Danger Almost Deferred?

Chinese Corrosive Capital in Bulgaria and Romania

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Other papers in the series:

Matej Šimalčík | Oligarchs and Party Folks: Chinese Corrosive Capital in Slovakia and Czechia

Contents

Summary

- The influx of Chinese corrosive capital in Bulgaria and Romania has been lesser in scale than in Central Europe and the Western Balkans, where Beijing typically focuses its financial offensive.
- Bucharest has demonstrated greater determination in containing the negative impact of China's economic initiatives. Nevertheless, Sofia has also followed suit in adopting tougher positions against Beijing, albeit less decisively and consistently. For both Romania and Bulgaria, the EU and NATO framework of relations remains primary in shaping their stances towards third countries.
- Bulgaria's and Romania's bilateral trade ties with China have grown moderately. Bucharest maintains a more substantial trade deficit with Beijing than Sofia. China's FDI in both Southeast European states is circumscribed; yet, Chinese investment in Romania is three times larger than in Bulgaria.
- Chinese corrosive capital in Bulgaria has been concentrated in agriculture, manufacturing, infrastructure, and energy, usually leading to financial loss and lack of improvement in local employment and industrial capacity.
- The most prominent cases of Chinese corrosive capital in Romania have focused on the energy and infrastructure sectors, posing national security risks and raising concerns about financial feasibility.

Recommendations

- It is of critical importance to continue to develop a culture of entrepreneurship in Bulgaria, still beholden to the communist-era implications of state-led economic initiatives stifling individual economic activity.
- Businesses should pay special attention to promoting the values of self-reliance, transparency, and social responsibility to upcoming generations of young entrepreneurs as a key buffer against the diffusion of authoritarian state business practices that are based on corruption and dependence on state support.
- Successful and exemplary businesses need to promote a wider application of good corporate governance and ethical standards within Bulgaria and Romania.
- In terms of administration, the ubiquitous bureaucratic burdens that hamper business enterprise in Bulgaria should be reduced through comprehensive digitalization.
- The state should assist internationally-oriented businesses in the development of foreign market niches.
- Political influences and corruption in the judicial system have to be addressed as a robust regulatory framework is a key guarantee for obstructing corrosive capital and facilitating constructive investments.
- Civil society organizations should be included as partners of businesses in the oversight of the influx of authoritarian state capital.

1 Introduction

Bulgaria is located in a part of Europe that has historically been vulnerable to the authoritarian designs of Russia and, more recently, China.[1] The impact of Chinese corrosive capital on the Bulgarian economy has nevertheless remained circumscribed, as conditioned by the wider framework of Sofia's political and economic relations with Beijing.

A recent domestic political push in Sofia for greater engagement with China accompanied by local, pro-Russian networks' impetus in that direction has served as an increasingly important lever for promoting Chinese influence in Bulgaria. There is, however, a lack of a concerted and consistent domestic political strategy and a realistic economic assessment of what could be offered, gained, and lost (including the erosion of governance standards and fiscal resilience) through Chinese-Bulgarian economic cooperation, which has in itself narrowed the scope of political-economic engagement with Beijing.

Since 1989, Bulgaria and Romania have shared a similar European integration trajectory—both became members of NATO and the European Union (EU) in 2004 and 2007, respectively. Nevertheless, the two countries' attitude toward Russia, as a historically established power in the Balkans, and China, as a newcomer, has frequently diverged. Bucharest's circumspection with regard to Moscow's influence activities has recently been paralleled in a determined political push aimed at limiting the negative repercussions of Beijing's economic initiatives.

Overall, the influx of Chinese corrosive capital in Bulgaria and Romania and the accompanying deterioration of governance standards in those two countries have arguably been lesser in scale than in the case of Central Europe and the Western Balkans, where China typically focuses its financial offensive. Despite Sofia and Bucharest's different political-elite strategies and activeness toward Beijing, both capitals have prioritized the EU and NATO frameworks in their domestic and external affairs, while societal awareness of China remains low.

Corrosive Capital: What Is It?

The notion of **corrosive capital** refers here to financing, whether state or private, that lacks transparency, accountability, and market orientation. It typically originates from authoritarian regimes (i.e., China, Russia), and exploits governance gaps to influence policymaking in recipient countries.

In opposition to corrosive capital stands so-called **constructive capital**, transparent financial flows that are governed by market principles. Constructive capital results in the creation of added value for recipient economies, while at the same time promoting principles of good governance, free market, and accountability.[2]

2 Bulgaria: A Modest Leap into the Unknown

Bulgarian-Chinese political relations have been generally characterized by the narrow scope and low intensity of bilateral engagement. In recent years, however, there has been a greater impetus to deepen ties. In 2018, Sofia hosted the 16+1 summit[3] and Bulgarian President Rumen Radev further stepped up attempts to establish closer cooperation between Bulgaria and China. In a meeting with Chinese Premier Li Keqiang in July 2019, Radev lamented Bulgaria's status as a blind spot on the map of Chinese investment and singled out priority areas for cooperation, including infrastructural projects, increased financial interactions (such as the opening of a branch of a Chinese bank), and expanded collaboration in the IT sector. Chinese President Xi Jinping and Radev also upgraded Chinese-Bulgarian relations to a strategic partnership.[4] At the parliamentary level in Bulgaria, it is notable that of the committees for friendship with foreign countries, the Russia- and China-focused ones gather the largest numbers of members of parliament.[5]

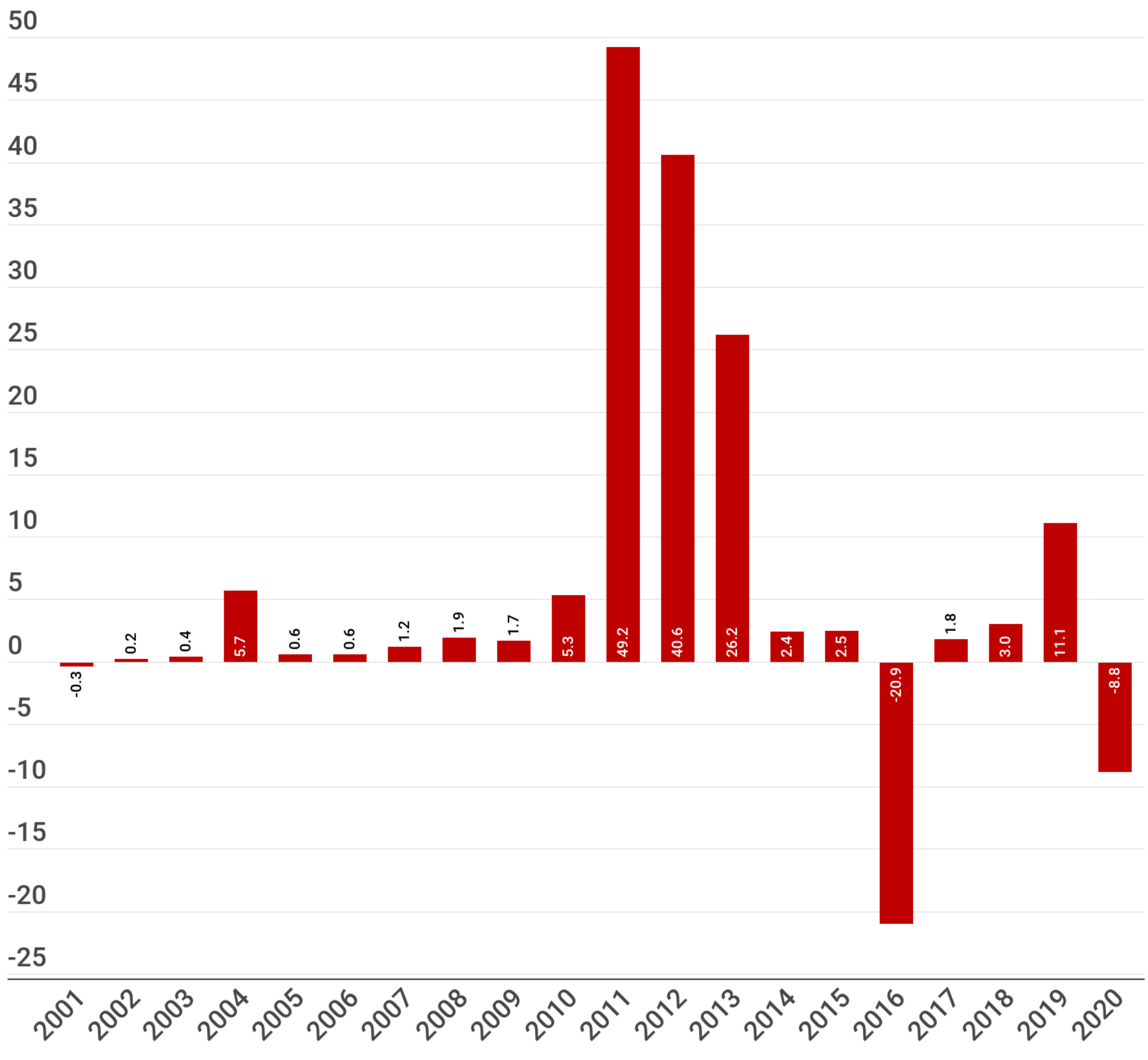
Local pro-Russian media, political, and business networks additionally act as potential enablers of Chinese influence activities. This has so far been most visible in the media sphere, where, for example, *China Today* has become a recent addition to the Bulgarian newspaper market, focusing entirely on Chinese domestic and foreign policy developments. The publisher of the newspaper, Svetlana Sharenkova, is a prominent member of the Bulgarian Socialist Party (BSP) and renowned Russophile, owning and publishing a number of pro-Russian newspapers in Bulgaria. Moreover, the chair of *China Today*'s editorial board, Dimitar Ivanov, happens to be the last head of the political police under the Bulgarian communist security service.[6]

In this political context, bilateral economic ties have expanded at a measured pace. There has been an upward trend in Bulgarian-Chinese trade relations over the 2010s. While in 2006, Bulgarian exports to China amounted to €65 million, by 2020 their value had reached roughly €800 million, marking a significant increase particularly since 2011. Imports from China have steadily risen twofold between 2006 and 2020, doubling from almost €800 million to around €1.4 billion.[7] Comparatively, Germany, Romania, Italy, Greece, Turkey, and France remain Bulgaria's top export destinations. Yet, China has increased its share in total Bulgarian exports from 0.6 percent to 2.7 percent between 2006 and 2020 so that in 2020 Bulgarian exports to China were twice as much as exports to Russia.[8]

In terms of types of goods exchanged, more than 70 percent of the products that Bulgaria exports to China consist of primary commodities—refined copper and copper mine materials make up about 75 percent of exports followed by agricultural products such as corn and sunflower seeds. On the other hand, Chinese exports to Bulgaria are much more diversified, mainly comprising manufactured goods (including lighting devices, air conditioners, phones, electric boilers, and other machinery and transport equipment).[9]

Chinese investment in Bulgaria has grown less visibly than bilateral trade, retaining a smaller than 1 percent share of total inward Foreign Direct Investment (FDI) stock and exhibiting notable fluctuations over the years. Between 1996 and 2010, Chinese FDI in Bulgaria hovered between less than €1 million and €4.9 million. In contrast, 2011 marked a peak of Beijing's investments reaching roughly €50 million. In 2014, investment dropped to approximately €2.5 million, never totaling more than €10 million since.[10]

Figure 1: **Net Chinese FDI inflows to Bulgaria (millions of €)**



Source: *Chinese FDI in Bulgaria statistics, provided to the author by the Bulgarian Chamber of Commerce and Industry based on figures from the Bulgarian National Bank.*

Mounting economic disadvantages for Bulgaria

China's corporate investment activities in Bulgaria—and their related actual or potential corrosive-capital implications—have been concentrated in a number of key sectors, including agriculture, manufacturing, infrastructure, and energy. The increase in Chinese interest and investment in the Bulgarian agricultural sector has been manifest in several initiatives whose concrete results have, however, remained limited.

Key Chinese deals included a €10 million investment by Tianjin Agribusiness Company in 80 million square meters of farmland in northwestern Bulgaria near Vidin and a €6 million greenfield investment by the same company to build a feed-production facility near Dobrich. A short while later, Tianjin Agribusiness Company withdrew due to the low profitability of the investment.[11]

Another initiative sought to establish a common e-platform to promote agricultural trade between China and the Central and Eastern European (CEE) countries in Plovdiv, Bulgaria's second-largest city. The initiative aimed to give Chinese retailers unobstructed access to a range of products from CEE without the need to sign bilateral commercial deals. Representatives of Bulgarian business have assessed that the e-platform has not significantly stimulated trade ties, particularly in the case of Bulgaria.[12] Several factors have been cited as the reason for this outcome, including discontinuity in the (allegedly politically-linked) personnel partaking in the operation of the platform and the fact that China's demand for large amounts of products cannot easily be met by the smaller scale of Bulgarian farming.

China's investments in automobile manufacturing in Bulgaria represent another stark example of the lack of financial viability and costs incurred by local businesses as a result of Beijing's initiatives. In the early 2010s, China's privately owned Great Wall Motors reached a deal with Bulgaria's Litex Motors to produce Chinese cars. Yet, the bulk of the investment was provided by the Bulgarian company and there was little benefit accrued to the development of local industrial capacity since the Bulgarian factory only assembled car parts already produced in China. The end product was nevertheless branded as being made in Bulgaria, which allowed its export to other EU countries without the imposition of customs tariffs (thus significantly reducing costs that would otherwise be sustained in case of direct imports to the EU market from China).[13]

In 2017, Litex Motors declared bankruptcy, underwritten primarily by the limited financial commitment on the part of the Chinese to develop local Bulgarian production as well as promote the relatively unknown Great Wall Motors car brand throughout Europe. Concerns about Great Wall Motors falling short of energy efficiency criteria additionally hampered its ability to establish itself in the European market.[14]

Apart from the negative financial and economic repercussions that China's business initiatives can entail, Beijing's actual or declared investments in Bulgarian critical infrastructure also raise security concerns. In 2019, the China Machinery Engineering Corporation (CMEC) (a subsidiary of state-owned China National Machinery Industry Corporation, known as Sinomach) signed a €120 million contract with the joint-stock company Logistic Center-Varna for the joint development of port infrastructure in Varna. This was announced as the first project as part of the Belt and Road Initiative (BRI) that China was going to realize in Bulgaria following the signing of a BRI memorandum of understanding in 2015.[15] Although there have been no further concrete developments regarding the investment, a Chinese-sponsored port development can pose a potential threat to national and Euro-Atlantic security. The Port of Varna forms part of NATO's infrastructure in the Black Sea; it is host to allied defense exercises and the recently created NATO Coordination Center, which conducts security information monitoring in the Black Sea area.

Overall, the main instances of Chinese investments in Bulgaria have led to financial loss, minimal improvement in wages and employment for the local population, the absence of development of local industrial capacity, and potential national security vulnerabilities. These outcomes have been informed by the fact that Chinese investors usually assume a small entrepreneurial risk, investing insufficient amounts that have to be complemented by the provision of the Bulgarian capital and state support. Such a noncommittal strategy facilitates a swift Chinese withdrawal from initiatives as they become deficient in profitability.

A bird's eye view of Chinese-Bulgarian economic relations

The prospects for mitigating the negative implications of Chinese capital and promoting constructive business ties are, however, circumscribed by wider factors that generally constrain the intensification of Bulgarian-Chinese economic interactions. As unanimously shared by experts and representatives of Bulgarian business,[16] there are significant intercultural differences and language barriers that limit Bulgarian entrepreneurs' ability to conduct successful negotiations with China. Chinese promises—which lead to disappointment when they are unfulfilled—are in reality expressions of politeness. An actual commitment is generally elicited through intensive personal contact. Additionally, the sheer size of the Chinese market often represents a hindrance rather than an opportunity to stimulate exports since Bulgarian producers cannot meet China's demands for large quantities.[17]

The more limited nature of Bulgarian-Chinese economic interactions has meant that the coronavirus pandemic has not led to serious losses. Yet, exports of certain types of goods, particularly wine, took a disproportionate hit. The lag in Chinese customs procedures for clearance of wine containers has obstructed payment, which is usually due only following clearance, while transport costs have soared exponentially.[18] This and a wider evaluation of the economic consequences of the pandemic have prompted a reassessment in Bulgaria of the wisdom of conducting trade with distant destinations such as China. There is a growing realization in Bulgaria that the primary export orientation should be in Europe due to lower transport costs and a lower likelihood of supply chain disruptions.[19] Even more importantly, the EU framework of rules facilitates intra-European trade (removing administrative and tariff burdens) and provides a safeguard against unfair foreign competition. For example, the dumping of Chinese bicycles, which was stifling Bulgarian bicycle production before Sofia entered the EU, was countered through joint action by Bulgarian policymakers, businesses, and Brussels legislators to enforce anti-dumping measures.[20] The expansion of those measures to include electric bicycles in 2019 has helped Bulgaria become one of the world's major exporters of this product.[21]

Figure 2: Ports of Constanța and Varna: Localization and key facts

Constanța

- Largest port on the Black Sea
- Public-private system of ports, owned by the Romanian state
- Commercial and passenger port
- Mihail Kogălniceanu air base, occasionally used by the U.S. and NATO forces
- Chinese pledges for investment

Varna

- Owned by public company, the state is the sole owner of the capital
- Commercial and passenger port
- Bulgarian military base at Varna
- NATO Coordination Center in Varna (for information gathering, monitoring and sharing with NATO allies but no ship placements)
- China - EUR 120 million contract for port infrastructure development

3 Romania: The China Hawk Next Door?

Romania has at various times sought to deepen political and economic ties with China. This effort has not necessarily been sustained as a result of frequent changes of government and political parties' differential attitudes to developing closer relations with Beijing (with the Social Democratic Party being more favorably disposed toward China unlike the National Liberal Party's more critical stance). Of late, Bucharest has taken a determined position that firmly sides with U.S. and European policy toward China. Notably, the Romanian government has adopted a memorandum that blocks the awarding of public infrastructure contracts to companies from countries that do not have a bilateral trade agreement with the European Union (EU).[22] The joint statement produced on the heels of the meeting between the Romanian and U.S. presidents in August 2019 explicitly mentioned the two countries' shared goal of avoiding the risks of Chinese investment in 5G.[23] Later in the same year, Bucharest banned the Chinese telecommunications firm Huawei from its networks. Romania has also halted cooperation with China on the construction of the Cernavodă Nuclear Power Plant.

Bucharest's political pushback takes place against a bilateral trade background, whereby China is Romania's eighth-largest partner in international trade. Romania maintains a much larger trade deficit with Beijing than Bulgaria. In 2019, Romanian exports to China were worth €758 million, roughly equal to Bulgaria's €800 million. Chinese imports to Romania amounted to more than €4.5 billion, exceeding by more than twofold the value of Chinese imports to Bulgaria. Romanian exports to China are more diversified than Bulgarian exports. Romanian exports include chemicals, plastic, optical products, machinery, and transport goods as well as stone, wood materials, and textiles.[24]

In terms of Foreign Direct Investment (FDI), China does not figure among Romania's top investors, which mainly include European countries—Germany, Austria, France, Italy, the Netherlands—as well as the United States.[25] Still, the cumulative value of Chinese FDI between 2000 and 2019 in Romania totaled €1.2 billion, which is three times more than in Bulgaria for the same period.[26]

Chinese corrosive capital: Risks contained

The main instances of the (potentially) negative effects of Chinese corrosive capital in Romania have been concentrated in the energy and infrastructure sectors. For example, in 2020, the National Liberal Party-led government terminated negotiations with the state-owned China General Nuclear Power Corporation (CGN) on the construction of the Cernavodă Nuclear Power Plant. The key reasons informing the decision were linked to concerns about China's influence on critical Romanian energy infrastructure and the provision of state aid subsidizing the price of electricity, which would go against the EU's framework for screening FDI.[27]

China has also expressed an interest to invest in the development and expansion of Constanța, the largest port in the Black Sea.[28] Unlike in the case of the Port of Varna, such investment interest in Constanța has been weaker but similar concerns apply to both ports. Bulgaria and Romania (along with Turkey) are NATO's only member states located on the Black Sea, hence Varna and Constanța represent critical allied naval infrastructure that frequently hosts NATO military exercises, and Chinese presence and participation there could pose a security vulnerability.

Overall, Romania has forged critical stances toward China, limiting opportunities for Chinese investments in a much more decisive and explicitly stated manner than Bulgaria. Sofia has nonetheless followed suit in taking up tougher positions regarding Beijing whenever necessary, for example, when the Bulgarian government joined the U.S. Clean Network initiative that envisages common action to protect the development of 5G from malign actors.[29]

There are, therefore, some overarching factors that are common to Bulgaria and Romania and define the general contours of their China policy. For both

Sofia and Bucharest, the EU and NATO frameworks are paramount in shaping their stances on third countries, making the two Southeast European states unlikely to go against Euro-Atlantic political, strategic, or economic priorities. Moreover, in both Bulgaria and Romania, political and societal awareness of China is circumscribed. The Bulgarians maintain broadly positive outlooks on China without, however—as with the Romanians, being especially familiar with China-related domestic and international developments. Cultural distance from Beijing and the focus of ideational affinities on Europe thus complement the primary political-strategic orientation toward the West.[30]

Figure 3: Comparison of Bulgarian and Romanian trade with China

BULGARIA

Export volume

As of 2019, Bulgarian exports to China amounted to **€0.8 billion.**

Main export products

Refined copper and copper mine minerals; corn and sunflower seeds

Import volume

As of 2019, Bulgaria imported from China goods amounting to **€1.4 billion.**

Main import products

Lighting devices, air conditioners, phones, electric boilers, and other machinery and transport equipment

ROMANIA

Export volume

As of 2019, Romanian exports to China amounted to **€0.7 billion.**

Main export products

Chemical, plastic, optical, machinery and transport goods; stone, wood materials and textiles

Import volume

As of 2019, Romania imported from China goods amounting to **€4.5 billion.**

Main import products

Machinery and electrical appliances, metals, textiles, optical goods, plastic materials

Source: *Bulgarian-Chinese bilateral trade statistics, provided to the author by the Bulgarian Chamber of Commerce and Industry based on figures from the Bulgarian National Bank; International Trade Yearbook of Romania, 2020*

4 Reining in Corrosive Capital and Attracting Constructive Financing

Zooming in on the cases of Bulgaria and Romania serves to show that exposure to Chinese corrosive capital is limited and still largely kept under control. Yet, in the future, an entry point for malign Chinese activities can be facilitated by persistent problems of democratic governance gaps and oligopolistic economic structures. Hence, to address the current and future challenges of corrosive capital, a comprehensive strategy is needed to improve the business environment, tackle state capture, and empower civil society.

Promoting Entrepreneurship Culture

It is of critical importance to continue to develop a culture of entrepreneurship in Bulgaria. According to the Global Entrepreneurship Monitor, the Bulgarian business environment is characterized by a low motivation index combined with weak intentions to start an entrepreneurial activity, which decreases expectations of amplifying the number of entrepreneurs and their positive impact on the economy.[31]

Businesses should pay special attention to promoting the values of self-reliance, transparency, and social responsibility to upcoming generations of young entrepreneurs as a key buffer against the diffusion of authoritarian state business practices that are based on corruption and dependence on state support. Such an entrepreneurial business ethic would also attract constructive capital that reinforces business integrity in alignment with international norms.

Bulgaria continues to lag significantly behind the European Union (EU) average in its level of innovation performance. Businesses should, therefore, build their innovation capacity as the primary way to contribute to the creation of a high-value knowledge economy. Bulgarian companies should in this way be able to participate in cross-EU innovative business networks that are in turn capable of competing successfully against China's growing technological edge.

Private businesses should build collaborative research and development (R&D) networks with the public sector and universities. There is a wide discrepancy between the local authorities and businesses, and the central government's perspectives on the development and implementation of Bulgaria's innovation strategy. Large enterprises continue to be the main investors in R&D. Small and medium enterprises' investments in R&D are in decline. The public, private, and university sectors have remained confined to their respective groups in terms of research.

According to the prevailing tendency,[32] the successful Bulgarian firms operate with international partners/on international markets, thus shielding themselves from domestic monopolization practices and state-capture networks reinforced through the foreign authoritarian state capital. However, successful and exemplary businesses need to promote a wider application of good corporate governance and ethical standards within Bulgaria as well as Romania, for instance, built on the model of the Center for International Private Enterprise's (CIPE's) pioneering business advocacy networks implemented in countries of the former Soviet Union. Highlighting and lauding private sector champions would additionally alert foreign investors who are willing to contribute constructive capital to national economies that have a growing base of responsible and successful firms.

Businesses should strive for an enhanced social impact so that it contributes to sustainable community development—implementing projects, including infrastructural ones, which are of benefit to the population and obviate a demand and acceptance of Chinese-sponsored infrastructural development.

Improving Transparency and Rule of Law

Tackling corruptive, state-capture networks that enable the influx of authoritarian state corrosive capital is of critical importance.[33] Its success would contribute to an improvement in Bulgaria and Romania's international image, increasing the size and quality of constructive international investments.

A crucial way in which state capture can be tackled is through the creation and strengthening of politically exposed persons regulations and repositories. Investigative media and government conflict of interest oversight bodies should work together and in cooperation with EU and U.S. partners to develop more comprehensive and widely accessible databases to flag and detail politically and business-sensitive connections to China as well as Russia.

In cooperation with its Euro-Atlantic partners, Bulgaria should strengthen coordinated corporate financial transparency initiatives targeting, in particular, offshore havens laundering Chinese, Russian, and other authoritarian states' financial flows. Moreover, transatlantic initiatives should be developed to tackle regulatory capture in the industries most strongly exposed to Chinese and Russian malign influence, such as energy, communications, and infrastructure.

In terms of administration, the ubiquitous bureaucratic burdens that hamper business enterprise in Bulgaria should be reduced through comprehensive digitalization.

As unanimously suggested by Bulgarian business experts and representatives,[34] the state should assist internationally-oriented businesses in the development of foreign market niches, for instance, through the enhancement of Bulgaria's trade representations abroad.

Bulgaria's Ministry of Education and Science should introduce in a sustained manner education on entrepreneurship in schools as a way to shape perceptions in upcoming generations about the importance and viability of entrepreneurial activity as a career pathway.

Bulgaria's rule of law deficiencies present a major hurdle to investors, particularly those from the EU and the US. Political influence and corruption in the judicial system, therefore, have to be addressed as a robust regulatory framework is a key guarantee for obstructing corrosive capital and facilitating constructive investments. In the meantime, alternative judicial arrangements, such as the Court of Arbitration at the Bulgarian Chamber of Commerce and Industry, which allows a mutually agreed selection of arbiters and functions in a faster and more efficient way, can be utilized.[35]

Safeguarding Independent Media

Nongovernmental organizations (NGOs) have a critical role to play in terms of monitoring authoritarian state-led corrosive capital activities by conducting analysis, advocacy, and forming partnerships with counterparts from across Central and Eastern European (CEE) countries to build intra-regional knowledge hubs and action-oriented coalitions.

NGOs should promote media freedom as a key bulwark against media capture by local oligarchs that advance foreign interests. Moreover, civil society and public institutions need to develop a public-private dialogue on cracking down on the abuse of social media for political ends, including by foreign powers. Civil society should work with national governments to better understand and develop joint regional and transatlantic frameworks for addressing social media regulation and citizens' education.

The independence and safety of journalists should be protected through the provision of consistent and vocal support by journalistic associations. Accordingly, the establishment of conditions favorable to the free exercise of journalism will also enable objective reporting and investigations into the malign activities of China and Russia. Such reporting would foster a critical awareness in society as to the policies of foreign authoritarian states.

Civil society organizations should be included as partners of businesses in the oversight of the influx of authoritarian state capital. Organized and led by NGOs, civil society councils, for example, can scrutinize China-related deals and contracts, given the often secretive, government-to-government nature of loan and investment agreements concluded with Beijing, while on the other hand championing constructive capital initiatives.

Endnotes

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[35] Interview by author with Tsvetan Simeonov, chair of the board, Bulgarian Chamber of Commerce and Industry, on May 31, 2021, in Sofia, Bulgaria.

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