

**The construction of the 56.7 km long Kičevo-Ohrid highway began in March 2014, and will eventually become part of the Pan-European Corridor 8, linking the country with Bulgaria to the east and Albania to the west. The construction of the 53 km Miladinovci-Štip motorway will provide the city of Štip with access to Pan-European Corridor 10, which connects North Macedonia with Greece and Serbia.**

The Chinese involvement in North Macedonia's highways was part of an effort by the former Prime Minister Nikola Gruevski to attract foreign investment in the country. In July 2013, a Macedonian delegation visited China to showcase investment opportunities to Chinese companies. A few months later, on November 2013 officials from the government of North Macedonia and China Exim signed a loan agreement of USD 580 million for two new motorway segments. The agreement was decided without a tender.

The interest rate on the loan is 2 per cent with a payback period of twenty years and a grace period of five years. The loan agreement further stipulates that the Chinese Sinohydro Corporation Limited, a company suspended from World Bank projects since December 2013, will provide oversight and 49 per cent of the construction labour force. According to the contract for the construction of the motorways, Sinohydro Corporation Limited is the main contractor, the Macedonian Granit Construction Stock Co is the nominated sub-contractor, the Consorcium GIM, Euroconsulting and GEING Krebs und Kiefer are designated as the engineers of the projects, while the Macedonian public enterprise for state roads is the employer. As such, the deal is typical of Chinese projects in Southeast Europe that combine Chinese construction and financing without a tender.

A series of environmental and geotechnical issues put the sustainability of the project into question. First, in 2016, UNESCO raised concerns about the environmental impact of the highways on the Natural and Cultural Heritage of the Ohrid region, noting the absence of a strategic environmental assessment (SEA) in relation to the construction plans. Following an evaluation of the situation on the field in 2017, UNESCO also requested that the government of North Macedonia urgently undertakes "a comprehensive comparative study of alternative routes for the railway of the Pan European Corridor VIII." The new government of North Macedonia committed to completing the SEA by October 2018, but a 2019 draft decision places the region on UNESCO's endangered heritage list.

Second, the Kičevo-Ohrid highway cuts through the natural habitat of the Balkan lynx, a critically endangered species according to the International Union for Conservation of Nature. Their tiny population of around thirty animals has been declining due to pressures from infrastructure projects in the area, yet no green corridors were planned for the Kičevo-

Ohrid highway. Rather than a choice between development and preservation, this is better understood as a failure to implement already agreed and tested measures to mitigate the undesirable effects of development.

Poor planning affected not only the environmental impact provisions of the deal but the actual construction of the highway as well. The main issue at hand was land erosion, as North Macedonia is one of the most affected countries in the Balkans, with 96.5 per cent of its total area under threat of erosion. In the western part of the country, where the Kičevo-Ohrid highway construction is located, the terrain is steep and rugged, caused by deep erosion. Although the problem is well known, in July 2018 the current minister of transport Gjorgji Sugareski announced that poor planning has led to landslides on parts of the section, delaying the entire project. The government launched a public inquiry, which discovered that the project lacked minimal geotechnical and geomechanical soil testing, leading to severe problems in certain parts of the highway. As a result of the above, construction work on the Kičevo-Ohrid highway stopped in 2017, as the project faced many unplanned delays which raised its total cost.

The above were just some of the many irregularities involved in this project. The inquiry also revealed unsolved expropriation disputes that increased the cost of the project further. To make matters worse, the 2015 wire-tap scandal, exposed evidence of extensive corruption by Gruevski himself and other members of his government involving foreign deals. In May 2017, the Special Prosecution (SJO) launched a corruption investigation codenamed “Traektorija” which is linked to the construction of the highways. VMRO-DPMNE, North Macedonia’s ruling party at the time of the highway construction agreement, and former prime minister Nikola Gruevski were accused of money laundering and illegal financing. Following these and other charges of corruption, Gruevski fled the country and has been granted asylum in Hungary. Although initially set for a trial in absentia, the time limitation on the “Traektorija” case ultimately expired in late 2019. As for the project itself, after a year of negotiation with Sinohydro Corporation Limited, the newly elected Macedonian government led by prime minister Zoran Zaev signed a third annex to the agreement with the company at the beginning of November 2018 and agreed to add EUR 187 million to the original price so construction work can continue. The government will take out a new loan from the China Exim, increasing the total cost of the Kičevo-Ohrid road from EUR 411 to EUR 598 million.

To sum up, the Kičevo-Ohrid highway case highlights the regulatory weaknesses involved in bilateral loan-to-construct deals that are typical of Chinese construction in the region. Without an international tender, corruption and disregard for environmental impact have

undermined the completion of the highway that has since become a controversial project. Responsibility for this situation lies primarily with the two parts involved, Sinohydro and the former Macedonian government, but mainly at the latter's unwillingness to assess the highway's sustainability. At the same time, the EU's ambiguity on North Macedonia's accession means that the current regulatory weaknesses can only be remedied through domestic changes, not through harmonisation with EU standards and laws.

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