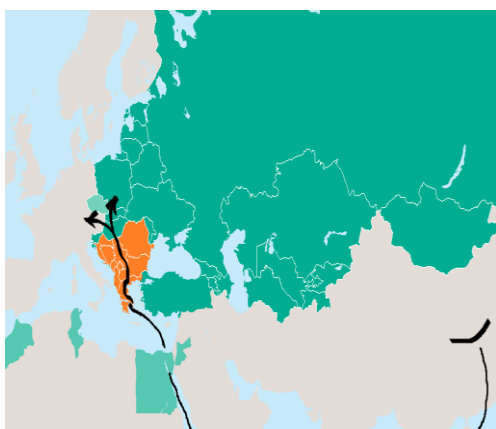


China and South-Eastern Europe: Infrastructure, trade and investment links¹

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This note examines China's growing economic links with south-eastern Europe (SEE). In recent years, China has become a major sponsor of flagship projects in the transport and energy sectors of the region. These projects are complementing efforts of the EU and international financial institutions to upgrade regional connections. Chinese-financed infrastructure investments are also motivated by the desire to enhance trade links with the region and facilitate direct investment by Chinese companies in various manufacturing and services sectors.

Introduction

China continues to expand its interests in south-eastern Europe (SEE). Several years after the first summit meeting of the Prime Ministers of China and sixteen countries of central and south-eastern Europe (“summit 16+1”),² China’s economic presence in the region is no longer tentative and is likely to increase further in the coming years. The fifth 16+1 summit, which took place in the Chinese town of Suzhou in November 2015, confirmed that investments of up to US\$ 10 billion would be made in the coming years in various projects, some of which are already under way. There is also continuing institutionalisation of the cooperation in the 16+1 format, highlighted by plans for the establishment of a permanent Business Council and the signing of a number of high-profile MoUs between state sector entities and governments on both sides.

This increasing role for China in SEE is seen by both sides as mutually beneficial. For China, the attractiveness of the region stems from several considerations. Financing investment in the regional port, railway and highway infrastructure in SEE is part of China’s wider effort to support its global trade. With respect to foreign direct investment, Beijing – rightly – counts on the significant catch-up potential of SEE and the future integration of the entire region, including the Western Balkan countries into the EU.³ In economic terms, EU accession for these countries represents prospects for better access for Chinese companies to the main EU markets, as well as to the markets of the Western Balkans countries, where spending power will likely increase once they are in the EU. In political terms, this is a wise investment into what one day may be one-fifth of the enlarged EU in terms of number of members. Based on these long-term economic and geopolitical objectives, China seeks to present itself in SEE as a politically neutral force and a reliable business partner, which, among other things, addresses some concerns in the region triggered by the recent deterioration in relations between Russia and the West.

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² The 16 countries are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovak Republic, and Slovenia.

³ For an analysis of the catch-up potential in the Western Balkans, see: “How the Western Balkans Can Catch Up” by Peter Sanfey, Jakov Milatovic and Ana Kresic, EBRD Working Paper No. 185, available at: <http://www.ebrd.com/news/publications/working-papers.html>.

For the investment-hungry countries of SEE Chinese investments are a welcome complement to EU funds. EU integration is the firm long-term choice of all SEE countries, supported by a wide cross-party consensus. However, when it comes to funding, some of them, particularly those in the Western Balkans, perceive Chinese finance as practically the only available way to overcome the following dilemma: access to large EU structural funds for candidate countries is not possible until they join the EU, but in order to make progress towards accession, countries need to improve infrastructure and transport links both within their borders and with neighbours. Western Balkans countries will continue to seek EU and IFI funding for major, capex-intensive infrastructure projects of European importance, such as the Adriatic Highway connecting Greece, Albania, Montenegro, Bosnia and Herzegovina, Croatia and Slovenia, a gas pipeline along the same route (an extension of the Trans Adriatic Pipeline (TAP) designed to bring Caspian gas through Greece and Albania to Italy), the so-called “Peace Highway” connecting Serbia, Kosovo and Albania, and other major transport and energy corridors accepted by the EC as part of the core European network. Regional leaders seem to have understood the importance of improved coordination and better prioritisation of regional projects. However, given the remaining financing gap, which the resources available through EU and IFIs funding alone currently cannot fill (even with the help of the Western Balkans Investment Framework, today the most effective tool for pooling these resources), the relatively slow process of project preparation, and other institutional obstacles, China is often able to present an attractive alternative with its offer of streamlined approval processes, state-backed financing, and speedy implementation.

The major Chinese venture in the region will be the extension of its Belt and Road Initiative (BRI, also referred to as the ‘New Silk Road’ and ‘One Belt – One Road (OBOR)’) into the Balkans. As sea shipping remains the cheapest route from the Far East to Europe, China plans to establish a rapid transport connection from the Greek port of Piraeus, the first major European container port for ships entering the Mediterranean from the Suez Channel, through the Balkans further to EU markets – the Balkan Silk Road. This will come as the part of the BRI unveiled by China’s President Xi Jinping in 2013. The Balkan Silk Road will be based on the existing railroad corridor X linking Central Europe with the Aegean Sea via Hungary, Serbia, FYR Macedonia and Greece. The first operational move to realize the plan was made when the Chinese shipping giant Cosco Pacific bought into the existing Piraeus port in a 35-year concession, with the aim of turning the port into one of Europe’s top five container ports. Transit time between Shanghai and Piraeus is approximately 22 days, 10 days less in comparison to the transit time between Shanghai and the North European ports of Rotterdam and Hamburg. By shortening the delivery time between China and Europe in a significant way Piraeus could become a major penetration point for Chinese goods in Europe. However, to take full advantage of the port, the Chinese investors understand that investments into the transport links across the Balkans are needed. Railway modernization and better regionalisation of the network across the region, such as major improvements to the railway between Belgrade and Budapest, are part of the plan. Beyond pure investment in physical upgrades to rail network, it will be also critical to harmonise rail track access for regional rail freight operators in order that regional goods movement by train can occur without having to switch carriers as each border. Such actions, though critical and long understood, require political will by governments to mandate changes within their state-owned rail companies to open their networks to international operators. In a region composed of several small countries, this issue carries even greater importance.

China’s economic links with SEE come in three broad forms. The highest-profile involvement is through direct lending to governments for infrastructure – roads, railways,

ports, power plants, etc. The second way is through trade links: Chinese exports to, and imports from, the SEE region have grown dramatically in the past decade, with the potential for further strong growth in the coming years. Lastly, Chinese companies are showing an increasing interest in direct equity investments in SEE.

1. Lending for transport and energy infrastructure

Regional integration through transport projects has become a key priority for SEE countries, while development of energy resources is also crucial for the region's future. Chinese funding in SEE is highly visible in these two sectors. The upgrade and modernisation of the region's infrastructure are not only crucial for economic development in the Balkans, but would also considerably shorten existing trade routes between China and Western Europe and therefore reduce the costs of trade between these two major trading blocks.

Financing is usually offered on favourable financial terms relative to most alternatives. Typically, funding comes as a loan from the state-owned Exim Bank of China covering about 85 per cent of the needed capital, with the rest financed by the home (i.e., recipient) country. The loans normally have a long maturity (of ca. 20 years) and low interest rates (at ca. 2 per cent). However, while these conditions may seem attractive, the spillovers to the rest of the economy are sometimes limited as Chinese companies often bring their own workers and supplies, and rely only to a limited extent on local resources. A further concern is that loans are usually contracted in US dollars which, given the recent strengthening of the dollar, is an added burden for SEE countries with currencies tied to or closely shadowing the euro. This foreign exchange risk for SEE will grow as the cumulative size of Chinese-supported investments made on dollar terms increases.

Major transport projects are already under way. The bridge over the Danube in Belgrade, opened in December 2014 by the Chinese and Serbian PMs, was the first major Chinese-supported infrastructure project completed in the region, and was built with significant Chinese labour under the terms of the bilateral agreement. In transport, flagship projects supported by Exim Bank loans include motorways in both Bosnia & Herzegovina and FYR Macedonia. A huge road project has started in Montenegro, linking the country's port of Bar on the Adriatic Sea to the border with Serbia. (See Table 1 below for a summary of existing Chinese-financed projects and those in the pipeline, and the annex for more details.)

China's interests in the energy sector are spread widely. They range from coal-based thermal power plants to nuclear energy and renewables. Serbian and Chinese officials have signed a loan agreement for the construction of a new 350MW unit at the Kostolac thermal power plant complex, the first such investment in Serbia in 25 years, while Exim Bank is already financing a private investment in the Stanari thermal power plant in Bosnia and Herzegovina and will be financing a 450MW unit at the Tuzla thermal power plant. Chinese presence is notable in the energy sector of Romania, where Chinese companies have been chosen as investors in four major energy projects in the country: modernization of two thermal power plants (Rovinari and Mintia), expansion of the hydro-power plant Tarnita, and construction of units 3 and 4 in the Cernavoda nuclear power plant.

Further transport and energy investments are in the pipeline. The Chinese are particularly interested in creating major trade corridors between China and Europe, and the Balkans is a key part of this plan as the transit route between the Greek port of Piraeus and central Europe. However, from a local regional SEE perspective, this would not only provide infrastructure to transport Chinese manufactured goods to Europe, but would also improve regional connectivity. In late 2015, an agreement was signed between China, Hungary and

Serbia to finance a €1.5 billion high-speed railway from Belgrade to Budapest. In addition, Albania signed a deal with Exim Bank on funding the completion of construction works on the Arber motorway, linking the capital, Tirana, with FYR Macedonia.

Table 1: Major transport and energy infrastructure projects supported by Chinese loans

Country	Project	Value	%GDP
Montenegro	Renewal of the ship fleet	€100mn	27%
Montenegro	Section of the European motorway XI (to Serbia)	€809mn	
B&H	Banja Luka – Split motorway	€600mn	
B&H	450 MW unit at Tuzla thermal power plant	€786mn	16%
B&H	350 MW Banovici thermal power plant	~ €400mn	
B&H	300 MW Stanari thermal power plant	€350mn	
Serbia	Danube bridge	€170mn	
Serbia	Belgrade-Budapest high-speed railway link	~ €800mn in Serbia (out of the total €1.5bn)	7 – 8 %
Serbia	350MW unit at the Kostolac thermal power plant	€700mn	
Serbia	Sections of the European motorway XI (to MNE)	ca. €900mn	
FYRoM	Railway modernization – European corridor X	n/a	7 – n/a %
FYRoM	Motorways construction	€580mn	
Albania	European Motorway VIII: Arber motorway (to FYRoM)	n/a	n/a
Albania	Industrial park in Durres	n/a	
Romania	500 MW unit at Rovinari thermal power plant	€1bn	
Romania	Mintia-Deva thermal power plant modernization	€250mn	
Romania	Tarnita-Lapustesti hydro power plant expansion	€1bn	3 – 4 %
Romania	Units 3 and 4 at Cernavoda nuclear power plant	€2bn	

Source: Intellinews.

2. Trade links

Bilateral trade between China and the SEE countries has increased considerably in the past ten years. SEE exports to China increased seven-fold between 2004 and 2014 (in US dollar terms), from ca. US\$ 320 million in 2004 to more than US\$ 2.2 billion in 2014 – see Table 2. As a result, the share of SEE’s exports to China of the region’s total exports doubled from 0.5 per cent in 2003 to 1.3 per cent in 2013.⁴ These exports comprised mainly raw materials, including copper and copper products, iron and steel, wood and mineral ores. Romania is an exception in the region in that it also exported to China higher value added products such as electronic equipment and machinery.

Over the same period, the share of SEE imports from China rose markedly as well. In US dollar terms, imports from China more than doubled, from ca. US\$ 5 billion in 2004 to more than US\$ 11 billion in 2014. As a result, the share of imports from China rose from 3.4 per cent of total imports of the SEE region in 2004 to 4.6 per cent by 2014. The main products imported from China included electronics, machinery, footwear, apparel, and plastics. Chinese imports into the region have been supported by Exim Bank. A recent example is the turbines imported from China for a wind park project of Serbia’s Energowind, which have been crucial for raising the share of renewable energy production in accordance with EU directives.

⁴ Over 60 per cent of SEE exports go to the EU.

China has also sought to boost its exports to the region through the establishment of Chinese trade centres. The largest such centre in this region – the Chinatown Central in the outskirts of Bucharest – was opened in July 2011 and consists of over 1200 stores that sell products from China. In June 2010, the China Trade Centre Zmaj opened in Belgrade, and the Croatian equivalent opened two months later in Zagreb.

Table 2: Trade volume between China and SEE, 2014

	Exports to China			Imports from China			Trade with China		
	in million USD	% of total exports	% of GDP	in million USD	% of total imports	% of GDP	in million USD	% of total trade	% of GDP
Albania	164	6.7	1.2	382	7.3	2.9	546	7.1	4.1
B&H	34	0.6	0.2	376	3.4	2.0	410	2.4	2.2
Bulgaria	709	2.4	1.2	1,147	3.3	2.0	1,856	2.9	3.3
Croatia	68	0.5	0.1	589	2.6	1.0	657	1.8	1.1
Cyprus	53	2.7	0.2	300	4.4	1.3	353	4.0	1.5
Greece	370	1.0	0.2	3,314	5.3	1.4	3,684	3.8	1.6
FYR Macedonia	93	1.9	0.8	432	5.9	3.8	525	4.3	4.6
Montenegro	3	0.8	0.1	176	7.4	3.8	179	6.4	3.9
Romania	759	1.1	0.4	3,150	4.0	1.6	3,909	2.6	2.0
Serbia	14	0.1	0.0	1,561	7.6	3.5	1,575	4.4	3.6
SEE	2,267	1.3	0.3	11,427	4.6	1.7	13,694	3.2	2.1

Source: UNCTAD.

3. Chinese direct investment

Rising Chinese interest is leading to increased foreign direct investment in the SEE region. Although China is not yet established as a major source of FDI in SEE, the region is growing in importance for Chinese investors. As the gap in labour costs between China and SEE narrows, Chinese manufacturers may find it cheaper to locate their production facilities closer to their destination markets in the EU. Also, the non-EU countries of SEE may be attractive to Chinese investors in part because they may enable them to circumvent EU anti-dumping regulations. And China's increasing interest in renewable energy could be an important draw for Chinese FDI in SEE over the medium term. China's Lightway Solar investment in building a solar park in the southern Romanian county of Prundu-Giurgiu is just one such example.

China's concession in the port of Piraeus could be a catalyst for further investments. In 2010, the Chinese shipping giant Cosco leased for 35 years half of the port of Piraeus for €500 million. The Chinese quickly converted a business that had languished as a Greek state-run enterprise into a source of productivity, after it modernized the existing docks, luring new clients, high-volume traffic and bigger ships. In March 2016 the Greek government agreed to sell a 67 per cent stake in Piraeus Port Authority (PPA), and Cosco was the only bidder. One month later, the sale was confirmed at €368.5mn. Cosco is now planning to turn the port into a key gateway to SEE.

China has recently become one of the largest FDI investors in Albania. In April 2016 Banker's Petroleum, the Canada-based oil company and one of the biggest foreign investors in Albania, was acquired by the Chinese oil and gas exploration company Geo-Jade Petroleum. Thus, the Chinese company has secured oil exploration and production rights in Albania, including the onshore oilfields of Patos-Marinze and Kucova. In addition, around

the same time, Tirana International Airport (TIA), a consortium (owned mostly by Western investors) which operates Mother Teresa airport in the Albanian capital, was sold to the Chinese company Everbright Limited.

The Serbian government has sold the country's sole steel mill, Zelezara Smederevo, to China's HBIS. In April 2016, the Serbian government and China's Hebei Iron and Steel Group (HBIS), the world's major steel producer, signed a contract for the sale of Zelezara Smederevo, the country's only steel mill. The deal is seen as critical for Serbian economy as the steel mill is a major employer and the second largest exporter in the country. The Chinese company plans to raise production to a maximum capacity of 2.2 tonnes per year, and has also pledged not to lay off any workers (currently ca. 5,000). Zelezara was previously sold to United States Steel Corporation in 2003, but was bought back by the state in 2012 for a token price of \$1. A re-privatisation attempt by US-based Esmark fell through in February 2015.

Major investments are taking place in the corporate sector. One well-known Chinese investment is a €100 million joint venture between the Bulgarian car manufacturer, Litex Motors, and its Chinese counterpart, Great Wall Motors, in a car assembly plant for Great Wall's low-cost vehicles bound for the EU market. The plant became operational in February 2012. In addition, there have been several smaller Chinese investments in the car industry in Serbia, including one by Meita Group, supplier of brands such as Citroen, Peugeot, Volvo, BMW and Mercedes Benz. The company is present in Serbia since 2004 (through the Streit Group), and its brown-field investment in Stara Pazova in northern Serbia, and it expanded its facility in 2014 by opening a €18 million new plant. The company has recently also started building another factory in Serbia, this time near the town of Obrenovac. The town was devastated by floods in 2014 and the Chinese investment is therefore seen as important for the town's economic recovery. The Chinese IT solutions provider Huawei opened in 2012 its multi-lingual Global Service Centre in Bucharest to handle its clients at a pan-European level by offering a wide range of support services. Also, in Romania, in 2016, China's Energy Company Limited (CEFC) has taken over KMG International (KMGI), the owner of the country's largest oil refinery, Petromidia.

Other projects in sectors such as IT, furniture, aviation and renewables are reportedly in preparation. Huawei reportedly plans to invest about €100 million in Romania by 2018, including the European Design Centre and a national optic fiber networking in collaboration with the Romanian company, Transelectrica. Recently, Huawei has also announced its interest in investing in B&H's Serb Republic. Three Chinese companies (and funds), among total of six foreign investors, have shown interest in the privatisation of the Serbian truck maker Zastava Kamioni, after the authorities decided to privatise the company via a strategic partnership (as part of the government's plan to sell its stake in 502 state-owned firms). Officials from the Serbian company expect that talks will be held first with the Chinese firms, since Zastava Kamioni has already signed preliminary contracts on business and technical cooperation with two of them - JAC Motors and Huanghai. A Chinese firm, Healthcare Co., already present in Serbia in the business of memory foam mattresses, has expressed its interest in the Serbian furniture producer and IKEA supplier Simpo, while Croatian media have suggested that China's largest privately owned air transport company, Hainan Airlines, is interested in Croatia Airlines. Chinese investors have also been reportedly interested in Montenegrin port of Bar (South-Adriatic) and Croatian port of Rijeka (North-Adriatic). Earlier this year, two Chinese companies - China Machinery Engineering Corporation (CMEC) and China-Africa Investment and Development Co. (CAIDC) have signed an MoU for the construction of a 112 MW plant in Tomislavgrad with Bosnian electricity producer VE Gradina. The total value of the plant is estimated at €150mn, while it should be completed in 2017.

In 2015, the China-CESEE Investment Cooperation Fund completed its first investments in SEE. This US\$ 500 million private equity fund, launched in 2014 with financing provided by Exim Bank, made an investment in Walltopia, the world leading manufacturer and installer of climbing walls from Bulgaria. This follows three investments in Poland and one in Hungary in its first year of operation. The Bulgarian deal is likely to be followed by deals in Serbia and Romania, as the fund is also gradually building up a number of offices throughout the SEE region. The fund focuses on two areas: infrastructure and specialised manufacturing. In the infrastructure sector, the fund has been looking at opportunities for exposure to roads, railways, ports and airports across the region. Renewable energy is another area of interest. For instance, Romania's oil and gas company OMV Petrom is reportedly holding exclusive negotiations with China-CEE Fund for the sale of its 45MW wind farm in the country. Discussions on a second fund with a further investment of US\$ 1 billion from Exim Bank are currently underway, as announced during the December 2014 China-CESEE summit in Belgrade. In addition to providing its own funds, the Chinese state-owned bank is expected to approach export-import banks from the region, as well as other Chinese investors.

4. Synergies with the EU in developing regional infrastructure

The “Western Balkans Six” process at the level of the Prime Ministers was de-facto launched at the Western Balkans Summit in EBRD HQ in February 2014. It received a strong political boost at the Western Balkans Summits in Berlin in August 2014 and Vienna in August 2015. This process promotes the need for better prioritisation and coordination of the major regional connectivity projects among the beneficiaries, as well as between the EC, IFIs and bilateral donors. The efforts, led by the EC, to prioritise a few major priority connectivity projects in areas of transport and energy culminated at the agreement, reached at the high level meeting between the EC and Western Balkans Prime Ministers in Brussels in April 2015, on the regional core transport network for the Western Balkans as an extension to the region of the Trans-European Network (TEN-T). As outlined in the attached Annex II, it includes 11 major roads and 7 major railways routes. EC announced allocation of Euro 1 billion for the next seven years for funding these priority projects.

At the Trans-European Transport Network (TEN-T) Days in Riga in June 2015, further plans were agreed for three core network corridors and a list of priority projects along sections of these corridors for possible EU funding. The agreement was reached on the list of six transport infrastructure projects and four energy connectivity projects for inclusion in the IPA/WBIF co-financing programme for 2015 (Annex III). As the key player in both planning, coordinating and funding of infrastructure investment programs and projects in the region, the EC has recently launched, under the so-called connectivity platform, structured discussions with China on ways of coordinating infrastructure investments to take advantage of existing plans and commitments of all relevant stakeholders.

With regard to project preparation, the governments of SEE have been in the process of preparing feasibility studies and other conceptual designs for all major infrastructure projects for several years, supported by the EC and complemented by technical assistance support from EIB and EBRD, among others. As part of the EC-led efforts to improve coordination in developing regional projects, all Western Balkan countries established National Investment Committees tasked with the preparation of the single project pipelines for priority investments, which is a precondition for them receiving further IPA support for investment co-financing.

Annex I: Major transport and energy infrastructure projects supported by Chinese loans in SEE – realized and potential

Montenegro

1. Section of the European Motorway corridor XI (to Serbia)

In Sept 2014 China Exim Bank approved a \$875 million loan to Montenegro for the construction of the first priority section (Podgorica - Kolasin) of the major motorway project connecting the country's port of Bar (Adriatic Sea) with its border to Serbia. The financing negotiations started first in February 2014 after the government and the Chinese construction company CRBC signed the contract for the construction of the 44-km motorway section (of the full 169-km long highway). The deal on construction was then signed in October 2014. Construction works are expected to last four years. The complete cost of the section is €809mn and it will be financed mainly from a 20-year Chinese loan (with a 2% fixed interest rate), while the Montenegrin government will provide the remaining €121mn. The 169-km road project is significant in comparison with the size of Montenegro's economy and is expected to boost its potential growth. In December 2014, Montenegro's parliament approved construction of the motorway, under the special law which declared it as a project of national significance.

2. Renewal of the country's ship fleet

Soon after it regained its independence in 2006, Montenegrin state marine company has started rebuilding its merchant ship fleet, using a loan with a 15-year maturity (with a 5-year grace period and fixed interest rate of 3 per cent) from the China's Exim Bank, reportedly worth €56 million. The loan proceeds were used to buy two ships, each with the capacity to carry 35,000 tons of merchandise, made in China by Chinese (SOE) Poly Group. Once the first two ships were ready, the government ordered another two through a similar arrangement with the Chinese (20 years loan period and 2% interest rate), thereby investing ca. €100mn in renewal of the country's ship fleet. Montenegro has no merchant ships currently; however it once had a fleet of 27 ships, which was lost through lack of maintenance or sales over the years due to economic crisis that has persisted in the region since the Balkan wars of the 1990s'.

3. Investment in various energy projects (potential)

China Poly Group Corporation as well as China's Norinco have reportedly been interested in developing major energy projects in Montenegro such as the construction of hydropower plants on the rivers Moraca and Komarnica. The mentioned projects have been idled for several years now, mainly because of the considerable investments they require but also due to environmental impact issues. As earlier reports suggest, Montenegro planned to build a 168MW hydropower plant on the Komarnica river estimated to cost €134mn and four power plants with a combined capacity of ca. 250 MW on the Moraca river expected to cost around €530mn. Chinese companies were also interested in the new unit at Pljevlja thermal power plant. China Machinery Engineering Corporation (CMEC) was one of two companies that submitted offers in a recent tender, however unsuccessfully. The company was ready to build a 250 MW unit worth €326mn.

4. Blue Corridor motorway project (potential)

In November 2015, Albania and Montenegro signed an MoU with Chinese company Pacific Construction Group that opens the way for the construction of the Blue Corridor motorway project. The Blue Corridor or the Adriatic-Ionian motorway is a project that will stretch along the entire eastern shore of Adriatic and Ionian seas, from Trieste in Italy to Greece via Croatia, Montenegro and Albania. The road is seen as a matter of national importance for both Albania and Montenegro. The MoU opens the possibility for the construction of the road segments Thumane (near Durres) - Peze - Mullet (near Tirana) and Peze (near Tirana) – Dushk (near Fier) in Albania.

1. Banja Luka – Split (Croatia) motorway

Autoputevi Republike Srpske (RS), a motorway operator of the smaller Bosnian entity, has signed preliminary agreement with Chinese firm Sinohydro for the construction work in the amount of €600mn for a 93 km long section of a 186 km long motorway linking the Entity's capital of Banja Luka with Croatia's Adriatic city of Split. Bosnia's Serb Republic has initiated talks with China's Eximbank for financing the project.

2. 450MW unit Tuzla thermal power plant

In December 2014, government of the Federation of B&H signed an MoU with a consortium led by China's Gezhouba Group for the construction of the 450MW unit at Tuzla thermal power plant. The consortium of Gezhouba Group-Lider Guangdong Electric Power Design Institute has offered €785.6mn to build the project with 15% of the financing coming from Elektroprivreda BiH and the remaining 85% from the loans from state-owned China Eximbank. The project is considered as one of the largest investments in the pipeline for the country. Elektroprivreda BiH operates two coal-fired power plants. One of them is Tuzla with an installed capacity of 715MW and Kakanj, which has a 450MW installed capacity.

3. Banovici thermal power plant

In February 2015, B&H state-run coal mine operator Banovici picked four companies for the final round of a qualifying tender to finance and build a 350MW thermal power plant. Three of the bidders are Chinese companies Shanghai Electric Group Co., China Gezhouba Group and Dongfang Electric Corp. A consortium led by Spain's Abengoa SA, which includes China's Harbin Electric, has also qualified for the next round of the tender. The mine invited the bidders to submit their final technical and financial offers in H2 2015. Dongfang Electric Corp. had placed the lowest preliminary bid, offering to build the plant for 388 million euros (\$440.69 million). During the last China-CESEE summit, the company signed a deal for strategic cooperation with the coal mine operator for the construction of the thermal power plant. Construction works are scheduled to start in 2016, and the plant is expected to connect to the grid by 2020. In addition to this agreement, Banovici signed a framework agreement for the financing of the project with Industrial and Commercial Bank of China (ICBC). Dongfang is also involved as a contractor for the construction of the 300MW TPP Stanari in the Serb Republic, the other entity in Bosnia and Herzegovina.

4. Stanari thermal power plant

Stanari thermal power plant is a 300 MW power plant currently being constructed in the vicinity of the Stanari coal mine (in Doboje, Republic of Srpska). Total cost of the project is estimated to be €550 million. China Development Bank has provided a 350 million euro loan to construct the facility and China's Dongfang Electric Corporation has been hired by the owner, EFT, to build it. The plant is expected to start working at full capacity in the second half of 2016.

5. Investment in energy projects in Republic of Srpska (potential)

According to the RS government, China's state-owned Tianjin Electric Power Construction Company is interested in investing BAM 1bn (€511.3mn) in energy projects in Republic of Srpska (RS). Tianjin proposed the build-operate-transfer (BOT) and turnkey business models for co-operation that will be financed possibly through the China's Exim Bank.

1. Danube bridge in Belgrade

Bridge over Danube in the Serbian capital of Belgrade worth €170mn, of which 85% came from a long-term credit from China Exim Bank, was opened in December 2014 (during the China – CESEE summit). The bridge is the second one over Danube in Belgrade and shortens the route between Belgrade neighbourhoods Zemun and Borca by 30km. China Road and Bridge Corporation (CRBC) was engaged in the construction of the bridge for 3 years.

2. Belgrade-Budapest high-speed railway link

During the summit in Belgrade, in December 2014, Serbian, Hungarian and Chinese PMs signed several MoUs that are part of a major deal worth over €1.5bn to modernise the railway link between Belgrade and Budapest with the loans from China Exim Bank. The documents were signed in the presence of the Macedonian PM as in the future, the railway link should be extended south via FYR Macedonia towards Greece port of Piraeus. According to the plan, a second track for mixed passenger and cargo traffic will be built alongside the existing 350km line, 184km of which run across Serbia and the remaining 166km across Hungary, by China Railway Construction Corporation (CRCC). The targeted speed on the route is 200 km per hour, reducing the travel time from Belgrade to Budapest to less than three hours from the current eight hours. The construction work is expected to start in H2 2016 and the project is expected to be completed by 2018.

3. 350MW unit at Kostolac thermal power plant

Serbian and Chinese officials signed in December 2014 a loan agreement for the second phase of a renovation process at Kostolac thermal power plant complex, which includes the construction of a new 350MW unit (the first this big to be built in Serbia in over 25 years) and increase of capacity of the adjacent open-pit coal mine. The value of the project is seen at €700mn, of which €595mn will come from a 20-year China Exim Bank loan with seven-year grace period and a fixed annual interest of 2.5%. The remainder will be financed by state-owned energy producer EPS, which owns the Kostolac complex, and by the Serbian government. The loan deal was ratified by the Serbian parliament in January 2015, and the construction is planned to be completed in five years by China National Machinery & Equipment Import & Export Corporation (CMEC). The Kostolac complex now operates two power plants – Kostolac A (two units of combined 210MW) and Kostolac B (two units of 349MW each). Once the new unit is built at Kostolac B, the three Kostolac B plants are expected to generate 20% of the energy produced in Serbia.

4. Sections of the European motorway XI (to Montenegro)

Chinese companies, Shandong Hi-Speed Group and China Road and Bridge Corporation (CRBC) are involved in the construction of the sections of Corridor XI in Serbia. The corridor stretches from Romania's Timisoara via Serbia's Belgrade to the Montenegrin city of Bar on the Adriatic coast. The government contracted Shandong Hi-Speed Group for 26-km Obrenovac-Ub and 24-km Lajkovac-Ljig sections, of an estimated value of ca. US\$334 million, supported by the loan from China's Exim Bank. Construction of two other sections of the road, Beograd-Obrenovac and Preljina-Pozega are expected to be performed by the Chinese CRBC, with the similar loan support from the China's Exim Bank according to an MoU signed in November 2015 during the Serbian PM visit to Beijing. The value of these projects was previously announced at €600mn.

FYR Macedonia

1. Railway Modernisation – Corridor X

Following the deal between Hungary, Serbia and China on railway modernisation between Budapest and Belgrade in January 2015, FYR Macedonia and China agreed to prepare feasibility study for the route and costs of the railway modernisation in the country (as the part of the “Balkan Silk Road”). The next phase will involve defining models for financing the project.

2. Motorways

The Chinese Exim Bank is providing most of the funding for two stretches on the highways linking Kicevo-Ohrid and Miladinovci-Stip in FYR of Macedonia. The construction work has been carried out by the Chinese Sinohydro Corporation. Some 90% of the construction costs will come from the Macedonian Government, with this €580 million being provided by the loan from China's Exim Bank.

Albania

1. Arber motorway

Albanian government and China's Exim Bank signed in December 2014 (during the China-CESEE summit) a memorandum of cooperation under which Exim Bank will finance the completion of construction of Albania's Arber motorway towards FYR Macedonia and further to Bulgaria, linking the Albanian Ionian Sea coast and the Bulgarian Black Sea coast. Works on the motorway started several years ago but construction slowed after the 2010 floods that hit northern Albania, prompting the government to re-allocate some of its planned capital expenditures toward the rehabilitation of the flooded areas. During the last China-CESEE summit in November 2015, it was said that Albania is finalising negotiations with the Chinese State Construction Company about the concession/PPP contract for the construction, maintenance, operation and management of the Arber road.

2. Industrial park in Durres

During the 4th China-CESEE summit, it was announced that Albania has obtained Chinese support for the development of an industrial park in coastal city of Durres, including development of the port infrastructure. According to the government, the industrial park in Durres is expected to create 30,000 new jobs.

Romania

1. Rovinari thermal power plant

In May 2012, China Huadian Engineering Co. was selected to build a 500MW coal-fired plant worth €1 billion at the Rovinari thermal power station. Construction was expected to begin in 2014, and be completed five years later, although as of end-2015 the company was still preparing its environmental impact assessment toward required permits.

2. Mintia-Deva thermal power plant

China National Electric Engineering Construction Corporation will conduct a modernisation works at Romania's Mintia-Deva thermal power plant, under a contract worth about €250 million, as agreed in September 2014.

3. Tarnita-Lapustesti hydro power plant

The winning bidder or bidders for expansion of Tarnita-Lapustesti hydro power plant will be a Chinese company, as all the project's bidders were companies from China. The deal is worth ca. €1bn.

4. Cernavoda nuclear power plant

China General Nuclear (CGN) has submitted the sole non-binding bid to build two new reactors at the Cernavoda nuclear power plant, owned by the Romanian utility Nuclearelectrica. Units 3 and 4 are expected to have a capacity of 740 MW each, the project is estimated to take up to six years after the contracts are signed, and to cost more than €2 billion.

Bulgaria

1. Motorways (potential)

During the last China-CESEE investment summit, Chinese investors have expressed interest in the construction of the Chernomorec motorway that will link the Black Sea cities of Varna and Burgas, building a tunnel under the Balkan peak Shipka, as well as in the construction of the Ruse-Svilengrad motorway (north-south corridor). Investments in road infrastructure, financed mainly by EU funds, have been a top priority for the ruling centre-right GERB during its two governments. Meanwhile, the Bulgarian side is offering the projects through a concession or a public-private partnership, but without a state guarantee and possibility for additional payments in case of low traffic.

2. Investment in Kozloduy (potential)

Furthermore, PM Boyko Borissov said that the cabinet works to attract a large Chinese investor for building new reactor(s) at Bulgaria's sole nuclear power plant Kozloduy.

Annex II:

1. Indicative extension of TEN-T to Western Balkans Core Network Definition Roads

Corridor Vc: Bosanski Samac (BIH) – Doboj (BIH) – Sarajevo (BIH) – Mostar (BIH) – Bijaca (Croatian Border)

Corridor VIII: Tirana/Durres (Albania) – Elbasan (Albania)- Struga (FYRM) – Tetovo (FYRM) - Skopje (FYRM) - Deve Bair (Bulgarian Border)

Corridor X: Batrovci (Croatian border) – Belgrade (Serbia) – Nis (Serbia) –Skopje (FYRM) – Bogorodica (Greek border)

Corridor Xb: Subotica (Hungarian border) – Novi Sad (Serbia) – Belgrade (Serbia)

Corridor Xc: Nis (Serbia) –Gradina (Bulgarian border)

Route 1: Debeli Brijeg (Croatian border) – Bar (Montenegro)

Route 2: Podgorica (Montenegro) – Durres (Albania) – Fier (Albania) – Tepelena (Albania) – Qafë Botë (Greek border)

Route 2a: Gradiska (Croatian border) - Banja Luka (BIH) - Lasva-Travnik (Bosnia and Herzegovina)

Route 4: Vršac (Romanian border) – Belgrade (Serbia) – Podgorica (Montenegro) – Bar (Montenegro)

Route 6: Pristina (Kosovo[*]) –Skopje (FYRM)

Route 7: Lezhe (Albania) – Pristina (Kosovo) – Doljevac/Nis (Serbia)

Indicative extension of TEN-T to Western Balkans Core Network Definition Railways

Corridor Vc: Bosanski Samac (BIH) – Sarajevo – Mostar– Capljina (BIH)

Corridor VIII: Skopje (FYRM) – Deva Bair (Bulgarian border)

Corridor X: Sid (Serbia) – Belgrade – Nis –Skopje (FYRM) - Gevgelija (Greek border)

Corridor Xb: Kelebija (Hungarian border) – Novi Sad (Serbia) – Stara Pazova/Belgrade (Serbia)

Corridor Xc: Nis (Serbia) – Dimitrovgrad (Bulgarian border)

Route 2: Podgorica (Montenegro) – Durres/Tirana (Albania)

Route 4: Vrsac (Romanian border) – Belgrade (Serbia) – Podgorica (Montenegro) – Bar (Montenegro)

Route 10 Krusevac (Serbia) - Kraljevo (Serbia) – Pristina (Kosovo) – Skopje (former Yugoslav Republic of Macedonia)

2. Indicative Extension of TEN-T to Western Balkans Core Network Definition Inland Waterways

Corridor VII Danube Backa Palanka - Ram/Nera River- Timok River/Pristol
Sava River Croatian border (Sisak) – Belgrade
Tisa River Hungarian Border – Danube River

3. Indicative Extension of TEN-T to Western Balkans Core Network Definition Airports

Albania Tirana (TIA/LATI)
Bosnia and Herzegovina Sarajevo (SJJ/LQSA)
Kosovo Pristina (PRN/LYPR)
Montenegro Podgorica (TGD/LYPG)
The former Yugoslav Republic of Macedonia Skopje (SKP/LWSK)
Serbia Belgrade (BEG/LYBE)

4. Indicative Extension of TEN-T to Western Balkans Core Network Definition Sea Ports

Albania Durres
Montenegro Bar

5. Indicative Extension of TEN-T to Western Balkans Core Network Definition Inland waterway ports

Bosna and Herzegovina Bosanski Samac
Bosna and Herzegovina Brcko
Serbia Novi Sad
Serbia Beograd

Annex III							
IPA/WBIF 2015 Co-financing⁵					538.8	144.9	27%
Energy projects							
WBIF CF 1001 ALB ENE	ALB	ENE	KfW	Albania – former Yugoslav Republic of Macedonia Power Interconnection (I): Grid Section in Albania	70	14	20%
WBIF CF 1002 MKD ENE	MKD	ENE	EBRD	Albania – former Yugoslav Republic of Macedonia Power Interconnection (II): Grid Section in the former Yugoslav Republic of Macedonia	49	12	24%
WBIF CF 1015 MNE ENE	MNE	ENE	KfW	Trans-Balkan Electricity Corridor (I): Grid Section in Montenegro	127	25	20%
WBIF CF 1003 SER ENE	SER	ENE	KfW	Trans-Balkan Electricity Corridor (II): Grid Section in Serbia	28	6.6	24%
Transport projects							
WBIF CF 1006 BIH TRA	BIH	TRA	EIB	Mediterranean Corridor (CVc): Road Interconnection, Bosnia and Herzegovina – Croatia	109	22	20%
WBIF CF 1009 BIH TRA	BIH	TRA	EIB	Mediterranean Corridor (R2a): Road Interconnection, Bosnia and Herzegovina – Croatia	34.4	6.8	20%
WBIF CF 1010 KOS TRA	KOS	TRA	EBRD	Orient/East-Med Corridor (R10): Rail Interconnection, the former Yugoslav Republic of Macedonia – Kosovo* – Serbia	80.9	38.5	48%
WBIF CF 1008 MNE TRA	MNE	TRA	EIB	Orient/East-Med Corridor (R4): Rail Interconnection, Montenegro – Serbia	40	20	50%
IPA 2015 Serbia⁵					78.2	62.5	80%
IPA 2015/038-442	SER	TRA	n/a	Orient/East-Med Corridor (CX): Rail Interconnection, the former Yugoslav Republic of Macedonia – Serbia	62.7	47	75%
IPA 2015/038-442	SER	TRA	n/a	Orient/East-Med Corridor (CX): Intermodal Terminal in Belgrade, Serbia	15.5	13.8	89%
Total					616.5	205.7	33%

⁵ Subject to a final decision by the budgetary authorities.