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The EU Accession Process, Chinese Finance and Rising Corruption in Western Balkan Stabilitocracies: Serbia and Montenegro

DIGDEM SOYALTIN-COLELLA

Abstract

As front runners in the EU accession process, Serbia and Montenegro have failed to control corruption yet managed to advance along the path to EU integration. Although they have stronger state capacity compared to other Western Balkan countries, the two have recently reverted to previous poor governance practices after initial headway meeting EU good governance conditions. An in-depth analysis of the two countries explains this paradox as the result of the combination of the EU accession process and increasing Chinese finance. While the EU's stability-oriented strategy helped to consolidate these authoritarian regimes, Chinese funding policies have further strengthened patronage networks, fuelling corruption in the EU's 'stabilitocracies'.

'Western Balkan countries belong in the EU', the European Commission President Ursula von der Leyen stressed following the EU–Western Balkans summit, held online in March 2020 due to the Covid-19 pandemic (European Commission 2020). By doing so, the EU reaffirmed its commitment to the Western Balkan Six (WB6) (Albania, Bosnia & Hercegovina, Montenegro, Kosovo, North Macedonia and Serbia) after over a decade of neglect and decided to open accession talks with North Macedonia and Albania (Tocci 2020). Until that time, only Serbia and Montenegro out of the WB6 had managed to engage in EU membership negotiations. Yet, these two countries combined have only managed to provisionally close five out of the 35 negotiating chapters.[1] Characterised by high levels of corruption and patronage structures (Bieber 2019), they are still far from full EU membership.

The EU's transformative power, which effectively promoted political and economic reforms in the Central and East European (CEE) states two decades ago (Schimmelfennig &

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[1]By the middle of 2020, Montenegro had only closed three and Serbia two.

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Sedelmeier 2005), has largely failed in the Western Balkan region (Džankić *et al*. 2019; Bieber 2019; Vachudova 2019; Zhelyazkova *et al*. 2019; Kapidžić 2020). In its Enlargement Strategy, entitled 'A Credible Enlargement Perspective for the Western Balkans', the European Commission (2018, p. 3) acknowledged the lack of progress among the current EU candidate countries by underlying the existing problem of state capture at all levels of government and administration. Freedom House (2016) also reported that the region's democracy average in 2016 turned out to be the same as that of 2004, even in the countries that had advanced the furthest in the accession process, namely Serbia and Montenegro. Freedom House (2020, p. 3) singled out these two countries and underlines that they could no longer be classed as developing democracies but rather as hybrid regimes. Serbia and Montenegro also regressed in terms of fighting corruption even though levels of corruption have stagnated across the region (Transparency International 2019). With regard to this apparent regression, this article addresses two critical questions: what are the factors mitigating the EU's good governance promotion efforts in the region, and why are authoritarian tendencies and governance problems rising in a number of EU candidate countries?

The existing literature highlights EU-level factors (weak membership incentives) and domestic problems of limited governance capacity to account for the failure of the EU's transformative power in the region. However, I show that these explanations do not account for the variation observed in the cases of Serbia and Montenegro. Moreover, the existing literature has largely ignored the fact that the more advanced status of Serbia and Montenegro on the path to EU integration has consolidated rather than transformed the existing corrupt regimes and even allowed room for illiberal externals, such as China, to challenge the EU's reform agenda (Džihić *et al*. 2018; Bieber 2019; Smith *et al*. 2021).

The Western Balkan region has recently become an important regional component of China's Belt and Road Initiative (BRI). All WB6 countries participate in the so-called 16 + 1 (now 17 + 1, with the addition of Greece in 2019),[2] which brings together China and countries from the Central, East and Southeast of Europe. Of these countries, Serbia and Montenegro have become the main targets of Chinese loans and investment policies in the region. It is commonly argued that China promotes an alternative (authoritarian) mode of governance through its BRI-based investment policies, as contrasted with Western democracy and good governance standards (Burnell & Schlumberger 2010; Hackenesch 2015). However, when and how Chinese BRI policy is more likely to affect governance structures in third countries is currently underexplored.

Using insights from the existing literature on EU good governance promotion in the context of enlargement and research on autocracy promotion, this article argues that Chinese BRI policy is particularly liable to foster bad governance structures in countries with rent-seeking 'strongman' regimes. The in-depth case studies of Serbia and Montenegro demonstrate that the formal EU accession process of prioritising stability over democracy has mitigated its transformative power and, further, consolidated

[2]The 16 + 1 are Albania, Bosnia & Hercegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and China. The agreement covers all Western Balkan nations with the exception of Kosovo, whose independence China refuses to acknowledge.

authoritarian regimes and increased the likelihood of China's regional policies promoting corruption and poor governance practices. This is mostly achieved through Chinese incentives such as no-strings-attached loans, government-to-government agreements and political propaganda opportunities that are provided to the Balkan stabilocrats and their patronage networks. Defined as types of governments where the EU is *de facto* ready to turn a blind eye to 'weak democracies with autocratically minded leaders, who govern through informal, patronage networks and claim to provide pro-Western stability in the region' (Kmezić & Bieber 2017, p. 95), stabilitocracies provide a fertile ground for Chinese finance. This article thus argues that it is the combined effects of EU-level dynamics and Chinese regional policies that serve the political and economic interests of the incumbent governments in the stabilitocracies by first consolidating their authoritarian regimes and patronage networks and then providing further opportunities to feed these networks and fuelling corruption.

This study contributes to existing research on EU good governance promotion beyond its borders, which has largely relied on unfavourable domestic politics and weak or instrumental EU conditionality to explain governance problems in target countries. Considering this gap in the literature, this article takes into consideration the substance of the EU's good governance promotion in the Western Balkans, broader changes in global governance and the emergence of illiberal powers, such as China, as alternative 'governance exporters'. Moreover, the study brings new evidence from the formerly democratising countries in the Western Balkans for the emerging literature that revisits the role and the capacity of the EU as a governance exporter both within and beyond its periphery in the contested liberal world order (Börzel 2015; Börzel & Schimmelfennig 2017; Soyaltin-Colella 2022). Second, this study provides theoretical and empirical insights to explain when and how Chinese BRI-based loan and investment policies serve the political patronage networks of corruption in the Western Balkans and contributes to the literature on autocracy promotion, which currently remains largely focused on the Middle East, Central Asia and Africa (Kurlantzick & Link 2009; Burnell & Schlumberger 2010; Hackenesch 2015).[3]

The article is structured as follows. The following part maps the reversal in Serbia and Montenegro and presents the puzzle in more detail. This article shows that the prevailing explanations in the literature cannot explain the observed variation in two countries and therefore advances a different theoretical model, presented in the third part. In the fourth part, the theoretical argument is illustrated with empirical evidence from Serbia and Montenegro. The final part summarises the main findings and discusses the recent shift in the EU's attitude towards its Western Balkan enlargement, which could result in significant changes not only for democracy and good governance but also with regard to China's presence and actorness across the region.

The puzzling rise of corruption in Serbia and Montenegro

By 2010 Serbia and Montenegro had gone through comprehensive processes of Europeanisation and neoliberal transformation (Elbasani 2012). In line with

[3]See also, Öniş and Kutlay (2020).

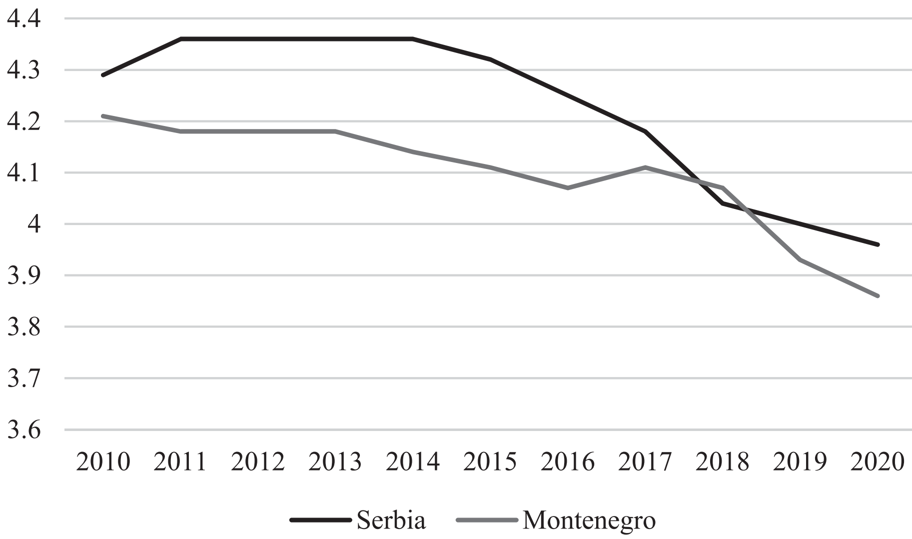

FIGURE 1. Democracy, Freedom House, Nations in Transit Index
Note: Rating on a scale of 1 (the lowest value) to 7 (the highest value).
Source: 'Nations in Transit' dataset, Freedom House, available at: https://freedomhouse.org/report/nations-transit, accessed 12 August 2020.

theoretical expectations (Schimmelfennig & Sedelmeier 2005), the EU membership incentives (the prospect of accession, technical and financial assistance) encouraged political and economic transition after the bloodshed of the 1990s. Between 1996 and 2000, pro-EU governments came to power across the region. They pursued governance and democracy reforms and sought closer integration with the EU (Elbasani 2012). In return, the EU signed Stabilisation and Association Agreements (SAA) and expanded its enlargement policy to include the WB6 (European Council 2003). Yet, by 2014/2015 the EU reforms process had largely stalled in the region (Börzel & Schimmelfennig 2017) with democratic backsliding and lower governance standards evident in Serbia and Montenegro from 2016 (see Figure 1).

In the 2020 Freedom House report, Serbia and Montenegro, the so-called frontrunners of the EU accession, were downgraded from democracies to hybrid regimes (see Figure 1): 'For years, with increased state capture, abuse of power, and the tactic of ruling by fear, Aleksandar Vučić in Serbia and Milo Đukanović in Montenegro have taken their states below the line—for the first time since 2003, they are no longer in the category of democracies among countries in transit' (Freedom House 2020, p. 2). Within the WB6, Serbia and Montenegro had the least effective anti-corruption measures as indicated by Freedom House (see Figure 2). These results are in line with the findings published by SELDI (2019) that compare corruption dynamics between 2014 and 2019. Different sources raised state capture as a serious problem in both countries since the same leaders had been in power for years, if not decades (Heinrich Böll Stiftung 2017; Transparency International 2019).

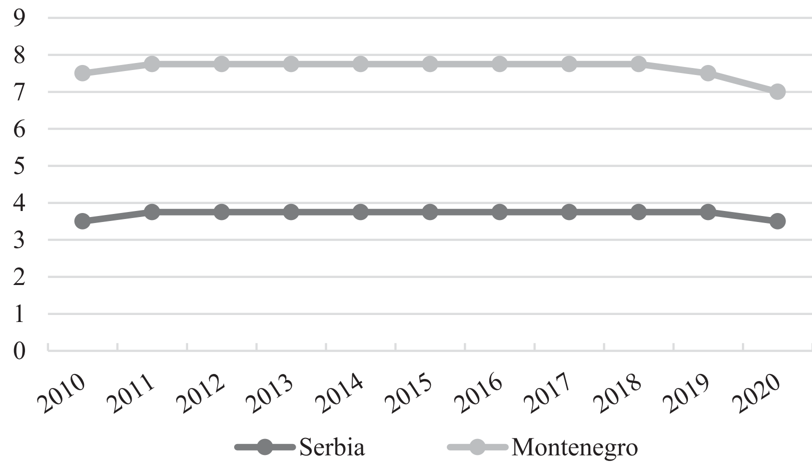

FIGURE 2. Control of Corruption, Freedom House, Nations in Transit Index
Note: Rating on a scale of 1 (the lowest value) to 7 (the highest value).
Source: 'Nations in Transit' dataset, Freedom House, available at: https://freedomhouse.org/report/nations-transit, accessed 12 August 2020.

The literature lists several factors to explain the failure of the EU to eliminate corruption and good governance problems in its Western Balkan accession countries. It is argued that domestic factors (communist legacy, secessionist/nationalist movements, reconciliation problems, unsettled borders, ethnic tensions and weak state capacity) increased the costs of reforms and mitigated the transformative power of the EU in the WB6 (Mungiu-Pippidi *et al*. 2007; Bieber 2018). Yet, these factors alone do not explain why Serbia and Montenegro backslide in fighting against corruption and respecting good governance principles. Compared to other Western Balkan countries and EU candidates, both countries have more consolidated statehood (Börzel & Grimm 2018). Figure 3 illustrates the governance capacities[4] of the two countries compared to other EU candidates, which improved further after they began the process of European integration in 2012 for Serbia and in 2010 for Montenegro.

The decreasing credibility of the EU, more stringent accession criteria and 'enlargement fatigue' are said to limit the EU's transformative impact (Zhelyazkova *et al*. 2019; Kmezić 2020). This article agrees that the EU's weak accession incentives have ultimately limited good governance reforms in the region (Bechev 2012; Nic 2017). This became more evident in 2014 when the then president-elect of the European Commission, Jean-Claude Juncker, publicly stated, 'there is little prospect of any new EU accession happening within the next five years' (Paznatov 2014). In 2019, the French president, Emmanuel Macron, explicitly opposed further EU enlargement, claiming that this would weaken

[4]Governance capacity is measured through an index I have constructed (see also Börzel & Schimmelfennig 2017 for a similar measurement for the Central Eastern European countries). To do that I standardised, aggregated and averaged political stability, government effectiveness, regulatory quality and control of corruption of the Worldwide Governance Indicators (2008–2018) for both cases.

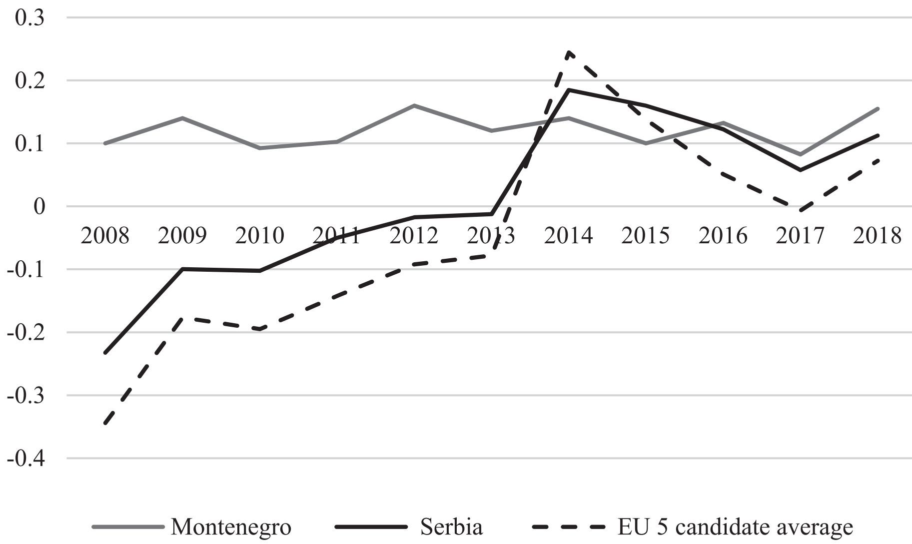

FIGURE 3. Governance Capacity (2008–2018)
Notes: EU candidates include Albania, Montenegro, North Macedonia, Serbia, Turkey.
Source: The author's own assessment is based on aggregation and averaging of political stability, government effectiveness, regulatory quality and control of corruption of the 'Worldwide Governance Indicators' dataset, available at: http://info.worldbank.org/governance/wgi/, accessed 10 September 2020.

Europe and vetoed the opening of accession talks with North Macedonia and Albania (Gray 2018). The pause in the admission of new EU members was largely explained by 'enlargement fatigue', a phenomenon that appeared in the wake of the so-called 'Big Bang' enlargement of 2004 (Schimmelfennig 2008).

Yet, enlargement fatigue remains constant for all WB6 countries, as the EU has opted for a policy of passive disengagement towards the Western Balkans and delayed giving any clear membership perspective. Moreover, in the case of Serbia and Montenegro, the credibility of the membership perspective was comparatively higher as they were the only two WB6 countries that had started accession negotiations in the first half of the 2010s following the Croatian accession in 2013. Yet, after they were granted the status of official EU candidates, and particularly after they started accession negotiations, it was observed that on some measures the quality of democracy deteriorated in both countries, accompanied by a worsening of corruption.

Despite stronger EU incentives and better governance capacities, the rising governance problem in Serbia and Montenegro necessitates a better analysis of the substance and dynamics of the EU accession process in the changing world order. Unlike the previous enlargements, the EU focused on stability rather than democracy or governance problems in the Balkan accession countries and prioritised domestic challenges such as organised crime, human smuggling, terrorism and irregular migration in the region, which were regarded as potential threats to the EU's internal security. In addition to regional cooperation, the Western Balkan countries were urged to work towards the fulfilment of several international obligations related to justice and good neighbourly relations—for example, cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague, the Dayton Peace Accords and the Ohrid Agreement—rather than pushed to enact democratic reforms (Bieber 2011).

The EU's focus on 'stability over democracy' has been widely explored in the literature (Bieber 2011, 2018; Bechev 2012; Džihić *et al*. 2018; Smith *et al*. 2021). Research has underlined the fact that as the EU has placed a greater emphasis on stability, the Balkan countries have progressed in the accession process, not because they have fulfilled the EU's democracy criteria, but because they have prioritised justice for war crimes and good neighbourly relations (Kmezić 2020; Gafuri & Müftüler-Baç 2021) and taken measures to promote border control, surveillance and intensive operational cooperation with EU member states (Kovačević 2018). Serbia, for instance, was granted EU candidacy status in 2012 after Belgrade and Pristina reached an agreement on Kosovo's regional representation and the extradition of Bosnian Serb war crime suspect, Ratko Mladić, to the ICTY. Similarly, Montenegro was granted candidate status in 2010 after proclaiming its independence from Serbia and taking steps to resolve its disputes with Croatia concerning missing persons, properties and equipment stolen from Dubrovnik's Cilipi airport in 1991 by Montenegrin troops and war crimes in order to start accession negotiations with the EU (Vesnic-Alujevic 2012). Formal commitment to EU membership allowed the Western Balkan countries to take technical steps along the way and benefit from EU loans, even while the prospects for EU membership were weakening in the region.

The incumbent autocrats who govern through political patronage networks are tolerated and even praised for providing stability and security in the region (Bieber & Tzifakis 2019). The 'silent pact between enlargement-fatigued EU member states and rent-seeking elites in the Western Balkans who don't mind slowing the pace of democratic transformation' enabled this shallow progress (Bechev 2012, p. 6) and led to the rise of 'stabilitocracies' in the region (Bieber 2019, p. 101). In other words, the EU has been inadvertently consolidating authoritarianism by stabilising corrupt regimes in the region (Börzel 2015; Richter & Wunsch 2020).

However, the literature largely fails to acknowledge the illiberal outcomes of this rhetorical interaction between the EU and the Western Balkan countries, especially at a time when other external players are gaining influence in the region, and therefore ignores the root cause of the rising corruption problem. This article argues that the EU's stability-over-democracy approach increases the likelihood of authoritarian regimes engaging with illiberal external powers. The two long-term leaders in the Western Balkans, Serbia's Aleksandar Vučić and Montenegro's Milo Đukanović, whose terms in office were facilitated by the EU, have been allowed to move through the integration process without addressing the endemic corruption of their regimes (Pavlović 2016; Mappes-Niediek 2020). Instead, they enhanced their power over state institutions and widened their patronage networks. This was mostly achieved by stacking the bureaucracy and key independent institutions (privatisation boards, state-owned enterprises, public procurement agencies, the judiciary and security services) with party loyalists and their associates (Heinrich Böll Stiftung 2017; Elbasani & Šabić 2018; Vachudova 2019). This enabled the incumbents to establish authoritarian practices of executive dominance and implement policies that favoured their wider patronage networks (Kapidžić 2020). With minimal or no checks and controls, the rents, such as privatisation schemes, state employment, public contracts and subsidies, were ultimately distributed to party cronies, who demanded further rent-seeking opportunities in return for political support (Džankić & Keil 2017; Keil 2018). Therefore, in these two strongman regimes, where the EU has effectively stabilised authoritarian governments, it is more likely that illiberal externals will be able to gain influence by providing additional rents to regime supporters.

There is a currently growing body of literature that focuses on the other external players such as Russia, Turkey, the Gulf monarchies and China promoting alternative governance structures and challenging the EU's good governance promotion efforts in the Balkans (Börzel 2015; Makocki & Nechev 2017; Bieber 2019; Bieber & Tzifakis 2019; Doehler 2019a; Markovic-Khaze & Wang 2021). The impact of other regional actors in the Western Balkans, especially Russia and Turkey, with their long history in the region, has been widely covered by scholars. While this factor has remained essentially constant over time for all the WB6, China, as a newcomer, has increased its influence and engagement in the region. Among the WB6, Serbia is by far the largest recipient of Chinese finance (Markovic-Khaze & Wang 2021). In 2020, China became the biggest investor in Montenegro, replacing the EU countries and Russia (Kajosevic 2020). Moreover, Montenegro is host to the most ambitious and expensive Chinese infrastructure project, the Bar–Boljare highway, in the entire region. This article highlights the authoritarian impact of China's regional policy (17 + 1, BRI) in the Western Balkans and advances a different theoretical explanation to explain the rising problem of corruption in Serbia and Montenegro. It argues that, in the EU's stabilitocracies, China's finance and investment policies are more likely to promote an alternative governance model that creates further opportunities for corruption.

The rise of Chinese finance, authoritarian capitalism and exacerbation of corruption in the EU's stabilitocracies

The Chinese government, as a part of its global-scale BRI project, invests huge amounts in the form of loans in different parts of the world. The Western Balkans has become a significant component of China's BRI policies in Europe. With the establishment of 17 + 1, Chinese investments in the region have gradually increased, reaching more than €15 billion in 2020.[5]

The Chinese BRI-based finance and investment policy promotes an alternative mode of governance associated with the 'Beijing Consensus'. Also called state or strategic capitalism, the Chinese model of authoritarian capitalism (Kurlantzick & Link 2009) follows several distinct principles such as informality, state-permeated corporate relations, indicative infrastructure development, strategic use of financial statecraft and highly personalised networks of capital accumulation (McNally 2019; Öniş & Kutlay 2020). The authoritarian model that generated an impressive industrial transformation at home (Witt & Redding 2014) is being exported to third countries through loans and investment facilities and poses a challenge to the neoliberal governance paradigm of the West and good governance principles (Doehler 2019a).

[5]China Global Investment Tracker, 2020, available at: https://www.aei.org/china-global-investment-tracker/, accessed 17 March 2020.

In an era of global democratic recession,[6] the Chinese model has become a persuasive alternative for autocratic regimes, with growing illiberal tendencies in the European periphery, including the Western Balkans, as well as in Africa and Southeast Asia. In authoritarian regimes in the Western Balkans, Chinese BRI policies—specifically, the provision of various incentives to incumbents and their patronage and clientelistic networks such as unconditional low-interest loans, government-to-government agreements and propaganda opportunities—promote bad governance structures and worsen the problem of corruption.

Unconditional low-interest loans

Chinese finance mostly comes in the form of low-interest loans and credits with long maturity periods from Chinese banks, including China Export and Import (Exim) Bank and the Chinese Development Bank. Chinese banks provided €6.5 billion (US$8 billion) in loans to the Western Balkan region in the period 2012–2020. Chinese state-owned enterprises (SOEs) have been the second-biggest investors in terms of funding multibillion dollar infrastructure projects as they found lucrative opportunities in the region (Conley *et al*. 2020a, pp. 4–7).[7]

The opaque conditions of Chinese finance are evident in the operations of Chinese banks, which provide more than half the loans to the region. They are not subject to good governance standards, such as the US Foreign Corrupt Practices Act that requires credit export institutions in the United States to take anti-corruption measures (Conley *et al*. 2020a). Moreover, China is not a member of the major creditor organisations that provide data on official lending, in particular, the Paris Club of Creditor Governments and the Organization for European Co-operation and Development (OECD). Thus, Chinese overseas loans are not subject to standard disclosure requirements.

Chinese loans, as undertaken by the Chinese government, SOEs or state-controlled banks, provide finance to large-scale infrastructure investments worldwide. Therefore, most governments in developing countries are able to obtain—and indeed welcome—affordable, below-market loans from China for infrastructure construction. An additional attraction is the swift Chinese decision-making process, which is unburdened by compliance requirement or political preconditions (Markovic-Khaze & Wang 2021).

The Chinese policy of unconditional lending represents a better alternative to EU engagement, which is predicated upon large-scale governance reforms (Hackenesch 2015). While the EU loans provided by European investment banks for development projects in the Western Balkans come with a long list of conditions relating to financial feasibility, environmental sustainability and the quality of infrastructure development, as

[6] *Autocratization Surges—Resistance Grows. Democracy Report 2020* (Gothenburg, Varieties of Democracy Institute, 2020).

[7] There are differences between the value of China-related infrastructure projects, FDI stocks and the estimated value of actual inflow of Chinese capital. This study underlines the fact that Chinese finance is largely transferred to construction projects in the non-EU member countries of the Western Balkans while the FDI figures show a much more limited Chinese presence in the region. For more detail, see the Chinese Investment in Central Europe Project, available at: https://www.china-cee-investment.org/, accessed April 2022.

well as adequate labour conditions and transparency of procedures, China as an alternative lender rejects the conditioning of loans, trade and investment projects on democratic reforms (Zweers *et al*. 2020, p. 46).

Government-to-government agreements

China reflects its authoritarian model in the implementation phase of its BRI infrastructure projects, including the politicisation of investment, subsidy and contract decisions. Chinese deals are mostly achieved through government-to-government agreements. Beijing builds coalitions with ruling governments and dominant parties, often by signing direct agreements with them that are subject to little parliamentary scrutiny (Shopov 2021). In this way, Chinese companies are awarded contracts directly by governments rather than through a competitive bidding process. This model goes against the EU's approach of open and transparent bidding procedures (Makocki & Nechev 2017) and offers ample opportunities for corruption and rent-seeking. The World Bank (2019) has specifically underlined the risk of corruption around Chinese BRI infrastructure projects that fail to follow international good practices such as open and transparent public procurement.[8]

The opaque nature of intergovernmental agreements that bypass public procurement law means that they become more attractive to political elites and their cronies in authoritarian regimes. Chinese-directed and funded investment projects under the 17 + 1 partnership programme are subcontracted to the SOEs that are effectively controlled by Western Balkan political leaders (Conley *et al*. 2020a, p. 18). The funding for such projects is thus easily distributed within the non-transparent networks of the political patronage of the individuals and parties in power. Moreover, it has been easier for China to employ its non-transparent business practices in the Balkan countries (Makocki 2017; Keil 2018; Conley *et al*. 2019) than in the other 17 + 1, since they are not bound by the EU regulatory framework. As indicated by empirical evidence, the amount received by five non-EU members in the Balkans was almost 70% of total Chinese investment lavished on the 17 + 1 partnership, leaving little for the EU members (Hopkins & Kynge 2019). More importantly, more than 80% of Chinese-funded projects in the Western Balkans did not undergo a competitive bidding process (Conley *et al*. 2020a, p. 12).

Political propaganda opportunities

Authoritarian governments in the Western Balkans use engagement with China as a propaganda opportunity. The most important aspect of China's engagement is infrastructure: Chinese investment provides solutions to development gaps and funds urgently needed infrastructure projects in the region (Sanfey & Milatović 2018). After investing heavily in transport, power generation, heavy industry and mining in the Western Balkans (Tonchev 2017), China extended its investment to cover digital

[8]Besides China, Russia, Turkey and the Gulf countries have also made commercial investments in the region, although fewer than China, and there have been allegations of inadequate transparency and corruption, for example, over UAE's investment in Air Serbia and the Belgrade Waterfront project (Bieber & Tzifakis 2019).

infrastructure (except in Albania and Montenegro, due to NATO membership and US pressure). In 2018–2019, 15 information and communications technology (ICT) projects were initiated in the region (Conley *et al*. 2020a, p. 16). The high visibility of such infrastructure projects empowers the incumbents in front of their constituencies.

The EU's stabilocrats in the Western Balkans present themselves as enablers of economic growth and historic infrastructural achievements, which bolsters their image during election campaigns (Günay & Dzihic 2016; Gallop & Risteska 2017). Apart from improving infrastructure capacity, Chinese investment further creates opportunities for local employment (Sanfey & Milatović 2018; Zeneli 2019). Moreover, the incumbents provide further opportunities to the Chinese government to expand its presence in a variety of non-economic sectors (tourism,[9] culture, education).[10] China's engagement in non-economic ways also helps to enhance its soft power and shift popular perceptions favourably towards the country (Tonchev 2020), aided by the government-controlled media, which promote a pro-China discourse and credit China for enabling infrastructure development.

Corruption in the EU's stabilitocracies and the China connection: Serbia and Montenegro

This part of the article presents the empirical data in line with the combined effects of EU accession dynamics and Chinese regional policies. Based on an in-depth analysis of EU reports, Chinese Investment Tracker (a comprehensive public data set covering China's global investment), Chinese Investment in Central Europe Project (a project gathering factual data about China's investment in 16 CEE countries), government and NGO documents, and media outlets, the process of democratic regression and rising corruption is traced in Serbia and Montenegro across almost two decades starting with the independence of both countries in 2006.

The EU's 'stability over democracy approach' and consolidation of corrupt networks

By the late 1990s, the Balkan countries had made a decisive break from authoritarian practices. In Serbia, after Slobodan Milošević and his Socialist Party of Serbia (*Socijalistička partija Srbije*—SPS) lost power in 2000, competitive authoritarianism came to an end. In 2001, Milošević was extradited to the ICTY. Since then, Serbian politics has been governed by different parties that were part of the anti-Milošević coalition. In 2006, the state union with Montenegro was dissolved and Serbia, as a sovereign state, adopted a new democratic constitution. In Montenegro, the authoritarian path of the ruling Democratic Party of Socialists (*Demokratska partija socijalista*—DPS) changed as the prime minister, Milo Đukanović, distanced himself from Serbia and Milošević and pursued a reform-oriented and pro-Western political agenda.

[9]Visits from China to the Western Balkans are facilitated by relaxed visa regimes, in the case of Montenegro, or by the abolition of visas altogether, in the case of Serbia, Albania and Bosnia.

[10]In most of the countries of the Western Balkans, China has set up Confucius Institutes at the major universities.

In Serbia, the EU accession process also transformed the political parties in Serbia and empowered pro-reformist actors *vis-à-vis* the anti-reformist powers (Radeljić 2019, p. 160). While the Serbian Radical Party (*Srpska radikalna stranka*—SRS) was excluded from power due to its opposition to the EU integration process (until 2008), a new, pro-EU party, the Serbian Progressive Party (*Srpska napredna stranka*—SNS), was formed by Tomislav Nikolić and Aleksandar Vučić. In the 2012 Serbian elections, the SNS received the majority of the votes. Serving as the deputy prime minister for the SNS-led coalition government, Vučić took over the leadership of the SNS and became the head of government in 2014.

Taking office with a strong anti-corruption agenda, he started several high-profile investigations and arrests, including that of the country's main oligarch, *Miroslav Mišković*. His government focused on attaining EU membership and proved to be more willing to compromise on Kosovo than the previous pro-EU liberals (Nic 2017). Vučić openly admitted that the 'price' of Serbia's EU membership was acquiescing on Kosovo, dealing with corruption and going into debt (quoted in Vachudova 2019, p. 75).

The pro-EU governments in Serbia and Montenegro moved further along the EU integration path and managed to start accession negotiations with the EU while other Western Balkan nations (Albania, North Macedonia, Bosnia & Hercegovina, Kosovo) were side-lined in the EU negotiations until 2020. The EU's approval of the incumbent governments enabled them to consolidate their authoritarian regimes and cultivate a system of patronage.

In Serbia, the authoritarian turn became more evident after the SNS achieved a second victory in the 2014 elections and Vučić became president in 2017 (Mappes-Niediek 2020; Richter & Wunsch 2020). The erosion of independent institutions such as the ombuds office, the media and the judiciary centralised power in the hands of Vučić and his small network of close business allies (Bieber 2019, p. 46). Unbalanced access to public and private resources, the politicisation of state institutions (including public procurement offices) and tight control of the media enabled Vučić to skew the political playing field in his favour and to set up a countrywide network entrenched in the public administration (Heinrich Böll Stiftung 2017; Castaldo 2020; Freedom House 2020; Open Democracy 2020). At the economic front, the SNS government introduced structural reforms for the privatisation of public enterprises and natural resources. This opened new spaces for the reallocation of subsidies to government-friendly foreign investors and business networks close to the ruling party. The high level of state involvement and non-transparent financial conditions, which highlight the 'key features of Vučić's rule' (Bieber 2019, p. 51), further reinforced the SNS's patronage networks (Kovačević 2018; Castaldo 2020).

The EU's approach of prioritising stability over democracy provided opportunities for the Serbian stabilitocracy, as led by the SNS government, to restructure power centres in the state bureaucracy and business circles and to pursue its authoritarian approach without any intervention or sanction from Brussels (Kovačević 2018; Mappes-Niediek 2020). Even so, EU officials showed support for Vučić's policies and embraced him as 'an anchor of stability'[11] and peace in the region (Eror 2018; Keil 2018, p. 65).

[11]'Serbia's Prime Minister: The Changeling', *The Economist*, 15 September 2016, available at: https://www.economist.com/europe/2016/09/15/the-changeling, accessed 17 December 2020.

The DPS government in Montenegro also embraced the EU reforms in its early years in office. In 2013, the government opened the rule of law chapters, 23 and 24 of the *acquis*, and adopted a strategic anti-corruption document. What Đukanović did not deliver, however, was any kind of implementation of EU reforms. Instead, the formal and institutional changes were designed to consolidate the DPS regime and secure votes (Džankić & Keil 2017). Nevertheless, then President of the European Commission, Jean-Claude Juncker, noted that he was impressed by Montenegro's progress along its European path.[12] Supported by the EU, the pro-EU DPS confirmed its dominance *vis-à-vis* the Democratic Front coalition of radical opposition and pro-Serbian parties in the 2016 elections. Đukanović was elected as the president in April 2018 in a landslide victory (Dedovic 2018). Known as the 'eternal president', both in the country and in the region, Đukanović has remained in power for three decades, his regime legitimised by formal progress in the EU accession process (Vachudova 2019, p. 76).

Yet, with the new government, the formal EU reform process stagnated as the government took steps that monopolised public resources and limited freedom of expression and the media, tilting the electoral playing field in favour of the loyalists and increasing political control over independent institutions (Pavlović 2016; Komar 2020). Đukanović's semi-authoritarian control strengthened his influence over economic activity and state contracts and pleased his patronage networks (Džankić & Keil 2017, p. 6; Komar 2020, p. 17). Although several EU member-states complained about the rising authoritarianism and rampant corruption in the country,[13] the strong rule of Đukanović and the DPS appeased the EU's stability concerns in the region, providing an excuse for overlooking corruption (Pavlović 2016; Džihić *et al*. 2018; Lika 2020).

Chinese regional policies and the worsening of corruption

China's primary mechanism for increasing its BRI-related investments in the Western Balkans has been the 17 + 1 partnership. Acting as an investor, China has implemented geopolitically strategic policies designed to establish a significant presence along key land and sea routes in the region that run deep into Europe. In line with this objective, China purchased the Greek port of Piraeus in 2008 and transformed it into the second-largest port in the Mediterranean (Tonchev 2017, p. 4). This has increased the strategic importance of the Western Balkans, especially Serbia and Montenegro, through which China seeks to bring its products to their destination markets in Europe and beyond (Dimitrijevic 2017).

From 2008, the number of Chinese infrastructure projects in the Western Balkans increased substantially (Zakic & Radisic 2019; Vangeli 2019), from four projects and

[12]'PM Đukanović meets President Juncker: European Commission Impressed by Montenegro's Progress Towards EU', The Government of Montenegro, 14 April 2014, available at: https://www.gov.me/en/News/147960/PM-dukanovic-meets-EC-President-Juncker.html?AccessibilityFontSize=150, accessed 13 December 2020.

[13]'Uncertain Optimism or Optimistic Uncertainty. Virtual MFRR Mission Report—2020', European Centre for Press and Media Freedom, available at: https://www.mfrr.eu/wp-content/uploads/2020/12/ECPMF-FFM-Montenegro_2020-FINAL.pdf, accessed 8 September 2022.

deals in 2012 to 102 in 2020 (Conley *et al*. 2020a, p. 12). Over the same time frame, the value of Chinese investment projects in the Western Balkans also increased. Before the launch of BRI in 2013, the value of Chinese investments in the Western Balkans was €9.6 billion (US$11.7 billion) (Zakic & Radisic 2019, p. 60), growing to €15.8 billion (US$19.34 billion) by 2020.[14]

Out of all the WB6 countries, Serbia is by far the largest recipient of Chinese finance due to its geopolitical significance to BRI in that part of Southeastern Europe (Dimitrijevic 2017). The data show that as of 2019 Serbia has received more than 60% of Chinese investment loans in the region (Zeneli 2019) amounting to €8.7 billion (US$10.68 billion) in total (see Table 1). The amount of Chinese investment is less in Montenegro. However, with the Bar–Boljare highway project and a thermal power contract signed in 2020 (see Table 2), China replaced Italy (€43.3 million) and Russia (€42.5 million) as the largest investor in Montenegro with €70 million in direct investments in the first half of 2020, according to a Central Bank of Montenegro annual report (Marovic 2020), the first time China was mentioned as a major foreign investor in the report (Kajosevic 2020). In both countries, Chinese loans exclusively targeting infrastructure reached significant amounts compared to their GDPs (as of 2020 18% in Montenegro, as of 2020 10% in Serbia)[15] and started to compete with the sums spent by the EU.[16]

Unconditional low-interest loans

Unconditional Chinese loans with low interest rates have become more appealing to the economic and political visions of the Vučić government in Serbia and the Đukanović government in Montenegro, even though these loans carry severe governance risks. Coming without any democratic conditions, Chinese loans have provided both funding for the infrastructure projects in strategic sectors (Conley *et al*. 2020a) and ample opportunities for the incumbents to reinforce their patronage networks. In Serbia, Chinese loans provided funding for the construction of the Sino–Serbian (Mihajlo Pupin) Friendship Bridge over the Danube and Belgrade–Budapest rapid railway, the purchase of the Zelezara Smederevo steel plant and RTB Bor mining company, and the revitalisation of the Kostolac power plant (see Table 1). Although the Chinese loans came at a price in terms of transparency, environmental standards and labour rights, the Serbian government seemed enthusiastic about having new loan agreements with China (Surk 2017). In 2018, when Vučić met Xi at the World Economic Forum in Beijing, he signed a comprehensive commercial agreement worth €2.4 billion (US$3 billion), including the purchase of

[14]China Global Investment Tracker, 2020, available at: https://www.aei.org/china-global-investment-tracker/, accessed 17 March 2020.

[15]The Chinese Investment in Central Europe Project shows that most of the costs of infrastructure projects (75–85%) in the Western Balkans are financed by Chinese loans (Chinese Investment in Central Europe Project, available at: https://www.china-cee-investment.org/, accessed 6 April 2022).

[16]The WB6 receive funds for infrastructure development. In the period 2007–2018, the WB6 received around €10 billion from the EU, but these funds were shared between nine different sectors, thus leaving only a fraction of these funds dedicated solely to infrastructure development (Doehler 2019b, p. 6).

TABLE 1
CHINESE INVESTMENT IN SERBIA (2010–2020)

Year of funding	*Month*	*Chinese entity*	*Value (US$ million)*	*Sector*
2010	April	China Communications Construction	260	Transport
2010	December	Sinomach	340	Energy
2013	January	China Communications Construction	850	Transport
2013	June	Shandong Gaosu	330	Transport
2014	November	Sinomach	970	Energy
2016	June	China Communications Construction	230	Transport
2016	June	Sinomach	230	Energy
2016	June	Shandong Gaosu	47	Real estate (Chinese culture centre)
2016	October	Huawei	170	Technology
2016	November	Power Construction Corp	220	Transport
2016	December	Hebei Steel	120	Metals
2017	January	Sinomach	720	Energy
2017	February	Mei ta Car Parts Factory Construction (Belgrade)	65	Manufacturing
2017	October	Shanghai Electric	210	Energy
2017	November	China Communications Construction	520	Transport
2017	November	Sinomach	310	Utilities
2017	November	China Railway Engineering	350	Transport
2017	December	Power Construction Corp	230	Energy
2018	January	Shanghai Electric	140	Energy
2018	June	Mei ta Car Parts Factory Construction (Obrenovac)	106	Manufacturing
2018	July	China Railway Engineering, China Communications Construction	1.09	Transport
2018	August	Zijin Mining	650	Metals
2018	August	Shandong Linglong Tire	994	Transport
2018	September	China Communications Construction	260	Other
2019	July	Hebei Iron and Steel Group Co., Ltd (HBIS)	120	Metals
2019	September	Shandong Yang Huatai Chemical	33	Manufacturing
2019	November	Zijin Mining	380	Metals
2020	February	Zijin Mining	800	Metals
2020	April	BGI Group	559	Medical supplies
2020	May	Nuktek	100	Medical supplies
2020	June	Shandong Gaosu	180	Transport
2020	August	China Aerospace Science and Technology Corporation (CASC)	–	Military equipment
2020	September	Bank of China	–	Medical supplies
Total amount			US$10.68 billion	

Sources: China Global Investment Tracker, available at: https://www.aei.org/china-global-investment-tracker/, accessed 12 December 2020; CSIS Chinese Economic Activities in the Western Balkans Data, January 2012–May 2020, available at: https://reconnectingasia.csis.org/, accessed 12 December 2020.

Chinese military drones and the provision of Huawei traffic surveillance systems in Serbia (Vuksanovic 2019; Conley *et al*. 2020b).

China's 'build now, worry later' approach has also become attractive to the Montenegrin government (Vangeli 2019). Although as a NATO member, Montenegro was obliged to reject Chinese investment in the Adriatic port and chose European Nokia, not Huawei, for the development of its 5G infrastructure, the Montenegrin authorities showed considerable reserve about NATO's strategic plan and actions against China, as they have been keen to cooperate in various energy and transport projects (Przychodniak 2020).

TABLE 2
CHINESE INVESTMENT IN MONTENEGRO (2010–2020)

Year of funding	*Month*	*Chinese entity*	*Value (US$ million)*	*Sector*
2012		The Export-Import Bank of China	127	Transport
2014	October	China Road and Bridge Corporation Bar–Boljare Motorway Podgorica (Smokovac)–Kolasin (Matsevo) section (Phase I)	876	Transport
2015		China Pacific Construction Group	–	Transport
2017	November	Shanghai Electric Power Company	–	Energy
2017	December	China Civil Engineering Construction Corporation	–	Transport
2018		China Road and Bridge Corporation Bar–Boljare Motorway Bar–Podgorica section and Matesevo–Boljare section	–	Transport
2019	November	Dongfang Electric International Corporation	60	Energy
2019	November	China Rainbow International Investment	–	Energy
2020	April	Jack Ma Foundation, Alibaba Foundation	–	Medical supplies
2020	April	Government of China	–	Medical supplies
2020	April	China Power Construction Corporation (PowerChina)	22	Medical supplies
2020	June	Dongfang Electric	54	Energy
Total			US$1.139 billion	

Sources: China Global Investment Tracker, available at: https://www.aei.org/china-global-investment-tracker/, accessed 12 December 2020; CSIS Chinese Economic Activities in the Western Balkans Data, January 2012–May 2020, available at: https://reconnectingasia.csis.org/, accessed 12 December 2020.

During the Đukanović governments, Montenegro benefited from loans from China's Exim Bank and signed contracts for the renewal of the Montenegrin fleet by the Chinese Poly Group Corporation, the construction of the Bar–Boljare highway project, and a thermal power project, to be built by a Chinese–Montenegrin consortium (see Table 2).

As previously mentioned, the Bar–Boljare highway project, the most expensive project in the region, envisages the formation of a 170 km section of a larger route (Belgrade–Bar motorway) to connect the Serbian and Montenegrin capitals. The highway crosses the entire country, from the Adriatic coast, through Podgorica to Serbia. The first section of the road, with 20 bridges and 16 tunnels through rough mountainous terrain, was contracted in 2017 for €910 million (US$876 million), amounting to one quarter of the Montenegrin GDP for that year. The project is financed by the Chinese Exim Bank and built by China Road and Bridge Corporation (Grgić 2019, p. 51). The same company seeks to complete the other two sections, worth €1.5 billion, which would again be funded through loans from China's Exim Bank. This amount is almost half Montenegro's GDP. The highway project was initially rejected by the EU and international institutions, including the IMF, on the grounds that the project would inflate the country's national debt (MANS 2018). Two feasibility studies, conducted in 2006 and 2012, showed that the project was not economically viable; however, a China-funded report, which was never made public, found the highway project viable, and saw it subsequently approved (Barkin & Vasovic 2018). The highway project brought Montenegro, for the first time, into a deficit that is higher than EU standards would otherwise allow: public debt went from 38% of GDP in 2006 to more than 80% of GDP in 2020 (Grgić 2020). Nevertheless, the DPS government went on to make new loan agreements with China.

Government-to-government agreements

Government-to-government agreements have been a means of fast-tracking Chinese investment in both countries. In Montenegro, after negotiations behind closed doors, the China Road and Bridge Corporation, which was until recently blacklisted for corruption by the World Bank (Makocki & Nechev 2017), was contracted to complete the Bar–Boljare highway project. The contract, which was agreed without an open public tender process, freed the Chinese company and all subcontractors from paying all taxes and customs duties for the import of construction materials (Tomović 2015). Moreover, the Parliamentary Committee on Economy, Finance and the Budget decided not to establish an independent oversight body for the project (Marovic 2020). The DPS government also declared numerous project-related data, legislation and documents to be confidential, and revised the Freedom of Information Act (Kovačević 2021, p. 21).

Similarly, in Serbia, most investment contracts with Chinese companies are not available to the public either (Cosic *et al*. 2015). State officials use the cover of intergovernmental agreements not being subject to the same scrutiny as regular procurement or not being covered by state aid rules (Conley *et al*. 2020b, p. 15; Kovačević 2021, p. 8). For example, in the case of the Kostolac power plant, the Serbian government blocked access to information, and the state-owned energy company censored certain pages in the project documentation (Conley *et al*. 2020b, p. 15).

The general lack of transparency, loose regulation practices and flexible public procurement rules of the Chinese projects, which are in conflict with EU rules, align better with authoritarian agendas of the SNS and DPS governments (Makocki 2017; Doehler 2019b). The large projects concluded with Chinese companies are mostly subcontracted first to the SOEs which are linked to individuals and parties in power and then to their cronies within their party patronage network in return for employment and investment promises (MANS 2017, 2018; Marovic 2020).

Corridor 11 (E-763 Belgrade–South Adriatic), a highway project connecting Serbia and Montenegro, illustrates how non-transparent Chinese contracts served party patronage networks in Serbia. This highway project was funded *via* a US$301 million loan from the China Exim Bank and built by the Chinese company Shandong, which was appointed to construct the highway without a public tender because the deal was an interstate agreement between Serbia and China. Shandong subcontracted around half the work to the Serbian construction giant Energoprojekt Niskogradnja, in which the Serbian government holds a 33% stake. Later, a Serbian consortium of three companies—Nukleus, C&LC and Inkop—linked to Serbia's ruling SNS party and which had no previous road-building experience, was secretly awarded a US$75 million contract to build one section of Corridor 11 (Cosic *et al*. 2015).

A non-transparent choice of investor, an opaque tendering process and politicised subcontracting were also evident in the Bar–Boljare highway project in Montenegro (Barkin & Vasovic 2018; Grgić 2019). Although most of the work was completed by the Chinese state-owned enterprise, China Road and Bridge Corporation, 30% of the work by value was subcontracted to a number of domestic companies linked to government officials, such as Bemax (Gallop & Risteska 2017, p. 63). Bemax had secured deals worth €240 million in the highway project (MANS 2017, 2018). This is over one quarter of the total amount planned to cover the cost of the first phase of the project. Bemax is well known for being heavily involved in business deals with the government. According to the Public Procurement Administration, Bemax was in first place in 2011 in terms of the value of its business with the state (Perović-Korać 2015). Bemax also took part in the Chinese/Montenegrin consortium for the construction of a thermal power plant with the BB Solar company, which is co-owned by Blazoc Đukanović, son of President Đukanović (MANS 2018).

Political propaganda opportunities

Chinese-funded investment projects have been used as propaganda by the Vučić and Đukanović governments, who present them to their constituents as proof of economic growth and infrastructural progress during political campaigns and to mobilise political support (Günay & Dzihic 2016; Gallop & Risteska 2017).

During the opening ceremony for the Bar–Boljare highway built using Chinese loans, Vučić described Chinese-funded infrastructure projects as symbolic of 'the awakening' under his leadership (Günay & Dzihic 2016, p. 10) and his commitment to 'Greater Serbia'.[17] Appealing to nationalist feelings, President Vučić declared another landslide victory for his SNS party and won over 60% of the votes in the parliamentary elections held in June 2020 amid concerns over the coronavirus pandemic and a boycott by the opposition (Mappes-Niediek 2020; Open Democracy 2020).

Chinese investment projects are also promoted by the DPS government in Montenegro. For example, Đukanović defined the Bar–Boljare highway as the 'project of the century'[18] leading the nation to a brighter future. Despite the anti-corruption watchdog (MANS—one of the leading non-governmental organisations in Montenegro) and the opposition being uniformly critical of the project, the DPS government strongly defended it, claiming it would contribute to the country's economic development, especially that of the poorer northern region, and promote the integration of the country's agricultural producers into the regional and world markets (Zweers *et al*. 2020, p. 32).

The DPS government also takes action to suppress MANS's anti-corruption campaigns and to mute critical voices coming from the opposition parties while promoting positive news regarding China-related media coverage (NDI 2019; Conley *et al*. 2020a). The government-controlled media reflect China as a friendly economic power providing financial opportunities and avoids mention of the low environmental standards or bad working conditions attached to Chinese projects (Shopov 2021).

The increasing visibility of China through culture, education and tourism is another factor contributing to the positive public image of China (Tonchev 2020). The Chinese-sponsored culture centre at the heart of Belgrade and the Confucius Institute at the University of Podgorica mobilise interest in Chinese language and culture.

[17]'President Vučić Attended the Opening of the "Miloš the Great" Highway', Press Office, President of the Republic of Serbia, 20 August 2020, available at: https://www.predsednik.rs/en/press-center/news/president-vucic-attended-the-opening-of-the-milos-the-great-highway, accessed 22 September 2020.

[18]Interview with the Minister of Transport and Maritime Affairs, Dnevne Novine, available at: http://barboljare.me/wp-content/uploads/2018/02/Minister-I.-Brajovic-interview_DNEVNE-NOVINE.pdf, accessed 6 March 2021.

Since 2020, China has sought to further boost its political leverage with coronavirus diplomacy and supplied the region with vaccines, medical equipment and medical personnel during the pandemic. Welcoming the Chinese aircraft at Belgrade airport carrying the largest shipment of medical aid made to Serbia during the coronavirus outbreak, Vučić criticised the lack of European solidarity while kissing the Chinese flag, adding, 'I believe in my friend and my brother, Xi Jinping, and I believe in Chinese help. The only country that can help us is China' (Simić 2020). In April 2021, the Xi government sold several million doses of the vaccine to Serbia and donated 30,000 to Montenegro (Hopkins 2021a).

In both countries, China has become one of the most prominent external actors in the eyes of the public. In a survey conducted in Serbia in 2018, China was perceived as a foreign policy partner by more than half of the participants, compared to 3% in 2005 (NDI 2019) and ranks highest as a credible investor ahead of the US, Russia and the EU as a whole (Popovic 2017). While the EU, as the biggest donor,[19] is increasingly perceived in a negative manner in the region, the public perceives China as a positive figure.[20] For example, four out of ten Serbians think China is the biggest foreign donor to the country, even though the numbers show it is the EU.[21] In Montenegro, as well, while bilateral relations with China have visibly expanded in the last decade, public support for EU membership has decreased for the first time since the Centre for Democracy and Human Rights (CEDEM) began conducting research on public opinion in Montenegro in 2007 (CEDEM 2018).

However, there are emerging concerns among civil society organisations, labour activists, the press and environmental groups in the region regarding Chinese investment projects, for several reasons. First, Chinese projects are almost always conditional on the implementation of projects by Chinese SOEs and the employment of Chinese workers, despite perceptions that China is creating local jobs (Conley *et al*. 2020a, p. 8). Several Chinese investment projects such as Zelezara Smederevo steel company and the RTB Bor mining company, provided jobs for local workers, but these outdated facilities also created excessive air pollution with considerable associated environmental costs as well as poor labour standards (Zweers *et al*. 2020, p. 48).

Second, Chinese loans in the region carry severe governance risks as they generate emerging levels of debt dependency on Chinese providers (MANS 2018; Kovačević 2021). The Chinese-funded Bar–Boljare highway project in Montenegro, often cited as a debt trap,[22] has increased resentment towards the role of China, both economically and

[19]The EU is the main donor and trade partner for the WB (73% of all trade) and the main investor in the region with more than 60% of total FDI.

[20]'Balkan Barometer', Regional Cooperation Council, available at: https://www.rcc.int/seeds/results/2/balkan-public-barometer, accessed 8 September 2022.

[21]'Serbia's Balancing Act on China', *ChinaObservers*, 5 October 2020, available at: https://chinaobservers.eu/serbias-balancing-act-on-china/, accessed 2 January 2021.

[22]Sri Lanka was given loans by Exim Bank of China to build the Magampura port. State-owned Chinese companies were contracted to build the port for US$361 million. Due to Sri Lanka's inability to service the debt, the port was leased to a Chinese company in 2017. Other countries—Bangladesh, Pakistan and Djibouti—that accepted attractive loan offers under China's BRI now find themselves under severe financial pressure to repay them ('China's BRI Promised Prosperity, Gave Debt Trap to Countries like Pakistan, Sri Lanka, Maldives', *South Asia Monitor*, 11 October 2020, available at: https://www.southasiamonitor.org/china-watch/chinas-bri-promised-prosperity-gave-debt-trap-countries-pakistan-sri-lanka-maldives, accessed 12 May 2022).

politically (Doehler 2019a). In February 2019, thousands of people took to the streets to demand the resignation of President Đukanović and the government officials involved in corrupt deals; the highway project was one of the main targets of protest (Grgić 2020; Zweers *et al*. 2020). In the August 2020 elections, the opposition parties defeated the ruling DPS; however, President Đukanović will remain in office until 2023. The new coalition government seems committed to revising the country's EU accession process and its long-delayed fight against corruption. Facing serious financial challenges, the new government has renegotiated its loans with China and asked for help in this from the EU (Hopkins 2021b).

Conclusion

This article has examined the reasons behind the weakening of the EU's transformative power and rising corruption and governance problems in Serbia and Montenegro, who had been frontrunners of European integration in the Western Balkans until the mid-2010s. In contrast to the related literature, this study has underlined the stabilising dynamics of the EU accession policies, which have both decreased the EU's transformative power and increased the scope for China's BRI-based finance and investment policies with regard to the promotion of bad governance and corruption.

The detailed analysis of the Serbian and Montenegrin cases demonstrated that the EU accession process effectively provided a 'stamp of approval' for the incumbent governments and enabled them to move further along the EU enlargement process without tackling the problem of corruption. Indeed, it was the EU's 'stability over democracy' approach that tolerated illiberal power grabs by the Vučić and Đukanović governments and enabled the consolidation of existing corrupt networks in Serbia and Montenegro. In these two authoritarian regimes, Chinese BRI-based policies have become more likely to deepen the corruption problem as they serve non-transparent deals and material incentives to the incumbents and their cronies.

The findings of this article have important implications for the EU's good governance promotion capacity beyond its borders. The empirical evidence indicates that the political patronage networks that survived thanks to the EU's stability over democracy approach were perpetuated through Chinese-funded infrastructure projects, even under the guise of EU conditionality and financial assistance. This outcome raises questions regarding the EU's ability to transform bad governance structures through its accession policies in the region, where new external players have gained in relevance in recent years.

The latest financial boost by the EU, a €9 billion Covid-19 recovery funding for the Western Balkans, came as a reaction to China's steadily increasing economic presence in the region (Cameron & Leigh 2020). Moreover, the EU decided to revive the enlargement process after it stalled following the French veto of accession talks with North Macedonia and Albania. At the 6 May 2020 EU–Western Balkans Zagreb summit, the EU gave the green light to Albania and North Macedonia to start negotiations with Brussels. The EU's apparent change in attitude to its Western Balkans enlargement strategy in the midst of the coronavirus pandemic could suggest significant changes for democracy and the fight against corruption. The recent elections in Montenegro that ended the DPS government (yet Đukanović remains as the president) are regarded as a reaction to the pervasive corruption that has been exacerbated by Chinese engagement.

However, corruption is also a problem within the EU's borders. Hungary is a prime example of backsliding in this respect (Kelemen 2020). Bulgaria and Romania have been subject to the EU's anti-corruption monitoring mechanisms since their accession in 2007 without any significant improvement in either. When massive protests started against the Bulgarian government's corrupt actions, Prime Minister Boyko Borisov blocked North Macedonia from starting EU membership talks to distract attention from his government. Whether the EU will manage to break the deadlock over its enlargement agenda for the Western Balkans is an issue of time. But what is certain is that the governance and democracy problems within the EU's borders diminish Brussels' credibility in the Western Balkans and weaken its capacity to promote good governance principles and counter the influence of China and other illiberal powers beyond its borders.

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