



# Weekly Briefing

**Montenegro external relations briefing:**

**Montenegro and China relations**

**Milika Mirkovic**


## **China-CEE Institute**

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Ju Weiwei

Kiadásért felelős személy: Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 [office@china-cee.eu](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

# **Montenegro and China relations**

## **Abstract**

*In the previous period, Montenegro implemented important infrastructure projects in cooperation with China, especially in the transport and renewable energy sectors. Successfully implemented projects and successful cooperation between the two countries so far represent an excellent foundation for the continuation and upgrading of cooperation. Montenegro has unused potential and resources that can be valorised through cooperation with Chinese companies. The continuation of the construction of transport infrastructure, as well as projects in the field of green energy can contribute to the economic growth of Montenegro. Economic cooperation with China was also reflected in the increased foreign trade exchange, the number of tourists from China visiting Montenegro. Diplomatic relations with China are at a high level and have been nurtured for years. In addition to economic cooperation, significant cooperation established with China is in the fields of culture, education and science. In the coming period, the continuation and intensification of cooperation between Montenegro and China can be expected, given that there is desire and interest from both sides.*

## **Introduction**

Montenegro's cooperation with China can be viewed from different aspects, primarily political cooperation, economic cooperation, cooperation in the fields of culture and education. So far, cooperation in all fields has been at a high level. The friendly relations that exist between the two countries have been upgraded by economic cooperation through the implementation of various projects, which are very important for the development of Montenegro.

## **Diplomatic relations**

Diplomatic relations between Montenegro and China were formally established upon the restoration of independence 18 years ago. However, good relations with China existed before. During that period, the relationship between the two countries was constantly upgraded and improved, so that now there is a stable and friendly relationship. Montenegro participates in

various mechanisms and initiatives initiated by China. Through its participation in those initiatives and events, Montenegro has shown its orientation and commitment to improving existing relations and cooperation with China. Also, on the other side, China showed readiness and openness for cooperation and proved to be a reliable partner in the realization of many activities and projects.

Montenegro supports the One-China principle, indicating that Montenegro supports the basic principles of China's foreign policy. On the other hand, China is an important partner of Montenegro and someone who supports the EU path and orientation of Montenegro. During the previous year, Montenegrin officials had meetings with the ambassador of China to Montenegro, where they assessed the good relationship between the two countries and the readiness for further improvement of relations. Good political relations are the basis for upgrading existing ones and establishing new relations and forms of cooperation<sup>1</sup>. These meetings and contacts contributed to the further improvement and strengthening of relations between the two countries. The good relationship between Montenegro and China was also evaluated at the last political meeting at the highest level, which was in 2021, when the President of Montenegro had a telephone conversation with the President of China. At the meeting, it was stated that there is "political trust at a high level"<sup>2</sup> between the two countries. During the previous period, China provided significant support to Montenegro, especially during the pandemic period. Different types of help in the fight against the corona virus further strengthened the relations between the two countries and actually showed the importance of friendly relations in challenging times.

### **Intensified economic cooperation between Montenegro and China**

Economic cooperation between Montenegro and China can be seen from different aspects. This cooperation has been intensified in recent years at almost all levels, in the areas of foreign trade, tourism, transport, energy, etc. A significant segment of economic cooperation

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<sup>1</sup> Portal Analitika (2023), Montenegro supports the basic principles of Chinese foreign policy, available on: <https://www.portalanalitika.me/clanak/pejovic-sa-kunom-crna-gora-podrzava-osnovne-principe-kineske-spoljne-politike>

<sup>2</sup>Embassy of the People's Republic of China in Montenegro (2021) The President of the People's Republic of China, Xi Jinping, spoke with the President of Montenegro, Milo Djukanovic, available on: [http://me.china-embassy.gov.cn/mon/sghd\\_1/202105/t20210527\\_9032430.htm](http://me.china-embassy.gov.cn/mon/sghd_1/202105/t20210527_9032430.htm)

refers to the implementation of infrastructure projects in the field of transport, energy, tourism, and so far, there are only examples of successfully implemented projects.

### **Successfully implemented infrastructure projects**

Certainly, the most important infrastructural project that is being realized in cooperation with the Chinese companies is the construction of the highway with the aim to improve transportation links between the Adriatic coast and Serbia, and further with Europe. This project represents one of the key areas of economic cooperation between the two countries in recent period. The highway was opened two years ago, and its effects on economy and society could be seen through different aspects. First of all, there is a stronger connection between Podgorica, the capital city, and the North part of Montenegro, which will have effects on the development of the Northern region (which is less developed). The improvement of road infrastructure contributes to greater development, through the impact on transport, trade, tourism, greater utilization of resources and stronger connectivity of the region. One of the prerequisites for balanced regional development is a developed traffic infrastructure that would contribute to greater connectivity between cities and regions, availability of services, and more. An additional potential impact of the development of the transport infrastructure can be seen through the reduction of internal migration and the emigration of the population from less developed regions. Also, the construction of the highway affected traffic safety, considering that the alternative road passes through the river Moraca canyon, which until the opening of the road was the one along which many traffic accidents occurred. During the last more than two years that the highway has been open, no traffic accidents have occurred. The construction of the highway also contributed to the growth of investment spending, which had multiplicative effects on economic growth and level of GDP. The construction of the highway was funded by Chinese loans. At the end of the third quarter of 2023, Exim Bank's total foreign debt amounted to EUR 711.8 million, representing 20% of the total external debt and 18% of state debt. In addition, Exim bank loans amount to 11% of forecasted GDP in 2023<sup>3</sup>.

In addition, there are other projects and investments regarding the transport. Chinese companies have been involved in the modernization of the Port of Bar, which is the main port in Montenegro. Ten years ago, ships were purchased for Montenegrin maritime companies from

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<sup>3</sup> Ministry of Finance (2023) Report on the public debt, available on: <https://www.gov.me/clanak/izvjestaj-o-drzavnom-dugu-na-dan-30092023-godine>

Chinese firms, with the project financed through a loan from a Chinese bank. Additionally, there is cooperation aimed at improving railway traffic infrastructure. In 2023, new projects were initiated, such as construction of roads in the Southern region of Montenegro, undertaken by a Chinese company.

Another important field of cooperation between Montenegro and China is the renewable energy sector. Chinese companies were involved in construction of wind power plants energy and implementation of solar power projects. These projects will contribute to Montenegro's renewable energy goals and reduce its reliance on fossil fuels. In addition, the Chinese company is engaged in the ecological reconstruction of the Thermal Power Plant in Pljevlja.

### **Growth in the volume of foreign trade<sup>4</sup>**

During the previous years, the volume of foreign trade recorded growth. Although growth was recorded in absolute terms, u period 2018 - 2022, the share in total exports and imports was at approximately the same level. However, different trends are noted in the import and export of goods. In 2023, total exports to China amounted to EUR 2.5 million or 0.4% of total exports of goods. Compared to 2022, exports to China decreased by more than 5 times. The main reason for the high drop in goods exports from Montenegro to China is the suspension of production in the aluminium factory, since aluminium represented the most significant part of exports to China (according to MONSTAT data, 75% of the total exports of goods to China are aluminium and aluminium products and aluminium ores and concentrates). Given that exports to China are not diversified, they are more sensitive to changes in the market and business conditions in Montenegro.

On the other hand, the import in 2023 amounted to EUR 424.6 million, which represents 11.2% of the total import of goods. Compared to 2022, the import of goods increased by 28.5%, while the share in total imports recorded an increase of 1.8 percentage points. Thus, there is a very low coverage of imports by exports, which worsened in 2023 compared to 2022 (in 2023, imports into China were 171 times greater than exports, while in 2022 this ratio was at a level of 26 times). This was mostly influenced by a large drop in the export of goods. Taking into account potentials and possibilities, there is certainly a large space for increasing the volume of foreign trade, where the large Chinese market represents a chance for Montenegrin companies

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<sup>4</sup> Source of data: MONSTAT, External trade in goods, available on: <https://monstat.org/eng/page.php?id=460&pageid=32>

to export. Fairs organized by China represent a chance to establish connections and cooperation between companies. In previous years, Montenegro participated in some fairs, where domestic agricultural products were presented. One of the fairs where Montenegrin manufacturers presented their products is EXPO China-Central Eastern Europe. During the previous year, in addition to agricultural products, a tourist offer was also presented. Therefore, fairs enable the establishment of business connections between Montenegrin and Chinese companies and represent an excellent opportunity for establishing cooperation. The marketing of products and services would contribute to the improvement of the business of small agricultural producers from Montenegro who face difficulties in selling on the market, and on the other hand, the trade balance of Montenegro. One of the limitations is the small size of companies that cannot enter the large market independently. A potential possibility of overcoming these barriers could be the association of smaller producers in clusters and a joint appearance on the market.

### **Tourism recovery: the number of tourists from China is increasing<sup>5</sup>**

Before the pandemic, the number of tourists from China was constantly growing. In 2019, the number of overnight stays of tourists from China has increased by almost 3 times compared to 2017, while the number of arrivals has increased by 3.2 times. Compared to 2015, the growth in 2019 was even greater: 5.6 times the number of tourists increased in the comparative period. In addition, tourists from China accounted for 3% of the total number of foreign tourists in 2019, which is 2.1 percentage points more than in 2015. However, due to the pandemic and numerous restrictions that were in force and travel bans, the number of tourists fell in 2020, that the recovery would start already in 2022. In 2022, number of tourist arrivals from China amounted to 8,256 or 0.4% of the total number of foreign tourist arrivals, while the number of overnight stays amounted to 19,294 or 0.2% of the total number of foreign tourists' overnight stays. Although growth was recorded in the post-pandemic period, the number of tourists is below the level of 2019 (when the number of tourists was approximately 75 thousand). The abolition of barriers and restrictions on travel during 2023 will affect the increase in the number of tourists, so growth in the previous year can be expected (data is not yet available). It can also be expected that the number of tourists from China will increase in 2024 as well. In order to promote Montenegrin tourism offer, Montenegrin tourist agencies and National tourism

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<sup>5</sup> Source of data: MONSTAT, Arrival and overnight stays, available on: <https://monstat.org/eng/page.php?id=44&pageid=44>

organization participated in the International Tourist Exchange in China ITB China, which was held in Shanghai.

One of the trends noted after 2020 is that tourists from China stay longer in Montenegro (2.3 nights on average which is more compared to the period until 2019). In addition, cooperation in the tourism sector is reflected in the investments of Chinese companies in the construction of hotels and resorts in Montenegro. These investments can contribute to enhance the country's tourism infrastructure and attract more visitors, including tourists from China.

### **Reduction of FDI from China**

Foreign direct investments (FDI) fluctuated significantly during the last period. In 2020, the inflow of FDI from China accounted for 10.7% of total inflows, where China was among the five countries from which the largest inflow of FDI was recorded. However, in recent years the inflow has been significantly reduced, where in 2021 it was reduced by 11 times, while in 2022 the inflow of FDI was 81 times lower than in 2020. The data for the first eleven months show that no FDI was recorded in 2023. The structure of the inflow is also varied in previous years. In 2020, the dominant part of the FDI inflow (98.5%) was investment of foreign capital that does not increase the equity capital (intercompany debt), and in 2021 and 2022 it would be investment in domestic companies and banks (95% and 69%, respectively). This drop in FDI inflows can be explained by various factors, from the completion of the highway construction, the impact of the pandemic, the investment environment, and others<sup>6</sup>.

Also, cooperation does not only mean the construction of bridges, roads, hotels... but also the exchange of experiences, knowledge, ways of working and technology, so that in addition to the direct ones, these indirect or invisible effects and benefits are also significant. It can certainly contribute to the improvement of work, business, and technology for both parties. These are all positive invisible effects, which are very significant. Experience and knowledge represent the real added value of cooperation with Chinese companies and institutions.

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<sup>6</sup> Source of data: Central Bank of Montenegro, available on: <https://www.cbcbg.me/me/statistika/statisticki-podaci/ekonomski-odnosi-sa-inostranstvom/platni-bilans>

## **Cultural cooperation**

Besides diplomatic and economic cooperation, Montenegro and China have been developing cultural relations, promoting mutual understanding and friendship between the two countries. In that case, numerous events were organized in the previous period, such as cultural festivals, exhibitions, performances, and art exchanges, which aimed to promote cooperation and improve relations in the field of culture.

In the previous period, cooperation in the field of education was also significantly improved. Montenegrin students in China as part of the exchange (numerous memoranda of cooperation between Chinese and Montenegrin educational institutions were signed). One of the examples of excellent cooperation between universities is the cooperation between the University of Donja Gorica and Chinese universities. Numerous memoranda of cooperation were signed, which contributed to UDG students studying in China. At UDG, the Chinese Studies educational program is established and there are some agreements on dual diploma. Student exchange plays an important role in spreading culture. This practice allows young people to experience traditions, languages, customs and ways of thinking, which contributes to a deeper understanding and respect for international diversity. There is also improvement of infrastructure and cooperation in the field of science. Significant cooperation in the field of science and research has been achieved, especially through ANSO. Numerous projects have been implemented.

## **Opportunities for cooperation**

Considering the wide cooperation that Montenegro and China have, there is a lot of room for further improvement and opportunities for cooperation in various fields. Rich cultural heritage and natural resources, offers various possibilities for synergistic partnerships with China. On the other side, China as a global economic powerhouse and a hub of technological innovation, brings many possibilities and wealth of expertise and resources that can significantly contribute to Montenegro's development. First of all, opportunities for cooperation in the coming period can be seen in infrastructure, trade, energy sector, tourism, technological advancement, as well as culture, health, science, and education.

As one section of the highway has been built, the construction of the highway to the border with Serbia is expected to continue in the coming period. Experience of Chinese



companies and experience from the previous cooperation is of great importance. Continuing cooperation with Chinese companies would contribute to strengthening cooperation and better connectivity between the two countries. This year, preparatory activities for the realization of this project began. The projected value of the construction of the second section is 500 million EUR.

Green energy and projects that aim to increase the use of renewable energy sources represent one of the important fields for cooperation in the coming period. Montenegro has significant potential, both in wind, hydro, and solar energy, while on the other hand, China can provide professional help and experience that are essential for the realization of these projects. Also, cooperation with China may include investments, loans or other forms of financing, in order to realize these projects. This would contribute to greater production of energy from renewable sources, and therefore to the fulfillment of goals related to energy efficiency and the energy sector.

Further promotion of the tourist offer will contribute to the increase in the number of tourists from China. After the decrease in the number of tourists due to the pandemic, a continuation of the growth of tourists from China who visited Montenegro can be expected this year. The establishment and continuation of joint marketing campaigns, tourism promotion for revival of tourist connections will affect the achievement of the level of growth from the period before the pandemic. In addition, Montenegro has a significant potential for investing in the construction of tourist complexes and resorts, not only in the coastal region, but also in the mountainous areas.

Trade represents one of the important areas for improving relations and stronger connections between Montenegrin and Chinese companies. Establishing platforms for business matchmaking, trade fairs, and investment forums would contribute to trade cooperation. Fairs that China organizes throughout the year and where companies can present their offer and establish business cooperation with other companies are of great benefit to Montenegrin companies. This would contribute to greater utilization of the potential that Montenegro has in agricultural production. On the other hand, cooperation with Chinese companies would contribute to the transfer of knowledge and experience, as well as technology in production, which would contribute to the competitiveness of Montenegrin companies.

Certainly, there are different models of cooperation between Montenegro and China. Especially different models in the field of project financing, where private public partnership,

concessions, combined investments and joint projects of China and the EU in Montenegro, etc. can be recognized, besides lending under favorable conditions.

In addition to economic cooperation, there are great chances and potentials for improving cooperation in the fields of culture, education and science. Further promoting and strengthening educational, cultural and sports exchanges would also contribute to strengthening relations in this area. The exchange of students, scientists, professional training in different fields, the implementation of joint scientific projects and research would contribute to new results and have an impact for both parties. A special part of potential cooperation can be realized in the field of healthcare. This was assessed at the meeting of the Chinese ambassador and the Ministry of Health of Montenegro, where it was stated that there is a possibility of cooperation in the field of the pharmaceutical industry, investment in medical equipment, cooperation between hospitals and the training of doctors, etc. The renewal of the cooperation agreement between the Ministries of Health of Montenegro and China, which expired several years ago, was announced<sup>7</sup>.

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Good relations with China provide an excellent basis for continuing and strengthening cooperation. Therefore, in the coming period, the continuation of promoting good relations and the further improvement and strengthening of diplomatic and economic relations can be expected. During the recent period, Montenegro has shown interest in continuing cooperation with China in the area of implementing infrastructure projects, as well as cooperation in other areas. China, on the other hand, expressed its interest in continued cooperation. Numerous opportunities from different fields offer the potential to strengthen relations between two countries and two peoples.

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<sup>7</sup> Ministry of Health of Montenegro (2023) More intensive cooperation in the field of healthcare between Montenegro and China in the coming period, available on: <https://www.gov.me/clanak/intenzivnija-saradnja-u-oblasti-zdravstva-izmedu-crne-gore-i-kine-u-narednom-periodu>