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**China's Geopolitical Aspirations and  
Serbia's Role in the One Belt, One Road  
Initiative**

*Analyzed Through the Context of the Heartland Theory by  
Halford John Mackinder*

*Master's Thesis*

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## **Abstract**

This thesis seeks to answer the question: To what extent is the Heartland theory capable of predicting China's foreign policy, specifically with regard to Serbia and its influence on their relations with the European Union? The analysis conducts an economic and geopolitical analysis on Serbia and China, distinguishing Serbia as a key state in China's aspirations in controlling the Heartland. Serbia's geographical position, historical neutrality between the East and West, hostility towards the EU and its role as the entrance into Eastern Europe makes it a unique case study. Inquiring into investment across the region between China and Serbia allows an understanding of whether Serbia is over or underestimating the effect of new Chinese relations. Serbia is in dire need of financial investment, but is unable to implement all of the EU policies stipulated to receive EU funds, and thus Chinese investment with minor political requirements makes it an ideal option. The spillover effects need to be analyzed and these indicate that they will hinder Serbia's accession process through the presence human rights violations, requiring a unified European response to China instead of bilateral negotiations as they currently are.

## **Keywords**

OBOR, One Belt One Road, China, Serbia, EU, European Union, Heartland Theory

**Range of Thesis:** 66 pages, 94544 characters

## **Declaration of Authorship**

1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.
2. The author hereby declares that all the sources and literature used have been properly cited.
3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

Prague ... **May 5, 2018**

**Vedran Kuljanin**

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# Master Thesis Proposal

Institute of Political Studies  
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**Proposed Topic: China's Geopolitical Aspirations and Serbia's Role in the One Belt, One Road Initiative: Analyzed Through the Context of the Heartland Theory by Halford John Mackinder**

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## **Topic Characteristics / Research Question(s):**

This thesis seeks to answer the question: To what extent is the Heartland theory capable of predicting China's foreign policy, with specific regard to Serbia and its influence on their relations with the European Union? The analysis conducts an economic and geopolitical analysis on Serbia and China, distinguishing Serbia as a key state in China's aspirations in controlling the Heartland. Serbia's geographical position, historical neutrality between the East and West, hostility towards the EU and its role as the entrance into Eastern Europe makes it a unique case study. Inquiring into investment across the region between China and Serbia allows an understanding of whether Serbia is over or underestimating the effect of new Chinese relations. Serbia is in dire need of financial investment, but is unable to implement all of the EU policies stipulated to receive EU funds, and thus Chinese investment with minor political requirements makes it an ideal option. The spillover effects are necessary to be analyzed and indicate that they will hinder Serbia's accession process through the human rights violations present, requiring a unified European response to China instead of bilateral negotiations as they presently are.

## **Working Hypotheses:**

1. China's OBOR project is a pretext to their advancement in capturing the Heartland
2. Chinese investment conducted through bilateralism serves to weaken each individual European state in their negotiations with China
3. Chinese investment will serve as an additional tool in dividing Europe by political spillover effects in Serbia which will hinder its progression in the EU

**Methodology:**

Concerning the economic literature on investment within Serbia and Central Asia by China, basic international trade analysis will be conducted. The primary focus being a political analysis means the use of the Heartland theory will be the main method of analysis. In a theoretical analysis of the state of the Balkan political economy, I will look at the affect that financial assistance from Europe (Investment with ethical, moral and standardized requirements) has when compared with financial assistance from China (Minimal institutional requirements, extremely liberal and low state standards) in direct discussion with the corruption of the governments of the various Balkan states.

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## **Abstract**

The aim of this thesis is to provide an in-depth analysis on the projected nature of China's One Belt, One Road (OBOR) initiative through Chinese engagement in Eastern Europe, with a particular focus on Serbia. The current geopolitical situation provides a unique opportunity for the use of the Heartland Theory, first presented by Halford John Mackinder in 1904, which outlines and justifies state expansion across Eurasia.

The main objective of this thesis are to discuss possible outcomes for Serbia following increased Chinese investment and to provide a recommendation for a European response. Being an adjacent nation of the Heartland, a potential future member of the European Union, and currently balanced between Europe's and China's pull, Serbia has become a unique and important state to consider when assessing China's intentions in Europe. China's continued economic and political rise in recent years has allowed them to become influential in nations previously untethered to China, and has ominously begun to follow the footsteps that Mackinder had predicted a century prior. Although the theory suggests a nation's intent to rule the world, which one could argue China is pursuing, the aim of this thesis is in fact to uncover and illustrate the effects that China's potential advance to world domination will have on Serbia's aspirations to join the European Union (EU).

Through this analysis, Chinese intentions in Serbia are more clearly realized and additional context is provided to the global debate about China's role in Serbia and neighbouring nations. In concluding, a justification for a unified response by Europe to counter Chinese global aspirations is provided in an effort to limit the consequences and effects of Chinese investment.

# 1. Introduction

The announcement of the One Belt, One Road initiative in 2013 by Chinese President Xi Jinping outlined China's interest in creating a more globalized world through enhanced connectivity, but has left Chinese intentions ill-defined and potentially ominous. Analysts have addressed the China question with a diverse range of theories, however, this paper will argue that the Heartland Theory has become the most relevant with the rise and expansion of China through their OBOR initiative.

Thus, the central premise of the paper is to explore the question: is the Heartland Theory influential in dictating the foreign policy of China? If so, the paper will uncover if Chinese investment and their newly built infrastructure in Serbia will serve as a tool of division between the European Union and the non-EU Balkan state. Mackinder had stated: *Who rules East Europe commands the Heartland; who rules the Heartland commands the World-Island; who rules the World-Island commands the world.* Therefore, China's expansion around the Heartland and its prioritization of Eastern Europe make the Heartland Theory an appropriate tool of analysis. Additionally, China's utilization of Serbia as the "gateway state" into Eastern Europe, Serbia's EU-waiting list status and natural sympathies towards the East, make it both necessary and important to analyze the consequences of Chinese investment in Serbia.

Within the realm of International Relations, interest in China has returned with the announcement of the OBOR initiative; however, there is a lack of published academic work outlining consequences of China entering peripheral states around Europe's sphere of influence. Particularly, the Heartland Theory has never previously been applied when assessing European nations interested in both joining the European Union as well as receiving funds from Chinese investors. Therefore, a literature review presenting the current academic discourse on this topic will be addressed, followed by a detailed political and economic background. To conclude, an analysis through the application of the Heartland Theory will follow with a recommended course of action to counter-balance China.

## **2. Theoretical Framework**

### **2.1. The Heartland Theory**

Halford Mackinder's geopolitical concept 'The Heartland Theory' utilizes geography to explain the economic and political success of the global regions. Mackinder claimed that the core of international influence lies in a Eurasia following its wealth in terms of natural resources, geographic size, and the large population. Therefore, to understand the structure of international politics of the 21st century, a geopolitical analysis on China and its region of interest is necessary.

Mackinder defined this region as the Heartland, and he hypothesized that who rules Eastern Europe commands the Heartland, who commands the Heartland rules the world island, and who controls the world island controls the world (Chowdhury & Hel 2015). From the theory, it is clear that the grounds for global political rule lie on the domination of Eurasia, with the precondition being the domination of Eastern Europe.

The Heartland hypothesis has often been disregarded as outdated due to the emergence of modern trade, warfare, and politics. Such a sentiment is expressed by Fallon (2015) as he claims that Mackinder developed his theory in the historical context when there was intense conflict between sea and land powers. His arguments are based on the belief that air transport has greatly transformed international trade. With his bold declarations, he adds that it is still the most appropriate theory to explain China's OBOR plans. The fall of the USSR meant that Russia would spend the next decades rebuilding its state, and since then, no state has controlled the region de facto; this paper will therefore argue that China is the largest and closest to becoming the ruling power of Eurasia.

Although the Heartland is almost entirely surrounded by natural barriers, specifically around its northern, southern and eastern flanks, the western flank of Eastern Europe opens on the open north German plain. See Appendix D for a full map outlining the Heartland Theory.

Eastern Europe was therefore historically the doorway into the Heartland and any conquest of the Heartland was likely to begin with control of that region. Thus, Mackinder had recommended the division and restriction of Eastern Europe by advocating for the establishment and protection of new European states to form a buffer zone between Germany and Russia. This geographical analysis of the Heartland helps illustrate Mackinder's statement "*Who rules Eastern Europe rules the Heartland*".

Unsurprisingly, Mackinder had viewed Germany and Russia as the prime candidates most likely to dominate the region. However, Mackinder also noted in 1904 that a China that conquered Russia could be a Heartland ruler and would be a particularly dangerous candidate because they would have superior mobility throughout the Heartland with an extensive coastline to add. Regardless of the identity of the Heartland power, its geographical advantage makes it a threat to all nations, with Mackinder's theory serving as a warning instead of an inevitability.

In today's geopolitical economy, Germany is more interested in maintaining a strong European Union that allies all European nations with no territorial expansionist aspirations. Therefore, although Germany is a candidate to rule the Heartland, its current political climate indicates that they are not a *legitimate* candidate. Similarly, although Russia is also a candidate to rule the Heartland, given the international sanctions imposed on them, its current economic climate indicates that they *too* are not a legitimate candidate. Thus, of the three capable nations, only China in this moment of time qualifies to pursue rule of the Heartland as Mackinder had predicted.

Two unique qualifiers have arisen that create a new demand for research on the Heartland Theory regarding Chinese aspirations. The first being that Mackinder had stressed the importance of building up China to help help fight off a dominant ruler of the Heartland. This has proven to be a double-edged sword, in which China has now become a legitimate candidate in pursuing conquest of the Heartland itself.

The second is that by creating a divided Eastern Europe, we now also have a weak and poor Eastern Europe, far more susceptible to economic control than military control. In turn, this buffer zone has the potential to shift into a “China-friendly” region; this is already being formally capitalized on by China through the creation of their CEEC 16+1 initiative. Although the Heartland Theory had previously been advocated on behalf of military means, China is capable of achieving political results through economic means under a more positive pretext.

For China to convince Eastern Europe that they are an appropriate investment partner, they will need to continue to provide projects in nearby Serbia to showcase their abilities in hopes of gaining access to the Eastern European market. Thus, China will be analysed in the context of the Heartland theory to address the effect it will have on Serbia through their large investments.

## **2.2. Theory Limitations**

In using Mackinder’s Heartland theory, one must consider limitations directly implied by the theory itself. First, Mackinder had not accounted for shifts in power; by utilising the Heartland theory, the assumption is that “*who rules the Heartland*” will *still* rule the world in the future. This assumption is yet to address the growth of the United States as the largest superpower in the world with the ability to individually shift power relations in any region globally. In this, an appropriate question to ask is whether or not America can influence the European Union’s actions towards China or Serbia, or more radically, if it can become in itself the new “Heartland”.

If North America proves to be the most significant region with the dominance of the United States unchanged, what does that mean for a theory that is based on Eurasian significance? If China's OBOR project does not achieve the economic and infrastructural results the world is expecting, Eurasia will continue its global position as a "medium power region", at which point one may notice that there is no ruler of the Heartland, and yet a superpower like the United States, still rules the world.

The theory also does not take into account informalities that may alter the power-structure within any given region. If one considers Israel, a lack of evidence is provided by Mackinder in proving how they have become such a powerful state within the Middle East, given their very small territory, population and lack of resources. Mackinder's theory, therefore, does little to distinguish between geographically-gifted states and those like Israel who survive off a special and close relationship with another state (in this case, the United States of America).

Thus, when considering Serbia, one can note a special relationship between the small Balkan state with the everlarge Russia in Eastern Europe that share a very close friendship. In this case, we should not assume that Serbia will forever be propped up by Russia, but rather acknowledge that the possibility of Russia pushing them away from China (if it threatens Russian influence) is real, and is unexplainable by Mackinder should it occur.

### **2.3. Theory Assumptions**

Two assumptions are declared given the nature of the research question at hand:

1) China will continue to focus solely on economic and political relations and not consider adapting the OBOR initiative into an umbrella project that incorporates military expansion, and;

2) China will continue to use Serbia as the preferred state in the Balkan region to invest in and will not switch priorities to any of the other non-EU Balkan states along the rimland (Albania, Bosnia and Herzegovina, Kosovo, Macedonia, or Montenegro).

### **3. Background**

#### **3.1. The One Belt, One Road Initiative**

In March 2013, Chinese president Xi Jinping detailed the plans of what would be the country's largest economic and trade expansion initiative 'One Belt, One Road'. This infrastructure will connect Europe, Asia, Africa, and the Middle East with a vast transport and logistics network comprising of ports, roads, pipelines, railway tracks, transnational electric grids, fiber optic lines, and airports. On the surface, it is a project that will allow the regime to construct a colossal multinational zone that will allow China to remain pivotal in the global realm of economics and geopolitics (Harper 2017).

When OBOR was announced, it was said to be the modern revival of the ancient Silk Road that once enabled trade between Europe and East Asia in ancient times. Stretching from the Korean peninsula to the Mediterranean, the ancient Silk Road was a means of not just economic, but also cultural exchange and exploration. In an era before global empires and economic travel, the Silk Road was used to trade with nations across the world that would otherwise be unreachable.

In the modern world, one can argue that given the vast international trade and globalization in the world, many cultures have been diluted together and share relatively small influence in distant states. Thus, to revive the New Silk Road is not simply to revive trade, but to ultimately revive the cultural exchange of historically connected nations and bring upon them more political influence.

Given the historical connections made by its name, one is invited to assume a clear definition of the project, however, upon inspection it can be understood that the OBOR initiative is more fluid and unrestricted than it is "clear". The lack of formal information provided by China on the project has enabled further confusion, leading to speculation that the project is far more than simply a means of connecting economies (Summers, 2016).

Historians would agree that OBOR serves an ambitious goal which involves reinstating Eurasia into its historical position as the center of economic, political, and cultural aspects of humanity (Harper 2017). In doing so, the project will disintegrate the century-old ascendancy of maritime powers in international trade. When placed into perspective, the OBOR initiative is part of China's geopolitical scheme which intends to influence Eastern Europe's position, especially the mainland regions, into their previous position in the global economy. It will also engage periphery countries such as Serbia to partake in the establishment of the bridge which will connect Western Europe to Asia.

Currently, China is continuing its stagnation after a period of consistent economic growth (OECD, 2017). OBOR, therefore, is the response announced to ensure productivity, economic growth and political stability for the decades to come. The basis of the Silk Road is to bring China closer into the international economy through additional economic routes, regional integration and political governance. At the core of OBOR is an initiative to build a wide range of infrastructure, both land and maritime based, throughout Eurasia to connect the nations of the Old Silk Road and more.

Highways, railways, seaports and airports will be constructed and improved upon to enhance connectivity and ease of doing business, while being governed from a central hub in Beijing. This trade network is expected to cover over 55% of the world's GNP, 70% of the world's population and 75% of the world's energy sources (Jinlei, 2014). China's eagerness for other nations to join OBOR through its inclusiveness and harmonious nature indicate that any nation with intent may join the initiative if they hold similar interests in respectful dialogue and peaceful resolutions to conflicts.

To achieve an elite level of structured trade across Eurasia, China will not only focus on infrastructure development but the enhancement of ecommerce, investment barrier reductions, and financial cooperation in various industries, from green energy to technology, while incorporating Chinese and private foreign corporations to work together on projects. This can help make the OBOR initiative especially attractive for

nations more inclined to improve their economies but can be difficult for states which are part of economic unions that conform their policies through regional regulation.

China is projected to spend about \$100bn per year within the next decade from their banks, state-owned enterprises (SOEs) and Chinese local governments (Marbler & Shan, 2017). Because of its economic size and outward nature, OBOR has drawn comparisons to the Marshall Plan of the United States decades prior (Shen, 2016). At the core of the similarities is the idea of economic development for all nations involved in an as efficient manner as possible. However, upon inspection, one would be remiss to qualify OBOR as a Chinese Marshall Plan once noted differences in background, content, and objectives are made evident.

The Marshall Plan's concern was to be a recovery program for European economies in their battle against being swallowed by the Soviet Union, whereas OBOR is designed to share design, production and manufacturing amongst the various members involved in the initiative. Thus, we can see that OBOR is not a "one-way" project as the Marshall Plan was, but is rather a group cooperating together under Chinese leadership (Yiwei, 2015).

The European Union, with its enormous economic size, has been outlined as the ultimate destination of the New Silk Road and will naturally be directly affected by the structure of this project (European Union, 2015). One can speculate about the grandiose statements made by Chinese officials regarding what this new trade will present the European Union and which direction the EU should consider moving forward in light of this project.

Much speculation circulates around economic gain at the sacrifice of political influence. At the heart of the EU's ability to succeed economically is the political control it holds over its members, and thus Europe is likely to continue assessing the challenges that may be imposed on them politically by a new state entering its borders. Although China has stressed the need for a strong and united Europe for enhanced trade, foreign nations from the East tend to be viewed as wanting to divide and rule Europe.

Thus, the research will focus on what implications the OBOR initiative will have on Serbia's accession into the EU given its current neutrality, need for Chinese investment and geographically important position for both the EU and China. OBOR seems to walk around the Heartland, leaving an interesting opportunity to apply the Heartland theory in understanding the motives of China's OBOR initiative and what that means for a peripheral nation such as Serbia.

### **3.1.1. OBOR Limitations**

The basic premise of OBOR is that it is a fluid institution which can adapt to the dynamics of the dominating political and economic opinions of the time. In this, it is to be stressed that the OBOR initiative, through its undefined and all encompassing features, is an entity more focused on its skeletal structure and ability to adapt to the interests prevalent than on a well defined means of operating on those interests. Thus, with only its core and conclusions specified, a unique opportunity is present which allows it to morph throughout its existence and act on the most efficient or appropriate course that the Chinese government recognizes at any specific moment of time.

This provides much leverage for the Chinese government, but is detrimental to the planning of theory when analyzing state reactions and development in lieu of OBOR's changes. The first expected limitation is therefore that developments can be made that shift Chinese priorities, putting previous mandates on hold and adjusting policy for new mandates.

The main consideration that must be addressed in this analysis is the limited sources of information, and the proportionality of information that arrives directly from Chinese officials. This, coupled with OBOR's relatively recent introductory announcement (2013) means that the institution is in the early stages of development and can be expected to adjust in the coming years. Most worryingly, formal information has been obtained from speeches directed by Chinese officials which increase the bias index of all literature on the topic. The level of skepticism varies across the literature,

however, one can realize the inconsistencies and sporadic development that may occur when given only government propaganda as a direct resource of information.

In illustrating OBOR's fluidity, it should be mentioned that no official definition of the initiative exists, nor is there one that is generally accepted and commonly used. Thus, "OBOR is not a formal policy or a well-defined strategy, but rather a very broad conceptual framework for policies" (van der Putten, Huotari, Seaman, & Ekman, 2016). Much uncertainty exists regarding what OBOR will encompass and which priorities will take precedence in the years to come. A limitation to research is given considering Serbia's current relative importance to OBOR officials which could very well change should new developments arise.

Undetermined motivations by OBOR officials, coupled with the limited sourcing available, indicates uncertainty in the future relevance of present literature and the need for consistent revision on the topic at hand. OBOR priorities could experience radical shifts that would distort current projections and ultimately bring unprecise descriptions of what is to be expected from OBOR's influence on the Balkan state.

### **3.2. Chinese and Serbian Relations**

Interest between China and Serbia began in the 1990s as both nations experienced a period of criticism from the international community due to their refusal to recognize the independence movements within their respective states. As Yugoslavia had slowly begun to dissolve into various independent republics, the Serbian regime at the time has prioritized denying the independence movement occurring in Kosovo. Similarly, China had an issue with Tibet and XinJiang, and in trying to avoid allowing a precedent to be set with Kosovo's independence, they began extensive support of Serbia in their struggle to maintain order within their borders (Ramani, 2016).

Both nations exchanged political favours to suppress independence movements, while NATO's accidental bombing of the Chinese embassy in Belgrade was the catalyst that had helped propel China and Serbia into closer allies in their antagonism towards the West (James, 2014). China's condemnation of Kosovo's independence in 2008, its

consistent critique of the threat of a destabilized Balkan region, and its formal legal challenge on Kosovo at the International Court of Justice in 2009, were all aimed at providing political and legal legitimacy for Serbia.

However, Chinese impetus for economic investment in Serbia goes further than simply aligned political stances; there are two focal points that dictate the direction and depth of their involvement. Of primary importance is the development and administration of connectivity between Asia and Europe, which relies on the expansion of roads and railways in the region leading to Central and Western Europe. Of secondary importance is the processing and augmentation of natural resources which have predominantly been left untapped. Increasing connectivity will support a stronger economy for China in the future, while industrial work on natural resources is designed to relieve current economic pressure by expanding Chinese employment.

In parallel with this revelation, Serbian interest in China has grown with the acquisition of a new image conferred onto them by Chinese officials. The notion that Western Europe labels Serbia as unenlightened hinders collaboration, while Serbia has welcomed Chinese admiration and declarations of a steel friendship (Ministry of Defence of the Republic of Serbia, 2017). Serbia has found it difficult to adhere to policies of the EU as they see it as an extension of U.S. intervention. Meanwhile, China's interest is a statement from a global superpower that a new developmental process is available for the state after the slow progression under the European Union.

As an outcome of the political excitement that has arisen with their recognition from China, Serbia has frequently put risks second to the opportunities present, contrary to their assessment of projects presented by the EU. Chinese opportunities and risks mend into one entity that is presented to the Balkan state, whereas EU operations have their risks and opportunities outwardly weighed against each other. In many political debates, the scrutiny that the risks of EU projects face outweigh the praise the opportunities receive.

### **3.3. Serbia**

Serbian officials have stressed in the past their difficulties in acquiring credit from Western nations when economic benefit to them is low, with a specific example being a planned highway to connect Belgrade to Bar, a coastal city in Montenegro. The project is estimated at over EUR 600m and of low relevance to Western European nations, thus funding was not acquired. The IMF's decision to cut loans to Serbia in 2012 also added to their funding problems and allowed China to become a reliable ally in their search for financing (International Monetary Fund [IMF], 2018).

Desperately needed new infrastructure with low political strings attached is crucial for the poor Balkan region, and thus China has grown to be a natural partner in developing and redesigning the urban layout of Serbia. For a full table of major projects completed in Serbia in partnership with China since 2008, see Appendix A.

In 2009, Serbia became the first nation in the Central and Eastern European (CEE) region to agree on close cooperation with China. The first major infrastructure project financed and constructed by China in Serbia is the Pupin Bridge in Belgrade under the efforts of China's state-owned Road and Bridge Corporation, with the majority of funding from China's Exim Bank carrying a total investment of \$190m.

Being the first major infrastructure project completed by the Chinese in Europe, the bridge was completed 38 days ahead of schedule, cuts traffic time from over an hour to 10 minutes, and had 75% of those employed for the project as Serbian staff. Being the first infrastructure project financed and constructed by China in Europe, it serves as the beginning in the history of the modern infrastructure revolution China is proposing in European land.

Bringing immediate results and success is crucial to China in the early stages of the OBOR initiative to prove that it will be capable of following its projection and goals. The success of this bridge was particularly important to showcase Europe that it

is capable of working with European leaders in both developing their nations and adhering to their standards.

Being well received by the local population and government, Serbia and China had signed 13 new agreements and memorandums in the sphere of agriculture, cultural exchange, infrastructure, finance, transportation and telecommunications (Tanjung, 2014). The majority of the projects fall under infrastructure and energy, with the largest being an agreement on a \$600m loan, financed with a low 2.5% interest rate, from China's Exim Bank for the construction and redevelopment of the Kostolac power plant. Much like the Pupin Bridge, this will be the first major power station built in Serbia in decades.

The other major project set to be completed by the Chinese before 2020 is the high speed railway link from Belgrade to Budapest, set to reduce travel time from 8 hours to 2.5 hours. The railway is estimated to have a total investment of \$2.89bn and will serve as a key transport mechanism for Chinese goods to enter the larger western European market. The project will be administered under the supervision of European certification bodies and adhere to EU engineering standards, a key opportunity for China to display their ability to succeed under EU conditions. This will also be the first newly designed link from Serbia into Central Europe.

Further projected agreements include the construction of Serbia's very first wind turbine farms, supported by the China-CEE Investment Fund. Smaller projects include the construction of a road circling around Belgrade, as well as completing a feasibility study on the possibility of an industrial zone for Chinese enterprises. Huawei has also donated an information and communication technologies lab to the University of Belgrade to promote innovation.

China has typically viewed Serbia as the nation with the most potential among the other non-EU Member States, with significant investment in the future already scheduled (Cooperation Between China and Central and Eastern European Countries, 2016). In 2016 at the CEEC 16+1 Summit held in Riga, Serbia had announced to

remove visa requirements for Chinese citizens. This was followed by the Bank of China formally opening its branch headquarters in Belgrade for all countries in the Eastern European region. Following this, the two countries agreed on nonstop flight services from Beijing to Belgrade to support China's entrance into Europe.

Serbia's extreme enthusiasm for Chinese investment, with both political and local appeal, has created interest from surrounding nations, particularly Bosnia and Macedonia. This has been the key success to Chinese construction projects in Serbia, and upon completion of further projects in the Balkans and the CEE, the hope is that this influence will expand across Europe and into the west.

Serbia is unquestionably the largest non-EU nation in the Balkan region in economic terms as of 2017 (European Union, 2017). See Appendix B for a list of Serbia's top trading partners for 2016. The potential they hold given their more central position, when compared with other Balkan states, is recognized by China and has been one of the key pillars of support in the relationship between the nations. Belgrade's history as the political capital of the region has been mimicked by regional offices of Chinese firms in the city, and is expressed clearly in China's trade position with Serbia.

This political stability is not imitated in Bosnia, where they rotate between three presidents, nor Macedonia, where there are consistent protests and riots against the government administration. Serbia's geography is similar to neighbouring Bosnia and Macedonia in agricultural terms, but the infrastructure and connectivity it provides the Chinese is unique for the region. Having trade agreement with the European Union, Turkey and Russia, along with Visa free access for Chinese citizens, are unique indicators that Chinese investment is encouraged in Serbia far more than Bosnia and Macedonia. See Appendix C for a comparison of Serbia's and its non-EU neighbours' level of Chinese investment.

### **3.4. The European Union**

The European Union was born as an economic-based union among the Western European states, with the economics of its immensely large and free flowing market serving as the primary tool in its ability to develop other states. Entrance into the EU ultimately relies on trust and sacrifice, in which sovereign states adhere to EU conditions for a period of time and sacrifice major national policy control such as foreign, security and economic policy, to Brussels.

This mechanism of trust and sacrifice has proven to be a powerful method of maintaining peace, building harmony amongst former enemy-states and growing states not just economically, but politically as well (Doyle & Visoka, 2016). This has also been the main criticism that the EU has received from both member and non-Member States through the rise of populism across the continent.

Many Member States believe that too much sovereignty has been given up, while non-Member States like Serbia believe EU conditions are too difficult to be met. Criticism of the European Union extends into the financial aspect of their relationship between member and non-Member States as well. For Serbia, many officials have complained that EU procedures delay local governments with various rules, instruments and institutions that must be adhered to in order to begin a project (Makocki, 2017).

This is why even though the European Union is technically the best funding option for Serbia due to their flexibility with cheap loans, generous grants and institutional development, China is typically viewed as the better financier for its ease of access to funds. This is the primary cause for concern for the European Union as they feel that the short term economic effects of China's OBOR undermine the EU's long-term reform agenda in the Balkans.

As the EU continues to grow from an economic union into an all-encompassing political entity and superstate, its development has been met with literature discussing the appropriate role that the EU should play in the international arena. The EU has often been perceived as a normative power given its acceptance as a fundamentally different

actor in the international arena by its "ideational impact" (Manners, 2002). This is characterized by the historical context of its development and its five key norms: peace, liberty, democracy, rule of law and human rights.

However, criticism has arisen in recent years that outline an argument against this stance, in which the EU is seen as an empire in denial (Chandler, 2006). Many authors have compared the European Union to other internationally active countries, such as the United States of America, and argued that the European Union is neither a true normative power, nor one that is truly unique in the international arena. Thus, this criticism has allowed for nations that view the United States with hostility, such as Serbia, to be prone to viewing the EU in the same light.

In defining the European Union, Hyde-Price argues that the EU should be viewed as an instrument of hegemony, one that intentionally focuses on modifying the nations around their border to serve their interests (Hyde-Price, 2006). This is what makes the case of Serbia of particular interest to analysts and researchers focusing on both China and the European Union. Given Serbia's status as the most prioritized nation to join the EU, its borders being surrounded by EU states, and its historical lack of confidence in the EU, one can argue that Serbia is the most important state for both the EU to swallow, and China as well.

Following the collapse of Yugoslavia, the new republics looked toward the EU in hopes of becoming a "new" European state, and received assistance through the various tools at the EU's disposal. These included economic assistance, the use of Special Representatives and humanitarian aid in helping stabilize the countries following war (European Union: Institute for Security Studies, 2011). Particularly important was the inclusion of the countries into EU membership candidate states, which meant the EU would be able to exert additional influence on their development.

This influence has been experimented on Serbia, who has been announced to potentially join the EU by 2025, by stating that the progress of their European path is to be firmly linked to their progress on the normalisation of relations with Kosovo

(European Commission, 2018). However, because formal recognition of Kosovo by Serbia still remains a controversial topic and one with little progress, Serbia's inability to complete the main hurdle in its integration process indicates a process error by the European Union itself.

This situation has left some feeling as though Serbia is forced to recognize Kosovo (*vis a vis* submitting to a foreign power) or else continue being locked out of the visa status and common market of Europe. Thus, Serbia's situation within Europe is uncertain and will continue to be so, as only 8% of Serbians surveyed would be willing to support Kosovo's independence, even if it contributed to Serbia's stability and development (Belgrade Centre for Security Policy, 2017).

Typically, when the European Union has been unable to connect with Serbia in the past, a threat of Russian interference always loomed. With an economically weak Russia at the moment, only the EU and China have an opportunity to present enticing incentives for Serbia. However, as the EU continues to push its same accession chapters onto Serbia, China has come offering alternative solutions.

China had typically not been a major actor in the region but has shared a relatively important relationship with Serbia for decades. Their announcement of the OBOR initiative provides the justification for them to enter European lands and particularly help develop poorer states like Serbia. The EU must consider whether China is interested in dividing Europe to allow China a proportionally larger position in the international arena, or if it looking to develop Serbia into a stronger economic state, one that will be able to succeed within the EU and provide benefits for all.

Currently, there are two positions European strategists have taken with China that must be considered. The first being that OBOR will strengthen Europe through infrastructure and connectivity, allowing Serbia to develop into viable a state that can provide for and help develop the EU common market. China's increasing investment and development of Serbia would assist them in the process of joining the EU, something that Russia had no intention of doing, and should thus be met with optimism.

Others believe that OBOR is the latest attempt by an Eastern nation to divide Europe by providing states the economic investment they require without the conditionality that the EU would impose.

Ultimately, there is no common China policy from the EU and this will continue to be the main obstacle for the EU when moving forward. China has already left footprints in Greece, Latvia and Hungary, and would have no problems continuing its expansion further in the non-EU states in the vicinity. Despite OBOR being designed to increase connectivity within Europe, integration and economic interdependence will ultimately be dispersed unevenly across Europe.

Currently, the Central and Eastern European nations seem to be the most important regions for China and have even seen the creation of the CEEC 16+1, which incorporates EU and non-EU Member States alike. Within the CEE, uneven distribution continues, with certain nations like Slovakia receiving almost no projects or interest from Beijing, while nations like Serbia announce record breaking economic and political initiatives (Pleschova, 2016). The CEEC 16+1 is geographically situated in an area that coincides with the Heartland theory directly; *“who rules Eastern Europe commands the Heartland”*.

Therefore, when analysing the OBOR initiative in the context of the Heartland theory, we can predict that China will increase its interest and bilateral pressure on the Eastern European states. Thus, it is imperative to indicate the political effects that this economic project would have on these weaker European states as they are more susceptible to the Chinese lobby and what that means for the European Union.

To do this, a focus needs to be put on Serbia as they are both a politically conflicted state in line for EU accession, and the “test-run” for China before they begin development of Eastern Europe. Thus, analysing the outcome of Serbia’s interaction with China’s OBOR will show us China’s ability to swade nations towards or away from the EU, and what affect this will have on predicting China’s potential rule of Eastern Europe, the necessary step in controlling the Heartland.

## **4. Literature Review**

### **4.1. Chinese Aspirations in Eurasia**

While the OBOR initiative can be regarded as an attempt to promote global unity through integration and trade, many have viewed it as an expression of China's desire to become a global superpower. This has been viewed as a challenge to the United States through its attempt to adjust the international system (Harper, 2017). With a large Russia nearby that has many overlapping interests with China, Eurasia provides an appropriate environment for China to proceed with its global aspirations.

This potential relationship between China and Russia has been presented as an attempt to counter the influence of the United States in the region. Voskressenski outlined this relationship in alignment with Mackinder's theories of conflicting land and sea powers and a united Eurasia against North America (Voskressenski, 2002). A potential alliance between China and Russia to counter American maritime power would illustrate the utility of Mackinder's theories. Given a potential alliance, research must be completed to show the effects China would have on nations within Russia's sphere of influence should a Sino-Russian alliance develop.

This desire for a global revamp was outlined by Thomas Zimmerman in which he describes the OBOR initiative directly as the leading example of China's intent on reshaping the dominant global political and economic systems of our day (Zimmerman, 2015). As well, an argument has been made regarding the current geopolitical centre of the world with claims that Asia will eventually become the new hub (Harper, 2017). Li Mingjiang had also stressed that the OBOR initiative would serve as the nucleus of China's aspirations of opening up to the world through Eurasia and would become central in President Xi Jinping's foreign policy plans in the future (Mingjiang, 2015). Following this, he stressed that the current body of research on the OBOR project was limited when compared to the studies conducted on Chinese foreign policy in East Asia, however, it should not be taken as a sign that China is not focused on looking Westward.

Xing Li and Wan Wang took this further, having noted that regardless of the lack of research formally completed on the project, OBOR is still the closest and largest project China has to a grand strategy and must therefore be acknowledged and understood (Li & Wang, 2015). This statement is made in reference to Mackinder's theories, in which they claim that OBOR correlates directly with the Heartland.

Some have said that the OBOR initiative has the ability to reconstruct the order and maintenance of Eurasia, with direct implications of Chinese aspirations specifically addressed by Antonina Habova. Habova's research supports the established literature present, and claims further that China's long-term strategy is to specifically eclipse the United States and push the Renminbi as an international currency (Habova, 2015).

## **4.2. China's Potential for Growth**

### **4.2.1. Foreign Direct Investment**

Following the Mackinder hypothesis, it is obvious that China is bound to benefit from the One Belt, One Road Project. This seems likely if OBOR succeeds as China will manage to economically control the Eurasia region. Such a factor is best clarified by the fact that the new Silk Road will connect manufacturers in China with markets beyond the Eurasian landmass, including Europe and Africa. This will prove to be especially beneficial to China, especially now that it is one of the largest energy-producing regions in the world following its green investments. It is important to note that the benefits for manufacturers will go beyond the participants in the energy sector. Various industries are expected to benefit from the One Belt, One Road project.

This position has been rebutted by Sidaway and Woon who find the move rather unnecessary (2017). The skeptics add that geopolitics tend to prevent institutions and nations from making sound economic judgments in the pursuit for prestige. According to Debin and Yahua (2015), China's OBOR initiative is likely to fail. Such a scenario cannot be overlooked especially since most of the countries along the belt and road are underdeveloped, and they lack sufficient infrastructure to support such a large project.

However, should China succeed in developing the infrastructure of these nations and transform them into capable trading partners, the potential for OBOR would be immense.

So far, China has been investing at least 150 billion US dollars in these economies on an annual basis. This investment is believed to be a countermeasure with respect to the poor economic conditions in some of the corridors and ports, including Iran, Kenya, Mongolia, Turkey, Malaysia, and Hungary among others (Hong, Luo, & Wang 2015). While such skepticism makes perfect sense, it ignores the fact that the project will be beneficial in the long-run. Xue makes such a supposition on the basis of the economic aspects of the populations in emerging countries (2016), particularly noting the growing middle-class in emerging countries (which make up to 50 percent of the regions along the Silk Road). In this case, the project will have a positive impact on the Chinese economy in the long-run.

#### **4.2.2. Movement of Human Capital**

Apart from the possible establishment of Chinese organizations across the Silk Road, researchers anticipate significant movements of human capital in the form of laborers and entrepreneurs. Such an expectation is described by Mirza (2016) as the consequence of OBOR-inspired foreign direct investment. This movement will be beneficial to the Chinese as human resources will be required in the development of the OBOR projects (Xue 2016). Like the increase of FDI, a diverse workforce will be effectual in boosting the growth of the project; hence, China will benefit from the increase in the amount of resources transferred across the infrastructure.

#### **4.2.3. Political Dominance**

When reflecting on the impact OBOR is likely to have on the political position of China in the international arena, one is urged to take the Heartland hypothesis into perspective. By now, it is apparent that China will integrate 60 countries in the OBOR project (Kelly 2017). This factor will enhance its control of the Eurasian region as the

countries along the belt will be economically transformed into friends, if not allies. Ultimately, the design of the One Belt, One Road initiative is to create a system of states across Eurasia that are economically dependant on China, with all infrastructure and energy projects coming with direct approval of Beijing.

Together with the economic benefits expected from this project, the foreign relations China intends to form from the initiative is designed to help allow it to surpass the United States of America as the global superpower (Kelly 2017). Worth noting is the convenience OBOR provides China to avoid potential blockade attempts from maritime powers, especially the United States. Ultimately, the public relations China is forming in various states showcase their progression as a dominant and politically influential state.

Further, the One Belt, One Road Initiative was designed to illustrate China's ability to develop infrastructure globally. These initiatives, and others, are rooted in the financial support of institutions such as the Asian Infrastructure Investment Bank (AIIB), budgeted at \$100bn, roughly the equivalent to the budget of the Marshall Plan of the United States in developing Europe when adjusted for inflation (United States Department of Labor). Unlike the Marshall Plan, however, the AIIB will almost entirely go into funding roads, railways, bridges, energy and other infrastructure projects that will connect smaller nations like Serbian with the Chinese economy.

The AIIB is one step in a list of actions that China has taken to develop greater autonomy from Western Europe and the United States, both in Asia and the international community (Ikenberry & Lim, 2017). Although still a member of various international institutions, China's interest in developing equivalent institutions to rival those of the Western powers indicates a frustration that exists, as well as an intent to increase Chinese influence in foreign lands.

#### **4.2.4. Conclusion**

As much as the current literature remains blurry in its definition of the level of impact OBOR is likely to have on China, it is clear that the successful implementation will have a positive effect on the country economically and politically. As Mackinder

hypothesized, the power that controls the Heartland controls the world. China's OBOR project aims at improving the country's position in the globe by enhancing its trade routes with both land and maritime regions and promoting the movement of the financial and human resources across the countries along the belt. This trend will boost not only the countries along the OBOR, including Eurasia and China, but minor nations such as Serbia which will be used as a stepping stone into the larger markets of Eastern Europe.

Such a success will also reflect on China's political position in the global arena. The fact that a new infrastructure will be in place to unite all the land powers, with the central hub being in China, will allow China to continue its attempt to surpass the United States as the global superpower. However, it is important to acknowledge that this specific outcome is still more than unlikely and will be entirely dependent on the performance of the countries along the OBOR.

China's ultimate goal would seem to fulfil the prophecy of the Heartland Theory and grasp political control of Eastern Europe through the OBOR project. This particular region is the poorest of the European Union and the least politically attached to Brussels and would allow China the largest opportunity to sway European nations towards the East. Serbia, in particular, is a nation that is perhaps most divided on alignment goals and yearly battles the pull of the EU and Russia. As well, holding one of the larger economies in its region, Serbia has and will continue to receive Chinese investment as a means to prove to Eastern Europe that they are capable of developing the infrastructure within Europe's borders under EU regulation.

Ultimately, Serbia is at the root of Chinese European aspirations, serving as the necessary step before development of Eastern Europe, which will ultimately lead to further investment in the highly coveted Western European market. Therefore, an emphasis on Serbia and its ability to align with China is a necessary step in researching China's capability to enhance its global position if it hopes to achieve acceptance from Europe. Further, it would be pivotal in this geostrategic analysis to concern OBOR with the Heartland Theory given the locations of China's OBOR project.

## **5. Analysis**

The current geopolitical climate suggests a strong utility of Mackinder's Heartland theory in analysing Chinese policy towards Eurasia, and therefore the theory will be applied to consider China's potential role as the leader of the region. This is particularly because of the three potential candidates that Mackinder had stressed, Germany, Russia and China, only China is currently both politically and economically capable of pursuing rule of the Heartland.

In this section, the Heartland theory will be analysed through the lens of China's One Belt, One Road initiative to distinguish the various motives within their various projects and the potential consequences of China's continued expansion through OBOR.

### **5.1. Chinese Aspirations in Central Asia**

On the question of Central Asia, there are two particular indicators that must be analysed to outline Chinese aspirations and projected actions: 1) Challenging American hegemony, and 2) China's interest in increasing its centrality to the former Soviet States.

Traditionally, academic discourse on Eurasia has recognized the region as a predominately Russian entity, with considerable literature continuing to do so. Increasingly, with the announcement of OBOR in 2013 and the recognition of the vast reach the project will have in both Asia and Europe, the possibility of China eclipsing Russia as the prevalent power in Eurasia has quickly become a realistic outcome (Harper, *Towards an Asian Eurasia: Mackinder's heartland theory and the return of China to Eurasia*, 2017). This is a direct sum of China's historic influence in the region, its' economic readiness to increase relations with neighbouring nations and follows directly the predictions set out by Mackinder's theories regarding China's rule of Eurasia: China must either ally with Russia, or eclipse it, for it to realize its potential as the ruler of Eurasia. Therefore, by pursuing OBOR, China is following its historical criterion for rule of Eurasia in direct line of Mackinder's theories.

### **5.1.1. Challenging American Hegemony**

The post-Cold War era has seen nations utilize their political strength through economic, rather than military means (Voskressenski, 2002), and thus China's OBOR initiative can be recognized as a direct response to the modern means of political warfare.

An increasingly interesting aspect of China's rise in Eurasia is its relationship with Russia, in which they have previously shared overlapping interests against American hegemony in a region which both had dominated previously. On reflection of OBOR's reach and potential abilities, one can recognize a potential economic and strategic opportunity provided for Russia should China develop its neighbouring nations, provide further connectivity, focus on stabilizing nearby radical regions and dispel further American influence. In fact, stronger Chinese-Russian relations have often been highlighted by leading Russian theorists who have asserted that China's rise should be seen as a positive example for Russia (Lomagin, 2015).

However, all signs indicate that China has aspirations to eclipse Russia in Eurasia, directly in its own sphere of influence through the One Belt, One Road initiative. One can note how in the near future China may pursue friendly policy that strengthens Russian ties, allowing researchers to speculate about a potential Eurasian alliance. However, when continuing the application of Mackinder's Heartland theory, this merely becomes another step that walks directly in line with MacKINDER's prediction of China eclipsing Russia as ruler of the Heartland.

When analysing the OBOR initiative through the lens of the Heartland Theory, it is imperative that each political move be seen in context to the predictions set out by Mackinder which illustrate the "grande motives" of a potential Heartland ruler. Thus, China may provide an opportunity for Russia in the short term (Habova, 2015), but friendly Chinese-Russian relations are merely a necessary step for Beijing to lessen their dependence on maritime routes, which are largely dominated by American maritime power, and eventually become the sole power.

### **5.1.2. Centrality to the Former Soviet States**

If one follows the logic of OBOR in compliance with the Heartland Theory, it can be understood that China is focused on increasing their sphere of influence in the surrounding region to not only dispel American interests, but to transform Central Asian states from Russian influenced to Chinese influenced as well. In this sense, the utility of Mackinder's theories are visible once again, with Russia becoming more susceptible to losing its influence in the former Soviet States in Central Asia to China. Fears stem from Chinese economic interests in the Central Asian states as a resource base that provides a large connectivity potential.

The first striking example of note is Kazakhstan, which within a decade since the collapse of the Soviet Union has become the second biggest trading partner for China, behind only Russia (Peyrouse, 2008). In recent years, we have seen the China-Kazakhstan partnership grow so deep to being described as "strategic", the highest of diplomatic epithets by China. The Kazakh government has also confirmed themselves as a major political ally for China since the collapse of the Soviet Union through trade and diplomatic relations, even with a heavy presence of Russia over them (Zhuangzhi, 2015).

Kazakhstan has seen a consistent economic rise following their departure from the Soviet Union, with much attributed to President Nursultan Nazarbaev, whose tenure since 1989 signals to China stability and durability. His economic liberalisation reforms have opened Kazakhstan's economy and allowed them to accelerate their trade with China and reach the status of the second richest country in the post-Soviet Space (Pomfret, 2006). This has been furthered by their ability to halve the percentage of citizens living below the poverty line, create a larger middle class and long term stability. This new found economic focus had allowed Kazakhstan to become the largest recipient of Chinese FDI in the former Soviet Union with a total of US\$22 billion in investment from 1991-2013 (HKTDC Research, 2017).

The government of Kazakhstan has also made their intentions clear on China's OBOR initiative with an expressed desire to benefit in the future. Kazakhstan's economic aspirations, namely, diversifying its economy from oil and natural resource exports and developing its rail and road infrastructure, would all be enabled by China's OBOR project. Thus, on analysing the economic situation in Kazakhstan in combination with China's OBOR capabilities, an appropriate conclusion would be Kazakhstan's continued, and in fact, increased, partnership with China for the years to come.

Research indicates that Kazakhstan will liberally incorporate OBOR in the surrounding areas in hopes of moving from a middle-income to a high-income country (Fengler, Gill, Miller, & Chatzinikolaou, 2017). To do this, they must move away from its dependence on oil and diversify by restructuring the basis of its economy. This is why Kazakhstan had become such a strong supporter of OBOR, in which they see an opportunity to grow their economy by 7 percent annually for a decade to allow their transformation into a high-income level. OBOR's ability to enable Kazakhstan to achieve its' economic goals make it an attractive initiative to pursue given Russia's inability to support them.

Even though OBOR has not been realized yet, nations like Kazakhstan can already see real results that put pressure to continue their reliance on China (Kirişci & Le Corre, 2018). The Altynkol train station in Kazakhstan serves as the main stop on route from China to Germany. Where boats previously took a month to reach Europe from China, new trains will take 13 days. In 2017, the train station doubled the previous year's traffic within 10 months, with five trains currently going through the station (with an estimated goal of 40 per day). A new highway will be the main route to drive from Western China into Western Europe and will require consistent and continued commitment from Kazakhstan in the OBOR project.

Regardless of the new economic reforms Kazakhstan has incorporated and its intentions of restructuring its economy, the energy sector is still the driving force for China in Kazakhstan. Becoming one of the greatest consumers of hydrocarbons in the world, China is expected to consume around 400 million tonnes of petroleum in 2020,

with 60% needing to be imported (Peyrouse, 2008). 62% of Kazakhstan is an oil and gas area, and with 172 oil fields, almost half (80) are under development, indicating an expected increase in output in the future. The Atyrau province alone holds reserves of 930 million tonnes of oil (KMG EP Kazakhstan, 2017).

Chinese energy interests in Kazakhstan also expand outside of oil and gas, as Kazakhstan already produces 39% of the world's uranium and has a begun construction of a fuel fabrication plant with 49% Chinese equity. This, along with 55% of Kazakh uranium exports going to China, indicate that Beijing sees this region as the driving source of energy for their One Belt, One Road initiative (World Nuclear Association, 2018).

China's energy needs seem likely to grow given their continued expansion and the gravity of the OBOR initiative, and thus Kazakhstan becomes an attractive partner in this movement towards the future. As Kazakhstan hopes to become one of the ten largest exporters of crude oil in 2020, new economic relations between Beijing and Astana are expected to grow which will continue to pull Kazakhstan away from Russia and into China (Peyrouse, 2008).

Both nations are geographically gifted, with China able to continue fueling its future projects and Kazakhstan able to have a willing buyer each year. However, this economic partnership is imbalanced; both may benefit but China ultimately achieves the political goal of creating another nation economically dependant on them.

Kazakhstan is a large piece of the Central Asian puzzle, however, other nations must slowly fall under the political and economic influence of China as Kazakhstan alone is not enough to rule Eurasia. Many speculate the next nation to succumb to China would be Kyrgyzstan, in which it has been asserted that they have experienced growing ties with Beijing in recent years. Chinese influence on Kyrgyzstan has previously been linked with Chinese aspirations of becoming the new Heartland, which was a potential outcome as outlined by Mackinder (Matikeeva, 2005).

China's continued grasp of Eurasian countries at a time when Russia is weak, in addition to their massive connectivity and infrastructure developments, outline the steps they are taking to become the main 21st-century land power that would continue to show the utility of the Heartland theory.

Ultimately, OBOR alone is not enough for China to dominate the Eurasian region; a politically and economically weak Russia provides the environment that enables Chinese expansion outside of their borders. Many analysts have noted the potential alliance of China and Russia in countering American influence in the region, but one can trace China's unique project and the current geopolitical environment present as an opportunity for China to leapfrog Russia as the sole ruler of Eurasia as Mackinder had predicted (Shamkhal, 2017). It is this challenge to Russian interests in Eurasia that illustrate the continued utility of Mackinder's Heartland Theory.

## **5.2. China's Diplomacy Towards the European Union**

This section will outline the various implications of OBOR's development on the integration process of the European Union. Through the lense of the Heartland Theory, in addition to key arguments from the current literature present, an analysis on the impact that the One Belt, One Road initiative will have on a nation like Serbia in either promoting, delaying, or hindering integration into the European Union will be conducted.

### **5.2.1. Chinese Relations with the European Union**

China's relationship with the European Union has been inconsistent at best, with China receiving EU scrutiny both within Europe's borders and in China's. However, the One Belt, One Road initiative has been a means for China to revive sentiments of the past and help create a new future for both entities. This has been illustrated by statements declaring the ancient Silk Road to be a symbol of communication and cooperation between the East and the West, with a cultural heritage that should be shared by all.

While they share positive sentiments, grandiose claims that OBOR will "promote the economic prosperity and promote world peace and development" have been met with skepticism by the European Union (National Development and Reform Commission, 2015). Such statements are typically viewed as a method to cloak China's true geopolitical intentions.

In understanding the divide between the European Union and China, the notion of bilateralism must be recognized as the primary cause of EU irritation. What is important to acknowledge is not whether the EU is or wants to become an individual state on its own, but rather that it requires the cooperation of its members to follow unified policies and procedures to suppress nationalistic tendencies.

China's insistence to work directly with sovereign states provides a problem for the EU as it resuscitates national preferences. By choosing to work directly with individual states, China reminds them that they view them first as a state, second as an EU member, and thus provides the ideological undertone that they are capable of deciding major policy decisions on their own. This process attacks at the heart of what drives the EU's success, which is to unite nations under a common framework.

Further, China has sought relations with sovereign states under what has been argued as the “Chinese model”, which is prioritizing the organization and construction of national projects through political channels (Maçães, 2016). The natural outcome of this is the side-stepping from the European Union which considers itself as the suitable body to represent EU nations in major economic projects.

A particular issue with China’s bilateralism is their communication method, in which China presents sovereign states with “ready-for-implementation” initiatives, with limited background information or planning opportunities for the host nation (Saverio Montesano & Okano-Heijmans, 2016). China’s bargaining power is ultimately a tool of intimidation that enables them to push through projects in their best interest in foreign lands. As the EU is designed to create long-term stability and progress, China’s short-term serving projects are typically contra to the EU. Thus, a cycle is created that allows politicians to push projects quickly under their name, which in turn spurs further nationalism and further movement away from the EU.

In the case of Montenegro, Serbia’s neighbour state also slated to join the EU by 2025, we can see China’s effect on the future prospects of the European Union. China’s loans have increased the state’s debt to the point that rating agencies like Moody’s, S&P, and the International Monetary Fund (IMF) have all downgraded Montenegro’s credit rating as it is expected to be 80-89% of their GDP in 2019 (Nuttall, 2017). The IMF has also warned that continued loans from China and increased spending on motorways will harm Montenegro’s healthcare and education programs. Because of China’s easily accessible loans, Montenegro’s non-highway capital spending over the next five years will only be enough to cover the environmental investments required for the EU. Therefore, Montenegro will not be able to cover the remaining €1.2bn investments required to meet EU standards and miss the 2025 accession process (International Monetary Fund [IMF], 2017).

Other spillover effects in the Balkans can be seen through political means. In Bosnia, China has only invested within Republika Srpska, the Bosnian ultra-nationalist entity whose leader is currently on a US sanctions list, allowing for promotion of the dangerous nationalism that drew war only two decades prior (U.S. Department of the Treasury, 2017). In Macedonia, China has already been part of a scandal that suggested collusion between politicians and Chinese state owned enterprises, as well as the inflation of project costs to increase debt owed to China.

In the context of the Heartland theory, we can see how China's pursuit of the Heartland can shake the foundations of the European Union. If the EU's ultimate goal is to unite Europe under a common policy, then any foreign actor who promotes a divided policy among the Member States of the European Union is directly attacking the progress of the EU itself. Similarly, any actor that cripples the opportunities of future Member States within the EU's sphere of influence must be seen as a negative actor. Although China has publicly endorsed the European Union and called for it to maintain its status as a valuable trading partner, this has done little in hiding the fact that China creates division within the European Union itself by using bilateralism.

By empowering nation-states to bid for Chinese projects and dictate their specific policies for China, their national interests are enabled at a time of growing populism across European states. This helps restrict the European Union's ability to approach China with one supranational policy and thus fragments any EU-China policy present (Godement, Prelo-Plesner, & Richard, 2011).

Nationalism has proven to be the central enemy of European integration, with specific examples such as Brexit, Sebastian Kurz in Austria, and an almost successful Marine Le Pen in France. A migrant crisis that had strained already economically weak nations was blamed on Brussels who had grown disattached from their member states. Thus, in appealing to the native-born population, nationalist politicians allot blame for their economic insecurities on external parties (Stockemer, 2017).

The migrant crisis in Europe has allowed nationalists to form stronger coalitions and have used this power to begin a discussion on their role within the European Union. Thus, an opportunity is present for China to enable these nationalists to make economic decisions outside of the EU's control to strengthen their nation-states, creating stronger sentiments towards China and proving the possibility of existing without a governing EU institution above them.

Given China's sheer size and economic ability, its bargaining power is almost unmatched with states on a bilateral level, and thus China's insistence to avoid multilateral discussions on major trades and projects is not a new phenomenon, but rather a tried and tested strategy. China is more capable than ever to expand outside of its region, with Eastern Europe looking increasingly likely to be susceptible to its pull given its poor view of the European Union and weak economic situation. China is far more likely to be influential and assertive with these states on an individual basis, which opens the risk for an economic dependence on China to emerge.

The current political and economic situation in Eastern Europe has created an environment adequate enough for a foreign power to claim control of the region, and China's OBOR initiative can be utilized as the method of its capture. Much debate in literature is present regarding China's potential hold of Eastern Europe, but the opportunity is available unless Europe recognizes this potential collapse.

A divided Eastern Europe was first presented by Mackinder in 1904 to make it more difficult to obtain control of the entire region, so as to limit the possibility of a ruler of the Heartland. Presently, although the region maintains its division, a unifying suspicion of the European Union and the creation of the CEEC 16+1 initiative unites all of the nations together to make it possible for control of the region yet again. Thus, the door for control of Eastern Europe, and eventually the Heartland, is made available only by the use of enabling sovereignty within these nations.

The creation of the Central and Eastern Europe 16 +1 (CEE 16+1) initiative, a year before OBOR was announced, had perhaps been China's first call to attention in Eastern Europe and aspirations of the Heartland. Drawing together 16 states, of which 11 are EU members, into annual summits allows China to have direct dialogue within Europe to both its current members and future members like Serbia. Therefore, China's interest in the Heartland can be argued to have predated the OBOR initiative, and that the current environment presents an opportunity to see further interest from China.

Further, China's projects are quite appealing to particular governments that have been criticised by the European Union. Where the European Union is interested in developing society in parallel with the economy, a lack of conditions within Chinese deals allow for authoritarian governments to conduct business without adjusting the social policies of their states. This allows for governments that are criticised by the European Union to maintain a level of economic activity that would not force them to succumb to European demands or threats, allowing a sustained level of nationalism that will continue to push them away from the EU.

### **5.3. Political Implications for Serbia**

This section will outline two primary aspects that connect Serbia and China, those being the strong interest China has in Serbia and the consequences of China's interest in Serbia. Through the lens of the Heartland Theory, we can see Chinese interest in Serbia stemming from Serbia's ability to promote Chinese infrastructure to Eastern European states, a necessary step in controlling the Heartland. However, because Serbia holds a strong utility for China, excessive investment from China has, and will continue, to create spillover effects in Serbia that need to be addressed.

#### **5.3.1. Serbia's Utility for China**

The Balkan Region has also been seen as the battleground of the future's newest economic conflicts through the control and administration of infrastructure and trade connectivity (European Council on Foreign Relations, 2016). Given the international

interest in the region, the challenge for Serbia will be balancing interest from the EU as a regulatory superpower and China as an economic and infrastructure superpower. At this moment, it seems that China is masking infrastructure development in Serbia as a means of enhancing trade, but ultimately utilising it as a power projection for the Eastern European market.

China is now more creative and assertive than in years past when considering its economic diversity and prospects. The most innovative factor of the Chinese economy is its ability to create infrastructure at a rapid pace efficiently, an important feature to modernizing other states. This has been illustrated through both the physical means of construction and the institutions which China uses and promotes.

With Serbia being a state within Europe that is unstable and most resistant to the European Union, it seems a logical target for China to gain access to Europe. By not being an EU member, Serbia has less rules and regulations to abide by when working with foreign states like China. As well, the recommendations the EU provides Serbia regarding their foreign policy are met with more hostility than Member States given Serbia's historical resistance to Western powers. Thus, Serbia is the easiest European market for China to enter, one that has periodically taken political stances that counter EU institutions and would seem willing to continue forfeiting political positions to receive Chinese funds.

China's integration of nations like Serbia along its One Belt, One Road Initiative will contrast regional integration currently present in the world such as the European Union or ASEAN, a sentiment that shares interest with Serbia. By sharing prosperity through infrastructure linkage and preferential trade agreements, along with institutional support backed by Beijing, the ultimate goal is to align neutral nations like Serbia with a Chinese political ideology and not a Western one within the realm of global politics.

However, China's abilities to disrupt international order with smaller states does not equate to any ability to overthrow or transform existing institutions. China's political and economic actions in the international arena allow for criticism that it is a disruptive power, but this definition must be made distinct from any revolutionary

power. The size of China, its economy and foreign policy intentions warrant significant attention but should be recognized as separate from any assertive measure to reverse or invalidate the existing international order. Therefore, Serbia will most likely maintain dialogue with the European Union, but experience slower development because of China.

On the surface, the development of infrastructure and connectivity in Serbia would seem to be of benefit to all parties directly and indirectly involved. Both the European Union and China stand to benefit from the economic growth of Serbia by having a more competitive market in the vicinity of already established markets. New infrastructure and railway links would also allow the European Union to trade easier amongst their current members and processes that assist in Serbia's EU accession.

However, Chinese investment in Serbia allows for indirect political manipulation through spillover effects. The One Belt, One Road Initiative is created precisely to develop nations through a dependency on China, which would raise opportunities for the exploitation of European states by China in the future. With the hub of all the connectivity being in Beijing, from its core the project would extend to periphery nations through political reciprocity.

Underneath the notion of increasing trade and connectivity, nations will be obliged to respect China amongst the global ruling class of nations in exchange for material benefits. A major concern in this regard is Serbia's political alignment with China developing as it nears its EU accession, in which Serbia could enter the EU and act as a trojan horse for Chinese officials. This has already been the case with Greece, which following major Chinese investment blocked the EU's criticism of China's human rights violations at a UN hearing (Smith, 2017).

Additional concerns may be raised when recognizing that the OBOR initiative is not placed under any formal institution or policy by China but rather simply an act of instigating further trade. Remaining primarily as an ever evolving grand strategy of trade could warrant a label of being the latest technique in expanding Chinese influence

globally. There is a very large gap of missing information on the OBOR initiative, with Chinese officials often providing new information through visits abroad. Europe is told that OBOR is designed to complement current institutions in place to enhance the connectivity of Eurasia, but being entirely designed by Beijing, this will inevitably challenge the normality of Eurasian activities and bring a new global power into the region.

Globalization had allowed for Serbia to become an emerging economy within the global order, however, it has also changed so that economic concerns have become exchanged for political motives. Thus, Chinese investment allows Serbia to receive funds immediately with their primary concern being the recognition of a One China Policy. China's political influence is difficult to measure, but should their infrastructure project succeed in connecting Central and Eastern Europe with the Balkan region, any minor economic shift in trade or investment could have an extremely large effect on Serbia, given their smaller stature. This radical uptick in economic activity is part of the bargaining power that China holds and would enable continued political pressure through new project proposals, or the threat or removal of current projects.

### **5.3.2. Spillover Effects**

European concerns of China's ability to divide the continent rest on the success that China's projects will have in the region. One could argue that China's CEE 16+1 initiative would be similar to a European Union agreement with the poorest half of China, putting into perspective the peculiarity of China's interest. Yet still, trade continues to grow, with the share of China-CEE trade in China's overall trade with Europe expanding each year, with the latest being a 9.8 percent increase (Xinhua, 2017). This increasing trade creates increasing internal competition for stronger partnerships with China, and an increasing amount of overlapping work that is being completed by China and not the European Union, thereby creating conflicting policies (Saverio Montesano & Okano-Heijmans, 2016).

When Chinese proposals overlap with European capabilities, the EU's bureaucratic legislation and complicated processes have been the reason many pick China instead. Accusations such as a lack of transparency or appropriate level of EU regulation understanding have been directed at China with little signs of improvement or ability to slow down China's advances.

China's ability to ally EU-member states that have grown frustrated with the political system of Europe is the key driving force for its grasp of Eastern Europe. A clear shift in a China policy is evident in various Central and Eastern Europe nations, such as Hungary, where one of the more populist governments in the EU has already elected to stop meeting with the Dalai Lama and begun to silence Tibetan protesters and interest groups (Duchatel, et al., 2016).

Serbia's very small and underdeveloped market does not seem highly attractive to most foreign investors, and thus China's interest in even engaging with them on these lengthy projects instills confidence and power into the political class. This power, in turn, might compel the government to make political statements or actions influenced on the principle of their sovereignty and to exercise their new found power that stems from China's interest in them. Of all Chinese investment in non-EU Balkan states, half was conducted with Serbia, its formal strategic partner in the region.

Serbia, having, previously relied on infrastructure developments from the EU and felt uneasy about the political demands made from Brussels to achieve funding, can now realize their goals without feeling like a political victim. The question that naturally arises is whether the European Union's demands of more transparency and workers' rights are satisfactory requirements for funding that will better serve the state in the long-run or not. With each project agreed upon with China, the European Union could read it as a sign of lowered confidence by Serbia in the EU.

Similarly, Chinese investment can be seen as a relaxing investment, one that allows Serbia to develop their infrastructure and economy and pick which EU conditions they can meet at any specific moment. There will naturally come a time when all conditions must be met, but in the meantime Chinese investment does not restrict growth within the EU framework. Similarly, there may come a time when China pursues connectivity between Serbia and Kosovo, enabling further dialogue between the two and ultimately assisting Serbia in its accession process.

For Serbia, the development of a new East-West divide by Russian has created a unique opportunity for relations with China. Serbia experiences benefits from both Russia and the European Union, and choosing one over the other would mean losing economic benefits and the sovereignty they receive from being non-aligned. China's detachment from the geopolitical intricacies present in the Balkan region allows Serbia to receive infrastructure, energy, transport and economic development while maintaining a non-aligned stance until Europe deems China *anti-Europe*.

While China recognizes the benefit of developing Serbia into a viable European Union candidate, it is primarily focused on using Serbia as a project for European leaders to understand China's construction policy. Whether Serbia joins the European Union or not is irrelevant to China as long as infrastructure is developed efficiently and a means of utilization is present that allows Chinese business to flow across Europe. It should be stressed that China's interest is on a stable Europe that is open to trade, whether this means Serbia will enter the European Union is not important if each trading partner can work efficiently with China regardless.

Beneficiaries of Chinese investment will grow their infrastructure to match European neighbour states without the political maturity those neighbours hold, which would be detrimental to any state's long term compatibility within the EU. This means that China's infrastructure development and investment runs parallel to the level of political degradation host nations experience.

Such concerns arise when Serbian politicians enact behaviours akin to Chinese government officials on their soil, a form of importing a lack of human rights. This was exemplified by the arrest and deportation of 11 European citizens who had entered Belgrade on the eve of the China-Balkan Summit. Upon having their application for peaceful protest denied, and refusing to sign a forced statement indicating they had arrived to protest Chinese human rights abuses, citizens of Bulgaria, Slovakia and Finland were detained for four days before being deported.

This is a direct contradiction of the European Parliament's support for democracy and right to assembly and peaceful protest, both inside the EU and in territory of those nations aspiring to enter the Union. Upon outbreak of the news, the European Parliament had raised concerns on Serbia's human rights practices, demanding their release and an official statement of explanation on why EU citizens had been detained. Similarly, Amnesty International had declared the jailing and deportation as entirely illegal (Amnesty International, 2018). The Serbian government arresting and deporting EU citizens unquestionably shows the dangers of spillover effects and illustrates China's ability to have EU aspiring nations act contradictory to EU requests and demands.

Serbia has exemplified plenty of human rights abuses that contradict the edicts of the European Union, such as the detention of protesters on Chinese issues. However, spillover effects in Serbia from China exceed further than merely detention as Serbia has conducted veto votes on statements on Chinese human rights abuses, provided strong support for a One China Policy and a formal critique of the Nobel Peace Prize being awarded to Chinese dissident Liu Xiaobo in 2010, along with consistent support for China on the Tibet issue.

These political actions are a direct outcome of Chinese involvement in Serbia. The EU's strategy of developing infrastructure in combination with the development of the host nation's political structure serves to avoid these consequences on moral grounds, whereas in the case of Chinese investment, Serbia must learn to develop its moral values on their own. It remains to be seen if China will allow Serbia to develop their political position to the point of allowing peaceful protests, and if so, how this will impede Chinese interests in Serbia.

Ultimately, the issue China provides the European Union through the One Belt, One Road initiative is that it allows for political power to be gained through economic means within European borders. Member States that are in need of foreign direct investment and are politically unsure of the European Union are susceptible to easy investment processes from China that are otherwise unavailable through the European Union, instigating further interest in China and promoting individualism instead of unity amongst Member States. The OBOR initiative will continue to pin states against each other in bids to receive Chinese contracts; if states are unable to compete economically, then political concessions will be, and already have been, made to appeal to Chinese national interests.

## 6. Recommendation

Reflecting on OBOR's background, Serbia's needs and China's aspirations, a unified response by the European Union is the recommended course of action in answering the rapid growth of China in Europe and the advancement of the OBOR initiative. Without a common European response to China, Beijing will continue to fish for weak states that are more desperate to become willing partners for grand endeavors. As China continues to build its infrastructure reputation, weaker states will continue to build up larger debts, exercise more human rights violations *vis-à-vis* spillover effects and ideologically move away from the European Union.

Serbia's fear is that a unified China response with Europe could limit investments. However, Serbia is likely to continue to receive Chinese investment, even with a unified EU response, given the amount of projects already agreed upon and the geographical and political importance Serbia holds for China. Therefore, a unified EU response to China will not limit Serbia's growth, and is both adequate and appropriate in this case.

Further, there would be nothing radical regarding a specific approach by the European Union in dealing with another state, as a similar concept is already under negotiation with the United States since 2013 and has just been completed with Canada. As well, the Transatlantic Free Trade Agreement (TAFTA), a proposal to create free-trade between the EU and North America, has also been discussed since the 1990s.

This unified response can be a direct reaction to China's OBOR initiative, or it can be built off of the existing EU-China Connectivity Platform (EUCCP) that was launched in 2015. Regardless of how a unified response begins, it is recommended that its purpose is to further European-Chinese synergies, educate the Chinese on EU regulations and procedures, and to ensure no undermining of European political values. This institutionalized engagement would abide by rules and procedures through a multilateral negotiation method to counter China's preferred bilateral negotiations.

A unified policy to China should educate smaller states (such as Serbia) that are unable to access adequate information on Chinese projects and provide a bargaining tool by treating access to their state as access to the highly coveted European market. Thus, European states will be able to bargain with China on a more even plain while getting reciprocal access to the Chinese markets with a better deal.

The European Union needs to recognize that Serbia will probably continue to welcome investment from China in the future, and should not limit them but adjust to find an appropriate means of accepting them. Most importantly, they should ensure not to undermine their membership progression as they accept Chinese funds in the future. To do this, the EU needs to have a common response that enables Serbia to receive additional EU grants as they further align with the EU's foreign policy on China.

The EU's common policy towards China should also require Chinese projects to be in line with the EU's regional goals of sustainable development. This begins with an increase in transparency, with particularly more public information and ethical bidding practices. Further, Europe's policy towards EU aspiring states like Serbia should be to prioritize and further reward the various accession chapters revolving around regulation of infrastructure projects, bidding standards, and any chapters related to anti-corruption.

In this manner, the European Union is not lowering their standards but re-prioritizing to ensure that the non-EU states can receive the best possible outcome. However, reprioritization of accession chapters is inadequate if the EU does not recognize the difficulties local governments have with the complexities of the EU's administration. Therefore, coordination is required by the EU to assist states like Serbia in acquiring funding from other sources if they cannot adequately complete the various EU accession requirements so as to avoid detrimental bilateral negotiations with China.

The underlying idea is that the EU cannot afford to lose the trust of future members due to its own complex administrative processes. This will allow Serbia to view the EU as a positive force even if they are not acquiring their loans or grants directly.

## 7. Conclusion

This thesis is designed to assist in understanding the current global aspirations of China through the Heartland Theory and its specific consequences for Serbia. The creation of the OBOR initiative indicates a foreign policy that promotes Chinese expansion across the Rimland with an interest in making China the hub of all economic activity in the continent. Therefore, analysis of China and OBOR is required because Mackinder had illustrated Eastern Europe to be important in securing the Heartland and because China has outlined Serbia as the test-subject before expansion into Eastern Europe.

The large investments in Serbia and the creation of the CEEC 16+1 initiative shows an interest in securing political and economic influence in the Eastern European region directly. Of the many spillover effects of Chinese investment in Serbia, the largest consequence is the violation of human rights that were displayed within Serbia and the political support in favor of China that are contra to European values. Serbia will continue to experience spillover effects that will delay its progression within the European Union as it is an important driver of China's entrance into Eastern Europe.

Thus, when analyzing China's foreign policy, we can see three prophecies by Mackinder being fulfilled that indicate that the Heartland Theory is influential in dictating the foreign policy of China:

1) The rapid rise of China with global aspirations and interests in countering US and Russian dominance in Central Asia;

2) China's attempts to unite Eastern Europe against the European Union to allow for easier economic conquest under the CEEC 16+1 initiative;

3) Germany's focus on the European Union and Russia's economic collapse have created an environment where of the three potential candidates, only China is the capable candidate of pursuing rule of the Heartland through the capture of Eastern Europe.

To counter China's rise, protect European interests fairly and maintain trust in the European Union, a unified and concrete response must be adopted to counter China. China is only able to compete with the European Union as a money-lender, but the EU can illustrate to Serbia its ability to develop them politically and at worst, empower Serbia to create better deals with China without sacrificing human rights or harming social programs, as was the case with Montenegro.

As the Heartland Theory recommends a divided Eastern Europe to make the region more difficult for capture, this report also claims that if Europe were to create a common policy towards China, it would help minimize nationalism in Eastern Europe spawned by China. Further, a common policy towards China would assist Serbia in acquiring funds when unable to complete EU accession chapters and maintain a connection between Serbia and the EU while removing the power of China's bilateral trade deals.

Ultimately, Serbia as a state is paradoxical for China as its stability and economy, which attracts the investment of China, is almost entirely supported by the European Union, which is the institution China will inadvertently pull Serbia away from. This instability shows that more than likely, China does not want to dismantle Europe, but rather maintain selective cooperation that gives them leverage while not holistically undermining the EU.

Therefore, Europe must assess China's spillover effects on nations currently under European influence and what accession processes need to be adjusted to allow for the appropriate transformation of states into EU members. Most importantly, this should be done without limiting their access to funds, but rather adjusting where and how these funds are received, if not through the European Union, to ensure European stability regardless of a looming China threat.

## **8. List of Appendices**

**Appendix A:** List of Serbia's Projects in Partnership with China since 2008

**Appendix B:** List of Serbia's Top Trading Partners (2016)

**Appendix C:** Graph of Serbia's and its neighbouring states' level of Chinese investment

**Appendix D:** Map Outlining the Heartland theory

## 8.1. Appendix A

List of Serbia's Projects in Partnership with China Since 2008

| Year         | Chinese Company           | Sector                     | Value in Million € | State of Investment | Nature of Investment                 |
|--------------|---------------------------|----------------------------|--------------------|---------------------|--------------------------------------|
| 2008         | Official Lending          | Retail                     | 32                 | Completed           | Belmax Trade Center                  |
| 2011         | Wolong Group              | Motors and control systems | N/A                | Completed           | Sever Company                        |
| 2012         | Official Lending          | Energy                     | 293                | Ongoing             | Thermal Power Plant at Kostolac      |
| 2014         |                           |                            | 608                |                     |                                      |
| 2014         | Official Lending          | Mihajlo Pupin Bridge       | 260                | Completed           | Bridge Building                      |
| 2015         | Mei Ta Industrial         | Auto Industry              | 60                 | Completed           | Obrenovac                            |
| 2016         | Official Lending          | Construction Corridor 11   | 350                | Ongoing             | Cross Border Highway Construction    |
| 2016         | He Steel Group Investment | Steel Smederevo            | 46                 | Ongoing             | Modernisation Investment             |
| 2016         | Official Lending          | Rail Reconstruction        | 1bn+               | Ongoing             | First Rail Link: Belgrade – Budapest |
| 2017         | Bank of China             | Banking                    | N/A                | Completed           | Greenfield investment Branch network |
| <b>Total</b> |                           |                            | <b>2,661</b>       |                     |                                      |

Source: Dr Jens Bastian for the European Bank for Reconstruction and Development, July 2017

## 8.2. Appendix B

List of Serbia's Top Trading Partners (2016)

| <b>Serbia: Top Trading Partner (2016)</b> |                            |                        |                          |            |
|---|----------------------------|------------------------|--------------------------|------------|
|   | <b>Partner and Ranking</b> |                        | <b>Value in EUR Mil.</b> | <b>%</b>   |
| <b>Imports</b>                            |                            | <i>Total for World</i> | <i>17,177</i>            | <i>100</i> |
|   | #1                         | EU 28                  | 10,944                   | 63.7       |
|   | #2                         | China                  | 1,447                    | 8.4        |
|   | #3                         | Russia                 | 1,277                    | 7.4        |
|   | #4                         | Turkey                 | 581                      | 3.4        |
| <b>Exports</b>                            |                            | <i>Total for World</i> | <i>13,423</i>            | <i>100</i> |
|   | #1                         | EU 28                  | 8,921                    | 66.5       |
|   | #2                         | Bosnia & Herzegovina   | 1,123                    | 8.4        |
|   | #3                         | Russia                 | 693                      | 5.2        |
|   | #4                         | Montenegro             | 666                      | 5          |
| <b>Total Trade</b>                        |                            | <i>Total for World</i> | <i>30,599</i>            | <i>100</i> |
|   | #1                         | EU 28                  | 19,865                   | 54.9       |
|   | #2                         | Russia                 | 1,970                    | 5.4        |
|   | #3                         | Bosnia & Herzegovina   | 1,531                    | 5          |
|   | #4                         | China                  | 1,469                    | 4.8        |

**Source:** “European Union, Trade in goods with Serbia” report prepared by the European Commission, 2017

### **8.3. Appendix C**

Graph of Serbia's and its neighbouring non-EU states' level of Chinese investment in stocks between 2009-2014

Source: [China Analysis, Sixteen Plus One- European Council on Foreign Relations \(ECFR\)](#)

## **8.4. Appendix D**

Map Outlining the Heartland Theory

**Source:** “The United States and the Race for Global Hegemony” Strategic Culture Foundation, 2016

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