



# CHINA IN THE WESTERN BALKANS

April 2020 Issue

# Table of contents

<b>China, For Better or Worse</b>	<b>3</b>
<b>1.0 The Regional Picture</b>	<b>5</b>
1.1 The Place of the Region in China’s Global Strategy	5
1.2 Chinese Projects in the Western Balkans	7
1.3 Rising Political Influence	9
1.4 Outlook and factors to watch	10
<b>2.0 Albania</b>	<b>12</b>
2.1 Main projects	12
2.2 Political ties	13
2.3 Outlook and factors to watch	13
<b>3.0 Bosnia and Herzegovina</b>	<b>15</b>
3.1 Main projects	15
3.2 Political Ties	16
3.3 Outlook and factors to watch	17
<b>4.0 Kosovo</b>	<b>18</b>
<b>5.0 North Macedonia</b>	<b>19</b>
5.1 Main Projects	19
5.2 Political ties	19
5.3 Outlook and factors to watch	20
<b>6.0 Montenegro</b>	<b>22</b>
6.1 Main projects	22
6.2 Political ties	23
6.3 Outlook and factors to watch	23
<b>7.0 Serbia</b>	<b>25</b>
7.1 Main projects	25
7.2 Political ties	26
7.3 Outlook and factors to watch	27

# China, For Better or Worse

For better or worse, China has been in the international spotlight more than ever since the start of 2020. The coronavirus pandemic began in China, with the city of Wuhan, the capital of Hubei province, identified as the epicentre of what has now become a global pandemic. For weeks, the world watched China and how it was dealing with the virus. Arm-chair experts opined on whether Chinese quarantine measures were too extreme, or merited. Overall, it was hard to escape the feeling that, while watching what was going on in China, much of the world – and global commentariat – did not appreciate that the coronavirus would not remain contained in a ‘China bubble’ but was on its way to them as well.

Several months later, the coronavirus is everywhere it seems and the only item on the news agenda – indeed, it seems to be the driving force shaping political events, even to the extent of determining whether elections will be held or not. Yet China, as the country which first encountered it and seemingly successfully fought back against the virus, is now in a unique position. While much of the Western world is struggling to keep its head above water in an effort to handle the pandemic, China appears a sea of calm. It also has the ability to direct medical aid and medical expertise to countries in need, boosting its soft power.

While most of the EU – particularly the Western core – is keeping its head above water, for the time being, and has enough resources to handle the pandemic, smaller countries on the EU’s periphery are worried. Initial moves by the EU to limit the export of medical supplies strongly suggested that EU hopefuls in the Western Balkans would be left to their own devices to handle the coronavirus.

Cue China, which stepped into the void – most clearly in Serbia – to provide medical supplies and assistance. Serbian President Aleksandar Vucic lavished Beijing with praise, slamming the EU. Since then, the EU has also jumped into action, as has Russia most recently. Yet, the reality is that China has the resources to offer assistance in the Western Balkans at a time when the EU is feeling strained domestically, further than ever from being able to offer assistance to its Balkan backyard.

Even before the coronavirus pandemic, the Balkans was more and more becoming the playground on which great power politics and diplomatic games were being played out. China’s growing presence in what Europe and the US like to think of as *their* back yard has been steadily growing, much to the West’s concern. It is within this context that BIRN Consultancy has been planning to launch its regional *China in*

*the Western Balkans* reports. The latest pandemic twist seems set to intensify these 'games'.

This first of our reports takes stock of China's presence in the region, the projects it has been pursuing, and how its soft power has been expanding. It will provide the base for analysing Chinese activities in the region on a quarterly basis.

# 1.0 The Regional Picture

## 1.1 The Place of the Region in China's Global Strategy

Over the last decade, China has completely transformed the role it has in the Western Balkans region, positioning itself as a major contender to the West. To understand China's goals in the Balkans, it is necessary to zoom out and consider its strategy in the broader European and global context.

### *The Global Context*

As a key part of the strategy designed to propel China into the position of emerging as a new, truly global superpower, in 2013 Beijing launched the Belt and Road initiative, a comprehensive plan aiming to connect the Pacific coast of China at one end with the rich markets of Western and Northern Europe – and everything in between. To achieve this, the Chinese government is helping fund (primarily through loans) a huge number of infrastructure projects and public investments, constructing both overland and maritime networks that stretch across three continents and almost 70 countries.

On the primary level, this network serves as a trading route built for efficiently transferring goods from China to Europe. Besides being an important market for Chinese products, the EU is becoming increasingly important for China as a potential destination for investing. According to the available data, in the last eight decade or so the amount of Chinese foreign direct investments in EU countries has increased by almost fifty times according to some calculations, rising from less than \$840 million in 2008 to a record high of \$42 billion in 2016, surpassing European investments in China four times.

Yet, it is equally important to understand how China is using these strategic projects to promote its global political and economic influence as well. By ensuring that governments in developing countries located on the Belt and Road pathway have access to a new, major source of long-term investment funding without the usual bureaucratic, financial, 'cost-benefit' or transparency demands of established international lenders/donors, Beijing is encouraging them to align with Chinese interests in return.

## **The Balkans Within the Global Context**

The geographic position of the Western Balkans makes this region one of the key geostrategic points for the success of the Belt and Road initiative. Located at the gateway of Europe, the area is encompassed by important routes that connect the EU to Turkey and the Middle East.

The Balkan route became even more significant after the Chinese state-owned enterprise COSCO Holdings Company acquired a 67 percent stake in the port of Piraeus in Greece, reshaping it into the second largest port in the Mediterranean, and a footing for Chinese economic expansion in Southeast Europe. Moreover, the economic situation – as well as the more or less illiberal nature of many regimes in the Western Balkans countries – makes the region fertile ground for the strategy China is successfully implementing across the globe. The region is held back by the poor state of infrastructure, yet governments have very limited capacities for financing large-scale projects, often relying on foreign loans and investments. China has much more flexible (indeed political) criteria for approving infrastructure loans than Western investors and prioritizes large projects that may be profitable only in the long run, precisely because Beijing is following the strategic goals of the Belt and Road initiative. All of these aspects make Chinese loans and investments very appealing for the countries of the region, paving the way for the overall rise of Beijing's influence.

Another Chinese strategic initiative in which the Western Balkans countries play an important role is the cooperation between China and Central and Eastern European Countries (China-CEEC), also known as the 17+1 Initiative. The purpose of this initiative, founded in 2012, is to serve mostly as an umbrella organization for China to develop relations with the CEE countries. It also serves as a way to split off CEE countries from the West European core when China deals with Europe. Beijing sees an opportunity to improve the visibility of implemented projects and its growing influence in Europe through the 17+1 initiative. Accordingly, most of the SEE countries are either hosting or are about to host a collective CEEC institution. In addition, the annual 17+1 conferences provide a prominent platform for announcing the most important developments and future projects China is planning to support in the next period, hence they are crucial to follow for understanding future trajectories. The next meeting was to be held in Beijing in April 2020 (although it seems likely to be deferred), and for the first time, it would be hosted by Chinese leader Xi Jinping, which was a way to signal the highest priority China gives to this initiative. Nonetheless, due to the coronavirus pandemic, it is most likely to be postponed.

Although the EU and the US, as well as to a lesser extent Russia, are still the major players in the Western Balkans region, Chinese influence is undoubtedly on the rise. With major projects in the fields of transportation and energy, new political ties, substantial breakthroughs in terms of soft power, and even some leverage established in the field of security, China is emerging as the main contender to Western actors, ready to begin filling some of the political vacuum created by the slowing down – or even halting – of the region’s EU accession process(es), which had been the key guiding light for the region in previous decades.

## 1.2 Chinese Projects in the Western Balkans

Although China is still significantly lagging behind in the share of FDI in the region in comparison to EU countries, at the bilateral (governmental) level it is rapidly becoming a very desirable financing partner, especially when it comes to massive infrastructural projects. Western governments, financial institutions, or even companies tend to follow much more stringent rules created to reduce the risk of involvement in failed, corruptive, environmentally unfriendly or non-useful projects which do not pass basic cost-benefit analyses. On the contrary, China takes a much more relaxed approach, not imposing any environmental or transparency conditions on hosting countries, nor demanding to know how justified certain public investments really are. Since Chinese loans and investments are primarily driven by political decision-making, which means that the highest priority is not the safety or financial logic of the project but the long-term gains in the broader geopolitical strategy, the problematic loans and investments are more easily approved by the government in Beijing. Nevertheless, Chinese funding is almost always conditioned on the implementation of projects by Chinese companies, as well as the employment of Chinese workers.

Meanwhile, Chinese investors find the loose regulation practices, flexible public procurement rules and labour law regulations (particularly their implementation) present across the Balkans a comfortable climate in which to operate. Equally, more stringent EU standards and regulations for investing, serving to protect the financial sustainability of projects, often do not apply to Western Balkans countries, which makes regional markets more open for FDIs and loans from China.

Two major sectors in which China is participating in projects in the Western Balkans region are the transportation infrastructure and energy sectors. One of the main reasons why the Western Balkans is an important strategic region for transportation investments from China’s point of view is the importance of the port of Piraeus for maritime transport from China. For this reason, it is of the utmost importance for

Beijing to improve poor infrastructure (particularly cross-regional north-south infrastructure) in the Western Balkans so that its companies can transport goods shipped in from Piraeus through the region towards the vast European common market.

Therefore, these transportation infrastructure projects are cross-regionally connected. Perhaps the best example is the work being funded through Chinese loans to improve north-south road and rail corridors from Greece, through North Macedonia and Serbia, on to Hungary and Western Europe. In Serbia, Chinese companies are working on a modern railway from Belgrade to Budapest. At the same time, interconnections are also being developed, with highways connecting Montenegro to Serbia, or Albania with both Montenegro and North Macedonia. In Montenegro, Chinese loans are funding construction of a major motorway from the Adriatic port of Bar, via the rugged interior, to Serbia, exploding public debt in the process. In North Macedonia, sections of two highways are being built, while in Albania, a highway from Tirana to the Macedonian border is being worked on.

The other common type of Chinese projects are upgrades in the energy capacities of the region. In Albania, Chinese oil company Geo-Jade petroleum bought control over and exploits the strategically important Patos-Marinze and Kucova oil fields. In Bosnia-Herzegovina, China has supported, via loans, the (re)construction of several thermal power plants, as well as one important hydropower plant. In Montenegro, they are investing in renewable energy, taking part in constructing wind farms in Mozura. In Serbia, Chinese loans and companies are implementing the construction of a new 350 MW coal-powered electricity generation unit at Kostolac thermal power plant.

Besides these sectors, China is also establishing itself as a frontrunner for building capacities for the 5G network in several countries of the region, which could have large implications for the development of regional economies in the future.

One of the biggest concerns is the indebtedness of Western Balkans countries towards Beijing. The prime example is Montenegro, which as the most indebted country owes almost 40% of its external debt to China. International organizations such as the IMF and numerous experts have warned Podgorica repeatedly against taking on further Chinese debt. However, there are fears that other Balkan countries are heading in Montenegro's direction. In effect, these countries could fall into a debt trap, which could give China leverage to exercise political pressure in return for the debt relief.



## 1.3 Rising Political Influence

Following the intensified economic involvement, Chinese political influence in the region is also expanding rapidly. Serbia is certainly the country with the most intense relationship with China in the region, which Beijing sees it as a reliable foothold at the doorway of the EU. But China has steadily been developing relations with every regional government except Pristina, simultaneously building ties through the 17+1 mechanism, as well as on a bilateral basis. In the case of Bosnia-Herzegovina, China was careful to develop friendly relations with the central government in Sarajevo, as well as the governments of both entities.

Nonetheless, there were several serious bumps on this road of building stronger relations with the region. One case related to the bribery scandal involving former North Macedonian Prime Minister, Nikola Gruevski and the Chinese company Sinohydro contracted for building the highway Kicevo – Ohrid. In Albania, there were accusations of dominance over the oil market in the country.

China has been playing the role of the generous lender in the region, which will step in for every problematic or risky project without asking too many questions. Beijing expects to profit from its loans and investments long-term, but political aspects are not neglected either. Projects are strategically chosen to be very visible and often symbolically important, which helps build political influence and propel Chinese soft power. The prime example is the purchase of the steel plant in the Serbian city of Smederevo, which was presented in the media as the deal of the decade in which Chinese investors have saved hundreds of jobs and the former industrial giant from inevitable bankruptcy.

Chinese leverage became additionally evident following the outbreak of the coronavirus in the region. Beijing has utilized the crisis and the confusion of the European powers over their internal struggles with the pandemic to step in with major help in terms of medical equipment and in case of Serbia even experts on the ground to help contain the outbreak.

One of the key planks of the Chinese approach towards the Balkans concerns Beijing's hard stance in refusing to recognize Kosovo's proclaimed independence, which has weighty repercussions since China is a permanent member of the UN Security Council. The decision not to recognize Kosovo's self-proclaimed secession from Serbia is, in reality, motivated by considerations of the precedent this would set for China's own separatist regions. In the Western Balkans, it has paved the way for closer ties with Serbia, yet at the same time it prevents China from developing any

projects or ties with the government in Pristina and also constrains its soft power capabilities in Albania.

Beijing is also making modest efforts to establish itself on the regional stage in the field of security. Military collaboration has focused mostly on Serbia and to a limited extent Bosnia-Herzegovina. Serbia has agreed to buy drones from China, which is an unprecedented breakthrough for the Chinese military industry in Europe. Bosnia has also signed a military aid agreement for technical support to its army. In addition, Serbia has decided to import face recognition cameras from China, and several joint police exercises and patrols were organized in major Serbian cities.

Finally, China is investing a lot of resources in building its soft power capabilities in the Balkans, trying to promote the image of a benign power seeking cooperation based on mutual benefits with every country. One of the main instruments China employs is cultural diplomacy. In most of the countries of the region, China has set up Confucius Institutes at the major Universities. These institutes provide courses in Chinese culture and language and often host public events on China-related political, social and economic issues. Aside from this, China promotes the creation of Confucius Classrooms in primary and secondary schools.

One of the components often included in analyses of China's soft power is tourism. Visits to the Western Balkans, which are outside the EU, are facilitated by relaxed visa regimes, in the case of Montenegro, or by the abolition of visas altogether in the case of Serbia, Albania and Bosnia. A visa-free regime is currently being discussed by China and North Macedonia. Conversely, EU member states in the SEE region cannot offer China a visa-free regime due to the constraints deriving from Schengen zone regulations, which makes the Western Balkans region an even more desirable destination for the influx of Chinese tourists.

## **1.4 Outlook and factors to watch**

In the short term, as the coronavirus crisis accelerates across the region, it is important to follow how China will act in terms of the distribution of medical equipment and personnel to the Western Balkan countries. At the moment, it seems that the effect of the extensive medical aid China is providing to Serbia during the crisis will be a further deepening of ties between the two countries. Since the situation is changing daily, it is hard to predict which countries China will prioritize when allocating aid resources, but considering how efficiently Beijing has employed help as a political tool so far, such decisions will send a clear signal regarding future bilateral relations.

On the flip side, the increased Chinese presence in the region will necessarily evoke the reaction of Brussels. It remains to be seen how the EU will react to the increased Chinese involvement in its 'back yard' during the coronavirus epidemic. So far, the EU has responded by offering financial and technical assistance of its own. But there are concerns in the region that, in the medium term, a deepening of relations between candidate countries and China could slow down their accession processes. For the time being this has not happened. On the contrary, in March the EU decided to approve the opening of accession negotiations with Albania and North Macedonia at long last. Yet the question remains if the European countries will put enough emphasis on strengthening their presence in the region while dealing with internal problems, or whether China will be in a position to further fill the vacuum left by European disinterest.

Another element to watch will be the 17+1 summit which was supposed to happen in April in Beijing. This event has been announced as the next step in the development of this regional multilateral initiative since, for the first time, it would be hosted in China and chaired by Xi Jinping. Since the coronavirus pandemic is still on the rise, escalating in Europe in particular, it remains to be seen when the conference will take place. Either way, the coronavirus pandemic will undoubtedly shed a different light on the topics that will be discussed when the summit happens eventually.

In the medium term, the most important factor to focus on will be the progress of large-scale infrastructure projects in the region. On the one hand, they have an economic growth-boosting potential, as well as the ability to boost Chinese prestige. At the same time, the growing proportion of Chinese external debt is another important – negative – element to keep an eye on. One must also keep an eye on the field of 5G technology, where at the moment Huawei is leading the way in positioning on the market for setting up networks in the region.

## 2.0 Albania

### 2.1 Main projects

In comparison to the other countries in the region, there are currently no major infrastructure projects financed through Chinese loans or implemented by Chinese companies in Albania. In 2015, the Albanian government was close to reaching a decision to award the China State Construction Company the contract to build the new two-lane highway connecting Tirana with the Dibra/Debar region on the Macedonian border. The project was to be financed by the Exim Bank of China with a loan worth 250 million euros. Nevertheless, after three years of intense discussions, the construction contract was awarded to the Albanian company Gjoka Konstruksion in 2018. The government has claimed that the decision was made to avoid increasing public debt, which would have occurred had Albania borrowed from Exim Bank. Under the current arrangement, Gjoka Konstruksion will be using their own funds as part of a private-public partnership and will be repaid over 13 years. On the other hand, some Albanian media reported that China State Construction Company withdrew from the project after an investigation which was conducted by Chinese diplomats on corruption allegations relating to the Albanian government.

In 2013, the Albanian government announced it was in negotiations with China Communications Construction Company to develop the small Shëngjin port into a major regional port at an estimated cost of 2.2 billion euros, but in the end the plan did not come to fruition.

Nevertheless, Chinese companies have made some commercial investments in Albania. In March 2016, Canadian company Bankers Petroleum sold its Albanian oil exploration and production rights to the Chinese company Geo-Jade Petroleum. Bankers Petroleum was forced to sell its Albanian investments after the Albanian government accused it of money laundering, tax fraud and polluting the environment. Geo-Jade gained full rights to develop the Patos-Marinza oilfield, Europe's largest onshore oil reserve, along with a 100 percent interest in the Kucova field, Albania's second-largest oilfield. This resulted in Bankers currently producing 95% of Albania's crude. In October 2019, China's Bankers Petroleum was accused of abusing its oil market dominance and breaking market rules following complaints from a refiner, which has led to the start of a six month investigation procedure by Albania's Competition Authority. The investigation is still ongoing.

In 2016, China's Everbright Group bought Tirana's Nënë Tereza International Airport Company and gained the concession to the airport until 2027. According to

some experts, the aim is to set up a logistics centre in Tirana which would help transport Chinese goods into the European market.

## 2.2 Political ties

China and Albania have a long history of close political relations since during the Cold War they were close allies for a while. Nevertheless, contemporary political ties are built not on that history, but foremost upon mutual economic interests. In 2019, on the 70th anniversary of the establishment of diplomatic relations between the two countries, President Ilir Meta said that "the joint construction of the Belt and Road Initiative proposed by President Xi Jinping and the mechanism of Cooperation between China and Central and Eastern European Countries in recent years will break new ground for Albania-China relations".

Economic ties are spreading to the political sphere as well. At the 2019 China-CEEC meeting in Dubrovnik, the Albanian government agreed to host a China-CEEC Youth Development Centre in Tirana. Albania abolished visas for Chinese tourists in December 2019, and Prime Minister Edi Rama declared that once the Little Schengen in the Balkans is fully established, Chinese tourists will travel without visas to all the countries that are part of the project. Finally, in the sphere of education, the Confucius Institute at the University of Tirana was opened in May 2013 and Confucius classrooms were set up in several high schools in Tirana during the same year.

## 2.3 Outlook and factors to watch

In November 2015, Albania, Montenegro, and the company Pacific Chinese signed a trilateral Memorandum of Understanding on plans to construct the Adriatic – Ionian Highway, often called the Blue Corridor Highway. This future coastal highway will run from Trieste in Italy to Kalamata in Greece and will link Italy, Slovenia, Croatia, Bosnia-Herzegovina, Montenegro, Albania, and Greece. Tirana sees this project as an opportunity to transform Albania into a hub for maritime transport.

However, the project has been fraught with controversy over allegations of money-laundering and corruption. Without a feasibility study, the government in Tirana had awarded the 330 million USD contract for the construction of the Thumanë–Kashar section of the highway to a private contractor, at a value estimated to be twice the actual cost. After criticism and opposition, a subsequent feasibility study estimated the actual cost for the construction of the 20.4 km-long highway at 170 million US dollars, instead of previously estimated 330 million US dollars. Following massive student protests in late 2018, the Albanian government cancelled plans for the development of the Thumanë–Kashar section of the highway in 2019, saying it was now going to channel the funds set aside for it into education. Since

there are also no concrete developments in other countries involved, most notably Montenegro, it seems as if the project might be put on hold for now.

Another important issue to keep an eye in the following period is how the investigation over the accusations of market power abuse against Bankers Petroleum will be resolved. In October 2019, Albania's Competition Authority announced they will conduct a six-month investigation to establish whether China's Bankers Petroleum has abused its dominance of oil production and trading after complaints from domestic refiners that Bankers supplied them with a fraction of what they needed. Bankers denied these accusations, claiming they sold crude to all domestic clients at the same price, which was lower than in the international market. The verdict on this case might have an impact on how both Tirana and Beijing will approach potential common projects in the future.

# 3.0 Bosnia and Herzegovina

## 3.1 Main projects

In comparison to the rest of the region, Chinese projects in the transport infrastructure sector in Bosnia-Herzegovina are still in the early stages. In the Republika Srpska (RS) entity, the first phase of the highway linking Banja Luka with Novi Grad on the Croatian border will be built by a state-run division of Jinan-based Shandong Gaosu Group and funded by a 300 million euros loan from Exim Bank of China. In the Federation of Bosnia-Herzegovina (FBiH) entity, China State Construction Engineering Corporation Limited is currently constructing a section of the highway on the corridor Vc which will connect Herzegovina with the Dalmatian coast in Croatia. This construction is financed by a loan from the European Investment Bank.

On the other hand, Bosnia is the 'regional leader' concerning projects in the field of energy infrastructure that Beijing is involved in. The biggest one, which will also be the largest investment in Bosnia since the war, involves the construction of a new unit in the thermal power plant in Tuzla. The loan for this project was also taken from China's Exim bank, and it will be built by the China Gezhouba Group and Guangdong Electric Power Design. The construction of Unit 7 should be completed by 2023 at the latest, when the existing units are planned to be shut down. Both the European Union and the European Energy Community have openly criticized this project because they believe that the Bosnian Government should not be a guarantee of the loan since this type of illicit state aid is contrary to EU rules. Another problem is pollution, which is already extremely high in Bosnia. Building a new thermal power plant could make this problem worse. But for the Government of the Federation, the project has no alternative because it ensures the stability and independence of Bosnia's energy sector.

This is not the only major project in the energy sector that Chinese companies are part of. In 2017, the RS leadership signed a cooperation agreement with representatives of China Machinery Engineering Corporation and Emerging Market Power Fund regarding the construction of the thermal power plant Gacko 2 in RS, which should ultimately replace the existing, aging Gacko 1 plant. Gacko 2 was to be financed through yet another Chinese loan. However, seemingly little or no progress has been made on this project.

Both projects are seeking to build upon the success of the Stanari Thermal Power Plant project, which was finalized in 2016 and was marked as the first fully

implemented project within the 17+1 initiative. The construction was financed with a 350 million euros loan from the China Development Bank, and built by the Chinese company Dongfang Electric Corporation.

Besides the thermal power plants, China is also present in the Bosnian hydropower sector. For example, completion of the hydropower plant Bistrica will be carried out with a loan from the Industrial and Commercial Bank of China.

Other projects include the construction of a modern hospital in the city of Prijedor, which is being carried out by China's Sinopharm International Corporation. Finally, the telecommunications firm Huawei is helping to build the country's 4G network.

## 3.2 Political Ties

China is very cautious to find a balanced political approach that would not favour nor neglect either one of the entities in Bosnia and Herzegovina. Following the diplomatic doctrine of non-interference in the internal issues of sovereign states, Beijing has built stable relations with both the central government in Sarajevo and the governments of both entities. The stress is on fruitful economic collaboration which then overflows to other forms of partnership. In the words of Milorad Dodik, the Bosnian Serb member of the Bosnia-Herzegovina Presidency, "the Belt and Road Initiative promotes global development and builds not only infrastructure but also a good relationship among peoples and countries".

Dodik, the political leader of Bosnian Serbs, has also been a vocal supporter of Chinese actions in Hong Kong, stating that "China uses the means that are commonly used by all other countries to maintain stability and safeguard territorial integrity". As for multilateral collaboration, Bosnia and Herzegovina is one of the countries that benefited most from the establishment of the 17+1 initiative. A study by the European Investment Bank found that more than one-fifth of all loans channelled into the CEE region by China in the 10 years to 2018 was directed into projects in Bosnia-Herzegovina.

The partnership between the two countries has spread into the security field as well. An agreement on technical assistance for the Bosnian army, signed in 2019 between the Bosnian Ministry of Defence and the Ministry of National Defence of China, relates to the Chinese donation of engineering machines for the Armed Forces of Bosnia-Herzegovina.

When it comes to instruments of Chinese soft power on the ground, there are two Confucius Institutes in Bosnia - one at the University of Sarajevo and the other one at the University of Banja Luka. In addition, the Ministry of Education and Culture of



Republika Srpska plans to sign an agreement with the Confucius Institute in Beijing on importing professional Chinese language teachers.

Finally, a visa-free regime has been introduced in May 2018, resulting in rising numbers of Chinese tourists visiting the country.

### **3.3 Outlook and factors to watch**

The most important issue to watch going forward relates to the construction of the Tuzla thermal power plant and the impact this decision might have on Bosnia's EU membership aspirations. The European Enlargement Commissioner Johannes Hahn stated that the deal raised serious questions about Bosnia's "commitment to international treaties and European rules" under the Energy Community Treaty. The criticism coming from civil society organizations, as well as from EU officials, was also focused on the environmental threats and potential hazards of air pollution for citizens. Bosnia has one of the worse air pollution problems in Europe and building another major power plant fuelled by coal has understandably raised new concerns. Nevertheless, Sarajevo claims that the newly built power plant will meet all of the EU environmental and energy efficiency guidelines and that the new, cleaner form of coal-burning is more environmentally friendly and sustainable compared to the existing units of the power plant in Tuzla.

As for future possible projects, the China National Aero-Technology International Engineering Corporation has shown interest in building three large hydropower plants - Buk Bijela, Foca and Paunci in the Upper Drina system. Chinese partners are also interested in the construction of four mini-hydropower plants.

## 4.0 Kosovo

China does not recognize Kosovo's independence and has never established diplomatic relations with Pristina. Moreover, China is actively using its position as a permanent member of the United Nations Security Council to block any attempt by Kosovo to join the international organization. The reasons for China's firm stance on this matter are twofold. Domestically, it is conditioned by the problems China has with its separatist movements, as well as with Taiwan. At the regional level, this position has enabled Beijing to acquire larger political capital in Serbia, which is a key partner for China in the Western Balkans region.

In any case, Kosovo is not on the direct trade corridor towards Western Europe, which remains a major geostrategic focus of Chinese policy in the Balkans. For all these reasons, it is unrealistic to expect Beijing to change its position on the recognition of Kosovo unless an agreement is reached between Belgrade and Pristina. Until then, Kosovo will continue to find its access to Chinese funds and multilateral initiatives sponsored by Beijing blocked.

# 5.0 North Macedonia

## 5.1 Main Projects

North Macedonia is one of the key transit countries on the European part of the Belt and Road route. The shortest corridor from the Port of Piraeus to the markets of Central and Western Europe leads through the Vardar valley. Therefore, the main geostrategic interest of Beijing in North Macedonia is the further development of the transportation infrastructure. It comes as no surprise then that the major projects in which Chinese companies are involved concern highway construction. Given that a north-south motorway exists already, Chinese loans are being used to fund two other motorways which, in the words of Chinese Prime Minister Li Keqiang, 'dovetail' with the Belt and Road initiative. One is the 50 km stretch connecting the regional economic hub of Stip to Skopje and the pan-European Corridor 10, which connects Macedonia with Greece to the south and Serbia to the north. The second highway is 57km long and it will link one of the main tourist hubs of the country - Ohrid - to the nearby town of Kicevo, therefore improving access from Skopje to Ohrid. This is part of the unfinished Corridor 8 connecting North Macedonia with Bulgaria to the east and Albania to the west. The construction of both highways is financed through a loan from Exim Bank of China worth 574 million euros and carried out by Chinese company Sinohydro Corporation LTD.

These projects became the central topic of the corruption scandal that led to the collapse of the previous government led by the VMRO-DPMNE in North Macedonia. The leaked record of a phone call showed that the contract which the government of former Prime Minister Nikola Gruevski had signed with Sinohydro did not comply with legal procedures for public procurements. As a result, the Special Prosecutor's Office has filed charges against Gruevski and the Minister of Transport in his government, Mile Janakievski, over allegations of abuse of office. Following the change of government in 2017, the Ministry of Transport has announced that there were major flaws in the implementation of the project which will prolong the construction of highways and increase costs by 120 million euros.

## 5.2 Political ties

Political relations between the two countries blossomed during the previous Gruevski government in Skopje, when the main projects were approved. In 2017, former President Gjorge Ivanov stated that North Macedonia needs China as much as

it needs the European Union and that the EU itself has opened the door to Russia and China in the Balkans because it is not committed to investing in the region.

Although they came to power after revealing the previous Gruevski government's corruption scandals over the projects involving Beijing, the incumbent SDSM-led government retained close political ties with China. Zoran Zaev, Prime Minister until the beginning of the year when he resigned to make way for a caretaker government, repeatedly reassured Chinese partners that his country strongly supports the 17+1 initiative and that the bilateral relations between the two nations are extremely good, calling China a proven friend of North Macedonia. He also stated that Skopje will continue to support the One-China policy. In several bilateral meetings between the two leaders, the Prime Minister of China, Li Keqiang, emphasized that with the completion of Corridor 8 and Corridor 10 North Macedonia will become a transport hub in the region and that infrastructure investments are investments in the country's future.

Over the last few years, the presence of China has also grown through mechanisms of soft power. In 2019, then PM Zaev claimed that the agreement between the governments of the two countries on mutual recognition of academic diplomas and other educational certificates is in its final phase. Also, the Coordination Centre for Cultural Co-operation of Central and Eastern European countries and China is based in Skopje.

### 5.3 Outlook and factors to watch

There have been several announcements that Skopje is interested in joining a project for the construction a high-speed railway route that would stretch from the port of Piraeus via Belgrade to Budapest. This railway would enormously speed up the transportation process for Chinese goods heading towards the EU market. At the meeting that then PM Zoran Zaev and Chinese PM Li Keqiang had in 2017, the two leaders also discussed possibilities for Chinese involvement in the new rail link along Corridor 8.

Nevertheless, apart from the alleged desire for fast implementation of the project, no decision was made to start construction of a fast railway line through North Macedonia. So far, the state budget for infrastructure prioritizes modernization of the existing railway infrastructure with the reconstruction of the Corridor 10 railroad, financed by EBRD funds. The construction of the first and second phases of the EBRD-financed Corridor 8 railway, the section from Kumanovo to Kriva Palanka, was also planned for this year, so the line would be ready by 2022. Zaev said that the whole railway from Kumanovo to the Bulgarian border should be put into operation by 2025 at the latest and that the construction of the third phase will be financed

from the loan, which has been jointly provided by the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

Skopje's reluctance to go through with previously announced projects puts in question the scope of future relations with Beijing on large-scale investment projects.

# 6.0 Montenegro

## 6.1 Main projects

One of the largest infrastructure investments in the history of this small country is the construction of the Bar-Boljare highway, which should connect the north and the south of the country and further strengthen the geostrategic position of the port of Bar in the region. Until this project, Montenegro was the only country in the region that still did not have a motorway. Consequently, Podgorica considers this project a strategic imperative for future development.

At the same time, China sees the Port of Bar as another possible entry point for the transport of Chinese goods to Europe. Therefore, connecting it to the main transport routes in the region would make it relevant for the Belt and Road initiative, which was part of the motivation for Beijing to approve the loan for the motorway's construction.

Nonetheless, the Montenegrin government is facing accusations over the decision to invest in the building of this highway, called by many the highway to nowhere, as it stretches mostly through the underdeveloped and scarcely populated areas to the border with Serbia. One point of criticism is that construction work is being carried out by the China Road and Bridge Corporation which employs predominantly Chinese workers, so the local construction industry is not reaping any benefits of this investment project.

Yet the most serious criticism is focused on the amount of money Montenegro is borrowing from China for this project. The initial loan Montenegro took for the construction of the first (and currently only) phase of the highway is 800 million US dollars, although total construction costs are expected to exceed 1 billion US dollars. This alone increased the country's public debt by more than an estimated 25% of GDP over 4 years. In 2019, the IMF projected that public debt would stand at 89% of GDP at the end of 2019, declining to 82% in 2020. Yet the real threat to the public finances would come from any decision to take on further loans to finance the remaining three phases of the motorway, which are projected to cost somewhat more – put together – than the first (most costly) phase. Any such moves could lead Montenegro down the road of a sovereign debt crisis, or at the very least leave it vulnerable to Chinese 'debt trap diplomacy'.

When it comes to Chinese projects concerning renewable energy among the CEE countries, Montenegro is leading the way. The Mozura Wind Park in southern

Montenegro was constructed as a joint tripartite project of China, Malta, and Montenegro. Podgorica has also invested in the renewal of the shipping fleet with a loan from China's Exim Bank, which was used to buy ships made by Chinese Poly Group.

## 6.2 Political ties

Political ties between the two countries are developing in both the bilateral and multilateral contexts, through the 17+1 initiative in which Montenegro plays an active role. The headquarters of the China–CEEC Environmental Protection Cooperation Mechanism are located in Podgorica. Additionally, Podgorica is chosen for the seat of the China–CEEC Creative Hub, which should become a meeting place for artists from countries participating in the initiative.

When it comes to Chinese soft power, the most visible are the newly established relations in education. An agreement on scientific cooperation between the Montenegrin Academy of Sciences and Arts and the Chinese Academy of Sciences calls for the two academies to enhance their bilateral partnership through an exchange of scholars, joint conferences and cooperative research projects in the fields of natural sciences and technology. Also, the University of Podgorica is the host of the Confucius Institute in Montenegro.

## 6.3 Outlook and factors to watch

The most alarming issue necessary to follow concerns the public debt of Montenegro generated by the loan taken on for the construction of the Bar–Boljare highway. There is a significant risk that at some point Montenegro will struggle, or be unable to return the loan, which would make the country dangerously vulnerable to Beijing. China could use this situation to make demands such as requesting a concession over the Port of Bar as compensation, similar to Sri Lanka where China used debt trap diplomacy to secure a 99-year loan concession for the port of Hambantota.

The motive for acquiring the port of Bar, according to some experts, would be in Beijing's plan for establishing a European 'string of pearls' – a chain of ports such as those in the Indian Ocean that stretches from Africa to Southeast Asia. The Port of Bar could then become a regional distribution centre for Southeast Europe, and an effective alternative for the port of Piraeus.

Another development to watch over is how this issue and the rising Chinese leverage will affect the ongoing accession negotiations with the EU. Rapidly rising public debt, high fiscal deficits and unemployment rates are mentioned in the last annual report of the European Commission as significant problems in Montenegro.

To service its loan repayments, last year the government slashed public welfare spending, cut wages for government employees and introduced tax increases on cigarettes, coal and ethyl alcohol. The crisis over the coronavirus pandemic will likely make these economic difficulties even worse.

Finally, there is the possibility of Chinese involvement in the Blue Corridor highway project, stretching along the eastern shore of the Adriatic and Ionian seas. The Memorandum of Understanding between Montenegro, Albania and China's Pacific Construction Group Corporation Limited was signed in November 2015. However, there have been no other concrete developments regarding this project so far.



# 7.0 Serbia

## 7.1 Main projects

Serbia is an important route for Chinese goods traveling from the Piraeus port towards the common EU market. Investments in the country's lacking transportation infrastructure are very much in line with the core idea of the Belt and Road initiative. Therefore, China is collaborating with the government on a major highway and railroad projects in Serbia by lending funds for projects and in many cases with Chinese companies implementing them on the ground.

The construction of the high-speed rail link between Belgrade and Budapest started in 2017 and is expected to cost around 3.2 billion euros. Both Serbia and Hungary are borrowing money for this project from the Chinese investment Exim bank. This project is additionally significant as the first cross-border project within the 17+1 framework. Chinese companies are also working on the highway E-763 (Corridor 11), which will connect Belgrade to the Montenegrin border. So far, the first 120 km long part from Belgrade to Cacak has been completed and officially opened in December 2019. Chinese company China Road and Bridge Corporation also constructed a large bridge in Belgrade over the Danube river, connecting the Zemun and Borca neighbourhoods, which was also funded by a loan from Exim Bank.

Besides taking part in these projects in the field of transportation infrastructure, Chinese companies have made two investments of major economic and political importance. One is the Steel Plant in Smederevo, which the Chinese company HBIS Group bought in 2016. According to media reports, the acquisition was worth 46 million euros, but Chinese partners pledged to invest at least an additional 300 million euros more in the plant.

The other major investment occurred in the city of Bor, where Zijin Mining took over local copper producer RTB Bor in 2018. According to Serbian Minister of Finance Sinisa Mali, Zijin Mining Group has agreed to invest 1.46 billion US dollars in the development of Bor mines over the next six years, though these numbers may be over-inflated.

These investments were highly important for the Serbian government since both the plant in Smederevo and the mine in Bor employ a large number of workers and practically carry the local economies and communities on their shoulders. Chinese investments were presented as a huge economic and social lifeline of national importance, which brought significant political leverage for China and substantially

reshaped its image in Serbia. In the meantime, Zijin Bor Copper is under fire from local activists for not respecting the environmental standards and contributing to air pollution in the city.

Another possible Chinese investor in Serbia is the Shandong Linglong Tire company, which has announced plans to build a tire factory in Zrenjanin worth a reported 994 million US dollars.

In the field of energy, the Chinese are building a new generation unit at the Kostolac thermal power plant, which will be the largest project in the energy sector and the first large power generation block to be built in Serbia in nearly three decades. The project is being financed through Chinese loans and carried out by Chinese companies in part.

The deal signed between the Serbian government and the China Road and Bridge Corporation in 2018 foresees the construction of an industrial park near Belgrade which would host over 1000 Chinese companies.

Finally, in the field of security, Serbia has agreed to buy six military drones from China, two of which are armed, as well as face recognition cameras produced by Huawei.

## 7.2 Political ties

Although Serbia has had a comprehensive strategic partnership with Beijing in place since 2009, political ties between the two countries have grown exponentially over the last couple of years. The foundations of the friendly relations have been laid with Beijing's position to categorically refuse to recognize the independence of Kosovo, and the support it provides to Serbia in the international arena concerning this issue. In return, Serbia has become one of the most reliable Chinese partners in this part of Europe. Major Chinese projects of political as well as economic importance have been initiated in the country, which incumbent leaders on both sides used to create the narrative of the "steel friendship" between the two countries.

Serbia has shown great interest to further promote both multilateral and bilateral relations with China. The last 17+1 conference was organized in Belgrade in October 2019. Chinese president Xi Jinping visited Serbia in 2016, including the city of Smederevo, where he was greeted as the saviour of the local steel plant, bought by Chinese HBIS Group. Serbian President Aleksandar Vucic went on a state visit to Beijing in 2018, where the Serbian delegation signed numerous agreements. Both leaders are planning reciprocating visits during 2020, and Vucic announced that

Serbia will organize a massive rally where people would come to greet president Xi, the likes of the one organized for Russian President Vladimir Putin last January.

Relations between the two countries gained new momentum amid the current coronavirus crisis. China has sent major medical assistance to Serbia, including teams of medical experts to help put the situation under control. In his address concerning the crisis, Vucic has stated that European solidarity has collapsed and that the only help Serbia can hope for is from "a friend and a brother, Xi Jinping". This statement was seen by many as a sign of a shift by Serbia away from the EU and towards China, although it is likely an over-reaction.

Following the close collaboration in the economic and political sphere, China has employed several soft power instruments to cement its long-term presence in the strategically important country. The most significant measures are those in the field of education. Serbia has two Confucius institutes, one at the University of Belgrade and another one at the University of Novi Sad. The main office of the regional China-CEEC Secretariat of Higher Education Institutions Consortium is located in Belgrade, while there are a number of student exchanges between Chinese and Serbian universities. Moreover, in cooperation with the Chinese Embassy in Belgrade, the Serbian government carried out a pilot project in 2012, introducing the Chinese language into 31 primary and secondary schools.

In addition, the Chinese Cultural Centre is currently under construction in Belgrade, symbolically located at the place where the Chinese Embassy used to stand before it was destroyed during the NATO bombing in 1999.

### **7.3 Outlook and factors to watch**

The key factor to follow as the coronavirus crisis unfolds will be the effects that the Chinese help in times of crisis will have on Serbian foreign policy going forward. Although we can expect Belgrade to push for even closer relations with Beijing, it seems hard to imagine that Serbia could, with the best will, reorient itself away from the EU and towards China – politically, economically or culturally. European officials did not hide their frustration in their first reactions to the statement made by Vucic, some going as far as to call out the Serbian President for not showing the same gratitude for help coming from the EU as for that coming from Beijing. At the same time, it is not expected that Brussels will confront Belgrade fiercely on this issue right now, as this could push Serbia even further into the arms of Beijing. The decision of Brussels to send help to Serbia just a few days after the Chinese help arrived demonstrates this point.

Further down the line, the future bilateral visit of Xi Jinping will, in all likelihood, result in the announcement of new Chinese projects in Serbia going forward. The visit will also be important to watch as President Xi might use the spotlight to deliver important political messages about forthcoming projects in Europe under the framework of the Belt and Road initiative.

Finally, in terms of possible future projects, Chinese giant telecommunication company Huawei has proposed to the government possible cooperation on establishing a 5G network in Serbia, which should be important to follow in light of the approaching 5G frequency auctions due in 2020. Huawei plans to assure its long-term presence in the regional market through the opening of the Huawei Innovation Digital Transformation Centre as the company's regional hub for the Western Balkans in Belgrade.

## Contact

Phone: +381 11 40 30 304

Email: [consultancy@birn.eu.com](mailto:consultancy@birn.eu.com)

Website: <http://consultancy.birn.eu.com/>

Address:

Kolarčeva 7, V floor

11000 Belgrade

Serbia