



CHINA IN THE WESTERN BALKANS

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The More Things Change, the More They Stay the Same

The summer of 2021 has been marked by developments set to significantly alter the global strategic outlook. Asia was at the center of these critical events; however, it is all but certain that the political and economic consequences of these events will be felt in various corners of the world. Obviously, the Covid-19 pandemic remains one of the most serious challenges to global stability, putting a severe strain on healthcare systems and economies of countries across the globe and – in the process – instigating global political and security realignments. As infection rates peak once again, in part due to new strains and mutations which have had a serious impact even in the countries with successful vaccination campaigns, it has become increasingly clear that the fight against the pandemic is part of a new reality and a factor to contend with in all considerations of societal development for years to come. Varying vaccination rates and diverging health and travel policies kept producing new and exposing old rifts even within the world’s most politically compact blocs such as the European Union.

However, for all its ability to occupy the center stage of the global public’s attention, the pandemic has not been able to displace more old-fashioned political and security issues from world politics. The American military withdrawal from Afghanistan, which came to a turbulent culmination and conclusion during August, ensured that conventional power politics remains impossible to ignore. Acting in line with the ideas developed in the early Barack Obama Presidency – and operationalized during the final year of Donald Trump’s term in the White House – regarding the need for America to end its 20 year large scale military engagement in Afghanistan, US President Joseph Biden decided to bring the mission to an end by September 2021. Despite having been signaled for over a decade, the withdrawal was ultimately

labeled as too hasty by many analysts, especially after the Taliban's swift takeover of large portions of Afghan territory, including, in the end, the capital Kabul. Like Russia, China has benefited from the presence of US forces in Afghanistan. Nevertheless, the withdrawal enabled it to score propaganda points and send signals to American allies in the region, with a particular focus on Taiwan.

Another key development which, just like the Afghanistan withdrawal, keeps being referred to as a major "power shift" or "strategic reshuffling", is the trilateral AUKUS pact which emerged in the Indo-Pacific somewhat unexpectedly on September 15. Australia decided to forego a \$66 billion deal it previously concluded with France, for the purpose of procuring nuclear-powered submarines, turning instead to Anglo-American partners. France found it unacceptable that the original deal was scrapped without prior announcement and consultation and Foreign Minister Jean-Yves Le Drian called the new US-led arrangement a "stab in the back" and a "unilateral, brutal, unpredictable decision."

While the AUKUS pact encompasses much more than just a submarine deal – it includes intelligence information exchange, cyber security, and AI – and is apparently intended contain Chinese influence in the Indo-Pacific, its side-effect is yet another unpleasant transatlantic rift, with France recalling its ambassadors to Australia and the United States for consultation. Chinese reactions, meanwhile, have been decidedly negative, but moderately worded in comparison to those of the French: according to Foreign Ministry spokesman Zhao Lijian, the agreement is an "extremely irresponsible" espousal of "Cold War mentality and ideological prejudice" which "seriously undermines regional peace and stability and intensifies the arms race." While China has not drawn any radical moves as a response to AUKUS as of yet, it is far from guaranteed that the new security regrouping will successfully curb Chinese military and infrastructure assertiveness in the region. Either way, it is clear that the security dynamics in Asia and beyond have undergone a thorough reshuffling during the summer of 2021.

With many of its infrastructure projects on hold, and formats such as 17+1 taking on a somewhat more restrained tempo, China has been particularly active in its high-level global diplomatic activities during the summer. In early July, Chinese President Xi Jinping held a three-way conference call with French President Emmanuel Macron and German Chancellor Angela Merkel. The three leaders discussed the pressing issues of European-Chinese relations, including trade, climate change, biodiversity and cooperation in the fight against the Covid-19 pandemics.

Subsequently, in mid-August, Chinese Foreign Minister Wang Yi had a conversation with Secretary of State Antony Blinken, with prospects of coordination of regional security policies in light of the US Afghanistan withdrawal as the key issue. Continuing the dialogue, President Joseph Biden had a “broad, strategic discussion” with President Xi Jinping on September 9, when the two parties stipulated that there were areas in which their respective interests converge or diverge to varying extents, and agreed that they will do their best to keep mutual competition managed.

Another conversation between Xi Jinping and Angela Merkel took place on September 10, around two weeks before the parliamentary elections in Germany, which are intended to initiate the conclusion of Merkel’s chancellorship. The Chinese President expressed hope that the 2020 EU-China Comprehensive Agreement on Investment, a document held hostage by each side’s sanctions against the other’s senior officials, could be ratified soon. Such a move would undoubtedly be a major step in European-Chinese relations; however, it is going to have to wait for the formation of a new government in Germany, and even then other issues will have to be resolved beforehand. Political will does seem to exist in principle, but it is far from certain that it will spill over into political and trade practice in the short term.

In late September, Chinese State Councilor and Minister of Foreign Affairs Wang Yi met virtually with NATO Secretary General Jens Stoltenberg, discussing NATO-China

relations and international security challenges, including areas where mutual interests might converge, such as arms control and the stability of post-US Afghanistan. Echoing the NATO summit communiqué from June, Stoltenberg reiterated once again that NATO does not view China as an adversary, but expects it to uphold its international commitments.

Just as the global policy community began to absorb the possible consequences from the turmoil in the wider Middle East and Indo-Pacific and first ideas on how the curb instabilities emerged, it became clear that the world is headed towards a dangerous energy crisis, sparked by the lack of arrangements for natural gas distribution, which saw gas prices soar to a historical high. Electricity is increasingly becoming a sought-after good and some countries are considering turning coal-powered electricity generation plants back on, despite a plethora of green plans and agendas adopted over the past two decades. All this comes at a time when even has China pledged not to support coal-based energy infrastructure construction – a policy which may well change before it even starts being implemented. Obviously, apart from China, such developments will also bring Russia firmly back into European energy calculations, despite exceptionally high prices. Whether the crisis will propel major actors to coordinate and cooperate more thoroughly, or engage in a ruthless, self-centered competition, remains to be seen.

The more things change, the more they stay the same. The US Afghanistan withdrawal, the Indo-Pacific quagmire and the global energy crisis looming large are all indicators that global politics is undergoing a major reshuffling. At the same time, they are reminders that great power competition is ‘back with bells on’ - if anyone happened to think it ever went away in the first place.

1.0 The Regional Picture

A large part of the Western Balkans region (in effect, everyone except Kosovo) took up Chinese-made vaccines and medical supplies during the most critical months of the fight against Covid-19. The trade between China and the region keeps rising as well and unlike some other countries, such as Lithuania, the countries of the Western Balkans remain eager to work with China in the 17+1 framework. The influence of the European Union keeps waning, due to the fact that accession of the countries in the region is very much in a stalemate, forcing them to look for alternative foreign policy solutions – either within the region, as with the Serbian-Albanian-North Macedonian Open Balkan initiative, or outside, such as turning to China for loans and capital investments or Russia for energy security.

The autumn of 2021 saw no major new developments in the relations of Western Balkans countries with China, and some joint projects are even experiencing setbacks. The reasons for this vary from country to country, but usually encompass a mix of administrative, environmental, or financial issues. At the same time, Chinese-made vaccines remain a key asset in regional mass immunization campaigns, although with varying results. Serbia, the largest country of the region and the country which has procured the largest number of Chinese-made vaccines, leads the way regarding the percentage of inoculated citizens – over 40% – but even there the number of daily new cases and deaths testifies of the healthcare system's overstretch.

In countries like Montenegro and Bosnia-Herzegovina, domestic political turmoil shapes many policies or lack thereof, while the positions of Serbia and Kosovo are marked to a large extent by their mutual open problems, as is obvious from the two crises in North Kosovo, in September and October. Equally, the situation is unchanged in terms of the extent of the Chinese presence across the countries of the

region: Serbia tops the chart, while Albania is at the bottom in this regard (not counting Kosovo which has no relations with China whatsoever). Announcements and indications of future cooperation attest to the fact that Serbia has no intention of lifting its foot off the acceleration pedal when it comes to China-supported projects.

1.1 Main Projects

No major breakthroughs happened in the autumn of 2021 when it comes to the Chinese presence in the Western Balkans. Apart from vaccine procurements which have mostly been concluded during the summer, most Chinese projects currently advancing in the region are the ones initiated over the past several years.

Serbia still tops the list of Chinese projects, with Sinopharm vaccine production in existing pharmaceutical facilities, as well as the construction of a new facility in the Belgrade suburb of Zemun being added to the list of ongoing projects such as the Fruška Gora corridor, Požarevac–Golubac expressway, Čukaru Peki mining site operated by Zijin, or “Clean Serbia“ landfill and wastewater project.

In Bosnia, the Tuzla Power Plant Block 7 is still the most important, yet also uncertain project, while the Ulog Hydropower plant remains under environmental scrutiny. The only power plant that seems to be moving ahead, however slowly, is the Bistrica hydropower plant in Bosnia. The Banjaluka–Prijeedor highway project is still active, but keeps being postponed due to technical and procedural difficulties. Meanwhile, the Ohrid–Kičevo highway in North Macedonia is back on track after negotiations on a new deadline were successfully completed; however there are still procedural steps to be made before construction can proceed without further delays. A major energy project in Montenegro, the Pljevlja Thermal Power Plant, remains burdened by legal, financial and environmental issues. Regarding the Bar–Boljare highway, visible progress has been made and completion of the toughest and most important Smokovac–Mateševo section is now fully in sight.

1.2 Political Influence

It remains clear that major powers intend to keep using the Western Balkans as a playground for competition over influence. At this particular moment, the main difference between China and the other major powers is that it is capable of offering regional actors concrete incentives, such as infrastructure arrangements or loans, and do it in no time. Energy remains Russia's most effective card, especially in the context of the coming crisis, while the European Union is unable to play its strongest hand – the accession process – due to objections by some of its influential member states. The examples of Montenegro and especially North Macedonia, show that NATO membership – the only reward that Western partners have not been hesitant to provide – does little to solve a country's most pressing social and economic issues. Serbia currently serves as the main regional hub for dissemination of Chinese influence. If other players in the region are not compensated for their consistent demonstration of allegiance to the West, doors to the leading Eastern power, once almost closed, might be opened wide in the near future.

1.3 Outlook and Factors to Watch

The Covid-19 pandemic, with its latest peak, keeps shaping global and regional political and economic relations beyond easily imaginable levels. With the exception of Serbia, according to the International Monetary Fund, all the countries of the region will at best have modest cumulative growth rates for 2020/2021. The extent to which countries' healthcare systems and their economies recover from the pandemic-induced blows will have a crucial impact on future regional dynamics.

Major powers – particularly Western ones – are going to have to balance between competing for influence in the Western Balkans region and turning inward or elsewhere in the world: in both cases, resources are scarce and at one point it might become irrational to spend them excessively in a fight with vague goals and uncertain outcomes. For now, it seems that key global players are in the Balkans to stay, if at various levels and relying upon different means of engagement.

Local actors will try to compensate the lack of wider European integration by putting together regional initiatives such as Open Balkan, as well as by seeking bilateral cooperation with major powers, be it Russia, China, Turkey, or even European countries acting individually, such as the United Kingdom, Germany, or France. Stability and prosperity of the region will directly depend on the ability of key stakeholders to make all these arrangements mutually compatible, or at least prevent competition to escalate into open major power conflict, which would undoubtedly spill over into the region and reignite erstwhile enmities.

2.0 Albania

2.1 Main Projects

Apart from the matter of vaccine procurement, China is absent from plans on large new projects in Albania. As a country that, in addition to western-made vaccines, has been procuring large numbers of Chinese-produced Sinopharm and Sinovac vaccines, via Serbia, Turkey, or directly, Albania has been working hard with the EU to be acknowledged as part of the green certificate system, and to ensure that Chinese vaccines are recognized for international travel. Although some progress has been made in that regard, these goals have still not been fully attained. At the same time, the reliance of Edi Rama's Government, to a large extent, upon Chinese vaccines has sparked some controversies in Albanian domestic politics, when opposition parties accused the Prime Minister of bringing "the least safe" Chinese-made vaccines to Albania. These accusations have mostly been a political ploy, and an unsuccessful one at that, given the fact that the popularity of Edi Rama and his Socialist Party remains unchallenged.

Additionally, Chinese companies might show up as bidders at the tender for contractors for the Muriqan-Kakavija motorway, which should connect Albania's Montenegrin and Greek borders, as part of a wider "Blue Corridor" project spanning from Croatia to Greece along the Adriatic and Ionian coasts. As things currently stand, Albania would favor Western-based contractors to win the tender. Nevertheless, the procedure, expected to be initiated by the end of the year, is a chance for China to make its way into critical infrastructure construction in the Western Balkans once again.

2.2 Political Influence

Albania remains steadfastly aligned with its Western partners, most notably the US. Having previously joined the Clean Network Initiative, thus excluding China's Huawei from potentially taking hold of the country's future 5G network, Albania reiterated this course when Prime Minister Edi Rama signed a memorandum with the US Secretary of State Antony Blinken in Brussels in mid-June. Once the national auction for the installation of 5G networks is set in motion, it will most likely be American and European companies competing for the job.

At the same time, Albania, alongside North Macedonia, continues lagging behind in the European accession process, not securing all member states' green light for starting the accession negotiations despite general support by the European Commission. The European Union enjoys high popularity and a large credit in Albania, but the public and key political actors might lose patience in case the situation does not improve, which might open up additional and unexpected maneuvering space for third actors such as China to exert influence.

2.3 Outlook and Factors to Watch

Whether Albania will manage to make the most of regional initiatives such as Open Balkan, and make them compatible with major power visions for the region (China through the Belt and Road Initiative, the EU with its accession mechanism, or the US and the UK with their enhanced economic presence in the region) is of utmost importance for the country's development in the near future. After the GDP 3.3% contraction in 2020, the International Monetary Fund predicts 5.9% growth in 2021, which might mitigate some of the social frustrations and solidify the position of Edi Rama and the Socialist Party. Another important factor will be the success of the mass immunization campaign, with only just above 30% of the population being fully vaccinated. The issue of Chinese vaccines is thus likely to remain on the agenda in the coming months.

3.0 Bosnia and Herzegovina

3.1 Main Projects

Energy infrastructure figures most prominently in the current cooperation between Bosnia and Herzegovina and China. However, the projects, which have been unfolding for some time,

are not progressing according to plans at the moment. Tuzla Power Plant Block 7 keeps wrestling with numerous issues. For one, the Energy Community has its concerns about the project's economic benefits and environmental risks. The problem of General Electric withdrawing as a supplier of critically important construction parts has still not been overcome. The Chinese consortium – Gezhouba Group – Guangdong Electric Power Design Institute – has proposed that General Electric be substituted by Chinese suppliers who work in accordance with European standards and regulations, yet this solution has still not been approved by the parliament of the Federation of Bosnia and Herzegovina. At the same time, Bosnian officials do not hold identical views on all this among themselves, with the government of the Federation entity being more skeptical, while EPBiH, one of Bosnia's electricity generators, pushing hard to proceed with the project. To make the issue even more complicated, it is not yet clear whether the Chinese pledge not to finance any more coal-based energy facilities overseas will affect the Tuzla project as well. All these issues will have to be resolved before the project resumes; it is increasingly unlikely that this will transpire before the end of 2021.

Ulog hydropower plant, launched in 2013 in cooperation with Chinese Sinohydro, is still burdened by financial, administrative and environmental issues. It is currently in stalemate, with the number of local actors challenging the project's environmental feasibility both in Republika Srpska and the Federation entity constantly on the rise. In the meantime, certain progress has been made on the

Bistrica hydropower plant project, with the environmental impact procedure kick-started with the Ministry of Physical Planning, Construction and Environmental Protection of Republika Srpska. Since the first tender for obtaining a €68,7 million loan was unsuccessful, the Electric Power Corporation of Republika Srpska decided to go on and try to secure the funds through direct negotiation. The project is to be realized by AVIC-ENG – China National Aero-technology International Engineering, and according to the available documentation is supposed to have the capacity of 36.1 megawatts and a projected annual production of 134.5 gigawatt-hours.

Transparency issues have been raised by the media and civil society with regard to procedures and documentation for the Banja Luka - Prijedor highway, a €300 million, 40-kilometer long road, intended for construction through a concession given to SDHS-CSI BH, daughter-company of China Shandong International Economic & Technical Cooperation Group. Although the realization of the project has been postponed several times, the planned construction has not been abandoned and more details – including deadlines – should be revealed soon.

3.2 Political Influence

The political situation in Bosnia is marked by vigorous quarrels about the country's domestic political order. The Republika Srpska entity is pushing for a looser union and the "original Dayton" competences for entities, while political Sarajevo is pushing for a more centralized state structure. All of this produces a context in which external actors, especially major powers like the US and Russia, but also the EU and China, keep trying to have their say. Russia and China dispute the legality and legitimacy of High Representative Christian Schmitt, while the US warns the Republika Srpska leadership against secessionist rhetoric, and the EU calls for restraint on all sides. Once referred to as "Yugoslavia on a smaller scale", today's Bosnia and Herzegovina is very much "the Western Balkans on a smaller scale", being less of an actor and more of a theatre stage for various sorts of foreign influence.

3.3 Outlook and Factors to Watch

Apart from the public health crisis, which is likely to persist into 2022, high-level political quarrels are going to mark the country's near future. The capacity of the confronted sides - with Banja Luka and Sarajevo being the two opposed poles and with Mostar increasingly siding with Banja Luka, thus effectively producing paralysis within the Federation entity - to reach a feasible understanding is very limited. Yet were they to do so, this would not only enable the country to focus on the pressing economic and social issues, but also limit third actors' room for interfering.

The heated atmosphere in the autumn of 2021, however, does not leave a lot of reasons for optimism in this regard. As for external actors, it seems that whoever demonstrates the strongest interest in the region, will be the one dominantly shaping Bosnia's politics and its international standing.

4.0 Kosovo

Despite Kosovo being at the center of regional politics several times during the summer, there have been no official contacts between Kosovo and China, no joint projects of any kind, or any indications or prospects of this situation changing. Albin Kurti's government remained steadfast in declining any immunization assistance which included vaccines and other medical equipment from non-western countries, even if it meant declining Chinese vaccines from friendly Albania. By October, Kosovo had indeed managed to reach the regional average in its immunization rate using only western-made vaccines, but this success came at a particularly high price in health and human lives during the first half of 2021.

The calculation in Kosovo remains clear: signaling political allegiance to Western partners is an absolute priority and most other public policies will be developed in accordance with it. Things get even more complicated with arrangements which include major non-recognizing powers like Russia and China, which are viewed throughout Kosovo's public as partners of Belgrade, and thus a peril for Kosovo's own independence. Fear of Serbian influence was also a reason for Kosovo to reject and condemn the Open Balkan initiative, despite, once again, Albania's prominent role in its formulation and development. On the occasion of the Kosovo-Serbia license plate crisis in late September, when Chinese and Russian ambassadors to Belgrade expressed explicit support for the Serbian position, such suspicions were set off once again. At a mid-October United Nations Security Council session, Russia and China once again sided with Serbia, arguing against the disbanding of the United Nations Mission in Kosovo (UNMIK) – which is against the preferences of Kosovo and its western partners.

5.0 North Macedonia

5.1 Main Projects

The Ohrid-Kičevo highway capital infrastructure project, conducted by Sinohydro, remains the most important example of Chinese-North Macedonian cooperation. The project has undergone several postponements due to various reasons; most recently, negotiations were led with the contractor to have the deadline postponed once again, until the end of 2023. The new deadline was confirmed in September and, according to Infrastructure Minister Blagoj Bočvarski, once the new legislative framework is adopted in the Parliament, the construction will proceed in keeping with the new plans. The Minister expects that the highway, with all of its subsections and adjacent infrastructure, should be fully operational by 2025, by which time the construction will have lasted over a decade.

5.2 Political Influence

The political scene in North Macedonia remains dominantly shaped by poor progress in the European accession process, this time hampered by Bulgarian pressure over identity issues, as well as domestic party politics. This has resulted in the opposition VMRO-DPMNE seeing a modest growth in support for the first time since its ousting from power in 2016, as well as the conviction of the party's former leader and Prime Minister, Nikola Gruevski, who subsequently escaped to Hungary in 2018. Although the party has aspired, and to some extent succeeded, in distancing itself from the legacy Gruevski, who rebranded the party in a more pro-Russian and anti-Western direction, its success in the October local elections might hint at a slight turn of course in North Macedonian politics and public opinion. Frustration as a result of not advancing on the European path despite demonstrating immense cooperativeness towards the demands of Western partners risks opening up the country for non-Western influences once again.

5.3 Outlook and Factors to Watch

The European Commission did support the opening of accession negotiations with North Macedonia by the end of the year, but such a scenario does not seem highly likely having in mind its issues with Bulgaria, as well as some Western European countries' reserves towards further enlargement in the near term. Furthermore, the International Monetary Fund has projected moderate GDP growth of 4% for North Macedonia in 2021, which will leave the country in the zone of negative cumulative growth in 2020/2021. These unfavorable circumstances might induce North Macedonia to begin looking elsewhere for political and economic support, whether regionally (such as the Open Balkan initiative with Serbia and Albania), or with distant major powers such as Russia and China.

6.0 Montenegro

6.1 Main Projects

In March 2021, Montenegrin Deputy Prime Minister Dritan Abazovic called on EU leaders to help Montenegro bail itself out of an unfavorable situation imposed by the terms of repayment of the Chinese Exim Bank loan for the construction of the Bar-Boljare highway. After relatively cold initial reactions – and especially after China itself signaled willingness to renegotiate the terms – the EU seems to have worked under the radar to connect the Montenegrin government with western-based financial institutions. In this way, rather than stepping in directly, which would indeed be an unusual precedent, the EU did assist Montenegro in reaching more favorable repayment terms. As reported early in June by Milojko Spajić, Montenegro's finance minister, an agreement to hedge the debt, with an interest rate of 0.88% indexed in EUR, instead of the original 2% indexed in USD, has been reached with American banks, Merrill Lynch International and Goldman Sachs International, France's Société Générale and Germany's Deutsche Bank. This will undoubtedly allow for some relaxation of Montenegro's fiscal system, but the country is still not in the clear, with the 2020 crisis having devastated national finances. According to public records, public debt has decreased significantly in comparison to over 103% of GDP in December 2020, to just below 90% mid-2021. International Monetary Fund growth projections for Montenegro in 2021 amount to 7%, which should repair some of the heavy economic damage from 2020.

As for the Bar-Boljare highway project itself, the most critical section from Smokovac (Podgorica) to Mateševo (Kolasin) is set to be completed by the end of November, almost two years after the original deadline negotiated back in 2014. Completing the Moračica Bridge, one of the most technically demanding in Europe, means that the most complicated sections, once entirely off the beaten track, are

now done with. Administrative procedures are under way for the construction of the next two sections, Mateševo-Andrijevića and Andrijevića-Boljare. Exactly how these next two sections – worth as much as €800 million – are to be financed remains to be seen – the current Montenegrin Government may be hoping to access European funds and loans.

With regard to the issue of the Pljevlja Thermal Power Plant (TPP), the €54 million environmental overhaul plan from 2020 to be realized by China's Dongfang Electric Corporation Limited is still in a deadlock. The overhaul agreement remains in force, but new concerns emerge over whether the project is worth going forward with, given the possibilities of 2035 complete shutdown of coal-based facilities. Alternatives, such as plans for construction of a gas power plant near Bar, seem further away with the approaching global energy crisis. In the meantime, the Pljevlja TPP remains the largest energy producer in Montenegro, with 40-50% of the country's total electricity production. It also accounts for over 1200 jobs in this region of the country – split between the TPP itself, the coalmine and adjacent small businesses. Due to the overhaul project's controversies, which cut across party lines and the infringement process before the Energy Community set off back in May, Montenegro might end up paying much more money for scarce and expensive imported electrical energy than reconstruction of the facility would cost. The perspective of the Plant will depend on domestic political and economic divisions and calculations, as well as developments on the global energy market.

6.2 Political Influence

Internal political rifts, not only between government and opposition parties, but increasingly within the governing coalition itself, remain the main source of political turmoil. After the hedging arrangement with western banks, Chinese influence has, at least temporarily, become an under-the-radar issue, while the country's adherence to a pro-Western, NATO and EU course has also left Russia without much of the relevance it had previously enjoyed in Montenegro.

Controversies regarding the enthronement of a high-ranking Serbian Orthodox Church Metropolitan in Cetinje in September have once again highlighted the tensions between Montenegro, especially the residuals of the former DPS government, and Serbia. However, actual capacities of Serbia to influence the policies of the Montenegrin government have largely been overstated. As long as Montenegro advances on the general course of Euro-Atlantic cooperation, other regional or major powers' meddling remain more of a potential than a real danger for the country's development.

6.3 Outlook and Factors to Watch

The potential for domestic political regroupings remains the most germane factor for the future of Montenegrin politics, including its foreign policy positioning. Despite internal divisions in the governing coalition, which were set off almost immediately after the forming of the government, early in December 2020, the coalition has persisted in a constant atmosphere of possible reconstructions and even snap elections. It is unified by a common interest to keep curbing the influence of the Democratic Party of Socialists, whose president, Milo Đukanović, still holds the position of the president of Montenegro (and who was recently exposed as the person behind a suspicious offshore web of companies by the Pandora Papers project.) The country's permissiveness to various kinds of foreign interference will keep depending on the resolution of these and other domestic tensions.

Inter-ethnic relations also continue to burden the country's recovery and development. The issue of the forthcoming population census has been one of the crucial points of skirmishes among political actors and it is still unclear whether it will be organized in 2021, having been previously postponed from spring to autumn this year.

Continuation of fiscal consolidation and implementation of growth-oriented policies is another key factor for the country's domestic and international standing. Last year's GDP contraction of over 15% will be only partially counterweighed by a projected 7% growth in 2021. Interconnection of domestic social and political processes, course of the pandemic, economic fragility and regional and global power dynamics will keep shaping Montenegro's situation in the foreseeable future.

7.0 Serbia

7.1 Main Projects

The fight against Covid-19 remains one of the key areas of Serbian-Chinese cooperation in 2021. Instead of earlier arrangements to procure vaccines, which were at the center of this cooperation during the first half of the year, the main current healthcare-related project is a joint Serbia – China – United Arab Emirates-funded Sinopharm vaccine facility in Belgrade. Construction began on September 9, with the completion deadline set for the first quarter of 2022. It is intended for the factory to be able to produce up to 3 million doses a month. Before that, agreements between Serbia and China are supposed to enable the production of Sinopharm vaccines in existing local facilities, such as the Hemofarm pharmaceutical company. A batch of up to 6 million doses should be produced in this way by the end of the year in case the project proceeds as planned from October.

No major new infrastructure projects were announced during the summer. Meanwhile, those already in progress, as well as those which had been announced earlier this year, are mostly proceeding according to plans. At a meeting in late August, it was confirmed that China Shandong Highspeed will prepare and construct the Pozarevac – Golubac express way, with the price set at €337 million and construction expected to conclude in November 2024 at the latest. The Fruska Gora Corridor, a 48 kilometer highway from Novi Sad to Ruma, is also set to be completed in 2024, with hopes still running high that it might be during the spring of that year, almost a year ahead of the original deadline. The highway is being constructed by China Road and Bridge Corporation, with a total worth of €606 million. Once completed, the Corridor is intended to connect Pan-European Corridors 4 and 10, thus significantly shortening the route through Serbia from Romania to Bosnia and Herzegovina.

In early August, the second blast furnace in Chinese Hesteel-owned steel plant in Smederevo was re-ignited after a year long hiatus due to the Covid-19 pandemic. This development will undoubtedly have a significant impact on the steel plant's output, but it will also increase the environmental concerns of the local population, already hit by damaging environmental practices. Similar issues have been concerning the citizens of Bor, where Zijin Mining, already operating a gigantic mining and smelting complex in the city, is set to start operating a newly awarded mining site, Čukaru Peki, during the autumn – an investment worth nearly half a billion euros. Zijin Mining management claims that the new desulfurization system, operational since July, has significantly improved the environmental situation, but air pollution data subsequently obtained from Bor show that there is still a lot of room for progress.

Just like Zijin Mining and Zijin Copper in Bor, Linglong Tires in Zrenjanin drew a lot of attention with regard to the compliance of their future operations with environmental regulations. The company are putting an increasing amount of effort into reassuring the local population in this regard. In yet another environmentally endangered local community, Pančevo, a gas-fired combined heat and power plant with 200 mega-Watt capacity, worth €180 million, is due to be launched during October by the contractor, Shanghai Electric Group. If everything functions well during the trial period, the facility will be transferred to the main investor, Russian Gazprom (majority owner of Serbian NIS) by the end of the year.

At the beginning of August, an annex was signed regarding the “Clean Serbia” project, between the Ministry of Construction, Traffic and Infrastructure and China Road and Bridge Corporation. The project encompasses sewage and wastewater treatment facilities construction at twenty-six locations in fourteen Serbian cities, and the annex alone – expanding the scope of the project – is worth €336 million.

7.2 Political Influence

Three key parameters remain crucial for assessing the origins, scope and perspective of Chinese political influence in Serbia. They have to do with the following issues:

- The question of Kosovo and the congruence of Serbian and Chinese positions with regard to this matter;
- Serbia's position as a hub for major projects in the context of the Western Balkans and wider South-East Europe;
- and the compatibility between the Chinese presence in the region and Serbia's EU path, or adjacent frameworks of regional integration.

In late September, Kosovo special police forces were deployed to Serbian-majority municipalities in the north of Kosovo in order to impose a new license plate regime, leaving the majority of Kosovo Serbs in a legal limbo, unable to drive their vehicles or re-register them. The local Serb population responded to the action by installing barricades at the joint crossings, effectively blocking entry to and exit from Kosovo at these checkpoints. All this led to almost two weeks of stalemate, during which time tensions kept rising, sparking fears of a large scale ethnic conflict, especially after Serbia moved its own security forces near and within the Security Zone.

While major western powers ("The Quint") did not look particularly benevolently upon the moves of Kurti's Government in Kosovo, they hesitated to give explicit support to the demands of the local Serb population, fearing that it might be interpreted as support to Belgrade's militant behavior. China and Russia, on the other hand, had no issues with supporting Serbia: the Russian ambassador even visited the region alongside Serbian officials. At the same time, Chen Bo, Chinese ambassador to Serbia, declared that "The Chinese side respects the sovereignty and territorial integrity of Serbia on the issue of Kosovo and Metohija, understands and supports the legitimate demands of Serbia, including those on the protection of security and legal rights of the Serbian people in Kosovo and Metohija, in the hope that all agreements reached so far will be strictly respected." Serbia got an

opportunity to respond in an equally warm manner just days later, on October 1: the occasion of the Day of the Founding of the People's Republic of China. Serbian President Aleksandar Vucic sent his greetings to Xi Jinping, the President of China, stating: "I am extremely proud that the overall relations between the Republic of Serbia and the People's Republic of China are at a historic peak, at a time when I have the honor and responsibility to lead the Republic of Serbia. I am especially pleased to work with you to comprehensively improve the strategic partnership of our countries. I believe in the bright future of our relations, based on steel friendship and strategic partnership and unbreakable ties between our two peoples."

In the meantime, Serbia remains a regional hub for Chinese projects, investments and loans. In terms of Chinese presence in the fields of infrastructure, telecommunications, energy, and security, Serbia outscores the rest of the Western Balkans combined. Despite estimates that Serbian debt towards Chinese banks and financial institutions might reach as much as \$15 billion in the near future, Serbian officials remain confident that there is no room for fear that the country's debt-to-GDP ratio will reach unsustainable levels. At the same time, public opinion in Serbia keeps tilting towards an increasingly favorable view of China. The environment remains permissive and, as seen from the recent Belgrade-Pristina license plate crisis, China will not hesitate to exert political influence, in addition to acting in the economic realm.

At the moment, the position of Serbia is not necessarily incompatible with its aspirations on the way towards European Union membership. The EU does have its own issues with third parties' influence in its neighborhood and these issues very much pertain to China; however, being simultaneously unable to offer a viable integration scenario to Western Balkans countries, as well as eager to reach a comprehensive understanding with China, it has no choice but to tolerate these developments. Thus, best case scenario for the EU is to make the Chinese regional influence as compatible with its own goals as possible. From the point of view of Serbia, playing the major actors off against each other has had its upsides, but some sort of understanding between the two would be optimal, since too heated an

atmosphere might force it to choose sides, rapidly losing ground without securing viable alternatives.

7.3 Outlook and Factors to Watch

For Serbia, the Kosovo issue remains a key foreign policy preoccupation and a factor which shapes its positions and relations with the majority of regional actors and major powers. It is one of the reasons why China currently fares well in Serbia relative to the European Union – despite the fact that the EU is the organization which has the lead in the Belgrade–Pristina negotiation process. There are no reasons to plausibly expect these contingencies to change any time soon, which means that, all things being equal, regional political dynamics and the way it plays out in the context of Serbia, will keep the door wide open for protracted exercise of Chinese influence. All the more so if Belgrade and Beijing find a way to connect regional, Serbia-led initiatives such as Open Balkan, with Chinese wider endeavors such as the Belt and Road Initiative.

In the meantime, Chinese policies in the region will depend to a large extent on its ability to improve and redefine its relations with the EU and its most powerful member states, in the field of trade and beyond. Should the two sides find a way out of the current diplomatic stalemate and towards ratification of the comprehensive trade agreement, the Serbian position between a rock and a hard place might end up being somewhat relaxed, at least temporarily.

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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