



CHINA IN THE WESTERN BALKANS

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Here to Stay?

The first wave of the coronavirus pandemic has come and – seemingly – gone. After strict lockdowns, most of the countries of the region have returned to a ‘new normal’. The situation can perhaps best be described as a new normal because it resembles the old, pre-COVID-19 normal, but is also substantively different. The virus is still present in the region and life has returned to normal only superficially. It is, in fact, already becoming apparent that the ‘new normal’ may only have been a brief respite from the pandemic. Countries such as Serbia and North Macedonia are facing a rapid rise in new infections, with other countries of the region not far behind.

As the world learns to live with – and handle – the novel coronavirus, European countries are also finding their feet, and with it their presence in the region of the Western Balkans. All of this creates a different climate from March and April, when the EU seemed ‘checked out’ of the region and China seemed to be the only external actor coming to the rescue of Balkan countries (or so some would have had us believe, at least). China is still very much present in the region, both through its medical assistance and sales of medical equipment, but also its mask diplomacy. European states have wagged their finger at some in the region, particularly the Serbian leadership, for over-stating Chinese help and under-appreciating European help.

Yet for cautious leaders in the region, there is still a sense that, in this new pandemic situation, it is more than ever necessary to hedge one’s bets. Should Europe once again find itself overloaded by COVID-19, China may – again – be a more realistic source of assistance and medical supplies. Consequently, maintaining good relations with both blocks may seem like a good idea. However, closeness with China has served another purpose, particularly for some such as the Serbian leadership. By

seemingly pivoting towards China, Serbia has courted both European displeasure and attention.

When a line is drawn under the current state of the pandemic, it is clear that China's stature and importance in the region have risen, including outside of countries with which it already had good relations. China has thus become much more than just a source of cheap imports and infrastructure projects. China seems set to stay in the region.

1.0 The Regional Picture

The obvious overarching theme that has shaped developments in every aspect of public life across the globe since the beginning of the year is the coronavirus pandemic. From the current standpoint, on the diplomatic front it looks like nobody was able to ‘profit’ more from this unfortunate chain of events than the country where the outbreak began, China. A seemingly weakened actor at the beginning of the crisis, facing serious challenges in the interlinked domains of public health and economy and having to deal with shattered trust in the international arena – China has emerged as the central player who took a leading role in managing the crisis and completely transformed the narrative world-wide. The relative success in constraining the spread of the virus domestically with the implementation of strict social distancing measures – in comparison to the inadequate response from the US or the milder EU response – and the aggressive mask diplomacy which reached even the countries in the core of the West such as Italy, has forced many governments to turn towards Beijing for leadership and help.

The Western Balkans are not an exception. Chinese presence and political influence in the region have made a significant leap forward during this process. Beijing’s soft power has benefited greatly from deliveries of medical equipment that reached every corner of the region, except Kosovo. The reason why this (so-called) mask diplomacy was so successful is due to timing – Chinese medical assistance came at a crucial moment when countries were scrambling for scarce supplies – while the Chinese also highlighted their aid much more loudly, making usually smaller donations in comparison to those coming from the EU funds more visible to the wider public of the targeted country, usually with the help of recipient governments. Nowhere is that more apparent than in Serbia, where China was presented as the sole savior of the nation for the help it provided.

On the other hand, the face of China as an economic bulldozer for large infrastructural projects in the region has suffered due to pandemic-related problems. Many of the capital projects have seen setbacks and delays due to the economic difficulties and different priorities for Western Balkans' countries, but also from the introduction of strict restrictions in movement of people across borders, which prevented many Chinese contractors from functioning efficiently.

1.1 Main Projects

Despite the fact that campaigns for Parliamentary elections were in full swing in three countries of the region – Serbia, North Macedonia, and Montenegro – there was almost no mention of new projects which would be financed by Chinese capital or loans or carried out by Chinese companies. The only notable exception is Serbia, where the Changzhou Xingyu Automotive Lighting System company announced the construction of the new factory in the city of Nis for the production of lights for cars. Also, the first step has been made in the realization of the Belgrade-Zrenjanin-Novı Sad highway, as the Shandong company has initiated the procurement procedure for the project plans. In other countries, the focus has been primarily on mitigating the consequences of the pandemic and preparing for the impact of the recession which seems unavoidable at this point.

As far as current projects go, several infrastructural projects across the region that are being implemented by Chinese companies have seen major delays, as contractors unable to fly engineers and workers from China because of travel bans. The prime example is the Banja Luka – Prijedor highway project in Bosnia and Herzegovina, where the construction has been delayed for the second time in May. The same goes for the construction of Blok 7 in the Tuzla thermal powerplant, which has been delayed for 2021. To avoid this scenario, the governments of North Macedonia and Montenegro have both made special agreements with respective Chinese Embassies to organize the return of workers from China for crucial projects – the Bar-Boljare

motorway in Montenegro and the Kicevo–Ohrid motorway in North Macedonia – so as to maintain the tempo of construction work. This situation has opened up the possibility for Chinese companies operating in the region to consider changing their strategy to rely more heavily on local sub-contractors and workers to avoid putting themselves at risk of losing profit and credibility.

1.2 Political Influence

Using ‘mask diplomacy’, China has succeeded in combating those narratives which suggested that the global outbreak of the COVID-19 pandemic is the fault of China and that China concealed information during the first phase of the outbreak. The Western Balkans have played an important part in building the discourse which helped China ascend to the leading role in dealing with the global crisis.

With the exception of Kosovo, all Western Balkans countries have received assistance in medical equipment from the Chinese government and companies, and in the case of Serbia medical experts were also deployed. What has been evident from the Chinese approach is that the outreach and assistance often depend on the level of previously existing political and economic cooperation with each Western Balkans country. This is why Serbia, which is perceived as the main and most friendly partner in the region, has received the most generous relief package.

Because of the lack of transparency when it comes to data, it remains unclear what proportion of the medical supplies that reached the Western Balkans countries were donations and what proportion was actually paid for by the recipients. Nevertheless, because of the scarcity of medical supplies necessary to fight the global pandemic, the mere fact that certain countries have been in a privileged position to buy the equipment first or under favorable terms has been perceived as an act of friendship in times of trouble.

China has also hosted two video conferences of the Cooperation between China and Central and Eastern European Countries – the so-called 17+1 initiative – with ministers of health and experts on COVID-19 prevention and control in March and May to exchange information on the fight against the novel coronavirus and coordinate an international response.

Beijing has especially profited from the vacuum left by the decision Brussels made during the early stages of the pandemic to limit exports of medical aid to non-EU members. Beijing very quickly capitalized on the monopoly position of a major supplier of medical equipment necessary to fight the virus. Although the situation has completely changed in the weeks that followed – with the EU becoming by far the biggest contributor to the regional fight against COVID-19 – Chinese diplomatic endeavors have apparently won the battle over public perception, leaving China as the biggest humanitarian donor in the minds of ordinary people. EU officials believe that the Union has not been given enough credit for the 3.3 billion euros it has provided to the region for pandemic relief purposes, which is an amount that greatly outweighs medical supplies Beijing and Moscow sent to the region in the early phase of the coronavirus pandemic.

1.3 Outlook and Factors to Watch

The success of the Chinese ‘mask diplomacy’ in the region has raised eyebrows across Europe. For EU officials, it was alarming that the region in the immediate neighborhood that is deep in the negotiation process to join the Union might be shifting in another direction. The EU’s response to this threat coming from Beijing is yet to be seen in the next months. As the first step to mitigating the Chinese growing political and economic presence, EU leaders promised a robust economic and investment plan for the Balkans to help the region recover from the coronavirus crisis on top of the 3.3 billion euros which have been already donated. On the other hand, the second wave of the coronavirus, which is seen as approaching, provides

Beijing with another chance to score easy diplomatic points by reaffirming itself as the rescuer in times of crisis by providing aid and medical supplies. The developments over the next months will show whether Brussels will once again make the same mistake and leave the initiative to Beijing or get the upper hand.

From an economic standpoint, the main question will be the ability of governments in the region to service Chinese loans for current major infrastructural projects while facing the upcoming recession and rising public debt. The lockdowns put in place in March and April have been costly for regional economies and all countries in the region are expected to enter a recession in the second half of the year. The latest IMF report predicts that North Macedonia will see reduced domestic demand but also suffer repercussions from the disruption in the European automobile value chain that the country participates in. Albania still has not recovered from a severe earthquake at the end of 2019, and both shocks are expected to depress the country's important tourism sector. Especially endangered is Montenegro - with escalating public debt and the tourist season almost certainly decimated, the threat of the Chinese debt trap over the loan taken for the construction of the Bar – Boljare highway appears increasingly possible.

2.0 Albania

2.1 Main Projects

The collapse of prices in the global oil market due to the global pandemic has resulted in reduced production of crude oil by Chinese-owned company Bankers Petroleum, which, as part of Geo-Jade Petroleum, has a monopoly position on the Albanian oil production market. The rapid spread of the pandemic has led to a deteriorating economic outlook, helped further reduce declining oil prices and created turmoil in financial markets around the world, all of which culminated in the collapse of demand and the price of oil falling to its lowest level since 2002.

The company's representative stated in May that Bankers have been informed by their main buyer of crude oil that because of the situation they must declare force majeure. This has put Bankers in a very difficult position regarding how to sell their product, as well as how to store it. The company was using all available deposits in the Patos-Marinza oil field. The export terminal in Vlora has also enabled additional exploitation. Nevertheless, these efforts were not enough to allow the company to continue production at the maximum level. Bankers Petroleum had to reduce daily production volumes, and eventually, almost completely stop production.

However, in late June Bankers restored the production process, approaching the levels before the crisis. Currently, almost 95 percent of the wells in the Patos-Marinza field have been put back to work. According to the official company statements, during June alone they are planning to carry out two major export shipments of about 40.000 tons.

2.2 Political Influence

As with the other countries in the region, China has provided assistance to Albania to fight the coronavirus. A batch of medical supplies donated by the Chinese government arrived at Albania's Tirana International Airport on April 25th to help the country fight the pandemic. The medical supplies included testing kits, protective garments, face masks, goggles, and gloves. The donations were welcomed at the airport by Albanian Deputy Minister of Health and Social Protection Mira Rakacolli and Deputy Minister for Europe and Foreign Affairs Etjen Xhafaj, who expressed their gratitude to the Chinese government and people for the help.

What continues to burdens political relations between the two countries is the dispute between the government and the Chinese concessionaire of the airport in Tirana over breaches of security measures. Mother Theresa International Airport was transferred to a Chinese-led joint venture under a concession in 2016 that is expected to expire in 2027, which is the second most profitable Chinese investment in Albania only to the oil exploitation company Bankers Petroleum. In 2017, the airport operator's net profit was 18 million euros.

However, since 2016 there have been several security incidents at the airport, including three armed robberies, where criminal made off with large cash hauls, and at least twice unauthorized persons attempted to embark a plane. Following the 2019 robbery, the Minister of Interior declared that the concessionaire had not taken action on unsatisfactory airport security conditions and had ignored the official requests for information. The Chinese company in question rejected the charges and stated that the Albanian police forces have to safeguard the lives of citizens.

What seems to be the real driving issue behind this dispute is the huge economic imbalances for the Albanian side concerning the concession agreement. An audit requested by the Socialist government in 2019 showed that over the period 2005-2018 the agreement had resulted in economic imbalances to Albania's

disadvantage of approximately 84 million euros more than what was foreseen in the basic scenario of the concession agreement.

The Chinese Embassy in Tirana did not make any statements on the security lapses at the airport, continuing with the promotion of the concession as an example of successful cooperation under the Belt and Road initiative. The Albanian government was also cautious enough to restrict the dispute solely to this one project, without making any broader comments on Chinese investments or projects in the country. It remains to be seen how the Albanian government will proceed with the negotiations for the compensation of the economic imbalances.

2.3 Outlook and Factors to Watch

Problems on the oil market and largely reduced crude production of Bankers Petroleum will undoubtedly create serious damage to the Albanian economic prospects for 2020. In the months to follow, it will be interesting to observe whether this development will influence the position the Albanian government on the monopoly accusations that Bankers Petroleum is facing. As a reminder, the Competition Authority of Albania has launched an in-depth investigation against the biggest oil producer in Albania in late February for possible violations of competition rules in the production and trade of crude oil.

The other development worth following going forward is the dispute over the airport security measures, and possible negotiations for the compensation of economic imbalances regarding the airport concession that the government in Tirana might initiate. With the two main Chinese projects in the country being questioned and legally investigated, the future of Chinese investments in Albania might be uncertain. Furthermore, in case any of the legal processes currently taking place regarding Chinese investments resolves themselves unfavorably to the Chinese companies involved, relations between the two countries could take a serious blow.

3.0 Bosnia and Herzegovina

3.1 Main Projects

The crisis related to the coronavirus pandemic has affected major projects in Bosnia and Herzegovina which involve Chinese capital or companies as severely as in any other country in the region. The construction of the Banja Luka – Prijedor highway has been delayed for the second time after the Chinese company SDHS-CSI BH did not provide the preliminary project design for the highway Banja Luka – Prijedor in time. The Government of the Republika Srpska entity agreed to their request for an additional six months to complete the work. The deadline for the Chinese to complete the preliminary project design initially already expired in December, after which the Government gave them a new deadline at the end of June this year. Yet in May, the government of the Republika Srpska gave the Chinese contractor once again the discretionary right to a new extension of the deadline for drafting the preliminary project design, providing permits and other activities necessary to start construction of the highway. The request for an extension of the deadline is based on the fact that the coronavirus pandemic has led to the introduction of restrictions on movement and mandatory quarantine, which affected the concessionaire's ability to continue with the obligations at the planned pace because Chinese engineers and workers were prevented from traveling to Republika Srpska and continuing with the management and technical development of the project.

When it comes to the part of the Vc motorway corridor that passes through Republika Srpska, the section that is currently under the construction is the 6.1 kilometer stretch of the route near Dobož, between the villages of Kostajnica and Tovira. Nonetheless, the Club of Bosniaks in the Council of Peoples of Republika Srpska has raised the issue of the law on special expropriation procedures for construction of the Corridor Vc motorway through RS and construction of the Banja Luka – Dobož motorway by initiating the special procedure for the protection of vital national

interest. They state that the reason behind the expropriation process is the attempt of the government in Banja Luka to register central state property as the property belonging to the entity of Republika Srpska.

As for the construction work on the part of the Vc route which runs through the Federation of Bosnia and Herzegovina, the director of the public company Motorways of the Federation B&H Adnan Terzic, claims that the Federation will have 11 new kilometers of the highway by November. These are the sections Drivusa - Klopce, Klopce - Donja Gracanica, and the part of the section Donja Gracanica - Vraca, which will complete the bypass around Zenica. The Prime Minister of the Federation, Fadil Novalic, visited the construction site of the Pocitelj – Zvirovici motorway section on Corridor Vc recently. Novalic claims that the construction period for this section of the motorway is 30 months, which means that this section should be completed in the summer of 2022. The Prime Minister believes it is realistic to expect that in 6 to 7 years the entire corridor Vc would be completed.

The construction of Unit 7 of the Tuzla thermal powerplant, which was scheduled to start in June, will now be starting in 2021. The Chinese consortium that will build this block, led by the Chinese company Gezhouba whose headquarters are in Wuhan, was supposed to take over a part of the prepared construction site in March. However, due to the pandemic situation and the blockage of borders, the arrival of workers and engineers from China needed to be postponed. Nevertheless, on the 25th June, EPBiH, the state owned Federation electricity generator and distributor, made an advance payment of over 108 million euros, which made the Agreement on engineering, procurement, and construction of Unit 7 in the Tuzla thermal powerplant (TPP Tuzla) concluded with the Gezhouba consortium effective. Officials insist that Block 7 will significantly reduce the environmental fallout from coal-powered electricity generation in the country, thanks to the more modern production technology it will use compared to existing generation facilities. At the site of TPP Tuzla, preparatory work for the construction of the future plant are in progress. According to the contract, the execution of works on the preparation and arrangement of the location is the responsibility of EPBiH. The activities started in

November last year and should last up to 12 months. The deadline for completion of works and commissioning of Unit 7 is 56 months, which means that according to the current plan the new Unit should start producing electricity not later than 2026.

3.2 Political Influence

As with other countries in the region, Beijing has provided support for Bosnia and Herzegovina in response to the coronavirus crisis. The first batch of China's medical aid to Bosnia arrived in Sarajevo in early April. That donation was the result of a memorandum of understanding on cooperation in the field of medicine that the two countries had previously signed. China has donated six ventilators of different models and 58,000 masks to Bosnia and Ambassador Ping pointed out that this is a "small help from afar representing a great and honest friendship".

In response to a letter from Bosnia and Herzegovina Presidency Chairman Sefik Dzaferovic, Chinese President Xi Jinping stated that the Chinese side has donated medical material and is ready to continue assisting B&H, expressing trust that the traditional friendship between the two countries will be deepened through cooperation in the fight against the epidemic. Xi also thanked Dzaferovic for his positive assessment of China's efforts and cooperation with the international community in the fight against the COVID-19 pandemic.

The government in Beijing has paid special attention to further strengthen the influence and positive image China has in the Republika Srpska entity in particular. The Bosnian Serb member of the Presidency of B&H, Milorad Dodik, said in April that a sufficient amount of medical supplies has arrived in Republika Srpska from China, including five million protective gloves, 4,300,000 protective masks, and more than 20,000 suits and visors, which were paid for by the government of Republika Srpska. In May, Xi Jinping sent a letter to the Serbian member of the Presidency of B&H Milorad Dodik in which he expressed sympathy with the authorities and citizens of Bosnia and Herzegovina and wished a quick victory over the Covid-19 pandemic. Xi

underlined that the Chinese side is ready to expand cooperation in the field of public health and to contribute to the construction of the Silk Road of health.

Dodik thanked the Chinese Ambassador to Bosnia and Herzegovina Ji Ping, who helped bring medical supplies to Republika Srpska, by saying that "he proved that he is a friend of the Serbian people and I am grateful to him for that, as well as to his country." In a letter to President Xi, Dodik expressed great gratitude for the assistance China has provided in the most difficult moments. He has also conveyed his support for the Chinese new security policy in Hong Kong, claiming that he believes that the adoption of this law will improve the lives of all Chinese citizens and enable the Chinese authorities to adequately respond to all security challenges. Dodik showed admiration for Chinese policy based on the principles of non-interference in the internal affairs of other countries, as shown through the example of the Chinese approach to Bosnia and Herzegovina, and reiterated his full support for the sovereignty and territorial integrity of the People's Republic of China.

Nonetheless, the main story regarding the medical supplies that arrived from China during the pandemic was not related to the successes of Chinese mask diplomacy. Instead, the purchase of medical equipment from China became the immediate cause of one of the biggest corruption affairs in the recent history of Bosnia and Herzegovina. The "respirators affair" refers to the purchase of a hundred Chinese respirators by the Federal Civil Protection Administration through the company "Srebrena Malina" from Srebrenica, the agricultural company specialized in growing raspberry, for about 5.4 million euros. The order was made by the Government of the Federation of B&H which previously passed a conclusion stating that during the pandemic the procurement of medical equipment will be exempted from the application of the law on public procurement. Due to direct involvement in this affair, the Prosecutor's Office of Bosnia and Herzegovina filed an indictment against the Prime Minister of the Federation of Bosnia and Herzegovina, Fadil Novadic, who was arrested shortly after only to be released pending trial.

3.3 Outlook and Factors to Watch

The perception of the Chinese role in crisis relief seems to be fairly different in each of the two Bosnian entities. While the government in Banja Luka is following in the footsteps of Belgrade in promoting the public discourse on the Chinese as saviors and proven friends of the Serbian people, political statements coming from the Federation entity on Chinese support in medical equipment had a more modest tone. If China continues with the mask diplomacy during the upcoming second wave of the coronavirus pandemic, it will be important to follow how donations in medical equipment will be distributed between the central government and the entities, and which signals Beijing will send to both Sarajevo and Banja Luka.

4.0 Kosovo

Kosovo is the only corner of the Western Balkans that has not received medical assistance from China as part of its mask diplomacy initiative. Kosovo also remains the only place in the Western Balkans in which there are no Chinese economic investments. Nonetheless, China is economically present in Kosovo, most notably as one of the main trade partners when it comes to imports. According to the Agency for Statistics of Kosovo, the total value of imports from China in 2018 amounted to over 311 million euros. For comparison, Germany holds first place with 394 million euros, Serbia held the second with 388 million euros, followed by Turkey with 336 million euros in the same year.

With the anticipated continuation of dialogue between Belgrade and Pristina, it will be interesting to follow what the position of Beijing would be in case the two sides come close to reaching any political solution which would include Serbian recognition of Kosovo as an independent country. China has been a firm supporter of Serbian territorial integrity and advocates resolving the Kosovo issue exclusively within the legal scope of UN Security Council Resolution 1244. Chinese officials state that they would only accept a solution that would be acceptable to both parties. Despite this, it remains unclear if the Chinese government would be inclined to use its veto in the UN Security Council and stop the acceptance of Kosovo in the UN even if such an agreement is made between Belgrade and Pristina, since - in their view - this could set a dangerous precedent which could affect their disputes and open political issues, most notably with Taiwan.

5.0 North Macedonia

5.1 Main Projects

The coronavirus crisis has created new problems with the realization of two major infrastructure projects in North Macedonia, both of which are being performed by Chinese companies and funded by Chinese loans. The pandemic is affecting the dynamics of the implementation of these projects, especially the projects along Corridor 8. The activities on the motorway section Kicevo - Ohrid are far from the required dynamics, while the construction of the railway to Bulgaria has almost stopped. Over the years, the Kicevo - Ohrid highway has been the subject of a series of controversies, starting with the procurement process which turned into a major corruption scandal that ultimately contributed to the fall of the former government. Because of several omissions at the start of its implementation and design, the cost of construction has meanwhile increased by 187 million euros in comparison to the original projections, adding to a total of 600 million euros. The first 10 out of a total of 57 kilometers was planned to be put into operation by the end of this year.

The situation with the railway part of Corridor 8 is even more unfavorable. The contractor is justifying delays by claiming that since it was necessary to follow the government's health protocols the work on the construction site was organized with a reduced number of employees, and because it is a foreign company, some of the employees have left the country. Since the construction works are practically still at the beginning, the project, which according to media reports is worth over half a billion euros most certainly will not be completed by 2023 as originally scheduled. Nonetheless, officials are claiming that the financing of this project is not endangered because financial resources have already been secured for its realization.

The other large infrastructure project financed by Chinese loan, the Miladinovci - Stip highway, has seen a surge in costs over recent months. After the highway was

officially put into operation in mid-2019, the Public Enterprise for State Roads signed an agreement with the subcontractor construction company Granit for additional work on the motorway section worth 5.7 million euros. However, since then the agreement has been changed twice, and the cost of the project has reached almost 6 million euros. In mid-February 2020, the two sides amended the basic agreement signed in July 2019, arguing that some unforeseen costs emerged during construction. According to this amendment to the agreement, the cost of the procurement increased by almost 200,000 euros. Yet another amendment to the basic agreement was made in April, with the same explanation that there were needs that the contracting authority could not initially anticipate, which raised the price of construction works by another 33.000 euros, bringing the total value of the project to almost 6 million euros. Nevertheless, the director of the Public Enterprise for State Roads Zoran Kitanov claims that there are no delays at the construction site and that by the end of June the express road Stip-Krupiste will be completed.

5.2 Political Influence

China has delivered a large amount of protective equipment and other medical materials to help North Macedonia fight COVID-19. On April 18th, a plane loaded with Chinese medical supplies arrived in Skopje, and several smaller donations were delivered in the following weeks. The Chinese embassy has also coordinated with the government in Skopje to make arrangements for the return of Chinese engineers to North Macedonia from early February onwards to minimize the adverse impact of the pandemic on the construction of the Kicevo – Ohrid highway.

Local governments and sister cities of the two countries have also made direct arrangements in fighting against the pandemic. The governments of Sichuan province, Deyang city, Nanchang city in Jiangxi province, and Jincheng city in Shanxi province, as well as many enterprises from China, have made donations to help North Macedonia. On 11th April, the City of Skopje has officially addressed a letter to

the twin city of Nanchang and the Embassy of the People's Republic of China in the country for possible assistance and donations of medical equipment.

The expressions of gratitude for the aid provided by China came from the highest Macedonian officials. President Stevo Pendarovski highly praised the effective measures of China in preventing and controlling the epidemic. Prime Minister Oliver Spasovski praised China for its success in setting up anti-epidemic models, while the Deputy Prime Minister Bujar Osmani said the whole of North Macedonia "was deeply touched by China's act of responsibility and solidarity" and expressed thanks to the Chinese government and the Chinese people.

5.3 Outlook and Factors to Watch

As the campaign for the approaching Parliamentary elections, scheduled after several delays for 15th July, enters the most heated phase, the two large infrastructural projects which involve Chinese capital and contractor companies will most certainly be used as ammunition on both sides of the political spectrum. The incumbent government does not miss the opportunity to remind the public of the corruption scandals of the former government, and the contract which former Prime Minister Nikola Gruevski had signed with Sinohydro that did not comply with legal procedures for public procurements. On the other hand, the opposition leaders are blaming the current administration in Skopje for delays and inefficiency, as well as the expanding costs of the construction works. The head of the opposition party's committee on transport and communications Sinisa Ivanovski launched an attack against the government, asking how credible their promise for capital investments in infrastructure was in the future when the Kicevo – Ohrid highway, as the most important investment, has seen no progress in 3 years. He also claimed that the initial projected price of this highway was 375 million euros, and with SDSM in power, it reached almost 600 million euros in 2020. This fierce discussion opens up the question of what will be the position of the next government regarding these

projects, especially taking into consideration the anticipated economic crisis which will not bypass North Macedonia.

6.0 Montenegro

6.1 Main Projects

The rocketing public debt of Montenegro is threatening the next phases of construction work on the Bar-Boljare motorway. Some economic analysts are warning that due to the growth of public debt Montenegro will not be able to finance further construction with new loans, something which the World Bank and IMF have also warned. Even before the COVID-19 pandemic, the International Monetary Fund had urged Montenegro to postpone construction until it joins the European Union and gets access to structural and investment funds from the Union. The IMF also forecasts that Montenegro's GDP will contract by around 9% this year due to the coronavirus pandemic, likely driving up public debt to over 90% of GDP.

With the first section of the Bar-Boljare motorway planned to open at the end of 2020 or early 2021, funding for the rest of the Chinese-built road is looking doubtful due to the country's mounting debts and the global economic crisis as a result the coronavirus pandemic. The construction of the first section of the highway built by the Chinese Road and Bridge Corporation (CRBC) is financed by a 944 million US dollars loan from China's Exim Bank, with the first annual repayment of 67.5 million US dollars due next year.

CRBC officials stated in January that the cost of construction of the next 21 kilometers long Matesevo - Andrijevica section of the highway is estimated at some 271 million euros. There has been some speculation in Montenegro that CRBC could agree to finance the construction of the next phase(s) of the motorway in return for a concession to collect tolls on the entire motorway. However, from a public finances point of view, such an arrangement would only be sustainable if the state is not forced to offer guarantees over the volume of traffic on the motorway and corresponding motorway revenues.

Besides problems with financing the construction of the next phase of the motorway, there are issues with finishing the part of the motorway that is currently being built. Prime Minister Dusko Markovic said that part of the motorway which has been due to be finished by September will not be completed by then. One of the reasons for the delay lies in the fact that because of international travel restrictions, the works are being carried out by domestic companies, with the contractor lacking around 800 workers. Consequently, the Chinese company has already sent a request for an extension of the deadline and additional payments by activating the force majeure clause of the contract, as stated by the director of the business unit for managing the highway construction project, Goran Vujovic. The Montenegrin government seems unwilling to accept such claims, insisting that since there was no declaration of a state of emergency the force majeure did not occur in Montenegro, and that there must be some other factors which have influenced the dynamics of construction since the works were already slowed down before the coronavirus pandemic.

6.2 Political Influence

Once the coronavirus had spread to Montenegro, China was among the first countries to send aid, consisting of medical equipment and medical supplies. According to the Montenegrin government, aid from the People's Republic of China included 1,000 tests, 1,000 medical masks, 1,000 surgical masks, 1,000 disposable protective suits, 1,000 pairs of gloves, 1,000 pairs of gloves, and two respirators. Also, medical supplies donated directly in individual donations to the Embassy of Montenegro in Beijing amounted to more than 9 tons. Minister of Health Kenan Hrapovic thanked China for its help in delivering medical assistance at a time when the whole world is facing the novel coronavirus pandemic. Nevertheless, gratitude was not publicly expressed by key figures in Podgorica, such as President Djukanovic or PM Markovic, who have instead thanked Turkey and the US respectively for their help in dealing with the crisis.

6.3 Outlook and Factors to Watch

For China – Montenegro relations, the most important factor to monitor in the months to come is the state of the Montenegrin public debt. This debt is the crucial variable that the government in Podgorica will have to take into account when deciding on the future dynamics of the Bar – Boljare motorway project. The other equally important factor is the political one. Namely, this project is emblematic for the incumbent government in Podgorica, and the one over which fierce discussion has been going on for years among the Montenegrin public.

In case the government decides to go ahead with the next phases of the project and find ways to finance it with new loans, with the already unstable economic situation and a recession on the horizon, there is a risk of Montenegro heading towards a sovereign debt crisis. In this scenario, it is easily imaginable how Montenegro could become the next victim of Chinese ‘debt trap diplomacy’, at which point Beijing and Podgorica would have to discuss how Montenegro would pay off its debts.

One possible way China could use this situation would be to make demands such as requesting a concession over the strategically important Port of Bar for a number of years as compensation. On the other hand, in case the government decides to take a step back and pause construction of the motorway for the foreseeable future, it risks facing accusations of being unable to go through with the most important infrastructural project they have been promising for years while putting the economic stability of the country at severe risk.

As the Parliamentary elections scheduled for 30th August approach in the most unstable situation in the recent history of the country and with the opposition looking for every opportunity to attack and demonstrate the incompetence of the ruling elite, it remains to be seen which one of the paths the government decides to take.

7.0 Serbia

7.1 Main Projects

In May, the procurement procedure was initiated for the project design of the new motorway through the Banat region that is intended to connect Belgrade to Zrenjanin, and then Zrenjanin further to Novi Sad. Notably, the procurement for that project design was not announced and is not being carried out by the state, but by a private Chinese company, Shandong, that is contracted to build the highway. Serbian regulations on public procurement have been bypassed by exploiting a loophole in the law, which allows exceptions to the standard public procurement procedure in case of international agreements. The projected cost of building the highway currently remains unknown, although estimations found in the media currently estimate the cost at 600 million euros.

Some experts have been very vocal in their doubts over the economic rationality of the project, asking whether an analysis of the justification of such an investment has been made, since the route in question is used daily by between four and eight thousand drivers, while the minimum that is considered economically justifiably for the construction of a motorway is around fifteen thousand. In defense of the project, officials claim that the highway is not being built for short-term profit, but the future economic development of the neglected Banat region.

Another large infrastructure project has seen a breakthrough in April when the Hungarian Government secured a loan from the Chinese Exim Bank for the construction of its part of the Belgrade - Budapest railway. After a long period of delay by Hungary, partly due to pressure from the European Commission which initiated an infringement procedure in 2016 against Budapest for not complying with European procurement laws, the two countries are now one significant step closer to building a high-speed train line between the two capitals. This railway is an

important piece of the One Belt One Road jigsaw through Southeast Europe, as it lies on the corridor connecting the Greek port of Piraeus – which is controlled by the Chinese state-owned enterprise COSCO Holdings Company and serves as one of the main footholds for Chinese trade with Europe – with the rich markets of Central and Western Europe. Nevertheless, since the (re)construction of the part of the route passing through North Macedonia and southern Serbia is not even on the horizon yet, the completion of the Chinese trade corridor through the Balkans is still a long way ahead.

The Hungarian government signed a loan agreement with the Chinese Exim Bank on May 4th to finance 85% of the 1.78 billion US dollars cost of upgrading the Budapest – Belgrade mainline, with the remaining 15% to be financed from the national budget, as stated by the International Railway Journal. However, the Hungarian government wants to declare documents connected to the scheme a state secret for 10 years. On April 8th, the Hungarian government submitted a draft bill to classify details of the Budapest-Belgrade railway plan, on the pretext of protecting national interests. This decision has raised serious questions about the transparency and accountability of the project, especially since it came only a few days after Parliament passed the controversial "coronavirus law", which has granted Prime Minister Viktor Orban the right to rule through decrees, practically unrestrained, and which was abolished only on June 17th.

Critics are also questioning the economic justification of the project, since it is designed mostly for the transport of goods, without connecting any major inland cities, and using Hungary primarily as a transit country. Although the final construction costs are yet unknown, and the terms of the loan agreement with Exim Bank of China will be classified, based on the publicly available information this will undoubtedly be the single most expensive rail investment in Hungary's history. Moreover, the construction will surely be delayed by the coronavirus pandemic, since Chinese engineers and workers will not be able to fly to Hungary anytime soon. While work on upgrading the Serbian section is already underway and expected to be

completed in 2022, by current projections the Hungarian section is expected to be completed only in 2025.

As part of the campaign for the June Parliamentary elections, Prime Minister Ana Brnabic went to Nis to meet with the representatives of the Chinese company Xingyu Automotive Lighting Systems, and to announce the construction of the new factory as the next major Chinese investment in Serbia. Changzhou Xingyu Automotive Lighting Systems plans to open factory doors in February 2021, creating one thousand new jobs, and aiming to export its production to Germany, France, and Slovakia. According to the official government statement, Xingyu has committed to invest 7.5 million euros in the acquisition of land, 32.7 million euros in the construction of facilities, and 19.6 million euros in new equipment by the end of 2023. According to the same source, the Serbian state aid commission approved the allocation of 16.4 million euros in government financing to Xingyu as financial support for the construction of the factory.

During the campaign, Prime Minister Brnabic also visited another major Chinese investment, Zijin Bor Copper, giving them political support in the face of accusations and protests by local activists. Over the last months, two separate protest movements were organized by the local community. The citizens of Bor and ecology activists protested on several occasions in 2019 because of the air pollution in Bor. The analysis of the investigative journalist portal CINS shows that following the privatization of RTB Bor at the end of 2018, there was an increase in pollution in this city. Simultaneously, the leadership of the local community in Krivelj near Bor has organized a protest rally in June to express dissatisfaction with the approach in solving the problems they have with Zijin Bor Copper, accusing the Chinese company of illegally occupying private land during the expansion of the mine and avoiding paying compensation for real estate.

Since the Chinese investor took over the management of RTB Bor at the end of 2018, now Zijin Bor Copper, the Ministry of Environmental Protection has repeatedly controlled ecology standards in the production process, bringing the company before

the courts on charges of excessive air pollution in Bor with sulfur dioxide, lead and carcinogenic particles such as arsenic on several occasions during 2018. The first hearing at the Zijin trial was held in the Commercial Court in Zajecar in March. Nevertheless, during her visit on June 11th, Brnabic stated that the Government is delighted with the state of affairs in the Chinese company Zijin, since production has doubled, which has contributed to the increase of Serbia's GDP. She visited the company with the Minister of Mining and Energy, Aleksandar Antic, who stated that the decision on the strategic partnership with the Chinese company is of exceptional importance for Serbia and that all decisions taken on that were 'extremely good'.

7.2 Political Influence

The help China has provided to Serbia in the fight against COVID-19 has been substantial. Nonetheless, although in relative terms the help that the EU provided was considerably larger, the Chinese role has been deliberately blown out of proportion for political reasons by both China and – even more so – the Serbian government. How this crisis will be utilized by both sides for deepening diplomatic relations could be seen already during the winter, when the coronavirus still existed only in China. Serbia was the first Western Balkan country to show support for China in February when Serbian President Aleksandar Vucic wrote a letter of support to his Chinese counterpart, while Serbian Foreign Minister Ivica Dacic visited Beijing to show that Serbia stands with China in the fight against the virus.

As the crisis accelerated in Serbia during the spring, China's help has become the focal point of political discourse in the country. In his daily addresses over national television at the peak of the crisis, Serbian President Aleksandar Vucic repeatedly stated that the situation is so deeply severe that China is the only hope and savior for Serbia.

"People are saying that China is helping everywhere. It does help, but I know the numbers for both us and others, and all I can say is that China loves Serbia very

much, just as Serbia loves China very much", stated Vucic, adding that Serbia is either purchasing or getting in the form of donations from China 90% of respirators, medical masks, but also knowledge. The promotion of China's crucial role in response to the crisis culminated when the first plane with medical assistance from China landed at Belgrade's airport on March 21st, carrying medical devices, disinfectants, masks and other protective equipment, as well as six medical experts who fought against the coronavirus in Wuhan. The plane was personally welcomed by President Vucic, who in his first address to the Chinese experts thanked the President of China, Xi Jinping, for his help, calling him his 'brother'. During the landing, the flags of Serbia and China fluttered from the cockpit of the plane.

Chinese diplomatic efforts which are part of the mask diplomacy extended into late spring, with a Chinese train carrying 300 tons of medical equipment arriving in Serbia on May 26th. The transportation and equipment were paid for by Serbia. In her address, Prime Minister Brnabic pointed out that the train, which arrived from China via the new silk road, symbolizes the steel friendship of the two nations and shows the importance of the Belt and Road Initiative in which Serbia plays an active role. She added how much Serbia appreciates the relationship of partnership and trust between the two countries, and that it supports and will support the policy of one China. The Chinese Ambassador to Serbia, Chen Bo, used the opportunity to point out how the China Railway Express is an important result of the Belt and Road Initiative which has become a path of solidarity and a path of life and health between China and Europe.

China has also actively built this narrative of a friend in need, promoting touching videos of Chinese people showing support for Serbian people on social networks. Ambassador Bo has opened an official Twitter account, using that platform for additional promotion of Chinese activities during the crisis. Several billboards with the message "Thank you, brother Xi" have popped up across Belgrade. It seems that both sides saw this situation as an opportunity they can benefit from in the international and domestic arenas. From Beijing's perspective, this was a perfect chance to validate itself both at home and abroad as the leading player and the most

important crisis responder in the global pandemic circumstances. This is the reason why Vucic's statements have been gaining a lot of attention in Chinese media.

Belgrade, on the other hand, uses the situation to consolidate its position as the main Chinese partner in the region, while simultaneously using it to pressure Western powers by demonstrating that if they do not pay more attention and provide more assistance, there are other options for Serbia to turn to, therefore weakening the dominant influence of the West in the Balkans.

The latest pivot of Belgrade towards China amid the coronavirus pandemic has not passed unnoticed by European officials and the public. Many voices claimed that while some countries have made symbolic deliveries, the emergency aid arriving from the European Commission has been far more substantial, yet it has been received with far less enthusiasm. The European sentiment concerning this issue has been captured best in the words of Swedish diplomat Carl Bildt, who stated that "if the reward for European aid is for the President of Serbia to thank everyone else, and to complain about Europe, then I think that in the long run, Europe's incentive to provide support to Serbia will decline."

Although the response to the coronavirus crisis has been the central topic over the last month, this was not the only political question on the bilateral agenda. At the end of May, the Chinese National Congress adopted the law on national security for the special administrative region of Hong Kong, which enables Beijing to prosecute all those who violate stability and public order in Hong Kong. Within days, Serbian President Vucic stated in a letter to President Xi that Serbia resolutely supports China in the protection of its sovereignty, territorial integrity, and national security, on the occasion of the decision regarding Hong Kong. The Serbian side - it is also stated in the message - condemns all attempts to disrupt the reunification of China. In a similar letter sent at the beginning of the year, Vucic assured his colleague that Serbia supports the policy of one China, opposes Taiwanese independence, and condemns any attempt to endanger the unity of China. Serbia's vocal support to Beijing over the Hong Kong issue, as well as concerning the issue of Taiwan, should

be primarily regarded as a reciprocal response to the support China provides for Serbia over the issue of Kosovo.

At the beginning of June, China and Serbia signed a memorandum on space technology. The memorandum stipulates that Serbia and China develop bilateral cooperation in research, as well as in the development and application of space technologies, including the joint construction of stations for receiving satellite data, development of satellite systems, and services with the provision of launch services. The application and exchange of satellite data to develop innovative services and the development of earth science, climate change, and the environment are also envisaged. On the more symbolic note, the memorandum also proclaims that the Serbian flag is placed on Chinese spacecrafts during future missions.

7.3 Outlook and Factors to Watch

With a second wave, or peak, of the coronavirus apparently in full swing, the direction Serbia will take in the international arena remains to be seen. Belgrade could further reinforce the narrative of China as the savior of the nation, expecting that the government in Beijing will know how to show its appreciation for this act of loyalty and strong partnership, yet this will risk simultaneously pushing the patience of European officials too far. It is also conceivable that Serbian officials may tone down their glorification of China and provide a more balanced picture of European assistance should EU officials exert active pressure. In both cases, Belgrade could be using its proximity to China as a tool to gain a better position in complex and often unsteady relations with Brussels.

This question is closely tied with the upcoming revival of the political dialogue between Belgrade and Pristina. China has been a firm ally of Serbia concerning the Kosovo issue, and Serbia responded reciprocally by vocally supporting the one-China policy. Considering the current situation, with tensions in Hong Kong reaching boiling point over the last several months, it is questionable how favorable China's

position would be in case Belgrade and Pristina get closer to any kind of agreement during the planned dialogue.

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