Chinese Economic Influence in Europe

The Governance and Climate Conundrum
CHINESE ECONOMIC INFLUENCE IN EUROPE

THE GOVERNANCE AND CLIMATE CONUNDRUM
The growth of Chinese economic and political influence has locked a number of Central and Eastern European countries into long-term, large-scale and costly infrastructure projects that have contributed to an excessive dependence on Chinese capital. In order to study the true extent of Chinese economic influence, the Center for the Study of Democracy (CSD) has developed a composite Chinese Economic Power Index. The index is based upon comparative macroeconomic, financial, corporate, energy and environmental data, as well as an expert assessment of key governance deficits and the impact of a Chinese presence on the environment.

The analysis provides key recommendations to address the political and environmental fallout from an excessive dependence on capital from China by offering policies to make these investments more transparent and compliant with EU rules.

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EXECUTIVE SUMMARY

China’s presence in Europe has been gaining momentum over the last decade. Beijing has increased its influence at the backdrop of a renewed global power competition and a series of structural crisis in the EU. China has engaged differentially with European regions, segmenting its approach towards Northern, Southern, and Central and Eastern Europe (CEE). China has set up the 17+1 initiative in the CEE, including all former Communist countries. In addition, its Belt and Road Initiative has been a powerful geopolitical tool for the penetration of Chinese capital in the region.

More recently, China has engaged in aggressive global disinformation messaging campaigns as part of its strategy to strengthen its own standing and weaken others, a recent example being the COVID-19 pandemic. The latter disinformation operation has been coupled with a diplomatic push to present China as the most important global leader in the fight against the spread of the disease.

The growth of Chinese economic and political influence has locked a number of CEE countries into long-term, large-scale and costly infrastructure projects that have contributed to an excessive dependence on Chinese capital. The Chinese-led investments are often not consistent with EU technical standardisation and/or with the EU acquis on completion and public procurement. In addition, environmental regulations are often ignored or projects are not compliant with the overall policy of decarbonisation and sustainable growth.

To study the true extent of Chinese economic influence, CSD developed a composite Chinese Economic Power Index that is based upon comparative macroeconomic, financial, corporate, energy and environmental data, as well as an expert assessment of key governance deficits and the impact of the Chinese presence on the environment.

China has increased its economic influence from just 0.46% of the CEE economy in 2009 to 1.25% in 2019. Czechia, Hungary, Serbia and Bosnia and Herzegovina having seen the biggest increase in the Chinese economic footprint. China has become the single largest trading partner in the region. Since 2009, around USD 14 billion in Chinese funds have entered the region in the form of grants, loans, mergers and acquisitions and concessions. Chinese investments in CEE have been focused in a few key sectors – transportation, energy, manufacturing, and telecommunications. There are close to 10,000 firms in the region with Chinese ultimate beneficial ownership and around USD 50 billion in projects either under construction or in the pipeline. In effect, China has been gradually filling in the power vacuum left by the EU and the U.S. that have grown increasingly weary of further reforming the region. This has been particularly true in the Western Balkans where local governments have prioritized non-EU deals as a way of loosening governance conditionalities and of channelling funds to local oligarchic networks.
The rising Chinese economic footprint over the last decade has coincided with a deterioration of governance standards. The adverse effects have been the strongest in Serbia, Bosnia and Herzegovina, and Montenegro. Hungary has been the prime example among the EU member states. National governments, particularly in the Western Balkans, have provided Chinese contractors with preferential treatment and state aid in the form of tax exemptions and the circumvention of labour standards. China has also tapped into EU regional funds for infrastructure. By 2020, Chinese companies have doubled the amount of EU-based contracts secured in the region to nearly EUR 2 billion. The Pelješac bridge in Croatia is the most prominent case in point.

There is also a positive correlation between the Chinese financial inflows to the region and the negative impact on governance. The more indebted a country has been to China relative to its GDP, the higher the likelihood that China has leveraged existing governance deficits to expand its economic and political influence. The Western Balkans are the most vulnerable to China’s increasing economic presence, with Bosnia and Herzegovina, and Montenegro being seen as the weakest links. This is not surprising since the conclusion and implementation of large-scale loan deals with China in these two countries have been accompanied with serious concerns about the transparency of the agreements, their consistency with competition and environmental laws, as well as their connection to widespread state capture practices.

Chinese direct lending for infrastructure projects typically covers 85% of the project capital costs with the remainder financed by the host countries. For some of the smaller economies like Montenegro and Bosnia and Herzegovina, Chinese-led projects make up around a quarter and a fifth of the countries’ GDP, respectively. This makes China’s economic presence in these countries a structurally-indispensable factor. As most Chinese projects are financed via intergovernmental loans, the Chinese economic footprint has translated into a significant debt exposure. On average, Chinese project-linked loans are estimated on average at 5.6% of the GDP of the different countries in the region.

State capture networks in the Western Balkans have also directly benefitted from the agreements with China. Local companies with close ties to the governments in the region have been lobbying directly for the implementation of these projects. That said local businesses are not strongly dependent on China for imports, exports or financing but have a commercial interest in acting as a bridge between China and the national governments.

The Chinese-driven projects in the region share one key similarity – the disregard for the countries’ environmental policies and environmental feasibility. Chinese projects contribute to the policy lock-in of governments that abandon decarbonisation objectives and continue to prioritize the exploitation of carbon-intensive industries including coal-fired power generation and heavy metallurgy (e.g. the Smederevo steel plant in Serbia). The construction of highways is often similarly lacking in strong economic feasibility and diverts large public resources from more productive investments including a low-carbon economic transition. It will also undermine the 2030 and 2050 targets of EU member-states for carbon emissions reduction and the imple-
The unavoidable coal phase-out over the next decade would be delayed with grave economic consequences in terms of stranded assets and a painful transition for coal-dependent workers. Similarly, the employment of foreign workers to implement and operate the projects goes against the overall EU strategy for Just Transition for workers in carbon-intensive sectors. Even when Chinese investments are geared towards energy transition objectives, RES investments are not in line with the EU energy policy agenda prioritizing local, urban and regional initiatives for energy transition that focuses on decentralization and democratization of energy supply.

Based on the assessment of the Chinese economic influence in CEE, the following non-exhaustive list of policies could be considered for reducing its negative impact on domestic governance and energy and climate policies:

- There is a need for a robust U.S. and EU response using a range of economic tools for establishing the foundations for a low-carbon economic development. This needs to be combined with the enforcement of EU-wide governance standards and screenings for Chinese investments.
- The EU should reinforce its position as the primary driver of economic development in CEE by filling the funding gap for the implementation of strategic economic development projects such as the completion of transportation corridors, the modernization of energy grids, and of the housing and industrial buildings stock, and the kick-starting of energy transition investments.
- The EU should introduce its strong climate and rule of law conditionality for the disbursement of its funding for the Western Balkans. The new funding framework could be used to replace Chinese loans for the implementation of energy and transport infrastructure projects.
- The Three Seas Initiative should become an effective mechanism to attract more capital from Western Europe and the U.S. that has a positive impact on the overall market and governance environment in CEE.
- The Energy Community should be empowered through the expansion of its powers to ensure the implementation of the EU energy and climate acquis in its members in the Western Balkans through the introduction of tougher sanctions for non-compliant behaviour.
- There is a need for a robust monitoring and enforcement mechanism to discontinue energy projects that might undermine the low-carbon energy transition in both member states and accession countries. The EU needs a Europe-wide system for reviewing the security implications – for individual nations as well as the Union as a whole – of investments in the energy sector by third parties in European companies or operations.
- National governments in the region should close key governance gaps that have been exploited by China to promote its investments. They need to start conducting detailed assessments of the feasibility of large-scale projects and a compliance check to ensure intergovernmental agreements are in line with national and EU law.
INTRODUCTION

China’s economic presence in Europe has been gaining momentum over the last decade. It has been enabled by China’s growing economic strength and several consecutive economic and governance crises in Europe. This has come amidst the backdrop of a renewed global power competition. Against this backdrop the extent and potential impact of the Chinese economic influence have been most disconcerting in Central and Eastern Europe (CEE). There, the combination of democratic backsliding, state capture and a weakening of the EU’s gravitational pull have opened gaps, which could be exploited by authoritarian states such as China and Russia. Both have taken advantage of the governance deficits inherent in the political systems of these countries to increase their economic and political influence.

The Belt and Road Initiative (BRI) has provided a general framework for the penetration of Chinese capital in CEE. So far, China has channelled strategic investments into infrastructure projects in transport and energy in the region on the back of politically-driven Chinese loans and intergovernmental agreements. Such investments that included clauses favouring the use of Chinese companies and workforce have opened the way to more Chinese economic activity in the region including the acquisition of strategically-important companies or the opening of local Chinese bank branches, for instance in Serbia and Hungary. CEE countries have also welcomed Chinese investment as it does not come with the same conditionalities around good governance, transparency and environmental sustainability that are often attached to EU funds. As a result, they have tended to reinforce governance deficits in the region.

A greater understanding of and policy focus on China’s growing strategic influence are urgently needed to stem its negative consequences and to strengthen the geopolitical stability and democratic governance of the whole region. The following report assesses in detail the structural economic ties between China and countries in the CEE region. The governance deficits linked to Chinese investments in the sectors related to climate policies including energy, infrastructure, transportation and heavy industry are assessed through selected case studies related to the implementation of large-scale Chinese projects.

1 Most investments by Chinese state-owned enterprises (SOEs) in CEE have been implemented in the context of the Belt and Road Initiative (BRI). Launched by the Chinese president Xi Jinping in 2013, this project stretches over 70 states in Asia, the Middle East, and Europe. The BRI in CEE is often referred to as the Balkan Silk Road. In addition, since 2012, the leaders of 17 Central and East European countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Greece, Hungary, Latvia, Lithuania, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, and Slovenia) China has met annually in the context of the 17+1 (formerly 16+1) forum, which is “primarily a framework facilitating bilateral cooperation” in the fields of infrastructure, transportation and logistics, trade, and investment.

2 The comparative assessment covers 12 selected CEE countries including Bulgaria, Romania, Greece, Croatia, Hungary, Czechia, Bosnia and Herzegovina, Serbia, Montenegro, North Macedonia, Albania and Kosovo. Due to data availability issues, for certain indicators, there are statistical gaps for certain years and/or countries.
The report pioneers a *Chinese Economic Power Index* that is based upon comparative macroeconomic, financial, corporate, energy and environmental data, as well as an expert assessment of key governance deficits and the impact of the Chinese presence on the environment. The analysis provides key recommendations to address the political and environmental fallout from the excessive dependence on capital from China by offering policies to make these investments more transparent and compliant with EU rules.
Since the financial crisis of 2008, economic links between China and CEE have intensified. The trade turnover between China and the region has been steadily rising and China continues running large and growing trade surpluses with almost all of the countries from the 17+1 Group. Currently, China is the single largest trading partner of the region.

In addition, since 2009, around USD 14 billion in Chinese funds have entered the region in the form of grants, development loans, mergers and acquisition of assets and concession agreements. There are close to 10,000 firms in the region with Chinese ultimate beneficial ownership and around USD 50 billion in projects either under construction or in the pipeline. In effect, China has been gradually filling in the power vacuum left by the EU and the U.S. – who have grown increasingly weary of further reforming the region. This has been particularly true in the Western Balkans where local governments have prioritized non-EU deals as a way of loosening governance conditionalities and of channeling funds to local oligarchic networks.

Revealing the actual size of the Chinese economic footprint requires a look at three main analytical pillars of the comparative assessment:

• **Structural Economic Ties**: assessment of the development of trade, investment and corporate ties with a focus on the potential amplifying effects of the Chinese economic influence on climate-related sectors such as energy, transportation and heavy industry, excessively dependent on Chinese capital or markets.

• **Climate Impact**: qualitative assessment of the impact of Chinese investments and large-scale projects on the governments’ climate policies, the implementation of EU technical and environmental standards, as well as quantitative review of the effect of Chinese projects on the level of CO2 emissions, air pollution and environmental degradation.

• **Governance Impact**: assessment of the ability of China to lock national governments in the region into long-term infrastructure projects based on intergovernmental agreements or other cooperation instruments; specific focus is placed on the risks of a Chinese debt trap.

The comparative assessment of these three pillars has been summarized in a *Chinese Economic Power Index*. Accordingly, the index consists of three sub-indexes:

• Chinese Economic Footprint Index
• Index of Environmental and Climate Impact in CEE
• Index of the Chinese Influence on Governance and Strategic Policy

The key findings from the Index and the main policy messages are summarized in the sections below.

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3 See the Methodological Annex for more information on the Index.
Over the last decade, China has transformed from being a marginal actor to one of the largest economic players in CEE. Taking the region as a whole, China has increased its footprint from just 0.46% of the economy in 2009 to 1.25% in 2019. Yet, in some countries China has expanded its economic profile much more visibly (See Fig. 1). Czechia, Hungary, Serbia and Bosnia and Herzegovina have seen the biggest increase in Chinese economic influence. The expansion of trade flows from China and the development of a number of large-scale infrastructure and energy projects have made these countries more vulnerable than others in the region. All CEE countries run persistent and growing trade deficits with China with over half of them going up to above 4% of GDP. This could lead to macroeconomic imbalances in the future. Balance of payments vulnerabilities have been often leveraged by China to pressure foreign governments in changing their foreign policy orientation or to give up strategic assets.

The notable rise in the trade dependence on China in most Western Balkan countries could also be related to the growing imports of goods that Chinese companies have been using in the implementation of large infrastructure projects in the region. Serbia and Montenegro have been the most vulnerable to Chinese economic influence in the Western Balkans. More than half of all Chinese projects (by value) that have been commissioned or are underway in the region are located in Serbia. These include 19 projects or large company acquisitions. Among the projects are the construction of major transport infrastructure, including parts of the EU’s Pan-European transport system, such as Corridor X railway and highway sections, and Corridor XI highway, the Mihajlo Pupin bridge, and the Belgrade metro network. Chinese companies have also bought some of the largest industrial complexes in the country (the Smederevo steel plant and the copper mining and smelting complex in Bor). China is also investing in the modernization of two of the largest lignite-fired power plants, Kostolac B3 and Kolubara B Power Stations.

Chinese investments in CEE have been focused in a few key sectors – transportation, energy, manufacturing, and telecommunications. Similar to the deepening trade ties, Chinese investment has also been growing significantly over the past decade. Chinese foreign direct investment (FDI) stocks have risen from less than USD 100 million in 2009 to around USD 2 billion in 2019.
Serbia and Greece have accounted for most of the largest and most strategic, new investment.

The official FDI stocks statistics provided by the national central banks underestimates the true value of Chinese investments in the region. A more realistic picture is the total value of Chinese financial flows. Since 2009, around USD 14 billion in Chinese funds have entered in the form of grants, development loans, mergers, the acquisition of domestic assets, and concession agreements. Chinese capital inflows may be a small share (2.7%) of the total Chinese investments in the world but they represent a transfer of significant financial resources relative to the size of the economies in CEE. The most attractive destination has been the Western Balkans where Chinese investments do not need to comply with EU’s strict transparency, competition, environmental, labor, public procurement, impact assessment and state aid rules.

![Figure 2. Chinese Financial Flows (2000-2020) (USD Million) – Loans/Concessions/Acquisitions](image)

Source: CSD estimates based on China’s Global Development Footprint Database developed by AidData, a Research Lab at William & Mary and an overview of Chinese-funded projects and other initiatives in each of the 12 countries analyzed. *Data on the Czech Republic is not included as most Chinese financial flows are private. The Chinese FDI Stocks in Czechia are estimated at USD 600 million at the end of 2019.

Chinese projects and large-scale asset acquisitions in CEE that have been completed or are under execution are estimated at around USD 10.4 billion. The total pipeline of projects at different stages of development could be worth more than USD 51.5 billion. If all of these projects are implemented, in the next decade, China could overtake Germany and Austria combined, which are traditionally the largest foreign investors in CEE.

However, despite the hype behind the boom in China-led projects in the region, the sub-index results show the CEE’s dependency on China should not be exaggerated. Germany alone has received twice that amount of Chinese funds and the U.K. four times more. Many construction plans are currently being revisited or abandoned. One such example is what used to be one of China’s biggest projects in the region – the construction of two nuclear

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reactors at Romania’s Cernavodă Nuclear Power Plant. After six years of intense negotiations and political pressure, Romania abandoned the deal with the China General Nuclear Power. Similarly, a Chinese-Estonian agreement for building an underwater tunnel, connecting Tallinn and Helsinki, has been terminated by Estonia over security concerns.

Figure 3. Number of Chinese Projects Broken Down by their Status of Completion

![Diagram showing project status]

Source: CSD.

Cooperation with China initially looked promising but CEE governments have grown more reluctant to collaborate after having had to deal with the strings attached to the Chinese loans and delays in the project implementation. As a result, China is struggling to hold the Initiative together. Before the summit in 2021, Czech president Miloš Zeman publicly declined to attend the conference due to China’s unfulfilled promises. Zeman eventually reconsidered and joined the summit, but six countries – Bulgaria, Estonia, Latvia, Lithuania, Romania and Slovenia – sent ministers instead of their heads of state as a sign of skepticism towards China’s promises⁵. In May 2021, Lithuania announced it was dropping out of the organization. Foreign Minister Gabrielius Landsbergis stressed the importance of negotiations between the whole EU and China, saying that “27+1 is better than 17+1”. Estonia may follow suit, with chairman of the foreign affairs committee of parliament Marko Mihkelson describing Lithuania’s decision as a “step in the right direction”.

In general, China has been much more active in the Western Balkan countries with many of the projects there significantly exceeding the macroeconomic and administrative capacity of governments from the region.

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* Chinese companies have expressed interest in becoming the strategic investors in three of the planned nuclear power plant projects but in all three cases the talks are still in preliminary stages or have been suspended.
The Impact of the Chinese Economic Footprint on Climate Policy

One of the salient consequences from the growing Chinese economic footprint in CEE is the impact on the environment and the countries’ climate policy. Chinese energy projects undermine the fight against global warming, worsen air quality, increase green-house gas (GHG) emissions, and contribute to the degradation of the natural landscape and biodiversity. One of the motivations behind the expansion of the Belt and Road Initiative has been at least partly driven by the fact that industrial pollution has reached unbearable levels in China, while natural resources within its territory are being depleted at a fast and unsustainable pace. There is in fact evidence that China is investing in energy-intensive industries in regions adjacent to the EU (the Western Balkans, Belarus, North Africa and Central Asia, etc.) in part due to relatively laxer environmental regulations and in some cases lower population density (hence weaker potential social backlash). The concentration of Chinese projects in carbon-intensive sectors is also driven by the priorities of the domestic ruling elites in CEE. They cater to socio-political groups that depend on polluting heavy industry and coal-based energy sector, as well as on public-procurement-driven construction.

The Chinese interest in moving heavy industrial production and coal-based power generation abroad is also visible in the allocation of projects and asset acquisitions. Around a quarter of the ongoing projects are coal or heavy-industry-related. Most of the rest is taken up by large-scale transport infrastructure development. Even as Chinese representatives claim that they are ready to “invest in wind and solar”, China has so far invested in only 14 low-carbon projects in the whole CEE with a total value of USD 319 million, or just a fraction of the total Chinese capital inflows in the region. The most well-known projects are the Minos concentrated solar power (CSP) on the Greek island of Crete, the Kupres 1 wind park in Bosnia and Herzegovina and the Mozura Wind Power Plant in Montenegro (roughly 100 MW in total). All of the rest are small hydro power plants with no clear environmental and economic feasibility.

Hence, it is important to analyze the environmental impact of China’s presence in the region both qualitatively looking into specific projects that have undermined environmental and technical standards, as well as by quantitatively reviewing the effects of Chinese projects on the level of CO\textsubscript{2} emissions, air pollution and environmental degradation. The quantitative variables used to construct the Sub-Index of Environmental and Climate Impact were normalized per capita for greenhouse gas emissions (GHG) and for GDP, and include:

- Total Emissions
- Emissions in mining
- Emissions in manufacturing
- Emissions in electricity
- Emissions in construction
- Emissions in transportation
- Share of coal-based power generation in the power mix
- Share of renewable energy sources-based power generation in the power mix
The sub-index reveals the overall evolution of climate factors in the region. The sub-index is also based on the correlation between the level of Chinese economic presence and the GHG emissions, as well as an expert assessment of the environmental impact of Chinese-led projects (Fig. 5). The sub-index results show that there has been a 50% increase of the negative environmental impact in the region on average partially because of the growing Chinese economic presence but also due to a number of structural factors including economic growth, low energy efficiency, low environmental standards. The deterioration of environmental indicators comes despite the overall improvement in carbon intensity of the economies in all EU member states. Serbia has seen the biggest deterioration (five-fold) of environmental indicators coinciding with the influx of billions of Chinese funds in carbon-intensive sectors including mining, steel production, coal and natural gas. Czechia has also seen a significant worsening of its environmental performance as the country remains excessively dependent on coal for its power supply. Despite its commitment to the EU emission reduction goals, in the past decade Czechia has continued to generate close to 50% of its power from burning coal. Unlike the Western Balkans, in Czechia the coal lock-in is not related to the increase in China’s economic footprint, as Chinese investments are largely concentrated in services.

The negative environmental impact of Chinese projects is offset by the processes of energy efficiency improvements, decline in population and the integration of renewable energy sources in the energy system, which remain stronger drivers for decarbonization. Nonetheless, the negative effect on decarbonization of the Chinese coal power plant upgrades will be felt much more strongly in the future as many of the projects are yet to be completed.

This can be also seen from the positive albeit weak correlation between the rising Chinese financial inflows to the region and the share of coal-fired power generation in the electricity mix (Fig. 6). The actual increase in the share of coal-fired power generation in the electricity mix of the countries in the region is marginal from 44.4% in 2009 to 46.4% in 2018. Nonetheless, China has played a major role in preserving, upgrading and modernizing, some of the coal-fired power generation capacity, especially in the Western Balkans. The result has been a long-term coal lock-in despite the region’s stated objective of
implementing the EU energy and climate acquis that also includes a comprehensive decarbonization of the power sector.

**Figure 6. Financial Flows from China and Share of Coal-fired Power Generation in the Electricity Mix**

![Financial Flows from China and Share of Coal-fired Power Generation in the Electricity Mix](chart)

*Source: CSD.*

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**From Economic Footprint to Economic Influence: Impact on (Good) Governance**

The third pillar of the *Chinese Economic Power Index* maps the diplomatic tools and the governance mechanisms exploited by China to expand its influence in CEE. The third sub-index gathers the expert assessment from a comprehensive survey of national experts, diplomats and policy-makers in each country, on how China’s economic power has translated into political leverage. It analyzes whether China is able to promote its strategic economic objectives successfully, whether Beijing takes advantage of local governance deficits to expand its economic influence and whether its presence has a negative impact on the country’s energy and climate policy.

Chinese economic influence and its impact on the quality of governance in CEE is strongest in Serbia, Bosnia and Herzegovina, and Montenegro. In fact, all Western Balkan countries with the exception of Kosovo, which does not host any major Chinese companies or projects, score above the CEE average.

There is also a positive correlation between the Chinese financial inflows to the region and the negative impact on governance. The more indebted a country has been to China relative to its GDP, the higher the likelihood that China has leveraged existing governance deficits to expand its economic and political influence. The Western Balkans are most vulnerable to the increase in the Chinese economic footprint with Montenegro and Bosnia and Herzegovina seen as the weakest links. This is not surprising since the conclusion and implementation of large-scale loan deals with China in the two countries have been accompanied with serious concerns about the transparency of the agreements, their consistency with competition and environmental laws, as well as their connection to widespread state capture practices.

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6 According to a scoring scale of 1 to 4 with four being the most negative impact on governance in correlation with the size of the Chinese economic footprint; the three Western Balkan countries all score above 3.
The corrosive capital term that defines this sub-indicator was coined by the Center for the International Private Enterprise (CIPE), which analyzes funding streams, whether state or private, that lack transparency, accountability, and market orientation. These corrosive capital flows usually originate from authoritarian regimes and exploit and exaggerate governance gaps to influence economic, political, and social developments in recipient countries.

Source: CSD.
The widespread evasion of EU and national competition, as well as regulatory and environmental rules, is the strongest driver for the negative evaluation of the Chinese impact on governance. The agreements for the China-led large-scale projects are usually exempted from the competition and public procurement laws. Western Balkan countries also tend to exclude these projects from ex-ante impact assessments and do not subject them to a public discussion. In addition, the sub-index results confirm previous analyses that most often intergovernmental loan agreements with Chinese state-owned banks included the requirement for a more than 50% use of Chinese contractors, labor and equipment during the project implementation.

Figure 8. Correlation between the debt-to-GDP % ratio and the Sub-Index of the Chinese Influence on Governance and Strategic Policy

State capture networks in the Western Balkans have also directly benefitted from the agreements with China. Local companies with close ties to the governments in the region have been lobbying directly for the implementation of these projects. That said local businesses are not strongly dependent on China for imports, exports or financing but have a commercial interest in acting as a bridge between China and the national governments.

China, on its part, has facilitated the implementation of local oligarchic projects including by developing a network of political insiders to ensure the conclusion of further major deals. The analysis reveals that Chinese diplomacy in the region has been quite effective. Chinese diplomatic representatives have been especially active in the public space of Serbia, Montenegro and Hungary. Chinese diplomats and government representatives regularly organize high-level political forums and bilateral meetings laser-focused on implementing China’s investment strategy. Unlike in the EU member-states in the region, China-led high-level intergovernmental meetings in the Western Balkans are more likely to lead to actual investment decisions.

The effectiveness of Chinese diplomatic efforts depends partially also on the public position of the national governments. Western Balkan countries tend to be openly supportive of Chinese projects and investments, and in the cases of Serbia, Bosnia and Herzegovina, and Montenegro governments have openly extolled the growing Chinese economic influence. Governments in the
Western Balkans lead public discussions, in which they present the Chinese economic governance model as an alternative to the Euro-Atlantic path.

However, the growing Chinese economic and political influence is unlikely to have (yet) undermined the long-term objectives of the region including accession to the EU and NATO. Despite developing ties with the local political and economic elites, China still tends to rely mostly on the commercial appeal of the proposed projects to local elites to lure governments into approving them. However, the true reason behind their strategic decisions cannot be entirely known since there is little transparency about the content of the intergovernmental agreements, the conditions for implementing them and the political and economic motivations behind them.

In the EU member-states, China does not seem to be able to exploit governance gaps in competition, public procurement and environmental regulation to the same degree as they do in the Western Balkans. China is not able to circumvent EU and national regulations with the same ease as in the Western Balkans. One exception, so far, has been Hungary where there is a positive correlation between the growing Chinese economic footprint over the last decade and the deterioration of governance standards.
Chinese projects carry a number of governance and environmental risks. China has taken advantage of the democratic backsliding and the rise of authoritarianism in CEE, and while stating publicly the opposite, might be able to undermine the region’s strategic goals of Euro-Atlantic integration. China has also successfully tied some smaller CEE economies in a web of debt obligations and economic interdependencies to facilitate the penetration of Chinese state-owned companies and financial institutions in the fabrics of the wider European economy.

Figure 9. Governance Deficits in Chinese Large-Scale Projects in CEE

Source: CSD.

The Chinese pattern of foreign economic engagement is linked to the structure of its domestic economy, which is in constant need of expansion to deal with the excessive capacity of labour and capital. Fast deal-making and loans with below-market interest rates have provided China with the ability to secure new markets at the best bang for their buck, guaranteeing a fast rate of return whilst at the same time subsidising the cost of commercially unviable projects which ultimately comes at the recipient countries’ expense. For this reason, China’s government-to-government approach bears substantial risks for the CEE region, whether the corresponding projects were to succeed or fail: success would lead to a greater economic dependence on Beijing and failure would bear a minimum risk for China which can easily renegotiate the terms of the loans and leverage the control over strategic assets as a tool for economic and political influence.

Projects implemented within the BRI framework usually use large loans from Chinese development and export banks. The loans are disbursed as a direct outcome of obscure intergovernmental agreements without any prior public


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discussion or feasibility assessments. In some countries (Serbia, Montenegro and Bosnia and Herzegovina), Intergovernmental Agreements (IGAs) are exempted from national competition, public procurement and import tariff laws opening the door to preferential treatment of Chinese companies included *ex ante* in the projects. Sometimes IGAs can also be preceded by ad-hoc legislation changes justifying the country’s involvement.⁹ In Montenegro, the government approved the construction of the Podgorica – Kolasin motorway in 2014 (estimated to cost between 20 and 25% of the country’s GDP), on the basis that it would boost national economic growth, under a special law classifying the project as of “national significance”¹⁰.

Figure 10. Governance Risks in China Bilateral Intergovernmental Agreements (IGAs)

Although the loans seem to offer beneficial repayment terms and low interest rates (often lower than international financial institutions), the agreements carry specific conditions particularly with regards to the choice of contractors: the hiring of Chinese companies (e.g. some 7,000 Chinese employees of the China Road and Bridge Company (CRBC) helped complete the Sino-Serbian ‘friendship’ bridge in Belgrade) or the supply of Chinese materials, thereby recycling the financing (and profits) back to Chinese enterprises.¹¹ The loans also stipulate specific allowances such as labour law exemptions, VAT exemptions (for concessions), which can all significantly contrast with initial (public) promises. As mentioned above, such conditions are not

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necessarily known or easily accessible to the public, when not outright hidden behind business secrecy clauses\textsuperscript{12}.

The recourse to confidentiality prevents the borrowing countries from revealing the terms of IGAs and hide both the magnitude of the debt, as well as the collateral agreements such as lender-controlled revenue accounts and promises to keep the debt out of collective restructuring (no Paris Club clauses). Moreover, contracts can further include specific conditions for dispute-resolution securing Chinese ruling and interests (e.g., legal dispute to be settled in Chinese courts or under Chinese arbitration). Beyond the economic risks, such agreements can meddle with the beneficiary countries’ domestic and foreign policy, while limiting their debt and crisis management options.

National governments are also undermining the transparency of intergovernmental agreements with China as they try to shroud the deals in secrecy, either to accelerate their conclusion or to avoid public scrutiny of the economic terms of the projects. This is possible through the enactment of special legislation (\textit{lex specialis}) or by giving the agreements national security or national significance status (e.g., the highway projects in Montenegro\textsuperscript{13}) that allow governments not to publish any information about the agreements. Furthermore, IGAs have special provisions stipulating that governments can bypass the ratification of the agreements by the parliament. Sometimes governments rush IGAs through extraordinary sessions of the legislature, leaving little time and opportunity for MPs to review and discuss the agreements.

Chinese direct lending for infrastructure projects typically covers 85\% of the project capital costs with the remainder financed by the host countries\textsuperscript{14}. Beyond the impact on national debt, such loans also bear special costs in the allocation of resources. In Bosnia and Herzegovina, for example, social security expenditures have been reduced in order to respect the financial obligations set in Chinese bilateral agreements, thus directly biting away from the living standard of Bosnians. For some of the smaller economies like Montenegro and Bosnia and Herzegovina, Chinese-led projects make up around a quarter and a fifth of the countries’ GDP, respectively. This makes China’s economic presence in these countries a structurally-indispensable factor. As most Chinese projects are financed via intergovernmental loans, the Chinese economic footprint has translated into a significant debt exposure. On average, Chinese project-linked loans are estimated at 5.6\% of GDP in the region.

\textsuperscript{13} Bansal, A., “China’s growing troubles in Central and Eastern Europe”, Observer Research Foundation, 2021.
\textsuperscript{14} Rogelja, I., Building the Balkans: How Chinese financing in energy and transport is altering South-east Europe, 2018.
Box 1. Debt-trap Diplomacy in Montenegro

Over the past 8 years Montenegro has taken up two loans from China worth close to EUR 1.84 billion for the construction of different stretches of the Bar-Belgrade highway. The Adriatic country has done so without performing an in-depth cost-benefit analysis or public discussion about the long-term risks associated with a potential long-term debt lock-in. Both are implemented through the Chinese Export-Import Bank (ExIm) that finances 85% of the project at a 2% annual interest rate, a 5-year grace period and a 20-year repayment schedule. The agreement that governs the projects’ implementation stipulated the involvement of the Chinese state-owned infrastructure giant, China Road and Bridge Corporation, and the use of Chinese construction workers although Montenegro faces an unemployment rate of 15.7%. The projects were also exempted from taxes and customs fees. Both the International Monetary Fund (IMF) and the World Bank have suggested that such projects are fiscally irresponsible: they have contributed to the exponential growth of public debt, which has soared above 70% of GDP.\(^{15}\)

The future financial obligations of Montenegro could put the government in a position, in which it is unable to honor debt repayments. The loan agreement stipulates that any dispute will be resolved in Chinese courts making it highly unlikely that Montenegro would be able to get a fair trial. The results could be ruinous for Montenegro, potentially forcing the country to alter political positions, lease the already-built infrastructure to China, or accept harsh repayment conditions in case of a default. While official BRI policy documents assert the rights of sovereignty of all participating countries, if China perceives a threat to its investments, this might lead to the activation of contractual clauses that will undermine the effective control of the government over strategic assets\(^{16}\). The Montenegrin government is already struggling to repay the first $1 billion loan it took from China in 2014 for a highway that is still to be constructed. The government has recently begged the EU for help\(^{17}\).

The actual construction of the highway has suffered from deadline extensions and cost overruns because of a mix of additional work, interest rates and currency risks. The remaining sections of the highway might not be built as no further work would be implemented without state guarantees. Montenegro could face an increase in public debt to 93% of GDP, while China holds about 25% of the Montenegrin public debt.

It has been years since local environmental activists have started raising awareness of the environmental impacts caused by the construction of the highway on the Tara river and its canyon (both UNESCO patrimony). The Montenegrin Court of Justice has just launched a preliminary investigation against the Chinese Road and Bridge Corporation. The Montenegrin government has promised to investigate the controversies that surround the project.

\(^{15}\) IMF Country Report No. 19/293, International Monetary Fund, September 2019.


\(^{17}\) Euractiv, “Montenegro learns true cost of China-backed $1 billion road to nowhere”, June 2, 2021.
Preferential Treatment of Chinese Projects

Chinese-led projects exhibit numerous market competition distortions. National governments have provided Chinese contractors with preferential treatment by giving them exclusivity through opaque public procurement procedures and by granting them state aid in the form of tax exemptions and the circumvention of labour standards. In the case of coal investments, governments have not been transparent about the exact terms of the projects and have implemented national legislative changes to enable the legality of the investments in violation of the Energy Community’s requirements for a pre-approval and reporting of coal-related subsidies.

Large-scale projects based on intergovernmental agreements with China are often inconsistent with public procurement procedures and standards, and are the result of closed-door negotiations. Tender requirements are tailored to specific bidders and there is little control over the execution from the relevant national regulatory authorities. For instance, no public tender procedure was conducted for several Serbian projects – Kostolac B3 power plant and the Tupin Bridge – as Serbia and China signed an annex to their intergovernmental agreement exempting them from tender obligations, leaving room for Chinese companies to avoid EU and national law. Concessional loan contracts signed with Chinese development banks very often include a clause stipulating that any arbitration dispute will be decided by Chinese courts. In addition, the development of large-scale projects based on international loan agreements often bypasses public procurement processes through the above-mentioned lex specialis allowing the bypassing of other national legislation or procedures.

Box 2. State Capture and Chinese Energy Projects

The lignite-fired Stanari thermal power plant, valued at USD 674 million, is a typical case of state capture by oligarchic networks of domestic and Chinese companies that have secured preferential treatment from the Republika Srpska government in Bosnia and Herzegovina. The project was developed by the private Energy Financing Team (EFT), controlled by the Serbian businessman Vuk Hanovic with close ties to the ruling Republika Srpska government. Yet, 2/3 of the financing came from the China Development Bank that was guaranteed with a lien on EFT’s concession rights for the exploration of the nearby lignite mine. Republika Srpska changed its laws to allow the possibility for the transfer of rights on the mine. To additionally sweeten the deal, the government limited the costs for the plant operator by reducing the concession fees for coal power generation from 3.6% to 0.2% of total revenues, while completely exempting it from coal mining fees.

In the case of Serbia, the 2009 Agreement on Economic and Technical Cooperation in the Area of Infrastructure between China and Serbia removed the need for an open tender for the selection of the main contractor of Chinese-financed projects, while stipulating that both contractor and sub-contractor selection procedures should be defined in a commercial contract (by nature non-public). IGAs often have specific clauses that exempt the projects from transparency rules including access to project implementation data, the public procurement tenders and the inspection of regulatory authorities. Such blanket agreements have become the most effective instruments of China’s economic influence throughout the region, in clear violation of EU and national public procurement rules. In 2018, an IGA between Serbia and China even temporarily sus-

pended Serbia’s labour law for Chinese nationals working in Serbia over the duration of their stay. This has denied the Serbian labour inspectorate the possibility to review the workers’ contracts and pay-slips, as well as health and safety conditions. In 2019, Chinese nationals accounted for almost 30% of the total number of foreign workers in Serbia.

Unlike its own BRI projects, which have remained closed for competition, China has been able to tap into EU regional funds in order to implement infrastructure projects. In 2020, Chinese companies doubled the amount of EU-based public procurement contracts they had secured to nearly EUR 2 billion (around EUR 3.9 billion accumulated in total over the last decade). A case in point is the construction of the Pelješac bridge in Croatia, whose 85% of the costs were funded with EUR 357 million from the EU Cohesion Funds. This represented the first large EU tender to be won by a Chinese company. But as with other Chinese projects there have been again allegations about the presence of anti-competitive practices in the bidding process.

Many of the large Chinese infrastructure projects have exploited and further entrenched corruption risks and the capture of key institutions. These governance vulnerabilities have facilitated the creation of incumbent webs of political and business networks to effectively control access to government actions and policy making. In this respect, the combination of weak rule of law, kleptocratic tendencies, and ineffective regulatory institutions have enabled the entry of Chinese capital, which in turn could further exploit local vulnerabilities and break down democratic governance institutions.

China has invested in sectors, traditionally seen as vulnerable to state capture – energy, infrastructure and mining. Chinese state banks and SOEs are willing to tolerate corruption and limited transparency as long as the project agreements are implemented. The construction of the Kichevo-Ohrid highway in Northern Macedonia is a case in point. It was marred by bad planning and a lack of comprehensive environmental impact assessment. The project raised fears of corruption and illegal party financing, and ultimately resulted in a money-laundering scandal that implicated former Prime Minister Nikola Gruevski.

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Box 3. China entrenching corrupt political elites

The Kichevo-Ohrid highway was initially judged as financially unviable by Western financial institutions, which made Chinese capital an attractive alternative for the North Macedonian government. The loan from the Chinese ExIm bank involved the selection of a Chinese contractor from a list of Chinese state-owned enterprises, disregarding public procurement rules, leading to the selection of Sinohydro. The World Bank had flagged the company for engagement in fraudulent activities. In a wire-tapping scandal, it was revealed that the then-PM, Gruevski, intentionally disregarded alternative bidders and chose Sinohydro in spite of much higher prices. Sinohydro had proposed prices 300% above market value, which led to invoices from Sinohydro to the Public Enterprise for State Roads of the Republic of North Macedonia (PESR) several times higher than the invoices from the North Macedonian subcontractors to Sinohydro for the actual works performed by them. An investigation followed by the Special Prosecutor’s office which charged the-then PM and his transport minister for abuse of power leading to personal benefit of over EUR 155 million from the state budget. The latest details revealed mismanagement in the planning phase of the project, which had inflated its costs by EUR 120 million. It has also been suggested that the procurement for the project favored politically connected local sub-contractors. Despite the corruption allegations, Sinohydro was further selected by PESR in other public contracts in North Macedonia.

State capture practices have also been a major element in China’s economic influence in EU member states in CEE. The government of PM Orban in Hungary has welcomed large investments from authoritarian states such as Russia and China, which cooperated closely with local state capture networks to implement projects that are not in line with strategic Euro-Atlantic policy priorities. The projects have been allocated without open tenders, without the embedding of anti-corruption measures and without evidence-based cost/benefit assessments. Although to a lesser degree than in the Western Balkans, the governments of EU countries in CEE also tend to support projects even when they lack financial logic, if they serve as instruments for the expansion of their political and state capture power domestically. In a vicious state capture cycle, these investments exploit and further entrench corruption risks and the capture of key institutions.

Box 4. China Exploiting State Capture Risks in Hungary

The Chinese-funded modernization of the Budapest-Belgrade railway, has revealed significant state capture practices29. Hungary’s “flagship” Belt and Road railway initiative illustrates that China has been leveraging its close ties with Hungarian politicians and well-positioned businessmen to implement large-scale projects within the EU legal and regulatory environment. In 2016, the European Commission started a preliminary infringement procedure against Hungary over the obscure procurement and tendering procedure for the railway project30. When the Hungarian government ultimately agreed to launch a tender, the pro-government businessman Lorinc Meszaros easily won the contract in partnership with two Chinese companies. Being a childhood friend of PM Orban, Mr. Meszaros grew one of the largest business empires in the country after Mr Orban came to power in 2010. He owns and controls companies which are present in almost all sectors of the Hungarian economy – banking, media, energy, agriculture, and construction, and which have won in questionable manner numerous EU-funded public projects.


29 The agreement to complete the railway connection comes on the back of the Russia-led nuclear power plant project, Paks II, worth an estimated EUR 12.5 billion.

Czechia has also become more dependent on China. The country’s bilateral trade deficit has increased from 2.5% in 2009 to close to 6% at the end of 2019. The growth of Chinese exports to Czechia is related to the expansion of investment and business activities of Czech businesses in China. Although, for a long time, Czechia’s foreign and economic policy towards China had been guided primarily by a commitment to democracy and human rights, under the presidency of Milos Zeman, the Czech government has made a U-turn by encouraging more strategic relations with China31. Frequent high-level governmental visits and investment forums started to serve as arenas for the deepening of cooperation in technology, education, health, and energy. Incentivized by promises for prominent Chinese investments which were to add high value to the economy, the Czech authorities were also eager to welcome the presence of Chinese companies into the local market. Domestic oligarchic networks have also nudged the Czech political elite to embrace a pro-China foreign policy. By allowing more Chinese strategic investments in Czechia, the authorities aimed to help local companies with political connections to gain a preferential access to the Chinese market. For instance, President Zeman supported the endeavors of the biggest Czech conglomerate PPF and its subsidiary Home Credit to enter the Chinese market by securing a preferential license for its operations32.

Box 5. The Case of CEFC and the Development of State Capture Networks in Czechia

The most significant Chinese investor in Czechia, the private owned China Energy Company Limited (CEFC) established its European base in Prague in 2015 and has been engaged in various activities including oil and gas trade, real estate, logistics and infrastructure. Despite the government’s expectations that the opening of the Czech market to Chinese capital would add value to the national economy, most of the major Chinese investors in the country, including CEFC, have used their capital to acquire existing assets instead of creating enterprises from the ground up. Since 2015 the CEFC has purchased assets with a total value of €1.5 billion. The Chinese conglomerate has acquired shares in the biggest Czech private airline Travel Service, the largest online travel agency Invia.cz, in office buildings and luxury hotels in Prague, in the Lobkowicz Group brewery, in the TV channel Barrandov and in the football club, Slavia Prague.33 Since 2018, the CEFC has become notorious for its financial problems, which led to the arrest of its founder Ye Jianming. It was revealed that many of the companies belonging to CEFC conglomerate were insolvent and the 450-million-euro debt owed to a Slovak-Czech financial group, ended up being paid by the Chinese state financial company CITIC. Despite the controversies around the business activities of CEFC, Ye Jianming continues to be the honorary advisor to President Milos Zeman on economic and Chinese issues.

In reality, CEFC was less interested in business development than in the development of strategic political relationships. A common tactic used by the CEFC was to hire retired top politicians and civil servants and use the created elite capture for political influence.34 The most prominent cases being the appointment of the former defense minister Jaroslav Tvrdík as the head of CEFC Europe and the appointment of the former EU Commissioner Štefan Füle as a member of the company’s supervisory board. Another aspect of the CEFC entry strategy is the “private company” label, that the conglomerate had before being taken over by the state. The coordination between the private CEFC and the Chinese government and the fact that the CEO Ye Jianming supposedly had had close ties with the Chinese military intelligence, illustrate how the Chinese state applied the private company model to advance its state interests in

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33 Turcsanyi, R. Q. “Is the Czech Republic China’s New ‘Bridge to Europe’?,” The Diplomat, September 12, 2015.
Czechia. Fueled with credit from the regime’s banks, Chinese private companies are primed for overseas expansion in target open market countries where direct investments from SOEs is a sensitive issue. Even though Czech intelligence services have publicly warned about the degree of Chinese influence on local politicians, their concerns have not been given the due consideration. Yet, even if local authorities begin to take the risks associated with Chinese corrosive capital more seriously and choose to reward high value tenders to non-Chinese companies, there is hardly any contractor that is able to implement a project without the participation of local subcontractors that are involved with the Chinese state.

In April 2020, after acquiring the initial stake from the CEFC, CITIC increased its share in one of the largest media holdings in Czechia, Empressa Media Group, and its parent company Medea Group from 30% to 57%. The Chinese-owned company now holds a significant influence over the Czech media landscape as Medea Group is the country’s leader in commissioning and allocation of advertising revenue for many news outlets. The equity increase deal was reportedly negotiated by some prominent pro-Chinese figures in the Czech government, namely the former Defense Minister and Head of CEFC Europe, Jaroslav Tvrdík, the current advisor to President Milos Zeman, Martin Nejedly, and the current Interior Minister, Jan Hamacek. To become a majority stakeholder in the media groups, CITIC had to obtain an anti-monopoly office’s permission in 2019 and the involved parties used the coronavirus pandemic as an opportunity to finalize the deal away from the public eye. The owner of Medea Group, Jaromir Soukup, who is a billionaire tycoon, once had a strong alliance with President Zeman and was the host of the flagship TV program “The Week with the President”. It is reported that Soukup’s businesses experienced major financial losses at the time of the CITIC deal and owed millions to creditors. Local sources point that CITIC offered to take care of Soukup’s debt and finance his television if he agreed to let the Chinese company take control of his main money-making marketing company Medea.

Although CEE countries have begun successfully addressing environmental challenges, implementation remains feeble and is further weakened by Chinese loans in fossil energy and other polluting industries. These investments are made possible through bilateral agreements and Chinese funding that would otherwise not be eligible for financing because of their lack of sustainability, economic feasibility or inconsistency with the EU energy and climate acquis.

A potentially longer-lasting effect of Chinese investment in CEE countries is what can be described as “a synergy of failures”, which includes the delayed transition to cleaner forms of energy (in particular in Western Balkan countries), non-compliance with European environmental standards, and increased dependency on coal-fired power generation. The Chinese-driven projects in the region share one key similarity – the disregard for or at the very least the avoidance of the countries’ long-term environmental policies and environmental sustainability. Chinese projects contribute to the policy lock-in of governments in carbon-intensive and climate damaging industries. The construction of highways similarly serves largely the economic objectives of China while sucking out vital public resources from the process of low-carbon economic transformation.

Box 6. Obstacles for a Chinese-led Carbon and Nuclear Lock-in

In direct confrontation with the EU energy and climate priorities, China and CEE governments have been promoting the construction of new and the refurbishment of existing coal-fired power plants. In Bosnia and Herzegovina alone, China has financed the modernization of two coal facilities, the Tuzla Thermal Powerplant which represents the largest post-war investment in the country (€722 million loan from CHEXIM and implemented by Chinese companies) and the Stanari Power Plant (financed by the China Development Bank and constructed by the Dongfang Electric Corporation). These two plants operate at an efficiency rate inferior to the EU’s best available technique standards and are currently under infringement procedures at the Energy Community. Another three coal projects in the country are in the pipeline as well worth more than EUR 1.4 billion.

A total of 16 coal mining and power generation projects are under construction or in the planning phase in the 12 analyzed CEE countries. Despite the grand project announcements, many of these projects are facing regulatory, political and financial obstacles and are on hold or in the beginning stages. The rising prices of emission trading scheme (ETS) quotas are undermining the business case for the EU-based thermal plants and projects financed by China, the biggest of which is the 600-MW Rovinari coal facility in Romania. Meanwhile, cost and schedule overruns, objections by the Energy Community and limited administrative capacity in the Western Balkans have been derailing many of the Chinese coal projects. Nonetheless, in a number of cases, governments have already made financial commitments signing intergovernmental loan agreements, which means that even if not built, the projects would have a long-term impact on the public finances of already weak economies.

Chinese companies have also expressed interest in becoming strategic investors in three of the planned nuclear power plant (NPP) projects in CEE. But in all cases the talks are still in preliminary stages or have been suspended. In February 2021, the Czech government excluded Chinese companies from the tender for the building of the USD 7 billion Dukovany NPP and in May 2020, the Romanian government cancelled negotiations with the Chinese partner China General Nuclear Power Corporation (GCN) on the construction of two new reactors in the Cerna Voda NPP40. In Bulgaria, in January 2021, the government decided to put on hold the construction of the 2000-MW Belene NPP where the China National Nuclear Company had declared its interest in participating as investor. Yet, even if the tender for a strategic investor moves ahead, it is more likely that the Russian state-owned company Rosatom will be the preferred candidate as Bulgaria has already purchased two Russia-made nuclear reactors for Belene. In all three nuclear projects, China has been sidelined on geopolitical grounds under pressure for the U.S. to limit the expansion of the economic influence of authoritarian states in the CEE region.

The expansion of the Chinese footprint in the energy sector could undermine the 2030 and 2050 targets of EU member-states for carbon emissions reduction and the implementation of the energy acquis of the six EU aspiring countries in the Western Balkans41. This has broader policy implications for the whole European continent as the 16 coal-based TPPs in the Western Balkans emitted in 2016 as much sulphur dioxide pollution as all 250 TPPs in the EU42.

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41 The Energy Community Treaty aims at extending the EU internal energy market rules and principles (the energy and climate acquis) to South East Europe and the Black Sea region with the help of a legally binding framework. The gradual inclusion in the treaty of legislation on renewables, energy efficiency, climate change and air pollution control created a policy vehicle to promote and jumpstart the energy transition across the European continent. The EU Large Combustion Plant Directive (LCPD) and the Industrial Emission Directive (IED) set emissions limit for existing power plants that translate into high operating costs for existing plants and construction costs for new ones that would not comply with the technological requirement.

42 Beyond Coal Project, Chronic coal pollution – EU action on the Western Balkans will improve health and economies across Europe, Health and Environment Alliance (HEAL), 2019.
The Chinese coal power plant projects in CEE will delay the unavoidable coal phase-out over the next decade with disastrous economic consequences in terms of stranded assets and a painful transition for coal-dependent workers. Similarly, the employment of foreign workers to implement and operate the projects goes against the overall EU Just Transition Strategy for re-skilling workers in carbon-intensive sectors. Even when Chinese investments are geared towards energy transition objectives, RES investments are not in line with the EU energy policy agenda prioritizing local, urban and regional initiatives for energy transition that focuses on decentralization and democratization of energy supply.

Western Balkan governments’ coal supporting policies have been in direct conflict with their obligations to the Energy Community Treaty that mandates the gradual shut-down of polluting power plants whilst cancelling subsidies for the coal sector and redirecting the funds to long-term investments in renewable energy sources. In addition, Southeast Europe possesses the largest lignite reserves in Europe, which represents a tempting long-term energy policy choice to ensure the power supply with a cheap and plentiful resource that can be found at shallow depths, in spite of the disastrous impact on the local air quality and the environment from the excavation and combustion of lignite resources. Western Balkan governments have insisted they are investing in cleaner coal by modernizing coal plants and mines. The justification is that they lack the available funds for transforming coal-dependent regions and reskilling workers employed in the sector. EU funds are also insufficient to facilitate the transition as the whole IPA program for 2021-2027 is about EUR 12.6 billion for all six countries and all areas of intervention. Even small EU economies such as Bulgaria are receiving more over the same period.
Box 7. Disregarding EU Environmental Standards

Chinese investments in the western Balkans are starting to show their detrimental impact on carbon emissions and biodiversity. Just as initial cost assessments are widely ignored by national governments, so too are the environmental assessments linked to all Chinese projects in the region. Environmental impacts linked to Chinese investment involve air pollution, loss of landscape and aesthetic degradation with potential large-scale disturbance of hydro and geological local systems. The health impacts include exposure to unknown or uncertain complex risks from radiation to mental and psychological issues, as well as occupational diseases and accidents.

In the case of Drmno mine expansion in Serbia (for the needs of the Kostolac B3 plant), the project did not undergo an EIA procedure and the decision not to require an EIA was not well-justified (it was not based on the criteria in Annex III of the EIA Directive). Furthermore, the Tuzla and Banovići plants had their environmental permits renewed a few years ago based on EIAs done before 2010, which were full of outdated, low-quality information and no real analysis. Moreover, despite the fact the plants would be only 30 km from one another, the EIA studies did not at all examine the cumulative impacts on water, air and even coal production. In fact, when the environmental permits were renewed for these two plants, they did not even contain the emission limit values to air required under the Energy Community Treaty. After a complaint by a local NGO this was fixed. However, even now none of the new plants planned in the region are foreseen to be in line with the EU’s 2017 air pollution control standards for combustion plants (LCP BREF), despite governments’ claims they will be in line with “EU standards”. Yes, EU standards, but from 2006.

In Serbia, 26 members of parliament have written to the European Commissioner for Neighbourhood and Enlargement in order to raise their concerns about the “impending environmental damage” of Chinese industrial projects in the country and calling for their thorough environmental assessment. The main Chinese industrial investments in the region, the Smederevo steel plant, the Kostolac and Zrenjanin tyre factory, are indeed raising concerns about severe air pollution, and risks for drinking water. None of these projects are in line with EU’s LCP BREF, significantly undermining Serbia’s EU accession agenda.

In 2020, dust emissions in Bosnia-Herzegovina, Kosovo, North Macedonia and Serbia were 56.8% higher than allowed (17,557 tons). In September 2020, levels of 1645 mg of sulphur dioxide (SO2) were recorded in the air, more than ten times higher than the 125mg allowed by law. Although the Serbian courts have fined the Zijin Bor Copper three times for pollution, the Serbian legislation has set a maximum fine of € 26,000. The Serbian unit of China’s Zijin Mining Group, targeted a profit of $8.5 million (7.7 million euro) in 2020.

Apart from not having significant financial resources at their disposal, governments in CEE have also not ensured a permissive regulatory and governance framework that incentivizes green investment and innovation. China is also yet to deliver on its promise of greening its BRI agenda. It has announced the introduction of a Green Belt and Road Investment Strategy for its projects, which include embedding sustainability into corporate governance, understanding environmental, social, and governance risks in host countries, disclosing environmental information for all projects, enhancing stakeholder outreach, utilizing green financial instruments, adopting green supply chain management, and building capacity through collective action. Such pledges do not correspond with the reality on the ground and could be interpreted as a green washing campaign that aims to dispel EU concerns about the long-term impact of Chinese economic presence in the region.

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45 Goh, B., and Cadell, C., “China’s Xi says Belt and Road must be green, sustainable”, Reuters, April 25, 2019.
The growth of the Chinese economic footprint and political influence has locked a number of countries in CEE into long-term, large-scale and costly infrastructure projects that have contributed to an excessive dependence on Chinese capital. These Chinese-led investments are often not consistent with EU rules on climate, energy, and decarbonisation, technical standardization, competition and public procurement, etc. The Coronavirus pandemic has also helped China further increase its soft power in the region.

The EU has taken on a more proactive role in tackling Chinese economic influence in its member-states and accession countries. The policy shift comes as over the last decade Chinese companies have become increasingly bold in investing in strategic technological, financial and energy companies around Europe. However, a common European strategy for both setting limits to the Chinese economic presence in strategic industries and charging ahead with key items for cooperation such as on joint climate policy is yet to emerge.

The European Commission issued a Strategic Outlook, in which China was labelled as a systemic rival “promoting alternative models of governance” and strategic competitor “failing to reciprocate market access and to maintain a level playing field”. The paper sets out measures to counter the growing Chinese presence in Europe and to ensure that countries in its neighbourhood adhere to EU values, norms and standards including on rule of law, market competition and climate objectives. These measures include an EU call on China to deliver on existing joint EU-China commitments, including the reforming of the WTO, in particular on subsidies and forced technology transfers, as well as concluding bilateral investment agreements by 2020. Yet, the signing of the long-delayed EU-China trade deal in the last days of the German Presidency and the end of 2020 has widely been seen as a coup for Chinese diplomacy and could signal more EU concessions to the rising global power.

For most countries in Central and Eastern Europe, EU integration is the only viable long-term geopolitical direction, such as in the Western Balkans. Yet, Chinese finance has been seen as an alternative (and cheaper) driver for economic development based on investment in the expansion and modernization of transport and energy infrastructure, as well as reviving debt-ridden industrial behemoths. However, in countries with widespread state capture

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46 When an Airbus 330 with medical aid landed in Serbia in March 2020, President Aleksandar Vučić praised Xi Jinping and criticized the EU for “lack of solidarity”, swaying the public opinion in favour of a deepening relationship with China.


practices, the benefits from these projects are likely to accrue to the handful of local political-oligarchic networks, and hence, could ultimately be harmful for long-term economic growth.

Based on the assessment of the Chinese economic influence in Central and Eastern Europe, the following non-exhaustive list of policies could be considered for reducing its negative impact on domestic governance and energy and climate policies:

- **Demands from national governments that Chinese investments are consistent with long-term policy objectives especially on energy and climate, as well as with competition law.** This should be the standard not only when EU funds are used for the implementation of the projects but also national and Chinese resources.
- **Implement EU-wide governance standards for Chinese investments.** The EU should develop clear governance guidelines for the implementation of Chinese-backed projects that would be used by national governments as a form of pre-approval. Foreign-backed investments should be in line with EU’s strategic and energy policy, as well as comply with rules on competition, public procurement, employment, and technical standardization. The pre-screening of Chinese-led projects and acquisitions should become an integral part of the national security strategies and included publicly in annual reporting/threat assessment. Hence, the EU will need to develop a robust monitoring and enforcement mechanism to discontinue energy projects that might undermine the low-carbon energy transition in both member states and accession countries.
- **Propose more targeted funding instruments for large-scale economic development projects.** The EU should reinforce its position as the primary driver of economic development in CEE by filling the funding gap for the implementation of strategic economic development projects, such as the completion of transportation corridors, the modernization of energy grids, of the housing and industrial buildings stock, and the kick-starting of energy transition investments. This can be done via its multilateral banking institutions (IPA, EBRD, WBIF, KfW, GIZ) for projects that increase the energy, transportation and digital connectivity of the region and assist directly in mitigating the negative effects of the coal phase-out. The EU funds for recovery and resilience should be used for investments in new green technologies and for attracting private sector capital for integrating the CEE region into US and EU value added chains. The approval of the EUR 9 billion EU Economic and Investment Plan for the six Western Balkan countries, is an important step forward but will be not be sufficient enough to help implement all the necessary projects or facilitate the economic reforms to accelerate growth in the region. Without filling the financial gap for the implementation of more sustainable projects, governments in the region would be incentivized to seek the no—governance-strings-attached support elsewhere.
- **The Three Seas Initiative** should become an effective mechanism to attract more capital from Western Europe and the U.S. that has a positive impact on the overall market and governance environment in CEE. Among the connectivity projects that can benefit from political and financial support are: strategic energy infrastructure to improve market integration, the
uptake of cutting-edge renewable energy technologies (such as offshore wind and geothermal energy), cybersecurity proofing of infrastructure, and diversification of energy supply away from coal and natural gas. The CEE countries should seek to grow the initiative into a regional energy and climate security alliance with support mechanisms similar to that of the Visegrad countries.

- The United States and the EU should counter China’s offensive mercantilism by a policy of strategic investments. In the economies with wide-spread governance deficits, systemic corruption and consequently heightened risk of capture by illicit capital, U.S. and European investment flows should seek to introduce fair market practices. The EU, and in particular its local delegations in the Western Balkans, should seek to actively promote the benefits of EU investments and integration and confront Chinese and Russian disinformation diplomacy.

- Include the Western Balkans in the EU rule of law mechanism. The EU should introduce its strong climate and rule of law conditionality for the disbursement of its funding for the Western Balkans. The new funding framework could be used to replace Chinese loans for the implementation of energy and transport infrastructure projects. The EU should continue reassuring the Western Balkan countries of their European future, but it should also demand that governments in the region commit to closing governance gaps that have been exploited by domestic and foreign-backed state capture networks taking control of strategic economic sectors and lucrative assets. Countries fulfilling the EU rule of law and good governance criteria could have access to the same amount of funding as EU member-states.

- The EU could also work in tandem with China to implement strategic infrastructure projects based on clear sustainability and good governance criteria. In many cases EU companies are not allowed to bid as the project agreements are tailored for Chinese contractors. The EU could use green conditionality for third-country energy investments and in exchange promise co-financing support for environmentally sustainable projects. The CEE region has an enormous untapped green energy potential that is bound to become more and more attractive for investors. Setting up clear standards for and effective monitoring of the environmental sustainability of these projects can create a barrier for capital from China and at the same time incentivize cooperation between the EU and China on bankable initiatives.

- Enhance the regulatory role of the Energy Community. The Energy Community should be empowered through the expansion of its powers to ensure the implementation of the EU energy and climate acquis in its members in the Western Balkans through the introduction of tougher sanctions for non-compliant behaviour. The Energy Community should cooperate with national regulatory authorities to ensure that new energy infrastructure projects are in line with the acquis even before a final investment decision is taken.

- Close national governance loopholes. National governments in the region should close key governance gaps that have been exploited by China to promote its investments. They need to start conducting detailed assessments of the feasibility of large-scale projects and a compliance check to ensure intergovernmental agreements are in line with national and EU
law, especially on non-discriminatory access to public procurement of any domestic or EU company⁴⁹.

• **Strengthen the capacity of independent national regulators.** CEE countries need to substantially strengthen the capacity and independence of key institutions including the energy, anti-trust and environmental regulators. Regulators need to have the power and capacity to prevent large-scale Chinese-led projects or strategic asset acquisitions that distort market competition, undermine the long-term energy policy framework and ignore EU environmental and technical standards.

The Chinese Economic Power Index consists of three sub-indexes, each reflecting a different aspect of Chinese economic influence: structural economic ties, climate impact, and governance impact. The three sub-indexes are respectively:

- Chinese Economic Footprint Index;
- Index of Environmental and Climate Impact in CEE; and
- Index of the Chinese Influence on Governance and Strategic Policy.

The Chinese Economic Footprint Index represents the structural economic ties of CEE countries with China: the development of bilateral trade turnover, as well as investment and corporate presence in particular. The sub-index is computed as the average of the values of three theoretically derived variables – aspects of the economic footprint (Table 1).

The Corporate footprint sub-index is computed as the mean value of (1) the share of Chinese companies’ turnover from the total turnover of all companies, (2) the share of Chinese companies’ assets of the total assets of all companies, and (3) the share of Chinese companies’ employees of the total employees of all companies (Table 1).

The Financial flows sub-index is computed as the mean value of (1) the Chinese FDI Stocks as share of GDP, (2) the completed turnover of Chinese contracted projects as share of GDP and (3) the Chinese Financial Flows (Loans/Concessions/Acquisitions) as share of GDP (Table 1).

The Trade sub-index is computed as the mean value of (1) the bilateral trade deficit in goods with China as share of GDP and (2) the total trade turnover with China as share of GDP (Table 1).

The sub-index structure presented in Table 1 was verified through factor analysis that demonstrated empirically that the eight variables could indeed be grouped in these three sub-indexes.50

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50 Principle component analysis with rotation method: Varimax with Kaiser Normalization was performed.
<table>
<thead>
<tr>
<th>Sub-index</th>
<th>Variable</th>
<th>Primary variable(s), (units and formula for computing, if applicable)</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-index 1. Corporate footprint</td>
<td>Corporate Footprint 1. Share of Chinese Companies’ Turnover</td>
<td>Share of Chinese Companies’ Turnover (Chinese Companies Turnover, thousands USD/Total Turnover, thousands USD)</td>
<td>Orbis</td>
</tr>
<tr>
<td></td>
<td>Corporate Footprint 3. Share of Chinese Companies’ Assets</td>
<td>Share of Chinese Companies’ Assets (Chinese Companies Assets, thousands USD/Total Assets, thousands USD)</td>
<td>Orbis</td>
</tr>
<tr>
<td></td>
<td>Corporate Footprint 2. Share of Chinese Companies’ Employment</td>
<td>Share of Chinese Companies’ Employment (Chinese Companies Employment, People/Total Employment, People)</td>
<td>Orbis</td>
</tr>
<tr>
<td>Sub-index 2. Financial flows</td>
<td>Financial Flows 1. Chinese FDI Stocks as share of GDP (%)</td>
<td>Total Foreign Direct Investment Stocks (USD Million) as share of GDP</td>
<td>UNCTAD</td>
</tr>
<tr>
<td></td>
<td>Financial Flows 2. Completed turnover of Chinese contracted projects as share of GDP (%)</td>
<td>Completed turnover of Chinese contracted projects to Europe (USD Million) as share of GDP</td>
<td>China’s National Bureau of Statistics</td>
</tr>
<tr>
<td>Sub-index 3. Trade</td>
<td>Trade 1. Trade Deficit in Goods as share of GDP (%)</td>
<td>Balance of Trade in Goods as share of GDP (Exports of Goods to China, EUR Mil – Imports of Goods from China, EUR Mil)/GDP</td>
<td>COMEXT- Eurostat</td>
</tr>
<tr>
<td></td>
<td>Trade 2. Trade turnover as share of GDP (%)</td>
<td>Trade turnover (Exports of Goods to China, EUR Mil + Imports of Goods from China, EUR Mil) as share of GDP</td>
<td>COMEXT- Eurostat</td>
</tr>
<tr>
<td>Other variables</td>
<td>GDP (USD Million)</td>
<td>IMF World Economic Outlook</td>
<td></td>
</tr>
<tr>
<td></td>
<td>GDP (Million Euros)</td>
<td>Eurostat</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Turnover (thousands USD)</td>
<td>Orbis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Assets (thousands USD)</td>
<td>Orbis</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Employment (People)</td>
<td>Orbis</td>
<td></td>
</tr>
</tbody>
</table>

*Sources for Chinese Financial Flows – Loans/Concessions/Acquisitions: AID Data + Reports on Individual Loan and other Financial Agreements after 2014; EBRD; SEENews; Balkanenergynews; Xinhuanet; CHOICE; Boston University Chinese Investment Database; European Union Institute for Security Studies*

The Index of Environmental and Climate Impact in CEE reflects the effect of Chinese projects on the level of GHG emissions, air pollution and environmental degradation. It follows the same computational principles as the Chinese Economic Footprint Index, however, instead of constructing sub-indexes, a weighted average is computed directly from the eight variables described in Table 2.
The weights of the different variables are derived through a relative weight analysis\(^{51}\) of the impact of each of the eight factors on the total emissions of the country\(^{52}\) per capita. The analysis revealed that trade turnover as share of GDP had the strongest link with the total emissions of all eight variables (28% of the explained variance\(^{53}\)), followed by Share of Chinese Companies’ Employment (19% of the explained variance) and so on (see Table 2 below for all weights).\(^{54}\)

### Table 2. Weights for constructing the Index of Environmental and Climate Impact in CEE

<table>
<thead>
<tr>
<th>Variable</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade 2. Trade turnover as share of GDP (%)</td>
<td>28%</td>
</tr>
<tr>
<td>Corporate Footprint 2. Share of Chinese Companies’ Employment</td>
<td>19%</td>
</tr>
<tr>
<td>Corporate Footprint 1. Share of Chinese Companies’ Turnover</td>
<td>12%</td>
</tr>
<tr>
<td>Trade 1. Trade Deficit in Goods as share of GDP (%)</td>
<td>10%</td>
</tr>
<tr>
<td>Financial Flows 1. Chinese FDI Stocks as share of GDP (%)</td>
<td>10%</td>
</tr>
<tr>
<td>Corporate Footprint 3. Share of Chinese Companies’ Assets</td>
<td>7%</td>
</tr>
<tr>
<td>Financial Flows 3. Chinese Financial Flows as share of GDP</td>
<td>7%</td>
</tr>
<tr>
<td>Financial Flows 2. Completed turnover of Chinese contracted projects as share of GDP (%)</td>
<td>7%</td>
</tr>
</tbody>
</table>

The Index of the Chinese Influence on Governance and Strategic Policy is based on an expert assessment. Experts (national experts, diplomats and policy-makers from each country) were surveyed on a variety of topics related to how China’s economic power has translated into political leverage in CEE. The assessment evaluates whether China is able to promote its strategic economic objectives successfully, whether it takes advantage of local governance deficits to expand its economic influence, and whether its presence has a negative impact on the country’s energy and climate policy.

The Index of Chinese Influence on Governance and Strategic Policy is computed as the average of four sub-indexes: diplomatic footprint, deviations from EU laws and good practices, corrosive capital and negative environmental impact. Each of the sub-indexes is computed as the average assessment scores from several questions (each question’s scale was standardized before performing the computations). The survey items for each of the sub-indexes are presented in Table 3 below.

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\(^{52}\) Source: World Bank.

\(^{53}\) The R\(^2\) for the model was 0.60.

\(^{54}\) According to Tonidandel and LeBreton (2011) the relative weight analysis provides “partition explained variance among multiple predictors to better understand the role played by each predictor in a regression equation”: Tonidandel, S., and LeBreton, J. M., Relative importance analysis: A useful supplement to regression analysis. *Journal of Business and Psychology*, 26(1), 2011, pp. 1-9.
<table>
<thead>
<tr>
<th>Sub-index</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-index 1. Diplomatic footprint</td>
<td>t1q1 How active are Chinese diplomatic representatives in your country’s public space including media outlets and public events?</td>
</tr>
<tr>
<td></td>
<td>t1q2_A [In national media] What is the rhetoric of the government towards China-led projects and Chinese presence in your country?</td>
</tr>
<tr>
<td></td>
<td>t1q2_B What is the rhetoric of the government towards China-led projects and Chinese presence in your country?</td>
</tr>
<tr>
<td></td>
<td>t1q2_C What is the rhetoric of the government towards China-led projects and Chinese presence in your country?</td>
</tr>
<tr>
<td></td>
<td>t1q2_D [During EU summits (for EU members) or during talks with EU officials (for accession countries)] What is the rhetoric of the government towards China-led projects and Chinese presence in your country?</td>
</tr>
<tr>
<td></td>
<td>t1q2_E [Informally] What is the rhetoric of the government towards China-led projects and Chinese presence in your country?</td>
</tr>
<tr>
<td></td>
<td>t1q3 How likely are high-level intergovernmental meetings with China to lead to investments or common projects in your country?</td>
</tr>
<tr>
<td></td>
<td>t1q4 How transparent is the government of your country about the agenda of high-level intergovernmental meetings with China?</td>
</tr>
<tr>
<td></td>
<td>t1q5 How transparent is the government of your country about the results of the high-level intergovernmental meetings with China?</td>
</tr>
<tr>
<td></td>
<td>t1q6 How assertive are Chinese diplomats and officials in pressuring the government to sign long-term economic agreements?</td>
</tr>
<tr>
<td></td>
<td>t1q7_A [Chinese economic and political influence has undermined Euro-Atlantic policies and long-term objectives including on the accession to the EU and NATO (if applicable)] Do you agree with the following statements about China’s role for your country’s Euro-Atlantic integration?</td>
</tr>
<tr>
<td></td>
<td>t1q7_C [China promotes its economic presence as a way to better integrate its supply chains with the European market] Do you agree with the following statements about China’s role for your country’s Euro-Atlantic integration?</td>
</tr>
<tr>
<td></td>
<td>t1q7_D [China does not have a political objective of dissuading your country from following a Euro-Atlantic path] Do you agree with the following statements about China’s role for your country’s Euro-Atlantic integration?</td>
</tr>
<tr>
<td></td>
<td>t1q8 How dependent are large businesses in your country on China (e.g., on imports, as an export market or on financing)?</td>
</tr>
<tr>
<td></td>
<td>t1q9 How often do Chinese companies develop local political connections to facilitate investments or projects?</td>
</tr>
<tr>
<td>Sub-index</td>
<td>Questions</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>t2q1_A</td>
<td>[Exempt from national and EU law (if applicable) regarding public procurement?] How often are China-led large-scale infrastructure projects in your country:</td>
</tr>
<tr>
<td>t2q1_B</td>
<td>[Exempt from national and EU law (if applicable) regarding competition?] How often are China-led large-scale infrastructure projects in your country:</td>
</tr>
<tr>
<td>t2q1_C</td>
<td>[Exempt from national and EU law (if applicable) regarding environmental standards?] How often are Chinese-led large-scale infrastructure projects in your country:</td>
</tr>
<tr>
<td>t2q1_D</td>
<td>[Exempt from national and EU law (if applicable) on technical standardizations?] How often are Chinese-led large-scale infrastructure projects in your country:</td>
</tr>
<tr>
<td>t2q2_A</td>
<td>[Exempt from national and EU law (if applicable) regarding public procurement?] How often are China-led large-scale infrastructure projects in your country:</td>
</tr>
<tr>
<td>t2q2_B</td>
<td>[Exempt from national and EU law (if applicable) regarding competition?] How often are China-led large-scale infrastructure projects in your country:</td>
</tr>
<tr>
<td>t2q2_C</td>
<td>[Exempt from national and EU law (if applicable) regarding environmental standards?] How often are Chinese-led large-scale infrastructure projects in your country:</td>
</tr>
<tr>
<td>t2q2_D</td>
<td>[Exempt from national and EU law (if applicable) on technical standardizations?] How often are Chinese-led large-scale infrastructure projects in your country:</td>
</tr>
<tr>
<td>t2q3_A</td>
<td>[Environmental impact assessment by the Ministry of the Environment and/or the relevant environmental regulators] Are China-led projects in your country more often excluded from ex-ante impact assessments as compared to other projects?</td>
</tr>
<tr>
<td>t2q3_B</td>
<td>[Impact on the level of competition in the sector targeted by China by the national anti-trust regulator] Are China-led projects in your country more often excluded from ex-ante impact assessments as compared to other projects?</td>
</tr>
<tr>
<td>t2q3_C</td>
<td>[Cost/benefit assessment of the project’s economic feasibility] Are China-led projects in your country more often excluded from ex-ante impact assessments as compared to other foreign-led projects?</td>
</tr>
<tr>
<td>t2q3_D</td>
<td>[Analysis of the compatibility of the project with EU law (if applicable)] Are China-led projects in your country more often excluded from ex-ante impact assessments as compared to other foreign-led projects?</td>
</tr>
<tr>
<td>t2q4_1</td>
<td>[Open] Are the public procurement procedures for the implementation of large-scale China-led projects?</td>
</tr>
<tr>
<td>t2q4_2</td>
<td>[Transparent] Are the public procurement procedures for the implementation of large-scale China-led projects?</td>
</tr>
<tr>
<td>t2q4_3</td>
<td>[Competitive] Are the public procurement procedures for the implementation of large-scale China-led projects?</td>
</tr>
</tbody>
</table>
### Sub-index 3. Corrosive capital

<table>
<thead>
<tr>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>t3q1_A [Requirement for the exclusive use of Chinese contractors, labor and equipment] How often do the intergovernmental loan agreements between your country and Chinese development banks (the Chinese government) contain the requirements below?</td>
</tr>
<tr>
<td>t3q1_B [Requirement for the use of Chinese contractors, labor and equipment for more than 50% of the project’s costs] How often do the intergovernmental loan agreements between your country and Chinese development banks (the Chinese government) contain such requirements?</td>
</tr>
<tr>
<td>t3q1_C [No specific requirement for Chinese content in the project] How often do the intergovernmental loan agreements between your country and Chinese development banks (the Chinese government) contain the requirements below?</td>
</tr>
<tr>
<td>t3q2 How likely is it that a China-led project managed by an intergovernmental agreement will include local companies with allegedly close ties to the government in your country?</td>
</tr>
<tr>
<td>t3q3_A [Chinese companies have built a network of political insiders to ensure the conclusion of a major economic deal or project.] Do you agree with the following statements regarding the involvement of high-level government officials?</td>
</tr>
<tr>
<td>t3q3_B [Chinese companies have lent their support for the ruling political elite in your country to facilitate a China-led project/investment.] Do you agree with the following statements regarding the involvement of high-level government officials?</td>
</tr>
<tr>
<td>t3q3_C [Chinese companies/officials have relied mostly on the attractiveness of proposed projects/investments to lure governments in approving them.] Do you agree with the following statements about the involvement of high-level government officials?</td>
</tr>
<tr>
<td>t3q3_D [China has relied exclusively on a government buy-in of proposals for economically efficient projects and investments.] Do you agree with the following statements about the involvement of high-level government officials regarding the implementation of the project?</td>
</tr>
</tbody>
</table>

### Sub-index 4. Negative environmental impact

<table>
<thead>
<tr>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>t4q1 What impact have Chinese investments had on the implementation of the EU energy and climate laws/policies in your country?</td>
</tr>
<tr>
<td>t4q2_A [On Air pollution] What is the impact of Chinese-led projects and investment on the environmental sustainability in your country?</td>
</tr>
<tr>
<td>t4q2_B [On natural habitats] What is the impact of Chinese-led projects and investment on the environmental sustainability in your country?</td>
</tr>
<tr>
<td>t4q2_C [On Green-House-Gases (GHG) emissions] What is the impact of Chinese-led projects and investment on the environmental sustainability in your country?</td>
</tr>
<tr>
<td>t4q3_A [Chinese investments have locked your country in coal-based power generation for the foreseeable future.] Do you agree with the following statements about the impact of Chinese projects and investments on the long-term dependence on fossil fuels?</td>
</tr>
<tr>
<td>t4q3_B [Chinese investment is increasingly diversifying towards renewable energy investments] Do you agree with the following statements about the impact of Chinese projects and investments on the long-term dependence on fossil fuels?</td>
</tr>
</tbody>
</table>