



CHINA IN THE WESTERN BALKANS

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On the Brink

The war in Europe's East, set in motion by Russia's attack on Ukraine in late February, keeps producing increasingly global consequences as it enters its ninth month. Politics, security and economic matters are being crucially shaped by the major actors' positions regarding the war. After slow, grinding advances during the summer by Russian forces, Ukraine successfully turned the tables, taking advantage of apparent Russian exhaustion to engage in a series of lightning counter-offensives in the eastern and south-eastern corners of Ukraine. The success of Ukrainian forces owes much to the support and training of NATO allies.

If a political settlement seemed within plausible reach during the first several weeks of the war, both sides now seem keen to continue fighting until their respective maximalist aims are reached. The tide seems to have been turning to Ukraine's advantage, but there are real fears that frustration brought about by battlefield failures might propel the Kremlin to opt for the use of tactical nuclear weapons. Even if this happens within Ukraine, which is not a NATO member, the potential for direct escalation between Russia and the Western alliance remains high. Most Western leaders – France and Germany being among the rare exceptions – seem reluctant to maintain any regular contact with the Russian authorities. The idea that representatives of the Kremlin might meet with those of Western powers in Turkey, or at the forthcoming G20 Summit in Bali, Indonesia, appear implausible at the moment. The mix of limited diplomatic channels of communication and an increased willingness to rely on escalating military tools is moving the war in Ukraine in an ever more dangerous direction.

Unlike the Russian Federation and its rare partners, or the Western block and its allies in the Indo-Pacific, much of the rest of the world aspires to remain detached

from the political aspects of the conflict, even if they have to live with its economic and security consequences. As many traditional partners of the West – such as India, Israel, or Saudi Arabia, or even NATO member Turkey – demonstrate an unexpected level of political neutrality, Russia’s key partner in global affairs in recent years – China – has also kept up a relatively ambivalent attitude towards the war.

Indeed, many observers see China and the US as standing to profit in the long-term from what is seen as a Russian-European bust-up in Ukraine. For all the talk of a ‘comprehensive strategic partnership’ between Russia and China, Beijing has been fairly reserved towards Moscow for the better part of the last nine months.

There are many interpretations as to why Beijing has adopted this posture and what the long-term consequences of the war in Ukraine could be on Russian-Chinese relations. Some observers identify the contours of an emerging vassal position for Russia, wherein China would be a major partner and have the last say in areas such as oil and gas trade, or arms sales to third countries. As Bobo Lo, a Chinese Australian writer and foreign policy expert, has mused, ‘a Russia weakened by war and sanctions but not chaotic and unstable suits China’s long-term interests’. Others believe that the Russian-Chinese partnership has been somewhat shaken but essentially unchanged by the war in Ukraine: as a committed challenger of the Western-led order, China will seek to exploit any opportunity for global regrouping and the ongoing conflict remains one. There are also those who believe that Russia’s Ukrainian blunder will drive China to subtly dismiss its partnership with the Kremlin and turn toward finding ways to manage its ever more complex relations with the EU and the US.

Despite proclaiming a comprehensive strategic partnership with Russia just before the invasion, China has maintained a reserved posture towards the Russian war effort. It kept principally challenging American aspirations of leading the global order, yet it refused to provide any concrete support to the Russian campaign – especially with regard to arms sales. It has, however, increased the amount of energy purchased from Russia, thus helping Moscow – at least indirectly – to finance the

war. In mid-September, Vladimir Putin and Xi Jinping met for the first time since February at the Shanghai Cooperation Organization summit in Samarkand, Kazakhstan. They once again stressed the importance of bringing an end to unipolarity in global affairs and the greater role foreseen for Asia in the process. Yet there were no specific remarks on the ongoing conflict in Ukraine and Xi maintained a reticent demeanor, calling for more responsibility among all the great powers in maintaining the stability of the international order.

Earlier during the summer, the Chinese side held important talks with US and EU counterparts. Chinese deputy Prime Minister Liu He announced that China would continue coordinating its economic policies with the EU, liberalizing trade and opening up the financial sector, as both sides hope to work their way towards finally closing the deal on the implementation of a mutual investment agreement. When it comes to the US, relations have not been unfolding so smoothly: at a July 9th meeting with Chinese Foreign Minister Wang Yi on the margins of the G20 foreign ministers' meeting in Bali, Antony Blinken expressed concern about the perceived Chinese support for Russian aggression against Ukraine. During the summer, the two countries found themselves caught up in mutual accusations and a spiral of distrust: the FBI expressed concern about the presence of Huawei and other Chinese companies in the proximity of US critical infrastructure, while the Chinese side protested the State Department-approved \$108 million arms shipment to Taiwan. In a phone call on July 29th, Xi warned Biden not to 'play with fire' when it comes to handling the Taiwan issue. Just days later, on August 2nd, however, speaker of the U.S. House of Representatives Nancy Pelosi visited the island, despite receiving no support for such a move from the State Department or the White House. This caused a response from the Chinese side in the form of a large-scale demonstration of military strength in the immediate vicinity of Taiwan, including its claimed territorial waters.

Its relations with the political West largely caught in a deadlock, China keeps expressing interest in retaining a presence in regions in proximity to the West, which may enable it to keep projecting its influence into what the West considers its backyard. With cooperation mechanisms working at a suboptimal level in parts of Central and Eastern Europe, the Western Balkans remains a logical choice for Chinese decision-makers to focus on for greatest economic and political impact.

1.0 The Regional Picture

As of the summer and autumn of 2022, the political geography of the Western Balkans has changed somewhat, primarily in terms of formal steps to European Union membership made by some of the countries in the region. In July, Albania and North Macedonia finally begun their accession talks after several years of delay. In October, the European Commission recommended granting candidate status to Bosnia and Herzegovina. At the same time, not much progress was made by Montenegro and Serbia, while Kosovo's visa liberalization process has still not been concluded.

As the countries of the region remain painfully aware, there is still a long way ahead when it comes to potential EU accession: domestic reforms must be pursued in any case, but there is also the problem with enlargement-skepticism pervading many Western European societies. In the meantime, the Western Balkans states are trying to employ various hedging strategies to compensate for the lack of plausible membership perspective in the short term: either by relying on external actors for economic and political support, or by creating local cooperation arrangements and frameworks - or both.

In a world of heightened geopolitical tensions, a growing energy crisis and economic uncertainty, hedging one's bets seems like a sensible plan. Still, the question remains if such strategies move these countries closer to their ultimate goal, or further away from it. China, whose influence in the wider Central and Eastern European region has often been branded as 'malign', seems to be temporarily scaling down its presence - and by extensions influence - willingly or not. In the north, the Baltic states announced their withdrawal from the 17+1 cooperation framework; in the south, major projects are coming to a close in several countries of the Western Balkans without a great deal of new arrangements in the pipeline.

Still, with the growing global turbulence which may very well spill into the region, time is the one resource China can spare – at least for now. It is prepared to step in once again as soon as it receives a signal that there is need for its resources and room for it to re-engage. With the Open Balkans cooperation framework thriving in several sectors and the potential of at least one country – Montenegro – joining the initiative some time in 2023, China might encounter a significantly changed region should it get the opportunity to exert its influence on a large scale once again.

1.1 Main Projects

The scope of Chinese investments, loans and other projects in the Western Balkans keeps flagging, with no projects in Kosovo, existing ones coming to an end in North Macedonia and Montenegro, a few old ones operating without new ones being announced in Albania and ongoing endeavors lagging for various reasons in Bosnia-Herzegovina. Serbia is still the only country where Chinese projects are advancing roughly according to plans, although even here there are no announcements of specific new projects, apart from general expressions of intent.

In Bosnia-Herzegovina, expropriation and transparency issues keep burdening the Banja Luka - Prijedor highway project, operated by the Chinese concession partner, China Shandong International Economic and Technical Cooperation Group through its local branch, Shandong Hi-Speed International. The construction of the 42-kilometer-long, 300 million EUR highway was officially opened late in 2021, only to be rescheduled several times since, and it remains unclear if it will begin before the end of the year. The construction of the thermal power plant Tuzla Block 7, agreed in 2014, came into question after the 2020 withdrawal of General Electric, the company supposed to provide critical construction parts. It is currently highly uncertain whether the issues can be resolved, or whether the entire deal, including the 613 million EUR credit arrangement with the Chinese Exim Bank, will have to be abandoned. The status of the Bistrica Hydropower Plant construction project is also

questionable at the moment. Preparatory works for the construction of the Bistrica Hydropower Plant, conducted by the Chinese AVIC corporation, are currently under way. However, citizens are protesting because the necessary environmental permits have not been obtained and they announce mass protests should the construction begin.

After many delays, the Smokovac (Podgorica) – Mateševu (Kolašin) section of the first Montenegrin highway was ultimately opened in mid-July. The section with twenty bridges and sixteen tunnels is expected to significantly increase traffic safety as well as the number of inbound tourists. It has already been estimated that the next Mateševu-Andrijevića section, whose construction could begin in 2023, would cost around 550 million EUR, and that most of the funding will be sought through arrangements with the European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB). The environmental overhaul of the Pljevlja Thermal Power Plant, finally kicking off in April 2022 after numerous postponements, keeps up the pace and should intensify even further starting with the beginning of 2023. Critically important parts are expected to arrive from China to Bar port in December, to be installed in 2023, beginning in March.

The only remaining major Chinese project in North Macedonia, Sinohydro-constructed Ohrid - Kičevo highway, has been going on for over eight years and the total price grew from under 300 to around 600 million EUR. Still, only a short section from Ohrid to Saint Paul the Apostle Airport is expected to be finalized by the end of the year.

There are neither ongoing, nor announced major new projects involving China in Albania. However, there is a possibility that this might change as the tenders for the Albanian portion of the Adriatic-Ionian highway ('The Blue Corridor') are concluded.

Among the Western Balkans Six, only Kosovo remains without any Chinese economic activity. In terms of projects and cooperation, Beijing and Pristina are completely off each other's radars.

In Serbia, the Belgrade bypass, constructed in cooperation with Power Construction Corporation of China and Azerbaijan's Azvirt, should be opened for traffic in the spring of 2023 – upon completion of the most complicated part, Sector 6, which includes the 0.3-kilometre-long Beli Potok tunnel. Once completed, the bypass will be connected to the Belgrade-Niš motorway. At the other side of Belgrade, the China Communication Construction Company constructs the 58 million EUR worth Novi Beograd – Surčin expressway interconnection, which will connect two motorways and should be completed 'within months' according to the announcement by the Ministry of Construction, Traffic and Infrastructure. Around 85% of the more than 200 million EUR project cost has been covered through a loan from the Chinese Exim Bank, while the rest is provided through the Serbian budget.

The Fruska Gora Corridor, the 47-kilometer-long project worth 606 million EUR and being constructed by the China Road and Bridge corporation, should be operational by March 2025. The project should serve the purpose of a southern bypass around Novi Sad. The Belgrade-Subotica section of the Belgrade-Budapest railway, at a cost of 1.1 billion EUR and currently constructed by a China Railway International–China Communications Construction Company consortium, should become operational by the end of 2024.

1.2 Political Influence and Outlook

Most countries of the region pursue a clear pro-Western course, often relying even more on the foreign policy support of the US than the European Union. Serbia is something of an outlier in this context with its multi-vector foreign policy, but even its government is trying to pursue a rapprochement with the US – a process that began during the Trump years and continued into the Biden administration.

The European Union retains major tools for shaping and re-shaping the region primarily through enlargement policy, but it does not always seem capable of using those tools effectively. Russia's Ukrainian blunder keeps it significantly cut off from the Balkans, although it retains an interest in the political and security dynamics of the region. The war in Ukraine remains among the most important geopolitical factor shaping overall conditions in Europe and, by extension, the Western Balkans.

China persists in treading lightly in 2022, after pursuing a more robust presence during the previous decade. Still, it keeps a strong political and diplomatic influence, and has financial tools of influence at hand due to numerous ongoing investment and loan arrangements in the countries of the region. It will undoubtedly be eager to reassert itself as a crucial regional player as soon as opportunities open, thus compensating for the losses – more symbolic than substantive – suffered in the Baltics and elsewhere. In mid-July 2022, the Director-General of the Department of European Affairs of the Foreign Ministry of China and the Executive Secretary-General of the Secretariat for Cooperation between China and Central and Eastern European Countries (CEEC) Wang Lutong had a group meeting with diplomatic envoys of CEEC to China. The format might be less vibrant than three years ago, but it remains an essential segment of how Chinese global initiatives play out in the Western Balkans and the wider region. Despite apparent setbacks, Chinese systemic competition with Western actors, both at the global level and within the region itself, will keep decisively shaping the political and economic dynamics of the Western Balkans in the near future.

2.0 Albania

2.1 Main Projects

Despite a clear Euro-Atlantic foreign policy orientation and crucial reliance on the US and NATO, Albania maintains generally cordial political relations with China. Once a powerhouse of Chinese economic presence in the region, it is now without major ongoing Chinese projects, except for a few businesses already operated by Chinese companies, such as the Patos - Marinza oil field. Immediately before and after the mass immunization campaign of 2020/21, there have been no major joint projects between Albania and China.

There are two critical sectors which are expected to expand in Albania in the near future and in which China has traditionally expressed an interest: digital and traffic infrastructure. The first one is mostly beyond China's reach due to Albanian adherence to the US-led Clean Network Initiative. However, China is patiently waiting for developments regarding the tender for the construction of the Albanian portion of Adriatic-Ionian Highway (the Blue Corridor). Tenders are currently under way for the 90-kilometer-long first section (Milot - Fier), whose cost is estimated at over 800 million EUR. The company which wins the tender will operate the tolls and the concession will be subsidized by the state if the amount of revenue is not sufficient. The entire Albanian portion of the Blue Corridor is around 300 kilometers long.

2.2 Political Influence and Outlook

Albania remains an enthusiastic participant in the Open Balkans cooperation framework. Like North Macedonia, the country began its EU accession negotiations after many years of delay. Still, Edi Rama's government is aware that the process will be long and excruciating, not least because of general opposition to further enlargement in many Western European countries. Given that the Open Balkans arrangement is supported by the US, and increasingly recognized by the EU itself as complementary to the Berlin Process, Albania has no issues with taking part in it, and even occasionally advising Kosovo to change its stance on the initiative. The only open question is whether the Open Balkans initiative will prove to be compatible with Chinese global initiatives, which is something both China and Serbia, the central participant of the regional cooperation framework, keep counting with.

3.0 Bosnia-Herzegovina

3.1 Main Projects

Bosnia-Herzegovina remains the Western Balkans country with the second largest number of Chinese projects. Still, it lags far behind Serbia both in terms of the number and total value of the projects. Moreover, the ongoing projects continue to face numerous problems, obstacles, and postponements – although not to the extent that the complete abandonment of current projects should be expected. Still, the combination of internal political turbulence and regional and global volatilities makes the implementation of previously initiated projects much more complicated and uncertain than it seemed at the time when respective agreements were being made. There are also no major announcements of potential new projects, despite the Chinese side regularly expressing interest in future cooperation.

Expropriation and transparency issues keep burdening the Banja Luka-Prijedor highway project, carried out by the Chinese concession partner, China Shandong International Economic and Technical Cooperation Group through its local branch, Shandong Hi-Speed International. The construction was officially opened in late 2021, only to be rescheduled once again for July 2022. As the actual construction work failed to begin once again, the official opening was rescheduled once again for September. Because obstacles have once again not been successfully removed, construction is now expected to begin by the end of the year at best. The project agreement was signed in 2018 and the price for the 42-kilometer-long highway is set at 297 million EUR. Once completed, the highway will be handed over for 30-year operation to the Chinese partners, who expects 30 million EUR in annual revenues, failing which they are entitled to reimbursement from the RS budget by the agreement provisions.

The construction of thermal power plant Tuzla Block 7, agreed in 2014, came into question after General Electric, the company supposed to provide critical construction parts, withdrew from the arrangement in September 2020. It is currently highly uncertain whether the issues can be resolved, or whether the quagmire will end in the complete collapse of the deal, including the 613 million EUR credit arrangement with the Chinese Exim Bank. The government of the Federation entity has now accepted the recommendation by the Public Electric Utility Company not to accept substitute partners as EPC (engineering, procurement, and construction) contractors and the future of the entire project has officially come into question.

The status of the Bistrica Hydropower Plant construction project is also questionable at the moment. Preparatory works, conducted by Chinese AVIC corporation, are currently under way. Still, citizens of adjacent villages are protesting because necessary environmental permits have not been obtained. They announced mass protest actions should the construction of the plant begin. In the meantime, the 2019 agreement between the Public Electric Utility of Republika Srpska remains in force. It was reached within the framework of the 2006 concession arrangement with the Elektro distribucija company from Pale. If the project does not move forward and is ultimately scrapped, this would call for termination of all the contracts in question.

3.2 Political Influence and Outlook

After much furor, Bosnian institutions managed to pull through the general elections on October 2nd. The results, however, seem to have opened more issues than they resolved, particularly with the recount of the votes for Republika Srpska entity President. Adding to this, the changes to the election law – specifically, the size of the Federation’s House of Peoples and how it is filled – imposed by the High Representative shortly after polling stations closed further added to tensions within

the country, in particular between Bosniak parties and the Office of the High Representative.

The country is likely to remain in the crossfire of diverse influences, including those of the US, EU, China, Russia, as well as traditionally agile regional powers like Serbia, Croatia, Turkey, or Hungary. European Union candidate status for Bosnia and Herzegovina, recently recommended by the European Commission, will formally move the country one step closer to full membership. Still, there is a long way to go and the country might end up having to choose between the positions of Pristina (fiercely refusing to participate in regional initiatives alongside Serbia) and Podgorica (gradually moving towards Open Balkan membership as a short term alternative and long term preparation for the EU membership).

Under the leadership of Milorad Dodik's Alliance of Independent Social Democrats, Republika Srpska does not hesitate to openly demonstrate support for China, if only to counter Sarajevo's proclaimed Euro-Atlantic course. Chinese representatives remain interested in profiting from such a position of one of Bosnia's two entities. In the capacity of a Member of the Presidency of Bosnia-Herzegovina, Dodik met with the Chinese ambassador Yi Ping in early August, at the same time when Nancy Pelosi was visiting Taiwan, and reiterated firm support for the country's One China Policy, for which the ambassador expressed gratitude. Still, unlike the Russian Federation, China is very careful not to pick sides when it comes to local differences in foreign policy preferences and keeps expressing its interest in reaching deals for projects throughout the country. No such projects are currently in sight, but the situation might change if local needs for funds and jobs are not met by partners from elsewhere.

4.0 Kosovo

There are no changes in Kosovo's position on (non)cooperation with China, or vice versa. China is not just a regular non-recognizer, but a firm supporter of Serbian claims to territorial integrity and adherence to United Nations Security Council Resolution 1244 (1999). Basic Chinese presence in Kosovo is maintained through a liaison office, but there are traditionally no discussions on the possibility of any kind of joint projects.

Serbia continues to send signals that it would not accept Kosovo's accession to the United Nations, despite the recent Franco-German proposal according to which Belgrade could be awarded accelerated accession to the EU. Given the isolated international position of Russia, Serbia's most ardent supporter in the Security Council, as well as suspicions of Russian intent to use the Kosovo issue as a bargaining tool in its future relations with the West, it would be unsurprising if Serbia sought to switch its UN Security Council reliance from Russia to China. As China has traditionally been abstaining from using veto powers in votes which do not concern its vital interests, this would be a significant shift in its international behavior. Still, most observers agree that it is not beyond imaginable, as indicated by the August meeting between Serbian president Aleksandar Vucic and the Chinese ambassador to Serbia, Chen Bo.

5.0 North Macedonia

5.1 Main Projects

The only remaining major Chinese project in North Macedonia, the Sinohydro-constructed Ohrid-Kicevo highway, remains far from being completed. It has been going on for over eight years and the total price grew from under 300 to around 600 million EUR. The latest postponement might cost the government over 30 million EUR in penalties, but it is clear that before the end of the year only one of the remaining five sections (Saint Apostle Paul Airport to Ohrid) could potentially be completed. The construction of the highway itself, along with access roads, is still expected to be finalized by the end of 2023, although in the light of the latest delays such an estimate might prove overly optimistic. Once the project is concluded, North Macedonia will remain the country with the least prominent Chinese economic presence – apart from Kosovo. The Chinese side is persistent in its readiness to maintain a presence in the country's economy, but there are currently no specific indications about potential new projects.

5.2 Political Influence and Outlook

After closing painful episodes of negotiations about identity issues with Greece and Bulgaria, North Macedonia finally began its EU accession talks in July. It is undoubtedly an important step, although there is still a long way ahead given the state of the country's institutions and the general anti-enlargement sentiment within many EU member states. In the meantime, North Macedonia keeps expanding economic ties with Serbia and Albania within the Open Balkan cooperation framework. Given the diplomatic support that the United States provides to the Open Balkan initiative, the North Macedonian government has no dilemma about whether

it should remain active within it. It is unclear if the country's participation in the Open Balkans regional framework could ultimately facilitate the return of major Chinese projects, but it is certainly something China is counting on.

6.0 Montenegro

6.1 Main Projects

With multiple failures to either reform the existing government or create a new stable ruling coalition, as well as repeated calls for the impeachment of both the government and the president, Montenegrin politics is much more confounded by domestic than external events.

The clear Euro-Atlantic foreign policy course, inherited from the former regime in the summer of 2020, has not only been maintained, but even more vigorously pursued after the government turned to western assistance in paying back the potentially hazardous Chinese debt for the construction of the Bar - Boljare highway – a capital project conducted by China Road and Bridge Corporation.

After many delays and much turbulence, the Smokovac (Podgorica) – Mateševo (Kolašin) section of the highway was ultimately opened in mid-July. The section with twenty bridges and sixteen tunnels is expected to significantly increase traffic safety as well as the number of tourists heading south from Serbia and other countries from the region in the long term, although the indicators for the tourist season of 2022 remained below expectations. Much more work remains to be completed before the coastal city of Bar is connected to the Montenegrin - Serbian border near Boljare: the government expects the construction of the next two 73-kilometer-long sections from Mateševo to Andrijevića, and Andrijevića to Boljare, to begin in 2023 and 2024, respectively. It has already been estimated that the Mateševo-Andrijevića section would cost around 550 million EUR – double the initial projections from 2021 – and most of the funding will be sought through arrangements with the European Bank for Reconstruction and Development and European Investment Bank. Chinese companies have been expressing interest to once again take part in the construction,

but it currently seems that the government – should it survive in the existing form long enough – is more inclined towards finding a contractor in the West.

The environmental overhaul of the Pljevlja Thermal Power Plant, which finally kicked off in April 2022 after numerous postponements, keeps up the planned pace and should intensify even further starting with the beginning of 2023. Critically important parts are expected to arrive from China to Bar port in December, to be installed from March 2023 onward. The reconstruction will apparently require no closure of the system in the initial phases, although in 2024 the plant might need to be switched off for several months. It is expected that the overhaul should be completed by mid-October 2024.

6.2 Political Influence and Outlook

Montenegro remains overwhelmed by internal political struggles, as neither the old ruling structures, led by president Djukanovic, nor the new coalition, currently headed by the prime minister Dritan Abazovic, seem to be able to make a decisive break and form a stable government. At the same time, the country's foreign policy posture remains decisively pro-Western and turned towards cooperation with the US and European actors and institutions.

In the meantime, relations with Serbia demonstrate modest but evident progress, especially in the context of the Open Balkans initiative, which no longer faces firm opposition by the government. Montenegro remains outside the Serbian-Albanian-North Macedonian economic cooperation arrangement, but its high-ranking officials, particularly prime minister Abazovic, regularly attend Open Balkan summits and events. Abazovic frames the initiative as an iteration of the EU-initiated Berlin Process. As the Open Balkans enjoys diplomatic support from the US as well, it is not difficult for him to fit the initiative into a staunchly pro-Western agenda he pledges to pursue. His support to Open Balkans was most clearly expressed at the “Open Balkan Wine Vision” event in Belgrade in early September. On this

occasion, Abazović explicitly stated that he would like to see Montenegro become part of the Open Balkan, and that initiative is a “useful and inclusive” framework which offers “cooperation instead of nationalism and constant accusations”. It is quite possible that Abazović could pursue formal membership in the initiative should he manage to overcome the current parliamentary crisis and retain control of the government.

Whether the Open Balkans could become an instrument of a renewed Chinese influence in the region at one point – a scenario favored by the Chinese decision makers – remains dubious in the short term. The new ambassador of China to Montenegro, Fan Kun, recently expressed support to the country’s participation in regional arrangements and its EU accession, highlighting that the overall trade level between the two countries has grown 40% in comparison to last year. China remains ready to take part in the country’s economic and industrial sector, and the decision to be made is on Montenegro. It will undoubtedly be made in the light of anticipated regional and global turbulence during forthcoming winter.

7.0 Serbia

7.1 Main Projects

Compared to the apex period of 2016–2021, the number of new major project deals in 2022 has been consistently stagnating. During the summer, no new critical announcements were made by either Serbian or Chinese officials, despite regular and intensive diplomatic contacts. Ongoing projects, especially in the fields of infrastructure and the mining industry, are mostly progressing as planned, with occasional obstacles in the form of administrative, environmental, or transparency issues.

Infrastructure projects carried out by Chinese contractors and with significant portions of funding obtained through loans or investments by companies or institutions from China, still comprise the main plank of the two countries' cooperation.

The Belgrade bypass construction, conducted in cooperation with Power Construction Corporation of China and Azerbaijan's Azvirt, should be opened for traffic in the spring of 2023 – upon completion of the most complicated part, Sector 6, which includes the 0.3-kilometre-long Beli Potok tunnel. Once completed, the bypass will be connected to the Belgrade–Nis motorway near Bujanj Potok, presumably significantly lowering the traffic density in the city's urban area. At the other side of Belgrade, China Communication Construction Company is in charge of the 58 million EUR worth Novi Beograd–Surcin motorway link, connecting the city with the Milos Veliki Highway. According to the announcement by the Ministry of Construction, Traffic and Infrastructure, it should be completed 'within months'. Around 85% of the more than 200 million EUR project worth is funded by a loan from the Chinese Exim Bank, while the rest of the amount is provided through the Serbian budget.

At a price of 606 million EUR, the 47-kilometer-long Fruska Gora corridor project is handled by China Road and Bridge corporation, and according to the contract should become operational by March 2025, although the Chinese partners have pledged to try and wrap it up earlier. The most demanding sections of the corridor will be the 3.5-kilometer-long Iriski venac tunnel (the longest in Serbia) and the Petrovaradin bridge. The project should serve the purpose of a southern bypass around Novi Sad, as well as a connection to the Belgrade-Subotica motorway, as well as prospective Ruma-Sabac-Loznica and Novi Sad-Zrenjanin-Belgrade directions.

Another major infrastructure endeavor is set to be completed in 2025: the reconstruction of the Belgrade-Budapest railway – one of the crucial regional projects developed within the Belt and Road initiative. The Belgrade-Subotica section of the railway, at the cost of 1.1 billion EUR and currently constructed by a China Railway International–China Communications Construction Company consortium, should become operational by the end of 2024.

7.2 Political Influence and Outlook

Despite the lack of new capital projects being announced, the summer of 2022 brought about very dynamic political and diplomatic contacts between China and Serbia. With Russia's war against Ukraine unfolding and Kremlin's proclivity towards using the Kosovo precedent to justify the annexation of four Ukrainian regions, doubts began to emerge within the Serbian administration about the steadfastness of Russian opposition to the recognition of Kosovo's independence. These doubts increased particularly after the Franco-German proposal for the resolution of the Kosovo issue, revealed in September, which would entail Kosovo's entry to the UN without Serbia formally recognizing it, with Belgrade being promised accelerated accession to the EU. Should Russia decide to use the issue as a bargaining chip with the West, Serbia would lose an important instrument for opposing Kosovo's application in the United Nations Security Council.

Such a development would leave China as the only firm non-recognizer among the permanent members of the Security Council, although the question remains as to whether Beijing would accept a more active role in opposing Kosovo statehood and use a veto to block its UN accession, given the traditional Chinese policy of abstaining from votes which do not directly concern its vital interests. With pressures mounting on Serbia to make a clear-cut decision about its position on sanctions against Russia, the moment is increasingly sensitive and likely represents an important crossroad when it comes to the depth of future Serbian-Chinese relations.

For now, 2022 has shown a striking growth of trade indicators, with the overall exchange between Serbia and China during the first two quarters rising 40% above last year's numbers. Total trade exchange is all but certain to exceed 6 billion USD by the end of the year, and China seems to have secured the second position among Serbian foreign trade partners, trailing only the EU. The expected drop in the prices of valuable metals, including critically important copper, might affect such growth given the prominence of Chinese-owned mining and smelting companies in Serbian exports; still, this is unlikely to play out before 2023. In the meantime, the closing of a free trade agreement between the two countries has been repeatedly announced, although the parties might opt to tread lightly in the face of ongoing turbulence, in order not to poke the West's eye too much.

In late July, the Chinese ambassador to Serbia, Chen Bo, held separate meetings with the Minister of Internal Affairs Aleksandar Vulin and the Speaker of the Parliament, Ivica Dacic. They stressed the importance of cooperation in the sphere of internal security and reiterated mutual support for each other's territorial integrity. At the meeting with Dacic, the participants once again asserted that Serbian-Chinese relations are at a 'historical maximum' and referred to them as 'steel friendship'. Two days later, as part of this mini-diplomatic initiative, the ambassador met with the foreign minister Nikola Selakovic. They commended the introduction of a direct flight from Belgrade to Beijing by the Chinese company Hainan Airlines, expressing expectations that an Air Serbia flight will soon follow. Selakovic underscored Serbian

support to the One China Policy, and both parties referred to Serbian–Chinese relations as a ‘comprehensive strategic partnership’.

Top level meetings continued into August. At the very beginning of the month, Ambassador Chen Bo met with Serbian Prime Minister Ana Brnabić, with Serbian adherence to the One China Policy as the central topic. This was all the more symbolic given that the meeting took place at the time of Nancy Pelosi’s visit to Taiwan, in the face of clear Chinese warnings. In addition to political matters, the parties discussed trade relations and announced future cooperation in the fields of the green agenda, energy, biotechnology, and new technology development.

A crucial meeting, and one that indicated the importance of China for Serbian foreign policy, especially with regard to the Kosovo issue, took place on August 17th, between Chen Bo and Serbian President Aleksandar Vucic. It was organized only a day before Vucic’s trip to Brussels for a crucial EU-mediated meeting with Kosovo’s Prime Minister Albin Kurti amidst heightened tensions regarding the issue of Serbian license plates in Kosovo. The issue of Kosovo thus figured prominently in the meeting, with the Ambassador stressing Chinese support to the provisions of the UN Security Council Resolution 1244, and to the ‘legitimate demands of the Serbian side’. It is clear that the meeting itself served as a hedging tool for Serbia ahead of a crucial event organized by the EU. It might also be an indicator that, under certain circumstances, China might indeed be willing to take a more active role in upholding Serbian positions in international forums, including the UN.

With the EU integration process still in deadlock, not least due to the decline in Serbian alignment with the EU foreign policy positions in the context of the Russian invasion of Ukraine and the uncertainty of maneuvering space for Belgrade to safeguard its cordial relations with Russia in the future, China emerges as the most plausible hedging option for Serbia’s proclaimed multi-vector foreign policy. As demonstrated by the first three quarters of 2022, although Serbian–Chinese cooperation figures less prominently on the regional strategic radar due to increased complexities within the global system, tools for cooperation and coordination can be

readily invoked when the sides estimate that it might generate concrete benefits. As many key infrastructure projects come to a close over the next year or two, and others, like the Belgrade metro, expected to speed up in 2023, it would be far from surprising if the seemingly lagging cooperation dynamics picked up the pace once again in the near to mid-term. Rare instances of tensions, like the ones related to rule of law, environment, public safety, or transparency issues currently spurring concern around Zijin projects in eastern Serbia, do not seem very likely to reverse this general course at the moment.

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.

Contact

Phone: +381 11 40 30 304

Email: consultancy@birn.eu.com

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

Address:

Kolarčeva 7, V floor
11000 Belgrade
Serbia