



# CHINA IN THE WESTERN BALKANS

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# Inoculation Games

In 2020, “mask diplomacy” permeated global politics and played out conspicuously in the regional dynamics of the Western Balkans. As one year turned into another, 2021 brought about an entirely novel kind of pandemic-induced reference framework in international politics: “vaccine diplomacy.” Since it emerged as one of the few countries with positive growth following the first year of Covid-19 pandemic, China has maintained its course of increasingly assertive global positioning – and with increased audacity and self-reliance. After Chinese-made (Sinopharm and Sinovac) Covid-19 vaccines were approved in China itself, its neighborhood, and several Gulf Countries – most notably the United Arab Emirates – they promptly entered a large segment of the global market for vaccines. As of March 2021, they are authorized in Turkey, numerous African and Latin American countries, and, perhaps most famously, in Serbia (where they helped conduct one of the most successful vaccination campaigns in the world) and Hungary (the first EU country to approve a Chinese-made vaccine).

These developments helped China to face off its main global rivals, the USA and the EU, with boosted confidence. The beginning of the year and the global vaccination race coincided with the post-electoral transition of power in the US, as well as with an awkward demonstration of incompetence by the EU in terms of facilitating the immunization of its citizens and its continuous and unpleasant quarrels with the recent apostate, the United Kingdom. This is why, during the first trimester of 2021, the world witnessed an unusually turbulent repositioning of key global actors.

At a summit in Anchorage, Alaska, in mid-March, the US and Chinese delegations, headed by Secretary of State Antony Blinken and China’s top diplomat, Yang Jiechi, engaged in an unexpectedly heated exchange. The Biden administration clearly did not take Henry Kissinger’s advice to “go easy in China,” and it seems that, despite worldwide expectations, Sino-American relations could be even more tempestuous

under Biden than they were during the Trump era. This immediately augmented uncertainty and anxiousness among US allies, especially European members of NATO like France and Germany, that they would be forced to choose sides in the event of a sudden escalation in Sino-American relations. Secretary Blinken rushed to reassure the allies that such a choice will not be forced upon them.

On March 24th, Secretary Blinken and European Union High Representative Josep Borrell issued a joint press statement, wherein they stressed the need to work together to address challenges posed by China and Russia. Interestingly enough, while the China section of the joint statement acknowledged the multi-faceted character of relations, and China was once again designated as ‘a partner, a competitor and a systemic rival’, the Russia section was unequivocally oriented towards ‘addressing Russia's confrontational behavior and encourage Russia to abandon this path’. These formulations echoed Blinken’s previous foreign policy speech.

For their part, Russia and China held a joint Conference in the Chinese city of Guilin, announcing that they would be closing ranks further, in order to suppress what they see as overly confrontational actions by the West. ‘If Europe broke off these relations – simply destroying all the mechanisms that had been built over many years – and we have only individual European countries that want to be guided by their national interests, then this probably objectively leads to the fact that our relations with China are developing faster than what is left of relations with European countries’, said Russian Foreign Minister Sergey Lavrov during the conference. This quote is particularly illustrative as to what Chinese and Russian policies towards Europe might look like in the near future. It is reasonable to expect that such strategies will be conducted via two separate approaches: one which focuses on the major powers of Western Europe (Germany, France and Italy) and the other towards the countries of South East Europe (particularly the Western Balkans and the Visegrad 4). Given that these were already recognized as optimal policy tools by both Russia and China, it is also reasonable to expect that such efforts will further intensify.

Which brings us back to vaccines. Hungary was the first EU nation to start administering the Chinese Sinopharm and Russian Sputnik V, despite lack of approval by the European Medical Agency. Slovakia followed by ordering two million doses of Sputnik V. Serbia, an EU candidate country, earned worldwide praise for the successful vaccination program, with the lion's share of vaccines coming in from China since January. (High interest for the Sinopharm vaccine in the population even allowed it to offer a certain amount of Astra Zeneca vaccines to citizens of neighboring countries in late March.) At the same time, Germany demonstrates a growing interest in Sputnik V and urges the European Commission to approve it, while announcing that it will most likely not accept US demands for a construction halt to the contested Russian Nord Stream 2 gas pipeline. Despite declaratively accepting European countries' autonomy in making decisions on international cooperation, the US maintains its policy of discouraging allies' cooperation with Russia and China, either through more or less formal statements, or through mechanisms such as the Clean Network Initiative. The responses is far from unambiguous.

Vaccine diplomacy has not changed the very nature of international relations, nor will it; what it did do, however, is make the patterns of conflict and cooperation a lot clearer. If global politics appeared turbulent at the end of 2020, it seems that 2021 brings about an even greater conundrum.

# 1.0 The Regional Picture

In spite of uneven results across the region, the 17+1 format remains and indispensable instrument of Chinese influence in Eastern, Central and Southeastern Europe – and thus, by proxy, in the EU as a whole. Neither benefits from, nor enthusiasm for, the format are the same across the seventeen partner states. Conversely, not all the partners are equally interesting or important for China's European strategy. The results of cooperation have emerged much more slowly than initially intended. Nevertheless, they are visible: Chinese trade with the 17 Central and Eastern European countries reached \$100 billion for the first time in 2020, while the foreign direct investment level between the region and China is about to pass the \$5 billion mark in 2021.

All of this was mostly reaffirmed after the newest iteration of the 17+1 cooperation framework, the summit held virtually on February 9th this year. The summit took place after more than a year of delays and friction as Beijing looked to capitalize on the momentum of a EU-China investment deal signed in late 2020; it focused on access to COVID-19 vaccines and post-pandemic economic recovery and was – unusually enough – headed by Chinese president Xi Jinping, as opposed to previous events presided by prime minister Li Keqiang. This was China's way to signal an energetic relaunch of the format which had faced uncertain prospects in 2020 due to pandemic-induced volatility. At the same time, six participant countries – Bulgaria, Estonia, Latvia, Lithuania, Romania, and Slovenia – lowered their levels of representation from the usual heads of state or government to deputy prime ministers, ministers of foreign affairs or even other government members. This was largely interpreted as a sign of discreet protest due to the unfulfilled expectations of the cooperation process, or a signal of possible cooling relations with China and turning towards the US.

And while countries such as Lithuania and Estonia occasionally announce that they might reconsider their very participation in the format, most Western Balkans countries, despite varying levels of cooperation with China (and pressure from the United States) seem resolved to keep taking part in the activities. Thus, an excessive list of forthcoming activities throughout the participating countries has been adopted at the 17+1 meeting, in the fields of trade and investment; pandemic containment and health cooperation; connectivity, innovation, science and technology and energy; environmental protection, agriculture, food industry and forestry; people-to-people exchanges; and education, sports, youth and local cooperation. These include holding the 3rd China-CEEC Art Cooperation Forum in the Republic of Serbia; the 2nd China-CEEC Library Union Forum in the Republic of North Macedonia; China-CEEC Film Workshop on film distribution and exchange of experience in the Republic of North Macedonia; the 5th China-CEEC Capital Mayors Forum in Sarajevo, Bosnia and Herzegovina, and exploring the possibilities to establish a China-CEEC Creative Hub in Montenegro. No specific timeframes were given, due to the unpredictability of the public health environment in 2021.

At a recent lecture at Stanford University's Hoover Institute, former Croatian President Kolinda Grabar-Kitarović emphasized the prudence of the Chinese approach to the region, implicitly criticizing the West for being inert and taking local countries for granted. Despite occasional political, social, economic and environmental commotions, it seems that it is the estimation of the Western Balkans countries that the benefits of cooperation with China still outweigh the costs. Loans and investments in infrastructure have proven to be attractive enough, especially in Serbia, Montenegro and North Macedonia; with the occurrence of a global vaccine frenzy, it is all but certain that the Chinese footprint will – at least temporarily – become even more visible.

## 1.1 Main Projects

While trade and investment relations between China and Countries of the region kept flourishing throughout 2020 and onward, no new major projects have been announced in the first trimester of 2021 – save for two deals in Serbia.

An agreement has been signed with China Road and Bridge Corporation (CRBC) to design and build or rehabilitate dozens of local wastewater treatment and network systems and six regional landfills, with a total value of EUR 3.2 billion. Also, City of Belgrade signed a Memorandum of Understanding for Belgrade's first metro line. The agreement was signed with Power Construction Corporation of China, and Alstom and Egis Rail of France. Several older infrastructure projects are still ongoing in Serbia: the Lajkovac-Iverak express way, the Belgrade bypass, and the Belgrade-Stara Pazova high-speed railway line.

In Montenegro, the construction of the controversial Bar-Boljare highway has stalled, but is still ongoing and is expected to be completed this year, upon signing yet another annex to the original agreement. In Bosnia, hydropower plant Ulog, with Chinese Sinohydro as a contractor, is advancing despite multiple delays. The Tuzla Power plant Block 7 project is supposed to commence upon removal of administrative and legal barriers, which is also the case with the Banja Luka-Prijedor highway. North Macedonia's capital project, the Kičevo-Ohrid highway, is in quite a similar status. Even if the majority of states in the region had not committed to excluding Huawei and ZTE from their telecommunication and digital infrastructure, the introduction of 5G has largely been postponed throughout the region.

Partly due to various administrative and technical obstacles, partly due to the relative stagnation of commercial activities caused by the Covid-19 pandemics, and partly due to a region-wide health system crisis itself, the vaccine issue has overshadowed most other projects in the Western Balkans. In Serbia, vaccination – with decisive reliance upon Chinese vaccines – is mostly a success story; the lack of most vaccines – including Chinese ones – is an important social and political issue in

all other countries of the region. High-level political games which caused these rifts between regional neighbours are presented in the public spheres more in the form of hints and speculations than sound analysis. It seems, however, that Chinese vaccine diplomacy has served its political purpose in the Western Balkans, even in the countries which still cannot procure their own supplies: it showed a different China, one that is both ready and capable to compete for influence with the West on an equal footing.

## 1.2 Political Influence

It is yet to be seen how the “systemic rivalry” with China, by way of joined US and EU forces, is going to play out. It is already obvious – and only logical – that this will prompt China into an alliance out of necessity with Russia, yet another actor interested in positioning itself in the Western Balkans.

Signalling loyalty towards the United States by pledging to join initiatives such as the Clean Network will only get Western Balkans countries so far. In times when both money and medical equipment (including vaccines) will be increasingly scarce, with the US unwilling and the EU unable to provide either, access to Chinese resources is going to remain extraordinarily tempting.

With the continuous erosion of liberal democratic principles, not only within the region but worldwide, it is not hard to imagine that the Chinese footprint in the Western Balkans will be even more visible at the end of 2021 than it was at its onset. Countries of the region often align themselves with the EU and the US in international fora in order to condemn breaches of human rights in Xinjiang, Tibet or Hong Kong. Yet most are hedging their bets when it comes to “taking sides” in the growing standoff between China and the West. With ever more Chinese engagement in the region, the West would need to exert ever more concerted and coordinated pressure if it, one day, decides that it wants the countries of the Western Balkans to distance themselves from China. Nowhere is this more the case than in Serbia.

## 1.3 Outlook and Factors to Watch

There are several important developments to observe in order to try and envisage the future of Chinese policies in the region. First and foremost, it is the duration and range of the pandemic: a protracted health and economic crisis in Europe would inevitably strengthen Chinese positions, giving it more instruments to pursue its interests.

Secondly, there is the question of the EU's cohesion: further reliance upon own national capacities of the member states would doubtless encourage China to maintain its tactic of engaging individual European countries instead of Europe as a whole. Negotiations on the EU-China Comprehensive Agreement on Investment, concluded in principle in late 2020, represent an opposite example. A few months later, however, this looks more like an exception than a rule that would guide future relations.

Then there is the issue of the posture of the US Administration. Its resolve to counter China in Southeast Europe, if demonstrated in an imprudent manner, might produce pushback, not only by regional actors such as Serbia or Hungary, but also on a larger scale within the EU – except for staunchly pro-American countries such as the Baltic states. A perhaps unexpectedly confrontational posture assumed towards China (and Russia) by the Biden administration will be one of the key determinants of great power competition in the region and beyond.

Lastly, the problem of the longevity of the 17+1 format is still on the table. By the end of the year it should be clear if the lukewarm atmosphere of the February summit is a minor setback, or an indicator of a deeper crisis. It is important to stress, however, that even if the format loses traction completely during the coming months and years, Chinese tactics of pursuing arrays of bilateral relations remains on the table as a plan B.

## 2.0 Albania

### 2.1 Main Projects

No new projects with China were announced during the first trimester of 2021. This is hardly surprising, given that Albania has demonstrated intent to align further with the US interests in the region, especially since 2020.

Whether the pandemic and political changes in Washington since January 2021 will affect this course is yet to be seen; however, it is hard to expect radical departure from the assumed course.

On March 7th, amid a grave situation with vaccine procurement, Prime Minister Edi Rama rushed to explain that ‘failure to get the Chinese or Russian vaccines is not a geo-political matter’. Somewhat contradictorily, he also added that ‘Europe has started to think and Germany, which is its locomotive, has started to open up the dialogue with China and Russia’. Four days later, the government authorized Minister of Health, Ogerta Manastirliu, and Minister of Finance, Arben Ahmetaj, to initiate negotiations that would secure certain contingents of Chinese and Russian vaccines for Albania.

The Government went on to pass a normative act approving the use of the Chinese Sinovac anti-COVID-19 vaccine, announcing that a Turkish company, Keymen İlaç Sanayi ve Ticaret A.Ş. will be engaged as distributor. Previously, modest quantities of Pfizer/BioNTech and AstraZeneca jabs had been procured and in the meantime Albania received a batch of 10.000 doses of Sputnik V.

A slight controversy emerged when, in a press conference, the deputy health minister, Eugena Tomini, said that the Sinovac agreement with the distributor had

not been fully inked down and the parties were still discussing the number of vaccines that Albania was to receive. Ultimately, Prime Minister Rama went to Istanbul to wrap up the details of the deal. The first batch – 192,000 vaccines – of a total of one million purchased vaccines arrived on March 25th and mass inoculation was immediately organized, starting with elderly (70+) citizens.

## 2.2 Political Influence

By joining the Clean Network Initiative and maintaining alignment with EU sanctions against Russia, Albania demonstrated the intent to remain steadfast on a pro-Western path. The situation on the global vaccine market and decision to turn to Turkey and China for help might indicate that assuming the original course was more of a tactical than strategic move. More likely, however, we are witnessing a one-off turn towards the East. It is nevertheless unknown how long this atypical moment in global history might last and what unintended consequences this might produce. The Albanian leadership – for now – seems determined, if not always equally successful, to make the best of its unusually diverse options.

At the February 17+1 summit, Albania was not one of the countries to signal any reluctance towards further cooperation within the format as Prime Minister Rama did not opt for a lower-level representative and instead attended the event himself.

## 2.3 Outlook and Factors to Watch

The Covid-19 pandemic and the way it plays out locally is the key for further developments of Albania's international position and its economic performance. In more ways than one, it will shape the quality of Albania's relations with the major powers (EU, US and China), just as relations with the major powers shaped the quality of its early response to the pandemic.

Rama's government has an additional reason to steer the vaccination acquisition process as competently as possible, given that Albania will be holding a general election on April 25th. His Socialist party leads by a decent margin in most polls, but its victory is not guaranteed and will depend to a large extent on the seriousness of the economic and health consequences of the pandemic.

Given that the Administration of President Joseph Biden has announced a somewhat enhanced presence in regional politics, it is plausible to assume that Albania will be one of the key pillars of such policies. However, due to America's own issues with the pandemic and the shift of strategic focus towards Asia, this is not entirely likely in the offing in the short term.

# 3.0 Bosnia and Herzegovina

## 3.1 Main Projects

On March 25th, China agreed to donate 50,000 doses of Sinopharm vaccines to Bosnia and Herzegovina. Days later, a batch of 30,000 Sinovac vaccines arrived as a donation from Turkey. In the meantime, another 26,400 Astra Zeneca and 23,400 Pfizer/BioNTech vaccines were shipped through the COVAX program, following the initial 5,000 doses of Astra Zeneca, donated by Serbia. Chinese vaccines are thus the most widely used ones in Bosnia and Herzegovina; further procurements are to be expected, either by direct deals or through mediators such as Serbia or Turkey.

Key ongoing Chinese projects to be carried out in 2021 are the Banja Luka - Prijedor highway, Tuzla Power plant Block 7, and Ulog Hydropower plant. Neither of these, however, is being realized without impediments.

The highway project has already been imperilled in the past, due to issues with deadlines, respective studies and fulfilment of obligations on the side of Republika Srpska as well as SDHS-CSI BH, a local subsidiary of Chinese Shandong International, in charge of the concession. Just as other obstacles were largely removed, the issue of re-parcelling emerged, and the highway route will have to be altered in order to take into account the concerns of citizens of Kozarac in western Bosnia. The €300 million project might commence in 2022, and the concession arrangement is supposed to be ongoing for 30 years.

The main issues concerning the construction of Block 7 of Tuzla Power plant are environmental and legal/financial. The €722 million project, executed by a

consortium of China Gezhouba Group and Guangdong Electric Power Design, is a regular target of protest of environmental organizations and activists, and has come under the scrutiny of the Energy Community because of the allegedly prohibited state aid. It is the argument of Federation of Bosnia and Herzegovina (represented in the process by law firms from Belgrade and Sarajevo) that it did not in fact provide state aid, but loan guarantees for borrowing €614 million from the Export Import Bank of China to finance the project. The Federation's key procedural objections have been accepted and the process remains ongoing. After the situation is resolved, the project should take four years to complete.

As for the Ulog Hydropower plant in Herzegovina, the project in partnership with Chinese company Sinohydro was launched in 2012/2013, and has been set back several times for various reasons. Newest issues are related to environmental organizations' complaints to the Energy Community, due to the fact that the studies of environmental impact of the project were allegedly not properly conducted. However, it is still unclear whether this will affect the construction work and to what extent. In the meantime, the Chinese contractor carries on with the construction.

## 3.2 Political Influence

In a recent address, the Chinese ambassador, stressed the importance of ‘solidarity and cooperation’ in fighting the consequences of the Covid-19 pandemic, while indicating further Chinese presence in the Bosnian economy and additional assistance in providing vaccines and medical equipment.

Bosnia and Herzegovina remains outside the Clean Network Initiative, and it currently seems hardly imaginable that Republika Srpska would consent to a move that is seen as staunchly pro-Western and directed against Chinese interests. The differences among entities in that regard, as well as relations towards Russia, are likely to persist. That said, even within the Federation of Bosnia and Herzegovina, the enthusiasm for cooperation with China on major projects – including infrastructure, energy, and health – seems fairly high, though pro-US sentiments among Federation political elites mean that, if push came to shove, Bosniak and Bosnian Croat politicians would side with the US.

## 3.3 Outlook and Factors to Watch

In the immediate term, the pandemic is likely to contribute to further diversification of strategic engagement of Bosnia and Herzegovina. Relationships forged under such atypical circumstances might however endure further into the future. Thus, it is all the more important to observe prospective US policies towards the country, especially as they pertain to potential institutional rearrangements and suggestions to amend the Constitution as set forward by the Dayton agreement. Procedures before domestic and national legal bodies with regard to major projects with Chinese companies will also play a role: their outcomes might be of tremendous importance not only for the country’s international position, but its internal cohesion as well.

## 4.0 Kosovo

China remains in firm opposition to Kosovo's proclaimed independence, which is a stance that seems to transcend the context of Belgrade-Pristina normalization negotiations. Thus, any formal relations or common projects are improbable in the foreseeable future.

The issue of Covid-19 vaccines has not changed the absence of Kosovo-China relations: the Hoti government refused Serbian vaccine donations, and made an effort to prevent Belgrade from supplying vaccines to Serb-majority areas (although a certain number of citizens of Kosovo, Serbs and Albanians, did come to Central or South Serbia, or even Belgrade, to get vaccinated). Kosovo received its first batch of 24,000 Astra Zeneca vaccines only in late March, through the Covax program. It is highly unlikely that any Chinese or Russian vaccines will be included in Kosovo's vaccination plans anytime soon, even if, with the incoming Albin Kurti cabinet, it turns slightly more towards the EU than towards the US.

# 5.0 North Macedonia

## 5.1 Main Projects

Procurement of a large number (200,000 doses) of Sinopharm vaccines in North Macedonia has been marred by corruption. After expressing interest in late January, the country signed an agreement to buy vaccines on February 8th. While the Health Ministry announced that a major section of the national vaccination plan is based on Sinopharm, it went on to withdraw the down payment (without cancelling the contract altogether) three weeks later. Although the initial explanation was that there are technical details to be dealt with in the documentation, it was later revealed that the Health Minister Venko Filipce is under suspicion of trying to procure Chinese vaccines through a questionable intermediary firm. The state anti-corruption commission decided on March 11th to collect more information about the procurement and determine whether there is sufficient evidence to open a case. The deal was kept on hold in the meantime and in late March it was announced that the shipment should be arriving in March after all. Until then, North Macedonia has 8,000 Pfizer/BioNTech vaccines donated by Serbia, 3,000 doses of Sputnik V, and 24,000 Astra Zeneca vaccines from the Covax program.

The construction of the Ohrid-Kičevo highway, in partnership with Sinohydro, remains the key infrastructure project in North Macedonia; nevertheless, it has stalled due to the fact that the bulk of project documentation had to be revised. In the meantime, tranches of the \$783 million debt towards Chinese Exim Bank have to be repaid every six months, since the grace period elapsed in 2019. The construction is being continued, and it is the optimistic assessment of the Transport Minister Blagoj Bočvarski that around one third of the planned 57 kilometres could be operational by the end of 2021.

## 5.2 Political Influence

As with the rest of the countries in the Western Balkans, the scope and level of Chinese influence in North Macedonia is on the US' radar. Admiral Robert P. Burke, the Commander of the Allied Joint Force Command in Naples stressed this when, at the ceremony to mark the first anniversary of North Macedonia's NATO membership in late March, he warned the country to 'beware of intrusive neighbours and countries like China'.

As the newest NATO member, and a participant in the Clean Network Initiative, North Macedonia is expected to suppress excessive influence by China in most domains, with a special emphasis on defence and dual technologies such as telecommunications. As the country's EU membership perspective remains uncertain in the short to middle term, it is reasonable to expect that North Macedonia will focus on areas and frameworks in which it can pursue as close cooperation with the Western partners as possible – and NATO is one such framework.

The way the pandemic unravels, however, might complicate these calculations in the immediate perspective.

## 5.3 Outlook and Factors to Watch

Two key determinants that will affect North Macedonian relations with China, as well as its international position writ large, are the potential legal procedures on the procurement of Sinopharm vaccines and the issue of alignment with NATO security guidelines with regard to 5G infrastructure roll out, planned for 2021.

The US Embassy exerted an unusual level of public pressure regarding the possibility of allowing Huawei and ZTE into the country's telecommunications system; it remains to be seen whether the pandemic and vaccine diplomacy will loosen or constrict North Macedonian adherence to US demands. The government is not particularly likely to diverge from key NATO partners and their requests, but might very well try to use such a possibility as a bargaining chip to ensure additional benefits, security or otherwise.

# 6.0 Montenegro

## 6.1 Main Projects

On February 19th, the Chinese embassy in Podgorica announced that the Government of China has signed off on 30,000 doses of the Sinopharm vaccine as a donation to Montenegro. Previously, Montenegro received two batches of 2,000 doses of Sputnik V from Serbia and an additional 5,000 doses from Russia. The Chinese vaccine donation came as it became clear that the major Chinese projects in Montenegro, the Bar-Boljare highway and Pljevlja power plant are not moving ahead as intended. The shipment of an additional 150,000 Sinopharm vaccines has been agreed upon. Vaccines from the EU and the COVAX program are yet to arrive, as of late March.

At the beginning of 2021, it was announced that the first section of the highway might become operational by the autumn. However, already in February, Capital Investments Minister Mladen Bojanić proclaimed that, while most key objects along the route have been completed, more time would be needed and hinted that the priority section might be wrapped up by the end of the year. In the meantime, the Government intends to enter negotiations with the Chinese Exim Bank about the prolonging of the debt repayment. The current debt level towards Chinese creditor exceeds €640 million, which is almost 15% of the entire public debt of the country. As far as direct investments go, in 2020 China emerged as the second biggest investor in Montenegro, with over €70 million (trailing only Russia with almost €100 million).

Another issue related to the highway is environmental: on March 2nd, the Public Prosecutor's Office in the town of Kolasin initiated a process against the main

contractor, China Road and Bridge Corporation for failing to submit the necessary documentation before proceeding with the construction along the Tara canyon, in particular for not conducting a study on environmental impact of the project. In perspective, the legal process might affect the dynamics of the construction; this is, however still not the case.

Pljevlja thermal power plant is yet another major project of concern. In mid-2020, state power utility Elektroprivreda Crne Gore (EPCG) signed an agreement on an environmental overhaul of TPP Pljevlja, worth over €54 million, with the DEC International-Bemax-BB Solar-Permontea consortium (led by China's Dongfang Electric Corporation Limited). The project was supposed to extend the plant's lifespan by 30 years and greatly reduce its impact on the environment. The economic and environmental rationale for the agreement was repeatedly challenged by CSOs and activists, while everything escalated after the 20,000 operating hours allocated under the Energy Community regulations have been used up prematurely (by late 2020 instead of 2023). The Government of Montenegro expressed intent to try and negotiate a prolonging of the deadline; however, in February, the Energy Community announced that it would launch infringement proceedings against Montenegro for failing to close the plant.

While neither shutting off the plant entirely nor significantly prolonging the deadline do not seem very likely, such circumstances make an environmental overhaul even more urgent: the project agreed with the consortium should extend the plant's lifespan by 30 years and greatly reduce its impact on the environment.

## 6.2 Political Influence

Despite being a NATO member since 2017 and regional frontrunner in the European integration process, Montenegro is experiencing a steady growth of Chinese influence, most notably through China's economic presence. True, the new government of Zdravko Krivokapić is perceived as more susceptible to non-Western influence; however, the majority, if not all, of the projects which made Montenegro an important Chinese foothold in the region go back to the last two governments led by Milo Đukanović's Democratic Party of Socialists.

As head of state, Đukanović took part in the 17+1 Summit in February. On that occasion, he proclaimed that 'Montenegro wants, by utilizing the 17+1 Mechanism, to make cooperation with China more practical and achieve concrete results in the areas of common interests. We want to strengthen our cooperation on economy, energy, transport interconnectivity and tourism, while respecting the principles of sustainable development'.

Just over a week later, Montenegro's Deputy Prime Minister Dritan Abazović called on the European Parliament to induce the Union to help the country repay the loan to the Export-Import Bank of China (Exim Bank) in a step that would help to reduce Chinese leverage: 'I am asking you to help us replace the credit with [a loan from] some European bank. That would be a solution putting an end to Chinese influence in the country'. At a Parliamentary session in March, he clarified that he does not have any negative views regarding China, but wanted to incentivize the European partners to step in instead of repeating the demands that Chinese influence should be curtailed. It is clear, however, that the Chinese presence in the country remains a point of multiple domestic and international quagmires.

## 6.3 Outlook and Factors to Watch

Of all the countries in the region, Montenegro is most often considered a potential victim of ‘debt trap diplomacy’. According to the World Bank’s estimation, its debt is bound to soar to as much as 98% GDP, and to a large extent due to the colossal Bar-Boljare project, in addition to the negative impact made by the pandemic in 2020. The Finance Ministry’s data show an even grimmer perspective: public debt rose to 103% GDP already at the end of 2020. Whether the government succeeds in securing better conditions to repay the Exim Bank loan, with China itself or with the EU (the former being the more likely option), might determine the long term future of Montenegrin economy, its international positioning and, last but not least, the depth of its domestic rifts and cleavages.

The same goes – on a somewhat smaller scale – for the domestic and potential international legal procedures related to the key highway project, especially as they pertain to environmental issues. The delicacy of the current moment for Montenegro is based on the fact that suboptimal developments in each sector of public policy can – and most likely will – initiate serious turbulence in the country’s domestic stability and international standing.

# 7.0 Serbia

## 7.1 Main Projects

The Serbian Drugs and Medications Agency approved the use of the Sinopharm vaccine on January 18th, two days after the initial 1 million dose batch arrived in the country. Serbia has since received new tranches in February and March and a deal on another 2 million dose shipment was struck on March 18th, with the first batch scheduled to arrive early April. Serbia also uses Pfizer/BioNTech, Astra Zeneca and Sputnik V vaccines; however, Sinopharm accounts for around two thirds of the total number of available jabs. This, among other things, is what enabled Serbia to be among the top countries in Europe and the world according to the number of vaccines administered per capita; it also enabled it to donate thousands of vaccines to Bosnia-Herzegovina, Montenegro and North Macedonia and, as of mid-March, to allow some foreign citizens from the region and beyond to get a vaccine.

On March 11th, during an official state visit to the United Arab Emirates, President Aleksandar Vucic announced that Serbia will be building a Sinopharm vaccine factory, that the contract will be signed shortly and that production could begin as early as October. In the initial phases, Serbia would be in charge of infrastructure and construction, and it could join the production process later on. In the meantime, the production of the Russian Sputnik V vaccine should also commence in Belgrade, at the Torlak Institute of Virology, Vaccines and Sera in May. Upon his return from the UAE, Vucic held a meeting with the Chinese Ambassador to Serbia, Chen Bo, covering topics such as infrastructure, vaccine procurement and production, and forthcoming visit of the Chinese Defense Minister Wei Fenghe to Belgrade.

As far as major infrastructure projects with Chinese partners go, Serbia remains the undisputed frontrunner in the region. At their previous, lengthy encounter on March 6th, as well as during a subsequent press conference, President Vučić and Ambassador Chen Bo went into a lot of detail, announcing further cooperation in trade, industry, infrastructure and health. Particular attention was given to the Čačak-Preljina highway, constructed by the China Communications Construction Company, and Vucic announced that the work should be completed by the end of the year. They also emphasized the importance of the Pozarevac-Golubac express way, where the spatial planning procedures have been concluded and construction is about to begin, as well as the agreement made on the Kragujevac bypass, which will also be constructed by Chinese companies.

Other key ongoing projects include the Belgrade bypass in partnership with Power China, where the Ostruznica-Ibar connection section is in the final phase and should be concluded by mid-April; the Belgrade-Stara Pazova higher-speed rail (it should run up to 200 km/h) reconstruction in partnership with China Railway International and China Communications Construction Company which should be completed by September and fully operational by the end of the year (funded through a €350 million loan from Exim Bank); and the Lajkovac-Iverak expressway section in partnership with China Shandong, scheduled to be completed by the end of 2022, a year ahead of the original plans. The construction of Belgrade-Zrenjanin highway, also in cooperation with China Shandong, is set to begin by the end of the year. Chief prospective projects, also scheduled to commence later during the year, include the Fruška Gora Corridor and Belgrade-Niš railway line reconstruction.

On January 25th, Belgrade authorities and Finance Minister Sinisa Mali signed a Memorandum of Understanding with Power Construction Corporation of China and Alstom and Egis Rail of France, on the construction of the first metro line in the city. This was based on an interstate agreement for the construction of infrastructure projects, which Serbia and France signed at the end of 2020. The value of the agreement is €581 million, of which €127 million are to be allotted for the

improvement of the electricity distribution network while €454 million will be invested in the construction of the first metro line. The estimate of overall costs of the project which includes two metro lines amounts to €4 billion.

After Emirati Etihad Airways made a decision to withdraw from commercial activities in Air Serbia in late in 2020, Serbia made a move to recapitalize the national airline and invested €100 million to increase its share within the company from 51 to 82% (Etihad still owns the remaining 18% of shares, but without any aspirations to manage the company). Serbia's official rationale for providing aid to the company was the impact of the COVID-19 pandemic. However, this is not a sustainable position in terms of business model and it is certain that an external partner will have to be sought. In light of these events, indications emerged that one of China's major airlines might be interested in partnering up or even taking over the company. Still, no specific or official details have been disclosed by either side.

One of the largest Chinese projects in Southeast Europe was inked on February 5th, when the Minister of Construction, Transport and Infrastructure Tomislav Momirović and Director of China Road and Bridge Corp. (a subsidiary of CCCC) for Serbia Zhang Xiaoyuan signed commercial contracts for the design and construction of municipal wastewater treatment units and networks and landfill projects, with total value of €3.2 billion. The contracts open the way for building wastewater treatment units, pumping stations and sewer networks in 65 municipal units, with 73 projects overall, together with the rehabilitation or the construction of six regional landfills. It is stipulated that at least 49% of the subcontractors will have to be Serbian, and that CRBC must hand over completed and tested facilities 39 months after each gets its building permit.

Some commentators have linked Serbia's eased approach to Chinese vaccines to the prospect of such a large environmental overhaul deal being struck. No evidence of any connection between the projects has been disclosed, though.

Some of the manifold Chinese projects, however, cause concern that transcends the usual issues related to breached deadlines or incomplete project documentations. In the case of the Shangdong Linglong tire factory construction site, as well as Serbia Zijin Bor Copper mining and smelting complex, multiple CSOs, activists and media keep raising issues of environmental impact as well as boarding conditions of workers brought from China. Zijin workers even announced going on strike in January, but eventually backed off. Serbian authorities, as well as Chinese companies either refute the accusations or stay silent, although Zijin did engage in a social responsibility campaign in mid-March, when it donated medical equipment to Serbia, with a total worth of around \$1 million. Shangdong Linglong project was also put under suspicion of being awarded prohibited state aid, but without a judicial or administrative epilogue as of late March.

## 7.2 Political Influence

Chinese Defense Minister, Wei Fenghe, came on a three day visit to Serbia in late March. During his visit, he attended a display of capabilities of the Army of Serbia and, together with his Serbian colleague Nebojša Stefanovic, laid a wreath at the site of the death of three Chinese citizens in the 1999 NATO bombing of Serbia. He also handed the donation of Chinese vaccines to members of the Serbian Army and the Defence Ministry and, in a meeting with President Vucic, expressed interest in further cooperation in the fields of military industry, military medicine and military training. Vucic stipulated that the visit itself is ‘proof of the steel friendship and comprehensive strategic partnership of Serbia and China’.

Serbia’s intentions to keep pursuing particularly close cooperation with China in various areas seem profusely clear. Its position of military neutrality, proclamation of EU membership as a strategic goal, and keeping close relations with Russia, China, and the US, shows no sign of changing in the short to middle term. The legacy of the September 2020 Washington Agreements, especially the implementation of clauses on the elimination of “untrusted vendors” from national high technology and telecommunications sector, remains to be assessed.

Meanwhile, EU integration is stalling due to insufficient reforms in Serbia, compounded by the extremely low enlargement enthusiasm within key EU member states. These are some of the factors which allow Serbia to keep looking for support on important issues (Kosovo, resources, vaccines, energy) in the East, while remaining on a generally pro-Western political trajectory. It is a sort of balancing act that only became enhanced with the outbreak of the Covid-19 pandemic.

## 7.3 Outlook and Factors to Watch

Public health, economy, as well as the international positioning of Serbia depend strongly on the ways the pandemic will continue to play out in the region and globally. It has pushed Serbia more decisively into China's embrace, ahead of most of its regional partners and competitors, without dealing a fatal blow to its economy. Many ongoing or prospective projects with Chinese companies give the impression that further alignment with China is the card Serbian authorities want to play in the immediate future.

Not surprisingly, the European Union has its concerns. In an open letter in January, 26 members of the European Parliament warned the Enlargement Commissioner Olivér Várhelyi of 'growing Chinese influence in Serbia and environmental costs produced by several heavy industry projects of Chinese companies in Serbia'. Equally, on March 25th, in a Resolution following the Commission Progress Report on Serbia for 2019/2020, the European Parliament expressed concern 'that Serbia has failed to align with the sanctioning of Belarusian officials and with the EU's position on the new security law in China', as well as 'over Serbia's increasing dependence on defence and security equipment and technologies from the People's Republic of China, including a mass surveillance system in Belgrade and mass personal data collection without appropriate safeguards, and the insufficient transparency of the security sector's public procurement practices'.

On the side of the US, concerns also exist, but its mechanisms to react are much looser, given that American tools for curbing Chinese influence (the DFC office in Belgrade, already scaling down and signalling intent to leave; and Washington Agreement provisions against untrusted 5G vendors, practically in the form of unilateral Serbian letter of intent) are less effective than those of the EU.

Whether the EU and the US will still be able to work together to confront China, as suggested by Joseph Biden's National Security Adviser Jake Sullivan, is another – yet crucial – issue entirely, given their non-identical interests and perceptions of the problem. The 5G licence tender in Serbia, already postponed several times and not very likely to happen before the end of 2021 at the earliest, will be among the major tests or indicators of Serbian strategic alignment.

In the meantime, as one expert noticed, despite legitimate concerns, in times of need and in the absence of major investment from the EU, Western Balkan states do not actually have much choice but to accept arrangements offered by China, its banks and companies.

## About

The China in the Western Balkans report series is produced by BIRN Consultancy, part of BIRN Ltd. BIRN Consultancy is an independent analysis, advisory and corporate investigation consultancy with a regional focus on the Balkans. Our mission is to help our clients better understand both the opportunities and challenges facing them in the south-east Europe. Often, our clients already have a degree of familiarity with the region. They turn to us for more detailed analysis of developments and trends or to investigate a particular problem, because our unique mix of knowledge and expertise gives us a competitive edge over others.

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