



POLICY PAPER

“WIN SOME, LOSE SOME”: CHINA’S INVOLVEMENT IN THE EXTRACTIVE AND RAW MATERIALS INDUSTRIES IN THE WESTERN BALKANS

Ana Krstinovska, Vuk Vuksanović

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Commissioned by Viola von Cramon-Taubadel,
Member of the European Parliament, Greens/EFA.



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Summary

- This paper sheds light on China's role in the extractive and raw materials sector in the Western Balkans. To that effect, it presents a quantitative overview of the bilateral cooperation in the extractives and an analysis of its impact on the Western Balkans economies and societies, seeking to uncover the drivers behind China's involvement and examine whether the combination of the Chinese approach and the domestic agency could lead to maximising the benefits for the Western Balkans countries.
- China's interest in the Western Balkans extractive sector is driven by multiple factors. First, it aims to satiate China's need for raw materials, as it is among the biggest global importers of all the Western Balkans extractive exports – copper, chromium, aluminium, and wood. Second, it aims to ensure China's global presence and the expansion of Chinese companies, as seen from the investments in the oil and steel industries, whose outputs are not exported to China, but further to Europe. Third, it has a political component aimed at responding to the needs of the political elites in countries that are traditionally friendly and welcoming of Chinese presence, chiefly Serbia. Finally, it is also related to the fact that all the Western Balkans countries are candidates to join the EU and have privileged access to the European Single Market.
- The level of Chinese presence in the extractive and raw materials industries in the Western Balkans varies on a case-by-case basis. While in some countries, there is major Chinese involvement in the local extractive industries, in others it is almost negligible. Serbia remains a regional outlier, with the most developed Chinese presence in the sector.
- At present, with the decreasing popularity and intensity of the Belt and Road Initiative and the China-CEE cooperation in some of the countries, China is diversifying its approach: seeking to merely maintain its presence in countries where it has become less welcome and to enhance it where it is possible.
- In terms of China's importance as a source of direct investments, including in the extractive and raw materials sector, the landscape is uneven. Whereas in Albania, the level of Chinese direct investments as a share of the total has been declining to fall to less than 0.1 percent in 2020, in Serbia, it has been increasing to reach almost 20 percent. China is not an important investment partner for North Macedonia, Montenegro and Bosnia and Herzegovina either. In the case of Bosnia and Herzegovina, the two sides seem to

have focused on developing their cooperation through infrastructure loans and concessions.

- When it comes to trade, although China is not a major export destination for any Western Balkans country, the overall composition of exports to China includes predominantly extractive products. While extractives accounted for 26.8 percent of total Bosnian exports to China in 2020, it was 73.4 percent in Albania, 76.4 percent in Serbia and 85 percent in North Macedonia.
- Chinese investments in the extractive and raw materials industries in Albania and North Macedonia have not been subject to major controversies, despite the fact that Chinese companies own Bankers Petroleum in Albania and Makstil in North Macedonia, two major players in the extractive sector and the national economies in general.
- The situation is different in Bosnia and Herzegovina and Serbia, where Chinese presence has been associated with negative phenomena. The key factor is the countries’ domestic agency, including the systemic weaknesses in internal political and governance systems, particularly in Bosnia and Herzegovina, and the ‘privileged’ relationship with China, its importance in Serbia’s foreign policy and the Serbian government’s legitimization strategies.
- China’s imports of raw wood from Bosnia and Herzegovina have a severe impact on the country from several aspects. First, the informal activities of Chinese entrepreneurs and their local partners constitute disloyal competition to local wood producers who struggle to obtain wood at reasonable, market prices. Second, China’s increased demand for wood encourages illegal logging and other unlawful practices, further undermining the already weak institutions and governance standards. Third, the extent of the logging activities constitutes a serious threat for the environment.
- In the case of Serbia, the major Chinese investments in copper mining (Zijin’s investment in Bor) and steel production (HBIS’ investment in Smederevo) are quite significant for the local economy. However, due to their increased production output and low environmental standards, they have been responsible for major environmental damage leading to serious public health issues. Moreover, in nexus with the willingness of the Serbian government to please its Chinese partners, China’s presence has been associated with the erosion of standards in terms of competition policy, public procurements, access to information, property, and labour rights.
- Serbia is likely to remain an outlier in terms of Chinese involvement and the government’s efforts to attract more engagement by China in particular projects including in the extractive sector. A key role is played by the interests of the Serbian political elite, which seeks to bolster domestic popular support via economic engagement with Beijing.

- The results of China's engagement in the extractive and raw materials industries for the Western Balkans countries are mixed. While exports and investments in the extractive sector do help the local economies, the overreliance on extractive exports from polluting industries, which deplete natural resources and have a low value-added component in the bilateral trade relationship, is a reason for concern. Moreover, some Chinese projects seem to exploit structural weaknesses related to rule of law and good governance, as seen especially in Serbia and Bosnia and Herzegovina.

Policy Recommendations

- For national policymakers, the priority should not be avoiding commercial cooperation with China since the small economies of the Western Balkans cannot deny themselves the opportunity of doing business with the world’s second-largest economy. However, they need to work on reducing dependencies, better negotiate with their Chinese counterparts and manage their relations in a way that guarantees that the Chinese projects adhere to the rule of law and governance standards, and are not to the detriment of the local population.
- Specifically, national authorities in the Western Balkans should be encouraged and assisted by the EU and its member states to conduct an analysis of their exports to China in order to consider opportunities to decrease the overreliance on extractives and increase the exports of goods with higher value-added.
- The EU should put the issues related to foreign trade and investment policy (Chapter 30 – External relations) higher on the agenda in the negotiation process in order to ask for increased commitment to EU standards and vigilance by the candidate countries in their dealings with non-EU countries, including China. This can lead to positive tangible developments, such as the introduction of investment screening mechanisms and timelier alignment with the latest EU acquis being adopted in this area.
- When assessing the Chinese presence in the Western Balkans as well as its own ties with the countries in the region, the EU needs to take into account not just the environmental problems that come with Chinese involvement, but also labour rights violations that accompany Chinese projects.
- At present, only Albania is a member of the Extractive Industries Transparency Initiative. Other countries, particularly Serbia, should be encouraged to join this initiative in order to improve the governance and management of its mining resources.
- The EU should support the Bosnian authorities in the two entities (Republika Srpska and the Federation) to develop a legal framework on forest protection and/or improve its enforcement in order to avoid loopholes. This should be done by strengthening inspection services in the area of environment, forest police, and customs in order to detect and sanction illegal behaviour.

- In line with recent legal trends across Europe to sanction environmental wrongdoings as criminal offences, the EU should support all the countries in the region to improve their legal framework by amending their criminal codes, related laws, and bylaws. Moreover, particular focus should be put on capacity building for law enforcement and the judiciary to ensure that the new legislation is properly implemented and enforced. EU member states with extensive experience in this area should be encouraged to assist in the process through twinning projects and TAIEX missions.
- The EU should also support civil society in the region to engage in more intensive monitoring, as it has proven to be the most effective check on the negative impact of the Chinese projects and on the local governments tolerating this overreach. Serbia ought to be the focus of such an effort, particularly since this is where the role of civil society as a check against negative aspects of Chinese presence has been most pronounced. The EU's support should be in the form of financial aid, training, and communications strategy.
- Civil society in the Western Balkans needs to raise awareness among the citizens of the potential risks and negative consequences that emerge when the relationship with Chinese investors is not managed properly. Civil society organisations need to continue being an effective corrective mechanism against the negative effects of Chinese projects through civic campaigns, public advocacy, and, if necessary, civil disobedience and peaceful protests.

Introduction

The launch of a cooperation platform between China and Central and Eastern European (CEE) countries in 2012 marked a significant uptick in the bilateral cooperation between China and the Western Balkans (WB). All the WB countries examined in this paper – Albania, Bosnia and Herzegovina (B&H), Montenegro, North Macedonia, and Serbia, have participated in the platform since its inception. Moreover, they have all signed Memoranda of Understanding (MoU) with China regarding participation in the Belt and Road Initiative (BRI). At the same time, with the exception of B&H, which received candidate status in 2022, the other four countries have opened accession talks to join the EU and are working on the alignment of their national legislations with the EU. Three of them – Albania, Montenegro, and North Macedonia – are NATO members and in recent years have been increasingly aligning their foreign and security policies with the Alliance.

Kosovo has a lot to offer in the extractive industries, given its reserves of gold, chromium, nickel, aluminium, copper, iron metals, and lead-zinc. Kosovo is home to the world's fifth-largest proven lignite reserves, and coal mines fuel over 90 percent of the power supply.¹ In 2019, China Machinery Engineering Corporation (CMEC) was one of the unsuccessful bidders for the construction of the new coal-fired power plant Kosovo C.² While China does not recognize Kosovo as an independent country, trade between the two is rising primarily because of the rise in Kosovo's imports from China. In December 2021, Kosovo's imports from China reached an all-time high of €479 million.³ However, despite Kosovo's potential in the extractive industries, China has not established a robust presence in that sector. The reasons for this are multiple: China does not recognize Kosovo's independence, considers Serbia its main partner in the wider region of Eastern Europe, and there is strong pro-American sentiment among Kosovo Albanians.⁴ Hence, Kosovo will not be examined in detail in this paper.

Economic engagement has been at the core of the WB relationship with China, expressed through rising trade exchange, the start of investment flows, and numerous contracts and attempts to implement large infrastructure projects with Chinese funding and/or partners. While China's offer was initially similar towards all countries, the specific outcomes have varied depending on the domestic agency of the particular WB countries, namely the strengths and weaknesses of their respective economies, the nature of geopolitical alliances, and political and governance issues.

Driven by both 'demand' and 'supply' factors, one of the salient areas of interest for China in the WB have been the industries related to raw materials. The scope of this paper covers extractives in the broadest sense, focusing on both the extraction and processing of raw materials and energy resources. It includes energy (gas, oil) and non-energy industries, in line with the EU's typology of raw materials industries (mining, metals, minerals, and forest-based industries),⁵ all of which feature prominently in the WB's dealings with China.

China’s interest in the WB extractive and raw materials industries is related to its overall need for certain raw materials. China is the world’s largest copper importer: in 2021 alone, it imported 23.4 million tons of copper.⁶ Its industry has a limitless appetite for the metal which is important in industries as varied as construction and electronics.⁷ China also imports 70 percent of the global chromium exports⁸ and about 60 percent of globally produced and consumed aluminium.⁹ It is also the world’s biggest importer of wood and wood products, as domestic production has declined since 1995, mostly due to logging bans.¹⁰

While indispensable for a country’s economic growth, as they support technological and industrial development, extractives also have a reputation as polluters, are associated with risky working environments as well as weak transparency and governance standards, insufficient institutional capacity, and an underdeveloped regulatory environment, especially when they operate in developing countries.¹¹ Hence, the paper will focus on the place of extractives in the WB cooperation with China, analysing the main drivers, benefits and risks behind the key deals in these industries. It will specifically examine China’s role in the extractive sector in the WB, including its share in trade, direct investments, and other financial instruments, such as loans, concessions, etc. The analysis will further focus on the interaction between the Chinese approach to doing business in the extractive industries and the domestic agency of the WB countries, attempting to examine whether this combination could lead to maximising the benefits for the local economies.

To that effect, the next chapter maps out China’s involvement in the extractive and raw materials industries in the WB and quantifies the share these industries represent in the overall economic cooperation between China and the WB. Then, based on the most sizeable deals and projects as case studies, chapter 3 focuses on the influence of cooperation in the extractives on the local economies and societies in the WB. Namely, the analysis delves into the impact on five specific policy aspects: economic development, environment and public health, rule of law and good governance, human rights, and cross-cultural issues. Finally, the paper draws conclusions and provides policy recommendations targeting EU and WB policymakers and civil society.

Methodologically, the first stage of the research was based on analysing open-source information including media reports, policy publications, publicly available statistics, and databases. In the second stage, primary sources were consulted to complement the data collected through the analysis of secondary source material. To this end, the authors conducted semi-structured interviews with eight different stakeholders from across the region familiar with the issue at hand.

Overview of the Chinese Presence in the Extractive Industries in the Western Balkans

This chapter aims to assess China’s presence in the extractive and raw materials industries in the WB from three aspects: trade, particularly exports of extractives to China; investments in extraction, processing, and production plants; other types of projects implemented with Chinese funding and/or Chinese partners, including Chinese development assistance, loans, concessions, etc.¹²

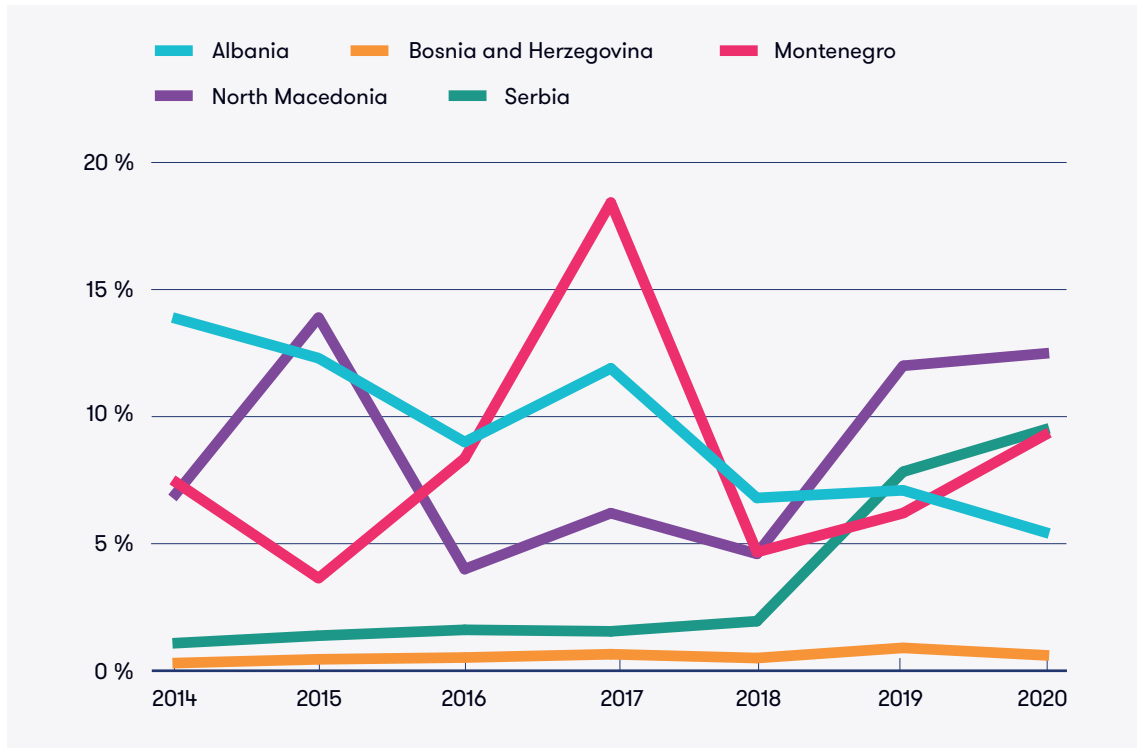
The map below presents a comprehensive overview of Chinese involvement in the extractive industries with a focus on specific facilities, listing also projects that have not been realised, have been abandoned or where China has since disinvested. Graphs on the overall importance of extractive exports for respective WB countries are also included.

LOCATION OF KEY PROJECTS IN EXTRACTIVE AND RAW MATERIALS INDUSTRIES WITH CHINESE INVOLVEMENT



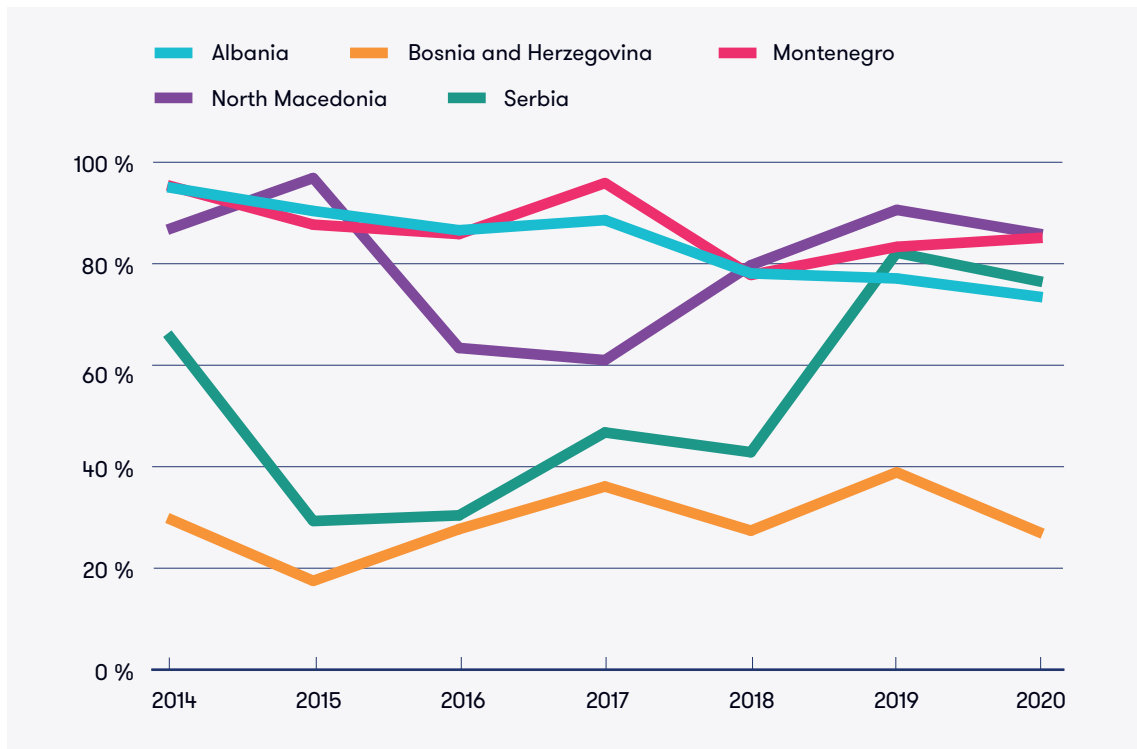
“Win Some, Lose Some”: China’s Involvement in the Extractive and Raw Materials Industries in The Western Balkans

CHART 1: PERCENTAGE OF EXTRACTIVE EXPORTS TO CHINA AS PART OF OVERALL EXTRACTIVE EXPORTS



Source: Authors' compilation on the basis of data from the Observatory of Economic Complexity.

CHART 2: PERCENTAGE OF EXTRACTIVE EXPORTS TO CHINA AS PART OF OVERALL EXPORTS TO CHINA



Source: Authors' compilation on the basis of data from the Observatory of Economic Complexity.

ALBANIA

Albania is a country rich in minerals (chromium, copper, oil), and there has been intensive cooperation with Chinese partners in the extractives. Chromium is traditionally among the most important export commodities for Albania, which used to be the world's 3rd largest chromium producer during the socialist era. The exploitation of chromium is particularly attractive for investors because of the high level of metal in the Albanian ores (50-55 percent).¹³

At the end of 2020, the total stock of Chinese investments amounted to less than 0.1 percent of the total foreign direct investments (FDI) in Albania. Chinese investors seemed to be more interested and successful in acquiring assets in Albania at the beginning of the China-CEE cooperation platform in 2012 and even before its launch. In 2010, a Sino-Turkish consortium composed of Sichuan Jiannanchun Group and Kurum International signed a concession with the Albanian government for the development of chromium mines in Kalimash and Vlahna and to renovate the Golaj chromium and copper processing plant, which was to be converted to only process chromium. The mines were planned to produce around 210,000 tonnes per year (tpy) of chromium ore, and the processing plants, when upgraded, could produce up to 60,000 tpy of ferrochromium.¹⁴ The Chinese company has since disengaged from the project (see chapter 3.)

TABLE 1: CHINESE FDI IN ALBANIA (FLOWS)

Year	2014	2015	2016	2017	2018	2019	2020	2021
Chinese FDI (\$ million)	/	5.03	2.18	1.29	-1.12	-0.16	0.23	0.37
Total FDI (\$ million)	1,158.89	989.28	1,047.28	1,022.58	1,199.53	1,204.82	1,089.15	1,233.60
% of Total FDI	/	0.51%	0.21%	0.13%	-0.09%	-0.01%	0.02%	0.03%

Source: Bank of Albania

In 2014, Wenzhou Mining Co Ltd was contracted for \$20 million by AlbChrome to open a new mining pit in Bulqizë, one of the largest chromium mines in the broader region.¹⁵ The Chinese company provided the equipment and know-how leading to a maximum production capacity of 100,000 tonnes in 2020.¹⁶ That same year, Jiangxi Copper Company bought 50 percent of the shares in Beralb Ltd from its Turkish owner Ekin Maden for \$65 million.¹⁷ The concession of the Turkish-Chinese consortium, which manages Albania's four largest copper mines near Pukë, Shkodër and Mirditë and the Fushë-Arrëz processing plants, and is the country's leading copper producer, is valid until 2043.¹⁸ In 2016 Geo-Jade Petroleum acquired the Canadian Bankers Petroleum, a company that operated Patos-Marinëz, the largest onshore oilfield in continental Europe, for \$575 million.¹⁹

In terms of trade, China’s role as an export market for Albanian products has been losing importance in line with the falling exports of extractive goods. In 2014, for example, chromium accounted for 90.8 percent of all Albanian exports to China, and the Chinese market was the destination of 6.65 percent of all Albanian exports. In 2020, however, China accounted for only 2.29 percent of Albanian exports, with chromium making up 38.9 percent of the export structure. Other products featuring more prominently in different years were crude petroleum, copper, and zinc ore.

TABLE 2: EXPORT OF ALBANIAN EXTRACTIVE GOODS TO CHINA

Year	2014	2015	2016	2017	2018	2019	2020
Extractive Exports to China (\$ million)	156	113	72.4	89.5	53.8	60	43.9
Total Exports to China (\$ million)	164	125	83.6	101	68.9	77.8	59.8
Total Extractive Exports (\$ million)	1,120	919	801	749	786	846	806
Total Exports (\$ million)	2,470	2,200	2,370	2,440	2,710	2,840	2,620
% of Extractive Exports to China as Part of Total Extractive Exports	13.93%	12.30%	9.04%	11.95%	6.84%	7.09%	5.45%
% of Extractive Exports to China as Part of Total Exports to China	95.12%	90.40%	86.60%	88.61%	78.08%	77.12%	73.41%

Source: Observatory of Economic Complexity, <https://oec.world/>

BOSNIA AND HERZEGOVINA

China is not a major investor in B&H. In the statistics of the B&H Central Bank, Chinese FDI is not calculated separately but in the category “Other countries,” whose investments amount jointly to around five percent of the total FDI flows. Some calculations estimate these Chinese investments at the end of 2018 to be \$1.88 million.²⁰ The only significant commercial involvement of a Chinese company is through the Israeli company MT Abraham, who joined forces with China Nonferrous Metal Industry’s Foreign Engineering & Construction Co. (NFC) and China Machinery Engineering Corporation (CMEC) as strategic partners in the takeover of Aluminij from the government of the Federation and the Croatian government for \$110 million in 2020, to restart the production of aluminium and save the company.²¹ The former was recently accused of helping Iran to develop its missile programme, while the latter has been blacklisted by the World Bank.²²

However, China’s involvement in the extractive industries in B&H has been visible through other avenues, namely in the area of energy production, especially using coal. This has been driven predominantly on one side by B&H desiring to use its

TABLE 3: CHINESE FDI IN BOSNIA AND HERZEGOVINA (FLOWS)

Year	2014	2015	2016	2017	2018	2019	2020	2021
Chinese FDI (\$ million)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total FDI (\$ million)	447.78	351.58	341.33	471.14	531.69	441.11	406.56	535.95
% of Total FDI	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%

Source: B&H Central Bank

own resources to reduce energy dependence, and on the other side by China's quest for business opportunities for its companies and tendency to export its (dirty) technologies overseas in an attempt to lower environmental degradation at home.²³ In 2010, China Development Bank provided a \$400 million loan to the UK-based EFT group to build the Stanari TPP in Republika Srpska, with China's Dongfang Electric as a contractor. The project is said to have boosted local economic development due to the high salaries, leading to an increase in the population in Stanari municipality from 2,000 before the project to 5,000 in 2019.²⁴ However, community discontent has also grown with the increased pollution and the expansion of the mine, exacerbating flooding in nearby settlements.²⁵ Also, in August 2014, B&H public electricity company Elektroprivreda signed a contract to construct an additional Block 7 in Tuzla TPP (in the Federation of Bosnia and Herzegovina) with the Chinese Gezhouba and Guangdong Electric Power Design, using an \$825 million loan from the Chinese Export-Import Bank.

Several other projects in the extractive industry have been planned or pledged to be built with Chinese partners. In 2015, Bosnia selected China's Dongfang Electric to build Gacko Banovići TPP with a loan from the Industrial and Commercial Bank of China of \$363 million.²⁶ However, the project failed to secure the necessary environmental permits. Following this, in 2017 at the China-CEE summit in Budapest, China Energy Group and the Bosnian company Lager signed an MoU to build the Kamengrad mine and TPP jointly.²⁷ Ugljevik III TPP was also a potential project to be implemented by China National Electric Engineering company, but in 2021, Chinese banks refused to provide funding.²⁸ This was related to China's pledge in the UN General Assembly in September 2021 not to build new overseas coal-based projects. Hence the prospects of implementing any of the three TPP projects (Banovići, Kamengrad and Ugljevik) in the future are now very slim.

China is, nonetheless, a marginal trade partner for Bosnia and Herzegovina, and, despite a certain rise in trade in recent years, it still accounts for less than 1 percent of B&H's total exports. The product category which accounts for the biggest share of exports is textiles, with around 25-35 percent, followed by wood which accounts for 15-20 percent of the exports. Furniture is also an important item, accounting for up to 10 percent in some years.

Half of the Bosnian territory is covered by forests, and wood is an important commodity as a resource for domestic companies and as an export item exported to

TABLE 4: EXPORT OF BOSNIAN EXTRACTIVE GOODS TO CHINA

Year	2014	2015	2016	2017	2018	2019	2020
Extractive Exports to China (\$ million)	7.43	8.1	9.54	15.4	15.5	21.6	12.4
Total Exports to China (\$ million)	24.9	46.2	34.5	42.7	56.6	55.6	46.3
Total Extractive Exports (\$ million)	2,440	1,810	1,850	2,360	2,900	2,440	2,150
Total Exports (\$ million)	6,250	5,460	5,700	6,920	7,860	7,160	6,620
% of Extractive Exports to China as Part of Total Extractive Exports	0.30%	0.45%	0.52%	0.65%	0.53%	0.89%	0.58%
% of Extractive Exports to China as Part of Total Exports to China	29.84%	17.53%	27.65%	36.07%	27.39%	38.85%	26.78%

Source: Observatory of Economic Complexity, <https://oec.world/>

China and other countries.²⁹ Although China’s global wood imports have dropped by one third at the beginning of 2022 due to weakened demand, there is a rise in Chinese imports of Bosnian wood. This may be related to the fact that several wood-supply markets and chains have been disrupted as a result of the war in Ukraine, the Russian ban on wood exports (effective from January 1, 2022) and rising prices of wood from North America, all of which forces Chinese companies to seek potential substitutes.³⁰

MONTENEGRO

Montenegro is a small country of 600,000 people, with a primarily service-based economy largely dependent on tourism. Trade between the two nations unsurprisingly favours China. In 2021, Chinese imports accounted for 9.8 percent of the total, while Montenegro exported 1.3 percent of its goods to China.³¹ In Montenegro’s extractive sector, China’s role is minor. The most significant project undertaken by a Chinese company is that signed in 2020 between a consortium led by China’s Dongfang Electric Corporation (DEC) and state electricity company Elektroprivreda Crne Gore (EPCG) on the overhaul of a coal power plant worth over €54 million.³² The amount later increased by a further €15 million.³³ This undertaking will primarily be financed by the state utility supplier Elektroprivreda Crne Gore.³⁴ This project is important in terms of Montenegro’s EU accession because the overhaul will help conform its nitrogen, sulphur and particulate matter emissions to EU standards.³⁵

Overall Chinese FDI in Montenegro between 2015 and 2021 came to below 2 percent. Per available data, in 2016, the industrial sector made up less than 16 percent of Montenegro’s GDP.³⁶ Although impossible to determine through available statistics, it is unlikely that a large number of China’s investments went into the extractive industry, although extractive sector exports make up most of the Montenegrin ex-

TABLE 5: CHINESE FDI IN MONTENEGRO (FLOWS)

Year	2015	2016	2017	2018	2019	2020	2021
Chinese FDI (\$ million)	2.79	0.99	0.76	3.85	3.29	92.28	14.4
Total FDI (\$ million)	829.62	741.37	736.85	979.45	861.9	794.51	1,050.29
% of Total FDI	0.34%	0.13%	0.10%	0.39%	0.38%	11.61%	1.37%

Source: National Bank of Montenegro

ports to China. Nonetheless, in the 2015-2020 period, these China-bound exports accounted for less than nine percent of total extractive exports.³⁷

While China accounts for a minor amount of all extractive industry goods exports from Montenegro, there are categories where China is an important player. In 2020, two extractive goods accounted for most of the overall exports to China: aluminium ore at 72 percent; and lead ore at 12 percent.³⁸ Aluminium ore, namely bauxite mined from the mines in Nikšić, is a major export commodity in the Montenegro-China trade.³⁹ Of all aluminium ore exports in 2020, China accounted for nearly 87 percent.⁴⁰ Although not as large an export item, most of Montenegro's lead ore also makes its way to China. In 2020, China imported 52 percent of lead ore from Montenegro. These two resources are certainly the pillars of bilateral trade. If China stopped taking in these goods, Montenegro would need to scramble to find new buyers. No other types of economic engagement between the two states in the extractive sector were identified regarding concessions, loans or public-private partnerships.

TABLE 6: EXPORT OF MONTENEGRIN EXTRACTIVE GOODS TO CHINA

Year	2014	2015	2016	2017	2018	2019	2020
Extractive Exports to China (\$ million)	23.2	8.41	18.23	60.8	13.96	17.54	22.87
Total Exports to China (\$ million)	24.3	9.64	21.2	63.4	18	21	26.9
Total Extractive Exports (\$ million)	309	231	218	330	299	283	244
Total Exports (\$ million)	660	444	429	645	518	509	508
% of Extractive Exports to China as Part of Total Extractive Exports	7.51%	3.64%	8.36%	18.42%	4.67%	6.20%	9.37%
% of Extractive Exports to China as Part of Total Exports to China	95.47%	87.24%	85.99%	95.90%	77.56%	83.52%	85.02%

Source: Observatory of Economic Complexity, <https://oec.world/>

NORTH MACEDONIA

China is not an important investor in North Macedonia. At the end of 2021, the total stock of Chinese investments amounted to \$141.93 million or 1.99 percent of the total FDI. Two of the three biggest FDI projects are related to mergers and acquisitions of foreign companies with branches in North Macedonia. As such, the transactions do not appear in the Central Bank records. One of the more prominent investments, and the only one in the extractive industry, is the acquisition of the Makstil steel plant in 2016. Makstil’s mother company, the Swiss giant Duferco International Trading Holding (DITH), was taken over in a merger between Hebei Iron and Steel (HBIS) and Duferco Participations Holding (DPH) in 2014. The transaction allowed HBIS to acquire an additional 41 percent of the shares for \$400 million, obtaining a controlling stake in DITH of 51 percent.⁴¹

TABLE 7: CHINESE FDI IN NORTH MACEDONIA (FLOWS)

Year	2014	2015	2016	2017	2018	2019	2020	2021
Chinese FDI (\$ million)	-5.13	6.79	29.15	29.45	27.16	28.42	-31.6	-6.42
Total FDI (\$ million)	272.45	245.86	372.99	199.83	725.31	443.64	226.77	551.87
% of Total FDI	-1.88%	2.76%	7.82%	14.74%	3.74%	6.41%	-13.93%	-1.16%

Source: National Bank of North Macedonia

TABLE 8: EXPORT OF MACEDONIAN EXTRACTIVE GOODS TO CHINA

Year	2014	2015	2016	2017	2018	2019	2020
Extractive Exports to China (\$ million)	83.7	140	35.13	56.19	61.86	165.85	161.79
Total Exports to China (\$ million)	96.5	152	55.43	92.18	77.64	183.01	188.62
Total Extractive Exports (\$ million)	1,240	1,010	864	907	1,360	1,380	1,290
Total Exports (\$ million)	5,530	5,140	5,350	4,540	7,640	7,880	7,260
% of Extractive Exports to China as Part of Total Extractive Exports	6.75%	13.90%	4.10%	6.20%	4.60%	12%	12.50%
% of Extractive Exports to China as Part of Total Exports to China	86.74%	92.11%	63.38%	60.96%	79.68%	90.62%	85.78%

Source: Observatory of Economic Complexity, <https://oec.world/>

China is also not a significant export market for Macedonian companies, receiving on average between 1 percent and 2.6 percent of total Macedonian exports annually from 2014-2020. Ferroalloys account for the biggest portion of exports to China, ranging between 37.7 percent in the worst year (2018) and 89.2 percent in the best year (2015). Ferroalloy exports are produced by the company Euronickel, owned by the Global Special Opportunities Ltd. fund as an intermediary of Delaney Corp., both registered in the Bahamas.⁴² The second most exported product category to China is minerals – marble, travertine, and alabaster, which reached 39 percent of all exports to China in 2018. Extractive goods account for less than 20 percent of all exports. While the share of extractive exports to China represents a minor percentage of total extractive exports, it represents a significant portion of the overall exports to China.

SERBIA

Serbia has the highest level of Chinese presence in its extractive industries, and is considered a hub for Beijing's regional commercial operations and for Chinese activity in the WB in general.⁴³ By the end of 2021, Chinese investments in Serbia reached about €10.3 billion, nearly a third of the €32 billion it has invested in the region overall.⁴⁴ Between 2014 and the end of 2021, Chinese investment accounted for 13.58 percent of foreign direct investment in the country.⁴⁵ Likewise, Serbia's interaction with China in energy and raw materials has been the most significant in the WB region.

The research established two major Chinese investments in the Serbian extractive sector. In 2016, a steel mill in Smederevo was taken over by the Chinese Hesteel Group (Hesteel) for about €46 million.⁴⁶ The company's operations in Serbia are run by its local subsidiary HBIS GROUP Serbia Iron & Steel.⁴⁷

The second transaction was the purchase of the mining and smelting complex, RTB Bor in Bor in 2018 by the multinational mining Zijin Mining Group (Zijin); the entire transaction, including acquisition, servicing of the old company's debt and additional investment in the complex's capacities was valued at €1.07 billion.⁴⁸ Zijin has two subsidiaries in Serbia: Serbia Zijin Copper, which operates four copper mines in Bor, and Serbia Zijin Mining, which operates the Čukaru Peki copper and gold mine, also in Bor.⁴⁹ The Čukaru Peki mine was opened on October 22, 2021; the in-

TABLE 9: CHINESE FDI IN SERBIA (FLOWS)

Year	2014	2015	2016	2017	2018	2019	2020	2021
Chinese FDI (\$ million)	102.59	72.73	235.09	198.4	783.57	375.75	630.45	714.44
Total FDI (\$ million)	1,501	1,976	2,049	2,703	3,603	3,931	3,505	3,656
% of Total FDI	6.83%	3.68%	11.47%	7.34%	21.75%	9.56%	17.99%	19.54%

Source: National Bank of Serbia

vestment was cited to be worth €398.16 million.⁵⁰ In both of these transactions there was an absence of willing Western investors and a strong preference of the Serbian leadership to have the Chinese investor take over these old industrial facilities, that are based on dirty technologies, but that provide employment and economic stability to local communities. In 2016, the year when the steel mill in Smederevo was taken over, Serbian President Aleksandar Vučić pleaded in talks with the Chinese Prime Minister Li Keqiang to acquire RTB Bor in the same fashion: “Without your support, we would not have been able to overcome the difficulties. Your role in taking over the Smederevo Ironworks has saved Serbia economically.”⁵¹

The local subsidiaries of Hesteel and Zijin were Serbia’s largest exporters in the first quarter of 2022, with a combined value of €721.5 million.⁵² As Serbian President Aleksandar Vučić publicly stated in 2021: “It is enough that we are not losing ten or twelve million euros a month at the Smederevo Ironworks, that we do not owe €1.2 billion for the Bor mine as we used to, that we are collecting all the required taxes, that workers are receiving their salaries, that [the ironworks] is becoming one of the two largest exporters from our country.”⁵³

TABLE 10: EXPORT OF SERBIAN EXTRACTIVE GOODS TO CHINA

Year	2014	2015	2016	2017	2018	2019	2020
Extractive Exports to China (\$ million)	34.7	37.2	45	58.9	84	328.7	353
Total Exports to China (\$ million)	52.4	127	148	126	196	400	462
Total Extractive Exports (\$ million)	3,200	2,700	2,800	3,800	4,300	4,200	3,700
Total Exports (\$ million)	15,700	14,300	15,800	17,900	20,000	20,500	20,600
% of Extractive Exports to China as Part of Total Extractive Exports	1.08%	1.38%	1.61%	1.55%	1.95%	7.83%	9.54%
% of Extractive Exports to China as Part of Total Exports to China	66.22%	29.29%	30.41%	46.75%	42.86%	82.18%	76.41%

Source: Observatory of Economic Complexity, <https://oec.world/>

This illustrates that Chinese investments have significantly impacted Serbia’s international trade, particularly in the extractive industries. China is also a major destination for Serbian extractive industry exports. In 2021, the largest export products to China were copper ore and refined copper, totalling slightly over €694.68 million.⁵⁴ A distant third and fourth place were occupied by refined beech timber and unrefined timber, totalling €42 million.⁵⁵ These four categories of goods comprised the vast majority of Serbia’s total exports to China, about €793.8 million.⁵⁶ Thus, we can conclude that Serbian exports to China primarily consist of products from the extractive industry. In 2020, China received 9.54 percent of extractive industry exports.

In that same year, in the extractive good category, China imported refined copper, copper ore and ferroalloys the most. These items respectively composed 49.4 percent, 9.59 percent and 4.53 percent of Serbia’s overall export to China in 2020. Share of extractive exports in total exports to China in 2019 and 2020 was 82.18 percent and 76.41 percent respectively.⁵⁷ This shows that although Serbia’s extractive exports to China are bustling, it is not solely reliant on the Chinese market for its products. Although Serbia exported just over 260 thousand tonnes of copper-related products to China in 2021, China’s industry has a limitless appetite for the metal which is important in sectors as varied as construction and electronics.⁵⁸

Regarding loans in the extractive industries, Serbia took a loan of slightly over €235 million from the Export-Import Bank of China to renew two units within a coal power plant “Kostolac B” in 2011. According to this agreement, the Chinese company, China Machinery Engineering Corp. (CMEC), would refurbish the power plant and construct an additional unit.⁵⁹ Another loan worth €456 million was taken from the same bank to increase the plants’ capacities and expand a coal quarry in 2014.⁶⁰ The construction of a new power unit “Kostolac B3” is in its final stage and is expected to be completed in September 2023. It is the only such facility under construction in the Western Balkans, and it has experienced many delays, including because of the COVID-19 pandemic.⁶¹

There were other projects involving China that never came through. Among them was the project of the Kolubara B coal power plant, originally planned by the Serbian government in the late 1980s only to be halted in 1992 when Serbia was under international sanctions. In 2012, the European Bank for Reconstruction and Development (EBRD) considered financing the project only to give up on environmental grounds. The project was revived in 2018 and in 2020 a preliminary construction agreement was signed with PowerChina for completing this project. The project was abandoned again in May 2021 as part of an attempt to reduce Serbia’s dependency on coal.⁶²

In 2019, a memorandum was signed with the Chinese chemical company Yanggu Huatai announcing that it will build a sulphur factory in the town of Zrenjanin, intended to supply the Chinese car parts manufacturer Linglong which is constructing a tire factory in that town.⁶³ In 2020, news emerged that another Chinese company, Chinese Green Miles Chemicals, will construct a factory in Zrenjanin for producing tributyl phosphate.⁶⁴ These two projects have not materialised, and the land intended for the sulphur factory remains vacant. In that same context, it was reported that there are delays on the construction of the Linglong factory as well, most likely due to problems of an administrative and financial nature in China.⁶⁵ In 2016, an agreement was reached that the UK-based Scarborough Group International alongside Chinese state-owned company China National Electric Engineering (CNEEC) will develop a natural gas-fuelled heat and power plant in Loznica, with the project estimated to be worth €230 million. The project has been stalled ever since and its deadline extended without any other available information.⁶⁶

The Impact of the Chinese Presence in the Extractive Industries in the Western Balkans

This chapter aims to analyse the impact of China’s presence in the extractive industries by focusing on five aspects: economic development, environment and public health, the rule of law and good governance, human rights, and cross-cultural issues.

ALBANIA

The initial rationale for Chinese entry into the Albanian mining industry was based on commercial logic. In 2010, Kurum Albania, a branch of the Turkish Kurum Holding and the only Albanian steel producer at the time, invited a Chinese investor, hoping to expand and export more to the Chinese market by signing long-term supply contracts.⁶⁷ However, the cooperation did not work out, and the Chinese investor disinvested and left, leaving the impression that they had a poor understanding of the local context and could not manage the relationships with local stakeholders.⁶⁸ During their presence, the Chinese owners did not request nor implement any changes in management, operations, technology, or HR but accepted the already established practices and there were no reports of misconduct.⁶⁹

When it comes to Albania’s biggest Chinese investment, Geo Jade’s acquisition of Bankers Petroleum, the company has around 500 direct and 1500 indirect employees (through subcontractors), accounting for approximately 95 percent of domestic oil production. Since its arrival in Albania, Geo Jade has invested around \$2 billion in oil production, and its tax contributions amount to five percent of the country’s GDP.⁷⁰ According to Geo Jade’s executive, their investments are aimed at aligning the production process with the latest technological advancements.⁷¹

However, even with the slightly expanded oil production capacity (1 million tonnes or 6.6 million barrels per year), Bankers Petroleum is quite a minor operation in terms of Geo Jade’s overall size and ambitions. Moreover, Albania is considered to have already exploited half of its oil reserves.⁷² Hence, it is widely seen as an important investment to merely ensure Chinese presence and as a trampoline for potential expansion into other markets, but not insofar as maximising profits.⁷³ Hence, in the Albanian energy industry, the logic behind the Chinese investment seems to be guided by both economic and political objectives.

Bankers Petroleum has also been subject to controversies, accused by local oil distributors of abuse of its dominant position and, following an investigation, fined \$120 million by the Albanian Competition Authority.⁷⁴ The company has also sued one of its local Albanian directors for taking a bribe.⁷⁵ However, while the Chinese

owners have not introduced new managerial practices or improved environmental or HR standards, they have made sure to maintain a positive image, have been very respectful of the laws and maintained good relations with the local stakeholders.⁷⁶ The increasingly tense relationship between the government and Chinese investors, in the context of the broader geopolitical rivalry between the US and the EU on the one hand and China on the other, could partly explain this position of 'maintaining a low profile' and waiting for better times.

BOSNIA AND HERZEGOVINA

In B&H, controversies about the Chinese involvement in the extractives have mostly revolved around the wood industry. Initial alarm and media reports regarding the over-exploitation of forests in B&H were voiced as early as 2008 and again in 2014, but the government institutions have undertaken no significant measures to address the issue.⁷⁷ In the Federation, woods are governed by cantonal public enterprises (shumarije), and no forest protection law exists. In Republika Srpska, the governance is more centralised, and there is a legal framework for the protection and exploitation of forests. Still, there are enforcement issues and a lack of monitoring on the ground.⁷⁸

The Chinese actors exploit these governance weaknesses and work in nexus with local stakeholders and interest groups with connections to local politicians and institutions.⁷⁹ This allows for Chinese companies and individual entrepreneurs to purchase raw wood by circumventing the existing rules in three ways: by buying wood that local public enterprises have already sold to local manufacturers for higher prices, purchasing from private owners who own 22 percent of all the woods and are encouraged to cut more than what they are allowed to, as well as through illegal logging which is on the rise.⁸⁰ The prices that the Chinese pay for a cubic metre of oak, their preferred wood type, are 4-5 times higher than the market rate in B&H.⁸¹

This is partly due to the Chinese government subsidies for wood imports, which are said to be the biggest driver for Chinese entrepreneurs in Bosnia.⁸² In 2021, wood exports to China more than doubled, amounting to two thirds of all the exports to China. Moreover, the share of wood in the total exports is higher for China than it is in the case of the other countries that B&H exports to.⁸³ During the first quarter of 2022, wood exports to China further increased by 250 percent (from €2.2 mil. to €5.2 mil.); the revenues of the port of Brčko, which receives around 50 containers of logs per week for storage and shipment, quadrupled (from €10,000 to €40,000). The value of the exported raw wood increased nine times due to the rising prices (from €360,000 to €3.3 mil.).⁸⁴ With the war in Ukraine which increased demand for wood on European markets as well, especially for pellets and firewood, it can be expected that the situation in the wood industry and the burden on the forests will become even more serious.⁸⁵

Following lobbying from local companies and business chambers, the national government finally adopted a ban on raw wood exports in June 2022. However, the Chinese companies found a way to exploit legal loopholes as quickly as August: one Chinese company purchased a small wood processing facility in Pelagićevo where

they could do minimal cuts to the logs to export them under a different export category – processed wood.⁸⁶

Over-exploitation of forest resources, especially for exports as raw materials, damages local economies and companies that are already experiencing an increasing lack of resources.⁸⁷ Moreover, it leads to air and water quality deterioration and increases the risk of landslides. However, civil society organisations and local communities are not included in managing forests as an invaluable natural resource, and public institutions largely remain non-transparent and non-cooperative.⁸⁸ Furthermore, civil society lacks the capacity and funding to engage in more meaningful watchdog and advocacy activities, while local communities are reluctant to voice their concerns and speak publicly because employment in the wood industry is relatively important.⁸⁹

Away from the logging industry, B&H has previous negative experience with Chinese involvement in the case of the Tuzla TPP. Although the project went against all EU recommendations, it managed to obtain the support of all political parties to have a sovereign guarantee for the loan issued by the Bosnian Federation, in breach of the Energy Community rules on state aid.⁹⁰ Environmental activists pointed out non-compliance with local and EU legislation from the beginning: a flawed environmental impact assessment based on incorrect input data (later challenged in court), and non-alignment with EU directives on industrial emissions and cross-border pollution as the TPP is located 40 km from the Croatian border.⁹¹ Moreover, the project’s health-related economic costs were evaluated to amount to €810 million and the loss of 39,000 life-years in the period 2015-2030.⁹²

However, the project seems to be less certain to be implemented by the day as the companies who were supposed to provide the equipment – General Electric and Siemens, decided to withdraw from coal-based projects in 2021.⁹³ Although the Chinese contractor insists on procuring Chinese-manufactured equipment of comparable or even better quality, the Bosnian parliament has the legal basis for and is likely to proceed with the project’s cancellation amidst growing local and international pressure.

MONTENEGRO

In Montenegro, it was not possible to extrapolate data on the impact of Chinese investments in the extractive industries for the simple reason that there are none. The Chinese have not acquired any local assets or businesses dealing with extractives. Instead, their interactions with Montenegrin extractive industries were limited to overhauling of the coal thermal power plant in Pljevlja and importing aluminium from Nikšić. The biggest and most famous Chinese investment in the country was the most controversial one and it concerned the construction of a highway connecting the port city of Bar with neighbouring Serbia. The project was implemented by the state-owned China Road and Bridge Corporation and Chinese Exim Bank provided the loan. The project resulted in debt close to €1 billion and it inflated Montenegro’s public debt to 103.28 percent of GDP in December 2020.⁹⁴ Compared to the highway project, controversies of that magnitude were not recorded regarding the minor Chinese engagement with the Montenegrin extractive industry.⁹⁵ However, this does not mean that there are no reputational red flags at all, as BB Solar,

a company that is part of the Sino-Montenegrin consortium that won the tender for the overhaul of the powerplant in Pljevlja, is headed by Blažo Đukanović, the son of Montenegro's president, Milo Đukanović.⁹⁶

NORTH MACEDONIA

Makstil is the successor of a state-owned mining and steel mill enterprise that opened in 1967 and was privatised in 1997 when it was sold to Duferco International Trading Holding (DITH). Except for the period during the European economic and financial crisis, Makstil has been performing at continuously high levels, and it is one of the biggest companies and exporters in the country, employing around 1,000 people and accounting for 0.3-0.4 percent of GDP and 1.5 percent of net exports.⁹⁷

In 2016, Hebei Iron and Steel (HBIS) bought the majority share of DITH, becoming the owner of Makstil indirectly. However, the transfer of ownership did not change anything in the actual company operations regarding management, technology, HR, or any other company policy.⁹⁸ There has also not been any change in export destinations, with the EU and Balkan countries remaining the main markets for Makstil, especially given that China is the biggest steel producer.⁹⁹ In the past, the company was considered a major source of pollution and the subject of complaints by local residents.¹⁰⁰ Since 2015 and as the company installed new equipment to obtain an A-grade integrated ecological permit, the situation has largely improved, despite occasional incidents. However, the environmental improvements cannot be directly related to Chinese investment as they predate it.

There is no evidence of any interaction between the Skopje HBIS branch and the Chinese investor or the sister company based in Smederevo, Serbia. Following the acquisition, there have not been any changes on the board of directors to include Chinese representatives.¹⁰¹ Interestingly, the Chinese ownership (albeit indirect) of Makstil has barely been mentioned in the Macedonian media, and even the Chinese Embassy's economic department in Skopje was unaware of it.¹⁰² This opens the question whether China had any direct interest in acquiring Makstil, and leads to the conclusion that the prime attraction point in the acquisition was DITH as one of the biggest steel traders in the world, with Makstil in itself being of no immediate interest. The current situation of no direct interaction could be ascribed to the fact that Makstil is either too small to matter, is performing sufficiently well, or has reached the maximum production capacity. However, there is still a need for investments in terms of 'greening' of the production process to comply with the latest EU requirements (especially the carbon adjustment mechanism) and to deal with the energy crisis.

SERBIA

Chinese-owned enterprises are a major factor in Serbia's economy. In the first three months of 2022, total Serbian exports were €6.21 billion,¹⁰³ with three Chinese investors accounting for €721.5 million of the total: Serbia Zijin Mining (€276.8 million), HBIS Group Serbia Iron & Steel (€234.7 million), and Serbia Zijin Bor Copper

(€210 million).¹⁰⁴ This means that in the first three months of 2022, the three Chinese investors in Serbian extractives accounted for 11.6 percent of the country’s exports.¹⁰⁵

Unfortunately the latest records are unavailable, but in 2021 HBIS Group Serbia Iron & Steel accumulated revenues of €1.11 billion¹⁰⁶ and Serbia Zijin Mining had revenues slightly above €468 million.¹⁰⁷ Serbia Zijin Bor Copper accumulated revenues above €1 billion in 2021.¹⁰⁸ Regarding profit, HBIS Group Serbia Iron & Steel earned slightly less than €202 million in 2021.¹⁰⁹ In 2021, Serbia Zijin Mining achieved a profit of over €292 million.¹¹⁰ Serbia Zijin Bor Copper in 2021 earned a profit of over €202 million.¹¹¹

Moreover, the Chinese companies in extractive industries also play a major role as employers. In 2021 HBIS Group Serbia Iron & Steel was estimated to have 4,858 employees.¹¹² Serbia Zijin Mining employs approximately 442 employees,¹¹³ while Serbia Zijin Bor Copper employs around 5,400 people.

The Chinese investments in extractives have a damaging impact on environmental safety and public health. Although Chinese companies are interested in profits in the same way as Western companies and Serbia is no stranger to poor environmental standards, what distinguishes Chinese companies is the speed with which they exploit the local resources, increasing the rate of environmental damage. Moreover, while Western investors have a history of environmental standards, Chinese companies do not have legal and ethical restrictions in their country of origin that can match those in Western countries with a more powerful rule of law tradition and a more critical public.¹¹⁴

In Smederevo, HBIS Group Serbia Iron & Steel invested €300 million in technology and pollution reduction technologies in 2021.¹¹⁵ However, despite this, red dust raining down due to pollution continues to be a regular occurrence in Smederevo.¹¹⁶ The village of Radinac, part of the municipality of Smederevo, is suffering from high levels of the polluting PM2.5 particle. In 2020, the inhabitants of Smederevo and Radinac blocked the railway and the Danube river port used by the steel mill in protest over air and soil pollution.¹¹⁷ In Bor, air pollution has manifested itself through the particle PM10, while cadmium, arsenic, and nickel exceed the allowed values.¹¹⁸ In 2020, the city of Bor filed a criminal complaint against Serbia Zijin Bor Copper for air pollution.¹¹⁹ In 2021, Bor experienced the highest degree of sulphur dioxide (SO₂) air pollution in Serbia.¹²⁰ Surface and waste water pollution has also been recorded.¹²¹ In April 2021, the Serbian government ordered China’s Zijin Mining Group to temporarily freeze mining operations due to non-compliance with environmental standards.¹²²

Public health suffers as a result of this pollution. In 2021, Serbia was ranked 9th worldwide concerning pollution-related premature deaths and first in Europe.¹²³ Smederevo, whose wider region has 100,000 inhabitants, reported 6,866 cases of cancer in 2019, compared to 1,738 in 2011.¹²⁴ The carcinogenic arsenic in the city of Bor has already reduced life expectancy by ten years, with 25 percent of Bor’s population suffering from some form of malignancy, including leukaemia and autoimmune diseases.¹²⁵ There is a tendency of authorities to manipulate data in Bor to show a decreased number of malignancies in the city, and some radioactive elements like uranium, radium, and radon are not measured, although experts suspect their presence.¹²⁶

In the rule of law domain, the engagement of Chinese entities contributes to the erosion of related standards. The Serbian government has been willing to adjust the

regulatory environment to the needs of Chinese investors¹²⁷, although it should be stressed that investors from other countries can also profit from such a lax approach by the Serbian government. The 2019 Law on Public Procurement has inadequate provisions on competition, environmental standards, and access to information. The 2020 Law on Special Procedures gives the Serbian government the authority to declare an infrastructure project urgent and bypass procedures on public procurement, protecting investors from legal inquiries and oversight.¹²⁸ The Serbian government has also amended its labour legislation allowing Chinese workers to live and work in Serbia for five years.

On top of that, Chinese companies can regulate their relations with employees in line with Chinese labour legislation, meaning that Serbian labour law is not applied to Chinese workers on Serbian soil.¹²⁹ In early 2021, reports emerged that Serbia Zijin Bor Copper held Chinese workers in Bor, confiscating their passports, restricting their freedom, and keeping them in unsafe conditions during the COVID-19 pandemic.¹³⁰ In Smederevo, there are complaints about poor working conditions and low wages.¹³¹ Even Chinese investments in other sectors, like the tire factory constructed by the Chinese tire manufacturer Linglong are marred with labour standards violations. In late 2021, a major scandal erupted as Vietnamese workers engaged in the construction of Linglong factory were kept in inhumane conditions with restricted freedom.¹³² Moreover, property rights are endangered in Bor as the Chinese companies expropriated land from 20 inhabitants of the nearby village of Slatina to expand the mine at a smaller price than the one defined by the Tax Administration. These citizens have been engaged in a court dispute with Serbia Zijin Bor Copper.¹³³ More recently, in January 2023 the employees of the Serbia Zijin Bor Copper blocked the entrance to the mining and smelting complex demanding higher wages and better working conditions.¹³⁴

Regarding cross-cultural ties, the Chinese presence has had a mixed effect. The Chinese investors and workers cause a degree of uncertainty within the local population as the Chinese newcomers live isolated lives without effort to integrate with the local communities. In Smederevo, the ire of local critics was not directed at the Chinese workers but against the local authorities. In Bor, there was a willingness to accept the Chinese workers since Bor is a multi-ethnic community. However, there have been recorded incidents in the neighbouring village of Metovnica where Chinese workers allegedly approached underage girls in search of sexual services.¹³⁵

Conclusion

In assessing the impact of the Chinese presence in the extractive and raw materials industries across the WB, it is clear that the effect remains uneven in terms of both the scope of Chinese engagement and its implications. Serbia stands out as the largest recipient of Chinese capital. This corresponds with the generally high level of bilateral relations across different fields, making the country an outlier in the region. Due to their smaller physical and economic size, the other countries in the Western Balkans have received less interest and investments in their respective industries.

In North Macedonia, despite HBIS being the indirect owner of the biggest local steel mill, there is no perception of a major Chinese presence as there are no significant contacts with the Chinese owners, who do not appear to be involved in the daily management of the company's operations. In Albania, there used to be an extensive presence of Chinese companies, but there has been a tendency towards disinvestment, and the Albanian government is not enthusiastic anymore about improving relations with China, largely for geopolitical reasons, further stilling the potential for cooperation. In B&H, there is only unofficial Chinese presence in the local extractive industries related to wood exploitation. In Montenegro, apart from minor transactions, there is no Chinese involvement in terms of ownership of local extractive industry enterprises.

In terms of the impact of China's presence in the extractive industries, the situation is also quite diverse across the region. The experience with Chinese involvement has been largely unproblematic in Albania and North Macedonia. In Albania, despite one issue related to competition policy, Chinese companies are generally seen as compliant with the national legislation and are not seen worse than other investors. North Macedonia has not recorded any irregularities despite the Chinese ownership of the Makstil steel mill. In Montenegro, the controversy was related to the fact that a company owned by President Đukanović's son was a partner of the Chinese company which was awarded the Pljevlja contract.

The situation is different in B&H and Serbia, where Chinese presence has been associated with negative phenomena. The key factor is the countries' domestic agency, including systemic weaknesses in the internal political and governance systems, particularly in B&H, and the 'privileged' relationship with China and its importance in Serbia's foreign policy.

In B&H, the involvement of Chinese entrepreneurs in the exploitation of wood is problematic from the point of view of the rule of law, good governance, and environmental protection, as they cooperate with local stakeholders in exploiting governance weaknesses that plague the country. The situation is also particularly alarming in Serbia, where the negative impact of the Chinese presence in the extractives corresponds with its generally high level. The Chinese investments in the extractive and raw materials industries in the country have been marred with scandals related

to the environment and public health, the rule of law and good governance, human rights, and cross-cultural issues.

While China's interest in the WB extractive sector initially started as an avenue to ensuring a global presence under the BRI and the China-CEE cooperation platform, at present and with the decreasing popularity and intensity of these initiatives in some of the countries, China is diversifying its approach: seeking to merely maintain its presence in countries where it has become less welcome and to enhance it where it is possible.

The drivers behind China's presence in the WB are multiple and diverse across different countries, sectors, and particular investment projects. In some cases, it can be driven by commercial interests, in others by the political logic of gaining influence in individual countries, or even some combination of the two motives. When it comes to investments in steel and oil extraction, China's prime motivation is not to import these materials but for the Chinese companies to export them under a broader business logic and to secure an ever-stronger international presence. This can be explained by the fact that China itself is the biggest steel producer in the world and, in the case of oil, it secures its supplies from a great variety of countries, some of them producing significantly greater quantities than Albania and located closer to China.

In addition to the business logic which allows Chinese companies to secure profitable deals and expand into new markets, the broader economic logic of satisfying China's needs for raw materials is also valid in some industries (copper, chromium, aluminium, wood). When demand is high, every little counts. This can be seen by the fact that most of the copper produced in Serbia and in Albania goes to China, as well as a significant share of Albanian chromium and Montenegrin aluminium.

In line with the economic logic, Chinese companies' projects are usually conducted using workforce and materials from China. In this way, however small the projects are, the companies and workers involved continue to grow their expertise, stay active in the region and build a portfolio that could become useful in their attempts to secure other deals and penetrate the European market. An additional incentive is that all the WB countries have favourable trade conditions with the EU through their Stabilisation and Association Agreements. In this way, goods produced by Chinese companies in the region have easier access to the EU common market than those made in China.

Furthermore, there is also indisputable political logic. China seeks to develop activities in the WB to serve as a point from which it can project its influence further in the region and the EU. Beijing is not discounting the possibility that the region will become part of the EU. Therefore, China is investing in the future by having additional allies at the table when the EU makes its decisions.

Overall, the state of play is not likely to change, and Serbia will remain the outlier in the region regarding its level of Chinese presence. This is largely because the Serbian government actively and successfully seeks Chinese engagement in its extractive industries. China and its economic involvement helps the President and the ruling party to continue cultivating the image of saviours of the local economy. This reality makes Serbia completely different from North Macedonia and Albania, which are not currently eager to attract more Chinese economic involvement, or Bosnia and Herzegovina, which simply cannot attract Chinese investments effectively.

The assessment of net benefits of this engagement for the WB countries is mixed. While exports and investments in the extractive and raw materials sector do help the local economies, the overreliance on extractive exports from polluting industries, which deplete natural resources and have a low value-added component in the bilateral trade relationship, is a reason for concern. Moreover, this is further aggravated by the nexus of domestic, structural weaknesses related to rule of law and good governance, especially as seen in Serbia and B&H, and the Chinese approach which often aims to exploit them.

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