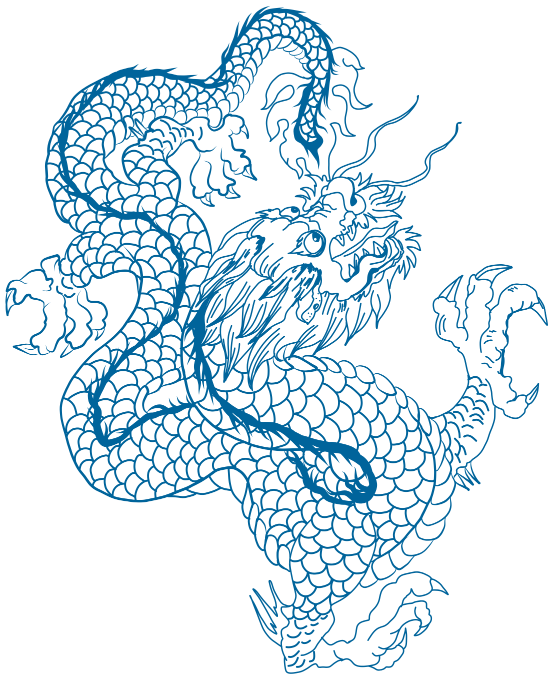
WHO SUMMONS THE DRAGON?



China's demand-driven influence
in **Central-Eastern Europe** and the **Western Balkans**

A political and economic regional comparison

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A project by

Bucharest, Romania
April, 2021
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A project supported by

Layout by Florin Vedeanu

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Executive Summary

China's cooperation framework with CEE and Western Balkan countries has attracted the attention of both analysts and decision-makers from Western Europe and the United States. The 17+1 format is now almost a decade in the making, experiencing regular ebbs and flows in the process. Political cooperation and geopolitical concerns, both for CEE and Western Balkan countries and Western actors, continue to shape the degree and character of how the countries in the region cooperate with China. While China's involvement in the region is conventionally depicted as that of an increasingly influential power using its economic and political tools to reshape the region and pull it apart from its Western European partners, we provide a different vision.

Based on a mixed-method methodology cross-cutting the political/economical divide, we show that while China wants to increase its economic and political influence in the region, there is a significant difference between the story we hear and the facts we see. Despite China's efforts to leverage vulnerabilities in the region, its political influence seems to be still relatively low. Economic influence by itself cannot match Western economic ties either. Political engagement with China is shaped mostly by domestic factors and geopolitical considerations, particularly those related to security. This is why we suggest that analysts and Western partners focus on the demand-side of China-CEE relations, not on the Chinese supply-side. It is what happens inside the CEE countries which determines China's influence in the region, and not necessarily what Beijing wants.

We classify regional relations with China into formal and substantive, while also dividing substantive engagement between committed and uncommitted. We show that there is no relationship between economic investment and political engagement, with the notable exceptions of Hungary and Serbia. We also find that what drives bilateral political engagement with China is a desire for strategic autonomy vis-à-vis the West. Thus, a given country's intensification of relations with China is mostly the result of domestic political dynamics and the emergence of a political will for foreign policy autonomy from Western partners. It is thus an effect of home-grown dissatisfaction with the West, and not caused by a strategic detachment from Western structures.

China also aims to increase its economic influence in Central and Eastern Europe (CEE) and the Western Balkans as a leverage for political influence. Chinese economic influence can be particularly powerful in the region on two accounts: (1) in the case of strategic sectors, where the CEE and WB countries have a substantial investment gap and are starving for capital (i.e., energy, transport infrastructure, telecommunications, and more recently health) or (2) in smaller economies in the region, where the impact of trade, investments or loans can be greater. In both cases, domestic economic vulnerabilities are 'weaponisable' dimensions, and the potential for China to exploit these strategic openings is real. Whether it concerns investments and loans, or trade and inter-dependencies in the supply chains, China is willing to weaponise its economic force.

Still, in economic terms, the threat to counterweight Western eco-political influence is (strategically) exaggerated. Chinese economic commitments are completely asymmetric in comparison to both the size of its economic ties with Western European countries, as well as in comparison to the economic ties that CEE and WB have with the transatlantic world.

The outliers in the region are Hungary and Serbia, which have both displayed a substantial political commitment to China. In these countries, however, Chinese economic influence is only slightly higher than the rest of the region, targeting strategic economic sectors (e.g. energy, health, infrastructure), and still well below EU and US economic ties, suggesting that domestic political choices are more powerful explanations than economic integration. Furthermore, despite registering levels of Chinese investments and trade flows which are above the regional average, at the moment countries like the Czech Republic, Poland, Romania, Slovakia and North Macedonia display only formal bilateral political relations with China. In contrast, Bulgaria, Montenegro and Bosnia and Herzegovina seem to show stronger political engagement, despite having economic ties with China below the regional average.

In terms of 5G network deployment and attitudes toward Huawei, both the CEE and WB countries follow the same patterns, although there are some notable exceptions. Except for Bosnia and Herzegovina, Hungary and Montenegro, all the other countries from the 17+1 bloc have joined the US-led Clean Network Initiative. Targeting it as an 'untrusted vendor', China's partners from CEE and WB have pledged to prevent the supply of equipment from Huawei for the rollout of their national 5G networks. For a long time, the Chinese company has been a trusted and affordable partner to the countries and their national operators in the two regions, especially in developing the previous generations of cellular networks. However, amid the politicisation and securitisation of the 5G network construction, the majority of CEE and WB countries have either opted for 'trusted' Western alternatives such as Ericsson and Nokia, or are expected to follow this path as a result of anti-Huawei laws or corporate decisions by the national operators' Western parent-companies. Hungary and Serbia, on the contrary, are provid a safe and friendly environment for Huawei's operations as Budapest and Belgrade announce new projects and deeper cooperation, including in the field of 5G technologies.

Introduction

Over the last decade, China's relations with Central and Eastern European (CEE) countries[01], as well as with those in the Western Balkans[02], have experienced a resurgence. In the aftermath of the 2008 Great Recession, China has pushed forward a new cooperation framework with CEE and the Western Balkans, also known currently as 17+1[03]. This framework promises increased engagement between CEE countries and China, investments in regional infrastructure, trade, and growing ties in cultural and other areas. The conventional wisdom is that this new push for cooperation from China in CEE is part of the former's attempt to establish itself as a global leader, to contest the supremacy of the United States in the region, and to divide the European Union. Accordingly, the China-CEE cooperation framework is seen as akin to other regional platforms created by China, such as the China-Africa or the China-Latin America and Caribbean cooperation forums. In most media analyses and scholarly evaluations, the Chinese involvement in CEE has been portrayed as substantial, impactful, and set to continue developing and deepening into the future.

At first glance, this conventional depiction of China's engagement in Central and Eastern Europe seems to be well-founded, and fits neatly with the conventional narrative about great-power competition that has dominated the economic and political analysis of world affairs. China is depicted as an emergent power that has the resources, interests, and willingness to pursue a systematic contestation of the Western-led order. It intends to do so by undermining liberal institutions such as the World Bank or the European Union by creating alternatives such as the Asian Infrastructure Investment Bank (AIIB), or by co-opting developing countries through its Belt and Road Initiative (BRI). Overall, China's growing influence is taken for granted, with all the policy and rhetorical consequences emerging from this position (Vangeli and Pavlicevic 2019).

We provide a different reading of China's relations with the CEE and Western Balkan countries, focusing on the interplay of economic and (geo)political relations. We shift from a supply-side perspective that focuses on what China does to a demand-side perspective that looks at what drives the governments in CEE and the Western Balkans to engage economically and politically with China. We argue that the threat posed by the Chinese attempts to actually succeed is (sometimes strategically) exaggerated, and that Western partners should be more concerned about home-grown incentives to cooperate with China, particularly domestically-driven desires for strategic autonomy vis-à-vis the West. According to the available evidence, China has not been able and does not, at least currently, seem to be able to counterbalance Western economic and political influence from a supply-side perspective. The region, and especially the EU members in the region, are deeply embedded in the West's economic and political networks and institutions. However, when some CEE and Western Balkan governments do increase the intensity of their political and diplomatic relations with China, they seem to do so in order to signal a certain degree of autonomy vis-à-vis the West. Thus, Chinese influence in the region is an effect of domestic desires for strategic autonomy, not a cause of such desires.[04] This means that Western partners should pay close attention to what happens inside the CEE and Western Balkan countries, and focus less on the purported threat posed by the supply-side strategy China is employing.

However, at the same time, China's economic incentives may weigh more heavily in the strategic calculations of those CEE and Western Balkan countries with smaller economies that are also less integrated in Western economic networks. Western countries should pay more attention to how Chinese incentives affect the political and economic orientation of these countries, and should be ready to provide counter-incentives.

This paper fleshes out the economic and political relations between the CEE and Western Balkans and China, as well as the latter's influence in the region as it follows on. We first contextualise China-CEE relations by providing a brief analysis of economic flows and political relations over the last decade. We then provide a new analytical framework through which we can analyse China-CEE relations. By supplying an analytical model across two dimensions – economic and political – we classify the relations between the countries in the region and China in four comprehensive categories. Finally, we illustrate our argument with an in-depth case study on Huawei's activities in the region.

Mapping Cooperation with China in the Region

Formal cooperation between China and the Central and Eastern European countries, including those in the Western Balkans, takes place through an initiative of the Chinese Foreign Affairs Ministry called the '17+1 cooperation format.' Launched in Warsaw in 2012, it aims to intensify the cooperation between the region and China by including the region in the Belt and Road Initiative, increasing trade, Chinese investments in the region, and political and cultural engagement between the two sides.

While the initiative's multilateral format gives the impression that it implies multilateral cooperation between all the participating countries, China engages with each individual country bilaterally. Some transnational investments, such as the Chinese investment in the railway connection between Belgrade and Budapest, do involve more than one CEE government, but China still relates with each CEE country mostly on a bilateral basis. This begs the question of the utility and actual relevance of the multilateral framework. Thus, the China-CEE format should be understood more from Beijing's perspective as referring to the Chinese strategy towards the region, not as an actual multilateral cooperative framework. China just packs the CEE countries together for conceptual and planning reasons, but it relates with each country on an individualised, bilateral basis[05]. This explains why we observe such a great degree of variation between CEE countries when it comes to their economic and political engagement with China.

While both the CEE countries and China have agreed several times to upgrade the 17+1 over the years, the CEE countries have different types of incentives to actually push to upgrade or downgrade the format's relevance and significance. The main incentives are related to the perceived or actual economic opportunities China provides, their degree of embeddedness into the Western political and economic (institutionalised) networks, and the degree of their governments' strategic autonomy. The ebb and flow of the 17+1 framework is shaped and ultimately determined by the domestic incentives present in each of the CEE countries, as well as other strategic and constraining anxieties and commitments.

Political cooperation

From a political perspective the CEE and Western Balkan countries are embedded, to various degrees, into Western economic, political, and military structures that are increasingly opposed to Chinese stances on an expanding number of issues. Eleven of the seventeen CEE countries are members of the European Union and the other six are candidate countries. Of these eleven, six have joined the euro and nine are members of the Schengen area. As for military integration in Western structures, all but two are members of NATO, and all but one (Serbia) have a strategic partnership with the United States.

Over the past four years, the United States has embarked on an increasingly clear path of confrontation with China. The trade wars and the implementation of various protectionist measures by the United States, but also by the European Union, signals an increasing tendency to use economic tools to safeguard political objectives against Chinese influence. Furthermore, the EU's position in the global multilateral framework has been made increasingly difficult, as it has stretched itself between aligning with its strategic partner, the US, and its growing economic benefits from further integration with its largest exports market, China. Germany's economy in particular, which is responsible for more than a quarter of EU's international trade, has been increasingly tied to the Chinese market over the course of the past decade. Moreover, the economies of most CEE countries are highly dependent on the German economy, which in turn is dependent on the Chinese economy. This creates interconnected economic dependencies that spill over into politics and foreign policy.

However, as tensions have mounted between the US and China, the EU has also implemented restrictions on Chinese FDI, given its own concerns about the involvement of Chinese state-owned companies (SOEs) in key strategic sectors or companies in Europe. The recent US 'Policy for managed strategic competition with the PRC' marked a new milestone in the increasingly divergent path between the transatlantic world and China. This has substantial geopolitical consequences for the entire world, and in particular for regions such as CEE and the Western Balkans, which are among the most integrated developing areas in the institutional and economic Western frameworks.

In this context, and considering other geopolitical evolutions in the region (particularly the resurgence of Russia and the continuous crises issuing from the Middle East), the CEE and Western Balkan countries embedded into Western structures have been drawn closer to their transatlantic partners. This is influenced both by the degree to which they are embedded into the Western structures and by the sensitivity to risk of each national government, particularly in areas such as national security. In this context, security concerns are coupled with political objectives and economic interests.

This state of affairs complicates the political cooperation between China and the CEE and Western Balkan countries. However, these concerns or even their degree of embeddedness into the Western structures should not be treated as an absolute or unique factor that precludes an intensification of said cooperation. As is shown in the case of Hungary, a country deeply integrated in the Western political and economic networks, institutional embeddedness does not prevent the deepening of relations with China; the domestic priorities of government leaders and key domestic interest groups seem to be the main predictors of the ebb and flow of political cooperation. If the political elite governing the country desires to assert a higher degree of strategic autonomy, then we should expect an intensification of bilateral relations with China. This is why we argue that Western actors interested in the China-CEE cooperation framework should look less at what China does, and more at what domestic governments do and why they decide on a given course of action.

As Szczudlik (2019) argues, the China-CEE framework is upgraded or downgraded depending on the configuration of incentives and interests that either the CEE countries or China have at a particular point in time.[06] Being embedded in Western structures creates political incentives for limiting political cooperation with China, but when domestic interests for strategic autonomy prevail, more intense engagement comes about. But how should we conceive this political and diplomatic engagement between the CEE countries and China?

We suggest that one way of thinking about this is by classifying what types of political engagement take place. For this purpose, we make the distinction between 'formal engagement' and 'substantive engagement'. Furthermore, we sub-divide substantive engagement into two categories: 'committed' and 'uncommitted' substantive engagement. This allows us a more nuanced and granular understanding of how and why the countries in the region cooperate with China.

• **Formal engagement** refers to political and economic engagement that is driven only by the desire to maintain cordial and friendly relations, without actually seeking an intensification of bilateral relations in the political or diplomatic sphere.

• **Substantive engagement** refers to political and economic engagement driven by an interest to intensify political and economic relations with China. This type of engagement can be subdivided into two subtypes:

- "committed" substantive engagement, which refers to real desire to intensify engagement with China due to domestic pressures for strategic autonomy; or

- 'uncommitted' substantive engagement, which refers to instrumental but substantive engagement as a method of posturing vis-à-vis a third party, particularly the US or the EU, or as a form of pragmatic foreign policy.

Type of engagement	Implication	Example
Formal engagement	Membership in the 17+1 framework and expectations for economic investments, but no intensification of political engagement.	Albania, Czechia, Poland, Romania, Slovakia, Slovenia, Macedonia, Latvia, Lithuania
Substantive engagement		
Committed-	Intensification of political engagement as a way of expressing and signalling strategic autonomy.	Hungary, Serbia
Un-committed-	Intensification of political engagement as a posturing strategy vis-à-vis third party actors or as a form of pragmatic foreign policy.	Bosnia and Herzegovina, Montenegro, Estonia, Bulgaria

From a methodological perspective, the placement of these countries in one or another category was decided based on qualitative analysis of diplomatic relations, publicly-available strategic and political documents, as well as the secondary sources analysis of particular bilateral relations.

Currently, most of the countries in CEE and the Western Balkans seem to be engaging only formally with China. Countries such as Albania, the Czech Republic, Poland, Romania, Slovakia, Slovenia, Macedonia, Latvia and Lithuania are actively engaging with China economically, and participating in the China-CEE political cooperation framework. However such engagement, while active, seems to be limited to economic relations and an expectation for Chinese investments in these economies. These countries seem to show no actual interest in intensifying political and diplomatic relations, privileging their relations with the US and other Western partners at the expense of China's influence and interests. This can be observed in the recent low-level participation in the latest China-CEE summit and in the political positions adopted by countries such as Romania, which are distancing themselves from China and excluding Chinese firms from public tenders.

However, because of changes in the domestic power dynamics, some of these countries currently exhibiting low interest in the intensification of political relations with China have shown a certain degree of interest in substantive relations in the past. The Czech Republic, where foreign policy is disputed between the populist President Zeman and the incumbent prime minister, has exhibited different positions in relation to China. While currently engaging mostly in formal relations with China, in past years Prague exhibited a more active desire for an intensification in political and economic relations with Beijing, under the direction of President Zeman. The Czech posturing vis-à-vis China is an issue of domestic struggle and it alters with the power distribution inside key institutions in Prague. Similarly, the current Romanian government has expressed a strong disinterest in intensifying political (or economic) relations with China, while the previous Social Democratic government adopted a much more amicable approach towards the country. The difference in strategic vision between the two governments shapes actual state behaviour and, therefore, the intensity and type of political relations with China.

Among these, the case of the Baltic states is particularly interesting. The exceptional security concerns they face creates incentives for them to remain deeply embedded in the Western political, military, and economic networks. In light of these incentives, but also maintaining the rational desire to entertain relatively cordial relations with rising powers, Latvia, Lithuania and Estonia have accepted participation in the cooperative framework with China, but have tended to balance political cooperation with their commitment towards Western partners. Estonia seems engaged in more intense political relations with China; this may be an attempt to rehabilitate bilateral relations after a diplomatic three-years diplomatic crisis that started in 2011 over the Dalai Lama's visit.

When it comes to committed substantive engagement with China, Serbia and Hungary present almost unique cases, that Western analysts often use, nevertheless, to generalise about the entire region: Hungary most often to comment on what is happening with the Central European members of the EU, whereas Serbia is treated as being representative for the Western Balkans. We argue that these two cases should be treated as special cases, as they are rather the exception than the rule. Both Hungary and Serbia have expressed and sustained a high degree of commitment towards their substantive relationship with China and have benefited economically. We argue that both countries have adopted a committed engagement strategy towards China because of their governments' stances on increased strategic autonomy vis-à-vis the West. Both the Orbán government in Budapest and the various governments in Belgrade have promoted a strategic position through which they have sought to assert this autonomy. In the case of Serbia, the desire for committed substantive engagement with China is a consequence of the political pragmatism adopted by the ruling political party in Belgrade, led by President Aleksandar Vučić. By committing to developing substantive relations with China, Belgrade is trying to adopt a strategic balance between the West and Russia/China, aiming to extract benefits from all parties. Hungary's committed and substantive engagement with China is an expression of the foreign policy vision adopted by Viktor Orbán after his return to power in 2010, which involves maintaining close relations with both Russia and China.

Finally, countries such as Bosnia and Herzegovina, Montenegro, and arguably Estonia have adopted what seems more like an uncommitted but substantive relationship with China at various points in time over the past decade. In the case of Montenegro, the high dependency on Chinese capital makes intensive political engagement with the latter mandatory. China owns a substantial size of Montenegro's debt and has provided funding for major infrastructure projects in the country. The future of Montenegro's engagement with China will thus depend on the ability of the EU and the US to provide both political and economic assistance. Re-starting the process of EU accession for Montenegro may represent a good trigger to intensify relations with the West and slow down the development of its relations with China. In the case of Bosnia and Herzegovina, with its fragmented and complicated political system, the relationship with China is also deepening mostly because of an absence of opportunities for intensified relations with the West.

To sum up, the political cooperation between the CEE countries and China varies depending on domestic incentives to assert strategic autonomy vis-à-vis the West. Thus, there is no one-size-fits-all model of cooperation in the region, especially due to the mostly bilateral character of the multilateral framework developed by the CEE countries and China. Overall, we suggest that the conventional narrative about China's increasing political influence in the region is exaggerated. With the exception of Serbia and Hungary, China's levels of influence in the region are low.

Economic cooperation

The economic component represents the core element of the China-CEE cooperation framework, and represents one of China's main priorities as part of its Belt and Road Initiative. Over the course of the past decade, China has sought to expand its economic influence in Europe. While most of its trade and investment has been concentrated in Western Europe, its relative significance has captured more attention in the context of the capital-thirsty countries of Central and Eastern Europe. The conventional story tells us that Beijing seeks to expand its market access, expand the use of its technologies, and establish in the region an increased dependency on the Chinese economy. The countries of Central and Eastern Europe, including those in the Western Balkans, have been involved in growing economic exchanges with China. This growth has provoked anxieties informing the conventional narrative that this increase in economic exchanges will lead to the region becoming increasingly reliant on Beijing and less so on Western economies.

Some estimates claim that the impact of China's Belt and Road Initiative on Central and Eastern Europe will be approximately 6% of its aggregated GDP by 2040, or that it would involve a direct and indirect benefit of US$48 billion for Poland, US$33 billion for Romania, US$16 billion for the Czech Republic, and US$13 billion for Hungary (CERB 2019). However, when we look at incoming capital from China into CEE markets alone, the figures are somewhat more modest, with only US$6.8 billion coming into the entire CEE region between 2000 and 2019 (Merics 2020). In contrast, the US's total FDI in CEE for just the past decade has been over US$300 billion (BEA 2021). The greater gains are therefore driven by the indirect effects of trade. What is more, the majority of FDI inflows continue to target the richer economies of Northern and Western Europe, not the capital-thirsty economies of CEE. China seems to be investing based on a return-on-investment rationale that is driven by economic logic, not so much by geostrategic or political logic.

However, when compiling an overall economic ratio between Western and Eastern investments, we find that two categories of vulnerabilities emerge in CEE. On one hand, there are the countries with larger Chinese inflows of capital, such as Hungary with US$2.9bn over the decade, but also Poland with US$1.7bn or Romania with US$1.5bn. In these larger economies, it is not the overall inflow value that matters, but its targeted usage.

There are important developmental divides between Eastern and Western member states of the EU in terms of infrastructure connectivity. Only Croatia and Slovenia come close to Western

Europe's average of motorway accessibility and more importantly, motorway density. For Romania, Poland or Bulgaria, the physical infrastructure needs are very large, and Chinese involvement in such projects has at times come as a much-welcomed solution. Chinese companies adopted different strategies for such projects. For example, in Hungary, Chinese Railways established a joint venture with Hungarian Railways (MÁV) in 2015 to coordinate the upgrade of the Hungarian section of the Budapest-Belgrade railway line.

	Motorway accesibility	Motorway density
Bulgaria	0,07	4,88
Croatia	0,3	14,77
Czechia	0,07	9,52
Estonia	0,11	3,1
Hungary	0,15	16,29
Lithuania	0,1	4,73
Poland	0,04	4,74
Romania	0,03	2,7
Slovakia	0,08	8,55
Slovenia	0,37	37,98
Older Member States Average	0,18	28,07
	Source: Eurostat	*Source: Eurostat*

Additionally, China has targeted other strategic investments in the region concerning the defence and energy sectors, from the acquisition of the Polish military equipment producer Huta Stalowa Wola in 2012, to the more recent focus on energy investments. Throughout CEE, most of the energy production facilities were built during the Communist period, and as such, their current status requires many investments in re-technologisation or the development of new facilities in order to maintain the domestic energy supply (Volintiru et al 2021). Within the context of the Green Deal and the coal phase-out, CEE countries like Poland, Romania, Hungary, the Czech Republic and Slovakia have started to struggle with the energy transition, as well as the dual pressure of keeping energy prices low for internal consumption and competitiveness while covering the costs of large investments in energy production facilities. For some, energy security is more sensitive than for others. For example, the Chinese presence in Poland's energy sector is framed as an issue of availability, affordability, and efficiency which allows it to maximise efficient use of local coal resources while at the same time reducing its dependence on Germany and Russia (Turcsany 2016). Nuclear production is one of the leading sub-sectors where China has tried to take the lead over Western involvement, such as the case of the Cernavodă plant in Romania or Temelín in the Czech Republic.

With the recent US Memorandum of Understanding with Romania's Ministry for Economy, Energy and Business Climate totalling US$7bn, the expansion of nuclear energy in Romania has shifted firmly away from Chinese investments. Also, two MoUs were signed last year between the US and Poland on energy investments and broader economic cooperation. The US is also launching a transnational rail project, linking Constanța in Romania with Gdańsk in Poland as part of the Three Seas Initiative. Also, the Romanian Government is currently blocking access of Chinese companies to bids for large public investments on its territory. In Hungary, in contrast, China is still in line to build Europe's largest solar plant, contributing to its climate goals in a decisive manner. Renewable energy is one of the leading areas of Chinese investments in Hungary, after the electronics and automotive industries. Chinese companies have also bought foreign companies with subsidiaries in Hungary, such as Lenovo-IBM; its concentration on this market is driven by domestic openness as much as it is by location, as Hungary is targeted as a regional hub from where the whole European market can be supplied with Chinese products or services (Volgyi and Lukacs 2021).

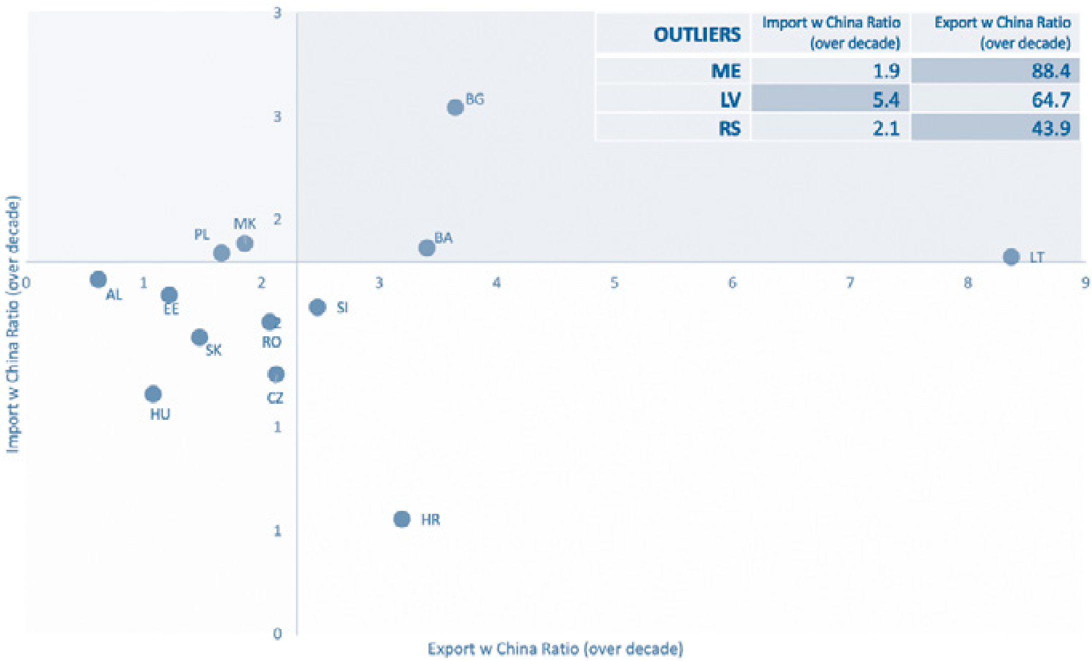
	U.S. direct investment in CEE (US$bn) (2009-2019)	**Chinese direct investment in CEE (US$bn) (2000-2019)**	**Western economic influence ratio**
Poland	135.6	1.7	80
Hungary	68.4	2.9	24
Czech Republic	60.5	1.2	50
Romania	30.2	1.5	20
Slovakia	7.3	0.1	73
Bulgaria	5.8	0.5	12
Slovenia	2.3	0.4	6
Croatia	1.5	0.5	3
Estonia	0.9	0.1	9
Lithuania	0.9	0.1	9
Latvia	0.3	0.1	3

EU funding is the main source of capital for public investments in both CEE and the Western Balkans. On average, 80% of public investments in CEE countries have been carried out with EU funding. Given that they represent only a small fraction of national budgets, this is telling of the structural vulnerability of the countries in this region, relying as they do on outside sources of capital for larger infrastructure investments.

In a regional counterweight to the Belt and Road Initiative, the US has backed the Three Seas Initiative in CEE. But beyond these regional formats, bilateral economic relations can derive economic substance from different US institutions. For example, the US Export-Import Bank (EXIM) was one of the leading actors behind recent Memorandums in the region. This could facilitate the acquisition of American goods, especially in the technology sector, where the competitiveness of Chinese prices has been a major attraction for national and local governments in CEE and the Western Balkans. In the context of the Covid19 crisis, EXIM can play a role in the pharmaceutical sector as well. USAID has been one of the leading donors for civil society organisations in the region. Finally, a lesser-known American institution in the region is the International Development Finance Corporation (DFC), which is currently a leading actor in facilitating investment projects in energy and critical infrastructure in the region, by partnering up with private-sector actors. Given the poor regional coordination, many of the countries in CEE or the Western Balkans will continue to prefer bilateral negotiations with the US on investments. In the case of CEE, particular attention should be paid to the coordination of US-backed investments and EU programmes and priorities, such as InvestEU. This is especially relevant for energy and infrastructure sectors where EU-wide plans have been developed. With poor institutional capacity for investment prioritisation and implementation, governments in the region might end up chasing two rabbits and eventually deliver nothing, except on paper. If their investment needs remain unmet, they can always become an entry point for China or Russia.

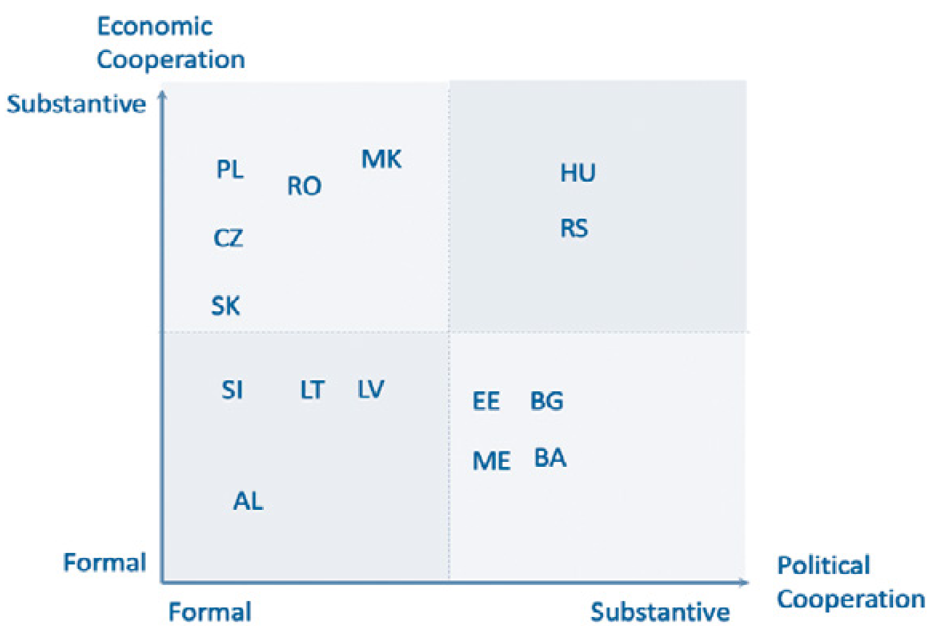
A second category of countries that could be more vulnerable to Chinese investments are smaller economies where the ratio between Chinese and US investments is much smaller given the size of the economy as a whole, as in the cases of Croatia or Latvia. Indeed, both have seen their economic ties with China increase over the past decade. For example, Latvia has had the highest rise in imports from China over the past decade from among the sample of countries in CEE and Western Balkans, with a five-fold increase.

While countries in CEE or the WB are much too small to target the Chinese market directly in terms of exports, they are very well integrated in the regional supply chains that in turn are reliant on the Chinese market. More specifically, while CEE countries have only an average export share to China directly of about 1.5% of their total exports, approximately a third of their exports go to Germany. Of these exports, many are components, in the automotive sector among others. German automotive



OUTLIERS	Import w China Ratio (over decade)	Export w China Ratio (over decade)
ME	1.9	88.4
LV	5.4	64.7
RS	2.1	43.9

Until this point, we have shown that the conventional depiction of China's influence in Central and Eastern Europe and the Western Balkans tends to be somewhat (strategically) exaggerated. In support of this position, we have analysed the broad political cooperation patterns in the region and what we believe explains them. At the same time, we have analysed the economic relations of the region with China, and these provide additional evidence in support of our argument that China cannot even come close to the economic influence and penetration of Western capital. However, we have not yet discussed the existing cross-country variation in connection to China's influence in greater detail. Here we provide a map of China-CEE relations based on two dimensions, economics and politics. Each of these dimensions is sub-divided into two other dimensions on a spectrum. Based on our conceptualisation of political cooperation, we distinguish between countries engaged in formal vs. substantive engagement with China. Conversely, based on our economic analysis, we distinguish between countries benefiting substantially from Chinese investments and trade, and those that do not. As can be observed in the matrix, there is very little connection between political cooperation and large-scale economic investment or trade. Hungary and Serbia represent the two special cases where we notice a convergence of the two, but this is not the case for the other countries in the region.



Source: the authors, based on a variety of political (e.g., Clean Network, MoUs, EU-level policy positioning) and economic (e.g., FDI, trade) evaluations

A Case in Point: Huawei 5G Saga in CEE and the Western Balkans

The deployment of the fifth-generation technology standard for broadband cellular networks (5G) has been transformed into a new avenue for geo-political and geo-economical confrontation. It is fair to say that the 5G rollout has become one of the most polarising, politicised, and securitised issues ever since the Trump administration first raised the issue, as well as a major 'battleground' in the heated trade war between the US and China.[07]

Calling upon the so-called Prague 5G Security Proposals[08], in 2020 the US government launched the bi-partisan 'Clean Network' initiative aimed at addressing the threats to data privacy, security and human rights from authoritarian malign actors.[09] Directly targeting the Chinese telecommunication giants like Huawei and ZTE – accused of being 'untrusted vendors' required to observe the directives of the Chinese Communist Party – the US's 5G diplomacy has actively engaged in ensuring support from countries across the world, especially from its NATO and EU allies in Europe.[10] As a result, most European countries have signed bilateral memoranda of understanding with the United States agreeing not to pursue equipment from such 'untrusted vendors' in the development of their national 5G infrastructures.

Apart from Bosnia and Herzegovina, Hungary and Montenegro, all of China's partners from Central and Eastern Europe and the Western Balkans – organised in the Beijing-led cooperation initiative commonly known as 17+1 – joined the Clean Network Initiative.[11] The "5G breakup" awkwardness was felt at the last 17+1 summit held virtually on February 9, as six founding members of the bloc

– Bulgaria, Estonia, Latvia, Lithuania, Romania, and Slovenia – were represented by ministers instead of their heads of governments and states.[12] What is more, the summit took place amid rising distrust toward China among its 17+1 partners and the dissatisfaction with the lack of consistent investments, which had initially been promised, somewhat pompously, at the initiative's inception.[13] Furthermore, in the foreseeable future the Central and Eastern European and Western Balkan countries will most probably refuse to deal with Huawei and ZTE, companies with a substantial footprint in the two regions' telecommunication sectors.

From Affordable Quality to "Untrusted Vendors"

Huawei has been present on European markets for 20 years, opening its first research lab in Stockholm in 2000.[14] Today, Huawei has nearly 15,000 employees across Europe and 23 research facilities in different European countries, while the company's contribution to the EU's GDP in 2018 was €12.8 billion.[15] Closely cooperating with some of Europe's largest telecommunication operators like Deutsche Telekom, A1 Telekom Austria, Telenor, Orange and Telefónica, both Huawei and ZTE have been heavily involved in the construction of the infrastructure for the previous generations of 4G and 3G cellular networks, as well as the technological development and testing of the newest 5th generation across the continent. Nevertheless, most of Europe's operators have joined the Clean Network Initiative becoming 5G Clean telecoms[16]; some of them, such as Deutsche Telekom, have frozen all their 5G network equipment deals, amidst the debate in Germany over a potential ban of Huawei.[17]

Being dependent on the German economy, many Central and Eastern European countries have followed Berlin's example in preventing Huawei's further penetration in their telecommunication sectors, despite its significant role in the development of their 4G and 3G national infrastructures.[18] A recent comparative study by the Association for International Affairs (AMO) in Prague analysed national approaches toward Huawei, the most visible Chinese telecom company with the highest share of components in local networks in the CEE countries. AMO's study demonstrates differences among the CEE countries in their approach toward Huawei, whose future in the region is conditioned by five factors: the change of government in the upcoming general elections, Germany's stance, the local telecom companies' preferences, bilateral relations with the US, and the effectiveness of Washington's 'Clean Network' diplomacy.[19]

Although Czechia was a pioneer in voicing scepticism on the state of 5G security in Europe back in 2018, it has not yet introduced similar legislation. Ahead of the upcoming general elections, the Czech intelligence agencies, Prime Minister Andrej Babiš, and President Zeman have taken different positions on the matter. While the Czech government has voiced concerns over Huawei-related cybersecurity risks to the national 5G network, the President has often downplayed them. Moreover, Huawei has been actively influencing the national debate on 5G[20] by launching a promotional website and hiring an attorney to challenge the National Cyber and Information Security Agency's interpretation of the risks posed by foreign vendors.[21] The announced '5G breakup' expectedly resulted in a diplomatic scandal; the Chinese ambassador to the country called the National Cyber and Information Security Agency's 5G warnings erroneous, whereas Prime Minister Babiš accused him of lying. As demonstrated in the engagement spectrum, the Czech Republic has substantive economic cooperation with China, while Beijing also has an ally in Czech President Zeman. Hence, it can be expected that China and Huawei will not easily back off from the construction of 'the Czech Republic's 5G network.

The only outlier in the region is Hungary. It is highly unlikely that the Orbán' government will ban the use of Huawei's technology in the national 5G network in the foreseeable future, given that the company enjoys a friendly environment in the country and has announced the establishment of a new research and development centre in Budapest. Again, we can observe Hungary's special status in the region in regards to China. Nothing seems able to break the friendly Sino-Hungarian relationship, as Budapest nurtures both substantive economic and political relations with Beijing, thus demonstrating its strategic autonomy vis-à-vis the West, including the latest purchase of China-made Sinopharm's COVID-19 vaccines – the first of its kind in the EU. In contrast, neighbouring Poland has introduced amendments to its cybersecurity law enabling the exclusion of high-risk vendors, in spite of its substantive economic cooperation with Beijing. This may be a result of the 2019 spying scandal wherein a Huawei employee was arrested on charges of espionage and finally indicted in 2020. Poland's neighbours, the Baltic states of Estonia, Latvia, and Lithuania, have taken a similar tack as they all signed memoranda of understanding on 5G with the US. We may expect them to introduce legislation or policies designed to exclude or limit Huawei as a potential vendor involved in constructing the national 5G networks. Since the Baltic states generally keep their political and economic relations with China at a formal level, no significant action from Beijing or Huawei should imminently be expected.

Unlike Czechia, its neighbor Slovakia has a less substantive economic cooperation with China and has taken a firmer stance as its National Security Authority has been drafting a Decree on 5G security measures, which can be easily overturned nevertheless as it does not have the power of a law. Furthermore, in October 2020, Slovak President Zuzana Čaputová canceled her speech at the famous security-related Globsec Forum in Bratislava over its cooperation with Huawei, resulting in the former's decision to cancel the cooperation with the Chinese company.[22] Unlike its Czech colleague, Huawei's Slovak branch declined to comment on the country's move.[23] Lastly the position of Romania, being the first country in the region to sign a memorandum of understanding with the US in 2019, as well as proposing a law that envisions the prime minister's approval for all technology manufacturers, equipment, and software programs planned for constructing the 5G national network', 'is the most decisive within the region on declining Huawei's services. Notwithstanding its substantive economic cooperation with Beijing, Bucharest seems to have taken a U-turn, by announcing a ban on Chinese investments in capital infrastructure projects in the country. The study did not include Bulgaria, Croatia, and Slovenia, which are discussed separately.

By signing a memorandum of understanding on 5G with the US, Bulgaria joined the Clean Network Initiative in October 2020, despite its substantive political cooperation with China.[24] Prime Minister Borissov stressed that the 5G rollout in the country would be clean, safe, and based on free and fair competition, transparency and the rule of law,[25] although the major Bulgarian mobile operators (A1 Bulgaria, Vivatel and Telenor Bulgaria) have relied on Huawei for the development of their 4G networks[26] and have been testing their 5G equipment using the company's technologies.[27] However, some of them, such as Vivatel, signaled that they might disengage from Huawei.[28] Sofia will probably need to compensate the mobile operators if it decides to exclude the Chinese company from the national 5G network rollout.[29] Therefore, experts believe that the transition to "trusted vendors" will not be sudden, but gradual. Namely, the preferred approach would be for the telecommunication companies that currently use Huawei technology to use liberalisation in the network modernisation regime, enacted with the new amendments to the Spatial Planning Act, as a transition phase in which they could discontinue their partnership with the Chinese company and thus enter the second phase already prepared to use other suppliers.[30] The Chinese Embassy in the country has not remained silent on these developments and accused the US of reviving 'fascism' and 'McCarthyism', imposing a digital Iron Curtain and being the biggest threat to global security, citing WikiLeaks and Edward Snowden's case as examples.[31] The embassy has also expressed hope that Bulgaria will continue to provide a non-discriminatory working environment for Chinese companies, including Huawei.[32]

Slovenia also joined the Clean Network Initiative in August 2020, during a visit to the country by the former US Secretary of State Mike Pompeo. As a result, Slovenia's Ministry of Public Administration is preparing a draft of the new Electronic Communications Act, which proposes a prohibition of the use of equipment from high-risk vendors in certain parts of the networks, such as critical infrastructure, government, defence, and rescue systems, as well as thre replacement of the existing equipment provided by the high-risk vendors in these parts.[33] Furthermore, Ljubljana has suggested a transition period for the replacement of high-risk vendors' equipment of five years after the secondary legislation is enforced.[34] The proposed criteria to determine high-risk vendors include a strong link between the supplier and a government of a given third country; the third country's legislation, especially where there are no legislative or democratic checks and balances in place, or there are no security or data protection agreements between the EU and the given third country; the characteristics of the supplier's corporate ownership; the third country's ability to exercise any form of pressure, including concerning the place of manufacturing of the equipment; the supplier's ability to guarantee supply; and the overall quality of the supplier's products and cybersecurity practices, including the degree of control over its supply chain and whether adequate prioritisation is given to security practices.[35] Huawei's Slovenian branch has found this intention discriminatory, adding that even if the country bans Huawei, the company will not leave Slovenia, where it has been present for quite some time.[36] In the meantime, Telekom Slovenia, a publicly owned operator, has launched the first commercial 5G network in the country in cooperation with Ericsson.[37] Thus, it seems very unlikely that Huawei will get involved in the national 5G network rollout in Slovenia, a country which has no substantive political or economic relations with China.

Croatia, on the other hand, did not sign the memorandum of understanding with the US. Nevertheless, the Croatian government has made a public pledge to ensure a clean 5G network. Moreover some of Croatia's operators, such as Croatian Telecom (part of the Deutsche Telekom Group) have signed a 5G network contract with the 'clean' Swedish company Ericsson. Despite the overall delays in rolling out the national 5G networks, as in Slovenia, Croatian Telecom introduced the first commercial 5G network in the country in late October 2020. Others like Telemach Croatia (formerly owned by the Swedish Tele 2) and A1 Croatia (part of the A1 Telekom Austria Group) have used equipment from different suppliers – including Huawei – and have not yet shown an intention to stop their cooperation with the Chinese company. Hence, Zagreb's position on the matter is not entirely clear, which creates an uncertain working environment for the Croatian operators. However, it is also possible that their foreign owners – mainly Western European telecoms – will eventually decide the issue.

Similar to CEE, there are some notable differences among the Western Balkan countries' approaches to Huawei. It is worth mentioning, though, that most of the countries' operators have not relied on a single vendor in developing the previous generations of cellular networks, cooperating with Ericsson, Huawei, Nokia, ZTE, and other smaller suppliers alike. Nevertheless, the exact share of Huawei's components in the national networks was not easy to identify.[38] That notwithstanding, besides their membership in or support of the Clean Network initiative, their national approaches toward Huawei will most probably be conditioned by the compliances with the EU cybersecurity rules and standards (primarily the EU Tool Box), their governments' foreign policy positioning, and their ties with China, as well as the stance of the parent companies which own the Western Balkan national operators (mainly EU-based telecoms).

Despite being among the lowest-ranked European countries ready to deploy and adopt 5G[39] and not having 5G network and spectrum auctions scheduled[40], Albania was the first country in the region to become part of the Clean Network Initiative back in 2019, agreeing to avoid any transmission, control, computing, or storage equipment from Huawei or ZTE.[41] Nevertheless, it is therefore very likely that Albania will introduce legislation omitting Huawei from its 5G networks, although the company has been present in the country since 2009 as it has been a crucial partner for Tirana in the national 4G networks operation, while its phones and equipment have an extensive market share.[42] Moreover, in November 2019, one of Albania's major operators Vodafone Albania ran a 5G network test using Huawei equipment, while at the same time denying it had a contract with the Chinese company for the entire network rollout, even though Vodafone Albania's British parent company had concluded such contract in the UK.[43] On the other hand, another major Albanian operator, One Telecommunications (part of the Deutsche Telekom group), chose the Swedish company Ericsson as the only vendor to update its radio and core networks.[44] Although China was once Albania's only ally, in contemporary times it has not had an as significant economic footprint in and close bilateral relations with the country as it has with the rest of the Western Balkans.

Bosnia and Herzegovina is by far the most peculiar case in the region. Due to its complex political system and lack of sufficient coordination between its entities, Bosnia was the last in the region to introduce 4G, facing additional difficulties in providing full 4G coverage across its territory.[45] Despite signing the memorandum of understanding on 5G digital transformation in the Western Balkans, Bosnia and Herzegovina lacks network capacities[46] and political will[47], being at the very bottom among European countries in terms of its readiness to install 5G.[48] Although at the beginning of 2020 the publicly-owned BH Telekom ran a 5G network test using a 5G base station on its premises, the three main entity-based operators – BH Telekom, Mtel Bosnia and Herzegovina (owned by Mts Telekom Serbia), and HT Eronet[49] have shown little interest, postponing the network's commercial use to 2025 at the earliest.[50] Equipment-wise, all three operators have relied on Huawei and ZTE during the 4G network rollout, while BH Telekom has also been using Ericsson's and Siemens' technologies for the 3G network.[51] Moreover, there have been many rumours about a potential 4G deal between BH Telekom and Huawei wherein matters such as a free supply of equipment in exchange for company shares, exclusive rights over the newly-built network's maintenance, and obligations for BH Telekom to use Huawei's equipment for the future 5G network construction have been allegedly discussed.[52] Moreover, Huawei is associated with the installation of surveillance cameras in Sarajevo, Banja Luka, East Sarajevo, and other places across the country.[53] Furthermore, Bosnia and Herzegovina has not yet joined the Clean Network Initiative, while the country's compliance with EU cybersecurity rules, such as the EU Tool Box, is low or non-existent.[54] In response, the US Embassy in Sarajevo has been calling the Bosnian authorities and operators to join the Clean Network Initiative, warning that the US will reconsider sharing its information with those countries that opt for untrusted vendors.[55] The American embassy and the US government more generally have also been lobbying for the removal of the untrusted equipment from the existing 4G network and its replacement with technologies from secure suppliers.[56] However, there are no legislative or political actions directed against Huawei on the horizon. Given that Bosnia and Herzegovina – a deeply divided society along ethnic and political lines with no internal consensus about its strategic goals and geopolitical positioning – is lagging behind its neighbours in terms of 4G and 5G rollout, it remains unclear what stance the country will take.

Kosovo is the only Western Balkan country whose independence China does not recognise, in spite of its liaison office in Prishtina[57], while the Kosovar public has a significantly negative perception of Beijing with 65% expressing an unfavourable opinion.[58] Hence Prishtina is not part of the 17+1 Initiative, and has not reported Chinese FDIs regardless of the two states' increased trade exchange, which may result in closer political relations in the future.[59] Like Albania, Kosovo has not announced a 5G network and spectrum auction[60], although it did join the Clean Network Initiative by signing the so-called White House Agreement, an umbrella term for the 2020 economic normalisation agreements between Kosovo and Serbia signed under US' auspices[61], followed by the memorandum of understanding on 5G with Washington concluded a month later.[62] Irrespective of China's non-recognition, Huawei's telephones have a significant market share in some of Kosovo's mobile and cable operators, while rumours of a Chinese bid for Vala–Kosovo Telekom (the state telecommunications company) circulate within the country.[63] Furthermore, in 2019, Huawei offered a big loan in exchange for developing Kosovo's 5G network, although the authorities declined it over security concerns.[64] Despite not being fully recognised, Kosovo's domestic and foreign affairs are under major influence from the West (especially the US), which is backed up with heavy NATO troops presence. Thus, Huawei's prospects for participating in the 5G network buildup in Kosovo are very slim.

Montenegro is another Western Balkan country which has undertaken substantial economic cooperation with China and has not yet joined the Clean Network Initiative. In August 2020, the country held parliamentary elections ousting the Democratic Socialist Party, which had been in power since 1990. Therefore, it is still too early to say what geopolitical direction the new coalition government led by Zdravko Krivokapić will take, including vis-à-vis China, given that some of the coalition parties have been known for adopting openly anti-Western and Eurosceptic stances.[65] Nevertheless, the US opposition to Chinese ICT companies has been felt in Montenegro as well. The US embassy in Podgorica revealed that it had discussed the cooperation in the field of 5G with the previous Montenegrin government, reaffirming American readiness to support Montenegro in strengthening its national 5G network capacities.[66] The Chinese embassy responded by accusing the US of promoting Cold War rhetoric, expressing hope that Montenegro would take an independent decision.[67]

In terms of its readiness to launch 5G, Montenegro has been ranked 27th, higher than some EU member states such as Bulgaria, Croatia, Greece, Romania and Slovakia[68]; the country is now set to introduce 5G by the end of 2022.[69] Montenegro was also among the first countries in the region to introduce mobile telephony and, due to its size and population, has often been subjected to ICT experiments by Western telecoms.[70] Throughout the years, the Montenegrin operators – Telekom Montenegro (part of the Deutsche Telekom Group), Telenor Montenegro (owned first by the Telenor Group and then sold to the PPF Group), and Mtel Montenegro (owned by Telekom Serbia) – have been using equipment from different suppliers in the development of the previous generations of cellular networks. For instance, Telenor Montenegro has been using Huawei's and Nera's equipment, Telekom Montenegro has relied on Ericsson and Huawei, while Mtel Montenegro used Ericsson's technologies.[71] Even though Montenegro is not part of the Clean Network Initiative, the country's agency for electronic communications and postal services (EKIP) has insisted that Montenegro will, above all, follow the European Commission's position on 5G security.[72]

The implementation process of the EU Tool Box has started; the transposition of the European Electronic Communications Code is expected this year[73], while in its accession negotiations with the EU, Montenegro has significantly progressed in Chapter 10 ('Information society and media').[74] EKIP will take NATO standards on cybersecurity into consideration as well,[75] as NATO allies are expected to carry out a thorough risk assessment of their cybersecurity infrastructure and remove any threats, including those arising from foreign ownership, control or direct investments.[76] In that respect, Montenegro Telekom stated that it aims to diversify the 5G equipment while avoiding single-supplier dependence, in line with the EU Tool Box, and has expressed its readiness to cooperate with Nokia and Ericsson.[77] Moreover, Telenor Montenegro has added that it will fully respect the domestic legislation and international standards in this field.[78] All in all, despite being an EU accession frontrunner and a NATO member-state, Montenegro's approach to Huawei will not be challenge-free. Montenegrins have a generally favourable opinion of China (68%)[79], while the country finds itself in a debt-trap (above 70% of GDP) after taking a large loan from China for the Bar-Boljare highway construction. As the first annual repayment of US$67.5 million is due in 2021,[80] there is a room for Montenegro to be forced to shift its position toward Beijing, and consequently to find a role for Huawei in its national 5G network construction.[81]

Like Montenegrins, the majority of Macedonians have a positive opinion of China (56%),[82] while North Macedonia also has a high debt exposure (31.5% of total budget revenue after the adoption of a supplementary budget in May 2020), resulting from the Chinese EXIM bank's loan for the construction of the Kichevo-Ohrid and Miladinovci-Shtip motorways.[83] Nonetheless, despite North Macedonia's substantial economic cooperation with China, Skopje's approach toward Beijing has been ambiguous since the ruling Social Democrats assumed power in 2017.[84] On the one hand, the centre-left government led by Zoran Zaev committed almost entirely to the country's EU and NATO membership prospects, discontinuing the practice of taking large Chinese loans for capital projects which its predecessor VMRO-DPMNE had established. On the other hand, Prime Minister Zaev described 17+1 as a initiative complementary to North Macedonia's Euro-Atlantic aspirations, and has expressed a willingness to deepen his country's economic ties with Beijing.[85]

The cooperation in the field of ICT has followed the same ambivalent fashion. Initially dedicated to expanding the business with Huawei with new investments and projects,[86] North Macedonia joined the Clean Network Initiative by signing a memorandum of understanding on 5G security with the US in October 2020.[87] The move was defended by the Macedonian President Stevo Pendarovski and Zaev himself, who argued that as the newest member-state North Macedonia is obliged to follow NATO's security protocols strictly, including preventing digital technology corporations with incompatible goals and values from penetrating the country's economy.[88] As a result, the Macedonian government has prepared amendments to the Law on Electronic Communications, obliging the Macedonian operators to pursue equipment from credible suppliers that would not hand Macedonian citizens' data to third parties without a court decision.[89] Besides, North Macedonia has already banned the replacement of the current equipment with equipment from 'untrusted vendors' once outdated.[90] In response, Zhang Zuo, the Chinese ambassador to the country, accused the US of pressuring and forcing other countries to abandon Huawei, adding that the company has ten years' experience in North Macedonia built on trustful, beneficial, and secure cooperation with the Macedonian operators.[91]

Indeed, Huawei has been present on the Macedonian market since 2010, being a major actor in the fields of ICT and education, and closely cooperating with the country's institutions and telecoms on various projects, such as the 'Huawei Seeds for the Future' programme, donations of ICT equipment to North Macedonia's education facilities, and others.[92] Moreover, the company has been involved in the previous cellular networks' rollout. Both Macedonian Telekom (part of the Deutsche Telekom Group) and A1 Macedonia (part of the A1 Telekom Austria Group) have been using mixed equipment, combining Ericsson, Huawei and ZTE's technologies.[93] What is more, Huawei was unofficially the top-ranked bidder at the public bidding procedure for purchasing 5G equipment carried out by Macedonian Telekom.[94] In anticipation of the memorandum of understanding with the US, the procedure was nevertheless put on hold upon request by the state's representatives on the company's board of directors, as North Macedonia possesses 35% of Telekom's shares.[95] However, both the Agency for Electronic Communications (AEK) and the Macedonian operators have stressed that they will fully comply with Macedonian law at the upcoming 5G radio frequency public bidding scheduled for 2021[96], as well as with the provisions of the North Macedonia-US MoU, the EU Tool Box, and other EU cybersecurity directives[97] which have already been successfully transposed in the domestic legislation.[98] Therefore, Huawei's involvement in North Macedonia's 5G networks construction appears unlikely, despite the country's economic ties with the company and China in general.

In spite of joining the Clean Network Initiative by signing the so-called White House Agreement[99], Serbia, like Hungary in CEE, is the Western Balkans' outlier in terms of its approach toward Huawei. Just a few weeks after the White House Agreement was concluded, the Chinese company opened an Innovations and Development Centre in Belgrade, in the presence of the Chinese ambassador and the Serbian Prime Minister Ana Brnabić, who added that Huawei will be substantially involved in Serbia's further digitalisation, working on many technologies that are a precondition for the 5G rollout.[100] Two months later, Huawei and Serbia's Office for Information Technologies and eGovernment agreed to install Huawei's equipment at the State Data Centre in the Serbian town of Kragujevac.[101] Surprisingly however, in December 2020, despite the ongoing preparations for the 5G launch, Brnabić made a U-turn informing the public that the Serbian citizens do not need 5G at this stage.[102] The reason behind this statement might be Serbia's intention, on the one hand, to declaratively observe the White House Agreement, while on the other keeping its cooperation with Huawei and China intact.[103]

It can therefore be expected that Huawei will compete for Serbia's 5G networks notwithstanding the White House Agreement, which is not legally binding.[104] After all, besides the 17+1 projects, thanks to which Serbia is by far the greatest beneficiary of Chinese capital in the region, Huawei is heavily invested in Serbia's ICT sector as well. Apart from rolling out high-speed networks in cooperation with the three major Serbian operators – Mts Telekom Serbia (publically owned), Telenor Serbia, and Vip mobile (part of A1 Telekom Austria Group)[105] – the Chinese company has a €150 million contract with Telekom Srbija to purchase equipment, services and works for landline network modernisation, as well as a strategic partnership agreement to develop the broadband network in Serbia in 2017.[106] The company has been also named as a development partner[107] with Telenor's 5G network. What is more, as in Bosnia and Herzegovina, in cooperation with the Serbian interior ministry, Huawei has launched the 'Smart City' public security system, involving a massive surveillance network with more than 1000 face-recognition cameras placed around Belgrade.[108]

Thus, it is very unlikely that Serbia will ban Huawei's 5G technologies, and, even if it does so, that would not significantly harm the cooperation with the Chinese company in those fields not covered by the White House Agreement, let alone the deep and friendly Sino-Serbian relationship.[109] In fact – by consistently supporting each other's national interests, introducing a mutual visa-free regime, signing the 2009 Strategic Partnership aimed at intensifying the political and economic ties between the two countries – China, along with Russia, the EU, and the US, plays an important part in Serbia's four-pillared foreign policy of neutrality.[110] Needless to say, an overwhelming majority of the Serbian citizens (85%) have a positive attitude toward Beijing as opposed to Washington (less than 30%), while China is the country's third-biggest donor.[111] Hence, without clear EU membership prospects and in opposition to NATO, a definite shift in Serbia's position toward China, and consequently Huawei, could only happen as a result of an eventual resolution of Kosovo's recognition problem.[112]

Conclusions and Policy Recommendations

(Geo)political recommendations

The Western partners of Central and Eastern Europe (CEE) and the Western Balkan (WB) countries should focus on domestic factors which drive national interest for intensification of political relations with China. Interest groups and political movements seem to be leading the intensification of political relations with China. Targeting these groups with alternative incentives could produce changes in their political stances vis-à-vis China.

For the countries engaged in uncommitted substantial engagement, offering alternative opportunities from US and European partners may be sufficient to change the character of their relations with China.

Economic recommendations

National governments in CEE and the WB should develop a better prioritisation of investments, and make their investment needs known to their strategic partners in the West.

Diplomatic collaborations between CEE and the WB countries on one hand, and the US and other Western stakeholders on the other, should bring more private sector stakeholders into the fold; as in the fields of technology (e.g. 5G) or energy, it is private companies that need to take the lead in offering affordable and effective solutions in the region.

Western partners should do more to make the extent of their economic engagement in the region publicly known, as the narrative at local level is often skewed in favour of Eastern partners (such as China or Russia) that have taken the lead in leveraging key projects in energy, infrastructure or health services.

The US and the EU should pay closer attention to how regional supply chains both feed economies in CEE and WB, integrating higher value-added production, and maximise the proximity advantage of production in the region. Increased trade dependency with China is not a primary vulnerability in CEE and WB, but it could be a strategic capability in a context of increased regional competition on the world market.

Huawei-related recommendations

Buying 5G equipment from Ericsson or Nokia seems to be the most convenient alternative for many operators from the region, including CETIN from the Czech Republic, Magyar Telekom from Hungary, Latvijas Mobilais Telefons and Tele 2 in Latvia, Telia Estonia, Telia Lietuva in Lithuania, Plus from Poland, Digi in Romania, Orange Slovakia, One Telecommunications and Vodafone in Albania, Croatia, Montenegro, and Slovenia Telekom, as well as others.[113] Those operators that have not yet voiced their position on the matter may have closely cooperated with Ericsson or Nokia in the past and are ready to continue the collaboration on the national 5G networks rollout as well. Notwithstanding the less competitive offers by Ericsson and Nokia, and regardless of the different readings of the urgency to replace Huawei, the telecoms in Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia will be ready to buy 5G equipment from the Western 'clean companies', as a result of either a political or corporate decision, by their governments or parent-companies respectively.[114]

The EU should reconsider its position towards the integration of the small and vulnerable economies of the Western Balkans, at least by making the often unavailable EU development funds less bureaucratic and more accessible, as well as by better connecting the EU companies with the capital investment needs of the region, therefore assuring greater resilience to the economic and political challenges posed by the rival powers.[115]

Another possibility is the diversification of global supply chains that can bolster the EU's resilience. For instance, through subsidies and the moving of companies in the Western Balkans, the EU could connect economic independence and EU enlargement.[116] This could be a win-win approach, as the EU would get the chance to demonstrate its values-based foreign policy in its immediate neighbourhood, in practice, while at the same time, by investing in the Western Balkan EU candidates' economies, Brussels would be participating in the creation of a joint values-based future for Europe.[117]

The US should be more engaged in the region, especially economically, perhaps through creating its own variants of '17+1',[118] and should strive to diminish the appeal of the 'cheap' Chinese loans, and consequently the economic dependence on Beijing.

NOTES

1. This paper looks at the CEE countries of Estonia (EE), Latvia (LV), Lithuania (LT), the Czech Republic (CZ), Slovakia (SK), Poland (PO), Hungary (HU), and Slovenia (SI), Bulgaria (BU) and Romania (RO).
2. This paper looks at the Western Balkan countries of Albania (AL), Bosnia and Herzegovina (BA), Montenegro (ME), North Macedonia (MK), and Serbia (SR).
3. Croatia, Kosovo and Greece fall outside the scope of this paper.
4. Strategic autonomy is defined here as the ability of a state to carry out foreign and economic policy (at least partly) independently from Western partners and allies.
5. Agatha Kratz, Dragan Pavlicevic, Angela Stanzel, and Justyna Szczudilk. 2016. *China's investment in influence: the future of 16+1 cooperation.* London: European Council of Foreign Relations. Justyna Szcsudlink. 2019. *Seven Years of the 16+1. An assessment of China's "Multilateral Bilateralism in Central Europe".* Paris: The Center for Asian Studies at the French Institute for International Relations.
6. Justyna Szcsudlink. 2019. Seven Years of the 16+1. An assessment of China's "Multilateral Bilateralism in Central Europe". Paris: The Center for Asian Studies at the French Institute for International Relations.
7. This section is based on a combination of secondary sources and semi-structured interviews with experts, journalists, former officials, representatives from academia, civil society, regulatory agencies, and telecoms from the Western Balkans. Ten interviews out of 27 interview invitations were carried out online in the period between February 2 and February 12 (one covering Bosnia and Herzegovina, two covering Montenegro, four covering North Macedonia and three covering Serbia). Due to the sensitivity of the research topic, some of the interviewees asked to remain anonymous. Although eight invitations were sent to individual experts and governmental or corporate entities, interviews with representatives from Albania and Kosovo were not conducted.
8. Government of the Czech Republic, "The Prague Proposals: The Chairman Statement on Cyber Security of Communication Networks in a Globally Digitalized World - Prague 5G Security Conference," May 3, 2019, https://www.vlada.cz/en/media-centrum/aktualne/prague-5g-security-conference-announced-series-of-recommendations-the-prague-proposals-173422/.
9. United States Department of State, "The Clean Network," 2020, https://2017-2021.state.gov/the-clean-network/.
10. United States Department of State.
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