

Bosnia and Herzegovina – China Relations: Development or Opportunism?

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China's Growing Role in Central Europe

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China-BiH Relationship

As an ex-Yugoslav state, Bosnia and Herzegovina (BiH) has historically had close political ties with the People's Republic of China. Their bilateral relationship dates to 1949 when what is now BiH was incorporated in the Federative People's Republic of Yugoslavia. China and BiH established diplomatic relations at the ambassadorial level in 1995 (notably, this took place in the spring of 1995 when the Bosnian War had not yet ended).¹ Many of the bilateral treaties between Yugoslavia and China were carried over to BiH, which has helped to augment the political and economic ties between the two countries.

Now, as one of the countries participating in China's *16 + 1* initiative, Bosnia and Herzegovina has increased its diplomatic relations with China and plans to strengthen its historically weak economic ties to China to gain access to its growing markets. Although BiH has received modest benefits from these strengthening ties, the increase in trade since the inception of the Belt and Road Initiative has been in China's favor by a significant margin. In addition, China stands to gain more from the political support of BiH than BiH from China's, especially since BiH plans to join EU in the future.

As is typical for a country in the *16 + 1* initiative, Bosnia and Herzegovina's political ties with China are woven with promises of increased economic interconnectedness and the expectation of more Chinese loans and investments. Officials in BiH are aware of their country's relatively low economic strength for the region and see their position in the world as an independent nation that is and should remain closely tied to its neighbors while it continues to

develop. The sectors that are seen in particular need of development are energy, infrastructure, and technology, in which BiH significantly lags behind its neighbors such as Croatia or Serbia; these are the main industries in which BiH has received loans or investment from Chinese banks or corporations, but all of these projects have come at significant costs. Illustrative of Bosnia and Herzegovina's understanding of its position in the global economy is a statement made by Mirko Šarović, BiH Minister of Foreign Trade and Economic Relations: "...when all CEEC (are combined) together, we can give a quality offer to the Chinese side..."². This framing of their codependence with their neighboring countries is essential to cement their importance in China's future economic and, therefore, political plans and to remain a key actor in the region of Eastern Europe and the Balkans.

BiH Domestic Political and Economic Situation

It is not possible to talk about BiH without first mentioning its domestic politics; Bosnia and Herzegovina's constitution is based off the Dayton Peace Agreement and is governed by two primary entities: Republika Srpska and the Federation of Bosnia and Herzegovina. Republika Srpska has a majority Bosnian Serb (Orthodox) population, while the Federation of Bosnia and Herzegovina is Bosniak and Croat (Muslim and Catholic, respectively). BiH has three presidents representing each main ethnic/religious group, making foreign policy difficult to conduct. While the Dayton Peace Agreement was perhaps an effective way to end the war and temporarily enforce peace, it has come at the cost of a very inefficient political system that has fostered corruption, hindered privatization, stagnated growth, and made investment in the country much less attractive.³ Its division according to ethnic, religious, and political identities keeps BiH in a politically unstable and economically unfavorable position. GDP per capita in BiH has increased since the late 1990s but has stagnated since 2008, perhaps due partly to its corruption, political

instability, lack of proper privatization, redundant institutions, and the difficulty of doing business in the country, among other factors.

Bosnia and Herzegovina's Attitude Towards China

The bilateral cooperation with China of each country within the *16 + 1* framework is often dependent on its “political identity” (政治身份, *zhengzhi shenfen*).⁴ These political differences include their membership status in the EU and whether they are members of the Eurozone, both of which can affect the extent and the character of their agreements and cooperation with China. BiH, as it is neither in the EU nor the Eurozone, cannot depend on the EU for its development and therefore has more reason to look outside the EU for loans, investment, trade, and other economic or political opportunities. China's growing population, expanding markets, willingness to take risk and its deep pockets make it an attractive EU alternative, which can well explain BiH's initial eagerness to improve its relationship with China.

There is much concern in BiH, however, that foreign countries are gaining too much political and economic influence in their domestic affairs. Although this mainly concerns Gulf countries, China is not immune to this sentiment, especially as Chinese investment in the country grows and Bosnia's trade deficit with China grows more each year. Although the government maintains that it supports increased presence of Chinese corporations and increased amounts of foreign direct investment from China, the public do not have such firm support for what is often seen as foreign meddling in their domestic affairs.

China's Foreign Policy Towards BiH

China's foreign policy with Bosnia and Herzegovina varies slightly from the overall Belt and Road Initiative's goals. China follows the same basic foreign policy goals in the entire CEEC

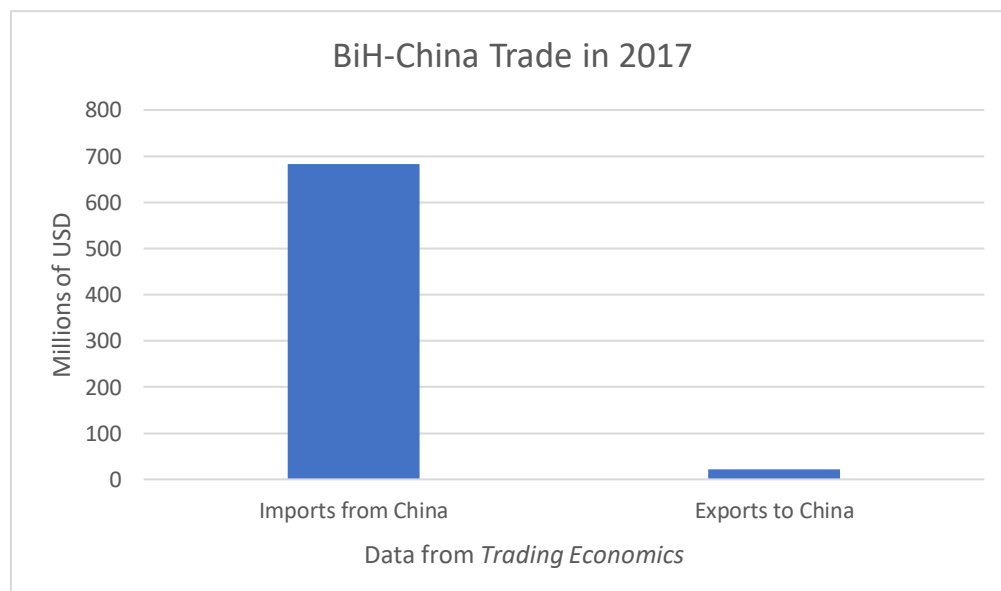
region – promote political and economic interconnectivity – but BiH is a somewhat special case because it is one of the 5 countries in the *16 + 1* that are not (yet) members of the European Union. This allows opportunities for investors to easily access the EU market without abiding by all the EU's regulations that are often seen by Chinese investors to be too much of a burden. It also allows for Chinese banks to give loans for projects that would not receive EU funding. For example, beginning the first project under China's \$10 billion credit line for CEEC, the Chinese Development Bank provided a loan of 350 million euros for the construction of the controversial Stanari thermal power plant in Republika Srpska that is projected to surpass the EU pollution limit by 2-10 times.⁵ With such high pollution, however, this means that either BiH will not be able to join the EU or it will suffer the costly financial and economic consequences of shutting down this plant in the future.

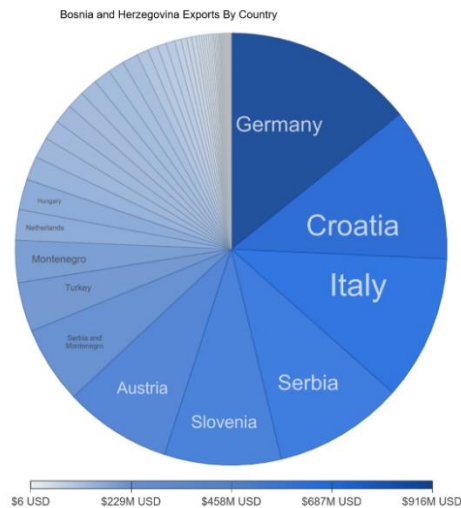
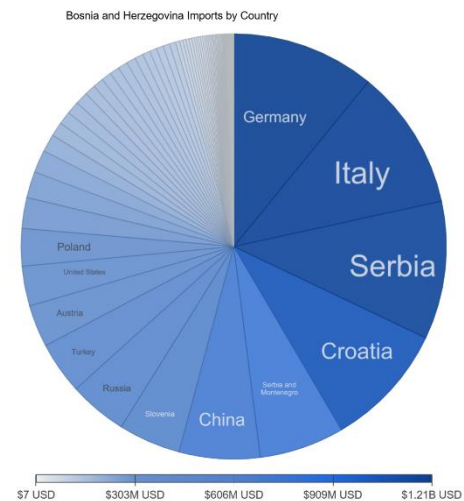
Although trade and investment are the primary focus, political relations between BiH and China have also improved and increased in frequency. Chinese and Bosnian ministers and ambassadors have met at important conventions or consultations; political relations and cooperation "... in the military, cultural (sic) and other fields continued to expand."⁶ An important part of China's Belt and Road Initiative is not only to increase diplomatic relations and improve economic relations but also to increase the level of people-to-people exchange by encouraging tourism. The tourism industry has been one of the most successful parts of the *16 + 1* initiative for BiH and China. Now, the number of Chinese tourists in Bosnia and Herzegovina is increasing year after year. In 2017, there were more than 17,000 Chinese tourists in BiH.⁷ With the hope of increasing this number and to encourage more Bosnians to visit China, BiH and China have agreed to waive visa requirements for passport holders. While there are many

Chinese tourists coming to BiH, there is only one tourist agency in Sarajevo that offers travel to China – and the only flight is from Belgrade, Serbia.⁸

Trade, Financing and Investment

The main outcome in BiH-China trade relations since the beginning of *16 + 1* has been the significant increase in Chinese imports accompanied by only a very small increase in Bosnian exports to China. BiH has a significant trade deficit with China — although China is not close to being one of the top importers of Bosnian goods, China ranks 5th in largest importing countries in the Bosnian economy, making it the first non-European country on the list. This is not a problem unique to trade with China – BiH is a very open economy with uncompetitive trade, which naturally leads to a foreign trade deficit. However, the trade unbalance with China is particularly unfavorable to BiH. Although China only accounted for 6.1% of imports in BiH in 2017, the trade deficit with China in the same year accounted for 15.4% of the total deficit, or 3.7% of the total GDP of BiH.⁹ Exports to China only made up 0.34% of BiH exports.



Chart from *Trading Economics*, 2017Chart from *Trading Economics*, 2017

BiH needs foreign investments, and China can provide the capital necessary to develop infrastructure and energy facilities. The financing and investment opportunities, however, are coming before the political and economic reforms that could allow BiH to properly use them. China has already invested in/financed coal-powered energy production facilities in BiH, primarily Republika Srpska, and these investments have been reluctantly accepted the country, where unemployment is over 30%. The EU has regulations banning the use of this type of coal due to its high level of pollution, so BiH has turned to China for the loans to fund their coal projects. Due to the politically controversial nature of coal production caused by its questionable economic benefit and its harm to the environment, China's role in its production may be seen negatively by Bosnians. This negative sentiment is only compounded by the fact that BiH is already a net exporter of electricity and has no significant incentive to create more coal-powered plants.¹⁰ In addition, labor productivity of coal production in BiH is the lowest in all of Europe.¹¹

Chinese-funded Energy Production in BiH ¹²

- Uzla 7 – financing from China Export-Import Bank. Three Chinese companies were bidding to construct the facility, but all pulled out since BiH was unable to approve the construction in time.¹³
- Banovici – (expected) financing from the Industrial and Commercial Bank of China
- Gačko II – preliminary deal with China Poly Group Corporation signed in 2017
- Kamengrad – no financing yet, but there is interest from Chinese companies.

None of the above projects are economically, politically, or environmentally viable operations. This may explain why most of these projects are funded with loans from China and not foreign direct investment. However, it is difficult to understand why economically unviable and environmentally unsustainable projects keep receiving funding and support from politicians. The backwardness of these investments makes it clear that China's primary interest is not in helping BiH develop but in cementing its own political and economic influence in the region while Bosnian politicians reap the personal rewards and leave the costs to their constituents.

BiH's attitude towards China is driven primarily by two conflicting ideas: many Bosnian citizens feel that their country, already rife with corruption, is too vulnerable to the influence of foreign investors. This sentiment was particularly prevalent in the media when the Saudi-funded Sarajevo City Center was constructed.¹⁴ Many foreign investments also serve to fuel the political corruption of Bosnian politicians, presenting another reason to be wary of foreign investments. Ironically but not surprisingly, the often foreign-funded political corruption in BiH significantly hinders the economic development of the country and deters many sources of foreign investment.¹⁵ Bosnian citizens want foreign investments, but it seems that all the investments go to the wrong places.

The problems with Bosnian energy facilities are more than economic or environmental – the Brod oil refinery and the Gačko thermoelectric power plant (both in Republika Srpska) were in 2007 uncovered by Transparency International to be “operations that resemble more closely a money laundering operation than respectable foreign direct investment.”¹⁶ Despite this, in 2017 the Chinese Poly Group Corporation is set to help construct a new power plant in Gačko with 51% ownership, and Repulika Srpska with 49% ownership.¹⁷ As BiH often resembles more a quasi-democratic oligarchy than a functioning democratic republic, it is easy to see why Bosnian citizens may be wary when their politicians claim their support for good relations with China, their desire to increase trade with China and their intent to obtain further Chinese investments in energy and infrastructure. Lack of privatization, lack of proper institutions and continued sources of foreign money continue to fuel the corruption of the Bosnian government, but it has not seemed to deter Chinese loans and investment interests.

Conclusion

China’s role in Bosnia and Herzegovina is not going away any time soon, while BiH’s role in Chinese politics and economy remains hardly noticeable. While Chinese financing or investment may be problematic in BiH, it does not have to be the case; the driving factor of the corruption in BiH seems to stem directly from BiH’s weak institutions, weak social contracts, administrative bureaucracy, and lack of privatization. With the proper political, economic and environmental reforms, BiH could be on track to develop its own economy, continue to increase its role in China-CEEC relations, and to benefit from increased trade with China without harming its relationship with the EU.

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² "Interview: BiH-China Economic Relations Strengthened Thanks to 16+1 Mechanism: Minister – Xinhua. English.news.cn." 新华网_让新闻离你更近. Last modified March 21, 2017.

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³ Boris Divjak and Michael Pugh, The Political Economy of Corruption in Bosnia and Herzegovina, *International Peacekeeping*, 15:3, 377, DOI: [10.1080/13533310802058927](https://doi.org/10.1080/13533310802058927)

⁴ Angela Stanzel, Agatha Kratz and Justyna Szczudlik. "China's Investment in Influence: The Future of 16+1 Cooperation." *European Council on Foreign Relations*. Last modified December 14, 2016.

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⁷ Mladen Lakic. "Bosnia Hopes Visa-Free Deal Attracts Chinese Tourists." *Balkan Insight*. Accessed December 3, 2018. <http://www.balkaninsight.com/en/article/bosnians-to-travel-to-china-visa-free-05-29-2018>.

⁸ Lakic, "Visa-Free Deal."

⁹ "Bosnia and Herzegovina - Economic Indicators." *Trading Economics*. Accessed December 5, 2018.

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¹² "Coal in the Balkans." *Bankwatch*. Accessed December 5, 2018. <https://bankwatch.org/project/coal-in-the-balkans#1503303885469-aa188fed-71ee>.

¹³ Mladen Lakic. "Chinese Pull out From Building Bosnian Power Plant." *Balkan Insight*. Accessed December 7, 2018. <http://www.balkaninsight.com/en/article/chinese-investors-retreat-from-main-project-in-bosnia-09-19-2018>.

¹⁴ Elvira M. Jukic, *Balkan Insight*, Accessed December 1, 2018. <https://www.balkaninsight.com/en/article/sarajevo-mayor-injured-at-shoppling-mall-opening>

¹⁵ Pieter Stockmans. "Wealthy Arabs Buy Up Sarajevo." *Mondiaal Nieuws*. Accessed December 2, 2018.

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¹⁶ Divjak and Pugh, 377.

¹⁷ "China is About to Build New Thermal Power Plant in Gacko." *The Srpska Times*. Last modified July 19, 2017.

<http://thesrpskatimes.com/china-is-about-to-buils-new-thermal-power-plant-in-gacko/>.