POLICY PAPER

China's 'Digital Silk Road' Enters the Western Balkans

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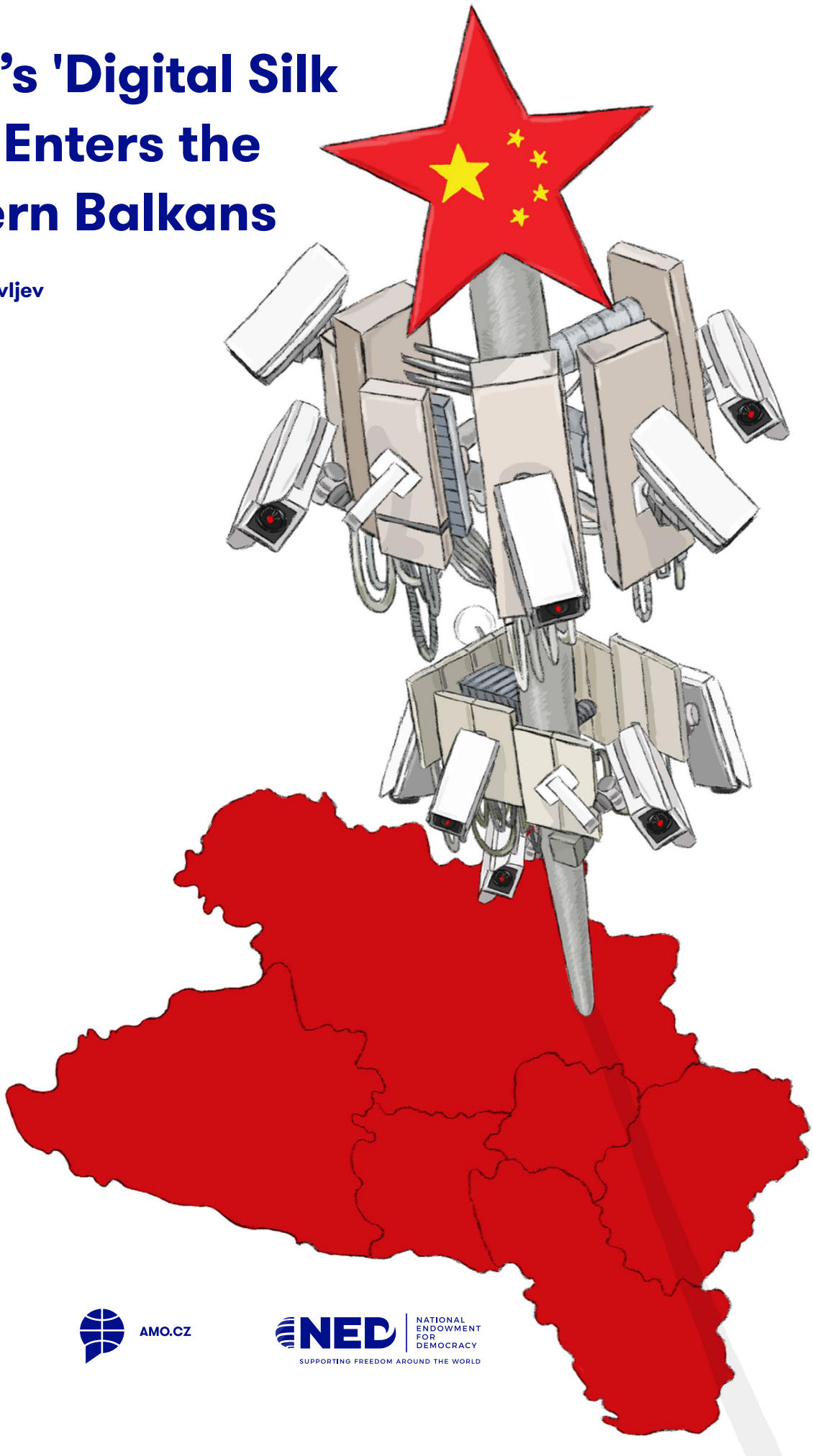

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Summary

- The ‘Digital Silk Road’ (DSR) is an important component of China’s 'Belt and Road Initiative' (BRI), which combines the efforts of the Chinese government and the involvement of Chinese tech companies. The DSR covers a wide array of areas, ranging from telecommunications networks, to ‘Smart City’ projects, to e-commerce, to Chinese satellite navigation systems. Some countries perceive it as a vehicle for exporting the Chinese system of techno-autocratic governance that will provide crucial tools to illiberal leaders so that they may establish even more control over their citizens.

- This policy paper focuses on one aspect of the DSR – Chinese companies’ involvement in the rollout of 5G networks in the countries of Western Balkans. It surveys the situation on the ground in regard to acceptance of DSR by local governments and provides recommendations to stakeholders.

- In the 5G network rollout around the globe, both China and Chinese companies have clashed with the United States, which started the ‘Clean Network’ initiative aimed at banning 'untrusted vendors' from the networks. Other countries as well as groupings, such as the EU, also voiced security concerns associated with the involvement of Chinese companies in their respective rollouts.

- In Western Balkans, the willingness to cooperate with China in the digital technology sphere has largely been a function of the quality of bilateral political relationship. Out of six Western Balkan countries, Serbia is the focal point of DSR and the most prominent partner of China in the region. Cooperation in this sphere is developed on the basis of overall development of economic and political relations between two countries, and the readiness of the Serbian political elite to embrace Chinese presence. In Serbia, Chinese companies are present in the telecommunication sector, security sector, and will have a role in the governance system throughout the ‘Smart City’ projects, especially at the local level. Serbia's most important partner in this process is Huawei with which Serbia has raised relations to a strategic level.

- Serbia, though pressured to limit the participation of Chinese companies in the 5G network rollout, has not joined the ‘Clean Network’ initiative and does not seem to be inclined to exclude Chinese companies in the future.

- Bosnia and Herzegovina, besides Serbia, is the country that has developed the most significant cooperation with China within the DSR framework. Bilateral agreements between governments, as well as the presence of companies like Huawei, have set the ground for the ‘Smart City’ project agreement,

implementation of educational programs and promotion through selected Bosnian media.

- China's presence in Montenegro is most notable through a major infrastructure project funded through the Chinese loan. Montenegro is one of the three Western Balkan countries that has not joined the 'Clean Network' initiative and has presence of the Chinese companies in its telecommunication infrastructure.

- Although there is a limited Chinese presence in the digital sphere in North Macedonia, Albania, and Kosovo, all three countries have signed agreements showing their dedication to the 'Clean Network' initiative, potentially limiting space for future cooperation with Chinese companies.

Recommendations

- The EU should pay attention to the 5G rollout in the prospective EU members in the Western Balkans and should encourage and motivate them to implement the EU 5G Toolbox in the interest of their accession process.

- Western Balkan countries should put forward open and transparent tender procedures for 5G network equipment suppliers, taking into account national security.

- Western Balkan countries should diversify their telecom infrastructure providers to ensure national security, digital security, and the safe rollout of the 5G network.

- The Serbian government and Ministry of Interior should reconsider the use of the facial recognition software in the security surveillance cameras purchased from Huawei and installed as a part of the 'Safe City' project. A clear set of rules, in line with the law and ensuring the protection of the personal rights of citizens, has to be adopted and implemented. Experts, researchers, and civil society organizations should be involved in the creation of the set of rules. Control mechanisms must be put in place to avoid potential misuse of the equipment and collected data.

- Serbia should continue to work on the process of digitalization but should diversify partners in order not to rely solely on China and DSR.

Introduction

This policy paper focuses on the footprint of China-led 'Digital Silk Road' (DSR) in the Western Balkans, a region that is often seen as a springboard for Chinese presence in Europe. The paper dedicates special attention to the issue of the 5G networks as the most prominent area of cooperation with China in this respect.

Out of six covered countries, a specific focus is put on the case of Serbia because it has developed the most comprehensive and strategic cooperation with China, far beyond the technology field. The Sino-Serbian partnership includes cooperation with Chinese companies in the spheres of telecommunication, and security, as well as national and local governance in Serbia. Within these spheres, the paper assesses projects that were already implemented by or in cooperation with Chinese companies, such as 'Smart City' or 'Safe City' projects.

Moreover, the paper discusses the role of external actors in shaping the Western Balkan countries' cooperation with China, mainly the United States (US) and the European Union (EU).

Finally, the policy paper provides a set of recommendations for the stakeholders in countries of the Western Balkans, but also for the EU given the accession aspirations of many Western Balkan nations.

Silk Road Goes Digital

China's 'Belt and Road Initiative' (BRI), launched in 2013, has included various aspects of cooperation with countries all around the globe. Infrastructure projects, financial loans, trade liberalization, and even cultural and defense cooperation have all been included under the umbrella of the initiative by Beijing. Over the past decade, BRI has become the main foreign policy framework that encompasses Chinese attempts to gain a global leadership role, leading to a significant backlash from the West.

In 2015, the Chinese government published an official document that introduced an 'Information Silk Road' as a component of BRI, later to be rebranded as 'digital' to encompass its broader aspirations.[1] Cross-border optical cables and other communication line networks were mentioned as one of the cooperation areas under BRI, expanding upon China's burgeoning businesses in each sector. In 2017, during the BRI Forum in Beijing, Xi Jinping said that the use of big data will be incorporated in the future of BRI as well, further illustrating its broad and ever-evolving nature. As the BRI is based upon traditional infrastructure projects, the addition of the digital component has been seen as a logical technological extension of China's ambitions.

To set the stage for its global role in technological development, China has taken an active leadership position in international organizations and international standardization bodies. In 2019, China submitted 830 technical documents related to wired communications specifications to the International Telecommunication Union, the most of any country. Indeed, China submitted more than the three nearest contenders - South Korea, the US, and Japan - combined.[2] China was also behind 16 of the 65 proposals for new technical committees at the International Organization for Standardization and the International Electrotechnical Commission since 2014. Chinese companies, like Huawei, have played an important role in the standard -setting for the 5G rollout. Huawei holds more than 13,400 5G related patents, more than any other company, followed by Qualcomm with 12,700.[3]

However, the DSR is more than mere 'cables in the ground'. Rather, it includes the global expansion of Chinese technologies to markets in which western players have previously dominated or in developing countries that are only now undergoing a technological revolution. It ranges from telecommunications networks and smart cities to e-commerce and Chinese satellite system.[4]

Different aspects of the initiative have often been seen as a joint effort by the Chinese government and Chinese digital giants, led by the telecommunications companies. However, it should be noted that this is not always the case. Top-down and bottom-up aspects are both present in the Chinese approach, as is the case for the whole BRI. As described by Robert Greene and Paul Triolo, "DSR until recently was an all-encompassing term applied by China's public and private sector leaders to telecommunications and other data and connectivity projects in countries that are nominally part of the 'Belt and Road Initiative'. Some DSR projects have received heavy state backing; some none at all."[5]

Implementation of China's DSR has mainly covered the developing countries of Africa, Asia, Latin America, the Middle East, and Eastern Europe. According to a report published by the Council on Foreign Relations, one-third of the 138 countries participating in the BRI are included in the DSR in some capacity.[6] As such, the Western Balkans have been a logical target with many nations both developing and participating in the BRI to differing degrees.

China presents the DSR as a tool for development, innovation, and technological evolution. However, in its ambitions and impact, the DSR is also a question of geopolitics, as it facilitates China's attempt to establish itself as a major global power across a growing number of fields, including technology. Since its introduction in 2015, DSR has become a major part of China's global outreach. Whether it comes to the global market share for Chinese telecommunications companies or potential export of the system of governance, it is more likely that the future points of disagreement between China and the West will be found on the 'Digital Silk Road' rather than on the traditional one.

RISING CONCERNS – PUSHBACK AGAINST THE 'DIGITAL SILK ROAD'

With the growing prominence of the DSR, concerns have likewise grown about the potential risks related to Chinese technology and involvement in sensitive sectors. This is especially so with regard to security risks caused by the potential backdoors in equipment provided by the Chinese vendors. The use of those backdoors has been pointed to as a potential threat not only for espionage, but as a way to take over control over large systems like electrical grids, traffic systems, and even defense mechanisms with these technologies as their backbone.

One of the leading Serbian cybersecurity analysts Vladimir Radunović[7] argues that a leading role in the deployment of emerging technologies might also be a chance for China to export its preferred style of governance. On the other hand, it has been argued that Beijing's "masterplan to deploy techno-authoritarianism" is a misconception and that deployment of these kinds of technologies, like surveillance technology, is demand-based."[8] The availability of the technology and China's willingness to provide it can be a relevant concern when talking about authoritarian, or would-be authoritarian governments, seeking ways to bolster centralization of power and control over their citizens.

On the international stage, both the US and EU have taken steps to counter the rising influence of the DSR. As a tool to contest the Chinese initiative, the US launched the 'Clean Network' initiative. The 'Clean Network' initiative was designed as a comprehensive approach for securing US citizens' privacy and companies' sensitive data. As stated in the official document, "the 'Clean Network' addresses the long-term threat to data privacy, security, human rights and principled collaboration posed to the free world from authoritarian malign actors and is rooted in internationally accepted digital trust standards."[9]

US pressure associated with the initiative resulted in many countries banning Huawei and other Chinese telecommunication companies from participating in the 5G infrastructure construction. After a long process the US also all but banned all

business between US companies and Huawei with an executive order issued by President Trump, calling Huawei a significant threat to national security. The issued order prohibited the purchase or use of any communications technology produced by entities controlled by "a foreign adversary".[10] In addition to the executive order, the US Federal Communications Commission officially marked Huawei and ZTE as 'untrusted vendors' and a threat to the security of the US.[11] The campaign was the reformulation of the concerns that major actors have been expressing in the past, with the so-called Five Eyes countries (the US, the UK, Canada, Australia, New Zealand) taking center stage.[12]

Huawei was the top telecommunications company in 2019 when it comes to the worldwide telecom equipment revenue[13] and ZTE held the fourth position, with Nokia and Ericsson occupying the spots between them. However, with countries like Canada, India[14], and the UK introducing bans against Huawei, ZTE, and other 'untrusted vendors', the position of Chinese vendors has been seriously threatened. Likewise, the DSR was dealt a major setback. Still, there are large markets, like Germany, that are still considering the inclusion of the Chinese companies in the construction of the 5G infrastructure.

The EU does not have a unified stance on cooperation with China on the DSR. The EU did adopt the Toolbox for 5G Security; "a set of robust and comprehensive measures for a coordinated approach to secure 5G networks"[15], but it has not resulted in the full alignment among EU's countries on the issue that ultimately falls to national authority. Among 27 members, there are 'champions' of the pushback against high-risk vendors, especially among Central and Eastern European countries like Czechia, Slovakia, Slovenia, Romania, and Albania that have aligned with the US' initiative and have limited or even full-on banned participation of the Chinese companies in the 5G rollout. Others like France have not introduced outright bans but have de facto decided to exclude 'untrusted vendors' and to focus on the European companies and equipment due to security concerns.[16] With that, the question of the future of the DSR in the EU remains open. It remains to be seen whether the new US administration under president Biden will bring more cooperation on this issue with its EU partners and what will be the further implications of both EU and US efforts for the countries that have not aligned with those efforts by now.

DSR in the Western Balkans – To Ban or not to Ban

As one might expect, the presence of the Chinese companies and the possibility of their participation in the development of new technologies (e.g. 5G network roll-out) in the Western Balkans is limited in countries with especially good relations with the US, while doors remain open for Chinese companies in countries with close relationship to Beijing. Within the latter group, many countries also host infrastructure projects implemented in cooperation with China or Chinese companies. Serbia is a specific example because of its close relations with Beijing. Chinese efforts to include Serbia in the DSR have been more than welcomed and Serbia has become a main stop for the Chinese initiative in the region, bilaterally and on multilateral level through cooperation platforms like 17+1.[17]

Serbia, Albania, Montenegro, and North Macedonia are countries in process of accession to the EU and should be dedicated to the alignment of policies with the EU. Even if some countries are fully dedicated to the negotiating process and future membership it is hard to align with the policies when there is no consensus even among 27 EU members. Brussels included the 5G issue in its Economic and Investment Plan for the Western Balkans, but it only referred to a recommendation to "enhance cybersecurity capacity and the fight against cybercrime, especially by implementing the EU toolbox regarding cybersecurity risks to 5G networks."[18] The document did not include concrete measures or a roadmap of how the goals should be achieved. Moreover, out of the six Western Balkans countries, only Serbia has been included in the EU's 5G Private-Public Partnership, a joint initiative between EU and European industry.[19]

In addition to the EU, there is a strong presence of the US in the region, especially in the countries which are members of the NATO alliance and therefore highly dependent on Washington when it comes to security issues. The US has been advocating for the Balkans countries to align their view on the issue of 5G security, including via the Trump administration's 'Clean Network' Initiative, to varying success.

KOSOVO – NO RECOGNITION, NO COOPERATION

Currently, Kosovo is the Western Balkans country with the least developed relations with China, owing to the simple fact that Kosovo is not recognized as an independent country by Beijing.[20] Therefore, Kosovo is the only Western Balkans country not included in the 17+1 platform.[21] Hence, it was not surprising when Kosovo aligned with the US and became a part of the 'Clean Network' initiative in October 2020.[22] The Memorandum of Understanding (MoU) on 'Clean Network' compliance, signed by Kosovar Prime Minister Avdullah Hoti, was merely a confirmation of an anticipated

policy that Chinese companies will not be a part of the future telecommunications infrastructure in Kosovo. The document was also a follow-up on the agreement on the normalization of economic relations between Serbia and Kosovo on September 4, 2020, in Washington[23] which further telegraphed the small nation's action. That agreement was brokered by the US President Donald Trump, and signed, separately, by the Serbian president Aleksandar Vučić, and Kosovar Prime Minister Hoti. Among other things, the agreement included a clause about the prohibition of the 5G equipment supplied by 'untrusted vendors' and removal of the existing equipment where it already exists. Shortly after, Kosovo confirmed the commitment to exclude Chinese companies from the 5G rollout with the official agreement signed bilaterally with the USA in October 2020.

NORTH MACEDONIA – STRONG PARTNER OF THE WEST

Unlike Kosovo, North Macedonia has developed relations with China, though only up to a certain level. Major infrastructure projects that have been implemented in cooperation with Chinese companies included the two sections of a highway, and a hydro power plant.[24] However, it can't be said that the partnership has developed on a strategic level. The EU and the US remained far more important partners for Skopje than China. With the Prespa agreement, the lengthy dispute between Greece and North Macedonia regarding the name of the country was resolved and a path to the opening of the negotiation process for the accession was opened.[25] North Macedonia also joined the NATO alliance as the 30th country in March 2020[26], showing a clear foreign policy orientation towards the West.

When Prime Minister Zaev signed the MoU on the security of 5G technologies and expressed readiness to take further steps to ban the participation of 'untrusted vendors' in the country's 5G infrastructure, he predictably aligned his nation with US interests. While Chinese companies, like Huawei, have had a relevant presence in North Macedonia during the past decade[27], the signed document showed once again the country's deliberate decision to limit the overall partnership with China.

ALBANIA – KEEPING THE DISTANCE

The first Western Balkans country to openly align with the US against the targeted suppliers from China was Albania. Albania joined the 'Clean Network' initiative in August of 2020 and agreed to, as Prime Minister Rama said, to "take a strategic approach to have a secure network in the process of transition to other digitalization and data transfer levels."[28] This also meant that Albania will not only ban future use of Chinese equipment but that it will also cut the existing ties with the Chinese telecommunications companies. Huawei has an Albanian-registered company, Huawei Technologies Albania SH.P.K, and Huawei technologies have been a part of existing Albania's 4G network infrastructure.[29] Huawei was also supposed to be a partner of Vodafone Albania in the installation of the first 5G infrastructure[30], but after the US pressure, Vodafone Albania decided to choose Ericsson as the sole supplier.[31] The

background to the distancing from China on this issue has been similar to the case of North Macedonia. While there have been some joint projects between Albania and China in the past decade, cooperation is not perceived as strategic. Albania formally supported and joined BRI, but without clear flagship projects. Albania is also a NATO member, with a strong aspiration to join the EU. Because of the poor results of cooperation and because of the alliance with the US and the EU, the decision to exclude Huawei and other Chinese companies from the 5G infrastructure could be a first step in the further distancing, not only from the DSR but from the cooperation with China in general.

MONTENEGRO – THE ONE THAT TREADS LIGHTLY

For the Western Balkans countries that have not joined the 'Clean Network' initiative, Bosnia and Herzegovina and Montenegro are different cases than Serbia. Both countries have been included in the DSR in some capacities.

While Bosnia and Herzegovina has agreed upon and implemented infrastructure projects in cooperation with China[32], Montenegro is a special case by moving itself close to a 'debt trap' because of the Chinese loans for the ongoing infrastructure project. The Bar-Boljare highway in Montenegro has an estimated cost of €1.3 billion. The dynamics of the deal have made China a significant actor and object of press attention due to the impact on the country's financial stability, but it has most importantly limited Montenegro's options vis-à-vis China.

Like Albania and North Macedonia, Montenegro is a NATO member and a country with EU membership candidate status, but so far it did not align with the US initiative. While Montenegro did not officially exclude Chinese companies from the process of installation of the 5G equipment, state-owned Montenegro Telekom stated that it will use the Ericsson and Nokia equipment in the first phase of the 5G rollout, as they were already involved in the existing 4G network.[33] Nevertheless, Huawei participated in the expansion of the 3G network after signing the agreement with Montenegro Telekom in 2011.[34] It was also announced that the state-owned telecommunication company will seek to diversify its suppliers to mitigate the security risks. It shows that the Montenegro officials are concerned regarding the potential harmful consequences of the inclusion of the 'untrusted vendors' and are trying to ensure safety with the 'middle road' approach. The rollout of the 5G network for commercial use in Montenegro is to begin in 2022.[35] It might be expected that the ongoing negotiations over the Montenegrin debt to China might also influence the thinking on the issue.

BOSNIA AND HERZEGOVINA – SURPRISING DSR HOTSPOT

The case of Bosnia and Herzegovina is a complicated one due to the convoluted internal political structure and the poor state of the existing digital infrastructure. US officials have used the opportunity to highlight the importance of the 'Clean Network' initiative to the officials and public in Bosnia and Herzegovina.[36] US overtures were

met with a response that the country is still not thinking about the 5G, because the 4G network is not yet fully integrated into the infrastructure.[37]

With all of that in mind, Bosnia has not been left out of the Chinese efforts to integrate it into the DSR. In 2018, Bosnia and Herzegovina hosted the Third China-CEEC Conference on Innovation Cooperation. On that occasion, the Ministry of Communications and Transport of Bosnia and Herzegovina has signed an agreement with a Chinese company that includes technical support to the 'Smart City' and 'Safe City' projects in the country.[38] Under the same framework, the City of Sarajevo and Huawei signed a cooperation agreement for the implementation of 'Smart City' solutions in the country's capital.[39]

Huawei has a strong presence through Huawei Technologies Bosnia and is present in the existing infrastructure. BH Telekom[40] showcased the possibility of the 5G rollout in the partnership with the current partners – Ericsson, Samsung, and Huawei.[41] Except for BH Telekom, Huawei actively cooperates with the other major carriers in Bosnia and Herzegovina as well, including both HT Eronet and M:Tel, including the preparation for the future development of the 5G network. Huawei also established cooperation with the Mostar University and has included experts from Bosnia in the company's global talent program.[42] In 2020, Huawei launched the 'Seeds for the Future' program, dedicated to IT students, and has included 10 representatives from Bosnia and Herzegovina, in addition to the students from Hungary, Slovenia and Cyprus. Bosnia is, together with Serbia and North Macedonia, one of the three Western Balkans countries where the global 'Seeds for the Future' program is being implemented.[43] The program is described as a chance for students to gain new skills and knowledge about Huawei's experience in the field of 5G, artificial intelligence, and cybersecurity, but also leadership and Chinese culture.[44] Additionally, Huawei's presence in this country is amplified by the media presence, especially through web portals like Klix.ba, which have published many positive articles and interviews with Huawei's executives over the past several years.[45]

Out of six Western Balkans countries, three of them have already distanced themselves from DSR through alignment with the US 'Clean Network' initiative. Kosovo, North Macedonia, and Albania have joined the initiative and limited, if not fully banned, the presence of the Chinese telecommunication companies in their respective countries. These decisions were influenced by relations each country has with Washington, whereas the EU did not play a role in the process.

Serbia: The Focal Point of China's 'Digital Silk Road'

Serbia has developed extensive and strategic relations with China over the past decade. The partnership has also included cooperation within the framework of the DSR. Bearing in mind that Serbia enjoys the most comprehensive relationship with China among the Western Balkan countries, it is not surprising that the level of cooperation in this respect is also the most developed.

Serbia and China signed the Strategic Agreement on Economic, Technological, and Infrastructural cooperation in 2009.[46] That agreement was a starting point for the development of the contemporary relations between two countries and a cornerstone for future joint projects. With the development of economic ties, a close political relationship was established as well. During the visit of Chinese leader Xi Jinping to Belgrade in 2016, the two countries established a Comprehensive Strategic Partnership.[47] Serbia has been a prominent proponent of the 17+1 initiative, regularly participating at the summits on the highest level. The relationship between the two countries has been described as a 'steel friendship' and has positioned China as one of the most important foreign actors in Serbia.

While for Serbian officials, membership in the EU remains a proclaimed strategic goal, Belgrade continues to foster relations with the other partners from the West, as well as the East. Russia has traditionally been seen as the number one ally for Belgrade. Yet, during the past decade, China has extensively increased its presence in the country. While the EU is the most important partner for Serbia when it comes to trade and foreign direct investment, China is often highlighted as the most important partner towards the Serbian public by the government. This was only confirmed during the pandemic, when China has aided Serbia with deliveries of medical equipment and later vaccines, while the EU's help was downplayed.[48]

DSR is a part of this extensive relationship. China had been present in the process of digitalization in Serbia even before the Chinese initiative was officially announced in 2015. DSR has expanded in Serbia to the security sector, local self-government, technology and innovation, and IT Industry. Serbia and China signed the MoU on Strengthening the Development of Information Silk Road for Information Connectivity in 2017.[49] Shortly after the agreement was signed, Belgrade hosted the Information Silk Road for Information Connectivity summit that has served as an official launch of the joint efforts in the implementation of the initiative.[50]

Digitalization and innovation are important components of the Serbian ruling coalition's policies. The promotion of new technological achievements and the 4th industrial revolution is presented as a developmental opportunity for Serbia. In October 2020, after she was reappointed as Prime Minister of Serbia, Ana Brnabić highlighted the importance of the further transformation of the Serbian economy, digitalization, and the development of artificial intelligence.[51] Chinese companies are

a major partner in this endeavor. Huawei, among other companies, had been involved in the Serbian telecommunication sphere even before the Strategic Agreement was signed in 2009. But, telecommunications are not the only aspect.

Huawei's office in Serbia was opened in 2007[52] and has since served as a hub for the whole Western Balkan region. The initial rumor was that Huawei would choose the Serbian National Data Center as its regional data center[53], but for now, Huawei is just a commercial user. While not the first of the companies that have signed the commercial agreements to be a part of the state-owned data center in Kragujevac[54], Huawei became the commercial user of the data center in December of 2020.[55] Huawei also signed an agreement and provided a grant to Serbia for the development of the AI platform[56] and cloud infrastructure for the National Data Center.

In addition to national data center, Huawei solely funded the second data center in the same city - Kragujevac City Data center, providing a grant of $2 million for the needed equipment.[57] Finally, in September 2020, Huawei officially opened its Digitalization and Innovation Center in Belgrade. During the opening ceremony, the center was presented as a hub that will focus on identifying new talent - individuals, startups, or just local companies. Huawei's regional director, Li Mengqun, said that the partnership with Huawei will help Serbia to bolster its position as one of the world's leading IT players.[58]

Now present for more than a decade, Huawei has been consistently courted by the Serbian official. In May of 2020, the then minister for technological development, Nenad Popović, stated that "Huawei has come to Serbia to stay for a long time."[59] As cooperation between Serbia and China intensified, so did the number of joint projects between Serbian stakeholders and the Chinese telecommunications company rise.

HUAWEI'S INVOLVEMENT IN TELECOMMUNICATION

Serbian state-owned telecommunication company, Telekom Srbija has been a long-standing partner of Huawei in various projects. The framework agreement between Telekom Srbija and Huawei for the ALL-IP project was signed during Chinese President Xi Jinping's visit to Serbia in 2016. General Director of Telekom Srbija, Predrag Ćulibrk said that the two sides signed amendments three months after the visit, creating a legal framework for his company to purchase equipment, services, and infrastructure from Huawei.[60] The total value of the project was reportedly €150 million. The project that is implemented by Huawei in Serbia should improve the broadband internet infrastructure network and access to the internet across the country, as described by the then-minister Rasim Ljajić. Ljajić said that the value of the overall project of modernization of the network was estimated between €800 million and €1 billion and that Serbia is looking for the right model of cooperation, including the possibility of a private-public partnership with Huawei. That means that at the end of the project, part of the broadband internet infrastructure in Serbia could be owned by Huawei. Speaking to this issue, Ljajić said: "We have some examples that some countries did the entire network, some provided subsidies for big companies to do their network, and we will probably combine the models to save the money

and ensure the objective to be realized."[61] The details of the agreement have not been made public.

As for all of the other projects mentioned in this publication, the procedure of purchase was not made public or explained. It was not clarified how the state-owned telecommunication company decided to partner with Huawei on the project. Neither was explained why there was no tender procedure and why other offers were not taken into consideration. The explanation could be that those agreements are based on bilateral strategic bilateral agreements. If the projects are characterized as infrastructural telecommunication projects, they could fall under the Strategic Agreement, meaning that Serbia and China can implement the project without following the standard competition rules, including the tender procedure.

As a state-owned telecommunication company, Telekom Serbia is the beneficiary of agreements made by the Ministry of Trade, Tourism, and Telecommunications. Telekom Serbia holds almost 80 percent of the landline network, 45 percent of the mobile network share, and 40 percent of the broadband internet network share.[62] That makes it the telecommunication company with the largest share in the most important aspects of the market. Close connections between Huawei and Telekom Srbija are making Huawei an important factor in future developments, including participation in the 5G infrastructure rollout.

Huawei is not cooperating only with Telekom Srbija when it comes to telecommunication companies. One of the 'big three' telecommunication companies in Serbia, Telenor, used Huawei's equipment for the 5G base station test trial in June of 2019.[63] Telenor is not a state-owned company, it is owned by PPF Group, a large investment conglomerate. Given that it was just a test and that Telenor is still waiting for the full rollout of the 5G network, it is yet to be seen whether Huawei will be the partner in that case as well.

The question of the role of Chinese companies in the 5G network rollout in the country remains unanswered. So far, Serbia has not officially joined the 'Clean Network' initiative and has not forbidden Huawei or any other Chinese company to participate in the future 5G infrastructure. Serbian telecommunication regulator RATEL was supposed to hold an auction for the 5G frequencies in the second half of 2020. Mobile providers were supposed to compete for their share in the future 5G network, and the construction of the first base stations. Each provider will choose its supplier and for now, there are no limitations on who that supplier can be. Because of the COVID-19 pandemic, the auction was moved to the first quarter of 2021.[64] At the end of December 2020, Prime Minister Brnabić said that Serbia will delay the rollout of the 5G and that the tender would not be held in 2021 either[65], arguing that the economic consequences of the COVID-19 pandemic' made the tender infeasible. With that, the choice of vendors has been put on hold. While the Serbian officials are explaining the move with economic reasons, the true reason is more complex and influenced by the Washington agreement that Serbia signed in September 2020.

BIG BROTHER IS WATCHING

Huawei's annual report from 2018 states that the 'Safe City' project is being implemented in more than 700 cities and 100 countries around the world.[66] The project includes countries like Brazil, Mexico, South Africa, but also Spain, France, and Italy.[67] Huawei describes 'Safe City' as a project that enables the digital transformation of public safety. Most prominently, it includes a network of surveillance cameras equipped with AI facial recognition software.

China itself has the biggest surveillance system in the world[68] with the estimation that it has around 300 million cameras installed in 2020. Researchers argue that the Chinese government uses this kind of surveillance to strengthen the authoritarian regime and suppress the rights of its citizens.[69] This is especially the case in the Xinjiang region and the Uyghur minority.[70] In 'Safe City' projects, Chinese technology is implemented abroad.

Surveillance systems as a tool for securing the safety of the citizens are not uncommon in democratic countries. What does raise concerns, however, is the fact that with the export of this technology, China could also export its way of governance. When countries with a questionable human rights record or autocratic inclinations purchase this equipment from China, it is justified to ask how this equipment is to be used.

This was a question when the Serbian Minister of Interior announced that 1000 cameras will be installed on 800 locations in Belgrade as part of a 'Safe City' project in January 2019.[71] While it was not said during the announcement, the supplier of the equipment was Huawei. Serbian think-tank SHARE foundation filed a request for information to the Ministry of Interior, including the question about how Huawei was chosen as a supplier. SHARE foundation also inquired about the public procurement process but did not get an answer because the information about the procurement process was classified as 'secret'. In an official response published by the SHARE foundation[72] the chronology of the cooperation on the project was presented.

Serbian Ministry of Interior and Huawei Technologies Co Ltd (Huawei) started the negotiation about the possible incorporation of the 'Safe Society' project (the original name of 'Safe City') back in 2011. The negotiations were held under the auspices of the Strategic Agreement between Serbia and China signed in 2009. The follow-up to the start of the negotiation happened in 2014 in Belgrade. The Ministry of Interior and Huawei signed an MoU on cooperation and next steps in the realization of the 'Safe Society' project. The MoU was formalized with the strategic partnership agreement for the installation of eLTE technology and creation of solutions needed for the implementation of 'Safe City' project in 2017. This was the beginning of the phase one of cooperation that included the replacement of 100 existing surveillance cameras in 61 locations across Belgrade. Finally, in 2019, when the project was publicly announced, Phase two of the project started, including the installation of additional 1000 surveillance cameras with the integrated facial recognition software at 800 locations across Belgrade.

Since the launch, new cameras are being installed almost constantly. The Ministry has made public the 290 locations where the Huawei cameras are being installed, but without the exact number of devices.[73] SHARE Foundation has initiated the civic

action called #1000kamera[74] (#1000cameras) with the idea to monitor the process of installation, to ensure that it is in accordance with the law and that the privacy of the citizens will be respected. Supporters of the initiative have been able to map 1001 cameras in 447 locations across Belgrade.[75] The difference between the collected numbers and the information provided by the Ministry could be a consequence of a delay on its behalf. The Ministry is obligated, by law, to publicly publish all locations of the surveillance cameras.

It is important to note that while Huawei's 'Safe City' has gained the most public intention, Huawei is not the only supplier from China when it comes to security surveillance technology. Chinese Dahua technologies has been present in Serbia since 2016, providing video surveillance solutions for commercial use, but used as a public safety tool as well. The most prominent user of the Dahua technology equipment is the Belgrade Nikola Tesla Airport, but as stated by the representatives of the enterprise in charge of the airport, surveillance cameras were installed by the hired subcontractors.[76] Another Chinese company whose products are installed across Serbia is Hikvision.[77] There were nearly 900 internet-connected surveillance cameras manufactured by Hikvision across Serbia as of June 2020.[78] In an official response to the question about the use of the Dahua and Hikvision cameras, Serbian Ministry of Interior has stated that it does not have any established cooperation with Hikvision and Dahua, but it does have one with Huawei, through the 'Safe City' project.[79]

The Ministry of Interior has presented the 'Safe City' project as a way to increase public safety, a tool for the faster resolving of criminal cases, and overall improvement of the safety of Belgrade citizens. However, the Serbian general public and experts raised significant concerns, mostly related to the potential misuse of the facial recognition software that is included in the surveillance devices. Specifically, the unclear procedures on how the collected data will be saved and used, who will have access, and for how long the data will be stored, were highlighted.

With a high level of centralization of power and political system that is backsliding to autocracy,[80] a question about the potential misuse by the user of the equipment was the right question to be asked. The equipment per se and the fact that the equipment was purchased from the Chinese vendor was not among the main reasons for the raised concerns. The issue is whether Serbia is trying to establish a system of digital governance that stresses more government control, both on the national and the local level. One of the concerns of the increased level of cooperation with China is that the same surveillance practices and overall governance philosophy may be adopted in Serbia.

The stance on this issue is not unified. One of the arguments for the potential spread of 'techno-authoritarianism' as a way of governance is the spread of the China-backed 'Smart City' projects. While 'Safe City' is presented as a system that would increase the safety of the citizens through technological solutions, the latter is a broader concept described as a unit of local self-government that uses different methods to collect large quantities of data that would enable better governance systems in the mentioned areas. Not all 'Smart Cities' are the same, and different units require different solutions. What Huawei does is that it offers a set of solutions, based on big data, that an interested actor may implement to transform into the 'Smart City'.[81]

When it comes to Serbia, the government signed an MoU for the development of the 'Smart Cities' in Serbia with Huawei in April 2019.[82] It was also announced that the purpose of signing the document was the development of a 'Smart City' strategy, through the positioning of Huawei as a strategic partner for cities and local governments like Niš, as a pilot project, as well as Belgrade and Novi Sad.

The partnership between Serbia and Huawei has been lifted on the strategic level during the last decade. Huawei is present in telecommunications, governance on national and local self-government level as well as the security sector. It shows that the DSR has reached Serbia and made it the focal point in the Western Balkans. However, cooperation could come with a price. If Serbia relies too much on Huawei and China in its technological development and does not differentiate partner companies and suppliers, it may become too dependent on its Chinese partners. The absence of diversification can jeopardize the sustainability of the system, the possibility of further improvements of the system in the future, and ultimately may result in potentially harmful impact by Chinese companies.

Still, as Serbian officials said, Huawei has come to Serbia to "stay for a long time". There are no signs that the Serbian government wants to reassess its relationship with the company, in spite of the external pressure.

WASHINGTON AGREEMENT – THE PAPER TIGER

On September 4, 2020, in Washington, Serbian President Vučić, signed the agreement on the normalization of economic relations between Serbia and Kosovo. The Washington agreement was separately signed with the US by the representatives of Serbia and Kosovo and the process was facilitated by the US President Trump. One more actor was affected by the signed document, although it was not mentioned by name. Article 9 of the agreement stated: "both parties will prohibit the use of 5G equipment supplied by 'untrusted vendors' in their communications networks. Where such equipment is already present, both parties commit to removal and other mediation efforts in a timely fashion."[83]

It was clear that Article 9 referred to Chinese suppliers. With this, Serbia's commitment to China was surprisingly tested. Implementation of the mentioned article would mean that Serbia will distance itself from China and Huawei as a strategic partner. While Kosovo, as expected, decided to formally join the 'Clean Network' initiative with an additional MoU signed with the US in October of 2020, Serbia did not sign a separate agreement with the US on the issue, nor has it introduced relevant legislation. After the 2020 parliamentary elections in Serbia, the parliament is controlled by the Serbian Progressive Party, led by Aleksandar Vučić.[84] That means that there are no political obstacles for the law to be adopted if there is a political will.

Aware that the 5G article could be harmful to the relationship with Beijing, Serbia tried to mitigate the fallout. The first foreign representative that Vučić met following his meeting in Washington was the Chinese ambassador to Belgrade, Chen Bo. On that occasion, Vučić said that "Serbia will preserve true friendship with China and continue to develop bilateral cooperation in all aspects, including telecommunications".[85] That cooperation has not been disturbed shows the fact that Huawei opened

its Digitalization and Innovation Center in Belgrade only 10 days after the Washington agreement was signed. The opening of Huawei's center was attended by Prime Minister Brnabić, who said that she had spoken with Huawei representatives and that there are no misunderstandings regarding the Washington agreement. Brnabić said that Serbia will have an open and transparent tender for partners when the time for the 5G network rollout comes.[86]

Since then, the tender for the 5G rollout has been delayed. This has enabled Serbia some breathing space, choosing not to align either with the US or China on this issue. The fact remains that without the US pressure, there are no other reasons for Serbia to limit Huawei's participation. As a country that aspires to membership in the EU, it can't look in the direction of Brussels, because there is no unified stance on the issue in the EU, and so far, the US has been more involved.

So far, the Washington agreement did not influence overall relations between Serbia and China, as well as aspects of cooperation that would fall into the DSR. Having the strategic partnership with China in mind, Serbia should follow further developments in the region and the EU. When the time comes for the 5G rollout, Serbia must have a transparent tender process and should be ready to diversify the supply chain to assure its national security and the security of its citizens.

Conclusion and Recommendations

When it comes to the Western Balkans, the level of cooperation with China under the auspices DSR widely differs. Cooperation depends heavily on the existing level of relations with China, but it is also influenced by the other actors, first and foremost the US and its 'Clean Network' initiative, and, to a limited extent, the EU.

The question of the 5G network rollout has dominated the conversation about cooperation in the digital sphere with China. North Macedonia, Albania, and Kosovo have aligned with the US and expressed readiness to take steps to forbid 'untrusted vendors' from participating in the upcoming tenders for the 5G infrastructure. Montenegro, Bosnia and Herzegovina, and Serbia have not joined the 'Clean Network' initiative, nor have they banned the involvement of Chinese companies in the future 5G network.

Serbia is a specific case because of the strategic partnership it has developed with China during the last decade. It has established a close partnership in the digital sphere, becoming a focal point of the DSR in this part of Europe. Through strategic projects in the sphere of telecommunications, 'Safe City' project in the security sector, and the announced 'Smart City' project that will include a governance system on the local level, Serbia has established itself as a reliable and significant partner of China and Chinese companies on the DSR.

Cooperation with China comes with challenges and potential concerns, but it is still up to the national governments and policymakers to provide assurances that the Chinese presence doesn't come with harmful consequences. That is especially important in the Serbian case because it will be government that will be the one to use the equipment and technology provided by the Chinese partners. In doing so, they have to respect the rights of Serbian citizens and to ensure their safety.

As the most significant partner of China in the region, Serbia is most open to the Chinese influence through the DSR. However, the other Western Balkans countries should not be overseen and neglected when it comes to building a resilient and secure digital future. All the Western Balkans countries should continue to work on the process of digitalization but should diversify partners and avoid relying solely on China and DSR.

The Western Balkans nations should be included in rule-setting processes led by the EU and should closely coordinate future steps. Western Balkans has to see that the future of the region is within the EU. The EU should pay attention to the 5G rollout in countries of Western Balkans as the countries will become members of the EU in the future, and the EU should encourage and motivate the regional countries to implement the EU 5G Toolbox.

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About CHOICE

The publication was prepared within the China Observers in Central and Eastern Europe (CHOICE) collaborative platform. CHOICE monitors and evaluates the rising influence of the People's Republic of China in countries of Central and Eastern Europe. CHOICE strives to build a multinational platform for open discussion, experience-sharing and critical assessment. CHOICE is run by the Association for International Affairs (AMO), a Prague-based foreign policy think tank and NGO.

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