

Report No.39/2020

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# Hustled Into a Dead End: The Delusional Belief In Chinese Corrosive Capital for the Construction of North Macedonia's Highways

Authors: Zoran Nechev and Ivan Nikolovski

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September 2020



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This publication was produced by the Institute for Democracy "Societas Civilis" – Skopje (IDSCS), located in Skopje, North Macedonia, with support from the Center for International Private Enterprise (CIPE) in Washington D.C.

*The document does not reflect the opinions of CIPE or any of its employees, and CIPE is not responsible for the accuracy of any of the information included in the report.*

**Acknowledgements:** IDSCS research team would like to thank the political, legal and economic experts that participated in the production of this report, peer reviewers as well as the participants in the semi-structured interviews, stakeholders' consultations and the stakeholders' feedback session during the closed online workshop held on September 9, 2020.

# Impressum

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**Title:** Hustled Into a Dead End:  
The Delusional Belief in Chinese  
Corrosive Capital for the Construction  
of North Macedonia's Highways

**Publisher:** Center for International  
Private Enterprise  
Institute for Democracy "Societas  
Civilis" – Skopje

**Authors:** Zoran Nechev  
and Ivan Nikolovski

**Design:** Dejan Kuzmanovski

**This publication is available at:**

<http://www.idscs.org.mk>

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# Introduction

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In March 2017, the European Council acknowledged internal and external challenges facing the Western Balkans<sup>1</sup> following a visit by Federica Mogherini, then High Representative of the European Union for Foreign Affairs and Security Policy and Vice-President of the European Commission. It became obvious at the time the lack of clear political commitment to the Western Balkans' EU integration creates significant and potentially detrimental opportunities for external influence by other actors such as China, Russia and Turkey to pursue their economic and geopolitical interests. This creates long-term risks for the region's democratic and economic development.<sup>2</sup> This research paper examines trade relations and economic engagement between the People's Republic of China and Republic of North Macedonia. It includes an assessment of how Chinese investment in the country affects its governance. The corrosive capital intertwined in this investment "undermines trust in institutions,

weakens the rule of law, promotes opacity, and seeks to exert monopoly power over vast swaths of the economy".<sup>3</sup> This research paper specifically looks at the questionable conditions of loans from the State-owned Export-Import Bank of China for the notably problematic Kichevo-Ohrid (57km) and Miladinovci-Shtip (47km) highway construction projects.

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- <sup>1</sup> Sabina Lange, Zoran Nechev and Florian Trauner (eds.), Resilience in the Western Balkans. EU Institute for Security Studies, Paris, 2017, available at: [https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report\\_36\\_Resilience%20in%20the%20Western%20Balkans\\_0.pdf](https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report_36_Resilience%20in%20the%20Western%20Balkans_0.pdf)
- <sup>2</sup> See: Barbora Chrzová, Anja Grabovac, Martin Hála, Jan Lalić (eds.), Western Balkans at the Crossroads: Assessing Influences of Non-Western External Actors. Prague Security Studies Institute, Prague, May 2019, available at : [http://www.pssi.cz/download/docs/682\\_final-publication.pdf](http://www.pssi.cz/download/docs/682_final-publication.pdf) Jovan Zafiroski, Srdjan Redzepagic, Les Balkans et les perspectives de réintégration régionale, La Revue Management & Gouvernance, Cahiers International du Réseau PVG, No 21/2019, ISSN 2104-2438, pp. 43 - 52
- <sup>3</sup> Eric Hontz, Building a Market for Everyone: How Emerging Markets Can Attract Constructive Capital and Foster Inclusive Growth. Center for International Private Enterprise, Anti-Corruption & Ethics, 2019, available at <https://www.cipe.org/newsroom/building-a-market-for-everyone-how-emerging-markets-can-attract-constructive-capital-and-foster-inclusive-growth/>

# 1. Bilateral relations

Bilateral relations between China and North Macedonia date back to Socialist Yugoslavia. The relationship started as closer political and economic ties between Belgrade and Beijing in the late 1970s,<sup>4</sup> following the Sino-Albanian split. This was after many years of China-sponsored anti-Yugoslav campaigns in the period between 1948's Cominform resolution<sup>5</sup> and the Sino-Soviet split in 1961.<sup>6</sup>

Socialist Yugoslavia ceased to exist in 1992. The next year, newly independent North Macedonia and China established diplomatic relations. The Sino-Macedonian long-term relations have been friendly and cooperative. One exception was North Macedonia's 1999 recognition of Taiwan, which terminated diplomatic relations until Skopje revoked the recognition in 2001. The focus of such relations has been economic cooperation

and trade<sup>7</sup>. In North Macedonia's view, this would benefit its primary foreign policy goal of NATO and EU membership. China has never officially disputed North Macedonia's Euro-Atlantic orientation. The membership aspirations would seem to support Beijing's interests. North Macedonia's integration would bring more opportunity for China to enter European markets and politically influence the EU.<sup>8</sup>

Beijing's foreign policy approach to this part of Europe is more regional than country-specific.<sup>9</sup> This opinion is shared by experts on China and construction practitioners involved in the implementation of the Kichevo-Ohrid and Miladinovci-Shtip project that the IDSCS research team interviewed.<sup>10</sup> The Western Balkans is not a political priority to China,<sup>11</sup> but Beijing makes its presence evident due to its economic growth and increasing political importance on the world stage.<sup>12</sup> According to Ana Krstinovska, President of Estima and expert on China, these factors are the

<sup>4</sup> Andelman, David. A. China's Balkan Strategy. *International Security*, Vol. 4, No. 3 (Winter, 1979-1980), pp. 60-79, MIT Press, 1979, DOI 10.2307/2626694, <https://www.jstor.org/stable/2626694>

<sup>5</sup> The term refers to the Cominform Resolution of June 28, 1948 (resulting from the Tito-Stalin Split) that accused the Communist Party of Yugoslavia (KPJ), among other things, of "depart[ing] from Marxism-Leninism"

<sup>6</sup> Svetozar Rajak, Konstantina E. Botsiou, Eirini Karamouzi and Evanthia Hatzivassiliou (eds.), *The Balkans in the Cold War*. Palgrave, 2017, ISBN 978-1-137-43901-7; Svetozar Rajak, *Yugoslavia and the Soviet Union in the Early Cold War: Reconciliation, comradeship, confrontation, 1953-1957*, Routledge, London, 10 October 2010, ISBN 9780203842416

<sup>7</sup> Zoran Nechev and Ivan Nikolovski, *North Macedonia: a fertile ground for external influences*; in Florian Bieber and Nikolaos Tzifakis (eds), *Western Balkans in the World: Linkages and Relations with Non-Western Countries*. Routledge, 2020, ISBN 978-0-367-19799-5, pp. 126 – 145; Vangeli, Anastas, *China's Engagement with the Sixteen Countries of Central, East and Southeast Europe Under the Belt and Road Initiative*. SSRN Scholarly Paper No. ID 3039788. Social Science Research Network, Rochester, NY, 2017a

<sup>8</sup> Online interview with a practitioner acquainted with China's role in the Western Balkans, 11 June 2020; Online interview with Ana Krstinovska, expert on China and President of Estima, 19 June 2020.

<sup>9</sup> Zoran Nechev and Ivan Nikolovski, *North Macedonia: a fertile ground for external influences*; in Florian Bieber and Nikolaos Tzifakis (eds), *Western Balkans in the World: Linkages and Relations with Non-Western Countries*. Routledge, 2020, ISBN 978-0-367-19799-5, pp. 126 – 145

<sup>10</sup> IDSCS research team conducted six online interviews in the period between 11 June and 1 July, 2020. The interviews were in-depth semi-structured with open-ended questions related to the research subject. The interviews were fully anonymized followed-up by a detailed analysis of the transcripts, which was complementary to the previously conducted desk research.

<sup>11</sup> Online interview with a practitioner acquainted with China's role in the Western Balkans, 11 June 2020.

<sup>12</sup> Online interview with Ana Krstinovska, expert on China and President of Estima, 19 June 2020.



essence of the Belt and Road and 17+1 initiatives.<sup>13</sup> Her statements support the perspective there are regional patterns to follow in analyzing China's role in North Macedonia. In this research paper, relations between the two states has been assessed from this point of view.

The fall of Yugoslavia was followed by the devastating Yugoslav Wars. China was not active nor visible in the Western Balkans during this period. At the beginning of the new century, as the region started post-war recovery, Beijing returned to the Western Balkans with increased trade, investment and new political alliances.<sup>14</sup> The most visibly successful Balkan project of Chinese foreign policy is the 17+1 format of cooperation between China, 15 European post-communist countries (including North Macedonia)<sup>15</sup> and Greece.<sup>16</sup>

Within the 17+1 initiative, Beijing established a credit fund of 10 billion USD for infrastructure projects. North Macedonia was the first country from the region to apply for these funds, requesting funding for the construction of the Miladinovci-Shtip and Kichevo-Ohrid highways. The Macedonian

government awarded the construction to Sinohydro Corporation Limited Beijing (hereinafter Sinohydro), a Chinese state-owned enterprise. Macedonian companies Beton and Granit became its subcontractors. It is notable the idea of the Kichevo-Ohrid highway dates back to 1999. It was denied funding by the EU and other creditors with concerns over its feasibility and profitability.<sup>17</sup> The full history of the two highways is explained later in this analysis.

There was a complete lack of transparent, competitive public procurement in the contract agreements with Sinohydro (see Chapter 3). These deals were made through direct and undisclosed negotiations between the Chinese and Macedonian governments.<sup>18</sup> The secretive agreements sparked a notorious corruption scandal. In 2015 the Social Democratic Union of Macedonia, the political opposition at the time, published 38 batches of recorded conversations. The recordings between officials in the government of Nikola Gruevski, suggested the agreement with Sinohydro was a deal designed by corruption.<sup>19</sup> Special Public Prosecution (SPO) investigated the case under the code name

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<sup>13</sup> Ibid

<sup>14</sup> Poulain Loïc, China's New Balkan Strategy. Central Europe Watch 1, 2011, pp. 1-14

<sup>15</sup> Vangeli Anastas, The Impact of China; in Sabina Lange, Zoran Nechev and Florian Trauner (eds.), Resilience in the Western Balkans. EU Institute for Security Studies, Paris, 2017b, pp. 57-62, available at: [https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report\\_36\\_Resilience%20in%20the%20Western%20Balkans\\_0.pdf](https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report_36_Resilience%20in%20the%20Western%20Balkans_0.pdf)

<sup>16</sup> The members of the 17+1 Initiative in alphabetical order are Albania, Bosnia and Herzegovina, Bulgaria, China, Croatia, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, North Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

<sup>17</sup> Online interview with a practitioner acquainted with the construction of the two highways, June 12, 2020.

<sup>18</sup> Michal Makocki and Zoran Nechev, Balkan Corruption: the China connection. Institute for Security Studies, Issue Alert, Paris, 2017, available at <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%2022%20Balkans.pdf>

<sup>19</sup> Michal Makocki and Zoran Nechev, Balkan Corruption: the China connection. Institute for Security Studies, Issue Alert, Paris, 2017, available at <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%2022%20Balkans.pdf>; Vangeli Anastas, The Impact of China; in Sabina Lange, Zoran Nechev and Florian Trauner (eds.), Resilience in the Western Balkans. EU Institute for Security Studies, Paris, 2017b, p. 59, available at: [https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report\\_36\\_Resilience%20in%20the%20Western%20Balkans\\_0.pdf](https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report_36_Resilience%20in%20the%20Western%20Balkans_0.pdf)

'Trajectory'. The prosecutors also suspected that the selected subcontractors were favored due to their close affiliation with the former ruling party VMRO-DPMNE.<sup>20</sup> In this regard, SPO charged four officials, including former Prime Minister Nikola Gruevski and former Transport Minister Mile Janakievski, with abuse of power for unlawful financial benefit.<sup>21</sup>

After the government transition in 2017, the Ministry of Transport revealed the two highways had fundamental problems in construction that would prolong the projects for years and increase costs by more than 130 million USD.<sup>22</sup> As a result, the new government signed three annexes to the original agreement with Sinohydro allowing reallocation of construction costs, additional time (first two annexes) and higher funding (the third annex). Now in 2020, only the Miladinovci-Shtip is complete and open for transport. The Kichevo-Ohrid highway is still under construction. The problems have come at a price. The expected costs have increased from 561.1 million USD to 772 million USD.<sup>23</sup> This new agreement comes with new concerns. An individual

affiliated with the current opposition, interviewed for this report, questioned the legitimacy of arguments by the new government for expanding the construction. This person has reason to believe the additional costs are unjustified and serve political purposes in criticizing the work of the previous government.<sup>24</sup> This dynamic was fuel to the fire of the political debate already burning ahead of the 2020 snap parliamentary elections.

According to a practitioner familiar with the two highway construction projects, the planning was based on outdated projections from 1999. The construction work lacks any current feasibility review and is using outdated engineering standards.<sup>25</sup> To be more specific, construction supervisor of the highways – Civil Engineering Institute Macedonia<sup>26</sup> – suggested that basic conditions, meaning the fundamental requirements for the start of construction, were missing.<sup>27</sup> Despite knowing the documentation is insufficient,<sup>28</sup> the timeline is slipping, and the costs will increase, the current government decided to continue with the construction.

<sup>20</sup> Michal Makocki and Zoran Nechev, Balkan Corruption: the China connection. Institute for Security Studies, Issue Alert, Paris, 2017, available at <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%2022%20Balkans.pdf>

<sup>21</sup> Public prosecutor's office for prosecution of crimes related and arising from content of the illegal communications interception, Bill of indictment, NSK-KO. no.9/17, 29 June, 2017

<sup>22</sup> Michal Makocki and Zoran Nechev, Balkan Corruption: the China connection. Institute for Security Studies, Issue Alert, Paris, 2017, p. 1, available at <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%2022%20Balkans.pdf>; Vangeli Anastas, The Impact of China; in Sabina Lange, Zoran Nechev and Florian Trauner (eds.), Resilience in the Western Balkans. EU Institute for Security Studies, Paris, 2017b, p. 59, available at: [https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report\\_36\\_Resilience%20in%20the%20Western%20Balkans\\_0.pdf](https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report_36_Resilience%20in%20the%20Western%20Balkans_0.pdf)

<sup>23</sup> Macedonian Information Agency. Construction works on the Kichevo-Ohrid highway during pandemics. 16 May 2020, available only in Macedonian at <https://mia.mk/gradezhni-raboti-na-avtopatot-kichevo-ohrid-vo-pandemi-a/>; Online interview with a practitioner acquainted with the construction of the two highways, June 12, 2020.

<sup>24</sup> Online interview with an employee at the Macedonian parliament, June 17, 2020.

<sup>25</sup> Online interview with a practitioner acquainted with the construction of the two highways, June 12, 2020.

<sup>26</sup> The engineering expertise related to the construction of the highways was awarded to the joint venture (consortium): [1] Construction Institute Macedonia (Градежен институт Македонија) GIM, [2] Euro Consulting LLC, and [3] Geing Krebs und Kiefer International and Partners LLC. List of main services for supervision in the past five years, available at <http://www.gim.com.mk/wp-content/uploads/2016/03/NADZOR-EN-Supervision-1.pdf>

<sup>27</sup> Ibid

<sup>28</sup> Ibid

The disconnect between the project documentation and reality on the ground led to the discovery of at least 147 errors in the construction.<sup>29</sup> This includes instability of the batters (inward sloping walls or foundations), improperly installed underground and overhead infrastructure (power lines, telephone cables and plumbing), unresolved property rights, lack of intersection points, poorly built tunnels, environmental issues, and others.<sup>30</sup> In addition, the progress of the construction projects was significantly misreported. After the government change in 2017 it was revealed that only 53% of the construction work had been finished. The previous government had reported 80% completion.<sup>31</sup> Equally troubling, the project documentation allowed Sinohydro (as the contractor) broad rights to make legal claims and invoke penalty provisions against the State Roads Public Enterprise (as the investor) for not providing a suitable construction environment and prolonging construction work against the agreement.<sup>32</sup> While there may be some bias in these assertions, it is without question the construction was not properly planned and

implementation with public tax money was not transparent.

Despite the alleged corruption and the serious construction issues, Zaev's government did not change the previously established direction of foreign relations with China. However, his government did not take any additional credits from China for more infrastructure projects either. At the 17+1 summits in Sofia, Bulgaria (2018) and in Dubrovnik, Croatia (2019), Prime Minister Zaev voiced strong support for this initiative. He stated that the membership in the 17+1 initiative is complementary to North Macedonia's Euro-Atlantic foreign policy priorities.<sup>33</sup> During the Dubrovnik summit, Zaev expressed North Macedonia's willingness to upgrade its cooperation with China in different fields, and he signed multiple new cooperation agreements, including on agriculture, information technologies, rural development, food safety, veterinary practices, fishery services, and others.<sup>34</sup> The willingness to deepen the countries' cooperation between Beijing and Skopje was

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<sup>29</sup> Online interview with a practitioner affiliated with the State Roads Public Enterprise, July 1, 2020; Online interview with a practitioner acquainted with the construction of the two highways, June 12, 2020.

<sup>30</sup> Ibid

<sup>31</sup> Online interview with a practitioner affiliated with the State Roads Public Enterprise, July 1, 2020; Macedonian Information Agency. Construction works on the Kichevo-Ohrid highway in pandemics. 16 May 2020, available at <https://mia.mk/gradezhni-raboti-na-avtopatot-kichevo-ohrid-vo-pandemi-a/>; Online interview with an expert on the civil infrastructure of the highway sections, June 12, 2020.

<sup>32</sup> Online interview with a practitioner acquainted with the construction of the two highways, June 12, 2020.

<sup>33</sup> Nikolovski, Ivan, EU Accession Will Challenge North Macedonia's China Deals. Prague Security Studies Institute, available at <https://balkaninsight.com/2019/05/13/eu-accession-will-challenge-north-macedonias-china-deals/>

<sup>34</sup> Nikolovski, Ivan, EU Accession Will Challenge North Macedonia's China Deals. Prague Security Studies Institute, available at <https://balkaninsight.com/2019/05/13/eu-accession-will-challenge-north-macedonias-china-deals/>; The Government of the Republic of North Macedonia, Prime Minister Zaev at the 8<sup>th</sup> Summit of CEE and PR China heads of governments 16+1: We are advancing the economic cooperation with PR China, we signed an Action plan for cooperation in the field of agriculture, , available only in Macedonian at: <https://vlada.mk/node/17469>

reaffirmed in 2019 during a meeting between the newly appointed Chinese Ambassador Zhang Zhuo and Macedonian Foreign Minister Nikola Dimitrov.<sup>35</sup> Although the government asserts that the membership in the 17+1 initiative and cooperation with China go hand-in-hand with North Macedonia's Euro-Atlantic ambitions, the EU sees it differently. Beyond the requirement to align with the EU declaration concerning the deployment of missiles on islands in the South China Sea,<sup>36</sup> Brussels keeps an eye on North Macedonia when it comes to the use of Chinese loans. Loan agreements with China are tailored to accommodate Beijing's interests, including with Sinohydro in North Macedonia. They often include provisions that are against EU law. These include non-competitive contract awards (direct dealing) and/or enacting laws that prevent fair competition. In other words, China blocks the rules to ensure its money is spent wisely and in the best interest of its people. On the receiving end, the direct dealings do not ensure best value for the money invested.<sup>37</sup> Brussels perceives Chinese funded projects in the region as a threat to its

governance principles and its reform agenda.<sup>38</sup> The EU also warily views China's authoritarianism as a precarious model for some of the Western Balkans' governments and warns against its increasing political influence in the region.<sup>39</sup>

Some disagree Beijing can succeed at installing puppet governments in the region, let alone North Macedonia. The current government of the Social Democratic Union of Macedonia, has a clear Euro-Atlantic orientation compared to its neighbors.<sup>40</sup> The cooperation with China in general and Chinese investment in the country is insignificant when looking across the Western Balkan and even some of the EU member states.<sup>41</sup> There is a general agreement among experts that China's interests in the region are mainly economic. But the political perspective is more succinct. If the Western Balkans fully integrates into the EU, Beijing will have more partners to protect its interests in Brussels.<sup>42</sup> When it comes to respecting EU regulations, China has demonstrated adaptability and competitiveness on the EU market. It has succeeded in bidding for EU

<sup>35</sup> Ministry of Foreign Affairs, FM Nikola Dimitrov meets with the new ambassador of the People's Republic of China, Zhang Zuo, 2019, available at <https://www.mfa.gov.mk/en/page/8/post/2000/fm-nikola-dimitrov-meets-with-the-new-ambassador-of-the-people%E2%80%99s-republic-of-china-zhang-zuo>

<sup>36</sup> Zoran Nechev and Ivan Nikolovski, North Macedonia: a fertile ground for external influences; in Florian Bieber and Nikolaos Tzifakis (eds), Western Balkans in the World: Linkages and Relations with Non-Western Countries. Routledge, 2020, ISBN 978-0-367-19799-5, pp. 126 – 145

<sup>37</sup> Michal Makocki and Zoran Nechev, Balkan Corruption: the China connection. Institute for Security Studies, Issue Alert, Paris, 2017, p. 1, available at <https://www.iss.europa.eu/sites/default/files/EUISSFiles/Alert%2022%20Balkans.pdf>; Vangeli, Anastas, China's Engagement with the Sixteen Countries of Central, East and Southeast Europe Under the Belt and Road Initiative. SSRN Scholarly Paper No. ID 3039788. Social Science Research Network, Rochester, NY, 2017a, p. 59

<sup>38</sup> Michal Makocki, China in the Balkans: The Battle of Principles. European Council on Foreign Relations, 2017, available at [https://www.ecfr.eu/article/commentary\\_china\\_in\\_the\\_balkans\\_the\\_battle\\_of\\_principles\\_7210](https://www.ecfr.eu/article/commentary_china_in_the_balkans_the_battle_of_principles_7210)

<sup>39</sup> Ryan Heath and Andrew Gray, Beware Chinese Trojan horses in the Balkans, EU warns, Politico, 27 July, 2018, available at <https://www.politico.eu/article/johannes-hahn-beware-chinese-trojan-horses-in-the-balkans-eu-warns-enlargement-politico-podcast/>

<sup>40</sup> Online interview with a practitioner acquainted with China's role in the Western Balkans, 11 June 2020

<sup>41</sup> Ibid.

<sup>42</sup> Online interview with Ana Krstinovska, expert on China and President of Estima, 19 June 2020.

construction projects based on EU regulations, such as in the case of Croatia's Pelješac Bridge. That leaves it up to the Western Balkan countries to maintain (EU) standards, enforce rigorous bidding procedures, and practice transparent negotiations.<sup>43</sup>

In the case of Sinohydro in North Macedonia, it appears that the Macedonian government decided to construct the two highways at any cost. The concerns over feasibility and profitability were ignored. On the contrary, the government was actively looking for other creditors on international financial markets. It also opted for direct dealing rather than public procurement, despite the standing legal provisions.<sup>44</sup> It was, therefore, not only Beijing's but also the actions of the North Macedonia's officials that allowed the Chinese capital in this case to become corrosive.

With its economy and presence in world markets, Beijing's influence in the region is also likely to grow. Already, there are other much larger projects underway. One of them is the Budapest–Piraeus train line. It passes through North Macedonia and connects Central Europe with the Chinese-owned

harbor in southern Greece.<sup>45</sup> Besides, Beijing is increasingly interested in investing in technology development, innovation and artificial intelligence – areas of growth that Skopje clearly lacks.

Beijing's influence and economic investment in the Western Balkans, and specifically North Macedonia, falls far behind that of the EU and others.<sup>46</sup> For instance, the 2020 annual public opinion poll conducted by IDSCS shows that only 3.2% of the respondents perceived Beijing as a primary foreign partner.<sup>47</sup> Also this year, a public opinion poll by CIPE<sup>48</sup> showed that 38% of Macedonians have generally favorable opinion about China, followed by 27% of the citizens who have generally unfavorable opinion. Compared to 2018, there is a 10% increase in the generally favorable opinion among the respondents. However, a low 1% of the citizens believe that China is North Macedonia's best international supporter and only 3% think that Beijing invested the most in the country in the last five years. Furthermore, 26% of the Macedonians perceive that China has an influence on the country's economy, while only 18% of them believe this is so in the political sphere.

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<sup>43</sup> Online interview with a practitioner acquainted with China's role in the Western Balkans, 11 June 2020; Online interview with Ana Krstinovska, expert on China and President of Estima, 19 June 2020.

<sup>44</sup> Online interview with a practitioner acquainted with China's role in the Western Balkans, 11 June 2020; Online interview with Ana Krstinovska, expert on China and President of Estima, 19 June 2020; Online interview with a practitioner acquainted with the construction of the two highways, June 12, 2020.

<sup>45</sup> Zoran Nechev and Ivan Nikolovski, North Macedonia: a fertile ground for external influences; in Florian Bieber and Nikolaos Tzifakis (eds), *Western Balkans in the World: Linkages and Relations with Non-Western Countries*. Routledge, 2020, ISBN 978-0-367-19799-5, pp. 126 – 145

<sup>46</sup> Ibid

<sup>47</sup> Ivan Nikolovski and Marie Jelenka Kirchner, What now? The uncertainty of North Macedonia's EU accession in 2019. Public Opinion Analysis Paper No.04/2020, Institute for Democracy "Societas Civilis" – Skopje, Skopje, February 2020, available at [https://idscs.org.mk/wp-content/uploads/2020/02/A5\\_What-now-The-uncertaintyof-North-Macedonias-EUaccession-in-2019WhatENG-1.pdf](https://idscs.org.mk/wp-content/uploads/2020/02/A5_What-now-The-uncertaintyof-North-Macedonias-EUaccession-in-2019WhatENG-1.pdf)

<sup>48</sup> Center for International Private Enterprise, Public opinion in North Macedonia, Regional public opinion poll: North Macedonia, Montenegro, Serbia, July 2020

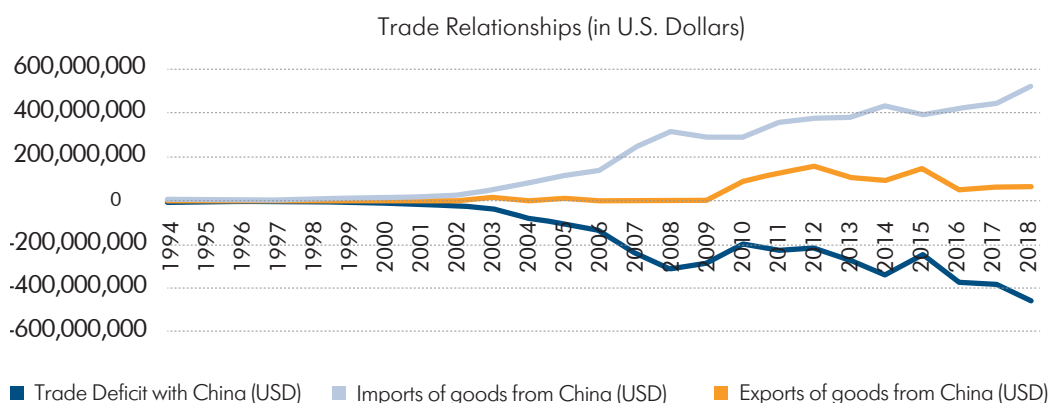
## 2. Trade relations

Compared to Western Europe, Chinese economic presence in the Western Balkans remains modest.<sup>49</sup> Although Chinese investments are small in terms of Western Balkans' GDP, they have important effects on individual national economies. That is the situation for North Macedonia. Besides several donations and grants, the main development focus of China in North Macedonia is through loans provided by China's state-owned financial

institutions. The construction of the two highways in this analysis, Miladinovci – Shtip and Kichevo– Ohrid,<sup>50</sup> are clear examples of that pattern. It is particularly interesting that these highways are the first infrastructure projects in the region financed in the framework of the 17+1 initiative.<sup>51</sup>

Bilateral trade with China is characterized by growing imports of goods and a widening trade deficit. Most recent data<sup>52</sup> from 2018 indicates the deficit reached an all-time high of 457.9 Million USD (Figure 1).

**Figure 1.** Exports of goods, imports of goods (c.i.f.) and trade deficit of North Macedonia with the People's Republic of China (In USD, 1994-2018)



Source: State Statistical Office, Makstat database, January 2020. [http://www.stat.gov.mk/PoslednoObjavenoVoMakstat\\_mk.aspx](http://www.stat.gov.mk/PoslednoObjavenoVoMakstat_mk.aspx)

<sup>49</sup> Corporate China in Western Balkans, Seminar Report Prepared by: Cooperation and Development Institute – CDI Tirana, June 2019, pp. 6-7, available at: <http://cdiinstitute.eu/web/wp-content/uploads/2019/07/Corporate-China-in-Western-Balkans-1.pdf>, Stojkov, Aleksandar and Biljana Angelova (2018) "Trends and Determinants of Foreign Direct Investment in South Eastern Europe: A Chinese Investor Perspective", Conference Paper presented at the First International Forum on One Belt-One Road Initiative: Foreign Direct Investment in Central, Eastern and South Eastern Europe, Iustinianus Primus Law Faculty in Skopje April 25th 2018.

<sup>50</sup> Reality Check Series Sources, Tools and Impact of External Non -EU-Engagement in Southeastern Europe Part III – China Background Paper, available at: [https://www.sogde.org/wp-content/uploads/2019/10/BP\\_Final\\_China.pdf](https://www.sogde.org/wp-content/uploads/2019/10/BP_Final_China.pdf)

<sup>51</sup> On this initiative see: Xavier Richet, [The Chinese presence on the periphery of Europe. The "17 + 1 Format", The Trojan horse of China?](#), *Global Economic Observer*, "Nicolae Titulescu" University of Bucharest, Faculty of Economic Sciences; Institute for World Economy of the Romanian Academy, vol. 7(1), June 2019.

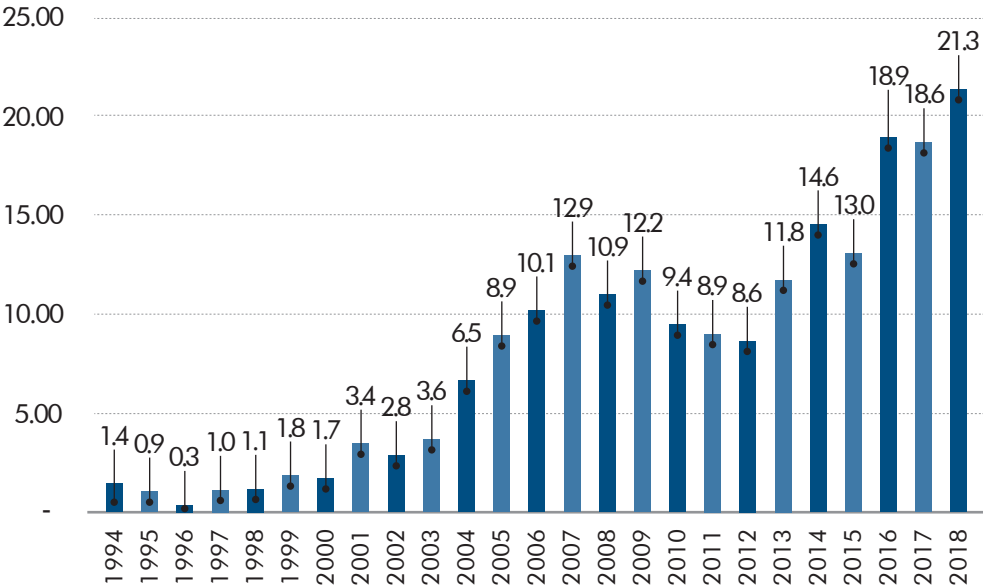
<sup>52</sup> There are no data on services.



That shows a rapid acceleration of the issue in recent years. For context, the cumulative value of all trade deficits from 1994-2018 was 4 Billion USD (that total figure does not represent the fluctuation in the value of money over time).

This widening trade deficit with China reached 21.3% of overall trade for North Macedonia in 2018 (Figure 2). That means more than one fifth of North Macedonia’s trade deficit is only from trade with China. This is strictly the result of increasing imports of Chinese consumer goods. The trade deficit is not related to the highway construction projects.<sup>53</sup>

**Figure 2.** Share of the bilateral trade deficit with the People’s Republic of China in the total trade deficit of North Macedonia (1994-2018, In percent)



Source: State Statistical Office, Makstat database, January 2020. [http://www.stat.gov.mk/PoslednoObjavenoVoMakstat\\_mk.aspx](http://www.stat.gov.mk/PoslednoObjavenoVoMakstat_mk.aspx)

<sup>53</sup> UN ComTrade data, April 2020.

## 2.1. Recent evolution of the bilateral investment relations

The investment relationship between North Macedonia and China was poor before 2016 and has been unilateral – from China to North Macedonia – since then. The cumulative Chinese investment in the economy of North Macedonia, also known as the inward stock of foreign direct investment (FDI) inflows, was 151.88 Million USD at the end of

2018 (Table 1). The inward FDI stock from China into North Macedonia's economy is a combination of equity (94.89 Million USD) and debt financing (56.99 Million USD). While disaggregated investment statistics at the company level are unavailable,<sup>54</sup> it is highly likely that these flows are related to Sinohydro.

As for the outward foreign direct investment, based on the National Bank data there is no evidence of direct investment from North Macedonia into China.

**Table 1.** Inward Stock of FDI Inflows from People's Republic of China (2010-2018, in Million USD)

In Million USD	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Total equity	1.28	1.52	1.35	1.16	-4.05	10.65	39.75	72.72	94.89
1.1. Investment by a direct investor in its direct investment enterprise (liabilities)	1.28	1.52	1.35	1.16	-4.05	10.65	39.75	72.72	94.89
1.2. Reverse Investment (assets) <sup>[1]</sup>	0	0	0	0	0	0	0	0	0
1.3. Between fellow enterprises <sup>[2]</sup> (net-liabilities)	0	0	0	0	0	0	0	0	0
2. Total debt instruments	0.05	0.17	0.42	0.26	0.23	0.51	-1.02	59.30	56.99
2.1. Investment by a direct investor in its direct investment enterprise (liabilities)	0.05	0.17	0.42	0.26	0.23	0.39	0.73	57.79	55.28
2.2. Reverse Investment (assets)	0	0	0	0	0	0	0	0	0
2.3. Between fellow enterprises (net-liabilities)	0	0	0	0	0	0.12	-1.75	1.51	1.71
Total Inward stock of FDI [= 1+2]	1.34	1.70	1.78	1.42	-3.82	11.17	38.73	132.02	151.88

Notes: [1] Reverse investment arises when a direct investment enterprise lends funds to or acquires equity in its immediate or indirect direct investor, provided it does not own equity comprising 10 percent or more of the voting power in that direct investor. [2] Fellow enterprises are those enterprises that are under the control or influence of the same immediate or indirect investor, but neither fellow enterprise controls or influences the other fellow enterprise.

Source: Balance-of-Payments Statistics, National Bank of the Republic of North Macedonia, January 2020.

<sup>54</sup> Statistics on individual investment is never published by the authorities unless the company itself decides to publish the data.

## 2.2. Relation to the Belt and Road initiative

After the announcement of the Go Global policy by the People's Republic of China in 2001, its outward FDI picked up markedly.<sup>55</sup> On average, it grew 29.4% per annum in the last decade. Only a small portion of that outward FDI went to Southeastern Europe, which has been largely overlooked. Chinese outward FDI in Southeastern Europe is

disproportionately lower compared to other regions, especially considering the relevance of China in the global economy. The consequences, both political and economic, have enormous potential impact. Most of the Chinese capital in Southeastern Europe comes as concessional long-term loans for infrastructure projects (roads, energy, schools, etc.) (see Table 2). From the perspective of balance-of-payments statistics, however, it is not accounted in

**Table 2.** Development Assistance of People's Republic of China to North Macedonia (2000-2015)

PROJECT	Year	Amount (in current USD)	2018
China donation for military relief (ID #42242)	2001	1,000,000	Loan
China loan for post-war infrastructure reconstruction (ID #42239)	2001	20,000,000	Loan
China loan for Kozjak hydropower plant (project #42247)	2002	87,000,000	Loan
China donation in computers for Macedonian school facilities	2004	2,500,000	Grant
China provided a grant for economic and technical projects	2007	2,400,000	Grant
China provides technical aid	2007	1,642,401	Grant
China provided a grant for economic aid (Project ID #42277)	2008	1,464,826	Grant
China provides a grant to human resource development in North Macedonia (Links to #42274)	2008	146,483	Grant
China provided grant for elementary school reconstruction	2010	645,364	Grant
China provided for economic and technological projects	2011	3,100,000	Grant
China donates 23 school buses to North Macedonia	2011	/	Grant in Kind
China EXIM provided a loan for highway projects in North Macedonia, implemented by Sinohydro	2013	580,000,000	Loan
China opens Confucius Institute at Ss. Cyril and Methodius University	2013	n/a	Grant
China donates to build Rajko Zinzifov primary school in Kisela Voda (linked to project #42923)	2014	5,306,935	Grant
China grants new kindergartens in the municipalities of Kisela Voda and Chair, Macedonia (linked to project #42922)	2014	5,306,935	Grant

Source: AidData. 2017. Global Chinese Official Finance Dataset, Version 1.0. Retrieved from <http://aiddata.org/data/chinese-global-official-finance-dataset>.

<sup>55</sup> OECD, China Go Global, 24 March 2014, available at <https://www.oecd.org/china/china-go-global.htm>

international trade nor in FDI data. Instead, they are reported as loans on the financial books of North Macedonia's balance of payments.

The construction of the two highways – Miladinovci-Shtip and Kichevo-Ohrid – along with the construction of other highways in Serbia, Montenegro, and Croatia are undoubtedly part of the Belt and Road Initiative (BRI). Besides its official goals declared by China,<sup>56</sup> BRI provides Chinese companies unique opportunities to build false track records by working in democratic environments while appearing to follow higher governance standards.

### 2.3. Concept for the construction of Corridor VIII (about the Corridor)

Corridor VIII is one of ten key Pan-European transportation corridors identified at the second Pan-European transport Conference in Crete, Greece (March 1994).<sup>57</sup> The concept behind Corridor VIII is to connect the Adriatic coast, via the Balkans, to the Black Sea and Turkey. It connects: Italy (Bari); Albania (Tirana, Durres, Vlore, Elbasan); North Macedonia (Skopje); and Bulgaria (Pernik, Sofia, Plovdiv, Burgas, Varna). Corridor VIII also bridges the eastern and western Balkans facilitating transport and fostering economic development in this part of



Source : [www.unece.org](http://www.unece.org)<sup>58</sup>

<sup>56</sup> China's Belt and Road Initiative (BRI) is an ambitious government program to connect Asia with Africa and Europe via land and maritime networks along six corridors with the aim of improving regional integration, increasing trade and stimulating economic growth. The name was coined in 2013 by China's President Xi Jinping, who drew inspiration from the concept of the Silk Road established during the Han Dynasty 2,000 years ago. See more: <https://www.ebrd.com/what-we-do/belt-and-road/overview.html>

<sup>57</sup> The conference was held in Crete, Greece, from 14 to 16 March 1994 with presence of more than 700 representatives of governments and parliaments from 42 European countries, institutions of the European Union, various interest groups, and observer delegations from several non-European countries.

<sup>58</sup> United Nations Economic Commission for Europe, 26 June, 2007, available at <https://web.archive.org/web/20070626231509/http://www.unece.org/trans/main/ter/Countries/Corridors/corr8.jpg>

Europe. For this reason, North Macedonia's authorities have continued seeking opportunities to complete the Macedonian portion of the route. The Kichevo-Ohrid highway is an integral part of Corridor VIII, connecting North Macedonia's capital city of Skopje with an important tourist destination, the UNESCO-protected city of Ohrid.

Because of its geostrategic importance and perceived relevance to greater economic integration, Corridor VIII has been one of the top infrastructure priorities for countries in the region and the EU.<sup>59</sup>

## 2.4. Market solution

Since 2005 there were attempts to build the Macedonian section of the Corridor with private investment. In 2007, French consulting company Louis Berger SAS produced a feasibility analysis for construction of seven highways through a public-private partnership on Corridors VIII, X and Xd, which includes Kichevo-Ohrid.<sup>60</sup> With the feasibility study as justification, Macedonia's government decided to provide concessions for the highway construction. Miladinovci-Shtip was not part of this feasibility study. The concession tender failed in October 2011 after three extensions of the deadline. None of the companies that received pre-qualification submitted

a formal offer. It is possible that this was due to perceived low investment profitability.

## 2.5. China enters

It had become clear a different solution for the construction of North Macedonia's road infrastructure had to be found. The Macedonian government decided to look for direct investment from China.

In November 2012 the government signed, and the parliament ratified, an *Agreement for economic and technical cooperation on infrastructure with the Government of the People's Republic of China*<sup>61</sup> (hereinafter Framework Agreement). The Framework Agreement was portrayed by both countries as a milestone for future infrastructure cooperation. It stipulates the general framework for cooperation between the two countries.

Based on this international agreement, the government proposed a *Law on Realization of Infrastructure Projects for Construction of Road Section Miladinovci-Shtip and Road Section Kichevo-Ohrid*.<sup>62</sup> In October 2013, the parliament adopted this law. There were no votes against it, but the (then) opposition party SDSM complained about the cost

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<sup>59</sup> See: European Commission Transport: launch of the Italy-Turkey pan-European Corridor through Albania, Bulgaria, FYR Macedonia and Greece, 9 September, 2002, available at : [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_02\\_1275](https://ec.europa.eu/commission/presscorner/detail/en/IP_02_1275)

<sup>60</sup> Polina Kutmanova, France's Louis Berger Wins Tender To Advise Macedonia on Road Concessions Projects. Business Intelligence for Southeast Europe, 18 July, 2007, available at <https://seenews.com/news/frances-louis-berger-wins-tender-to-advise-macedonia-on-road-concessions-projects-215092>

<sup>61</sup> Agreement on economic technical cooperation in the field of infrastructure between the government of the Republic of Macedonia and the government of the People's Republic of China, Official journal No 13, 2013, available at: <http://www.slvesnik.com.mk/Issues/7545DE06F09CD4458FEAA007016CE876.pdf>

<sup>62</sup> Law on Realization of Infrastructure Projects for Construction of the Road Section Miladinovci-Shtip and the Road Section Kichevo-Ohrid, Official Gazette of RM no. 149 of 29 October 2013, pp. 2-132, available only in Macedonian at <http://www.slvesnik.com.mk/Issues/cb8788d0ddd347f29eb80699945fcd3a.pdf>

of the investment during parliamentary debate. This law contains separate contract agreements for the construction of Miladinovci-Shtip and Kichevo-Ohrid highways, including all construction-related specifications and project details.

The terminology envisioned by the law stated:

- 49% of the total contract value;
- 49% of the construction materials;
- 49% of the related project services were designated for supply by Macedonian companies; and
- 51% of the construction workforce were required to be Macedonians.

At the same time, the contract agreements gave privileges to Chinese contractors that had considerable effect on public finances in the country. Specifically, Chinese contractors were exempt from paying VAT, excise taxes and customs duties that are normally applied to goods and services needed in construction.<sup>63</sup>

## 3. Legal basis

*The Law on Realization of Infrastructure Projects for Construction of the Road Section Miladinovci-Shtip and the Road Section Kichevo-Ohrid* also allowed for a preferential credit line by the Chinese government through its Chinese Export-Import (EXIM) Bank.

The original contract agreements for the two highways envisaged a loan worth 783.4 Million USD.<sup>64</sup> That amount was 90% of the original estimated value of the construction projects.

### 3.1. Legal questions

The loan amount and selection of Sinohydro as the primary contractor made the construction projects divisive from the beginning.

There are two essential legal questions. First, is there legal basis for the loan and associated decision-making? Second, is there legal basis to the process and procedures for selection of the primary contractor? Both highways are constructed based on the contract agreements as part of the special law adopted in 2013 by the parliament. This law was adopted based on the international Framework Agreement mentioned above. The agreement stipulated construction plans for Miladinovci – Shtip and Kichevo – Ohrid highways should be made as separate contract agreements.<sup>65</sup>

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<sup>63</sup> Law on Realization of Infrastructure Projects for Construction of the Road Section Miladinovci-Shtip and the Road Section Kichevo-Ohrid, Official Gazette of RM no. 149 of 29 October 2013

<sup>64</sup> The average daily exchange rate USD/EUR for the original contract agreements was 1.3643 USD per 1 EUR.

<sup>65</sup> Articles 4, 5 and 10 of the Agreement



The Macedonian Constitution provides that international agreements, ratified in accordance with the Constitution, are part of the internal legal order and cannot be changed by law.<sup>66</sup> This means enacting the law for realization of the infrastructure projects is fully compatible with the Macedonian national legislation. An international agreement ratified in the parliament becomes part of the national legal order. This was the legal basis for the adoption of the special law allowing the infrastructure projects.

The loan secured with sovereign guarantee was then arranged according to Article 16, 20-a and 25 on the Macedonian public debt law.<sup>67</sup> After the adoption of the law on issuance of sovereign guarantee,<sup>68</sup> the Minister of Finance signed a guarantee letter to the Chinese lender. The State Roads Agency of North Macedonia, as the contracting party, took the loan. This made the entire procedure legal according to Macedonian legislation.

For the selection of the primary contractor, the law on public procurement did not apply in the case of Sinohydro and the two “Chinese highways”. Was

this legal? The special law made no reference to public procurement rules and based the primary contractor selection on two offers. These came from China International Water and Electric Corporation and from Sinohydro, both approved by the Chinese Embassy in Skopje.<sup>69</sup> That might lead to a conclusion that the *Law on Realization of Infrastructure Projects for Construction of the Road Section Miladinovci-Shtip and the Road Section Kichevo-Ohrid (a special law)* decides on a contractor in this case. Additionally, Article 9 (1) of the law on public procurement provides the law does not apply to “public contracts for which funds have been provided by international organizations (donors and lenders) or from third countries, provided that special terms and conditions for awarding public contracts are prescribed by them”.<sup>70</sup> The version of the law that was in force at the time the Framework Agreement was signed included similar provisions without prior public consultations.<sup>71</sup>

Even if there was legal basis for selecting the primary contractor, there were other legal issues around possible corruption and abuse of official position related to the “Chinese highways”.

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<sup>66</sup> Article 118 of the Constitution, available at: <https://sobranie.mk/the-constitution-of-the-republic-of-macedonia-ns-article-constitution-of-the-republic-of-north-macedonia-nspx>

<sup>67</sup> Public debt law, Unofficial cleared version available only in Macedonian at: <https://www.finance.gov.mk/files/u1361/Zakon%20za%20javen%20dolg-eng-prechisten%20tekst%20%282%29.pdf>

<sup>68</sup> The laws on issuance of sovereign guarantee for Kichevo-Ohrid and Miladinovci-Shtip highways are available only in Macedonian at: <http://www.slvesnik.com.mk/Issues/cb8788d0ddd347f29eb80699945fcd3a.pdf>

<sup>69</sup> See article 4 of the Law on Realization of Infrastructure Projects for Construction of the Road Section Miladinovci-Shtip and the Road Section Kichevo-Ohrid, available only in Macedonian at <http://www.slvesnik.com.mk/Issues/cb8788d0ddd347f29eb80699945fcd3a.pdf>

<sup>70</sup> Law on Public Procurement, consolidated version form 2017, available at : <http://www.bjn.gov.mk/wp-content/uploads/2018/11/Zakon-za-javnite-nabavki-oficijalen-eng.pdf>

<sup>71</sup> Law on Public Procurement, Official Gazette of RM, no. 24, available in Macedonian only at [http://www.bjn.gov.mk/wp-content/uploads/2018/11/ZAKON\\_ZA\\_JAVNITE\\_NABAVKI1\\_24-12.pdf](http://www.bjn.gov.mk/wp-content/uploads/2018/11/ZAKON_ZA_JAVNITE_NABAVKI1_24-12.pdf)

### 3.2. Court proceedings on corruption

As part of the “Truth for Macedonia” series, then opposition leader Zoran Zaev, presented audio recording related to the construction of the two highways on 26 March 2015,<sup>72</sup> accusing Gruevski’s government for taking an illegal provision from Sinohydro’s price offer. SPO then opened the “Trajectory” investigation related to the construction of the two highways. On 29 June 2017, the prosecutor brought a bill of indictment<sup>73</sup> charging former Prime Minister in Charge of Economic Affairs Vladimir Peshevski, former Minister of Transport Mile Janakievski, and former Head of the Public Enterprise for National Roads Ljupcho Georgievski with “Abuse of Official Position and Authorization” under Article 353, Paragraph 5, with regard to Paragraph 1 and Article 22 of the Criminal Code of the Republic of Macedonia. There was an additional indictment proposal charging former Prime Minister Nikola Gruevski with “Accepting a Reward for Unlawful Influence” under Article 359, Paragraph 2 of the Criminal Code of the Republic of Macedonia.<sup>74</sup> According to SPO, the above

mentioned government officials did not deliver the project documentation for the two highways to the entire list of potential contracting companies<sup>75</sup> approved by the Chinese Embassy in Skopje.<sup>76</sup> SPO argued this was contrary to conditions set by the EXIM Bank, because the government instead sent the project documentations to only two Chinese companies, Sinohydro and China International Water & Electric Corporation (CWE).<sup>77</sup> Notably, for the construction of Miladinovci-Shtip highway the government entered negotiations with those two companies. For the construction of Kichevo-Ohrid highway (problematic in terms of construction, prolongation and increased costs) the government negotiated only with Sinohydro.<sup>78</sup> Interestingly, CWE’s offer for Kichevo Ohrid was 54.6 million USD lower than Sinohydro’s offer. The government still selected Sinohydro.<sup>79,80</sup> In November 2019, the court procedure was stopped and the case was declared obsolete due to the fact that six years had passed since the possible breaches of law were committed. With no final verdict in the case by virtue of the principle of presumption of innocence, the accused functionaries are not guilty.

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<sup>72</sup> Kapital, New Bomb-Zaev: Gruevski and coworkers agreed on provision of 25 million euros for the construction of the highways with a Chinese companies, 26 March, 2015, available at <https://kapital.mk/nova-bomba-zaev-gruevski-i-sorabotnitsite-za-izgradba-na-avtopatite-dogovorile-provizija-od-25-milioni-evra-so-kineskata-kompanija/>

<sup>73</sup> Public prosecutor’s office for prosecution of crimes related and arising from content of the illegal communications interception, Bill of indictment, NSK-KO. no.9/17, 29 June, 2017

<sup>74</sup> Ibid

<sup>75</sup> Not public

<sup>76</sup> Public prosecutor’s office for prosecution of crimes related and arising from content of the illegal communications interception, Bill of indictment, NSK-KO. no.9/17, 29 June, 2017

<sup>77</sup> Ibid

<sup>78</sup> Ibid

<sup>79</sup> Ibid

<sup>80</sup> According to the State Roads Public Enterprise, the Kichevo-Ohrid highway was estimated on 266.7 million EUR.

## 4. Financial conditions

The terms of the loan are as follows:

- total amount of 783,419,039 USD;
- grace period of 60 months (5 years);<sup>81</sup>
- 82 repayment period of 20 years (5 years of grace period plus 15 years of actual repayment);
- interest rate on non-withdrawn amounts of the loan during the grace period of 0.25%;
- one-time fee of 0.25% for processing the request; and
- annual interest rate of 2%

After the five-year grace period (2014-2019), the loan principal (outstanding amount) is scheduled to be repaid in 30 equal payments (principal and interest) every six months.

The loan amount is calculated on the basis of the agreed prices for the two highways: 278.4 million USD for Miladinovci-Shtip and 505 million USD for Kichevo-Ohrid. There was the possibility of increased additional costs of 10%, converted into USD by the average daily exchange rate of the National Bank of North Macedonia.<sup>81</sup>

The Chinese EXIM Bank provides 90% of the total financing of the two infrastructure projects. The remaining 10% of the financing is provided by the Public Enterprise for State Roads.<sup>83</sup>

### 4.1. The other funding opportunities

There were five other options for international financing that the government considered:

1. Loan from the World Bank Group: It was not able to apply, as the needed amount was beyond the financial framework in the Country Partnership Strategy (CPS) covering the period from July 2014 to June 2018.
2. Loan from the European Bank for Reconstruction and Development (EBRD): The request was rejected given EBRD's focus on priorities in other areas.
3. Eurobond Issuance: The government had the option to issue Eurobonds at the amount necessary for the construction.
4. Loan from international commercial banks: This means a credit agreement with any of the international commercial banks large enough to finance borrowing for realization of the projects.
5. Domestic borrowing from commercial banks: The funds needed to implement this project were too large for the shallow domestic financial market. Such borrowing would create a barrier to private sector investment by increasing the interest rate on the domestic credit market and reducing available credit potential of domestic banks.

Therefore, only the third and fourth options were considered viable for financing the two infrastructure projects.<sup>84</sup>

<sup>81</sup> A grace period is a time period automatically granted on a loan during which the borrower does not have to pay the issuer any monies toward the loan.

<sup>82</sup> 505,044,966.98 USD for Kichevo-Ohrid and 278,374,071.98 USD for Miladinovci-Shtip.

<sup>83</sup> See article 4 of the Law on Realization of Infrastructure Projects for Construction of the Road Section Miladinovci-Shtip and the Road Section Kichevo-Ohrid no.149, pp. 2-132, available only in Macedonian at <http://www.slvesnik.com.mk/issues/cb8788d0ddd347f29eb80699945fcd3a.pdf>

<sup>84</sup> Statement by the Defendants, Court Proceedings, 18.09.2018, available at <https://press24.mk/pesheviski-i-janakieski-so-kineskite-avtopati-zashtedile-nad-150-milioni-dolari>

## 4.2. Comparison of costs

According to the Exim Bank loan arrangement, the principal shall be repaid continuously within 15 years after the five-year grace period. The EXIM Bank loan came with 2% interest rate per annum, a 20-year repayment period and principal repayment twice a year in 30 equal installments starting from the first six months of the sixth year. For the loan of 783.4 Million USD, the Public Enterprise for State Roads would pay an additional 155.6 Million USD in interest.

If the government had issued a Eurobond worth 783.4 million USD with an interest rate of around 6.925% over 10 years, the total interest payments from the Public Enterprise for State Roads would have been 542.5 Million USD. If the government had borrowed the same amount through guaranteed credit from international commercial banks over 10 years, the interest rate would have been 4.925%. For the duration of the loan, the interest payments would have been 385.8 Million USD. Borrowing through the issuance of a Eurobond on the international capital market or a credit agreement with an international commercial bank would have meant higher costs for interest payments in 2013 when the Exim Bank arrangement was made. The savings are estimated at 380.2 Million USD compared to an alternative 10-year Eurobond and 156.7 Million USD compared to borrowing through an international commercial bank loan for a period of 10 years.

Ultimately, the Chinese loan for financing was not

the problem in this case. Two key problems were the loan condition to engage a specific Chinese contractor without competition and the quality of work and materials used for the construction. The latter eventually led to much higher costs than initially anticipated.

## 4.3. Primary contractor and financial performance in North Macedonia

The primary contractor is Sinohydro Corporation Limited Beijing – Subsidiary in Skopje (PIN 6913130) (Синохидро Корпорација Лимитед Пекинг – Подружница Скопје).

Sinohydro, which is a state-owned Chinese enterprise, has a history of being accused of fraudulent activities. It was temporally debarred by the World Bank in December 2013.<sup>85</sup> In May 2018, Sinohydro engaged in fraudulent practice by bidding for works contracts in the context of the Road Sector Support Project in Uganda financed by the African Development Bank (AfDB). The African Development Bank imposed a conditional non-debarment for a period of three years, after a controversial settlement with Sinohydro.<sup>86</sup> Admittedly, in the case of North Macedonia, Sinohydro was selected a few months before the debarment by AfDB.

Official data in the Central Registry of North Macedonia reveals the following financials for Sinohydro, presented in Table 3 and Table 4.

There is some discrepancy between the implied

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<sup>85</sup> Asad Kharal, Violating the rules: WAPDA to award mega project to debarred firm. The Express Tribune, May 12, 2014, available at <https://tribune.com.pk/story/707311/violating-the-rules-wapda-to-award-mega-project-to-debarred-firm>

<sup>86</sup> African Development Bank Group, Integrity in Development Projects: African Development Bank and Sinohydro Reach Settlement Agreement on Fraudulent Practice, 24 May, 2018, available at <https://www.afdb.org/en/news-and-events/integrity-in-development-projects-african-development-bank-and-sinohydro-reach-settlement-agreement-on-fraudulent-practice-18158>

profit (based on the difference between total revenue and total expenses) and the officially declared profit. Based on the conservative estimate of the officially declared profit, the total or cumulative undiscounted profit<sup>87</sup> generated by Sinohydro was 85.5 Million USD during the 2014-2018 period.

Two standard profitability ratios reveal that Sinohydro is a highly profitable enterprise. In 2018, its Return on Equity (ROE) was 30.2%. In the same year, the Return on Assets (ROA), was 11.1%.<sup>88</sup>

Sinohydro's North Macedonia subsidiary was in the 20<sup>th</sup> position among the largest companies by their turnover in North Macedonia in 2018 and the fifth most profitable company in the country.<sup>89</sup> In 2016, this company was in 7<sup>th</sup> place among the largest companies in the country's economy and the third most profitable company in the country.<sup>90</sup>

How is this possible? In an interview in March 2018, the former Deputy Prime Minister for Economic Affairs Kocho Angjushev stated that Sinohydro

**Table 3.** Profit/Loss Statement of Sinohydro (Amounts converted in USD)

Profit/Loss Statement	2014	2015	2016	2017	2018
Total Revenue	22,300,086	86,912,595	166,728,979	136,881,585	120,569,964
Total Expenses	26,833,346	79,826,117	130,269,236	109,694,672	91,349,890
Implied Profit / Loss	(4,533,260)	7,086,479	36,459,743	27,186,913	29,220,073
Officially declared Profit / Loss	(4,533,260)	6,696,177	32,740,701	24,413,948	26,152,512

**Table 4.** Balance Sheet of Sinohydro (Amounts converted in USD)

Assets	Dec 31st 2014	Dec 31st 2015	Dec 31st 2016	Dec 31st 2017	Dec 31st 2018
Current assets	135,951,770	188,677,424	301,292,476	167,469,254	218,595,119
of which: Inventories	64,311	-	134,377	-	270,581
Non-current assets	8,764,395	10,680,607	8,920,547	7,648,565	4,556,182
Deferred expenses / Accrued receivables	31,486,777	37,672,892	30,892,007	22,590,342	12,333,760
Total assets	176,202,941	237,030,923	341,105,030	197,708,161	235,485,061
Liabilities	Dec 31st 2014	Dec 31st 2015	Dec 31st 2016	Dec 31st 2017	Dec 31st 2018
Equity	(4,533,260)	461,504	32,740,701	59,351,325	86,572,115
Liabilities	63,975,991	131,850,924	221,983,231	71,496,614	110,124,188
Accrued liabilities / Deferred revenue	116,760,211	104,718,495	86,381,098	66,854,732	38,788,758
Total liabilities	176,202,941	237,030,923	341,105,030	197,702,671	235,485,061

Source: Central Registry of North Macedonia , December 2019.

<sup>87</sup> Not taking into account the time value of money.

Return on Asset = (Net Income/Total Assets) x 100; Return on Equity = (Net Income/Equity) x 100.

<sup>89</sup> Top 100 best companies. Analitika, 2019, available at <https://analitika.mk/analitika-100-najdobri-odraz-na-nasata-ekonomija/>

<sup>90</sup> Top 200 biggest and most successful companies in Macedonia. Kapital, 2017, available only in Macedonian here <https://kapital.mk/deneska-izleze-spetsijalnata-editsija-top-200-najgolemi-i-najuspeshni-vo-makedonija/>

had in fact constructed only 2.7 kilometers of the highways.<sup>91</sup> The company engaged four subcontractors to implement the construction activities: [1] the joint-stock company Granit from North Macedonia; [2] the joint-stock company Beton from North Macedonia; [3] the consortium Transmet, a Limited Liability Company from North Macedonia; and [4] the joint-stock company Hering from Shiroki Brijeg (Bosnia and Herzegovina). Two of these subcontractors - Granit and Beton – are large construction companies listed on the Stock Exchange of North Macedonia. Granit initially informed the Stock Exchange that it signed a sub-contract with Sinohydro worth 145.87 Million USD.<sup>92</sup> Later on, Beton also notified the Stock Exchange that it signed a subcontract with Sinohydro worth 100.99 Million USD. On July 17<sup>th</sup>, 2019, Granit notified the Stock Exchange that it signed a new contract and acquired unfinished construction activities from the Consortium Transmet from North Macedonia and Hering from Shiroki Brijeg (Bosnia and Herzegovina). The amount specified in the new contract – equivalent to the acquired unfinished construction activities – was 59.98 Million USD. Hence, at the end of July 2019 Sinohydro had two subcontractors, Beton and Granit.

According to the Deputy Prime Minister Angjushev, the subcontractors have been sending invoices for the construction activities to Sinohydro. Sinohydro has then been re-invoicing for the same construction

activities to the Public Enterprise for State Roads at a price 54% higher than the price in the original invoices issued by the subcontractors.<sup>93</sup>

The newly appointed Director of Public Enterprise for State Roads, Mr. Zoran Kitanov, presented other unpleasant statistics in May 2019.<sup>94</sup> In the contract for Miladinovci-Shtip, the price for installation of one cubic meter of buffer offered by Sinohydro was 2,200 MKD (39.4 USD). When in a regular public procurement procedure Sinohydro won a contract to build "Krupishte-Kocani", it offered four times lower price - 572.73 MKD (10.24 USD) per cubic meter - for the same type of work (installation of one cubic meter of buffer) in 2019. In the same interview, Director Kitanov stated that for the Miladinovci-Shtip highway, Sinohydro charged 106.97 MKD (1.92 USD) for one centimeter of the lower asphalt layer. That is nearly twice the price for Krupishte-Kochani, which is 54.78 MKD (0.98 USD) per one centimeter. There is also a difference in the price for the upper asphalt layer. On the Miladinovci-Shtip highway, it is 184.5 MKD (3.3 USD per centimeter). On Krupishte-Kochani, it is 70.30 MKD (1.26 USD per centimeter). These are major price differences in two similar projects for the same work by the same company.

Therefore, the loan from the Chinese Export-Import Bank indeed comes under favorable low-interest terms, but the condition attached is to have a profit-

<sup>91</sup> Aleksandar Janev, The Chinese Sinohydro pays the Kichevo-Ohrid highway 54% more than the subcontractors. Kapital, 6 March, 2018, available only in Macedonian at <https://kapital.mk/kineskata-Sinohydro-go-naplatauvala-avtopatot-kichevo-ohrid-za-54-poskapo-od-podizveduvachite/>

<sup>92</sup> Notification from Granit to the Macedonian Stock Exchange (April 24<sup>th</sup> 2014), <https://www.seinet.com.mk/Default.aspx?docID=33620>

<sup>93</sup> Aleksandar Janev, The Chinese Sinohydro pays the Kichevo-Ohrid highway 54% more than the subcontractors. Kapital, 6 March, 2018, available only in Macedonian at <https://kapital.mk/kineskata-Sinohydro-go-naplatauvala-avtopatot-kichevo-ohrid-za-54-poskapo-od-podizveduvachite/>

<sup>94</sup> Vecer, For the construction of the highways, in bidding "Sinohydro" offered up to four times lower prices than the privately agreed, 21 May, 2019, available only in Macedonian at <https://www.vecer.press/za-izgradba-na-patiштата-синохидро/>



generating Chinese contractor conduct the project. The financial envelope (the loan) is oversized in relation to the true construction costs, as evidenced by the massive profits generated by Sinohydro. In a democratic society, these two operations are independent. The project financing comes from one entity (creditor), the project implementation (construction procurement) is awarded to a different entity with the best public offer. The presence of Sinohydro in North Macedonia is not a one-time adventure as the enterprise continues to participate and win public bids for construction of other roads of smaller financial value.

#### 4.4. The public debt impact

At the moment of borrowing from the Chinese Export-Import Bank, the government reported only the gross general government debt. There was no official data on the country's public debt.<sup>95</sup> Any borrowing by its public enterprises would not count as part of the gross general government debt. The secretly wiretapped conversations revealed that by opting to borrow via the Public Enterprise for State Roads the then government believed the public debt increase would stay "under the

radar". However, even when some critics raised the issue of the public debt definition, the official response was that the level of public debt is still "moderate".<sup>96</sup> This did not go unnoticed by the International Monetary Fund. The IMF Country Report<sup>97</sup> 2015 Article IV Consultation Report reported: "The general government debt reached 38 percent of GDP at end-2014, a near doubling since 2008, while broader public sector debt (includes mainly two state-owned enterprises (SOEs), the Public Enterprise for State Roads (PESR) and the Electricity Distribution Company (ELEM)), rose to 44 percent of GDP".

Official government statistics do now report both gross general government debt and public debt.<sup>98</sup> The public debt jumped from 34% of GDP in 2013 to 40.6% of GDP in 2018. The bottom section of Table 7 presents the composition of the public debt expressed as a percentage of GDP. The outstanding amount of the loan from the Chinese official creditor was equivalent to 3.8% of country's GDP in 2018. In other words, more than half (57.6%) of the cumulative increase of the public debt-to-GDP ratio between 2013 and 2018 is directly from the substantial borrowing from the EXIM Bank.<sup>99</sup>

<sup>95</sup> It is important to differentiate between gross general government debt and public debt. Public debt, which also includes the publicly guaranteed debt. The loan from the Chinese Export-Import Bank has not affected the gross general government debt, because the borrowing was made by (an extra-budgetary) public roads company. However, it has increased the public debt (and publicly guaranteed) debt, both in terms of outstanding obligations nominal terms (as an absolute amount) and in relative terms (as a share of the country's GDP). For example, publicly guaranteed debt of state-owned enterprises rose from 2½ percent of GDP in 2008 to about 8 percent of GDP in 2019, mainly due to public transport infrastructure projects by the public roads company. The largest increase was due to the loan from the Chinese Export-Import Bank. Therefore, the gross general government debt has not been affected by this borrowing. But, the official public debt (including publicly guaranteed debt) has significantly increased because of the loan from the Chinese Export-Import Bank.

<sup>96</sup> Faktor, What is behind the public debt, 8 October, available at <https://faktor.mk/shto-stoi-zad-javniot-dolg/fcherashni-novosti-ja-znaete-roka-mandolina>

<sup>97</sup> IMF Country Report No. 15/242, September 3, 2015, p. 7, available at <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Former-Yugoslav-Republic-of-Macedonia-2015-Article-IV-Consultation-Press-Release-Staff-43241>

<sup>98</sup> Ministry of Finance of the Government of North Macedonia <https://finance.gov.mk/mk/node/57>.

<sup>99</sup> The IMF has been very careful in its reaction. For instance, the IMF Country Report No. 16/357 in November 2016 states that: "These investments are mostly financed by the EBRD, the EIB and the EXIM Bank through publicly guaranteed debt denominated in FX, and carried out by state-owned enterprises such as PESR, outside the central government budget. While infrastructure investments in FYR Macedonia do not compete with government spending in other areas, it does add to government liability."

## 5. Environmental concerns

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The preparatory work for construction of the Miladinovci-Shtip highway was in an advanced stage well before 2013. The Study of the Environmental Impact of this highway was already prepared by a team of four geologists in April 2011.<sup>100</sup>

In April 2013, the Public Enterprise for State Roads notified the Ministry of Environment and Physical Planning that it intended to construct the highway

A2 Section: Kichevo-Trebenista and the highway A3 Section: Crossroads Trebenista and Crossroads Podmolje-Ohrid.<sup>101</sup> The Study of the Environmental Impact for these projects was prepared by GEING Krebs and Kiefer in April 2013.<sup>102</sup>

Both studies identified low-level harmful effects on the environment and proposed mitigation measures, basically giving a green light for the construction of the highways.

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<sup>100</sup> Study on the Environmental Impact of the highway Miladinovci-Sveti Nikole-Shtip (April 2011), available at: <http://www.moepp.gov.mk/wp-content/uploads/2014/10/Studija%20Avtopat%20Miladinovci-Sv.Nikole-Shtip%20-%20PRERABOTENA.pdf>

<sup>101</sup> State Roads Public Enterprise, Notification for the intention for the construction, 4 April, 2014, available at [https://www.moepp.gov.mk/wp-content/uploads/2014/10/2013.04.04\\_Izvestuvanje%20za%20namera.%20avtopat%20Kicevo-Ohrid.pdf](https://www.moepp.gov.mk/wp-content/uploads/2014/10/2013.04.04_Izvestuvanje%20za%20namera.%20avtopat%20Kicevo-Ohrid.pdf)

<sup>102</sup> Study on the Environmental Impact of the highway A2, Section Kichevo-Trebenista and the highway A3, Section: Crossroads Trebenista (link with A2) and Crossroads Podmolje-Ohrid, available at: <http://www.moepp.gov.mk/wp-content/uploads/2014/10/Sdudija%20za%20ovzs%20-%20Izgradba%20na%20Avtopatot%20A2,%20delKicevo-Trebenista%20i%20na%20avtopat%20A3,%20del%20krstosnica%20Trebenista-krstosnica%20Podmolje.pdf>

## 6. Conclusions and recommendations

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North Macedonia and China have generally maintained friendly political and economic bilateral relations dating back to the times of Yugoslavia, minus a short break due to the Yugoslav Wars and Skopje's recognition of Taiwan in 1999. Beijing's engagement with Skopje after 2010 should be analyzed with a regional perspective as part of the Belt and Road and 17+1 initiatives.

The Miladinovci-Shtip and Kichevo-Ohrid highways constructed by the Chinese company Sinohydro and financed through the Chinese Export-Import Bank's loan, represent the epitome of a more contemporary relationship between the two countries. By far the largest 'Chinese projects' in North Macedonia in terms of funding and scale have been overshadowed by corruption involving high official from the then VMRO-DPMNE-led government. The corruption investigation included the former prime minister himself. Their implementation raised serious concerns over the contracting process and the overall construction. The project completion, especially of the Kichevo-Ohrid highway, has been

delayed at least three years and its construction costs went up significantly. These circumstances put a huge question mark over the favorable conditions the Chinese Export-Import Bank offered to Macedonian authorities for the construction of the two highways.

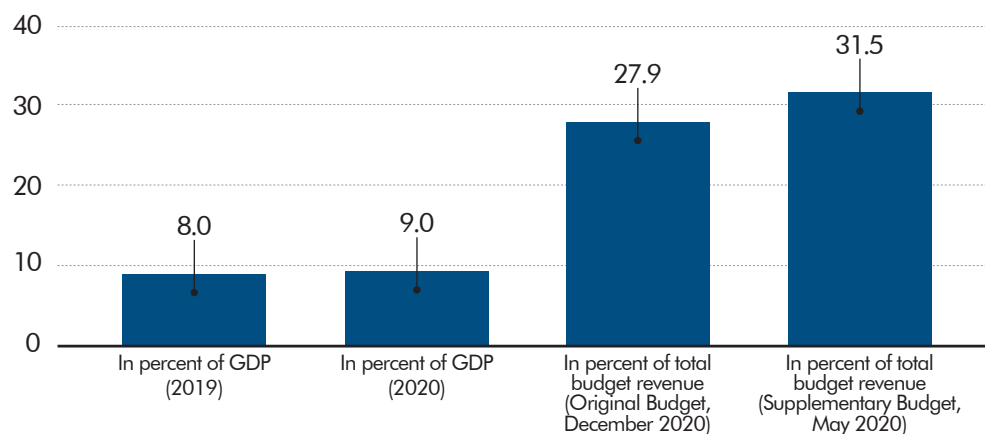
The original contract for the loan was worth 783.4 Million USD, which was 90% of the total value of the construction works. As presented in the Table 7, the total value of construction works envisaged in the contract agreements for both highways was 870,422,844.32 USD. As of now (September 2020), the total delay amounts to 1912 days (five years and two months), and estimated new total value for the highways is calculated at 1,081,811,412.94 USD. With the Annex (amendment) to the original contract agreements on November 14<sup>th</sup> 2018, the price of construction works for the Kichevo-Ohrid increased by 211,388,568.60 USD and the delay of the works is now estimated at 1,249 days. The price of construction works for the Miladinovci-Shtip highway did not change, but the works were prolonged by 663 days. Kichevo-Ohrid is not completed, and Miladinovci-Shtip is completed by August 21<sup>st</sup>, 2020. If one adds the expected interest payments in the next 15 years in the amount of 155.6 million USD, the total cost will reach 1.2 Billion USD.

**Table 5.** Total value of construction works and delayed construction works (in USD)<sup>103</sup>

Highway section	Amounts in the original contract agreements	Annex		Total amount (original contract + annex)
	[ A ]	[ B ] Additional Costs	[ C ] Extension of the period	[ D ] = [ A ] + [ B ]
Kichevo-Ohrid	561,133,511.97	211,388,568.60	1,249 days (new deadline 30.06.2021)	<b>772,522,080.58</b>
Miladinovci-Shtip	309,289,332.37	0.00	+ 663 days (completed 21.08.2020)	<b>309,289,332.37</b>
<b>Total amount</b>	<b>870,422,844.32</b>	<b>211,388,568.60</b>	<b>1912 days (5 years and two months)</b>	<b>1,081,811,412.94</b>

The current estimated value of the highways is 9.0% of the GDP for 2020 and 31.5% of the total budget revenue (Supplementary Budget, May 2020).

**Table 6.** Total value of construction works (in percent of GDP and budget revenue)



<sup>103</sup> The average daily USD/EUR exchange rate on the day of the enactment of the third annex was 1.13171 USD per 1 EUR.

The corrosive capital coming from China, as non-competitive loan conditions set by state-owned Chinese banks, threaten democratically established institutions and market economy. It also raises serious concerns over North Macedonian authorities' resilience to corruption and their willingness to ignore the rule of law and execute projects of this kind in opaque and non-inclusive manners. It appears China's way of working is opposite from the political and economic model and liberal values North Macedonia strives to achieve through its alliances (NATO) and prospective membership in the EU.

Beijing has effectively managed to channel its corrosive capital to North Macedonia by taking advantage of its governance gaps, including:

1. The lack of transparent and competitive procurement vis-à-vis the loan conditions set by the Chinese Export-Import Bank embodied in the list of preferred companies suggested by the Chinese government and approved by the Chinese embassy in Skopje;
2. Non-transparent and non-competitive selection process of the main contractor (Sinohydro) that paved the way for potentially corrupt dealings detrimental for the projects' sustainability and value; and
3. Space for political and private incentives of leading public officials overshadowing the construction supervision's opinion of the project infeasibility, effectively harming the common good and taxpayer's money.

The anti-competitive requirement of tying the loan with the condition to engage a specifically suggested Chinese contractor is one of the major problems. As the primary contractor, Sinohydro erases benefits from the concessional terms of the loan and over-compensates the presumably generous financial offer by extracting excessive profit. The financial envelope (the loan itself) is oversized in relation to the true construction costs as evidenced by the massive profits generated by Sinohydro during the 2014-2018 period. When one adds subsequent signing of the three annexes to the original agreement with Sinohydro due to the unexpected costs, the entire story of significant national benefits evaporates. The presence of Sinohydro in North Macedonia is not a one-time adventure, as the enterprise continues to participate and win public bids for construction of other roads of smaller financial value. This is embodied in the government's attitude to continue the highway construction while overlooking their feasibility and profitability and ignoring the contemporary construction standards and public procurement procedures.

From a broader perspective, trade relations with China are producing a sizeable and widening deficit for North Macedonia. The investment relations between these two countries had been very weak until 2016 and unilateral afterwards, mainly related to Sinohydro.

Having said that, this study provides several recommendations for different state and non-state actors. Here are the key of them:

**The government** should be committed to Euro-Atlantic integration and membership by:

- Improving the functioning of democratic institutions, public administration reform, and fighting corruption, including by closing the governance gaps identified in this analysis, particularly through transparent and competitive public procurement not only for major infrastructure projects; thus ensure their sustainability and value-for-money.
- Complying with the EU's accession economic criteria to ensure that the market is functioning as well as competitive, and free and North Macedonia is adhering to public debt provisions, as envisioned with the Maastricht criteria.
- Drafting a new National Development Plan and aligning the development strategies with the *acquis* in the context of EU accession policy.
- Levelling up the fight against the corrosive capital on a regional level. This can be done under the auspices of the Berlin Process anti-corruption pledges.
- Avoiding financial arrangements from external creditors that limit competitive procurement procedures.

- Using the financing and support opportunities provided by the Western Balkans Enterprise Development & Innovation Facility and the Instrument for Pre-Accession Assistance III in order to limit the space for corrosive funding from untrusted parties.
- Conditioning political decision making with sound rationale through analysis keen to Regulatory Impact Assessment, which leads to accountable policy making.

**The parliament** should exercise a more thorough oversight by:

- Holding public and oversight hearings to gain necessary information, including independent experts' opinion, prior to ratifying international agreements that create significant political, financial, and other constraints for the country.
- Cooperate closely with the State Commission for Prevention of Corruption in decreasing risks of office abuse through counseling MPs and corruption proofing of legislation and policies.
- Cooperate with the financial investigation institutions, including tax authorities, police and intelligence in investigating the property state of the elected or nominated officials directly engaged



in concluding international agreements of such kind and magnitude. This is important in order to avoid rewards for unlawful influence by officials like in the case of the construction of the two highways.

**Civil society organizations, independent media, and business support organizations such as chambers of commerce** should demand:

- Full transparency in the negotiations and implementation of these types of projects starting from feasibility and profitability studies of the project idea all the way through ratification of international agreements and subsequent contracting process, until the projects are finished and evaluated.
- Transparency that leads to competitiveness through inclusive decision-making.

## Information about CIPE

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Free market capitalism and global trade have resulted in the greatest economic gains in human history, yet gaps remain and some are being left behind. This is the result of unequal economic opportunity, a lack of universal entrepreneurial and economic opportunities, and an inability for people to connect to global value chains. CIPE's programs work to address these problems. CIPE was founded on the principle that economic freedom and political freedom are linked. A strong private sector needs a flourishing democracy to work – and vice-versa. Our work centers on building strong democratic institutions to create an enabling environment for business and entrepreneurship to flourish. Whether that be leading anti-corruption efforts, training entrepreneurs, helping local business associations, chambers of commerce, and think tanks, assisting in presidential debates focusing on the economy, or building good governance structures – we are there on the front lines battling to strengthen and support democracy and its institutions so the private sector can thrive.

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## Information about IDSCS

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IDSCS is a think-tank organisation researching the development of good governance, rule of law and North Macedonia's European integration. IDSCS has the mission to support citizens' involvement in the decision-making process and strengthen the participatory political culture. By strengthening liberal values, IDSCS contributes towards coexistence of diversities.

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## Information about the project

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The objectives of the “Addressing corrosive capital flows” project are 1) to strengthen the role of private sector-led initiatives that advance local solutions to economic and governance challenges and 2) to improve governance based on liberal democratic and market-oriented principles and institutions in authoritarian countries and emerging democracies. Project’s case studies in North Macedonia are the Miladinovci-Shtip and Kichevo-Ohrid highway sections, whose construction is financed by a loan from the Export-Import Bank of China and led by the Chinese company SinoHydro Corporation Ltd. The project activities entail strategic planning, identification and analysis of high-risk foreign capital inflows and governance gaps, roundtables on the policy papers with the private sector, meetings on the policy papers with public officials, and public policy roundtables and other local outreach on the policy papers.

### More information can be found at:

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<https://idscs.org.mk/en/2020/07/23/addressing-corrosive-capital-flows/>

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## Link

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**This report is available electronically on:**

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# ADDRESSING CORROSIVE CAPITAL FLOWS



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