

Topic: The China-Balkan cooperation in the context of the BRI: opportunities and challenges

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BRI – POTENTIAL FOR ECONOMIC COOPERATION BETWEEN CHINA AND THE WESTERN BALKANS: THE CASE OF THE REPUBLIC OF MACEDONIA

ABSTRACT

The Balkans, with its geostrategic position on the EU-China pathway, is one of the core regions in the design of the One Belt One Road initiative. Within the Balkan countries, considered in the broadest possible sense, the Western Balkans can be singled out as a sub-region from a political point of view – Western Balkan (WB) countries are not EU Member States, but also from an economic point of view – they are generally poorer countries when compared to the others (Greece, Croatia, Slovenia, Bulgaria and Romania), with an average GDP per capita amounting to only 1/3 from the EU's average. This paper aims to analyze the prospects for economic cooperation between China and the Western Balkans in the context of the BRI, focusing particularly on the case of the Republic of Macedonia. It will analyze the initial expectations for economic cooperation, the current state of play and possible future developments in order to provide an answer to the question: **has the BRI fulfilled the expectations of the Republic of Macedonia in terms of economic cooperation?**

The added value of this paper is the application of the **rational choice theory** to verify or falsify the following hypothesis: **although the economic cooperation between China and the Republic of Macedonia improved since the launch of the BRI and 16+1 forum, there is significant potential that remains untapped.** According to the rational choice theory, interests take precedence over values and *“individuals act to maximize their expected utility subject to constraints”* (Pollack, M. 2006).

This article focuses on the specific economic interests of China and the Republic of Macedonia as main drivers behind the rationale for their cooperation within the framework of the BRI. It argues that under the influence of several constraints, namely domestic politics, size and structure of the domestic economy and EU membership, there is a mismatch between the interests of the two parties. Thus, neither side can maximize their benefit, which in turn leads to disenchantment and reduced incentives for cooperation. The paper examines the underlying reasons for this situation and, using the main findings and conclusions as basis, it proposes several recommendations for both China and the Republic of Macedonia to reinvigorate their cooperation and increase mutual benefit.

Introduction

The Balkan Region, with its geostrategic position on the EU-China pathway, is one of the core regions in the design of the One Belt One Road initiative. Within the Balkan countries, considered in the broadest possible sense, the Western Balkans can be singled out as a sub-region from a political, as well as economic point of view. They are the only group of countries which aspire EU membership, but are not yet Member States and still do not fully meet the accession criteria. They are also generally poorer when compared to the other European and Balkan countries (Greece, Croatia, Slovenia, Bulgaria and Romania), with an average GDP per capita amounting to only 1/3 from the EU's average and catching-up process which has significantly slowed down since the European economic and financial crisis¹. In addition, the average infrastructure development for the region is 50% lower than the EU's average, which inhibits the countries to reap the possible economies of scale, integrate European supply chains and attract FDI². A reduction of this index by 1% could lead to an increase in the real GDP of 0.1%³. Economic development and growth is a strategic priority of any government that comes into power in these countries and efforts are made to promote exports, attract foreign direct investments (FDI) and build infrastructure to facilitate transport, communications, tourism and energy supply.

This paper aims to analyze the prospects for economic cooperation between China and the Western Balkans in the context of the BRI, focusing particularly on the case of the Republic of Macedonia. It strives to provide an answer to the question: has the BRI fulfilled the expectations of the Republic of Macedonia in terms of economic cooperation? The first part analyzes the initial expectations for economic cooperation and the general interests of both China and Macedonia; the second part examines the current state of play and the constraints which impact the cooperation, namely: on the Macedonian side - size and structure of the domestic economy, domestic politics and the prospects for EU Membership; on both sides – image, perceptions and intercultural differences; the third part draws conclusions and propose several recommendations for both China and the Republic of Macedonia to reinvigorate their cooperation and increase mutual benefit. For the purpose of the paper, the economic cooperation is analyzed through 3 different lenses: trade, investment and infrastructure.

Analytical framework

The rational choice theory is applied to verify or falsify the following hypothesis: although the economic cooperation between China and the Republic of Macedonia improved since the launch of the BRI and 16+1 forum, there is significant potential that remains untapped. According to the rational choice theory, individuals “*act to maximize their expected utility subject to constraints*”⁴. They engage in rational cost-benefit analysis of alternative courses of actions and choose the one that is likely to maximize their interests⁵. Their interests are exogenously given, determined by the objective situation they find themselves in and mainly related to economic issues⁶. When

¹ Atoyan, R., Benedek D., “*Public Infrastructure in the Western Balkans: Opportunities and Challenges*”, 17.04.2018, retrieved from <http://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2018/02/07/Public-Infrastructure-in-the-Western-Balkans-Opportunities-and-Challenges-45547>, p.14

² *Ibid.*

³ *Ibid.*

⁴ Pollack, M. A., “*Rational Choice and EU Politics*”, in Jorgensen, Knud E., Pollack, M. A., Rosamond, B., *Handbook of European Union Politics*, London, Sage Publications, 2006, pp.31-56, p.32

⁵ *Ibid.*

⁶ Nugent, N., “*The Government and Politics of the European Union*”, Basingstoke, Palgrave Macmillan, 2010 (7th ed.), p.438

making their choices, actors are usually under constraints which stem from various formal and informal institutions, such as the '*rules of the game*'⁷, inter-actor relations and policy impacts⁸.

This paper argues that under the influence of several constraints, namely domestic politics, size and structure of the domestic economy and EU membership, there is a mismatch between the interests of the two parties. Cultural differences and perceptions further increase the gap and reduce the prospects for cooperation. Therefore, neither side can maximize their benefit, which in turn leads to disenchantment, reduced incentives for future cooperation and untapped potential.

BRI in the Western Balkans

The launch of the 16+1 cooperation in 2012 and the BRI one year later marked an important turn in the relationship between China and the Western Balkans. The Balkan countries suddenly appeared on the Chinese agenda as potential partners in concrete projects and beneficiaries of funds intended for infrastructure development. The essence of the BRI is to create favorable conditions for economic cooperation by tackling several fronts at once – infrastructure, logistics, trade facilitation, investment promotion, tourism etc. Although the multi-trillion dollar initiative is mainly financed by China, one of the guiding principles is the notion of mutual benefit. This naturally raised the expectations in all the Western Balkan countries who anticipated tangible benefits from their participation in the initiative, such as an increase in their exports to China, an important rise in Chinese FDI to the region and cheap loans to build the much-needed infrastructure projects, especially in transport and energy.

From today's perspective, exports to China have started to increase, but so have Chinese exports to the region, leaving the trade deficit rate relatively unchanged. Chinese investments in these countries (both infrastructural and FDI), amount to less than 3% of the overall Chinese FDI in Central and Eastern Europe⁹. Many infrastructure projects have been announced and initiated, but their implementation is oftentimes sluggish, problematic and accompanied with negative publicity, for different reasons. All this has certain impact on the future and intensity of the cooperation and makes both sides reconsider their efforts and expected utility.

Chinese-Macedonian bilateral cooperation

The Republic of Macedonia has so far implemented several projects with Chinese funding through grants or loans. The first major Chinese project in the energy sector in Macedonia and generally the broader region was Kozjak hydropower plant, built by the China Water Electric company on the river Treska in 2004 with a US\$ 413 million from the China Development Bank. The first complete construction project financed with Chinese aid funds was the primary school Rajko Zhinzifov in Drachevo, Skopje, which was built by the Chinese company IPPR, following Chinese standards. Chinese development cooperation funds in the amount of US\$ 7 million were also used to implement a project called e-Education, aiming to connect all the education institutions in the country. The Chinese company Huawei was chosen to be the implementing party following a public tender. The capital, the City of Skopje, purchased 202 Zhengzhou Yutong buses in the amount of US\$ 38.5 million to replace the fleet of the

⁷ Riker, W., Shepsle, K., quoted in Pollack, Marc A., "*International Relations Theory and European Integration*", in *Journal of Common Market Studies*, Vol.39, No.2, 2001, pp.221-244, p.227

⁸ Nugent, *loc. cit.*

⁹ Liu, Z. quoted in Kratz, A., Stanzel, A. "*China's investment in influence: the future of 16+1 cooperation*", 14.12.2016, retrieved from http://www.ecfr.eu/publications/summary/chinas_investment_in_influence_the_future_of_161_cooperation7204

Public Transport Company¹⁰. The Macedonian National Railway Company bought electric trains and locomotives from China Railway Rolling Stock Corporation to modernize the rail transport using a loan from the EBRD in the amount of US\$ 29.5 million¹¹.

In addition, Macedonia was the first country in Central and Eastern Europe to make use of the US\$ 10 billion put at the disposal of the CEE countries through Chinese state-owned banks for infrastructure projects in the framework of the 16+1 cooperation. Using a concessional loan from the Chinese Export Import Bank in the amount of US\$ 677.3 million (to be paid back over 20 years, with 2% interest rate and 5 years grace period), the Macedonian government started the construction of a section of the highway linking the cities of Kichevo and Ohrid (57km) and the construction of a section of the highway linking the capital, Skopje, to the city of Shtip (50km).

Expectations and interests

- China

It is important to understand that BRI has so far been a Chinese-led initiative. It aims to respond to Chinese domestic economic concerns, such as the excess capacity in some sectors (ex. construction, steel and cement industries) or the elimination of trade barriers to facilitate the flow of Chinese exports to Europe. More broadly, China uses the multi-trillion foreign currency reserves in its possession to strengthen its role of important regional and global player¹². In that context, BRI is driven predominantly by Chinese interests and aims to maximize China's benefits. Nonetheless, Chinese foreign policy, through its basic principles of harmonious development and mutual benefit, indirectly acknowledges that any bilateral initiative is condemned to fail unless it is grounded in win-win cooperation. Thus, the BRI develops in a loose and flexible way in order to integrate different countries and stakeholders that find common areas of interest with China and Chinese partners.

China used the European financial, sovereign debt and economic crisis to promote its companies and enter sectors where otherwise it would have probably not been allowed to invest. The strategy of Chinese companies was focused not on immediate profit, but on long-term success. Therefore, they preferred to engage in mergers and acquisitions and to buy "discounted" European companies which provided them with technology transfer, advanced management and brands – all of which takes time to build and provides significant competitive edge. Before the crisis, the Chinese economy which was mostly based on low value products and exports was approaching a standstill in terms of growth. Chinese smart investment policy allowed its companies to reform the structure of the exports, increase the value of their share in export products and climb up the supply chains. This in turn led to further economic development and stable growth rates and promoted China into a more sophisticated global economic force. In line with the rational choice theory, China used the European crisis to lead its economy to a new level and thus maximize its benefits. The same objectives continue to guide the rationale behind Chinese foreign investments today.

Given its ambitions, the size of its economy overall, as well as individual companies, China usually seeks to implement large-scale projects using funding from its outward-oriented state-owned banks (China Development

¹⁰ Unnamed author, *"The double-deckers will be produced by the Chinese Yutong"*, in *Vecer Newspaper*, 26.03.2010, retrieved from <https://vecer.mk/skopska/dvokatnrite-avtobusi-kje-gi-proizveduva-kineski-jutong>

¹¹ Unnamed author, *"The last train in the MNRC fleet arrived – an investment worth 25 million euros"*, *Channel 5 TV*, 08.02.2017, retrieved from <http://build.mk/pristignaa-sheste-kineski-vozovi-za-makedonski-zheleznitsi/>

¹² Interview with Mr. Nikola Poposki, Macedonian Member of Parliament and former Minister of Foreign Affairs, Skopje, 18.05.2018

Bank or China Export-Import Bank) with very favorable conditions - approximately 1% annual interest rate, grace period etc. This funding scheme implies a model – contract where China provides the funding and a Chinese company is selected to carry out the task, using an important portion of Chinese materials and workforce. The beneficiary country needs to provide a bank guarantee, but does not implement an open and competitive bidding procedure to choose a contractor that would offer best conditions (price-quality ratio), which is against EU's rules.

- Macedonia

The Republic of Macedonia is a milestone country on the pathway leading from Athens to Budapest in Central Europe and further to Western and Northern Europe, and one of the locations with central geographic importance when it comes to the implementation of BRI. The country was among the first ones in CEE to embrace the BRI and 16+1 cooperation, hoping to increase its visibility in China, especially among Chinese policy makers and big companies, in order to create new avenues for economic cooperation and speed up its economic development. A Memorandum for Cooperation within the framework of BRI was signed between the two countries in March 2015 which contains broad and general wording that the two parties commit to develop their mutual cooperation within the framework of the BRI.

In the past decade, the efforts of Macedonian national institutions were mostly oriented towards the domestic economy, seeking for ways to create growth and jobs. Following numerous shady and failed deals to privatize public and national companies in the 1990s, 2006 marked record-high unemployment rate of 38.6%. The newly elected government in 2006 considered that the best way to reduce unemployment and generate growth was to attract greenfield or alternatively brownfield investments, mainly from foreign companies, that would open new factories or restart the old ones. Many reforms were implemented aimed to improve the business environment, including fiscal policy reforms (introduction of low and flat tax rates, no tax on re-invested profit), creation of special zones for foreign investors with more favorable rules and regulations in comparison with investments outside the zones, (partial) exemption from certain public duties and charges, subsidies for construction of production plants and other production-related expenses, like machinery, creation of state agency tasked with attracting FDI and providing post-investment support and services, etc. These efforts led to Macedonia ranking 11th worldwide according to the World Bank's Doing Business report in 2017¹³.

China's economic ascent, its outward expansion and the big investments in different European countries during and after the economic crisis fueled Macedonian expectations from the bilateral cooperation to a very high extent. The previous government (2006-2017) had made a plan to create special "free zones" for Chinese companies only, with even more favorable conditions. This proposal was put forth at every 16+1 summit in the first several years of the cooperation. Yet, not a single big Chinese company came to invest and stay in Macedonia and the overall level of Chinese investments remains below 0.1% of the total FDI inflows.

When it comes to trade, Macedonian imports from China in 2016 amounted to US\$ 421 million, while exports to China accounted for US\$ 47.8 million (6.3% and 1% from Macedonian trade respectively)¹⁴. The trade balance is strongly in favor of China, although it does not rank among Macedonia's top trade partners who include Germany, United Kingdom, Serbia, Bulgaria, Greece and Italy¹⁵.

In terms of infrastructure, Macedonia, as well as the rest of the Western Balkan countries, lags behind the EU average in terms of modern and functional transport, energy, telecommunications and social infrastructure.

¹³ World Bank, *Doing Business Report*, 2018, retrieved from <http://www.doingbusiness.org/data/exploreeconomies/macedonia-fyr>

¹⁴ Observatory of Economic Complexity, Massachusetts Institute of Technology, 2016 data, retrieved from <https://atlas.media.mit.edu/en/profile/country/mkd/#Destinations>

¹⁵ China would rank 3rd for imports and 5th for exports if EU Member States are considered as a block – EU.

Given that Western Balkan countries are not EU members, the access to funding for these purposes is quite limited compared to the amounts available for member states within the framework of the EU's structural funds. The European Commission, through the Western Balkans Investment Framework (WBIF), allocated US\$ 1.18 billion of grants for 7 years (2014-2020) for the entire region, but the estimated amount needed to catch up and close the infrastructure gap only in Macedonia amounts to approximately US\$ 6 billion (for the sectors transport, energy and social infrastructure)¹⁶. That is why Macedonia often looks up to China as a possible source of funding for the much needed infrastructure projects.

Constraints

- Size and structure of the domestic economy

Unlike big European countries which provide significant market potential and investment opportunities, Macedonia has a population of only 2 million. It offers solid conditions for doing business, especially in the free zones, FTAs which offer tax-free exports to a market of 500 million consumers, but the size of its market, along with its organization, or lack thereof, acts as impediment to big investments. First, despite the high unemployment rate, investors often face problems to hire staff with the skills they need because of a big mismatch between the labor supply and demand. The education is mostly focused on theoretic and academic disciplines, while vocational training is often considered second-class, underestimated and thus unattractive for young people. A notable example is the investment of Weibo Group in a textile factory which was supposed to hire 5000 people. Following several years of unsuccessful efforts to recruit textile workers, they decided to scale down and relocate their investment to Serbia.

Second, it has few companies and limited resources for shipping and logistics and there are no services to support exports that are standardized in terms of quality, availability and price. Third, the limited production output is not sufficient to satisfy the needs of bigger markets and ensure permanent supply. Fourth, most of the potential investment opportunities do not offer any technological or innovation advantages, nor brands, and rank low in the supply chain¹⁷. Thus, they do not match the interests of Chinese investors and the priorities of the Chinese outward investment policy.

Fifth, Chinese ideas for infrastructure projects are usually too grandiose for the small Balkan states. In the case of Macedonia, the public debt level has reached 45.8% of GDP¹⁸, which means that it is approaching the limit of 60% imposed by the EU and cannot provide bank guarantees for new large-scale projects. That is why some of the projects that the government has initially agreed to implement would need to be postponed – indefinitely, maybe even cancelled. The most prominent one for the BRI initiative is the Macedonian section of the railway reconstruction along Corridor X which should link Athens to Budapest and provide much easier transit for goods from the Chinese-owned Port of Piraeus to the countries in Central Europe and beyond. The project is supposed to cost US\$ 2.4 billion, which is almost an entire state budget for Macedonia.

- EU membership

¹⁶ Calculation made by the author based on the Single Project Pipeline approved by the National Investment Committee of the Republic of Macedonia in 2016

¹⁷ Interview Poposki, *op.cit.*

¹⁸ Ministry of Finance of the Republic of Macedonia, *Economic Reform Program 2018-2020*, p.39, retrieved from https://www.finance.gov.mk/files/Macedonia_ERP_2018.pdf

As a prospective EU member and EU candidate country for 14 years, Macedonia has been working on the alignment of its legislation with the EU acquis and the implementation of EU standards and best practices. It is bound to follow EU's guidance and rules in all areas, including trade, investments, environment, social standards, public procurements etc. and is strongly encouraged to cooperate with European banks, like EIB, EBRD and KfW in the implementation of infrastructure projects within the Western Balkans Investment Framework (WBIF). The decision of the previous government to use China Export Import Bank's loan and to have a Chinese company build the highway Kichevo - Ohrid without a public tender was met with severe criticism by the European Commission. The new government, elected in 2017, won the elections with the promise to integrate Macedonia in the EU and NATO. Therefore, having carefully weighed its interests and constraints, it strives to maintain a good relationship with Brussels, to open EU accession negotiations already this year and is not likely to engage in a similar business contract with Chinese banks or companies.

In addition, following the efforts to enhance Western Balkans regional cooperation within the framework of the Berlin process and especially at the last EU-Western Balkans summit which took place in Trieste, Italy in 2017, the countries from the Western Balkans region decided to engage in the creation of a Regional Economic Area. This initiative aims to foster reconciliation and regional cooperation in order to improve regional connectivity, remove trade barriers and create a level-playing field in the area of investment policy. The underlying reason is the fact that despite the geographic proximity, the level of trade relations between the countries is very low, mostly because of bad connectivity and historical and political issues. Moreover, the region has started to build an image as an investment destination with cheap and high-skilled labor producing low-value goods, which essentially leads to a "race to the bottom" in terms of social and environmental standards. The long-term result should be greater convergence with EU policies and standards which will eventually prepare the countries for EU membership. Given that the initiative is still in an initial phase, the impact on the economic cooperation with third countries, like China, is yet to be evaluated.

- Domestic political, legislative and institutional situation

The past 3 years have been politically very turbulent for the Republic of Macedonia. Following a wire-tapping scandal in 2015, a series of corruption allegations have surfaced against high representatives from the former government which led to a prolonged political crisis, early elections in December 2016 and a new government in June 2017. This had serious impact on the economy, plunging the country in recession and putting the activity of foreign investors on hold. Although the crisis is over and notwithstanding the good official scores for doing business, the economic conditions have not substantially improved and meaningful reforms need to be implemented for the economy to gain impetus and achieve sustainable growth. The country report published by the European Commission in April 2018 reveals profound challenges that have a negative impact on attracting FDI: mismatch between the skills that are needed and offered on the labor market; political and economic instability; frequently changing legal framework and ambiguous legislation; corruption; efficiency of the judiciary; red-tape and inefficient public administration¹⁹.

Chinese business people, like any other, need and expect stable political atmosphere and support from the institutions to invest and conduct their operations. An atmosphere of uncertainty, along with frequent elections and changes of the highest decision-making level do not serve the purpose of attracting FDI, nor implementing infrastructure or other projects. For example, the construction of the highways (which was also mentioned in the wiretaps within the context of a corruption affair) has been prolonged for several years. The

¹⁹ European Commission, 2018 Report on the Republic of Macedonia, 17.04.2018, retrieved from <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-the-former-yugoslav-republic-of-macedonia-report.pdf>

project E-education, implemented by Huawei, which was ready to be used already in May 2017, has still not been officially launched.

Political changes are sometimes coupled with changes in strategic priorities, which is particularly harmful to the country's long-term development. Despite a multitude of strategic papers formally adopted in various areas, the country does not have a long-term vision of its development which would be based on a broad political and societal consensus and would be pursued for the benefit of the country regardless of the political party in power. That is why some projects which need to be conceived and implemented beyond the narrow 4-year political cycle, which require political vision and long-term commitments are still uncertain. An illustration would be the Chinese idea to create a navigable channel that will connect the rivers of Vardar, Morava and Danube and enable cheap transport of goods from the Port of Piraeus to Germany²⁰.

Moreover, despite the big number of administrative servants in the public institutions, there is a lack of capacity – both human and technical to support the implementation of large-scale projects. For example, during the peak of the construction works on the highway, Sinohydro dispatched 340 workers and staff from China. Given the complicated visa procedure which requires repeated juggling between the Ministries of Foreign Affairs and Interior, especially in terms of background checks, as well as the understaffed Embassy in Beijing, it took several months for the working visas and permits to be processed, which caused delays in the project implementation²¹.

- Image and reputation

The issues of image and reputation can be analyzed in both directions.

Chinese consumers tend to buy brands and products from countries they know and they associate with quality in that particular area. But, Macedonia is completely unknown to the average Chinese, with no reputation in any area or product²². This situation is further deteriorated by the lack of understanding that Macedonian companies have about the Chinese market and the lack of effort to increase their visibility and credibility. A solid indicator would be the very limited interest that Macedonian companies show in participating at the first China International Import Expo that is planned to take place in November 2018, despite the intensive lobbying by Chinese diplomats and officials²³.

On the other hand, Chinese exports and investments throughout Europe are often accompanied with a negative perception in terms of standards and quality of the products, level of social and environmental protection, etc. The general perceptions are still anchored in the reality of 10 years ago when China exported mostly cheap products with mediocre quality and copied Western brands and products. But, the implementation of the current projects in Macedonia does not counter this image either. An illustration would be the primary school built with Chinese assistance in Skopje. The construction was based on Chinese project and standards for school buildings which are quite different from the Macedonian standards and expectations. As a result, the classrooms turned out to be much smaller than other schools; the rooftop was flat, leaking and needed to be redone; the overall process was supposed to be finished in 1.5 years and to cost 1.5 million Euros. Instead, it took 3 years and 4 million Euros, not including the gym which was supposed to be an integral part of the project and is still not finished. Although the fault should not be sought in the Chinese side only, but rather the communication and cooperation with the Macedonian partners, this outcome undermines not only the reputation of Chinese

²⁰ Interview with Ambassador Ilija Isajlovski, former Macedonian Ambassador to China and currently foreign policy advisor to the President of the Republic of Macedonia, Skopje, 07.05.2018

²¹ *Ibid.*

²² Interview with Mr. Huang Jun, Huawei Country Director for the Republic of Macedonia, Skopje, 10.05.2018

²³ Interview with an anonymous Chinese diplomat, Skopje, 09.05.2018

projects, but also the prospects for future cooperation: two other schools that were planned to be built with Chinese funds in 2015 have still not been started.

It has to be mentioned that under the influence of big Chinese companies present in Macedonia and in the region, especially in the area of technology (Huawei, ZTE, Xiaomi, Haier etc.), the perceptions are gradually improving. But broader efforts are needed to make a meaningful impact in terms of image and reputation and the development of the Chinese PR strategy targeting Europe is lagging behind the improvements of Chinese technology and quality²⁴.

Furthermore, the corruption affair regarding the construction of the highways with Chinese funds has enormous influence on the perceptions on both sides, as well as on the image of Chinese investments in Europe more broadly. Even before the court publishes a verdict and the accusations are proven, the affair is seen through extremely negative eyes: speaking of ordinary people, Macedonians associate Chinese projects with corruption and shady deals, which also in their eyes impacts the quality of the works. Chinese see Macedonia as a country where corruption flourishes and companies should beware when concluding business deals. EU think-tanks and media used the corruption affair to make a point against Chinese development and infrastructure projects in the region, underlining their negative impact on the rule of law and the democratic reforms supported by the West²⁵. Teamed with the recent crackdown on corruption and the campaign initiated by President Xi which aims to clear the divide between business and government, the overall Sino-Macedonian nexus at the moment is extremely unfavorable for doing business.

- Language and cultural barriers

Stereotypes and cultural differences are another obstacle to a more intensive economic cooperation. English is usually the common language that both Macedonian and Chinese counterparts speak in the mutual communication. Given that it is not the mother tongue of any party and neither side is perfectly proficient, miscommunication and/or incomplete understanding are common. Several steps have been undertaken on both sides to remedy this situation. Confucius institute has been opened in Skopje in 2013 which offers free language classes for different interested parties (schools, companies, ordinary citizens) and occasionally organizes cultural events. It is important to mention that in cooperation with the Government, free classes have been organized in the public institutions since 2015 and at the moment around 60 civil servants are learning Chinese. On the other side, 2018 is supposed to be the first academic year when Macedonian language classes will be organized at a Chinese university – Beijing Foreign Studies University. In time, these efforts will certainly yield positive results in bridging the inter-cultural differences and improve mutual understanding as a precondition for further cooperation in any area, including the economy.

Conclusions and recommendations

The mismatch between the expectations and interests from the economic cooperation on both sides is evident. The BRI allows China to support its own economic development by investing in infrastructure that will facilitate Chinese exports and by promoting Chinese companies on the global market. It also creates a framework for win-win cooperation with all the countries along the Belt and Road, providing that their interests and abilities align with what China and its companies need. In the case of Macedonia, the country is willing, but unable to offer

²⁴ Interview Poposki, *op.cit.*

²⁵ Gjorgioska, A., Vangeli, A., "A Battle of Perceptions: The social representations of the BRI and the "16+1" in Macedonia", *China-CEE Institute Working Paper Series*, 11.12.2017, retrieved from https://china-cee.eu/wp-content/uploads/2018/02/Work_paper201701.pdf

many attractive areas for cooperation and business deals because of several constraints: the size of its economy which offers relatively small production output and small market in terms of labor, consumers, services and products; lack of investment opportunities which would offer technology transfer, brands or other assets of interest for Chinese companies; political instability, legal uncertainty and lack of vision and institutional capacity; strategic orientation to join the EU, which implies abiding by EU rules and favoring cooperation with European partners – banks and companies; lack of visibility for Macedonian products in China and possible bad image following the corruption affair with the highways; negative perception and stereotypes for China in Macedonia, although sometimes without any foundation in reality; inter-cultural differences.

All these constraints negatively impact the cooperation between Macedonia and China and reduce the prospects for both sides to maximize their interests. Several recommendations for overcoming this situation are provided below.

- Regional cooperation

Given the size of the Macedonian economy, as well as the other countries in the Western Balkans, enhanced regional cooperation would be highly useful to promote and increase the visibility of the entire region as an attractive business destination for Chinese companies and to allow them to use the economies of scale. In terms of investments, despite the efforts in the past decade, many reforms remain to be implemented and many of the implemented ones need to be reconsidered because of the lack of results achieved. Notwithstanding the fact that the economies in the region act as competitors in attracting foreign investments and promoting their exports, there are joint challenges that could be best tackled and joint benefits to be reaped if they cooperated and defined joint measures to be undertaken.

- Smart specialization

Given the small production capacities in most areas which are insufficient to make a sustainable entry on the Chinese market, Macedonia and other Balkan countries should focus on their “niche” advantages and develop smart specialization in certain areas. Bearing in mind the size and diversity of the Chinese market, specific consumer population should be selected and targeted. This would also help at the same time to optimize the use of (scarce) resources. For example, given the quality, ecologic origin and competitive price of most Macedonian farming products, they could be further developed as smart specialization and used as an avenue for Macedonian products to become popular on the Chinese market for a portion of the middle class which pursues a healthy life style.

- Innovative visibility strategies

Macedonian companies need to pay more attention to their marketing in China and building a positive image and reputation. It does not have to be through the mainstream media (TV/newspapers) which usually have high prices and will not be rentable for companies with small production output, like the Macedonian ones. Alternative channels should be used like live streaming (zhibo 直播) and Chinese social media to promote specific products²⁶. In addition, Macedonian companies should be encouraged and assisted by the national authorities to promote themselves at different events in China, like expos, fairs, business forums etc.

Chinese stakeholders, especially companies need to focus on increasing and improving their visibility and credibility as well. Particular attention needs to be invested in the application of high (European) standards in terms of social protection, environment, corporate social responsibility, as well as the inclusion of local

²⁶ Interview Huang, *op.cit.*

(Macedonian) companies in the supply chains as suppliers or subcontractors. This would have direct impact on the local development and the positive reputation of China and Chinese companies. Successfully implemented projects in Macedonia and the Balkan region in general would be a good reference for them when they want to apply for bigger contracts in Europe because they would demonstrate know-how and experience in the implementation of European standards and values.

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