Many a Mickle Makes a Muckle

Chinese Corrosive Capital in Croatia

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

Rumena Filipova | Danger Almost Deferred? Chinese Corrosive Capital in Bulgaria and Romania

Contents

Summary

- Economic relations between Croatia and China intensified only in years after the announcement of the 17+1 and Belt and Road Initiative.
- The most notable Chinese project in the country is the construction of the Pelješac Bridge, which became the first public procurement project in the EU, financed majorly by the European funds that was won by a Chinese consortia.
- Several other cases of the Chinese investments in Croatia are characterized by the lack of due diligence performed on the Chinese investor company, lack of respect for the investment regulations, lack of transparency and a risk of corruption. They include dead-end investments that now have little potential to return to the market.
- For an emerging economy, Croatia has low levels of FDI and this lack of capital inflow directs the need for fast action by the investment destinations in Croatia. There is a lack of information about the foreign investors and the sources of capital involved.
- Several economically futile foreign direct investments from China were stipulated by associations, such as Chinese Southeast European Business Association and former politicians, pointing to the conclusion that the same circle of people engages with the potential Chinese investors to Croatia.

Recommendations

- Private businesses should perform additional scrutiny through all available sources to assess the origins and reliability of investment capital coming from China.
- Private businesses should employ stronger ethical standards for all employees, including management, encourage and enable whistleblowing (also through the existing legislation) and anticorruption compliance measures in their companies.
- The government should as well perform additional scrutiny on companies entering the public procurement processes, and ensure complete transparency in public bidding.
- The government should improve the transparency of business regulations to improve the overall investment environment in Croatia, as well as to guarantee sufficient insight into the potential implications of foreign investments.
- The government on the national, regional, and local level should put effort in developing a comprehensive code of conduct for officials, to raise ethical standards in all levels of public governance. It should address lobbying activities more systematically and increase anti-corruption efforts.
- The government should focus on preventing overdependence on one large company in Croatian contracting bids as a policy concern for the future.
- Current FDI reporting by the National Bank does not show a clear picture on FDI influx into Croatia. The government, but also the civil society, should improve FDI reporting standards or perform additional research

and reporting to help the government assess the real extent of the Chinese capital in the country.

- Media and civil society, including academia, should enhance its interest in the Chinese investments' announcements and their realization, both through investigative journalism and academic research methods, to increase public awareness of international affairs and the Chinese engagement in the country.

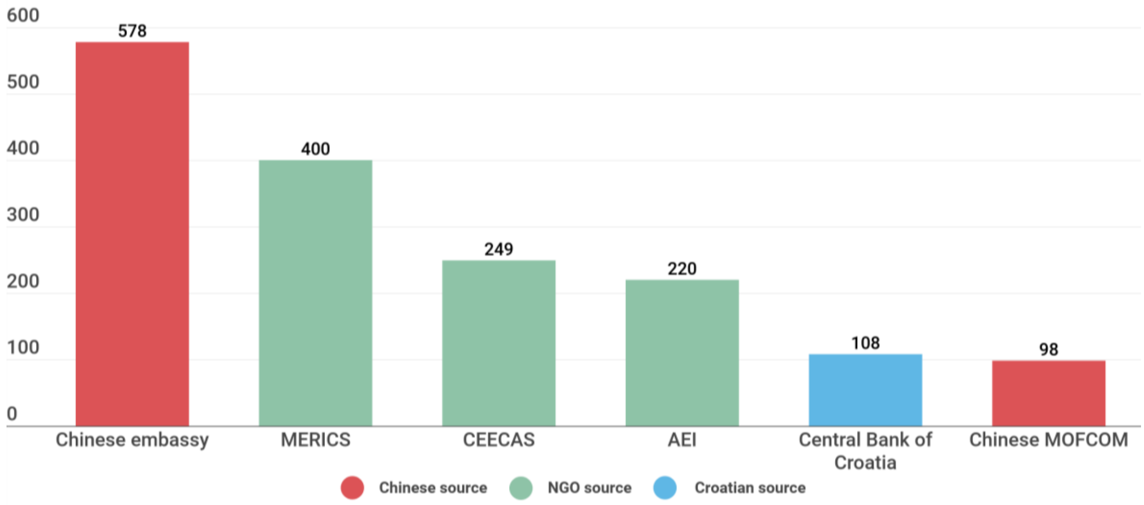
1 Introduction

Relations between Croatia and China in the last three decades were stale despite many efforts to intensify economic cooperation. Recently, the pace of political cooperation between the two countries has accelerated in the broader context of the so-called 17+1 initiative between China and the countries of Central and Eastern Europe and the Balkans.

In 2017, the first notable Chinese investment was realized in Croatia in the tourism sector. That same year, a Chinese consortium won a public tender partially financed by the European Union (EU). This implied that Croatia would be the first country in the EU to implement a politically important transport infrastructure project with a Chinese contractor using European public funding. The development raised an important question of reviewing the Chinese presence in Croatia.

This paper provides a review of economic relations between Croatia and China, including trade and investment trends, followed by case studies of corrosive capital financing or financing affected by potential long-term Chinese political influence in Croatia. It also offers recommendations to counter corrosive capital and promote constructive capital influx into Croatia, with the private sector in mind.

Figure 1: **Stock of Chinese FDI in Croatia according to various sources (EUR mil.)**



Source: *CEECAS (2021)[1]; MERICS (2021)[2]; AEI (2021)[3]*

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.[4]

2 China's Economic Presence in Croatia

Economic relations between Croatia and China deepened with the 17+1 (now 16+1) initiative,[5] embedded in the Chinese Belt and Road Initiative (BRI).[6] While trade relations between the two countries have deepened, Croatia has a large trade deficit with China. Croatia conducts more than 90 percent of its total trade with European countries; China is not (yet) among its most important trading partners.

In 2020, the volume of Croatia's imports from China amounted to €1.01 billion—China was Croatia's sixth-biggest import partner. While Croatia's imports from its most important trade partners outside the EU decreased as a consequence of the COVID-19 crisis, a significant increase was recorded in imports from China (23.4 percent) relating especially to electrical machinery, appliances, and devices.[7] In the same period the volume of Croatian exports to China, on the other hand, amounted to €82.55 million placing China in 28th place in a ranking of Croatia's global export partners. We, therefore, see a familiar pattern of trade deficit in the Croatia-China relationship, although there is a trend of increasing export and import volumes in recent years.

However, the amount of total trade between China and Croatia is nominally very small, hence it can be influenced by small changes in the structure of trade relations between individual companies. From 2016 onward, Croatian exports to China surged. This surge is attributed to transport vehicles (cargo ships and other types of vessels), which account for one-third of total Croatian exports. Other exports include machinery, electronics, and wood.

With the establishment of the 17+1 initiative in 2012, the Chinese Embassy in Zagreb presented in summits and public fora a more proactive take on boosting economic relations with Croatia, discussing the possibilities of investment and trade in the sectors of construction, communications, chemicals, energy, automobiles, electronics, and food. In a 2016 summit organized by the Chinese Embassy in Zagreb, Chinese companies expressed an interest in investing in three Croatian ports—in Rijeka, Zadar, and Ploče—that would enable the transfer of Chinese goods to European markets, as well as developing railway and highway infrastructure around some of these ports. Chinese interest in similar investments in Croatia never faded and the topic continues to be discussed by both parties in public events.[8]

Chinese Premier Li Keqiang attended the 17+1 summit in Dubrovnik in 2019. Following the summit, China's ambassador to Croatia, Xu Erwen, said bilateral relations between China and Croatia had entered a "diamond period."[9] Around this time, Croatia and China signed 10 memoranda of understanding (MoUs)[10] aimed at strengthening economic flows between the countries, including an MoU on investment, which regulated the setting up of a joint task force for cooperation in investment as part of the Joint Commission on Economic Cooperation.[11] The joint commission will invite enterprises, chambers of commerce, financial institutions, and local governments from both sides for consultations "not only on strengthening information exchange on policies, but also discussing arising issues in bilateral investment and cooperation," including consultations on how to improve the overall investment environment between the two countries, and address barriers and issues in specific ongoing investment and cooperation projects.[12]

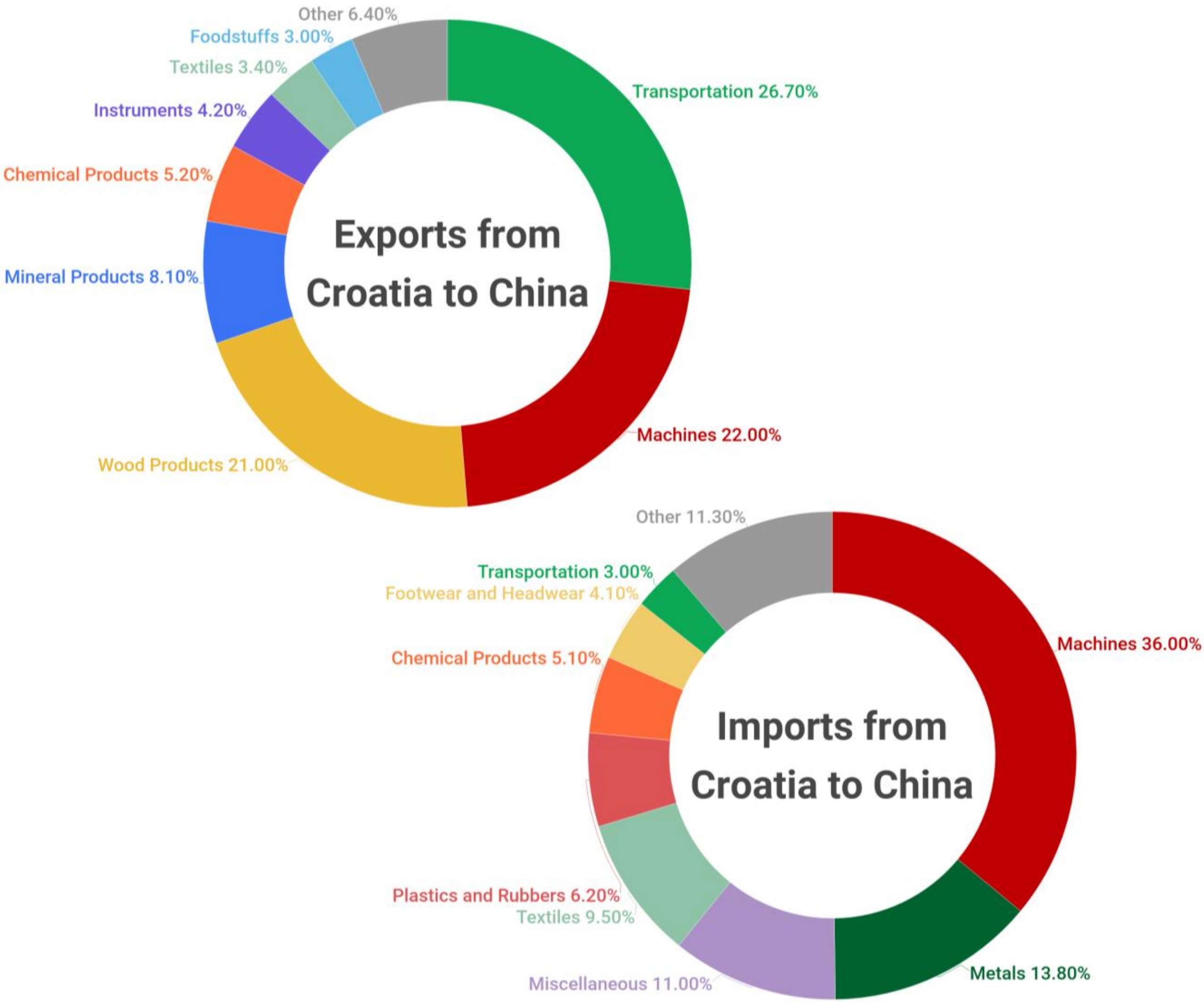
At the time of the summit, Croatia took the initiative in the field of scientific, technological, and energy cooperation with China that would encourage innovation-driven mutual investments. It also made a commitment to explore the possibility of establishing a China-Central and Eastern European Countries (CEEC) Information and Communication Technology Coordination Mechanism in Croatia. Such a mechanism would enable technical cooperation on the establishment of high-tech industrial park incubators, innovative start-ups, and smart cities, further supporting economic relations between the two countries and the broader CEE region. The commitment to the said cooperation is stipulated in the *Dubrovnik Guidelines for Cooperation between China and Central and Eastern European Countries*, accepted by the group at the summit.[13]

However, a significant variance is observed when it comes to the actual statistics of investment flows into Croatia. Based on the Chinese statistics, Croatia hosts €98.4 million of the Chinese foreign direct investment (FDI) stock (2019), while the Croatian National Bank reports €108.1 million of investment stock (2019). The largest dissonance between the official Croatian and Chinese numbers can be seen in the public communication of the Chinese Embassy in Croatia, which reports €578 million in investments in 2019. However, independent analysis shows that the actual FDI stock stands at €249 million (2021).[14] Differences between the independent analysis and the Croatian National Bank data might mean that the purchase was made through a foreign company or subsidiary, and it, therefore, does not appear in the official statistics.

Even larger variance appears when it comes to the public announcements of Chinese investments and their actual realization. Bombastic announcements about Chinese investments are often made in the Croatian public space. At the Dubrovnik summit, Croatian Prime Minister Andrej Plenković and Li announced a package of planned Chinese investments, including an investment in the now abandoned Political School Josip Broz Tito in Kumrovec,[15] the construction of a national stadium in Velika Gorica, an investment in the railway between Zagreb and Rijeka, and an investment in the old shipyard in Uljanik. Several of the proposed investments did not follow economic logic and lacked clear market orientation, especially the one in the Uljanik shipyard, an old construction that technologically lags behind for almost a century and investing into it presents no clear economic purpose. However, while the former Political School investment in Kumrovec was sold to a Chinese company for €1,88 million in 2019,[16] the other announcements were never realized. This is the case for most announced Chinese investments in Croatia that seem to be visions or plans rather than actual investments.[17] Altogether, China has invested in only seven Croatian companies or projects with investment worth more than €1 million, of which one is a greenfield investment while the others are either brownfield or mergers and acquisitions (M&As).[18]

One of the main problems in the Croatian public space (among government officials and the media) is a lack of understanding of the difference between the concept of investments and loans. Both the government and the media package the two under investments. One example of such a misunderstanding was when in 2019 the Croatian minister of health Milan Kujundžić presented a plan, in which Chinese investors were reportedly interested, to build hospitals in bigger Croatian cities. In his presentation, Kujundžić said that the "loans" would be repaid by Croatia when Chinese patients visit Croatia for treatment. However, none of the announced plans were realized.[19]

Figure 2: Structure of Sino-Croatian trade relations (2019)



Source: *Observatory of Economic Complexity*[20]

3 Influx of Chinese Corrosive Capital

The most important realized Chinese project so far is the Pelješac Bridge connecting the mainland with Croatia's exclave, the Dubrovnik-Neretva County, hence ensuring territorial continuity and avoiding the need to cross Bosnia and Herzegovina. Construction of the 2.5-kilometer-long bridge, which first started in 2007, was halted in 2012 amid corruption scandals and financial difficulties. In 2017, the European Commission agreed to set aside €357 million from its EU Cohesion Policy fund to build the bridge. This amount is 85 percent of the total construction costs.

Three international consortia submitted their bids for the bridge project in 2018. The Chinese state-owned China Road and Bridge Corporation (CRBC) beat out the Austrian firm Strabag and Astaldi and CT Ictas, an Italian-Turkish consortium, by promising to build the bridge six months quicker and nearly €72 million cheaper than the competition. The deal raised eyebrows across Europe.[21] It has also shown that China is no longer avoiding international tenders, as it previously did in Serbia.

The defeated consortia submitted two appeals against the decision—to the DKOM (State Commission for Supervision of Public Procurement Procedures) and the Zagreb Administrative Court. Both appeals were rejected. They complained about the Chinese consortium dumping pricing policy and the fact that some of the companies in the Chinese consortium were state-owned or received state subsidies to facilitate their entry into the EU market. They listed 13 items on which they claimed prices could not differ if China was not subsidizing the process. Among other things, they noted that while CRBC will spend only €428,000 on hydro isolation and asphalt, Strabag would need to spend €3.1 million for the same task.[22]

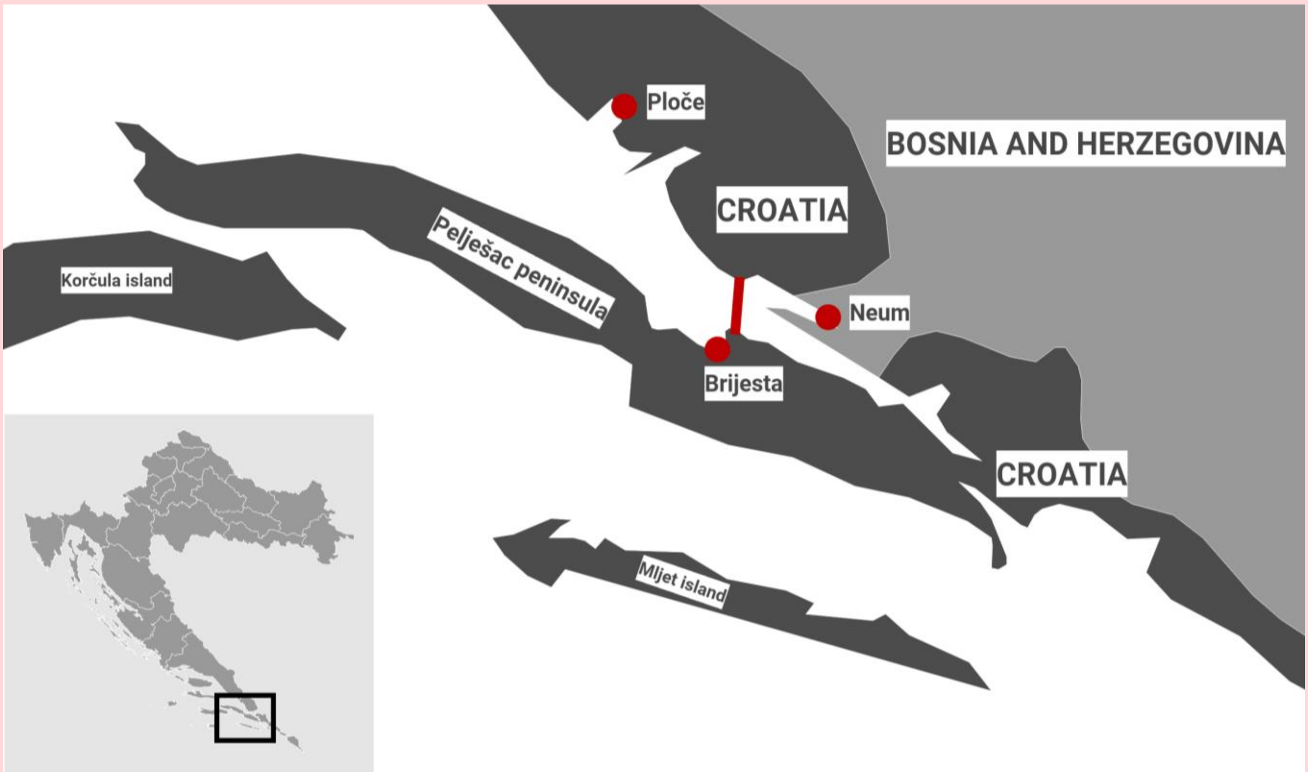
Despite an investigation into possible price dumping on the national tender, the Croatian government did not suspend work on the bridge. In fact, Croatian Prime Minister Andrej Plenković described the Pelješac Bridge as an important and strategically crucial infrastructure investment. He even expressed confidence that the bridge would be completed during his term in office and that the project would not be interrupted by the courts. Media and civil society have raised concerns about whether CRBC will follow Croatian and European labor standards expected of an EU-financed project. In 2019, Croatia's Ministry of Labor, Pension System, Family and Social Policy found 10 Chinese working on the project without work permits. CRBC was only made to pay a fine, despite the early warnings by civil society.[23]

The fact that CRBC, a non-European company, won an infrastructure public tender presents the first such case in the EU and provides an insight into possible economic and political consequences for the EU, national governments, and European contractors. CRBC's achievement is likely to pave the way for similar investments by Chinese companies. The bridge project will represent an important advantage for CRBC when it competes for future tenders in the EU.

The Pelješac Bridge project can be seen as China testing the waters using methods it has already successfully employed elsewhere in the world— for example, in Africa. Typically, the contractors on public bids are not looking for profit maximization—their bids are unusually low and Chinese policy banks provide the financing. This financing helps Chinese companies acquire the experience needed to deal with the legal and political specifics of European countries. Later, the contractor seeks to enter the market of neighboring countries that have a similar political and cultural background, such as in the Balkans region. This mode of entry produces negative results for European companies. The European construction sector still largely relies on SMEs, which are not able to use export credit agencies or financing for projects outside the EU—these SMEs cannot rely on loans or subsidies—that would allow them to bid for projects with significantly lower prices.[24]

A significantly different, albeit nontransparent, investment by the Chinese private investor Hu Jiangxiong with the company Luxury Real Estate took place in the Croatian transport infrastructure sector. The company wanted to invest in the Port of Zadar (another strategically important infrastructure for Croatia), which had performed poorly economically over the period 2015-2017.

Figure 3: Pelješac bridge – localization and key facts



Location:	Dubrovnik – Neretva county
Length:	2 404 meters
Cost:	€550 million
Funding source:	EU Commission (€357 million) Government of Croatia (€193 million)
Construction by:	China Road and Bridge Corporation
Construction start:	30 July 2018
Construction end:	28 July 2021
Opening:	June 2022 (expected)

In August 2018, Hu and three other Chinese citizens—Wong Wai Leung, Qi Yuehua, and Wu Yongdong—joined the new supervisory board of the Port of Zadar after the recapitalization happened in July. The recapitalization of almost €6 million by Luxury Real Estate gave Hu 75 percent of the shares in the port. Mario Rendulić, president of the Chinese Business Association of Southeastern Europe (CSEBA), joined the supervisory board as its new president. The new board said the Port of Zadar would take over a part of the traffic and cargo of Chinese companies that are now with the Port of Koper in Slovenia. The board has also recognized the Port of Zadar as an important part of China's BRI.

About Chinese Business Association of Southeastern Europe

The name of the Chinese Business Association of Southeastern Europe (CSEBA) often comes up in discussions on Chinese investments in Southeastern Europe. CSEBA's mission is to "provide the basis for economic and financial cooperation between China and the countries of South-Eastern Europe, including: Croatia, Bosnia and Herzegovina, Serbia, Slovenia, Montenegro, FYR of Macedonia, Kosovo, Romania, Bulgaria, Albania, Greece, Turkey, Ukraine, Moldova, Belarus, as well as the countries of: Georgia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan and Russia… CSEBA is cooperating with independent consultants, professionals in various sectors, government officials and law firms in all Southeast European countries — which forms a consulting mechanism working on the principle of the client's requirement that is able to provide operative support (information, legal support, logistics, business strategy) at the local level in each country."[25].

For the purpose of recapitalization (fresh capital investment), the General Assembly of Shareholders had to be convened and propose recapitalization. Other shareholders were not invited to raise fresh capital. This infuriated small shareholders who have since filed criminal charges in Croatia and Slovenia (the port's current owners are Slovenians). Hu defended himself claiming that he did not intend to squeeze anyone out but was simply motivated by the fact that the port's business is not going well and that it urgently needed capital injection. However, according to media reports, the port's financial situation was much better than Hu would have the public believe.[26]

The same investor also offered "quick" money without an official offer to save a publicly-traded company, Agrokor, in Croatia. The Agrokor Group had an annual sales revenue of €6.5 billion in 2015, which made it the second-largest retail and eleventh-largest overall company in Southeastern Europe.[27] As of December 31, 2017, Agrokor employed around 51,000 people. The company had a sole owner, Ivica Todorić, who served as the company's chief executive officer until April 2017. In March 2017, when Agrokor's financial difficulties became untenable, the government of Croatia hastily passed the Law on Extraordinary Administration Procedure in Enterprises of Systematic Importance for the Republic of Croatia, with which it forestalled the bankruptcy, with Agrokor effectively falling under the control of the government. During that time, Hu met Todorić at Agrokor's headquarters and offered to take on €2 billion of debt, immediately enabling Agrokor's normal operations. His only condition was that the company make a public offering of shares on the Hong Kong Stock Exchange within a certain period of time. Todorić, however, set a condition that €70 million be paid into the company's account within the next 24 hours. Hu agreed but told Todorić it would take three days to transfer the money. The investment was canceled, but the case remains a prominent example of cooperation among oligarchs.[28]

A third example is an investment in the former Political School Josip Broz Tito in Kumrovec. Yugoslav politicians once studied socialist theory at the institution, which was later remodeled into Hotel Zagorje.[29] It now lies abandoned. A Chinese investor, Zhongya Real Estate, bought the building and estate on a public tender for €1.88 million.[30] Negotiations were conducted with the support of Krapina-Zagorje County Prefect Zeljko Kolar and Kumrovec Mayor Robert Šplajt. Zhongya Real Estate's owner, Yu Jiang, in 2019 announced the imminent start of renovations of the dilapidated building for the purpose of tourism. Zhongya Real Estate is supposedly a subsidiary of a larger Chinese multinational, Z-Run WellTon Industry Co., Ltd.,[31] which was supposed to make another big investment in the new football stadium of Velika Gorica and additional investments in the future amounting to €100 million. However, none of these investments has taken place and no data can be found about the company's financial reports in Croatia; the Croatian government also has not made any such data public. Z-Run WellTon Industry Co., Ltd. is a "large-scale comprehensive enterprise approved and established by the State Administration for Industry and Commerce," according to the company's website.[32]

The company failed to make the first payment for the buy of the former Political School and asked the government to postpone the payment deadline. Zhongya Real Estate requested Croatia's Ministry of State Property for an extension of the deadline to pay contractual obligations. It cited the current unfavorable political situation between the Hong Kong Special Administrative Region and Beijing, which it said had made it difficult to transfer funds. The ministry considered the request and extended the deadline for the buyer to fulfill its contractual obligations to November 11, 2019. The payment had still not been received at the time of writing, and the status of the real estate remains unresolved.

Stjepan Mesić, who served as Croatia's president from 2000 to 2010, stipulated this economically futile investment.[33] The website of Z-Run WellTon Industry Co., Ltd. notes that Yu, Zhongya Real Estate's owner, talked with Mesić about investments in special economic zones in Croatia, tourism, real estate, and infrastructure. Today, Mesić serves as a senior adviser to the China Centre for Contemporary World Studies and an adviser to BRI projects. Commenting on the Chinese capital in Croatia, Mesić said that "one should know how to take advantage of the situation because China is charged with capital."[34] He went on to say that during his presidency he "offered to them [the Chinese] to build a lowland railway, when arranging the arrival of the Chinese President Hu Jintao to Croatia. The president promised to come." Mesić also revealed that Yu's visit from

Beijing was realized through CSEBA, which “holds information on possible investments in Croatia.”[35] Mesić made it clear that the former president played a big role in the deal to buy the former Political School and was supported by the two local politicians, Kolar and Šplajt.

Rendulić, CSEBA’s president, also serves as a director of Zhongya Real Estate in Croatia. Interestingly, Rendulić stipulated Chinese investments in the Port of Zadar and its hinterlands. Zhongya Real Estate’s owner, Yu, met the mayor of Zadar County Božidar Longin on several occasions and discussed investments in the port and its surrounding economic zone.[36]

4 Countering Corrosive Capital and Promoting Constructive Capital

This report provides several lessons learned that focus on improving the local economy in Croatia, as well as the overall investment environment.

Responsible Businesses

When it comes to private investments, the case of the former Political School Josip Broz Tito shows the impact of a lack of due diligence by the investment destinations. This is true also when it comes to private companies in need of fresh capital, as in the case of the Port of Zadar investment. The latter case can be observed also for the lack of respect of the current legislation tying the private investors when entering the company.

There are several explanations behind both observed phenomena, the lack of due diligence investigation and the lack of respect for the investment regulation. An OECD report notes that Croatia has low levels of public and private investment for an emerging economy with unmet needs and still feeble participation in global value chains. It is, therefore, likely that the lack of capital inflow into the country directs the need for fast action by the investment destinations.[37]

Moreover, the American Chamber of Commerce in Croatia (AmCham Croatia) states that among other factors, it is the lack of transparency of business regulations and their application that harms the overall investment environment in Croatia. Both investors and investment destinations hence face a lack of capacity or insufficient insights into the potential implications of an investment.[38]

AmCham Croatia also cites a risk of corruption in business and on different levels of public governance.[39] Historically, the business community in Croatia has identified corruption in health care, public procurement, and construction, and continues to cite it as an obstacle to foreign direct investment (FDI). However, in the years leading up to EU accession in 2013, Croatia invested a considerable effort in establishing more appropriate legal and institutional anti-corruption frameworks. Croatian prosecutors have secured corruption convictions against several high-level former government officials, former ministers, other high-ranking officials, as well as senior managers. However, many of these convictions have later been overturned.[40] AmCham Croatia recommends continuous improvements in the mentioned areas with higher corruption risks. This should not only be the aim of the government, but also the focus of the private sector, so as to improve the overall business environment in the country.[41]

An especially troubling observation when it comes to Chinese investors is the lack of information and the unreliability of whatever little information is available about the sources of money of the Chinese company looking to invest. This showcases the lack of parity between Europe and China, as the Chinese counterparts work with more transparency-oriented European companies. Therefore, companies engaged in investment relationships with an authoritarian state or companies supported by the state should focus on scrutinizing the source and reliability of capital influx before entering investment obligations. A failure to do so could mean that the private company might find itself in the position of a promised investment going economically futile for years, with the consequence that the investment destination is unable to return to the market to find a more suitable investor and instead lies trapped in investment complications and unexploited. Connected to the need for due diligence, companies should also avoid agent associations tied to other futile investments, such as in the case of CSEBA, which was involved in several dead-end investments that were nontransparent and ended in lawsuits by the affected actors.

One solution to reduce opportunities for corruption is to implement strong ethical standards for all employees, including the management of companies. Businesses should also encourage whistleblowing when it comes to possibly gray-zone investors or investments—engaged in previous corrosive behavior or cooperation with agents, former politicians, and/or oligarchs—which openly engage in corrupt behavior (e.g., publicly “offering” a win to the Chinese on a public tender for a lowland railway). Although Croatia is on track to address some of these shortcomings with the recent passage of a whistleblower protection law, which requires businesses with more than 50 employees to establish internal channels to report irregularities, such mechanisms are yet to be implemented.

A step further would, therefore, be to improve awareness among companies (including SMEs and SOEs) of Croatia’s new whistleblower protection legislation, with the responsible agency advising and assisting companies in their effort to establish internal channels to report potential wrongdoings. This awareness could be spread through, for example, seminars, guidelines, and other forms of systematic guidance. Making anticorruption compliance part of one’s corporate culture is the best way to prevent corrupt acts before they happen.

Promoting Good Governance and Transparency

The study of the Pelješac Bridge public tender reveals that the government exploited a loophole in the existing law on public procurement to push through a deal before the lawsuits on the protection of fair competition were concluded, disregarding a possible concern from two other international consortia and several warnings from European bodies (especially the European Parliament). Moreover, the government never performed additional scrutiny of the Chinese company for price dumping before awarding the contract.

Some elements of a well-functioning and transparent framework for state-business interactions are, therefore, still missing. The role of the national government, in this case, should be to ensure complete transparency in public bidding by conducting additional scrutiny of bidding companies to prevent unfair competition and risks of corruption in public decision-making. Despite the many encouraging steps taken, corruption is perceived to be especially widespread, with local governments being particularly vulnerable due to the lack of additional actions to promote stronger ethical standards among local officials. As local officials and employees are, with a few exceptions, not bound by any integrity standards, this may easily lead to conflicts of interest or favoritism. Furthermore, while Croatia has made progress in improving the political financing system over the last few years (notably by setting limitations on donations and subjecting political parties to auditing), lobbying activities have not yet been addressed.

Anti-corruption efforts could include developing a comprehensive code of conduct for officials at the regional ("županija") and local level, as well as a code of conduct for parliamentarians. A further step should implement corresponding accountability tools and sanctions for violations of such codes. Lobbying activities should be regulated and the capacity of existing control mechanisms with respect to public procurement strengthened, especially in the public procurement sector. The government should also work on a public communication strategy to publicize the new measures. This should increase trust in the overall investment environment in Croatia.

Moreover, preventing overdependence on one large company in terms of contracting capacity should be a policy concern in the future, if national governments want to protect and strengthen their strategic autonomy.[42] If the case of the Pelješac Bridge becomes common practice and Chinese companies outperform non-Chinese counterparts, European governments would become dependent on a small number of Chinese companies for large-scale projects. In the future, a risk for European governments would be that the condition for enjoying good diplomatic relations with China would be to carry out major (strategic) infrastructure construction by the Chinese firms.

Lastly, when it comes to FDI statistics provided by national governments, it is clear that the central bank data in the case of Croatia is lacking. Independent research into each investment shows a whole different picture of the extent of FDI in the country. This might mean that the investment was made through a foreign company or subsidiary, and it, therefore, does not appear in the official statistics. Improving FDI reporting standards or performing additional (qualitative) reporting to reduce information asymmetries would help governments assess the real extent of the capital influx into their country.

Experts and Journalist Chiming In

Media reporting in Croatia is especially lacking when it comes to Chinese investments. While media reports the announcements of possible investments, especially when announced by the national or local government in Croatia, it rarely reports on the results — Did the investment really happen and how? Which actors are involved and how are they connected to each other? Civil society should tap into the potential of investigative journalism.

Academia, too, does not explore transnational flows of capital from China to Croatia. There are only a few academic experts on China, and they are often not engaged with the media. Greater engagement would make the public more aware of international affairs in general and China's actions in particular.

Endnotes

1 See Chinese Investment in Central and Eastern Europe by Central and Eastern European Center of Asian Studies (CEECAS), Budapest.

2 Kratz, Agatha and Max J. Zenglein, Gregor Sebastian. 2021. Chinese FDI in Europe: 2020 Update. MERICS Report, June 2021.

3 See China Global Investment Tracker by American Enterprise Institute (AEI)

4 Adapted from the Center for International Private Enterprise's (CIPE's) "Corrosive & Constructive Capital Initiative."

5 The 17+1 initiative was a special cooperation platform between China and Central and Eastern European Countries (CEEC), which emerged after the first China-CEEC Economic and Trade Forum held in Budapest in 2011 (Tzogopoulos, 2020). However, Lithuania left the 17+1 Initiative in May 2017, leaving the 16 countries, now again gathered in the 16+1 Initiative. It now includes 16 countries (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia, Slovenia, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia, and Greece) and China. It is declared to be the Eastern European platform for implementation of the Belt and Road Initiative (BRI), and it includes a whole range of institutionalized cooperation in the field of economic, political, and societal policies between China and the 16 countries, realizing in specific projects. See more in Grieger, Gisela. 2018. "China, the 16+1 format and the EU." September. European Parliament.

6 The Belt and Road Initiative (BRI) is a Chinese initiative that seeks to stimulate economic development in a vast region covering Asia, Europe, Latin America, and Africa. Initiated in 2013 and led by the Chinese government, BRI is devised to reconfigure China's external sector in order to continue its strong growth. It is leveraging the historic spirit of the ancient Silk Road, increasing especially economic, political, and cultural exchanges among the countries included. It encompasses development of land and sea trading routes, as well as digital and air cooperation, an increase of investments made by Chinese companies, and greater policy coordination among the included governments and China. BRI is not a specific step-by-step strategy, but rather a portfolio of projects linked by an ambition of increasing connectivity, facilitating trade and investment, and, especially, permitting Chinese companies to go global. See more in Huang, Yiping. 2016. "Understanding China's Belt & Road Initiative: Motivation, framework and assessment." *China Economic Review* 40 (September): 314-321.

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9 Ibid.

10 During 2018 and 2019, eight MoUs, cooperation plans, and programs were signed between Croatian and Chinese ministries. These covered the areas of culture, tourism, sport, science, economic cooperation, and medicine.

11 Government of the Republic of Croatia. 2019. "Croatia and China open ambitious chapter in economic and trade relations." April 10, 2019.

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15 The League of Communists of Yugoslavia established one of the most prestigious schools of political learning of Marxism and socialism in the country in the small village of Kumrovec, deep in the Croatian countryside.

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19 In terms of nontransparent and debt trap loans, other non-EU Balkan countries (which do not have access to EU credit packages) are more interested in accepting loans from Chinese banks. Serbia and Montenegro, for example, have concluded the largest number of credit arrangements with China, primarily in the infrastructure segment built and financed by Chinese state-owned/supported companies. See more in Orešić. "Jedan pojas."

20 See What does Croatia import from China? (2019) and What does Croatia export to China? (2019) by Observatory of Economic Complexity.

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[29] The Political School Josip Broz Tito was founded in 1975 as the central educational institution for the staff of the Communist Union of Yugoslavia. Tito said that the school was needed to give party members a stronger theoretical education: "You see, we have a huge number of people who are good communists, but in terms of theory, [they are] weak. It must—must—be fixed. The basics of Marxism must be known," Tito said in July of 1976. See more in Vladisavljević. "Tito's Political School."

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