

## China in the Western Balkans Energy Sector

Dr. Igor Novaković

This article was originally published on [The Berlin process – information and resource centre](#)

In the previous period, Chinese economic activity in the Western Balkans has been predominantly linked with infrastructure and energy projects. While this cooperation is often criticized from the geopolitical and geostrategic points of view, due to the increasing polarization between the US and China, as well as the EU and China, but also for clandestine deal-making and increasing potential for the expansion of corruption, there is a number of concrete challenges for the Western Balkans brought about by the cooperation with China. Local elites usually present energy and infrastructure projects as “FDIs from China”, while these are in fact loans, often including an obligation to hire Chinese companies, use Chinese technology, materials and, in some cases, even the labor force from China. Projects are usually based on interstate agreements, ratified by the parliaments, thus superseding domestic legislation. This is particularly related to overriding import taxes for construction materials, the obligation to hold public tenders, public procurement regulations etc. There are also cases, such as the reconstruction of the Stanari thermal power plant in Bosnian entity Republika Srpska, where the local government, by altering certain laws and regulations, gave collateral to the Chinese loan provider: the company itself, as well as subsidies for exploitation of coal and water. In other words, all of these “investments” would not have been possible without direct interventions by the ruling elites and bypassing or changing the legal provisions.

Chinese energy projects are usually focused on coal extraction and its utilization for the production of electric energy. Serbia, Bosnia and Hercegovina and Kosovo predominantly utilize coal for the production of electric energy, and the coal power plants were constructed in the 1960s, 70s and 80s. They are currently among the biggest air polluters in Europe. However, this high dependency on coal leaves the countries with two choices: gradually shut down the power plants and become energy dependent or to invest in the reconstruction of the current ones, while also starting long-term investments in renewable energy sources. However, the EU’s, and Western financing sources, in general, are almost non-existent for these types of projects, due to their recently established orientation towards renewables (the last “non-renewable” project intended to be financed from Western sources was a new coal power plant in Kosovo several years ago). Another issue is the fact that the Western technology is rather expensive in comparison with the Chinese; however, according to experts, there is a significant difference in quality, too. Thus, the Western Balkan countries opt to cooperate with the Chinese as they supposedly provide the “biggest bang for the buck”. They are a fresh capital provider and able to implement these projects, while there are no “political” conditions, such as the implementation of certain reforms that are often required by the Western capital sources, such as the EBRD.

But the two greatest challenges concerning the Chinese coal projects are the direct environmental concerns and environmental issues linked with the EU integration process. There are no guarantees that coal power plants will be more environmentally friendly in the future, or, in other words, that the new or refurbished facilities will observe environmental standards, particularly with regard to air pollution. Simply put, even if technology for byproduct purification (in particular SO<sub>2</sub>) is installed, it is uncertain whether it will function as intended. The EU integration process demands reforms that are directly opposed to production of electric energy from coal, as it is considered to be one of the biggest contributors to CO<sub>2</sub> emissions. The EU itself proclaimed that it will become coal free by 2050, and some of the member states are expected to reach this benchmark as early as 2030. New EU directives (EED, RED, etc.), standards (LCP BREF etc.), EU Emissions Trading System and the new EU "Green Deal" contribute to a gradual "coal collapse" in the member states, but this will also have an effect on aspiring ones. Namely, electricity produced in coal power plants will be a subject to increased taxing, and thus the price of produced electric energy will increase over the years. Even if the Western Balkans in some unlikely case does not join the EU eventually, it cannot exist in a vacuum and will experience challenges if it fails to respect EU standards.

Finally, one should ask why the Western Balkan governments do not focus on renewables in their deals with China? China is one of the biggest producers of technology for renewables, solar energy in particular. Some of the countries of the region surely do have suitable conditions for harvesting solar energy. This could be a win-win situation (if we disregard other challenges related to Chinese-backed projects), but nobody shows interest in it.