

# ВНЕШНЕЭКОНОМИЧЕСКАЯ ПОЛИТИКА КНР

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## BETWEEN ASPIRATION AND REALITY: SINO-SERBIAN ECONOMIC RELATIONS<sup>1</sup>

**Abstract.** China and Serbia maintain active economic cooperation within the framework of two Chinese initiatives — Belt and Road and China-CEEC<sup>2</sup> Coordination Mechanism. Since 2009, cooperation has constantly been growing, both in terms of trade and investment and, finally, in terms of financing various infrastructure projects through Chinese loans. Regardless of the two countries' excellent, primarily political relations, it is necessary to objectively look at the actual economic forms of cooperation and options for their improvement.

The methodology used in this paper is the qualitative analysis and descriptive statistics. Displayed results in the paper showed significant trade growth between China and Serbia, but also the accelerated degradation of the structure of Serbian exports.

As investments in Serbia are concerned, Chinese companies have invested in the exploitation and processing of copper, steel, and automobile industry, which is of great importance for the Serbian economy, given that these are essential export sectors. Chinese loans were disbursed for the projects of Serbian infrastructure, which was outdated and devastated, and its renewal was necessary.

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<sup>2</sup> CEEC — Central and Eastern European Countries.

The main recommendations for improving cooperation in trade are to increase Serbian exports to China through products with higher added value, and at the same time, it is necessary to negotiate the reduction or elimination of customs duties for certain product groups.

Chinese investments in Serbia are successful, and infrastructure project works are going smoothly, with Serbia fulfilling its financial obligations to China.

**Keywords:** economic cooperation, China, Serbia, reality, aspirations.

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### **Китайско-сербские экономические отношения: между желаемым и действительным**

**Аннотация.** Китай и Сербия ведут активное экономическое сотрудничество в рамках двух китайских инициатив — «Пояс и путь» и Координационный механизм «Китай — ЦВЕ»<sup>1</sup>. С 2009 г. это сотрудничество неуклонно расширяется как в плане торговых отношений и инвестиционного взаимодействия, так и в аспекте финансирования различных инфраструктурных проектов посредством китайского кредитования. Несмотря на превосходные, в первую очередь политические, отношения двух стран, необходимо объективно взглянуть на реальную картину экономического сотрудничества и возможные пути его совершенствования.

Методология, используемая в данной статье, представлена принципами качественного анализа и иллюстративности статистических данных. Полученные результаты показывают факт значительного роста товарооборота между Китаем и Сербией, но также и ускорение деградации структуры сербского экспорта.

Что касается инвестиций в сербскую экономику, то китайские компании направили капиталовложения в добычу и переработку меди, производство стали и в автомобильную промышленность, что имеет большое значение для экономики страны, учитывая важность этих экспортных отраслей. Китайские кредиты были направлены в

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<sup>1</sup> «Китай и страны Центральной и Восточной Европы» (прим.ред.).

Сербии в проекты по обновлению устаревшей и разрушенной инфраструктуры, нуждавшейся в модернизации.

Основными рекомендациями по улучшению сотрудничества в сфере торговли являются увеличение сербского экспорта в Китай за счет продукции с более высокой добавленной стоимостью и одновременно — проведение переговоров по снижению или отмене таможенных пошлин на определенные группы товаров.

Китайские инвестиции в Сербию успешны, и работы по инфраструктурным проектам идут без затруднений. Сербия выполняет свои финансовые обязательства перед Китаем.

**Ключевые слова:** Китай, Сербия, экономическое сотрудничество, соотношение желаемого и действительного.

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**Конфликт интересов:** Авторы заявляют об отсутствии конфликта интересов.

## Introduction

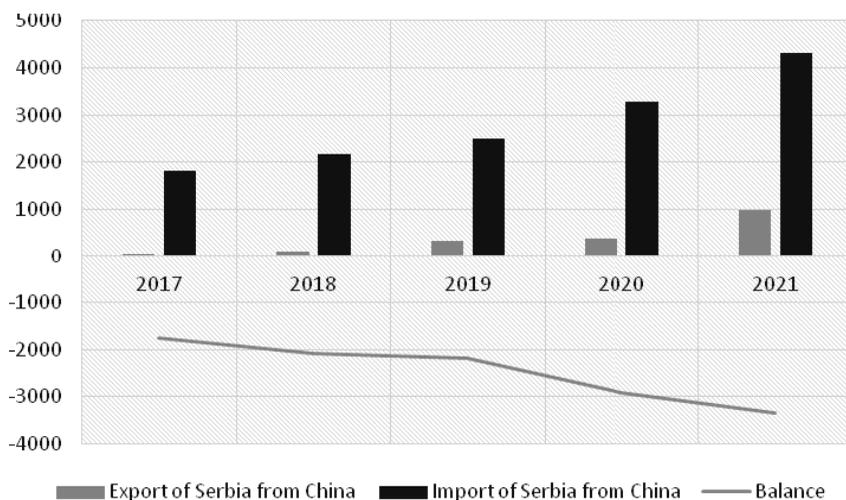
As one of the most powerful economies globally, which has successfully overcome decades of economic problems and poverty, China has the potential to influence the economic development of other countries positively. Even though Serbia is not neighbouring China, nor is its economy compatible with the Chinese in any way, the relations of economic cooperation between China and Serbia are developing increasingly.

The subject of this analysis is the current situation, dynamics, effects, and challenges of economic relations between China and Serbia, with particular reference to a certain discrepancy between the aspirations of both countries and the reality of their relations. Applying qualitative and descriptive statistical analysis deals with the key aspects of foreign trade, investment, and financial arrangements between China and Serbia.

## Bilateral trade relations between Serbia and China

The cooperation between China and Serbia in trade has sharply intensified in the last three years. Although the China-CEEC Coordination Mec-

hanism has provided a solid incentive to China's trade with the countries of this region for years [Chen, Yang, 2016], in the case of Serbia, it cannot be regarded as the only reason for the expansion of bilateral trade. Serbian export to the Chinese market has multiplied, but so has the import from China. In 2017, Serbia sold only 0.3 % of its total exports to China, and in 2021, exports reached 3.8 %. Serbia's exports in 2021 are almost three times higher than in 2019 and 2020 and ten times higher than in 2018. Despite Serbia's exports growing faster than imports, Serbia's trade deficit has increased dramatically from -1.7 billion USD in 2017 to -3.3 billion in 2021 (Graph 1) due to the high absolute value of imports from China. In that respect, Serbia does not differ much from the most developed countries, which also have a significant deficit in trade with China due to high competitiveness and the volume of Chinese products on the global market.



**Graph 1.** Trade between Serbia and China in the period from 2017 to 2021 (in millions of USD). *Source:* The Statistical Office of the Republic of Serbia, <https://www.stat.gov.rs> (accessed: 20 March 2022).

Apart from the constant growth of the deficit, one can notice a very unfavourable structure of Serbia's exports in the Serbian-Chinese trade relations. Processed copper occupied a crucial place in Serbia's exports to China until 2020, accounting for about 2/3 of exports to China in recent years. This is not a highly processed product but includes significant added value compared to primary sector products. However, in 2021, the export structure deteriorated due to the rapid growth of exports of only one product —

copper ore. It is a primary product that did not have its place on the Chinese market until 2020 due to the low price per unit of product and the distance between the countries. The value of copper ore exports in 2021 amounted to more than 500 million USD out of a total of 972 million USD, or 52 % of total exports to China. In 2021, copper and copper ore combined accounted for 85 % of Serbian exports to China.

This trade structure is favourable for China generating a huge surplus by importing raw materials while exporting finished goods. In addition, China has a growing need for copper, which is a necessary raw material in industrial production both in terms of electronics production, and in terms of green energy<sup>1</sup>, which has a central place in China's new energy policy aiming to achieve carbon neutrality by 2060.

Apart from the copper ore, raw wood and unprocessed silver have a relatively high export share as primary sector products. Serbia did not export silver to China until 2020, when exports amounted to about 8.6 million USD, while in 2021 decreased to 4.5 million USD. There are expectations of increased exports of unprocessed silver for the oncoming period, given the same origin (Bor copper mine) and the same Chinese company (Zijin Mining). In 2020, silver exports to China accounted for 99 % of the total silver exports from Serbia. The total exports of raw silver from Serbia are slightly higher than in previous years but not as dramatic as in the case of copper ore.

The increase in the export of copper and silver ore is a consequence of purchasing the majority of shares of RTB Bor, the most significant Serbian producer of copper, gold, and silver, by the Chinese company Zijin Mining, at the end of 2018. The export of copper ore will rise in the coming years because the Ministry of Mining and Energy of Serbia issued a decision to Zijin Mining in June 2021 for the construction and operation of the copper and gold mine "Čukaru Peki" — a copper deposit near the town of Bor.

Serbia's trade position with China is unfavourable due to monolithic exports, limited to four products, which account for 90 % of exports, but even more so because 55 % of exports are raw materials. In addition to the

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<sup>1</sup> In the green energy sector, copper is used in the production of solar panels, wind turbines, as well as offshore windfarms. Namely, copper has extremely high thermal and electrical conductivity, which makes it an integral part of the production of any electrical infrastructure. Speaking of solar panels, copper is used for cables and wires, and China is the largest global manufacturer of solar panels. As for wind turbines, copper is used to produce turbines, cables and transformers. In terms of wind turbines, in 2021, China was the country that invested the most in the construction of wind turbines on its territory. Copper is of special importance for the operation of offshore wind turbines, because of large quantities of copper which are used to make submarine cables.

unfavourable position in bilateral relations, one Chinese company only (Zijin Mining) has reshaped the entire export structure of Serbia in two years. Until 2020, ore export was generally not in Serbia's first 50 export sectors, while in 2020, they reached 30<sup>th</sup> place. In 2021, it took as high as 7<sup>th</sup> place in the total export of Serbia.

A particular problem, typical for resource economies, is the dramatically reduced period of exploitation. Exports of unprocessed ore compared to products with a lower degree of processing decreased export earnings in annual terms. However, this is a minor problem because such a pace of exploitation multiplies the speed of the ultimate exhaustion of resources. Specifically, in the case of the "Čukaru Peki" mine, a production plan of 3.3 million tons of copper ore was announced during the takeover of the company. The total reserves being slightly less than 37 million means that the mine will be used up in 11 years.

Other products that have a relatively important place in Serbian exports to China are some electrical and mechanical industry products (water pumps, electric motors and generators, and spare parts), frozen beef, and cigarettes.

Regarding Chinese exports to the Serbian market, the most exported products are mobile phones, computers and monitors, clothing, iron and steel products, measuring products, footwear and clothing accessories, plastic, furniture, vehicles and vehicle parts, tires and products of rubber [Statistical Office of the Republic of Serbia].

## Chinese investments in Serbia

Countries on major transit routes in all world regions are attracting large amounts of Chinese investment under Belt and Road Initiative (BRI) [Yiwei, 2016; Vinokurov, Tsukarev, 2018]. Due to its significant position on transit routes between Eastern and Western Europe, Serbia has attracted significantly more Chinese FDI than neighbouring countries.

The first small entrepreneurs from China came to Serbia in the 1990s. They opened independent shops, selling consumer goods, mostly of lower quality. Within the BRI and the China-CEEC Coordination Mechanism, the number of investments has increased sharply since 2014. According to the data shown in Table 1, the total amount of Chinese investments in Serbia in 2014–2022, in acquisitions, joint ventures, and FDIs, is 2.77 billion USD.

Table 1. Chinese investment projects in Serbia (January 2014 — March 2022)

| Project   | Chinese partner/investor                     | Type of the project                   | Sector        | Status (finished, in progress) | Value   |
|---|--|---------------------------------------|---------------|--------------------------------|---|
| Hesteel, Smederevo                              | HBIS Group Iron and Steel                    | acquisition                           | metallurgy    | finished                       | €300 million  |
| Mei Ta, Obrenovac                               | Mei Ta                                       | joint venture with Serbian Government | auto industry | finished                       | \$110 million                                       |
| Zijin Mining, Bor                               | Zijin Mining                                 | acquisition                           | metallurgy    | finished                       | \$1.26 billion and \$200 million for previous loans |
| Shandong Linglong tire company, Zrenjanin       | Shandong Linglong                            | FDI                                   | auto industry | in progress                    | €800 million  |
| Yanfeng, internal entirior for cars, Kragujevac | Yanfeng Seating                              | FDI                                   | auto industry | finished                       | €40 million   |
| Yanfeng, car security systems Kragujevac        | Yanfeng Seating                              | FDI                                   | auto industry | in progress                    | €18 million   |
| Xingyu, lights for cars, Niš                    | Changzhou Xingyu Automotive Lighting Systems | FDI                                   | auto industry | finished                       | €60 million   |
| Minth, Loznica and Šabac                        | Minth  | FDI                                   | auto industry | finished                       | €100 million  |
| Eurofiber, yarn, Čuprija                        | China Prosperity Industrial Corporation      | FDI                                   | textile       | finished                       | €1.1 million  |

Source: Authors' data collection.

The most significant Chinese investments are in the previously mentioned copper mine in Bor, Zijin Mining Bor, and the tire factory Shandong Linglong in Zrenjanin. There is a noticeable trend of Chinese investments in the automotive industry. As many as five companies have invested in the auto industry (Mei Ta, Shandong Linglong, Yanfeng, Xingyu, and Minth), and they are already announcing the expansion of existing capacities. Chinese investors have seen the situation in the Serbian market and noticed that Serbian workers have extensive experience in the automotive industry and that there is unused potential for their employment. Namely, the Italian car factory Fiat from Kragujevac has been doing poorly for years and is gradual-

ly withdrawing its production from Serbia, leaving many workers without a job. Nowadays, some of them can find a job in Chinese companies.

Company Hesteel made the acquisition of the steel plant *Železara Smederevo*. In previous times, this steel plant used to generate huge losses for decade, with the Serbian state paying social and health contributions and minimum wages for 5,000 workers. Today, Hesteel Smederevo is one of the largest exporters from Serbia, next to *Zijin Bor*, exporting steel primarily to the European market.

All these investments have been successfully realized and are mutually beneficial. In general, the cooperation between China and Serbia in the field of investment has significantly better effects on the Serbian economy than bilateral trade. The positive effects on the Serbian economy are more visible than FDI from EU countries [Stanojević, Jovanović, 2019]. The key reason is the placement in manufacturing and export activities, as opposed to European FDI, which is mostly concentrated in non-manufacturing activities, such as retail chains and banks [Hofmann, 2013; Stanojević, Kotlica, 2015].

## Chinese infrastructure projects in Serbia in the form of loans

Chinese loans to the Serbian economy have increased significantly in recent years. They are obtained through cooperation framework China—CEEC and BRI. Most of the projects aim to build and improve infrastructure, which is a precondition for the overall development<sup>1</sup> (Prud'homme, 2004) and has been neglected in Serbia, as well in the CEE countries for years [Bastian, 2017]. In Serbia, loans are used to construct highways, regional roads, railways, a subway, energy infrastructure, etc.

One of the most important projects in Serbia is the renovation of the railway, which is in a poor condition. In Table 2, the first loan relates to the railway section between Belgrade and Subotica, connecting further with Hungary. For Serbia to achieve full positive effects of the one day finalized railway routes, it is necessary to invest in the rest of the railway network — from Belgrade to Northern Macedonia and Greece in the south [Zakić, 2020b, p. 38]. As for road infrastructure, significant improvements and large investments are still required, bearing in mind that Serbia's development strategy is based mainly on attracting foreign direct investment (FDI), and good road infrastructure is a must.

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<sup>1</sup> Prud'homme, R. (2004). Infrastructure and Development, Paper prepared for the ABCDE (Annual Bank Conference on Development Economics), Washington, May 3—5, 2004. Published by Canadian Center of Science and Education.

Table 2. Chinese infrastructural projects in Serbia, loans (January 2014—March 2022)

| Project  | Chinese partner/investor   | Structure of loans  | Sector    | Status (finished, in progress) | Value           |
|--|--|---|-----------|--------------------------------|-----------------|
| High speed railway Belgrade-Stara Pazova and Novi Sad –Subotica  | China Communication Construction Company and China Railway International | Chinese loan (85%) and budget of Republic of Serbia (15%) | transport | in progress                    | \$1.49 billion  |
| Kostolac thermal power plant   | China Machinery Engineering Corporation                                  | Chinese loan  | energy    | in progress                    | \$715.6 million |
| Highway Miloš Veliki (Corridor 11) 1. Surčin-Obrenovac 2. Obrenovac-Ub   | Shandong Hi-Speed Group and China Communication Construction Company     | Chinese loan (85%) and budget of Republic of Serbia (15%) | transport | finished                       | \$541 million   |
| Corridor Fruška gora   | CRBC   | Chinese loan  | transport | in progress                    | €606 million    |
| Traffic bypass around Belgrade, sector B (bridge over river Save near Ostružnica and sections of road 4, 5, 6) | Power Construction Corporation of China                                  | Chinese loan and budget of Republic of Serbia             | transport | in progress                    | €227 million    |
| Belgrade metro   | Power China International Group Limited                                  | /   | transport | in progress                    | /               |

Source: Authors' data collection<sup>1</sup>.

Regarding thermal power plants, it should be highlighted that the Serbian coal reserves are significant, and Kostolac TPP is the crucial electricity producer in Serbia. The modernization project of this plant and the expansion of surface mines is vital for Serbia because it guarantees its energy stability.

As for the terms for China providing funds for these loans, they are relatively uniform for projects with publicly available data in Serbia. These are usually loans of 10—20 years, with a grace period of several years for loans with a more extended repayment period [Pavlicmevicm, 2019]. Interest rates

<sup>1</sup> Belgrade subway is a joint project between Serbia, France (company Alstom) and China. The only part of the project that is known is that project will be worth 4.4 billion euros. It is unknown how much the Chinese company is paid and how this project is financed.

range between 1.5 and 3 %, and loans are primarily provided through Chinese state-owned banks. Loans and projects are agreed upon through bilateral cooperation. Very favourable Chinese lending conditions have led many underdeveloped countries to excessive borrowing<sup>1</sup>. For now, Serbia is using these loans within its realistic capabilities. Chinese state-owned companies engaged in these projects work on them with the Chinese workforce. They are not obliged to go through tendering process, which some other companies would otherwise go through, which makes their job much easier [Zakić, 2020a, p. 65].

Therefore, even with large infrastructure projects, both sides share a clear interest to cooperate. The Chinese have a surplus of free financial re-

**Table 3. Chinese infrastructural projects in Serbia that Serbia is financing (January 2014—March 2022)**

| Project  | Chinese partner/investor                        | Finances   | Sector                         | Status                    | Value          |
|--|---|--|--------------------------------|---------------------------|----------------|
| Novi Beograd – Surčin highway (part of Miloš Veliki highway)   | China Communication Construction Company        | Serbia is financing                              | transport                      | in progress               | \$70.5 million |
| Traffic bypass around Belgrade, sector C (Bubanj Potok- Vinča- Pančevo)  | Power China and Azvirt (Azerbaijan)             | Republic of Serbia                               | transport                      | in progress               | €500 million   |
| Preljina-Požega Highway (part of Miloš Veliki)   | China Communication Construction Company        | Republic of Serbia                               | transport                      | in progress               | €450 million   |
| Traffic bypass around Užice - Čačak  | Power Construction Corporation of China Limited | Republic of Serbia                               | transport                      | starts in June 2022       | €29.8 million  |
| Heating pipeline between Obrenovac and Novi Beograd  | Power Construction Corporation of China         | EPS (15%) and Republic of Serbia (85%)           | hydro and coal                 | in progress               | \$193 million  |
| Design and construction of infrastructure for municipal solid waste disposal in 65 municipalities and cities in Serbia | China Road and Bridge Company                   | Local municipalities and governments from Serbia | infrastructure for solid waste | starts at the end of 2022 | €3.2 billion   |

*Source:* Author's data collection.

<sup>1</sup> Hurley, J., Morris S. and Portelance, G. (2018). Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective, Center for Global Development Policy Paper 121, ITC, Market Access Conditions. URL: <https://www.macmap.org/> (accessed: 20 March, 2022).

sources to employ through large infrastructure projects worldwide, including Serbia. The additional profitability of these projects is reflected in the engagement of state-owned Chinese companies and Chinese workers. In addition, through the projects in which it participates, China improves the references of its state-owned companies, which work on large infrastructure projects in Europe. On the other hand, Serbia deals with several problems in its infrastructure, which was inadequate and led to a number of economic opportunities being missed. Moreover, Serbia has applied to other international institutions and the EU for some infrastructure projects, but they were rejected.

In addition to projects financed by Chinese loans, Chinese companies are working on infrastructure projects financed by Serbia, such as particular sections of freeways or water and sewage construction projects. Table 3 shows the projects that Chinese companies are working on, financed by the Republic of Serbia, both from its own funds and commercial loans.

## Prospects for improving economic cooperation between China and Serbia — aspirations versus reality

Based on the presented data, it is timely to assess the dynamics of economic cooperation between China and Serbia and see if there are prospects for its improvement. The first conclusion is that the economic relations between Serbia and China have entirely changed since the signing of the Strategic partnership agreement between China and Serbia in 2009. Before this period, Chinese exports to Serbia had been the only form of economic cooperation. From that perspective, the results achieved are above the average. Serbia has significantly increased exports to China, as has China to Serbia; the number of Chinese investments in Serbia has increased, primarily in production activities, which directly contribute to increasing Serbian exports; Chinese loans were placed in infrastructure projects nominated by Serbia for which there was a real need.

Although Sino-Serbian economic relations are on the rise, there is plenty of room to improve cooperation, especially in trade. As Serbia is a country with a small population and modest production capacities, it is not realistic to expect a significant increase in the volume of exports to the Chinese market. On the other hand, it is both possible and necessary to change the structure of Serbian exports. Exports of raw copper ore and even copper in basic form (HS 7403), which dominates exports to China, are not acceptable for Serbia, whose total exports are dominated by products of the elect-

rical and mechanical industries. Even though China owns the Bor mine, bilateral negotiations would make it possible to explore the possibility of additional capacities for copper processing in Serbia to achieve higher export values and decrease transport costs.

Another way to improve trade relations is to reduce tariffs on products already exported to the Chinese market through bilateral negotiations. China already has preferential trade arrangements with a large number of countries. If Serbia's modest export capacities are added to that, it is clear that this is not a big concession for China. However, it would significantly contribute to the improvement of trade relations. As an example, Table 4 shows comparative data on customs duties on imports of Serbian products to China and the EU, which indicate significant room for reducing Chinese customs duties on almost all products.

**Table 4. Chinese and EU customs duties on imports from Serbia (%)**

| HS code | Product  | China's Customs tariffs on imports from Serbia | Customs tariffs of EU on imports from Serbia |
|---------|--|--|--|
| 8501    | Electric motors and generators                                       | 12%  | 4,7%   |
| 8536    | Electrical apparatus for switching or protecting electrical circuits | 10%  | 10%  |
| 8544    | Insulated wire, cable incl. coaxial cable                            | 10%  | 3,7%   |
| 8503    | Parts of Electric motors and generators                              | 8%   | 2,7%   |
|         | Fruits and nuts, frozen  |  |  |
| 0811    | Strawberries   | 30%  | 0%   |
|         | Raspberries, blackberries, blueberries                               | 30%  | 0%   |
| 2402    | Cigarettes   | 25%  | 0%   |
| 0202    | Meat of bovine animals, frozen                                       | 25%  | 25-62%                                       |
| 1507    | Soya-bean oil and its fractions                                      | 9%   | 0%   |
| 2204    | Wine of fresh grape  | 14-20%   | 0,5-15%                                      |

*Source:* ITC, Market Access Conditions, <https://www.macmap.org/>

When it comes to investments, Serbia and China can be satisfied with the development of the situation at this moment. Chinese state-owned and private companies have opened factories or bought existing production facilities. Two Chinese companies are leading exporters from Serbia. In its aspirations to attract foreign investments from China, Serbia should pay attention to two types of effects of Chinese business in Serbia. The first group is environmental consequences and environmental pollution. Companies operating in Serbia, Zijin and Hesteel are already on the list of the biggest polluters in the country. With their production of tires, the company Shandong Linglong could also get to that list if it does not apply the appropriate technology. Cooperation between Serbia and China in this segment can be

much better, especially considering that China has significantly advanced in applying techniques and methods in the prevention of environmental pollution<sup>1</sup> (Sheng, Zhou, Zhang, Wang, 2021). The second group refers to economic effects, which can be characterized as mixed. The operation of Chinese companies in Serbia contributes to the engagement of the labour force and the growth of exports significantly. On the other hand, as these are basic products, there are no effects of these investments on the technological and overall improvement of the Serbian economy.

Chinese companies do not apply for projects through tendering procedures — the contracts are awarded through bilateral negotiations. Serbia has a reliable partner in China to implement major infrastructure projects that have been delayed for a long time due to the collapse of Yugoslavia, sanctions, bombing of the country, and subsequent economic crises. However, at this moment, it is necessary to keep in mind that the economic situation has changed significantly due to the pandemic. The questions are whether Serbia will still have a good investment environment due to the worsening of the global economic situation, whether its economic recovery will continue, and whether it will ultimately be able to repay the loans, it took. Therefore, Serbia must consider every possible scenario of future economic development, take into account foreseeable risks, and reconsider if this expansive infrastructure policy is sustainable.

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