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How to cite:

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Version: Version of Record

Link(s) to article on publisher’s website:
http://dx.doi.org/doi:10.1080/13569775.2021.2022876
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Samuel Rogers

To cite this article: Samuel Rogers (2022) Illiberal capitalist development: Chinese state-owned capital investment in Serbia, Contemporary Politics, 28:3, 347-364, DOI: 10.1080/13569775.2021.2022876

To link to this article: https://doi.org/10.1080/13569775.2021.2022876

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Published online: 12 Jan 2022.

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Illiberal capitalist development: Chinese state-owned capital investment in Serbia

Samuel Rogers

Faculty of Arts and Social Sciences, The Open University, Milton Keynes, UK

ABSTRACT

State-owned capital investment into so-called illiberal democracies in Central and Eastern Europe (CEE) has risen to become a more significant feature of CEE political economies, although knowledge of the impact of such transnational flows on illiberal capitalist development remains limited. This article analyses this form of capitalist relation by contributing to and consequently fusing two strands of burgeoning academic literature: (1) the political economy of illiberalism and (2) state capitalism. The result is an expansion of the purview of each: the former by focusing on CEE illiberalism’s external (state) capitalist dimensions; the latter via an upgrading of the rigour of the term ‘state capitalism’ through analysis of ‘new territorialities’. Empirically, I use a Case Study Analysis of Chinese state-owned capital investment into Serbia with focus on two Sino-Serbian agreements and identify two issues that may come to characterise the broader relationship between CEE illiberalism and Chinese state-owned capital investment.

Introduction

The emergence and consolidation of illiberalism in Central and Eastern Europe (CEE) was perhaps the most significant political development in the region in the 2010s. So-called illiberal democracy discussed in the 1990s (Zakaria, 1997) and later operationalised by the current Hungarian Prime Minister (Orbán, 2014) has become a successful political model across the region. Concomitantly, since the 2010s, Chinese inward state-owned capital investment has become an increasingly important dimension of some CEE illiberal regimes’ political economies though its value to and impact on illiberal development is understudied. During the last decade, the number of agreements between CEE illiberal states (e.g. Bosnia, Hungary, Montenegro, and Serbia) and state capital hybrids such as policy and development banks, and state enterprises (Alami et al., 2021; Coe, 2021) have risen to render Chinese inward state-owned capital investment a more significant dimension of capitalist relations within illiberal CEE polities. In turn, the import of state-owned capital transfers has become substantial enough to affect aspects of national
politics and political economies, such as debt levels, the potential for environmental catastrophe, and industrial action. With the ongoing COVID-19 global pandemic forcing states to ‘re-enter’ the market and inject unprecedented amounts of capital to address value chain disruptions, infrastructure requirements, and welfare necessities etc., it has become more important to analyse the relationship between CEE illiberalism and Chinese state-owned capital investment, a form of capital transfer categorised under the rubric state capitalism.

As such, this article adds to two strains of (not entirely unrelated) scholarly literature: (1) the political economy of illiberalism and (2) state capitalism via the exploration of ‘new’ territorialities. It does so by analysing the relationship between illiberal capitalist development and Chinese state-owned capital investment using Serbia as a standalone case study of illiberalism. In doing so I make no assumptions that there is any authoritarian ‘threat’ within these capitalist relations, but rather emphasise the importance of understanding – and at the very least acknowledging – the uniqueness of state development in the CEE context. This is essential because capitalist development in CEE has been highly uneven across the post-socialist space, and the watershed moments of 1989/1991 did not stimulate a regional-wide ‘big bang’ advent of market capitalism. Rather, such relations had already been under development. This underscores the importance of recognising the historical dimensions of modernity including dialectical relationships around class, elite networks, politics, and industrial policy etc. Regarding state capitalism as an analytical tool, the hope is that researchers on CEE state capitalism will pay close(r) attention to the complexity of capitalist diversity and state development as illiberalism strengthens and/or weakens over time, simultaneously avoiding an ‘othering’ of state capitalism as an impure, ‘Eastern’ danger to Western development (Alami & Dixon, 2020a). In other words: (illiberal) capitalist development is an uneven process that requires closer consideration of changes to the state. This is particularly the case in Serbia where non-European Union (EU) membership status precludes access to the EU’s Cohesion Fund, significantly impinging capitalist development vis-à-vis its CEE neighbours, illiberalism notwithstanding.

Empirically, this article examines state-owned capital transfers from China to Serbia using a Case Study Analysis (CSA) (Yin, 2003). Treating Serbia as a single case study ($N = 1$), I analyse two interrelated dimensions that may emerge within the relationship between CEE illiberalism and (Chinese) external state-owned capital: (a) sectoral privileging for such transfers to become important nodal points within this relationship, and (b) creditor bias resulting from contractual stipulations; and two specific Sino-Serbian agreements: (i) the extension of the Kostolac B3 thermal power plant, principally financed by a Chinese state-owned bank loan; (ii) an aspect of the Safe Cities project (a Sino-Serbian initiative), namely purchases of Chinese-manufactured military equipment. These deals are selected to demonstrate the sectoral diversity of state-owned capital inflows. I subsequently ask what these developments mean for the broader universe of state-owned capital investment to CEE illiberal regimes. Taken together, I anticipate this article stimulate discussion on how such state-owned capital agreements influence illiberal capitalist development in CEE and as such, in the penultimate section suggest four research sites/strategies to further enhance understanding.

The article proceeds as follows: the next section creates a working definition of illiberalism before discussing the political economy of CEE illiberalism, state capitalism, and the
The political economy of illiberalism and state capitalism

What is illiberalism? In academic literature, the term has become a slippery concept. Kauth and King (2020, p. 367) argue there are two strands of illiberalism: it is ‘either an opposition to procedural democratic norms – a disruptive illiberalism – or constitutes part of an ideological struggle – termed ideological illiberalism’, where ‘[t]he aim of disruptive illiberalism is to undermine democracy … [and the focus of the latter is to] essentially determine who is considered a full member of society’ (Kauth & King, 2020, p. 377). Laruelle (2020) makes a more clear-cut definition: illiberalism is a reaction to liberalism and therefore occurs in polities where at some point, however flawed, liberal democracy was experienced. In this understanding, the emergence and subsequent practice of illiberalism is necessarily limited geographically: it is not (and could not be) present in China or Cuba whereas it is (or could be) present in Hungary or Russia and crucially, this zone of possibility extends into the Western democratic heartlands, too (Rupnik, 2018; Wodak, 2019). This is not an unambiguous definition, however: other scholars claim China is indeed illiberal (Vukovich, 2019) given its strong state and antipathy to neoliberalism, which emerged from China’s rejection of the neoliberal/shock therapy model that devastated many post-socialist European states after 1989/1991 (Weber, 2018; 2021). For the purposes of this article, I proceed with Laruelle’s (2020) abovementioned definition and add three additional caveats to it as presented by the same author elsewhere (Laruelle, 2021, p. 5): ‘(1) [i]t updates classically conservative views (the primacy of the nation, religion, gender relations, and more broadly the belief that human beings have ontological features that cannot be entirely socially constructs); (2) [i]t draws some inspiration – in varying degrees – from far-right ideologies (such as the belief in metapolitics) and therefore takes more rebellious (and populist) positions than status-quo-oriented classical conservatism; (3) [i]t advances a critique/rebuttal of some elements of political liberalism, such as trust in institutions and minority rights’. While rather content-heavy, I consider this definition applicable not just to the post-2010 illiberal regimes in CEE but as above, also illuminating for considering the dawn of illiberal practice in the so-called ‘advanced’ democracies in Western Europe and North America (Krastev & Holmes, 2020; Merkel & Scholl, 2018).

Scholarly work on the political economy of illiberalism is unfortunately limited. Scheiring’s (2020) book on this subject with an empirical focus on Hungary was a fresh account of this dimension of capitalist development. The author develops a class and power structure analysis, viewing the agency of political actors as controlling factors of the transformation away from the post-1989/1991 liberal-democratic period experienced piecemeal across CEE (Scheiring, 2020, pp. 55–60). This understanding connects hitherto dispersed approaches that did not instil agency as a key variable to this transformation, such as proponents of authoritarian neoliberalism (Bruff, 2014; Fabry, 2019) and authoritarian populism (Rogers, 2020a) to those who view political actors as intrinsic to this process, such as advocates of the authoritarian capitalism debate (Fuchs, 2018; Sallai & Schnyder, 2021). Further, Scheiring’s (2020) approach does not necessarily view this transformation as
delivering developmental objectives as those who have written on conservative developmentalism have done (Bluhm & Varga, 2020). What is instructive from Scheiring’s publication is his recognition of the agency of the political class. Drawing on classical works on power (e.g. Domhoff, 1967) and neo-Gramscian scholars (e.g. Poulantzas, 1978), Scheiring informs us that the chief agent for the illiberal project is the political class, who are able to dictate cultural practice and mobilise segments of society alienated by globalisation-inducing inequalities due to their manipulation of the power structure for the purposes of self-reproduction.

Scheiring (2020, pp. 74–77) applies the concept of the accumulative state to Hungary. This ‘refers to a state formation that emancipates national capital and brings it into the dominant power coalition and by doing so generates social conflicts that require political solutions that are untenable under liberal democracy’ (Scheiring, 2020, p. 76). When he discusses state capitalism, however, it is almost exclusively with the prefix ‘authoritarian’, labelling for example, Hungary’s post-2010 development model ‘a form of hybrid authoritarian state capitalism’ (Scheiring, 2020, p. 333) where the Orbán regime leads development at the expense of the working classes and nationwide poor (Scheiring, 2020, p. 336). By contrast, recent scholarship on state capitalism has to some extent moved away from self-limiting connections with authoritarianism, though it remains splintered across the disciplines of business studies, economics, geography, law, political science, and sociology leaving it without a clear research agenda (Sperber, 2019) creating scholarly ambivalence (Alami et al., n.d.); paradoxical given the increasing visibility of the state as an actor in the global economy particularly since the onset of the global pandemic, acknowledged above. Recent literature has contributed to debates categorised under the term ‘new state capitalism’ (Alami & Dixon, 2020b; Babic, 2021; Babic et al., 2020; de Graaff, 2020; Kurlantzick, 2016; Musacchio & Lazzarini, 2014; Naughton & Tsai, 2015; Ricz, 2021) but analytical inconsistencies and contradictions across the realms of theory, temporality, and locality remain (Alami & Dixon, 2020b). To help assuage these tensions particularly regarding the final aspect of this trichotomy, the next two subsections discuss state development, illiberalism, and external capital relations in the CEE context and the importance of understanding its uniqueness. Such grounding is intended to sober analysis of state capitalism broadly defined because it undermines assumptions that such practice is intrinsically authoritarian. In other words, acknowledgment of historical specificities is crucial for overcoming any assumed bias that reifies a good/pure Western versus a bad/impure Eastern capitalism.

The state and illiberalism in Central and Eastern Europe

Central and Eastern Europe is uneasily indexed by the categories Global North or South (Müller, 2020) and its development before and after 1989/1991 has never been equal. Indeed, CEE development is distinct from Western Europe and cannot be expected to reach the Westernised standard of modernity (Szücs & Parti, 1983). Initially after 1989/1991 however this is what happened: analysis of the CEE state became hampered by an assumption that state development was occurring roughly in line with those in the Western half of the continent (Grzymala-Busse & Jones Luong, 2002), overlooking the fact that what had taken centuries to achieve in the West was unfolding in decades in the East (Szelényi & Mihályi, 2020) and this at a wholly different historical juncture. In
this region, capitalist development was clearly fundamentally altered by the watershed moments of 1989/1991. However, neoliberalism had already begun to influence the region before the systemic change. In the mid-1980s an alliance of radical reformers and dissidents had become disillusioned with ‘goulash communism’ and sought to execute shock therapy: a set of reforms so sweeping that even economists from the United States were astonished by the widespread acceptance of neoliberal policy implementation designed ‘to serve as a laboratory experiment supporting Western economic theories’ (Bockman & Eyal, 2002, p. 345). It is therefore important to recognise the decade before 1989/1991 was profoundly guided by neoliberal thought (Szanyi, 2019b).

After 1989/1991, capitalist institutions in parts of CEE were developed ad hoc with ownership of ‘big’ capital often located in the pre-1989/1991 West (Nölke & Vliegenthart, 2009). This resulted in unique capitalist development and extremely diverse political economies across Europe’s eastern periphery (Bohle & Greskovits, 2012): institutional capture skyrocketed after 1989/1991 in some regions via a mix of oligarchic takeover; in others the abovementioned shock therapy was the order of the day; with a policy of gradualism initiated elsewhere, meaning ‘relations between states and capital did not gravitate towards a single model’ (Dale & Fabry, 2018, p. 239). More prosaically, the collapse of state-socialism across the region accelerated substantial material unevenness. Such disparities have been a key driver for the development and subsequent proliferation of illiberalism.

In CEE, the development of illiberalism in its strongest, most embedded examples, such as Hungary and Serbia, has emerged out of neoliberal practice, strengthened due to specific state-business relations typically characterised by significant levels of cronyism, and potentially leading to the spread of what has been pessimistically termed ‘neo-illiber- alism’ (Hendrikse, 2018, 2021) to the region: an alliance of neoliberal and radical right actors. In the Hungarian case, the creation of fiefs that service core state actors has created a successful regime of accumulation for the governing xenophobic Fidesz party (Rogers, 2020b; Szelényi, 2016; Szelényi & Mihályi, 2020), indicating this formulation may indeed have some traction in the short-term, though accurate longer-term prognoses remain challenging given fast-changing, uneven regional development since the cessation of state-socialism and the highly globalised nature of the contemporary global political economy.

**Central and Eastern European illiberalism and Chinese state-owned capital**

Literature on the capitalist dimensions of CEE has recognised the erosion of liberal norms that were widely adopted after the transition to market capitalism and representative democracy (Cianetti et al., 2018) while observers of Hungarian illiberal capitalist development have acknowledged the role of state capitalism broadly defined though not specifically as a regime-enhancing aspect of the illiberal project (Fabry, 2019; Scheiring, 2019). There is no clear strain of analysis that connects the two, however: academic literature has often underestimated illiberalism’s potential to dominate its polities and recalibrate its political economies (Nölke & Vliegenthart, 2009) and occasionally (over)emphasised the role of political leaders in steering these outcomes by focusing on core political agents (Lendvai, 2017) rather than the cross-country terrain of corrupt practice that underpins illiberalism (Rogers, 2020b; Szanyi, 2019a). While there has been analysis that
moves beyond categorising CEE capitalist development as simply a hybridised variant of its Western equivalent (Bohle & Greskovits, 2012), recognition of the role of the EU in the development of illiberalism (Bozóki & Hegedüs, 2018), and the political affiliations of domestic capital owners (i.e. Rightist – and later pro-illiberal – capitalists) (Scheiring, 2020), scholars have typically overlooked how inflows of Chinese state-owned capital influence illiberal capitalist development in the CEE context. This is a significant omission given the rise in observable deals with Chinese state-owned capital since the 2010s, such as those agreed under the auspices of the 16 + 1 group (an initiative to stimulate investment relations between fifteen post-socialist European countries and Greece, plus China). More specifically: examples of CEE illiberalism, notably Hungary and Serbia have recently significantly advanced (attempted) inflows of Chinese state capital (Matura, 2019). For example, in Serbia, bridge and road construction, upgrades to power plants, renewable energy projects, and investments in the Information and Communications Technology (ICT) sector are ‘exclusively based on state-to-state loans’ (Dimitrijević, 2017, p. 77). It is therefore clear that scholarly literature must engage more with this phenomenon to help understand why this is happening and what it means for CEE illiberal capitalist development in the first instance. Following a discussion of the methodological approach taken for this research, the remainder of this article focusses on Chinese state-owned capital investment in Serbia.

**Methodological approach**

As above, this work uses Case Study Analysis (CSA) (Yin, 2003) to illustrate the relationship between illiberal capitalist development and Chinese state-owned capital. Specifically, I use a single case (Serbia), which conforms to the small-N qualitative method (Yin, 2003). Within the case study, I analyse two ‘units’ (Gerring, 2004): (i) the extension of the Kostolac B3 thermal power plant, and (ii) an aspect of the Safe Cities project, namely purchases of Chinese-manufactured military equipment. I elaborate on these in the next section. This research design speaks to only one aspect (synchronic) of the concept of CSA (Gerring, 2004; see also Seawright & Gerring, 2008) and therefore offers scope for future research to advance epistemological understanding of the subject – the relationship between illiberal capitalist development and (Chinese) state capital investment – to include increased covariational evidence: diachronic (through time), synchronic (at a point in time), and/or a blend of each (Gerring, 2004, p. 343), and this could be an increase in the number of cases (N) and/or units.

This essay is unfortunately weakened by a lack of empirical data. Due to the COVID-19 pandemic, I was unable to conduct in-depth field work. As a result, I have collected empirical data from policy document analysis and scholarly contributions. Future work would undoubtedly benefit from methodological approaches that develop theory such as process tracing (George & Bennett, 2005), and this is reiterated in the conclusion. In any case the data presented in the following section help illuminate the relationship between CEE (Serbian) illiberalism and (Chinese) state-owned capital and what it means for illiberal capitalist development more broadly. The CSA begins with a brief overview of the trajectory of the Serbian political economy, followed by a discussion of Sino-Serbian capitalist relations, before homing in on the content of two specific deals and
their advantages to Serbia, and finally suggesting some future research pathways for empirical data collection.

Case study: illiberal Serbia

After 1989/1990, Serbia ‘transformed from the largest republic of Eastern Europe’s most liberal country to an impoverished, barely functioning state’ (Pavlaković, 2007, p. 3) drained by a decade of brutal conflict. Per capita household expenditure (in constant 1994 Dinars) plummeted from 3,356 in 1989 to 1,096 by 1998 (Palairet, 2001, p. 905) and the country did not become a fledgling democracy as many of its post-socialist European counterparts did, but a one-party authoritarian state (Cohen, 2001), assisted by the then-governing Serbian Socialist Party’s inheritance of the former ruling communist party’s organisational networks, property, and anti-market ideology (Jou, 2010). Essentially ‘the old nomenklatura simply moved sideways from command to market economy in an orgy of personal asset accumulation and insider dealing as privatisation of state assets gathered pace’ (Upchurch & Marinković, 2011, p. 320 italics in original).

In effect, this transformed the Serbian economy from formal to speculative (e.g. through the illicit trade of commodities) whereby a ‘power elite’ organised the economy for self-serving purposes centred around criminal activity (Obradović, 2007). Since the end of the Milošević regime in 2000, the standout features of Serbian politics have been ‘the preponderance of far-right parties and nationalism’ (Spoerri, 2014, p. 163) and the perennial issue of EU accession. Today, Serbia’s access to EU funds is limited compared to member states, with EU grants to Serbia totalling €1.5 bn during the 2014–2020 period under the auspices of the Instrument for pre-Accession Assistance (European Commission, 2020a); a miniscule amount compared to Cohesion Fund transfers for CEE EU members (European Commission, 2020b). Finally, incumbent political office-holders in Serbia carry significant personnel overlaps from the pre-2000 period including President Aleksandar Vučić himself (Eror, 2019). Serbia’s development over the past three decades has been unique compared with its post-socialist European and former Yugoslav counterparts, reinforcing the importance of acknowledging difference in state development both within and without the region, as outlined above. In sum: these fast-changing dynamics created a highly unstable political economy, which has been somewhat stabilised by the emergence and consolidation of illiberalism during the 2010s (Bieber, 2018).

Sino-Serbian capitalist relations: emergent trends

While illiberal Hungary’s EU member status has stimulated substantial capital transfers for two decades, Serbia has identified alternative development trajectories. Serbian political elites have become increasingly attracted to Chinese state-owned capital investment, which has emerged as an important aspect of the country’s economic development. The country’s negligible inward capital transfers from the EU vis-à-vis members encourages strategies to ease inward Chinese state-owned capital investment. One such avenue is to earmark specific sectors for such inflows. In the case of the energy sector – a critical component of any national political economy – loans to realise energy projects in the Western Balkans from Chinese state-owned entities outweigh those from the EU (Esser et al., 2018). The agreement to extend Serbia’s Kostolac B3
thermal power plant via a $613 mn Chinese Export-Import Bank (Cheximbank) loan (80% of project value) and constructed by Chinese state-owned China Machinery Engineering Corporation (CMEC), discussed in more detail in the following sub-section, in some respects echoes the Paks II extension in neighbouring Hungary: an agreement financed by a Russian state-owned bank loan ($10 bn/approximately 7% of GDP) to expose Hungary to external creditors until the mid-2040s on a potentially environmentally catastrophic energy infrastructure project; unnecessary given the opportunity to increase electricity generation from renewable sources (Romhányi, 2014). Moreover, there appear to be interconnected interests between the state, the providers of the foreign state loan, and the project (state) owners: 100% state-owned utility company Elektroprivreda Srbije (EPS), in the Kostolac case; MVM in the Paks II case. Accordingly, the Serbian energy sector could be transformed in terms of ownership and become an important nodal point in Sino-Serbian capitalist relations. However, other sectors have already become important sites for state-owned capital investment. For example, transport sector agreements financed through state capital institutions have developed added international dimensions: the Belgrade-Budapest railway upgrade – an infrastructure project linking the two illiberal capitals primarily financed by a Cheximbank loan (Rogers, 2019) – is another significant agreement between Chinese state-owned capital and CEE illiberalism. Indeed, state-owned investment in the energy and transport sectors across the region is already substantial (Szarzec et al., 2020).

An additional feature of these loans is also underexplored: the content of contractual agreements. A recent report (Gelpern et al., 2021) found loans provided by Chinese state-owned entities include contractual stipulations that significantly impact the borrower and increase secrecy. For example, of the 100 contracts analysed by the study, all those signed with the Cheximbank since 2014 contain so-called confidentiality clauses whereby: ‘[t]he Borrower shall keep all the terms, conditions and the standard of fees hereunder or in connection with this Agreement strictly confidential. Without the prior written consent of the Lender, the Borrower shall not disclose any information hereunder or in connection with this Agreement to any third party unless required by applicable law’ (Gelpern et al., 2021, p. 24). In addition, 77% of Cheximbank contracts studied in this report require borrowers to potentially immediately return all accrued interest and sums payable to the lender in the event of changes to government law that make it impossible to service their debt (Gelpern et al., 2021, p. 42). While arbitration proceedings to enforce repayments may not be achievable in an international context, the reality is the Serbian illiberal regime’s choice of Chinese state-owned capital as a mode of national development could be highly impactful if such stipulations are present in the agreements discussed below: the Kostolac B3 extension and the Safe Cities Project. This may become more consequential given that according to the Serbian Ministry of Mining, not only is the Kostolac extension simply a ‘stepping stone’ for CMEC’s participation in the realisation of future projects (Energetski Portal, 2019), but also the Serbian government has earmarked a transport infrastructure investment plan with the Cheximbank for the 2020–2025 period (SeeNews, 2020).

The following two units (Gerring, 2004) are significant because they demonstrate sectoral diversity and variety of infrastructure aspects to which Chinese state-owned capital has been directed. Importantly, this is not the total exposure the Serbian state has to Chinese state-owned capital and the agreements are not comparable in value. The first
$613 mn, the second up to approximately $219 mn equate roughly 1.6% of Serbian GDP ($51.48 bn) at 2019 levels (i.e. pre-COVID-19 levels) (World Bank, 2019).

The Kostolac B3 extension

The Kostolac thermal power plant is critical to servicing Serbia’s energy demands. It produces 12 mn tonnes of coal per annum (30% of all Serbian coal) and provides approximately 20% of Serbia’s electricity usage (EPS, 2018). The B3 extension project is part of a wider modernisation of the whole Kostolac plant begun in 2011. As noted above, construction will be done by Chinese state-owned China Machinery Engineering Corporation (CMEC) – a subsidiary of the Sinomach group of companies (a collection of state-owned enterprises) – and financed by a $613 mn loan from the Cheximbank (80% of the project value) with a maturity of 20 years and a fixed interest rate of 2.5% (Serbia Energy, 2020).

This deal is important to the Serbian political economy because coal provides approximately 70% of the country’s electricity needs and Serbia is home to the second most abundant lignite reserves in Europe (after Germany), rendering the coal lobby highly influential. Indeed, the coal lobby ‘is the architect of EPS’ business decisions and direction’ according to former state secretary for the Serbian Ministry of Mining and Energy, Nikola Rajaković (BGEN, 2019). Therefore, the influence of this lobby on the decision to extend the Kostolac plant is significant. According to Rajaković, the plan to extend the facility was ‘a mistake’, 15 years overdue, and problematic as (1) Serbia’s finite reserves will be exhausted within 50 years, and (2) it means Serbia will be unable to meet its own target of a 27% share of renewable energy sources (BGEN, 2019). Furthermore, there are serious environmental concerns with the facility and CMEC’s role in the extension: in 2019 Kostolac B3 alone exceeded Serbia’s national limit for sulphur dioxide emissions (BGEN, 2020); just one example of countrywide concerns over toxic emissions from Chinese-financed agreements (Financial Times, 2021).

These developments not only evade obligations contained within the EU’s Connectivity Agenda and the Paris Agreement, but they also lock in recipients of such loans (e.g. Serbia) to environmentally damaging coal extraction technologies due to China’s own lignite overcapacity crisis (Esser et al., 2018, pp. 26–28). This deal also overlooks the impact of the 2014 floods, which affected the Kostolac plant and the larger Kolubara coal field, reducing Serbia’s electricity output by 15% (Reuters, 2017). Finally, the agreement was realised against the backdrop of some unusual decision-making. The Serbian government signed a deal with CMEC to construct B3 in 2013: an intergovernmental agreement with no tender or environmental impact assessment. In 2015, at an extraordinary parliamentary session, the loan was ratified, stipulating any arbitration would be conducted in Beijing (Bankwatch Network, 2020).

Advantages

Despite the concerns listed above, in the Kostolac B3 case Chinese investors may be more attractive than a Western equivalent because the latter often dismantle local workforces including management (Defraigne, 2017). By maintaining extant workforces, Chinese investors would expand on a precedent example of asset-ownership in illiberal Hungary where local employees have been sheltered from unemployment, though
wages have typically stagnated (Nyíri & Xu, 2017). Additionally, there is the potential for the B3 extension to stimulate complementary economic activity. For example, seasonal plant workers will create employment possibilities in the areas of culture, hospitality, and trade for the 5,000 local inhabitants (Energoprojekt, 2016, p. 235), complementing the anticipated employment of 300 Serbian nationals (Bankwatch Network, 2018, p. 42).

The safe cities project

This endeavour encompasses three interrelated areas: (a) upgrades to Serbia’s surveillance system (b) military cooperation, and (c) police cooperation on joint street patrols in Serbia (Vuksanovic, 2019). Details of the second of the three aspects of the project are given below:

In 2017, Serbian President Vučić met with China’s state-owned Poly Group Corporation ostensibly to strike a deal to manufacture military equipment in Serbia (SeeNews, 2017), but negotiations did not materialise into anything tangible. After a 2018 meeting between the Serbian Deputy Defence Minister and his Chinese counterparts representing the state-owned China Aerospace Science and Technology Corporation, however, an agreement was reached to deliver nine Wing Loong combat drones with the following technological capabilities: airborne period of 12 h; 5,000 m ceiling; 250 km range; 200 kph max speed; day/night thermal cameras; laser-bomb and missile guidance; target coordination; artillery fire control (B92, 2018; Global Times, 2020). The deal contains the possibility of delivering 15 additional drones, which extends the global portfolio of the Wing Loong model – currently they are in use in Egypt, Kazakhstan, Nigeria, Pakistan, Saudi Arabia, and the United Arab Emirates, amongst others (Nikkei, 2019) – with Serbia the first in Europe to receive the models. Additional technology transfers from China have seen the Serbian-manufactured drone Pegaz-011, upgraded to carry weapons (Forbes, 2020), which would have the potential to add new dimensions to the ongoing conflict with Kosovo (Nikkei, 2019). Separately, in mid-2020, Serbia purchased an FK-3 missile defence system from China, acknowledged by the Serbian state-owned arms firm Jugoimport SDPR, which listed the purchase in its annual report (Reuters, 2020). While the value of these acquisitions is unclear, it has been reported that each drone costs between $13 and 14.6 mn (N1, 2020).

Advantages

Serbia’s EU Candidate Country status signifies it is to accede to the bloc at some future point. However, its current position exterior to the bloc provides more leeway to potentially privilege and strategise drones as an important sector. Such standing creates a unique location-specific advantage, namely, being external to the EU could help it upgrade industrial dimensions (e.g. drone manufacture) within the political economy and advance up the global value chain. Additionally, non-EU status sidesteps scrutiny from EU Competition Policy, an institution that delayed the abovementioned Paks II project. This means technology transfers from China may be advanced more rapidly than in illiberal EU-members. Finally, stemming from the three aspects of the Safe Cities project outlined above, Serbia may be able to use its privileged position resulting
from friendly relations and investment environment to upgrade bilateral trade through export growth and increases in the quality of value-added products (Jovičić et al., 2020).

Taken together, these investments illustrate the sectoral diversity of state-owned capital inflows but what do these developments mean for the broader universe of state-owned capital transfers to illiberal regimes in CEE? In the first instance, state-owned capital investment may open policy space for illiberal actors as has been the case for political elites in parts of Latin America (Kaplan, 2016), although increased external debt may conversely narrow avenues for public financing initiatives, thus possibly reducing policy space. Hungary and Serbia (the latter then part of Yugoslavia) both became debtor countries before the 1989/1991 systemic changes, which means accruing largescale debt to external creditors has historical precedent. Rather, the recalibration of debt to Chinese (and/or Russian) state-owned capital institutions raises the prospects of further stabilising CEE illiberalism particularly given (a) the ideological affinities between different national illiberal actors (Szelényi & Mihályi, 2020, pp. 179–189), and (b) contractual obligations regarding debt repayment to Chinese entities are often not as demanding as their private debt equivalents in the CEE context (Jepson, 2021). In the Serbian case, continued exclusion from the EU means it cannot rely on transfers received by member states, which raises the attraction of increasing Chinese state-owned capital investment as a mode of development. Indeed, a level of sinophilism has materialised within Serbian political and economic decision-making circles designed to facilitate bilateral business relations (Gledić, 2019), spreading to the realm of foreign policy exemplified by support for China on relations with Hong Kong. Should Serbia accede to the EU, then more Atlanticist sentiment may emerge within political leadership, although further analysis on such speculation is beyond the scope of the present article.

Future empirical pathways

As stated above, given the restrictions on methodological opportunity and consequent empirical limitations, I recommend four research sites on which future analysis focus. First, in terms of personnel, it would be illuminating for research to conduct qualitative analysis with economic actors such as board members, brokers, Chamber of Commerce members, lobbyists, policymakers etc. operating in CEE illiberal polities and who are sensitive to conditions in the region (e.g. Kopecký & Spirova, 2019). Research that benefits from access to key figures involved within the realms of business and policymaking may be able to further uncover the extent to which state-owned capital investment galvanises illiberal networks. Additionally, data in this regard would shed light on for example class relations (Scheiring, 2020) and elite networks (de Graaff, 2020) creating knowledge on how and why actors operationalise such agreements. Second, regarding sector I suggest research investigate banking, energy, ICT, infrastructure, and manufacturing as this would produce insight into regime strategies, amongst other dimensions of CEE illiberalism’s relations with external state-owned capital. In the Hungarian case, some of these sectors were selected for significant ownership transfers (from foreign to domestic) after 2010. Sectorally diverse empirical research would better understand the role of state-owned capital investment in the trajectory of illiberal capitalist development across the illiberal political economy in the first instance by locating where industrial upgrading (if any) might occur, particularly important for illiberal regimes outside the
purview of the EU Single Market or Competition Policy as highlighted above in the Serbian case. Analysing the relationship between CEE business and state actors within a sectoral context would help understand ‘who mobilises whom?’ (Naczyk, 2021, p. 2), and consequently where any tensions and fusions might emerge over time. Third, studies into contractual content as undertaken by Gelpern et al. (2021) would uncover specificities included in state-owned capital agreements, helpful for understanding the impact of debt obligations on policymaking due to public finance limitations or fiscal issues. Fourth, studies of state-owned capital investments into different illiberal regimes would provide broader knowledge of why such regimes agree to these types of deals in comparative perspective. In relation to Chinese state-owned capital, Poland – one of the most discussed examples of illiberalism – has become more cautious (Pendrakowska, 2018), which may be understood as an aspect of its own reaction to the global political recalibration away from a unipolar world (Lanoszka, 2020). This means external state-owned capital investment is not necessarily an ever-present or ‘natural’ component of illiberalism. Studying differences in engagement with state-owned capital agreements across illiberal regimes would therefore uncover more nuanced data pertaining to the importance of such investment to illiberal capitalist development on an international scale. All things considered, I hope these suggested research avenues provide scope for researchers to continue crucial investigation into illiberal capitalist development.

Conclusion

The relationship between state-owned capital investment and illiberalism in CEE is understudied. After establishing a working definition of illiberalism, to contribute to this critical line of enquiry, this article has discussed and fused two strains of burgeoning scholarly literature. First, it has extended Scheiring’s (2020) work on the political economy of illiberalism in two ways: (a) by stepping away from (EU) Hungary and into neighbouring (non-EU) Serbia, and (b) through analysis of external capital sources; in this case: Chinese state-owned capital investment. Both advances are important because they reflect the broader changes to illiberal capitalist development and how illiberal projects are on the move geographically and financially. Second, this article has contributed to the literature on state capitalism by exploring ‘new territorialities’ (Alami & Dixon, 2020b): the relationship between state-owned capital investment and CEE illiberalism using, as above, the examples of China for the former and Serbia for the latter. Through territorial extension, this article has ‘further unpack[ed] the multiple and interlocking geographies of state capitalism’ (Alami & Dixon, 2020b, p. 88), thus helping the analytical rigour of the term ‘state capitalism’, itself. To assist this further still, I stressed the uniqueness of CEE state development and that it must be acknowledged when studying such changes in this part of Europe as grounding knowledge of illiberal capitalist development with an onus on historical specificities will help undermine any ‘othering’ of actors involved with state-owned capital transfers.

Methodologically, I used a Case Study Analysis (Yin, 2003) with a small-N sample, using Serbia as a single case study. Within this case, I analysed two interrelated issues: the privileging of certain sectors and the importance of creditor bias contained within contractual agreements. The first of these may emerge as an important nodal point in the
relationship between CEE illiberalism and state-owned capital. The second may skew this relationship in favour of the creditor, though simultaneously benefit the CEE illiberal project given the significant opportunities for accumulation opportunities and creditors’ desire for political stability for the purposes of debt servicing. I then discussed two ‘units’ that both advance the exclusivity of state-to-state loans within the context of Sino-Serbian capitalist relations: the upgrade to the Kostolac B3 thermal power plant and an aspect of the Safe Cities project, identifying some potential advantages to Serbia from each example. The CSA was drawn from policy document analysis and scholarly contributions. Future research on the impact on and importance of state-owned capital transfers to Serbia and/or other CEE illiberal regimes would benefit from methodological approaches that might develop theory such as process tracing (George & Bennett, 2005) or through sustained qualitative data-collection such as elite semi-structured interviews (Dexter, 1970) because such approaches would uncover further data critical to advancing understanding these relationships.

It may be the case that illiberal actors in CEE are caught somewhere between two emergent forms of capitalism: a US-led ‘liberal’ variant or a Chinese-led ‘political’ variant (Milanović, 2019) though this assumes the region will be simply subsumed into one or the other development routes thus overlooking the uniqueness of CEE state development, stressed above. CEE illiberalism has emerged in large part because of the locality-specific blend of development processes in the region, such as state-business relations and the shared though diverse experiences of state-socialism. Furthermore, CEE is a region that requires often wholesale improvements to tangible infrastructure such as bridges, railway lines, and power plants with less observable infrastructure aspects including 5G technology installation, augmented reality, and drones. Both forms of infrastructure delineated here may come to be increasingly financed by state-owned capital given such requirements necessitate sustained investment. How much of this investment originates in China remains to be seen. Following Harvey (1989), it is important for future work to investigate which forces, alliances, interfirm networks, labour markets, state regulatory institutions etc. stimulate and support transnational inflows of Chinese state-owned capital as this will create scope for a deeper understanding of CEE illiberal capitalist development in the first instance through for example, a mapping of such linkages. Such research endeavours would consequently continue the work conducted in the present article by augmenting analysis of the political economy of illiberalism and simultaneously injecting further rigour to the concept ‘state capitalism’ by increasing investigations into its theory, temporality, and locality.

Acknowledgements

I am grateful to Ilias Alami, Milan Babic, Adam D. Dixon, and Imogen T. Liu for providing excellent comments on earlier drafts of this article. I also thank Jeremy Morris for helpful suggestions on an earlier draft, and Aleks Eror, Jeff Henderson, and Vuk Vuksanovic for some very useful research materials. Thanks go too, to the participants of the May 2021 conference ‘Thirty years of capitalist transformation in Central and Eastern Europe: inequalities and social resistance’, hosted by the Universitatea Babes-Bolyai, Cluj-Napoca. Finally, I would like to thank two anonymous reviewers whose comments and suggestions improved the manuscript’s argument and structure. All remaining errors are mine alone.
Disclosure statement

No potential conflict of interest was reported by the authors.

Notes on contributor

Samuel Rogers is a postdoctoral research associate in the School of Social Sciences and Global Studies at The Open University, UK.

ORCID

Samuel Rogers http://orcid.org/0000-0001-6430-4263

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