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The Balkans and South Europe

A Brief Introduction to the Belt and Road Initiative

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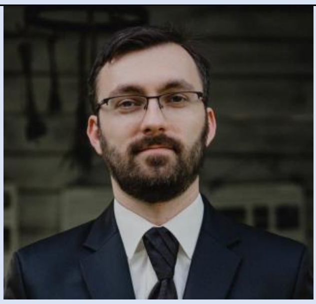

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Estimated reading time:

25-28 minutes

Estimated learning time:

60-70 minutes

Class X: The Balkans and South Europe

Summary

This course gives detailed information regarding the Western Balkans and South Europe, and their economic and political role in the Belt and Road Initiative.

Topics of the class include:

- General overview of South European region
- Projects on the Western Balkans (and Hungary)
- The situation regarding Greece and Italy and their participation in the BRI

General overview of region and its relationship to China

As stated numerous times before, developing countries are in dire need of substantial investments, because they might not be able to execute their own development plans (if there are any) for modernizing their infrastructure (including highways, railroads, telecommunication lines, airports and seaports), industry and agriculture. In the case of Europe, however, the situation is not black and white. Western European countries are more cautious towards the Belt and Road Initiative and China in general. But countries of Central- and South Europe and the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia – Kosovo is officially not recognized by China) are more pro-BRI even though many have raised concerns that China might be trying the "divide and conquer" Europe.

Although most of these Western Balkan countries are vying to join the European Union as fast as possible, they are not against outside investments. In spite of the lesser market value, Chinese investors started to consider this area for investments. An indirect consequence to this is the inclusion of the Western Balkans into the 16 + 1 platform (which is 17 + 1 currently). It is basically a Cooperation between China and Central - and Eastern European Countries and is an initiative by the Chinese Ministry of Foreign Affairs to promote business and investment relations between the interested parties. Members of the group are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

It was formed in 2012 so it predates the Belt and Road Initiative but conceptually can be considered a part of it. Later on the region became increasingly important for the BRI simply because these countries strategic positions. It is a perfect transit zone between Western Europe and the single most important Chinese investment in the Mediterranean: the port city of Piraeus (see detailed information related to it later in this course). The real interest of China is the Western European Market and the easiest way to reach it is through the Western Balkans.

For the Southern European countries (we will be focusing on Greece and Italy) the BRI also holds vast opportunities. They are also very important for strategical purposes for China but for a different reason. The Belt and Road Initiative, in order to work as intended, needs proper seaports as a sort of "final destination" to the 21st Century Maritime Silkroad.

The Western Balkans and Hungary

The People's Republic of China's always supported developing countries throughout most of its history. This region is no exception, **China supported the UN's decisions following the dissolution of Yugoslavia and backed the newly formed, newly independent countries. But Beijing opposed Kosovo's declaration of independence from the start**. So, the question might rise why does China not support and acknowledge Kosovo? Since Kosovo seceded from Serbia, the PRC believes that it has set a dangerous precedent and fears that by supporting it tensions may rise regarding the question of Tibet and Xinjiang. Not to mention that Serbia's position in the BRI is very important because of the Belgrade-Budapest railway that is connected to the Greek counterpart starting from Piraeus (see later for further explanation). Since **Belgrade wholeheartedly supports the Initiative and the PRC's policy in general, Beijing does the same**: supports Serbia's position regarding the question of Kosovo (and interestingly Kosovo pretty much lacks big Chinese companies and their products). Additional amusing information is, that **many African countries withdrew their recognition of Kosovo in the mid-2010s**, shortly after China announced capital injection into those countries and started to invest heavily in them.

1. Picture. Map of the Western Balkans and Hungary. Source of the Original Map: https://upload.wikimedia.org/wikipedia/commons/9/99/Europe_blank_map.png. The map was edited and colored by the author of this paper.

We need to keep in mind that **the Western Balkans are seriously behind the other parts of Europe regarding infrastructural development and economy in general**. Most of these countries are heavily indebted and the unemployment rate is very high, 20 percent on average. So, they are in desperate need of foreign investments which are (were before China) not very high to say the least. Actually, this entire **region attracted less**

than 1 percent of global investments before the People's Republic of China started to approach the Western Balkan countries. One of the reasons for this is that Western companies do not like the very "louse" regulations regarding business investments, public procurement and labor regulations. Furthermore, corruption rates are high. So, it is obvious that these countries were not really in the position to outright reject the Chinese approach. **Most of the Chinese companies – whether state-backed or not – was not deterred by the aforementioned problems**.

Regarding the investment side of the Belt and Road Initiative in the region of the Western Balkans, it is Serbia again that gets the most of the capital influx. A new bridge over the Danube was built in Belgrade back in 2014 (keep in mind that many important factors of the Serbian infrastructure was damaged by the NATO bombings of 1999, bridges included). In 2018 a deal of 3 billion USD was signed for infrastructural development and industrial modernization. 900 million USD going to the construction of a Chinese owned tire factory, while 1.46 billion USD investment by another Chinese company to create new a mine (RTB Copper mine). **Furthermore, the construction of a new industrial park near Belgrade is underway which is planned to host over 1,000 Chinese companies – when successfully built could be the biggest Chinese industrial park in Europe**. Military contracts were also made between the two countries. Moreover, in 2017, the Chinese tech giant **Huawei signed a contract with Belgrade to provide a surveillance system to Serbian cities consisting thousands of high-definition cameras** (around 1000 just in Belgrade alone) and to establish technological center in the capitol of Serbia.

In addition to the previously mentioned 3 billion USD investment another **huge development plan is under realization: the Belgrade-Budapest railway**. It is very important because this railway would connect the **port of Piraeus**, which is currently **one of the largest seaports affiliated with the Belt and Road Initiative and conducts a massive amount of transit trade and is basically one of the final destinations of the 21st Century Maritime Silk Road**. Building railway between the port and Central Europe (to distribute the goods in Europe) is a very obvious decision. However, not everyone thinks in Hungary and in Serbia that it is worth it.

The plan is to build a railway line that connects Budapest to Piraeus using a standardized gauge. At first news mentioned that the new railway would be a high-speed one, where trains can reach more than 300 km/h. But the truth is that is not the case for two reasons. First of all, building a high-tech railway that would enable such high speed would cost (even) substantially more. And secondly, this railway is for transportation not for carrying passengers. So, currently the aim is to reach around 200km/h on the Serbian sections and around 170 km/h on the Hungarian sections, which is still way, way faster than the previous transportation speeds. However, a **lot of criticism** has come up regarding this project. One is the fact that the railway itself goes straight to Budapest from the southern border of Hungary, basically avoiding those areas of the country that would benefit the most from a new railroad (South East Hungary). Furthermore, **the project's profitability is very much still in question**.

Additionally, many say that with **the new railway the transportation time would be shortened by only a few hours and the cost simply does not worth** it, because goods from Piraeus have been reaching Central Europe without problems for years (even if it is a little bit slower). Moreover, there are projections that say that neither Serbia, nor Hungary would be able to pay back **the enormous loans** (a 20 years long loan from the Export-Import Bank of China, 1.8 billion USD to Hungary and 1.3 billion USD to Serbia) thus the new railways will be "acquired" by Chinese companies (that is getting concession over the railway for a given amount of years). Some analysts say that Hungary would need more than 2500 years (with its current economic growth) to repay the debt with interests. We do not know yet how everything will turn out regarding the Belgrade-Budapest railway, but the **criticisms are abundant regarding this subject**.

Not to mention that even though the concept of the railway has established back in 2013 still there is not any advancement in the realization part of the project. EU norms have been ignored, the public tenders for it was not transparent enough so **the EU opened an infringement procedure against Hungary in 2016**. Because of the lack of transparency, the EU fears corruption will run rampant. As an answer the Hungarian government classified the details of the Belgrade-Budapest railway and then signed the loan agreement, making critics even louder.

In the case of **Montenegro, a new highway,** Bar-Boljare, connecting Belgrade with the port city of Bar, is financed for 85 percent of the estimated 1 billion USD (and the real cost is already higher than what was planned) by China's Export-Import Bank and being constructed by a Chinese company.

In **North Macedonia two highways are being built**, costing around 600 million USD. In Bosnia and Herzegovina, Beijing is financing a 700 million USD loan from the Export-Import Bank of China to finish a thermal power plant. Criticism has been raised by the EU that this will cause additional pollution in the country.

Regarding the cultural side of the Belt and Road Initiative, Beijing is heavily interested in the cultural side of diplomacy. Teaching mandarin is a key factor for this which is proven by the fact that Confucius Institutes are present in every capital of the region, and there are also institutes for "people-to-people connectivity": cultural centers and other institutions.

South Europe

In this region the economic crisis of 2008 has a big role in Chinese investments. Chinese companies have used the all-time low prices to their advantage: during the large-scale privatization processes of the South European countries (and especially in Greece) they have secured important assets for a very low price. In South Europe Chinese Foreign Direct Investment has skyrocketed since 2014 leading to around 20 billion USD amount of capital influx. Out of these investments, Greece and Italy got most of the money, while Portugal is not far behind.

For the remaining part of the class, we will be focusing on Greece and Italy.

Greece

At present, Greece hosts one of the few large-scale projects in Europe that is clearly recognizable as part of the BRI: **a 5 billion USD investment by the China Ocean Shipping Company (COSCO) at the port of Piraeus** that aims to promote Chinese commodities in South-East and Central Europe. In particular, COSCO has a 35-year management lease for Piers II and III, two of the three terminals at Piraeus.

2. Picture. Map of Greece. Source: The World Factbook 2020*. Washington, DC: Central Intelligence Agency, 2020. Available at: https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/GR-map.jpg*

The concession deal, worth 831.2 million EUR (USD 1 billion) at the time, **was signed** by Greek Prime Minister Kostas Karamanlis and China's President Hu Jintao **in November 2008** (way before BRI, but as a direct consequence of the economic crisis).

It has also helped to attract other leading corporations to operate from Piraeus, such as Hewlett Packard, and the Mediterranean Shipping Company (MSC). Through this investment, Piraeus has become the fastest growing container port worldwide: the global ranking of Piraeus rose from 93rd in 2008 to 39th in 2016 in terms of container capacity. The development, however, did not stop there. A public tender was won by COSCO in January 2016. According to that COSCO will pay an additional 280 million EUR to buy 51 per cent of the shares of the Piraeus Port Authority (PPA) and 88 million EUR for another 16 per cent after five years. Greece has set up one condition for this tender: the Chinese company has to invest additional several hundreds of million USDs over at (at least) a ten-year period. Greece, amidst its very severe financial crisis, was more than happy to sign the deal. As of 2019 there are plans to build an additional pier further increasing the port's capacity (another investment of at least 650 million USD).

The significance attached to the investment in Piraeus by Chinese officials in the framework of the Maritime Silk Road and as a gateway to South-East and Central Europe is obvious, especially after the expansion of the capacity of the Suez Canal in 2015. Now more ships can cross the Canal at the same time, effectively doubling the transportation capacity.

With its new "rights" COSCO not only **tries to make Piraeus the biggest** commercial port in the Mediterranean Sea, but also one of the (if not the) biggest **ship-repair point in the eastern Mediterranean**. Furthermore, the company also aims to make the Greek port one of the most important tourism hub in the world. The new pier and the continuous utilization of the previous piers has strongly boosted employment rate in Southern Greece. Consequently, some of the local population are satisfied with COSCO and the general presence of Chinese companies in the region. Others, however, are not. They think the Chinese investments in Southern Greece is nothing else than a clever plan to "infiltrate" the European Union. **The EU has concerns regarding Chinese presence in Greece since it is not just a member state of the European Union, but also a relatively new member of the 17 + 1 (previously 16 +1 with the addition of Greece)**. Moreover, another basis of concern is the fact that the **Greek government announced back in 2013 that if anyone is willing to invest or purchase real estate in the country that (and their families) would receive a five year residency permit**. That would also mean free movement in the Schengen Area for these Chinese citizens. Again, something the European Union is not really fond of.

Anyway, if **Piraeus** is to serve as a gateway and a transfer hub, it definitely **needs a proper, effective, fully functional railway network that connects the northern markets of Europe** to the port (and through it the Maritime Silk Road). It is an interesting fact, though, that after winning the tender of Piraeus port, COSCO did not want to buy Greece' rail network which was also under privatization.

The reason behind COSCO's decision is most likely related to the migrant crisis of 2015 (and onward) and the rather unstable political environment around it. Not to mention actual logistical problems (refugees camps on the railways themselves).

In addition, nearly the same situation happened regarding the **Thessaloniki Port Authority in northern Greece**. The Shanghai Ports International Group was reportedly interested in participating in the on-going public tender for 67 per cent of the stock – the same way the Piraeus port was managed. However, in the end a German investment group secured the tender. Although a Chinese company lost the "bid", China did not give up on the project. The reason for this is pretty simple: although **the port of Thessaloniki is the second largest in Greece, it is already a working gateway to the Balkans as there is a direct railway that connects it to the capital of Macedonia** and from there as part of a network goods can be transferred relatively easily to the region, including Bulgaria, North Macedonia, Serbia and Romania.

Consequently, Thessaloniki Port Authority has signed in 2020 a cooperation agreement with China Merchants Port Holdings and its subsidiaries China Merchants Holdings (International) Information Technology. The cooperation's focus is expanding the terminal capacity of the port.

After the first plans for economic cooperation have been signed after the economic crisis, diplomatic visits between Greece and the PRC have increased. After the initial 2008 deal was signed by China's President Hu Jintao during an official visit to Greece, there was a visit by Chinese Prime Minister Li Keqiang in June 2014. In March 2015, Greek politicians, including then Deputy Prime Minister Yannis Dragasakis visited Beijing, with Piraeus playing a prominent role for his trip. In July 2016, Greek Prime Minister Alexis Tsipras himself visited China, two days after the Greek Parliament ratified COSCO's takeover of the Piraeus Port Authority.

Obviously, this was a very good opportunity for Greece which is starving for investments in its financial situation.

However, the Chinese investments resulted in a lot of controversy and was/is not fully supported by the population. **Many thought (and still thinks) that this new "strategic partnership" between Greece and the People's Republic of China is nothing else than a disguised plan for "neo-colonialism"** and is not really in the best interest of the Greek people.

Interestingly enough, not just the ordinary people of the streets opposed the increasing Chinese influence, but also some public authorities, such as the Greek Ministry of Shipping and Island Policy, fearing that COSCO will somehow remove Piraeus from under its jurisdiction indirectly.

The President of COSCO, Xu Lirong, has pledged that as soon as the April 2016 deal comes into effect, the company plans to invest in maintaining Greece's shipbuilding infrastructure, seek a greater share in the cruise sector and organize coastal shipping. He has also assured that **COSCO will pay attention to labor relations and will 'provide the best working conditions' for the Greek employees. So far, these promises have been either fulfilled or are being fulfilled. The good results of the Piraeus deal made Greece join in the BRI officially in 2018.**

Italy

As implied before, the Mediterranean Sea can be considered the final frontier for the Maritime Silk Road. For this reason, it is only logical that Italy is important for the People's Republic of China in the grand scheme that is the Belt and Road Initiative. **Italian ports and rail connections to the markets in Central, Eastern and Northern Europe is crucial**, but also Italy's industries as well as strategic assets such as its internationally recognized **brands and technologies**. Not to mention how important its **geographic location** is. Therefore, getting access to its ports is a number one priority for the 21st Century Maritime Silk Road and with it the Belt and Road Initiative.

3. Picture. Map of Italy. Source: The World Factbook 2020*. Washington, DC: Central Intelligence Agency, 2020. Available at: https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/IT-map.jpg*

In 2015 the state-owned **China National Chemical Corporation** – or ChemChina, China's largest chemical company – **bought Italy's premium tire-maker, Pirelli, for 7.7 billion USD.** This deal was partially funded by the Silk Road Fund, which took a 25 per cent stake in ChemChina and then proceeded to buy Pirelli's shares. This caused parts of the Italian business elite to try and steer Italian foreign policy in a pro-China direction. In 2015 (and to some degree even today), the companies that are likely profit the most from the Belt and Road Initiative – and that are most likely putting pressure on the Italian government(s) – are those operating in the logistics and infrastructure sectors.

Even though the Pirelli acquisition was completed really smooth that does not mean there were no oppositions towards it. We must keep in mind that the **Pirelli is one of the most symbolic Italian companies**: it has a very long history and was always associated with premium quality. **Many was afraid that the company will lose its unique Italian identity** and that the quality of tires will drop significantly. Although ChemChina acquired absolute majority of Pirelli, it still made sure that the company's identity will remain Italian: ChemChina agreed to the conditions of the CEO of Pirelli Marco Tronchetti Provera. Based on these conditions the top management must remain Italian, the headquarters must stay in Milan, and he would continue as CEO to grant stability and continuity. ChemChina agreed to all of this.

The effects were pretty positive (both from an economic and a political viewpoint). **The deal was working so well that ChemChina sold some of its shares and dropped to owning around 45 percent** of total shares thus reducing its direct control (although still retains relative majority in shareholding). Interestingly enough, **at the same time, ChemChina increased its investment rate**. What this means is that basically **ChemChina started a new "international investment model" for Chinese companies: giving broad autonomy to the local business, respect the operation traditions, and leverage the local competences.** ChemChina and Pirelli President Ren Jianxin said that he believes in the value of the local competence and the acquisition should imply respect and a proper integration. Not to mention he emphasized that acquisition is not a proper word as the term strategic partnership describe it much better. At the same time, he said that relocating of Pirelli's assets or resources or just generally moving the company would be a huge mistake.

Another project that has attracted wide attention from Chinese and Italian business and political leaders **since 2015 is the so-called "five-port alliance"** in the northern Adriatic Sea. This was planned to be the "flagship" project of the BRI in Italy.

The five-port project would have involved the Italian ports of **Venice, Trieste and Ravenna, plus Capodistria (or Koper, which is located in Slovenia) and Fiume (in Croatia)**, linked together in the North Adriatic Port Association (NAPA), established back in 2010. The consortium aimed to attract – and service – China's huge cargo ships that reach the Mediterranean Sea via the Suez Canal. The plan was to create an offshore/onshore docking system by building a giant platform off the shore near Venice. This platform, planned to be built eight miles from the coast where the sea is at least 20 meters deep, is designed to allow the giant cargo ships to dock.

Once completed, the initiative would consist of a network of ports in the northern Adriatic Sea that is able to service the mega-ships coming from China and that would cut down shipping time to the markets in Central, Eastern and Northern Europe. **The journey from Shanghai to the northern Adriatic Sea is around 8,600 miles, compared to 11,000 miles from Shanghai to Hamburg –a route that requires eight more days of**

navigation. Because of the shortened route it was considered more environment friendly: less emission from the tankers with the shorter travel time.

The project was planned to cost around 2.2 billion EUR, but that has changed in the last few years (explanation later). The initial infrastructure to service the mega-cargo ships in the five ports was to be built near the coast of Venice. Large Chinese investors have shown great interest in this project, like the port authority of Shanghai and the China Communications Construction Group (CCCG, the world's sixth largest infrastructure company).

To connect the newly planned platforms, the Italian government was also planning to upgrade rail connections between the Italian ports and the markets in Central and Northern Europe. Some of this concepts have been realized since the announcement of the "five-port alliance": **there is now a new transalpine railway, which was inaugurated in June 2016**, after completion of the San Gotthard tunnel between Italy and Switzerland. There are also plans to build new, direct railways from Milan to the port of Genoa on the west side of Italy.

Chinese goods are currently **shipped** through the Suez Canal, then after a half-circle around Southern Europe arrive on Europe's north-western coast, **to the big ports of Rotterdam and Hamburg**. From there they are further transported on roads and railways to inland cities. **Foregoing the western detour Chinese commodities could reach the intended markets 8 to 10 days earlier**.

But there were many concerns regarding financial, political, and most importantly environmental risks about the 'five-port alliance' project. Out of the affected ports, Venice would have been the most threatened by the new improvements. After a few months of debating the 'five-port alliance' project have been shut down, and that has seriously set back the Belt and Road Initiative and its plans for Italy. So, the 'five-port alliance" plan has been discarded after a few short months of planning.

However, neither Italy nor China discarded it completely: they kept the main goals and the basic aims of the (European) "flagship" project, but altered it severely. **Now the BRI focuses only on two ports to be modernized and retrofitted: Trieste and Genoa**. Ravenna also started to attract Chinese investments since 2018. With **the rebirth of the port projects fears have also emerged** in Italy that Chinese companies will use their investments to procure sensitive technology and to gain political influence in the country. **To counteract this, the Italian government strengthened the screening processes to filter out harmful influence and aggressive takeovers made by third countries in strategic sectors. This so-called "golden power" entered into force in October 2017**, to safeguard national security and national interests.

Despite all of this, Italy became officially a member of the Belt and Road Initiative in March 2019. It was a very important step, since Italy is a G-7 country and the strongest economy among the 15 European Union countries that are BRI members. **As Italy is the third largest economy in Europe with around 15 percent of the Eurozone GDP, making the country join the BRI was a huge victory for China**, not just economically, but as a symbol as well. It shows that China is gaining momentum in world politics.

When it comes to Chinese FDIs, Italy has been among the top three recipients in Europe (following the United Kingdom and Germany). In 2019, the cumulative Chinese FDI in Italy reached 17.4 billion USD since 2000, the influx of Chinese capital peaking in 2014 and 2015.

However, **so far Italy did not get the economic boost it expected from joining the BRI**, instead it got heavy criticism from the European Union and from the United States leading to **harsh political debates domestically**. One of the strongest controversy is around **Huawei's role** in the advancement of Italy's telecommunication systems (namely its **5G network**). While Huawei had announced in July 2019 a 3.1 billion USD investment plan over the next three years, **members of the Italian government have warned that Huawei's access to new data networks should be restricted**. **Furthermore, the intelligence and security committee of the Italian parliament recommended outright banning the Chinese tech giant from the Italian 5G networks.**

However, since February 2020 the situation has completely changed in Italy because of the devastating COVID-19 outbreak. With more than 35000 people dead and the whole country being in lockdown for weeks during the spring, it is very likely that it will face a serious economic recession. **Even before the outbreak, Italy had around 12 percent of unemployment rate and a total debt of more than 130 percent of the country's annual GDP.**

The previous economic crisis has left most of Italy's companies a target for acquisitions and hostile takeovers and the government fear that this will happen again. As of April 2020, the "golden power" rules have been extended to a wide range of sectors, including health, finance, insurance, land and infrastructure, raw materials, robotics, and media, among others.

The problem, however, is that **most Italian companies would most likely need massive capital influx and fast.** The government would need to pump a lot of money into domestic companies to avoid takeovers, but that money is not readily available. Maybe some enterprises can be saved by Italian money alone but for others to avoid bankruptcy they need foreign direct investments. If no one else is able or willing to help, then Chinese companies could seize the opportunities.

Questions for Self-Checking:

Why could Chinese companies get a foothold relatively easy in the Western Balkans region?

The port of Piraeus is one of the most important European project of the BRI. How come Chinese companies didn't try to build new railways to connect the port to Central Europe?

What changed the Italian government's stance regarding the exclusion of certain Chinese companies?