



# CHINA IN THE WESTERN BALKANS

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# A Protracted Tumult

The world remains in disarray. As the global vaccination rate soars, the Covid-19 pandemic is decelerating – for now, at least; the global economy is slowly but steadily getting back on track; and major power conflict does not seem imminent. However, regional rivalries still persist; many societies keep struggling with the health and economic consequences of the 2020 crisis; and great powers and key global actors are dealing with issues and challenges of their own. The US is seeking to restore trust in institutions in the aftermath of deep domestic crisis which culminated during the mandate of Donald Trump; while at the same time trying to redefine its global interests, relations with allies and the prospects of maintaining international order. Russia has trouble overcoming the socio-economic consequences of western sanctions post-2014, while struggling to offer proof of the regime's domestic and international legitimacy. The European Union is baffled by its own concerns, attempting to resuscitate the enlargement process, curb the illiberal tide within its own ranks, and achieve just the right measure of strategic autonomy, while its own common foreign policy fails to produce coherent responses to the challenges posed by Russia and China.

During the Spring, many important meetings and summits among key strategic actors took place. Rather than resolving the issues, most of them shed a clearer light on the fact that the international system remains tumultuous and that major powers cannot offer ready-made solutions to key global challenges. Still, it seems clear that the problem of global governance is moving out of academic offices and think-tank workshops and entering top level discussions on international politics. There is no guarantee that these processes will ultimately work, but key players' willingness to take part, as demonstrated in the first half of 2021, generates a glimpse of optimism.

Key initiatives came from the US and the Biden administration, still trying to get a firm grip on the country's strategic direction after the turbulent four years of the

Trump presidency. Biden's visit to Europe in mid-June and his attendance at key summits with allies (G7 at Cornwall, UK and EU/NATO in Brussels) and rivals (Russia's Vladimir Putin in Geneva) demonstrated American willingness to engage in the complex issue of the country's position in the prospective system of global governance.

Strikingly absent from Biden's June 2021 tour was the key actor and major challenger: Xi Jinping's China. Its specter had, of course, been looming over the meetings, and it was present between the lines of side-meetings, as well as remarked upon in the summits' communiqués; however the impression persisted that the Western partners still do not have either a clear idea or effective tools to deal with growing Chinese assertiveness. Even the designation of the very nature of the Chinese challenge (is it dominantly economic? military? political?) remained vague, while disparities among the allies' own views on China kept lingering.

The G7 summit in Cornwall signified a further move towards the notion of the forum as a group of democratic allies, rather than a concert of regionally diffused major powers – an ongoing development since the exclusion of Russia in 2014 and intensified by the post-Trump enthusiasm of participants, given fresh memories of chaotic meetings in 2018 and 2019. As opposed to the Trump era summits, a joint communiqué was issued this time, with China figuring strikingly scarcely in the 25-page text. With regard to China, the G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, with the addition of the EU representatives) agreed to “continue to consult on collective approaches to challenging non-market policies and practices which undermine the fair and transparent operation of the global economy.” They also signaled the intent to “cooperate where it is in our mutual interest on shared global challenges, in particular addressing climate change and biodiversity loss.” They also announced that they will be “calling on China to respect human rights and fundamental freedoms, especially in relation to Xinjiang and those rights, freedoms and high degree of autonomy for Hong Kong.” In addition to this, there were brief remarks on the issue of origins of the novel coronavirus, as well the expression of concern over

the Indo-Pacific, openness of the Taiwan Strait and the situation in the South and East China Seas.

The NATO Summit communiqué was also relatively scant with regard to the issue of China: it is mentioned in just three of the document's 79 paragraphs. China is therein recognized as one of the assertive and authoritarian "systemic competitors": according to the allies, its actions represent a "systemic challenge", whereas Russia is the source of a "threat" to the Alliance's security. Specific areas where China poses such challenges are its expanding nuclear arsenal and military modernization, including its "publicly declared military-civil fusion strategy," its military cooperation with Russia, as well as "frequent lack of transparency and use of disinformation." The alliance also called on China to "uphold its international commitments and to act responsibly in the international system, including in the space, cyber, and maritime domains, in keeping with its role as a major power," while the issue of human rights was remarkably left out from the document.

The issue of China figured somewhat more comprehensively in the EU-US Joint Statement after the Brussels Summit on June 15. The two partners stressed their intent to "closely consult and cooperate on the full range of issues in the framework of our respective similar multi-faceted approaches to China, which include elements of cooperation, competition, and systemic rivalry." Like the G7 communiqué, the Statement reflected upon the seriousness of situation in the South and East China Seas and freedom of navigation and overflight, with particular regard to the Strait of Taiwan. Regional issues, as well as climate change and non-proliferation, have been identified as areas in which "constructive engagement" with China can be employed.

Finally, on June 16, President Biden attended a summit with his Russian counterpart Vladimir Putin in Geneva. No crucial breakthroughs were made, but the overall atmosphere has been deemed constructive, while some acts of good will have been announced: most importantly, the US and Russia would redeploy their ambassadors to the respective countries, and establish an expert level dialogue on cyber security. Strategic stability was obviously the key issue on the table, as illustrated by the joint

statement of the two Presidents: they commended the recent renewal of the New Start Treaty and reaffirmed the principle that “a nuclear war cannot be won and must never be fought.” Hope was expressed that the Strategic Stability Dialogue between the two would keep going, and that it would “lay the groundwork for future arms control and risk reduction measures.” This was a clear step away from American earlier policy of all discussions on non-proliferation and strategic stability having to involve China, although the Joint Statement formulations allow for such an opportunity.

For their part, Russia and China signaled the intent to extend a 20 year old treaty on friendship and cooperation, as it is due to expire next year. Speaking at a video conference in late June, presidents Vladimir Putin and Xi Jinping agreed on the importance of defending national sovereignty, with Putin stressing that “in the context of increasing geopolitical turbulence, the dismantlement of arms control agreements and increased potential for conflict in different corners of the world, Russian-Chinese coordination plays a stabilizing role in world affairs” – a view not shared by most interlocutors in the West, where strategic cooperation between the two countries is often viewed as a tool for undermining the foundations of the US-led post-World War II order. The problem, however, is much more far reaching: in order to challenge the US influence worldwide, China is not only looking for illiberal partners on the western periphery, but also keeps eyeing key partners within the liberal-democratic bloc. Indeed, attitudes towards China among the EU/NATO members are far from uniform. In a recent phone call with the outgoing German chancellor Angela Merkel, Xi Jinping insisted on the importance of maintaining communication and consultation and “removing distractions”, while urging the EU to “make correct judgment independently and truly achieve strategic autonomy.”

It is all but obvious that turbulence is at work throughout the international system, and that major powers are determined to try and secure the best positions for themselves in the future distribution of power. It is also beyond doubt that there is much work to be done before vague notions of incoming competition are transformed into coherent and feasible strategies. The economic growth of China is

what allowed it to devise instruments for expanding global influence, such as the Belt & Road Initiative, Asian Infrastructure Investment Bank, tech giants or military modernization. Politically disjointed western rivals are determined and set to offer some counterweight to a rising and ever more assertive China, but are yet to elaborate on the details of and make crucial steps towards such an endeavor.

# 1.0 The Regional Picture

After a temporary setback, induced by the COVID-19 global pandemic, relations between China and Central and East European countries – particularly in the fields of trade, infrastructure and healthcare – are steadily getting back on track. On June 9, the second China-CEE Expo was opened in Ningbo. Enthusiasm was not lacking, with the figures presented illustrating the renewed growth of trade in 2021 – trade rose by 50.2 percent in the first quarter, and it is expected to advance further by the end of the year.

Chinese Foreign Minister Wang Yi presented a concept of the “Three Engines” which should guide and power future cooperation between China and CEE countries. According to the notion, the “first engine” should integrate bilateral and regional cooperation formats between China and CEE countries, with “the two reinforcing each other rather than rejecting each other.” The “second engine” is supposed to address the factual needs and priorities of CEE countries, which, according to the Chinese perspective, differ from those of the developed countries in Western Europe. The final, “third engine” takes the EU perspective into account and is supposed to be designed as “conducive to the balanced development of Europe on the whole and faster European integration.”

China aspires to frame its European endeavors as compatible with the EU and its interests, and not as a tool of rivalry and competition. As illustrated by Lithuania’s recent decision to leave the 17+1 cooperation mechanism, this is not always viewed in the same way by the European partners. On the occasion of the Polish, Hungarian, Irish and Serbian respective foreign ministers’ visits to China in late May, Chinese officials insisted that “China-CEEC cooperation focuses on pragmatic economic and trade cooperation, which does not involve the field of defense and security, has never had geostrategic intentions, and has no intention of engaging in any sphere of

influence.” Regardless, it does provoke significant unease in the EU some of its members’ capitals, and particularly in the US.

Still, as Western Balkans countries’ cooperation with China in the field of anti-pandemic programs and capital infrastructure projects demonstrates, there is still room for the Asian giant to penetrate even the most pro-Western societies. Serbia is traditionally a stronghold for Chinese investment, credit and construction ventures, but even NATO members such as Montenegro and North Macedonia, along with staunchly pro-American Albania, showed interest in working with China – a development which accelerated significantly with the pandemic’s outbreak and global race for vaccines and medical supplies.

All the key ongoing projects are still alive, although there are legal, environmental and financial issues hampering some of them, particularly in North Macedonia, Montenegro and Bosnia and Herzegovina. No new epochal developments were announced during the Spring, except for some minor projects in the field of energy and infrastructure in the Republika Srpska entity of Bosnia and Herzegovina. Vaccines, mostly Sinopharm and some Sinovac (in Albania) kept being delivered throughout the second quarter of 2021, contributing to a successful curbing of infection rates in most Western Balkan countries.

Although no crucial developments took place in the second quarter of 2021, there has been a significant increase of interest in the issues of Chinese projects and policies in the Western Balkans. Mostly instigated by political developments in Serbia and financial developments in Montenegro, the Chinese presence in the region is often framed as setting debt traps and pushing Western actors and their interests out of the region. For its part, the West seems to be starting to understand this and to aspire to push back on the said developments, most notably by making the European perspective of the region more credible. However, these signals of credibility can only go so far, and having China and its resources as a regional competitor continues to be an uncertain juncture.

## 1.1 Main Projects

Developments in the second quarter of 2021 mostly had to do with ongoing deals. Economic exchange between China and the region soared tremendously in comparison with the first half of 2020, but key projects that could be observed were the ones that had been agreed or started previously.

Vaccine procurements remained among the key aspects of relations between China and the Western Balkans. With the exception of Kosovo, all other regional actors relied on Chinese vaccines, obtained through various arrangements, including different purchases and donations. The total number of Chinese vaccine doses delivered to the region in 2021 is likely to exceed 6 million.

As for infrastructure projects, Serbia remains the frontrunner. Some important projects – like the Belgrade bypass Section 4 – have been completed, or their completion is in sight – like the Belgrade–Novi Sad railroad. At the same time, some ventures either have begun – like the Fruška Gora corridor, or are set to begin by the end of the year – like the Požarevac–Golubac expressway, or Belgrade–Zrenjanin highway. High-value sewage systems and landfill projects, as well as Belgrade Metro Line 1 are also about to begin, which would be a step towards realization of almost €8 billion worth of projects. In addition to all this, China aspires to expand academic research and technological cooperation, which includes the construction of a €250 million Serbian –Chinese Technological Park in Belgrade.

In Bosnia, Chinese projects are facing significant obstacles. The Tuzla Power Plant Block 7 project might end up being scrapped entirely, due to lack of equipment, while Ulog Hydropower Plant is under scrutiny for environmental impact. Still, Chinese capital will not be leaving either one of the country's entities, as announcements of new projects keep emerging. The Macedonian–Chinese project of building the Ohrid – Kicevo highway is once again lagging, but should be fully back on track after the negotiations on the new deadline. Both major projects in Montenegro, the Bar–Boljare highway and Pljevlja Power Plant, are burdened by legal, financial and

environmental issues. And while the Montenegrin highway project should persist after another deadline correction and the EU announcement of stepping in as a mediator in the quest for funding, the destiny of Pljevlja Power Plant seems much gloomier.

## 1.2 Political Influence

China seems determined to expand its regional footprint, and is ready and capable to allocate significant resources to do so. Although most regional actors are staunchly pro-Western - and three of them (Albania, Montenegro, North Macedonia) are NATO members - they tend to keep their options open, particularly in areas where NATO and the EU cannot help. In that sense, the COVID-19 pandemic caused a slight shuffle in regional strategic positioning and strengthened Chinese standing even further.

As long as the EU integration of respective Western Balkans countries is being delayed, and there is the need for Chinese resources in curbing the consequences of the pandemic, the West will struggle to achieve a crucial and unchallengeable advantage in this region. In the meantime, China keeps coming up with new cooperation frameworks and, if those do not work, it shifts to the format of direct bilateral cooperation with the countries of the region, all the while framing these endeavors as compatible with already existing arrangements and regimes in Europe. Apart from designating China as a “systemic rival”, the Western partners do not seem to have concrete ideas about the very nature of the challenge this rival poses, or about the means to effectively responding to this challenge. Such a situation seems to the countries of the Western Balkans as a limbo in which they perhaps cannot achieve all their goals, but can make ad hoc choices, taking the best from both worlds in the meantime. The main question remains: how long is this limbo going to last. Nobody seems to have a clear answer.

## 1.3 Outlook and Factors to Watch

As expected, the protracted pandemic shaped the regional context in a way which provided China with additional channels of influence. Since it is clear that infection rates will soar at least once more before the end of the year, and that new rounds of vaccination will be needed throughout the region, China can be expected to continue exerting influence as a provider of medical supplies, as well as much needed resources to fight the consequences of the spread of the disease.

Major powers seem resolute in their intention to keep the dialogue open while securing the best regional positions for themselves. The US administration, now firmly in the grip of the country's direction, does not hide its objective of standing up to Chinese influence in the region, all the while cooperating on issues of mutual interest, such as global health, cyber security and climate change. Conversely, US-Chinese competitions in other global theatres are likely to have bearing on the regional dynamics of the Western Balkans. Add to this the even more turbulent relations between the US and Russia, emerging Sino-Russian entente and strategically curtailed but ambitious European Union, and it becomes clear the Balkans will keep its role as the stage of great power competition. Apart from being parts of a wider stage, local actors also have their own interests and agencies, which coincide with those of various major powers in various areas. This is why international political and economic arrangements will keep being complemented by a set of bilateral relations of local actors with their major partners, which is a condition under which China operates quite successfully.

## 2.0 Albania

### 2.1 Main Projects

In the second trimester of 2021, vaccination, rather than investment or infrastructure, remained a key source of Chinese presence in Albania. The government had made a deal for a total of 1 million doses of Sinovac vaccines. After receiving almost 200,000 doses of vaccines in March, Albania took four more deliveries in April, May and June. In early April, an additional 100,000 arrived and, as vaccination was advancing rapidly, the country entered a second dose crisis by late May despite also receiving modest quantities of Pfizer, Astra Zeneca and Sputnik V vaccines. The situation improved slightly after the subsequent delivery of 60,000 Sinovac doses in May and an additional 150,000 in total on two occasions in June. An additional 500,000 doses remain to be delivered.

While accepting medical supplies from China, Albania will likely not be receiving any Chinese telecommunications or IT infrastructure anytime soon. After joining the US-created Clean Network Initiative in the summer of 2020, Albania signed a bilateral treaty with the US, with the purpose of further coordinating the two countries' 5G infrastructure. Upon signing the agreement with the US State Secretary Antony Blinken, Albanian Prime Minister Edi Rama called for all countries in the region to join the American initiative. The ones that still have not joined, as of late June, are Serbia, Montenegro, and Bosnia and Herzegovina.

## 2.2 Political Influence

Albania signaled its allegiance to the West by walking the walk on 5G technology talk, as well as taking part in the NATO Steadfast Defender military exercise in May and June. It keeps proclaiming that EU accession is its strategic goal, despite the fact that the opening of accession talks keeps being delayed repeatedly.

It is therefore no wonder that Albania – while maintaining a general pro-Western course – continues to look elsewhere for alternative frameworks of cooperation. Options that emerged, particularly with regard to COVID-era economic and health emergencies came in the forms of Turkey, China, and the Western Balkans region itself. China proved to be a key provider of necessary vaccines, and is likely to remain in such a position for at least a year, with Turkey being an important intermediary in the procurement process.

The “Mini Schengen” framework of regional economic cooperation, founded by Serbia, Albania and North Macedonia, will be renamed and revived at a summit in Skopje in late July. The initiative should serve the purpose of regional economic integration in a situation of stalling European integration, which is why Montenegro and Bosnia and Herzegovina have been reluctant to participate. It does seem, however, that Vucic, Rama and Zaev are determined to keep pushing the idea, and as full-fledged EU membership remains a distant prospect for the three countries at present, it seems likely that the format will be one element of regional cooperation in the Western Balkans in the near future. This might also be a way for China to additionally penetrate the region, especially bearing in mind its strong position within Serbia.

## 2.3 Outlook and Factors to Watch

The COVID-19 infection rate has been slowing down in Albania since late Spring, mostly thanks to satisfactory vaccination rates enabled by multiple contingents of vaccines from China, as well as some from the West. This has enabled Albania to open up its borders for visitors from the region ahead of the start of the tourist season, which should help the country mitigate the consequences of the 2020 recession. The situation, however, remains fragile, and with a new peak expected to ensue in late summer, major health and economic issues might reemerge.

The Socialist Party of Prime Minister Edi Rama attained a decisive win in the April 25 parliamentary election, securing an absolute majority of seats in the national legislative body. Nonetheless, society remains divided and political crises are far from inconceivable, which will particularly be contingent on the development of health and economic situation during the rest of 2021. The US has signaled its own readiness to intervene in the country's politics by sanctioning former President and Prime Minister Sali Berisha from the ranks of the largest opposition party, the Democratic Party, in late May. Although Rama retains a firm grip over the country's institutions and decision-making mechanisms, political challenges persist and keep attracting the attention of foreign actors. Overall development of Albania in the coming years will be deeply dependent upon these developments.

On June 11, alongside Brazil, Gabon, Ghana and the United Arab Emirates, Albania was elected for a two-year term as a non-permanent member of the United Nations Security Council, starting on January 1, 2022. This event was well received across the political spectrum, as it is the first time for the country to enter the Security Council during its 65 year-long UN membership. This can obviously not be used as a tool for domestic political endeavors, but it will provide Albania with an additional forum for direct diplomatic contact with major powers, including China – one of the first countries to cordially congratulate Albania on its successful bid.

## 3.0 Bosnia and Herzegovina

### 3.1 Main Projects

In addition to the possibility for its citizens to get vaccinated in Serbia, as well as a certain number of vaccines having been donated by Serbia (on five occasions from early March until mid-June) and the EU through the COVAX mechanism, Bosnia and Herzegovina has kept on relying upon vaccines from China to a large extent. During March and April, a total of 40,000 Sinovac vaccines were donated to Bosnia and Herzegovina by Turkey, followed by a donation of an additional 50,000 Sinopharm doses from China. A new contract for the procurement of 500,000 doses of Sinopharm vaccines was signed by the government of the Federation of Bosnia and Herzegovina, one of the country's two entities, in mid-June. The Serbian member of the Bosnian Presidency, Milorad Dodik, recently announced that the other entity, Republika Srpska, expects the delivery of an additional 160,000 Sinopharm doses, to be shipped in two tranches. With more doses expected from the EU and China, and the ongoing opportunity to get inoculated in Serbia, Bosnia seems set to be prepared for the new wave of infections that is likely this autumn. Motivating enough people to take these opportunities to get vaccinated remains a key challenge, as has been the case throughout the region.

The Banja Luka-Prijedor highway, Tuzla Power plant Block 7, and Ulog Hydropower plant remain key projects with Chinese participation in Bosnia and Herzegovina. In addition to these somewhat disorderly ongoing projects, it is expected that the Bistrica hydropower plant project should soon have its funding secured and kick off.

The Banja Luka-Prijedor highway project, having previously been postponed several times, faces new obstacles with relation to re-parceling and proposed removal of several dozen homes and other objects in the Prijedor municipality. Citizens protested peacefully on several occasions, demanding that the route be moved 100

meters. The protests enjoyed the support of the Republika Srpska opposition parties and the entity Government expressed readiness to negotiate. Despite all the setbacks, Milorad Dodik announced that construction could ultimately begin in September or October, although previously stated plans about 2022 still seem much more realistic.

The prospective Tuzla Power Plant Block 7 is not without its own problems too. After being postponed earlier due to funding issues and the Energy Community procedure on suspicion of prohibited state aid, ongoing construction is now imperiled by the withdrawal of General Electric (GE) from the arrangement, reportedly due to EU pressure against coal-based projects. As GE was supposed to provide a major generator and a turbine for the facility, sources say that it is now virtually impossible to carry on with the project. Chinese companies Gezhouba Group and Guangdong Electric Power Design Institute are seeking a new round of negotiations with the Federation of Bosnia and Herzegovina Government in order to try and revive the project, but the alternative plan of scrapping the construction entirely and turning toward reconstruction of three other plants seems just as realistic. More details should be revealed in the months ahead.

In the field of hydropower plants, the Ulog plant still figures most prominently. The project in the Kalinovik municipality of Republika Srpska was launched in 2013 in cooperation with Chinese Sinohydro and has been postponed several times since, due to issues with funding, safety and environment. It was supposed to be completed by the end of 2020, but it keeps being postponed; currently it is on the radar of environmental organizations due to its expected negative impact upon the ecosystem of the upper flow of the Neretva River. The future of the project remains to be seen, as is the case with the deal to construct three hydropower plants on the Bistrica River. Agreement on this was reached back in 2019 with China National Aero-technology International Engineering Corporation (AVIC-ENG), but the public bid to secure the funding is being conducted only now. More details should be made public by late summer, when the procedure is expected to be completed. The prospective creditor is expected to provide almost 70 million EUR, to be withdrawn over next three years with a 42 month grace period.

## 3.2 Political Influence

At a long meeting with Chinese Ambassador Ji Ping, held on June 10, Milorad Dodik, the Bosnian Serb member of the State Presidency, thanked China for the help and solidarity demonstrated toward the Republika Srpska entity during the COVID-19 crisis. Apart from vaccines, China donated medical equipment worth €13,000 to the “Serbia” hospital in East Sarajevo. There were hints of new projects in the field of energy in Foca, Trebinje and Nevesinje; road infrastructure along the Modrica-Bijeljina road section; as well as a healthcare facility in Doboj in cooperation with Sinopharm. Relations between China and the Republika Srpska entity remain vibrant.

After Bosnia and Herzegovina had aligned itself with a joint statement of 44 countries criticizing China over breaches of human rights in Xinjiang, published after the session of the UN Human Rights Council in Geneva on June 22, Milorad Dodik issued a statement distancing himself and Republika Srpska from the decision. The Chinese embassy in Bosnia thanked Dodik for rejecting the act which “damaged the friendly relations between China and Bosnia and Herzegovina,” which provided additional proof of the rift between the entities regarding relations with China (relations with Russia are already infamous in this context). Aside from these issues being used for domestic, inter-entity political quarrels, the prospect of such episodes inducing abandonment of Chinese projects in the Federation of Bosnia and Herzegovina, including vaccine procurement, seems rather unlikely, at least in the short to middle term.

### 3.3 Outlook and Factors to Watch

The development of the COVID-19 pandemic is expected to remain a key factor of strategic positioning of Bosnia and Herzegovina for the rest of 2021. Entities will seek deeper cooperation with their respective foreign partners (Serbia, Russia, Turkey, EU and NATO member states), while Chinese influence will likely keep transcending entity boundaries. The very constitutional construction of Bosnia is an impediment to Western powers' efforts to curb Chinese influence. Bosnia and Herzegovina will remain outside the Clean Network Initiative, but its cooperation with China in various areas will keep being closely monitored by major powers and legal mechanisms.

## 4.0 Kosovo

Throughout the spring, the Kosovo government under Prime Minister Albin Kurti kept declining vaccine donation offers from Belgrade. The rationale for such a controversial decision was the need to demonstrate firm allegiance with the West, even at the cost of a deepening health crisis within Kosovo. During this period, citizens of Kosovo could come to Belgrade, Nis, or medical centers in the south of Serbia to get vaccinated and many took the opportunity. At the same time, Kurti's government declined a donation of Sinopharm vaccines from Albania as well. These were not the first cases of the Kosovo government refusing to accept medical donations: in 2020, the government of then Prime Minister Avdullah Hoti declined a Swiss offer of 250,000 doses of Russian Sputnik V vaccines. The reluctance of Kosovo to engage in any capacity in relations with countries which do not recognize it as a state may be a signal which Western partners will appreciate, but it doesn't come without peril: before the first batches of Western-donated vaccines began to arrive, Kosovo's infection rate kept soaring, which produced serious problems for the already weak healthcare system. Furthermore, perpetuating bad blood with non-recognizing major powers might further impede bids to join international organizations in the future; particularly those – like the UN – where China or Russia have veto powers. At the moment, and with all this in mind, any major economic or infrastructure projects remain out of the question.

# 5.0 North Macedonia

## 5.1 Main Projects

An initial deal to procure 200,000 doses of Sinopharm vaccines in February/March was marked by the opening of an anti-corruption case against the North Macedonian Health Minister. The vaccines eventually arrived and, along with 35,000 doses of Pfizer, Astra Zeneca and Sputnik V, helped North Macedonia curb the infection rate significantly throughout the Spring. At a time when the state of the epidemic improved considerably, on June 28 a massive batch of 500,000 Sinopharm doses arrived at the Skopje airport. In addition to other donations and the COVAX mechanism, North Macedonia – like the rest of the region, excluding Kosovo – intends to keep relying upon Chinese vaccines in 2021.

The other major area of North Macedonian cooperation with China is infrastructure, the capital project of the Ohrid-Kicevo highway, in partnership with Sinohydro, being the most important one. After the venture had been stalled for quite some time due to issues with funding and project documentation, construction resumed in early 2021, once again not without problems. The progress rate is around 63%, according to Infrastructure Minister Blagoj Bocvarski, and some major obstacles, such as expropriation, tunnels and certain retaining walls, have been handled. Still, there are new negotiations to be concluded with Sinohydro, which should result in moving the final deadline to December 31, 2023. Having begun in 2014, this would mean that the construction of the 57km route took almost a decade.

## 5.2 Political Influence

North Macedonia was among the countries which signaled its determination to remain in the US camp in the prospective US-China competition for influence, by joining the Clean Network Initiative. Along with direct warnings from NATO, this was the factor that made direct access of Chinese companies, such as ZTE and Huawei, to North Macedonian telecommunication infrastructure virtually impossible. However, Austrian Telecom, which is present in the North Macedonian market, is considering using Chinese 5G equipment. This stirred suspicion that Chinese infrastructure might end up in the country as a result of lobbying by interested operators. While the North Macedonian Government keeps reassuring its Western allies that such developments are out of the question, this remains an illustration of the country's complex strategic position.

## 5.3 Outlook and Factors to Watch

As with the rest of the region, in the North Macedonian case the way the pandemic unravels from late summer onwards will be among the key factors of international repositioning. The country's clear pro-Western course, constrained within the framework of NATO membership, is being challenged by the need to procure Chinese vaccines, as well as by the stalled process of European integration, with no accession talks in sight.

The latter is somewhat substituted by the regional cooperation framework, i.e. "Mini Schengen", a mechanism concocted by Serbia, Albania and North Macedonia, bound to be relaunched and rebranded at the end-of-July summit in Skopje. Facing Bulgarian obstruction and overall enlargement fatigue, North Macedonia has little choice but to look elsewhere for cooperation and economic benefits. This will not induce a complete shift away from the assumed pro-Western course, but the government of Zoran Zaev will want to keep its options as open as possible.

# 6.0 Montenegro

## 6.1 Main Projects

After the initial donation of 30,000 doses of Sinopharm vaccines back in February, an additional shipment of over 200,000 purchased doses arrived in Montenegro in late May. On that occasion, Health Minister Jelena Borovinic-Bojovic and Chinese Ambassador to Montenegro, Liu Jin, underscored the importance of cooperation and “traditionally good relations” between the two countries. Alongside multiple purchases and donations of other, Western-produced vaccines (including through the COVAX program), as well as Russian Sputnik V, the Sinopharm vaccine remains by far the most widely used one in Montenegro.

Funding and environmental issues keep burdening the construction of the Bar - Boljare highway. The first semi-annual installment of €50 million is due in July, in order to begin repaying the \$944 million loan to Chinese Exim Bank. The loan itself accounts for almost a fifth of the country’s total debt and in the period marked by the Covid-19 induced economic crisis, this represents a major challenge to Montenegro’s financial stability. Back in March, Deputy Prime Minister Dritan Abazovic appealed to the EU for help with regard to the credit repayment; after the initial cold reaction, Brussels decided to step up and mediate between the Government and development agencies and financial institutions from Germany, France and Italy in order to facilitate credit repayment. No details have been disclosed on lenders and financial specifics of the proposed arrangement, but it seems that the main funding issue will be resolved this way, while the deadline for the key 44 km section from Smokovac to Matesevo, constructed by China Road and Bridge Corporation, has once again been reset, this time to November 30, 2021.

While solutions for most other problems might be in sight, environmental concerns remain an open issue. The consequences of the devastation of the Tara River have to be repaired by the constructor, CRBC, as per the decision of the Environmental Inspection. However, civil society organizations keep insisting that the actual damage exceeds the identified scope of 500 meters, and announce protests and legal procedures to state their case. There seems to be increased sensitivity in the Governments when it comes to environmental issues, compared to the period of the previous ruling elite. However, these issues will undoubtedly keep casting shadows over the highway project until the very end of the venture.

Environmental concerns loom over the Pljevlja Power Plant project as well. In late 2020, the plant used up all of the 20,000 operating hours allocated by the Energy Community regulations. Instead of prolonging the deadline, as requested by Montenegro, on April 21, the Energy Community initiated infringement proceedings against the country for failing to close the plant. The 2020 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) is still in force, and reconstruction seems necessary as the Energy Community is highly unlikely to agree to prolong the work of the dated facility. However, the overhaul might have to wait until the infringement procedure is complete, at which point an annex to the agreement might be needed. Once completed, the overhaul is supposed to extend the TPP lifespan for three decades, while curbing its environmental impact.

## 6.2 Political Influence

Despite initial doubts, the new Montenegro Government remains resolutely on a pro-Western path and keeps being a devoted member of NATO. Still, it shows no intent of entirely scrapping cooperation with China, also initiated by the previous government headed by the Democratic Party of Socialists and President Milo Djukanovic. In a mid-April phone call with Djukanovic, Chinese President Xi Jinping called on Montenegro to “continue close coordination on multilateral issues” and “consolidate political mutual trust and deepen cooperation in infrastructure construction”. China is eager to keep engaging with as many of its Central and East European partners as possible, especially since Lithuania abandoned the 17+1 format calling it divisive from the EU perspective. Djukanovic underscored that the country was ready “to actively participate and firmly promote the development of 17+1 cooperation”.

Montenegrin society remains sharply divided on issues such as relations with Serbia, European integration, allegiance to the West and influence of third actors. The political elites, however, seem determined to keep the country on the general pro-NATO and pro-EU course, while maintaining cooperation with China to an extent that will not raise Western partners’ suspicion about inappropriate political influences. Intra-coalition rifts shattering the Montenegrin Government seem to have little impact on the country’s international positioning at the moment, but they certainly have the potential to become an issue in this regard in the future.

The European Union’s decision to step in as facilitator, in order to help Montenegro secure the funding of Chinese debt by European financial institutions is the signal that the EU is becoming increasingly aware of the need to step up in its aspiration to curb third actors’ influence in the region. And while the EU itself would not be bearing the financial costs of the arrangement, it has certainly invested a lot of its credibility in resolving the issue, which might provide some comfort to Montenegro in the light of the delayed European integration process.

## 6.3 Outlook and Factors to Watch

The Montenegrin economy suffered tremendously from the COVID-19 pandemic, with average contraction over the last four quarters reaching 15% of the country's GDP. Resolving issues with the funding of the Chinese debt and somewhat resuscitating the tourist capacities in comparison with 2020, the country might be heading towards delicate stabilization, but the situation remains extremely fragile.

That is why the ongoing pandemic will continue being the most important factor of Montenegrin social, political and economic developments by the end of the year. Major power competition for influence will persist, but it is not likely to shatter the country's strategic positioning as long as it is not paired with the extraction of capital. The European perspective seems somewhat more plausible after the announcement of positive developments regarding the Chinese debt, but possible absence of formal progress in the integration process might induce the country to seek support and cooperation elsewhere.

Despite ongoing volatility in relations with Serbia, the "Mini Schengen" mechanism might be one such substitute, although Montenegro has been somewhat reluctant to engage in full participation in the format previously. China will also remain a key factor and player, based on its important position in the country's infrastructure and financial system, as well as through its participation in the Government's anti-pandemic endeavors.

# 7.0 Serbia

## 7.1 Main Projects

During the arrival of one batch of Sinopharm vaccines at the Belgrade Nikola Tesla Airport, Serbian Prime Minister Ana Brnabic hailed China as a key partner in the mass immunization campaign in Serbia. Indeed, as of late June, Chinese Sinopharm vaccines accounted for over 80% of all administered doses. Chinese vaccines kept coming in throughout the spring: 500,000 doses arrived in early April, followed by a same-sized batch later that month. Three more deliveries were made in May: within just over a week starting with May 19, over 1.2 million doses arrived, including a 200,000 doses batch donated by the Chinese Army. This brought the total number of Sinopharm vaccines delivered to Serbia to 4.2 million.

No further deliveries are intended for 2021, but this does not mean that there will be no additional quantities of Sinopharm vaccine in Serbia. As announced in March, Serbia is proceeding to build a Sinopharm vaccine production facility in Belgrade, in cooperation with China and the United Arab Emirates. The visual appearance of the project was presented on President Aleksandar Vucic's Instagram account in mid-May, and while it is not yet known how much the entire venture would cost, it was made public that the Serbian government has allocated €16 million for the initial phase of construction. Erstwhile announcements that vaccine production might commence in October now seem overly ambitious and the end of the year emerges as a much more plausible timeframe. The quantities of vaccine produced in Belgrade should enable Serbia to cover the lion's share of its own needs, but also to keep supplying the region and conducting its own brand of "vaccine diplomacy."

Infrastructure projects with Chinese partners are largely advancing as planned, except for the Belgrade–Nis railroad reconstruction which has been postponed once again and will likely be carried out with European rather than Chinese companies and funds. The Preljina – Pozega highway, built by China Communications Construction Company, is still expected to be operational early in 2022, and a major breakthrough was made in June with the completion of one of three critical tunnels at Trbušani. President Aleksandar Vucic announced that the construction of the Pozarevac – Golubac express way is expected to begin in November, with the Belgrade–Zrenjanin highway project set to start a month later. The Belgrade–Zrenjanin highway is supposed to be constructed by China Shandong Highspeed, while likely participation of Chinese constructors in the Pozarevac – Golubac section has been announced at an early May meeting between President Vucic and Chinese Ambassador Chen Bo. The construction of the €606 million worth Fruska Gora Corridor, a 47 km highway that should connect Novi Sad and Ruma, began in May according to plans, with China Road and Bridge Corporation as the main contractor. It is expected to be fully operational by March 2024, which is more than a year before the initially agreed deadline.

A crucial 7.7 km long Sector 4 of the Belgrade bypass, constructed by Power Construction Corporation of China, was completed in late April; several more important sectors will be completed next. The whole 20 km section from Ostruznica to Bubanj Potok will cost €227 million, 85% of which comes from a loan by Chinese Exim Bank. The Belgrade – Stara Pazova higher-speed rail reconstruction in partnership with China Railway International and China Communications Construction Company is also advancing as planned. The entire Belgrade – Novi Sad section of the Belgrade–Budapest railroad is expected to be completed by the end of the year and fully operational from February 2022. A subsequent section, from Novi Sad to Subotica, is set to begin after all the preparatory activities, including expropriation, are completed. It is a 108 km long and \$1.1 billion worth venture. Chinese companies China Railway International and China Communications Construction Company will have 33 months to finish the project, once the

construction has begun. The construction of the first metro line in Belgrade – part of the €4.4 billion project conducted by Power Construction Corporation of China and Alstom and Egis Rail of France – is set to begin in November. Both lines that make up the current Belgrade metro project should be operational by 2028–2030.

Environmental issues keep hampering several Chinese projects in Serbia, most notably the Shandong Linglong tire factory construction site in Zrenjanin, Serbia Zijin Bor Copper mining and smelting complex, and Feitiansuye plastic recycling plant near Zrenjanin. All three have been objects of legal procedures, inspections and citizens' and civil society organizations' protests in April, May and June. However, unlike Feitiansuye which had its operations halted until extensive inquiry into their environmental impact, Shandong Linglong and Zijin had their operations expanded, either by being awarded previously lacking construction permits (in case of Linglong) or mining rights in a new location (in case of Zijin). Although the mining and smelting complex also had one of its mines temporarily closed down in April due to suspicion of negative environmental impact, its general operations remained unaffected; the announced investments in the newly awarded Cukaru Peki mining site should exceed €470 million. Legal and political actions seem unlikely to bring a halt to Chinese operated projects in Serbia, but have the potential to somewhat unsettle the close relations between Serbia and China in the long term. In terms of environment, Serbian Finance Minister Sinisa Mali announced that the initial thirteen projects for wastewater units with pumping stations and sewer networks in Serbian municipalities have been agreed with the Bank of China and China Road and Bridge Corporation. This would be a first step towards the realization of the €3.2 billion investment deal signed in February.

China is also willing to expand cooperation with Serbia in the field of academic research and technology. Connections of Universities of Belgrade, Novi Sad and Nis with academic institutions from China are occasionally criticized as arrangements susceptible to Chinese propaganda or inappropriate political influence. A Serbian–Chinese Technology Park is planned to be built near the Danube river in the northwestern Belgrade municipality of Palilula. This €250 million project only

increased Serbian Western partners fear from excessive Chinese influence. What is clear is that these endeavors are a part of the Chinese strategy to strengthen its regional position and acquire a platform for promotion of its own views of international affairs, but they currently do not differ very much from similar arrangements China has with other countries in the region, the EU, or even the US.

## 7.2 Political Influence

On the occasion of Serbian Foreign Minister Nikola Selakovic's visit to Guiyang, Foreign Minister of China, Wang Yi, underscored that Wang said that "Serbia is China's iron-clad friend in Europe." Indeed, both countries seem to be going out of their way to demonstrate that this is in fact true. Even though full EU membership is its proclaimed strategic goal, Serbia does not hesitate to look to China for everything it feels it cannot get from the EU, be it financial resources, healthcare supplies, military equipment, or political support for its positions with regard to the Kosovo issue. During Selakovic's visit to China in May, even cooperation in the field of 5G infrastructure was discussed, although Serbia made a political commitment to the US that this would remain off the table, back in September 2020. It is clear that Serbia is ready to play the China card quite prominently in its own balancing act; in fact, this is a trend that seems to be escalating.

Serbian President Aleksandar Vucic has been completely open about his long-lasting efforts to get President Xi Jinping to visit Serbia for the first time since 2016. After a phone call between the two leaders in late May, it was announced that the Chinese President has accepted the invitation and that the visit should take place at the end of 2021 or at the beginning of 2022 – obviously, depending on the situation with the COVID-19 pandemic. The visit would be a culmination of a period in which Chinese investments and loans in Serbia almost reached €10 billion (by far the largest level in the regional and wider context), China positioned itself as Serbia's main partner in curbing the pandemic's impact, and Serbia tied its own development strategy ever tighter to China.

What is in it for China itself in all of this? First and foremost, a foothold in an important and accessible region of Europe, as a pathway towards further penetration throughout the wider European market. Not having to deal with awkward and unpleasant issues of human rights and the rule of law in mutual relations has been convenient to both Chinese and Serbian political elites. On the Serbian side, however,

there is the factor of compatibility of policies and practices with those of the EU – something that China does not have to worry too much about. The question remains, if and when such practices will begin taking their concrete toll on Serbian relations with the West.

## 7.3 Outlook and Factors to Watch

Factors that will crucially shape Serbian relations with China in the immediate future are threefold. They pertain to the dynamics of Serbian recovery from the 2020 pandemic-induced global crisis – both in terms of public health and national economy. The current situation, with year on year growth reaching well into double digits after the first two quarters of 2021 might give additional strength to the political establishment's arguments that siding with China throughout this period has been a prudent decision. If the trend persists, so probably will Serbian strategic positioning towards China.

The second factor is the status and immediate development of the Belgrade-Pristina negotiations facilitated by the European Union. The Kosovo Government's hard position in this context suggests that the process will reach a dead end soon, which will lock Serbia and China in their current positions on the issue, with Serbia relying on Chinese (alongside Russian) veto powers in order to block any potential UN membership bid by Kosovo.

Obviously, Serbian standing in the context of European integration will also play a role in its considerations on China. Neither Serbia, nor the EU itself, currently seem too eager to make substantial moves in the integration process. Serbia does not align itself with the EU foreign policy declarations condemning human rights violations in China; the EU does not seem to be willing to provide necessary resources to Serbia under the same conditions as China does. Despite complaining about Chinese growing influence in Serbia, which is indeed evident, the EU currently does not seem to have either the stick or the carrot that would enable it to significantly affect this course.

## 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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