Herzegovina. Later, it became his first political opponent within his powerhouse once it was convinced that Milosevic was dismissed by the international community. The party was a guardian of Yugoslavia, then of the union with Serbia, and later adopt a pro-independence policy and led the movement for independence in a victorious referendum in 2006.

On paper, its economic preferences were neoliberal, but accompanied by solid statism in practice. The party would adopt everything according to political needs and whatever better served the crony clientelist network surrounding the party. The political system dominated by DPS was easily understood by the Chinese. The Chinese proverb that the color of the cat does not matter, as long as it catches mice, could be well suited to explain Montenegrin economic preferences.

President Djukanovic's family has an essential role within the economy, controlling important assets and being an intermediary in many foreign investments. His brother owns the only bank with domestic capital. When established, the bank immediately attracted deposits from the large state-owned energy company, which was widely criticized in public opinion. During the crisis, the government heavily subsidized the bank and covered the losses caused by liberal loan polices to the real estate sector and other unfeasible businesses. His sister is a leading corporate lawyer who has represented many large foreign investors. Before the court in New York, Djukanovic and his sister were accused of receiving bribes in the privatization of the state-owned telecommunication company in favor of Deutche Telecom.

Djukanovic's son controls the renewables sector and, as mentioned, partners with a prominent foreign investor in the energy sector. The system is much like Aliyev in Azerbaijan, with whom they cooperated on a large real estate project on the coast.

China used this political and economic particularity in Montenegro to gain access to its lucrative infrastructural and energy sector. Unfortunately, such disregard for the counterpart and readiness to pursue its financial goals while ignoring Montenegrin legal concerns, has brought negative publicity and triggered a response from the EU.

With the change of government, many of the Chinese loans and investments are under scrutiny, and it is expected that the country will be careful when engaging China in the future. While China's geostrategic reach might often be exaggerated, the situation in Montenegro is used to promote anti-Chinese agendas in Western Europe and, in a lighter version, to mobilize a sometimes passive response from Brussels towards China.

9. CONCLUSION

9.1. Summary

This research was a long journey. It took almost a decade with various interruptions. From this perspective, if completed only a year earlier, the reader would have received an incomplete work, without an important analysis of the highway project in the context of regime change. In September 2020, Montenegro witnessed the first peaceful political transition in its history, permitting us to test the solidness of the Chinese investments under internal and external pressure.

When this research started, the Chinese presence in the area was almost null, with fewer interactions with CEE countries. However, in the past decade, the China's relations with CEE countries, particularly the Western Balkans, have evolved significantly. From almost an outsider, China has become an important stakeholder in the region.

In 2012, China proposed the 16+1 initiative, later followed by the New Silk Road initiative in 2013, paving the way toward more intense cooperation with regional countries. The rhetoric behind these initiatives has often followed the line of win-win economic cooperation stripped of political weight and geostrategic agendas. Such a narrative was accepted mainly in the initial stage, as the Chinese presence was still too weak to suggest different intentions. Furthermore, European countries were more focused on how to recover from the economic crisis, thus, China appeared a valuable partner.

In 2013 China experienced yet another leadership change, with Xi Jinping taking control of both the party and the state apparatus (including the military). His ascendence meant a shift for Chinese foreign policy towards a more assertive international role.

In this research, we have shown that investment data reveals that Chinese economic presence is still far from that of the EU and the USA. In other words, it is not big enough to challenge Western hegemony in the region. Nevertheless, China's political engagement with the region has provoked resistance in Europe which has been increasingly assertive with China.

We followed the endeavors of various Chinese stakeholders. Most of the companies involved in infrastructural projects in the region are state-owned companies. These actors have displayed a particular resourcefulness in exploiting some CEE countries' economic and political environments to win lucrative projects.

At the very beginning of their engagement with the region, the Chinese companies showed difficulties in Poland and failed to deliver the job. From this perspective, we can claim that it was too early for a Chinese company to compete in a public tender in the EU under such strict conditions. However, it was a valuable lesson that the Chinese government and other state-owned companies used to their advantage. The most present actors in the region were CRBC and EXIM bank, with COSCO being the leading player in the shipping industry. It seems that CRBC (supported by EXIM) is the actor that the Chinese government supports the most in the region. Other infrastructural companies seem to be more independent or left to their own devices.

China's political engagement with the region and institutionalization of relations through 16+1 and BRI has allowed Chinese companies to rely on a set of policies that facilitated their operations. Through the 16+1 mechanism, China proposed a substantive credit line that allowed regional countries to pursue their ambitious infrastructural dreams.

The loans were often labeled as no strings attached. Indeed, these are different than loans offered by Western financial institutions, as Chinese banks are not obsessed with market rules and whether the projects are feasible.

Instead, the Chinese institutions allow host governments to choose projects according to their national preferences. However, essential conditions follow, which make these loans particularly dangerous. First, the host government has no liberty in selecting the contractor; it must hire a Chinese company. Second, strong state guarantees make the loans zero-risk for Chinese institutions.

The loan-for-infrastructure arrangement was mainly applied in countries that do not rely on EU funds (non-EU countries) and in Hungary, which used them in delivering projects that have particular importance for her connectivity strategies.

The authoritarian inclinations, corruption, and the fragile rule of law have revealed a fertile ground for Chinese investments. We demonstrated that countries with more authoritarian tendencies and a preference for the economic model that implies the state's vital role had been keener to cooperate with China. Investments coincided with political engagement in some strategic sectors, like Serbia and Hungary.

The decade-long journey of Chinese infrastructural companies in the CEE region has been finalized in the Peljesac Bridge project. The first public tender financed by EU funds to be claimed by a Chinese construction company. This is a project that could represent a game-changer in the construction industry.

9.2. Responses to research questions

Through our work, we have managed to answer the research questions. We have offered enough evidence that Chinese investments in infrastructure in the region are driven by both commercial and strategic interests. The Chinese regional strategies have helped to expand the Chinese presence in the region. The institutionalization of relations with CEE countries has facilitated Chinese investments.

We have explored the political and economic consequences of engagement with Chin and have found that China offers a lifeline to autocratic inclinations in the region, and willingly or not, it helps de-democratization processes in the region.

China is not openly promoting or proposing a certain economic model. However, her loans and investments do come with a set of values and norms that are completely contrary to the EU's. Furthermore, the loan arrangements are often in conflict with national and EU regulations. Her construction companies often operate disregarding legal norms and with fewer concerns for the environment and labor rights.

We have argued that China states its support for EU integration, and it could be claimed it has an interest in seeing these countries join the EU, as this could offer new market opportunities allowing it to further capitalize on its investments in these countries. Furthermore, China's transportation strategies could be even more efficient without existing borders in the region. However, her methods of doing business conflict with the EU integration process and often aid disintegration processes in the region.

9.3. Beijing sponsored consensus

The most important finding of the paper is that China does not promote its own economic model. The reason being that her limited normative capabilities and her economic model are tailor made for China, lacking an applicability component to make them vendible to other countries.

However, China, willingly or not, facilitates specific economic behavior that would be otherwise impossible. As seen from many of the projects analyzed in this research, and particularly in the case of Montenegro, China did not compete with Western financial institutions in granting loans to the region.

In the case of Montenegro, the Chinese came as a lender of last resort when no other institution was available to sponsor such an ambitious project. Thus, the very project was part of the state-led development and disregard for market rules. In such a setting, politics takes precedence over economics, and decisions are taken without consideration for economic or financial feasibility.

Thereby, China offers something new to the region: support for their economic models. We named this *a Beijing-sponsored consensus*, as China does not impose or offer its ways of doing things; she allows others to pursue their developmental paths. This, indeed, is a new occurrence in international relations and international political economy. It is the first time after the collapse of the socialist block that there is a financial force great enough to offer funding under conditions that disregard the standards of the Western-based financial institutions.

The political impact is enormous. The most available countries for such arrangements are those with visible autocratic inclinations and where de-democratization processes are evident. Their economic models are subject to the political interests of the ruling elites and are used as a way of keeping power and servicing their crony capitalists.

At this time, the Chinese reach was balanced with the EU’s immense normative power. However, the Beijing-sponsored consensus could strengthen autocratic regimes in the multipolar future and promote a statist approach towards the economy. Unfortunately, the statist approach does not mean it will be in the service of people, but rather is more likely to favor elites and their crony networks.

The Chinese loans for infrastructure/ships (and they could be added whatsoever) promote Chinese economic and political interests; further, the resulting projects nurture hybrid regimes around the globe. With China's rise, her ability to offer such a lifeline to autocrats has arrived through the European backdoor, and it is penetrating the EU.

9.4. Verification of initial hypothesis

The hypothesis that we used imparted valuable and important guidelines to our research. Here are the outcomes:

- The research largely dismissed the voices mentioned in the introduction to this work that cried "China is buying out Europe" and "China is entering the EU through the back door." *However, we did prove that China is increasing its presence in the region. Furthermore, we also found that large Chinese infrastructural projects are not investments made by China*. Instead, China offers loans for the projects to be built by her construction companies. The actual investor is the loanee, which is the local government. If these arrangements – loans for infrastructure, are excluded, the Chinese presence is not as substantial. The level of engagement also varies from state to state, depending on its political engagement with China and its internal political dynamics.

- *We proved the hypothesis that Chinese regional strategies have helped in facilitating economic engagement. However, they were not so helpful in creating a de-securitized environment for China.* The 16+1 initiative and its credit line for infrastructural projects have allowed Chinese stakeholders to strengthen their position in the region. For its part, some regional governments were able to pursue their large infrastructural projects. In addition, the BRI has been instrumental in creating new regional trade hubs and making new transportation corridors that would have been otherwise unlikely. However, these activities did not create a de-securitized image of China. Instead, her engagement has led towards more assertiveness of the Western stakeholders. One of such initiatives is the Berlin Process, which allowed to EU to reinforce its presence in sectors in which China penetrated the region.

- *The research led us to conclude that there are those projects that have strategic relevance and those that are more business-driven. However, there is a fine line between the two.* There are projects which have importance for Chinese regional and global connectivity strategies. Some of these aim to create new trade routes that decrease traveling time, lower costs, and ease dependence on Western European ports. Chinese substantial loan arrangements support these projects; however, China was able to promote them strategically to host countries that also participate in their funding - or through strong state guarantees, eliminating significant financial risks for Chinese institutions. The other type of project is less strategic from the interconnectivity point of view. However, these are of utmost importance as they help Chinese SOEs penetrate Europe and expand their operations to the lucrative market of the EU. Not only, but these allow China to participate in projects funded by EU financial institutions. Thus, the difference among projects with Chinese participation could be found in the way they support Chinese global strategies, in other words, are these instrumental to to BRI or to 'go global' strategies.

- *We dismissed the hypothesis that China promotes its own model. Instead, we found that China helps the evolution of other regional hybrid models.* Chinese engagement is followed by its well-known foreign policy principles, while the credit arrangements of her state-owned banks follow their own rules, which are influenced by Chinese foreign policy needs. We found out in the research that Chinese rules of the game are different and often incompatible with EU standards. Thus, willingly, or not, China does offer a different set of values. The penetration of these values depends mainly on the solidity of democratic regimes in the region. We showed that China has been more successful in engaging with hybrid regimes that reject some aspects of Western liberal economic model. Finally, we concluded that China does not promote its model, but it does help other individual countries' models to thrive.

- *Chinese political reach is still limited to certain countries that value a certain type of regime. However, her overall influence in the region remains modest. Nevertheless, such a situation could change in the Chinese favor if disintegration processes in the region intensify*. The EU faced severe challenges with its Eastern members, in primis Poland and Hungary, which were often criticized by their Western counterparts for their increasing anti-liberal tendencies. Furthermore, Hungary showed assertiveness in expanding its economic reach in the region and parallel political influence. Many regional countries showed de-democratization trends, while the EU integration process has been halted, contributing to the rise of the so-called populist forces. Chinese political engagement and credit lines could offer another lifeline to pariah regimes in the CEE countries.

- *Finally, we found that Chinese-sponsored investments in infrastructure in Montenegro are purely profit-driven. However, they are shown to have an important political implication both for Montenegro and China*. Chinese credit lines have offered an opportunity to the Montenegrin regime to accomplish its developmental dreams. The project continuously brought up as a promise to lead to modernity and connectivity of dispersed regions was par excellence, a political project. We found out that no Western financial institution could finance such a project as it showed financial unfeasibility and did not follow the procedures prescribed by Western financial institutions. However, at the end of the day, the whole deal received negative publicity due to delays and hidden costs. Furthermore, it created terrible exposure for China in Europe. Accused of making a loan trap to a small European country, it mobilized the European public opinion to seek a more assertive European approach to Chinese influence. We claimed that European media outlets used such exaggerations to strengthen the image of China as a villain. However, these did show to Chinese stakeholders that choosing specific projects could create adverse consequences to her image and provoke a response from the EU.

9.5. Future scenarios

In 2010, when this research began, the world had just experienced one of the most significant financial crises in its modern history. The European economies were recovering and looking for ways to diversify and improve their economies. China was seen as more of an opportunity than a threat in Europe. For its part, China has discovered the region in a global political moment favorable to such an endeavor.

Today, a decade later, the world is experiencing another historical crisis. The pandemic caused by Covid-19 has provoked a serious health crisis. The response of the governments, including traveling restrictions and the closure of economic activities, has damaged various industries. The slowdown and restrictions caused major interruption of transportation networks, damaging global value chains.

Meanwhile, the Western Balkans are undergoing yet another spate of political turmoil. Democratization reforms have been halted, while in some countries we see an evident de-democratization process. Montenegro experienced the first democratic change of government in its long history. However, the new government lost the support of the majority in the parliament only one year after it was constituted, initiating yet another political crisis.

On the other hand, Serbia, Bosnia and Herzegovina, and Albania seem to reverse their reform paths. Serbia is passing through a remarkable economic change, often figuring among the fastest-growing economies in Europe. However, such economic transformation is accompanied by growing authoritarian inclinations. The case of Bosnia and Herzegovina appears to be the most complicated. It could lead to the country's disintegration if international stakeholders do not take more a more united position vis a vis the political crisis.

The so-called hybrid regimes, a cocktail of semi-competitive elections, but personalization of powers, the weak rule of law mixed with clientelism, are finding allies in Europe, particularly among its eastern members. Thus, the regional countries are quickly getting away with stagnating reform processes. Hungary, led by Victor Orban, is becoming a leader of the so called unliberal currents in the region.

All of this is happening in a time when the EU seems to keep its doors closed to new members.

The EU's hesitation to accommodate new members from the Balkans and a lengthy integration process have created a vacuum where hybrid regimes thrive. They feel comfortable in this eternal process where simulating reforms assure a sort of a clearance from Brussels.

The political situation in the region has not helped to accommodate Chinese engagement. Increasing disintegration processes within the EU have impacted the Balkan region as well, leaving it open to engaging in asymmetrical relations with Russia, China and Turkey. These countries have found fertile ground for their investments and financial arrangements that are often perceived as coming with 'no strings attached' – in other words, without requirements in the rule of law. However, such arrangements do indeed have severe political repercussions. As a result, these countries increase their economic engagement and gain certain political leverage.

Left to their own devices, small Balkan states, with a weak rule of law tradition and often hybrid regimes, are pushed to engage in a relationship between a small state and a superpower. In such a relationship these small countries become easy prey for malign foreign influences.

Furthermore, there are new voices within the EU as well. Hybrid regimes in the candidate countries could find sponsors within the union. Hungary has shown assertiveness in strengthening its ties with regional governments in politics and the economy. In parallel, Budapest is becoming one of the firmest voices calling for faster integration of the Western Balkans. At the same time, it could appear as a paradox that a country that often confronts the EU institutions is advocating for its enlargement. The calculation must be like those of China: Having a friend within the EU is more precious than having a friend outside it.

After continuous calls for the independence of Republika Srpska, the President of the Serbian entity in Bosnia and Herzegovina, Milorad Dodik, has been placed under US sanctions. The EU announced similar actions; however, they were later halted due to Hungarian opposition.

These events indicate a certain regrouping of the forces within the union itself. There are countries in the Eastern part (Hungary and Poland in primis, and some other countries sporadically) opposing the liberal hegemony of the European center. These forces are in continuous search of new allies outside of the continent. In such a context, China becomes an important nation, especially as a financial source and a partner that can radically change the strategic positions of certain countries. With the Chinese rise, countries like Greece, Serbia, and Hungary are improving their geoeconomics and geopolitical situation.

After this short "state of the union and the region," we must ask a question: what is the future of China in the region? Answering this question would start by asking another one: what does China want from the region? Of course, we do not pretend to have figured out the answers, but we have researched enough to propose two lines of thought.

As announced by Chinese officials, China's global strategies always stress the importance of political and economic stability and win-win cooperation for all parties involved. For example, China's grand BRI strategy aims to connect Europe and Asia by passing through CEE. This could be facilitated if all these countries joined the EU and eliminated borders and customs. Such connectivity initiatives would be accelerated if China coordinated its moves with the EU and put pooled resources into developing such ambitious projects.

Furthermore, the countries on the route should remain stable and peaceful; otherwise, the transportation paths could be jeopardized. This requires more assertive Chinese diplomacy and more coordination with other regional stakeholders. Finally, the whole deal would require cooperation in some sensitive fields, like immigration. We have witnessed how uncontrolled immigration can interrupt connectivity and close borders between countries. Thereby, China cannot avoid being involved in political matters and promoting its economic agenda. If these are genuinely Chinese goals, China is not doing enough to create a positive environment for its strategies. Instead, her moves often jeopardize her long-term strategies.

If China is seeking short-term gains, as some observers believe, and as we showed in our cases, the current situation is playing in its favor. We explained how authoritarian regimes and the fragile rule of law had facilitated specific Chinese engagements. The loan-for-infrastructure agreements have brought controversies and often a negative impact on China's reputation. These agreements, however, have been lucrative for Chinese financial institutions and SEOs, as they offered profitable projects with almost zero risk for Chinese stakeholders.

Sometimes it appears that instabilities create opportunities for Chinese stakeholders. The regional hybrid and populist regimes favor China to diversify their trade and FDIs and find other financial lines for ambitious infrastructural projects. However, these gains are short-term, as the EU and the USA are becoming more aware of Chinese potential, and creating strategies to detain Chinese expansion. As we finish the last pages of this work, the EU has proposed a EUR 300 billion financial line for infrastructural projects in developing countries.

Furthermore, the USA is announcing sanctions for regional stakeholders acting as a destabilizing factor in the region. The Western partners stigmatized Russian investments and isolated Russia in the area. If her actions become identified as a concrete threat to Western interests, the same might follow with China. In 2020 the mechanism for screening FDIs in the EU has become operational, putting pressure on Chinese investments, particularly in strategic sectors.

The coming decade will be full of challenges caused by the international health crisis provoked by the Covid-19 pandemic. The pandemic created an almost total disruption of several economic sectors while it reversed the path of interconnectivity and travel between the states. Life as we know it was disrupted in a world that was becoming more polarized. China could play a pivotal role in creating a multilateral international environment. However, her strength and current internal policy trends leading towards increasing authoritarianism might indicate a different path for China.

9.6. Policy observations

In October 2021, the government, predominantly made up of experts, appointed me Acting Director of the Montenegrin Investment Agency. This is the government's arm in promoting and overseeing foreign investments, approving and overseeing public-private partnership projects, and implementing the economic citizenship program. Although a young institution, constituted only in 2019, it inherited several separate bodies and merged them into one.

Thus, after working in the private sector, I had a chance to understand foreign investments from inside a state institution. As bad as it looked from the outside, it was even more problematic when analyzed from within. The institutions were weak in approaching foreign investors and had no understanding of the very needs of those investing in the country. The whole system was built on the premise that low taxes and flexible rules are the best environment for foreign investments.

This dogma has created an environment where personal connections were of particular importance for foreign stakeholders. The large projects were redirected to members of the ruling families and, sometimes, those who were negotiating with them on behalf of the government would go on to work for investors to make sure that everything went smoothly.

If the law did not allow for certain wishes of investors to materialize, an unwritten consent from the "top" was enough to continue with implementation of the project.

The contracts were often written in favor of the investor, with exposure for the state and often conceding substantial state guarantees. Furthermore, the contracts were easily renegotiated and amended where needed. If the investor was not able to make profits, the government would ease the conditions. Thus, as a rule, the various annexes were there to improve the situation of the investor. This setting was the fruit of a long transition that made the country dependent on foreign investment. Furthermore, the institution founded to protect the interests of the state Protector of Property and Legal Interests of Montenegro was made too weak to confront large international companies, which often rely on 'insiders' within the judiciary system.

A long and turbulent transition from a socialist economic model to a market economy has devastated Montenegrin industry. The result has been that most of the former large state-owned industries were dismantled even before Montenegro gained independence in 2006, while her exports are almost nil. Such a trade deficit has created monopolies among those sectors controlling imports and made the retail sector the most important in the country. Subsequently, the budget became dependent on FDIs.

Lack of rule of law and rampant corruption have created an environment where speculative capital from offshore destinations became dominant. A weak private sector was unable to absorb redundancy in former state-owned giants that collapsed after privatization. The whole privatization process was probably the biggest distribution of wealth after socialist reforms following WW II, when most private assets were transferred to the state. However, at the time, Montenegro was poor and devasted by war, with almost no industry, and thus the state could only take the arable land.

In transitional Montenegro, the government has privatized lucrative monopoly industries that were experiencing temporary trouble caused by political turmoil. However, the state assets were not transferred to international stakeholders or entities that could improve the businesses and create a more dynamic market. Instead, the companies were transferred to a crony capitalist elite that emerged from various illicit lucrative businesses during the embargo.

These former (mostly) cigarette smugglers have accumulated resources that returned to the country from offshore destinations and were used to purchase state-owned industries. Some were hoping to cash out after selling the same enterprises to foreign companies, some have targeted attractive land and other properties of these companies. Finally, few have hoped to invest and maintain these companies.

Such a situation has discouraged investments from more developed Economies, in particular from Western Europe. Poor planning and the politization of infrastructure have closed the doors to Western funds which operate under market rules and are strict in conceding credits. The EU integration process has resulted in a poor adoption of norms without much critical assessment of their impact and has pushed the economy towards a complete opening. The high standards of the EU market prevented remaining local companies from exporting to its market, while EU goods have flooded the region. In countries with industrial capacities, the outcome was the purchase of their industrial champions by international corporations, while in

Montenegro, where the market is weak and unattractive for large international corporations, the remaining industries that were not devastated during privatization, have been struggling to survive.

The national wine producer, and one of the main exporters in the country, holding the largest single vineyard in Europe, Plantaze, focused its exports outside the region, to Russia and China. However, following its commitment with the EU, Montenegro introduced sanctions against the Russian Federation, which triggered a reciprocal move from Moscow, which led to severe losses for Montenegro's wine producers.

These conditions have created a hybrid economic model and halted investments from Western Europe.

In order to improve its international position, and to tackle future challenges, this research outlines several policy recommendations:

- **Institutions**. Montenegro (and this is the case in other non-EU countries in the region) needs to strenghten its institutions and make them independent from daily politics and from political party influence. Independent and efficient institutions are the first defense against malign foreign influences. Whatever the intentions or the provenance of investors, they will always use the weakneses of the host country to their own advantage. Having solid and independent institutions will assure the rules are followed and the interests of the country are protected.
- **A new economic path**. The economic model that followed democratization and the integration processes, was a complete failure. It created inequality and a vulnerable and unsustainable hybrid system. The prescription coming from the Western-based institutions proved to be inadequate for regional socio-economic specificities. The region needs a

new economic model, it needs to be tailor made, and it needs to bring eqiality and social justice.

- **Rule of law**. An efficient judiciary system and rule of law will offer a secure environemnt to foreign stakeholders but will also protect the national interest from damaging projects.
- **International institutions**. Montenegro has no capacity nor developed institutions to implement large and complicated infrastructural projects. It needs to further strenghten its cooperation with institutions like EBRD, EIB, and the EU. It needs expertise and it needs to follow sometimes complicated procedures. However, such procedures are the best way to select the right projects and to avoid failures.
- **EU**. Montenegro and other small countries in the region need to strenghten their cooperation with the EU and coordinate their policies with Brussels and other Western partners. They need to do so committing themselves to the very principles that founded the EU, regardless of the new currents and regrouping within the union. The idea of the EU is not the property of any individual person or state; it is instead a noble idea that belongs to all European peoples, no matter their respective countries' membership status.
- **National interests**. The point above does not mean Montenegro and other regional countries cannot have their own foreign policy. On the contrary, following its national interest while keeping in mind the larger EU picture is of utmost importance. The Western countries often have their own negative legacy and their own interest that might be conflict with those of the region. There is no need for the region to enter relations with China with the prejudice of their Western partners. Keeping in mind the broader interest of the union, but making sure one's national interests are protected, is the art of foreign policy.

- **Democracy**. Small countries cannot create armies great enough to fight superpowers, nor can they ever be strong enough to enter the big international arena. However, if democratic, the small countries have a moral strength to act independently in the cruel arena of international politics. Democracy is the last line of defence from malign and aggressive foreign influences.

These reflections might seem evident to many attentive observers of and in the region, however, they need to be repeated continuously as they are often neglected by those stakeholders that have the capacity to influence such an environment.

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