Balkan corruption: the China connection

by Michal Makocki and Zoran Nechev

The former Yugoslav Republic of Macedonia had not yet fully recovered from the recent constitutional crisis when new details emerged revealing the acute governance problems besetting the country. Following the change of government, the Ministry of Transport and Communication has blocked the completion of the China-financed Kicevo-Ohrid highway amid allegations of losses to the state budget in the region of €155 million, a substantial sum of money in a small and underdeveloped economy such as the former Yugoslav Republic of Macedonia. The scandal implicates not only four high-level politicians from the previous government (including the former Prime Minister) but also refocuses attention on the role of Chinese infrastructure projects in fuelling corruption in the wider Western Balkan region.

In late 2013, the government in Skopje signed an agreement for the construction of the 57-kilometre Kicevo-Ohrid highway with the Chinese Sinohydro Corporation LTD: the contract amounted to €373 million, and was signed together with another one covering the 53-kilometre stretch from Skopje to Stip (€206 million). The project was to be financed by a loan from the state-owned China Exim Bank for 85% of its value – and executed by Sinohydro.

The projects were overshadowed by allegations of corruption from the outset. In 2015 the then main opposition party 'Social Democratic Union of Macedonia' published 38 batches of recorded conversations which allegedly featured high-ranking politicians from the ruling parties discussing direct payments from the selected Chinese company. In order to investigate these and other allegations related to the recordings, a Special Public Prosecutor was appointed.

The latest details revealed by the Ministry in Skopje revealed mismanagement in the planning phase of the project which has inflated its costs by €120 million. It has also been suggested that the procurement for the project favoured politically connected local subcontractors. In this context, it is important to highlight that Sinohydro is one of a number of companies blacklisted by the World Bank.

A broader trend – and pattern

The former Yugoslav Republic of Macedonia example is indicative of the Chinese model of infrastructure investment in the Western Balkan region and may potentially signal similar problems arising in the future in countries where Chinese projects are launched. For example, according to the Serbian Infrastructure Ministry, companies from China have obtained contracts in the region of €5.5 billion for the construction of highways and railways. In Bosnia and Herzegovina, Beijing is financing and building a number of lignite power plants. In Montenegro, a loan of €1 billion has been provided by the Chinese Exim Bank for a section of the highway linking the port in Bar with the Serbian border.

In all these cases of China-financed infrastructural projects, Chinese companies have been awarded the contracts directly by the governments rather than through a competitive bidding process. Often countries had to legislate *ad hoc* for Chinese projects to meet Beijing's demands that contracts be awarded directly to Chinese contractors. This creates loopholes and exceptions in the legal system and delays the region's convergence with EU norms. As such tendering procedures do not involve open and transparent bidding, they militate against efficient public spending and encourage corruption: in short, while EU institutions try to promote clear rules for spending every 500 euros to make sure public money is used in the most efficient way, contracts for Chinese-built highways worth up to 500 million euro are decided without any tender.

Throughout the region, allegations abound that some of the contracts with Chinese companies have been accompanied by illicit payments. The lack of transparency in the entire contract and procurement process further contributes to this impression. As a result, China consolidates the traditional ways of doing business behind closed doors and undermines governance reforms.

The public accountability and local oversight of the projects is also limited. Some of the Chinese projects may originate from state influence rather than sound feasibility assessments and thus contribute to building a certain number of white elephants in the region. The Chinese demand arbitration and negotiation through diplomatic channels rather than evaluation on the basis of local legislation. Similarly, unwillingness to reach out to environmental or social organisations when it comes to China-led contracts also excludes any role for civil society. And the limited transparency of such contracts further undermines the possibility of public scrutiny: it is only when a scandal erupts, such as in the former Yugoslav Republic of Macedonia, that full details on Chinese-funded projects are revealed to the public.

All this ends up exacerbating the high level of corruption existing in the region. China is surely not solely responsible for this state of affairs, but its projects substantially contribute to it. The Southeast European Leadership for Development and Integrity's Corruption Monitoring System shows that, since the 2000s, the overall levels of corruption in the Southeastern European (SEE) countries have decreased. However, the data for 2014-2016 reveal that in countries such as the former Yugoslav Republic of Macedonia, BiH, Kosovo and Albania the corruption pressure indicator is on the rise - primarily driven by administrative corruption that typically is a proxy for high-level political corruption.

Conflicting logics

China may not aim to export its ideology, but its economic expansion is accompanied (and fostered) by its domestic model of business relations, based on a balance between state and market forces which is in stark contrast with the governance reforms promoted by the EU. Very often this practice is not actively pursued locally but ends up being promoted through sheer inertia, as it reflects China's own corporate behaviour and political governance standards.

Chinese normative influence does not pervade the region systematically, but it creeps in - slowly but surely - with every project awarded to Beijing. Clearly this influence expands faster where the rules-based order is not yet based on firm fundamentals. The rise of populist politics in the region naturally facilitates Chinese influence as local leaders look to Beijing for alternatives to the EU 'way' of modernising administration and public life. That chimes with new political narratives in the region. At a time when the Western Balkans is confronted with increasingly authoritarian political elites, the investments that the Chinese government is offering provide governments with the financial wherewithal and leverage necessary to remain in power. This, in turn, exacerbates and deepens the existing governance crisis.

The same pattern may be observed in other regions courted by China with infrastructure investments under the aegis of its Belt and Road Initiative. And indeed Chinese infrastructure projects often serve as the conduit for political and normative influence. Such a pattern has been clear in Southeast Asia where China rewarded Cambodia for blocking an ASEAN joint statement on the South China Sea issue. In Africa, Chinese lines of credit provide an alternative to loans from international donors to which reform conditionalities are attached. And in the EU, there is an increasing correlation between Chinese investments and voting by some member states on EU resolutions or joint EU demarches in the UN according to China's foreign policy objectives.

Converging efforts

Chinese investments in the Western Balkans will continue to increase in the years to come. It is in the interest of the region's governments as well as the EU to steer them in a direction of sustainability, environmental compliance, respect for the rule of law and good governance standards. Creating synergies with other external actors – including China - would not only bring economic growth to the region but also reinforce the EU reform agenda.

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© EU Institute for Security Studies | QN-AL-17-022-2A-N | ISBN 978-92-9198-529-6 | ISSN 2315-1129 | doi:10.2815/53274