



# Weekly Briefing

**Montenegro External Relations briefing:  
16+1 Summit in Sofia and Montenegro  
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## **16+1 Summit in Sofia and Montenegro**

### **Introduction**

It would be exaggerated to say that Montenegrin public and media have given due attention to 16+1 Cooperation Summit held in Sofia on July 7. Only few days before the 16+1 Summit, Montenegro's government issued a short notice on foreign trip of PM Markovic to Sofia and several dailies wrapped up briefs on 16+1 Cooperation, usually recycled from previous years.

By the beginning of July, all eyes were still on "Sofia 1.0 Summit" (PM-level meeting of the EU member countries and the Western Balkans "partners" in May), where the pace of WB's accession was (supposed to be) set. 28-29 June European Council meeting had also impacts on Montenegro as it talked about stepping up the efforts on the Eastern Mediterranean Route and working closely with Western Balkans partners. Four days after Sofia 2.0 was NATO Summit in Brussels, the second one Montenegro attended in full-member capacity and the first after Djukanovic inauguration. The aftermath of this NATO Summit has been captured with Trump's gratuitous statements that "fatally again incurred on tiny Montenegro" and brought unwanted attention of the world media. This time it was not reckless pushing on the group photo but similarly reckless comments on Montenegro as "a country of proud and aggressive people (...) that could provoke the WWII" given by Trump to Fox News reporter.

These foreign-policy stimuli engulfed and marginalized the news on Montenegro's participation on 16+1 Summit in Sofia. But this was maybe exactly what Podgorica intended or hoped for since the government still hasn't set mind on the two pending questions perceived crucial for furthering economic cooperation with China and participation under Chinese FP initiatives: Will Chinese CBRC company be engaged as a main contractor for the next section of Bar-Boljare highway construction project? What is the status report on launching other cooperation projects under 16+1 framework, such as Belgrade-

Bar railway modernization project (intended to establish Port of Bar as one of the transportation hubs for CEE region) and investment in energy sector (building a second unit of TE Pljevlja)?

According to statement given by PM Markovic before 16+1 Summit, Montenegro will certainly continue with the Bar-Boljare highway project, but “we will decide who will be our next partner through dialogue and transparent procedures”. For the second question, Markovic only debriefed on the “strategic importance for Port of Bar to be connected with CEE hubs through modernization of Bar-Belgrade-Budapest railway” and “the importance of cooperation in energy sector” thus giving a clue that the projects are still in the preparation phase and will likely stay in this phase for a time being.

### **Remodeling the modus of cooperation: Bar-Boljare project**

“Bar-Boljare” highway connecting Port of Bar with Montenegro-Serbian border is the biggest infrastructure project Montenegro has undertaken since the independence and largely perceived as the signature project of DPS government and an example of state-to-state cooperation model China espoused in “earlier phase” in the development of the 16+1 framework. It was based on loan given by Chinese state-owned bank with Chinese state-owned company involved in construction. The initial value of the project was estimated to be 2.7 billion EUR, its construction will be successively done in three (four) sections and is expected to be completed within 6 years.

The project has been regarded as a “too big bite” but also “once in the lifetime” opportunity for Montenegro, especially after the government started losing hope to ever find a creditor on the Western market. In 2014, despite the opposition from the IMF, Montenegro signed an 800 million EUR cap deal with Chinese Exim Bank to finance the first stretch of the highway. Exim Bank provided a loan for 85% of total value with 2% interest rate, 6-year of grace period and 20 years for repayment. By the end of 2014, Exim Bank approved 697 million EUR loan, which is 85% of the first offer given by China Road and

Bridge Corporation (809 million EUR), the main contractor for the first section of the highway.

From 2015 to date, Chinese Road and Bridge Corporation (CRBC) is engaged in the first and the most complex - 41 km long and 809 million EUR worth – Smokovac-Matesevo section. Due to complex terrain features, accessibility issues and frequent renegotiations on contract annexes this section is expected to exceed initial value estimation (809 million EUR). Yet, the exact amount is still unknown, with estimates ranging from 890 million up to 1 billion EUR (including interest on loan).

Despite some delays, the section is expected to be finished by 2019 (within agreed period of 4 years). Deadlines for certain subsections (tunnels and bridges) have been frequently altered and the total net expenditure on the project has been criticized to be disproportionate with expected expenditure rate. By the end of 2017, the government announced that it has plans to continue with the project after the completion of the first section. However, staggering public debt raised by the project (expected to reach 70% by the end of the year) and reinstated fiscal tutorship from the IMF made the government falter on *modus cooperandi* espoused thus far.

By October 2017 (before 16+1 Summit in Budapest), Montenegro has prepared a strategy clarifying that as much as Chinese FDI will continue to be catered as the most important feature in bilateral cooperation, state-to-state loan as a model of financing the first section of the highway is not preferred method. Instead, as it has been nuanced in talks with Chinese counterparts, in the next stage of the cooperation Montenegro will focus on exploring other financial models of cooperation. Therefore, in March 2018, representative of Transportation Ministry and CRBC have signed a MOU for the construction of the next section, agreeing that public-private partnership will most likely be the cooperation model in the future. Also, this strategy - that hasn't been updated much in the last 8 months and served as Montenegrin agenda for work meeting with Chinese Premier in Sofia - included PPP as a preferential model in the

infrastructure sector (besides Bar-Boljare highway, Bar-Belgrade railway modernization was also on the table), concessions (Port of Bar, for example), joint ventures (together with ECG in TE Pljevlja), etc.

### **Montenegro and 16+1 cooperation: From laggard to “ambitious partner”**

In the last Power Audit report made by ECFR in 2013, Montenegro was designated as one of the ‘laggards’ within 16+1 framework. Bar-Boljare project changed this perception and within few years Montenegro became “one of the main beneficiaries” of the framework. A new Power Audit report made by one China-CEEC scholar this year puts Montenegro in “ambitious partner” bracket, outperforming some countries with better resources and stronger capacities for engagement in this cooperation framework. Even though it is retroactive evaluation – based mostly on Bar-Boljare project figures – Montenegro has recently proved this status by demonstrating ability to remodel and customize cooperation terms under 16+1 cooperation.

As Markovic returned from the second trip to Sofia, claiming to explain to Chinese Premier Li Keqiang Montenegro’s position regarding the cooperation model for financing the next sections of Bar-Boljare project and other projects in energy and infrastructure sector for which Chinese side has shown interest, he also came back with a new financial agreement between Chinese Exim bank and Montenegrin Investment Development Fund (IRF) aiming “to support the development of small and middle-sized enterprises”. As the Montenegro administration sees it, it perfectly exemplifies preferred modalities of cooperation, those that will have more impact on Montenegrin private sector and labor market and, most importantly, put a less strain on the state budget.

But pending decision on awarding the contractor for the next section of Bar-Boljare highway is still in the air. The next section is expected to be Matesevo-Andrijevica and/ or Andrijevica- Boljare (Serbian border), both significantly less work-intensive, less expensive and also more commercially

worth (it will be linked with Serbian highway connecting Montenegro with Belgrade) sections of the highway. Therefore, the government expects offers from more potential investors and, as of July 2018, negotiations with two potential bidders have already started.

Not only lucrative financial contract or show-casing flexibility in reshuffling financial model, but Chinese face-saving is also at the stake here. As the contractor for the first section of the highway, Chinese CRBC wouldn't be satisfied with anything less than extending the contract because failure to do so might send a wrong message for continuation of similar projects across the region. Yet, on the other hand, some American and (potentially) European companies are also prying on the project. In fact, Pobjeda reported unofficial statements from government official, saying that American Wexxon is interested to sign the contract for both sections between Matesevo and Serbian border and "terms offered by them are much more better than any other so far".

In March 2018, the government formed 15-member "expert team" with Minister of Transportation O. Nurkovic in charge, to suggest the most optimal financial model, define the contract and project procedures and in transparent way negotiate bidding terms with potential bidders on the next "Matesevo-Andrijevica" section. The government sent positive remarks on cooperation with the CRBC, emphasizing that CRBC is "in the game" for the next section, but contrary to the first section, there are "more rules, transparency checks and procedures", screening period and negotiations are still ongoing and there is no yet any clear sign that the government set its mind on any offer.

But despite more rules and procedures, will the government be forced to make a political call at the end? It is certain that the government is trying to bargain up its position as much as it is trying to depoliticize the decision itself. If it succeeds in conducting and finishing bidding procedures without major political interferences, it is on a good way to solidify its "ambitious partner" status within 16+1 framework. Meanwhile, for any spoiler alerts, one should be prepared to look abroad, first westwards and then eastwards.