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Belt and Road investments in Serbia: Is China a new saviour or a new threat?[1]

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Abstract: Versatile political and institutional cooperation between Serbia and China recently spurred the dynamic development of economic relations between the two countries. Those progressed quickly, especially due to Serbia's participation in the format China-Central and Eastern European countries and the Belt and Road initiative. It caused changes in economic relations between China and Serbia in three directions: changes in trade patterns, the volume of loans, and the inflow of Chinese investments. This article focuses on the Chinese Belt and Road investments (foreign direct investments, acquisitions, and joint ventures) in Serbia while using qualitative along with descriptive statistical analysis. The authors analysed the type of companies, value of investments, and industries in which Chinese companies invested capital in the period 2014-2022. Research findings indicate an increase in bilateral trade, especially in export, after the Chinese investments have been made. The value of Chinese investment has grown over time, with a relatively high concentration in the automotive industry and a presence in rather few industries. The first investments were realized by state-owned enterprises and, in recent times, by private-owned companies. The authors indicate

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that while China's role in Serbian economic development is increasing, it should not be categorized either as a saviour or a threat, but as a rather important economic partner of Serbia whose influence in Serbia is increasing. However, the interplay between China and Serbia, determined by the interests of both sides as well as the capabilities of Serbia to design appropriate institutional and policy frameworks will determine the contribution of Chinese investments to Serbian economic development in the future.

Keywords: Serbia, China, economic cooperation, investments, automotive industry.

Introduction

As a latecomer in transition, Serbia has experienced a turbulent period of transition over the last two decades characterized by political instability, institutional failure, and modest economic performance. Initially, it followed the same path as other transition countries: liberalisation, deregulation, macroeconomic stabilisation, and privatisation of state-owned enterprises. Tectonic shifts in the political sphere during the first decade of transition, especially the assassination of prime minister Zoran Đinđić (2003), the dissolution of the state union Serbia and Montenegro (2006) and the unilateral declaration of independence of Kosovo (2008), caused the overall political instability and slow pace of reforms (Ivanović et al. 2022), effectively blocking its economic potential. Overall economic performance was disappointing: private sector share in GDP increased from 40% in 2000 to only 60% in 2010 (Uvalić 2013), almost 50% of all privatized firms bankrupted (Ivanović et al. 2019) and the unemployment rate reached almost 25% (Ivanović 2021).

Interestingly, foreign direct investments (FDI) have played rather a secondary role in the privatization process, dominantly being oriented toward the local market and export-oriented to a far lesser extent (Stošić et al. 2011). While they were officially recognized and announced as one of the pillars of economic development, they remained rather unimportant in practice. Like other Balkan countries, Serbia was far less successful than other central European countries in attracting foreign investments (Slaveski and Nedanovski 2002). In the first decade of transition, the growth model was based dominantly on boosting aggregate consumption and to a far less extent by investments, especially private, and to an even lesser degree foreign. However, this growth model was no more sustainable after the global financial and economic crisis in 2008. The subsequent sovereign debt crisis of the euro area in 2009-2010 exerted additional pressure on the established developmental model, while the inflow of FDI became even more modest. The fundamental economic parameters were alarming. Insufficient competitiveness, high unemployment, rigid labour market regulation, and shrinking manufacturing share in national production, made the process of catching up with the developed world less probable in the future (Uvalić 2010). Sanfey and Milatović (2018, 5) point out that if WB countries, including Serbia, continue to grow at the average rates recorded in the period after 2008, they will catch up economically with the EU average in 2220.

Combining forces of the hostile external economic environment, political instability and institutional failure in the first decade of transformation caused the change of the political elite in power in 2012 and, parallel with it, a change in the developmental model. After this period, FDI became *de facto*, an important instrument for overcoming economic problems and a mechanism for better integration in the world economy. Parallel with it, Serbia opened for FDI coming from other parts of the world, not just from European countries. However, the biggest share of foreign investors is still coming from European countries, where those from Germany and Italy take the dominant place. From other destinations, investors from China and Turkey, as well as from UAE and Russia, started coming in larger numbers (Bonomi and Uvalic 2019).

The fact that Serbia succeeds to revive the attention of foreign investors and attract considerable amounts of foreign direct investments, despite significant institutional loopholes and a challenging regulatory environment characterized by high corruption and an inefficient legal framework, is not surprising for at least two reasons. One relates to some aspects of the Serbian political and especially economic environment after 2012: political stability, relatively good performing economy, low labour costs, relatively high level of human capital, (regional) location, and access to regional, European, and Russian market(s) based on free-trade agreements Serbia has signed. The other reason refers to the fact that foreign investors' decisions on investments are based on relatively few requirements (Kekic 2005). Investors are relying on peace and basic security, a predictable and sound macroeconomic framework, and modest improvements in the business climate.

Although Serbia's most important economic partner, in terms of trade as well as in terms of FDI, is the EU (Vasa and Angeloska 2020), China became the second most important partner in terms of trade, loans and investments. By the end of 2020, solely Chinese loans reached 14 billion US$ in the Balkan region, where Serbia attracted more than 60% of it (Markovic Khaze and Wang 2021). Chinese investments financed by loans were particularly important in the construction of still poor and underdeveloped infrastructure in Serbia (Estrin and Uvalic 2016), although there is a growing importance of Chinese investments in various manufacturing industries.

In this paper, the authors aim to investigate Chinese investments in Serbia and their characteristics for the period between 2014 and 2022, which correspond, rather than coincide, with Serbia joining the China-CEEC cooperation mechanism and Belt and Road Initiative. Since the period is relatively short, qualitative and descriptive statistical analysis was used to look at the data regarding economic cooperation between China and Serbia, with a focus on Chinese investments. Limitations of this kind of analysis were considered, but other methodological choices were rather limited since the short period of analysis, the number of Chinese investments and sometimes-unknown data. Data presented in the paper were collected from the Serbian Statistical office, the Ministry of Transportation and the Ministry of Finance. In cases in which data were not available on the website of governmental institutions, official statements of Serbian Government officials in Serbian media were used, as well as the websites of Chinese companies in Serbia.

The authors did provide separate lists of Chinese infrastructural projects in Serbia. The nature of these projects is, however, different for China and for Serbia: for China, they are investments, but for Serbia, they are loans. It is a reason why they were not considered as investments in Serbia in our paper. It is important to stress this since there are different approaches in analysis when Chinese investments/loans are considered, while this research does not use the methodology in which investment projects and loans are considered together. It should be also emphasised, that only Chinese investments, in a form of greenfield investments, joint ventures and acquisitions, which are coming directly from China, were considered. This is important to notice since there are other Chinese companies, such as Hisense, which is operating in Serbia (via a subsidiary company), but it is not part of the analysis. The reason behind this is that Hisense acquired the Slovenian company Gorenje, which was already present in the Serbian market, so their presence in Serbia was not part of the acquisition in Serbia, but in Slovenia. Additionally, the analysis in this paper is an economic one, trying to avoid the political context of the investments that most of the researchers are concentrated on. However, (international) political economy aspects may exert a strong influence on national economic development, but the author's choice is to leave it out of this research. The focus is only on economic facts and data to see if this analysis supports the idea of China as a saviour or China as a threat to the Serbian economy.

The first part of the paper provides a literature review of China-Serbia economic cooperation, but with a focus on Chinese investments in Serbia. In the second part, the institutional base for cooperation is explained. The third part is devoted to examining the volume and characteristics of economic cooperation between Serbia and China, while the fourth part discusses closer the foreign direct investments coming from China. In the concluding remarks, the main findings are summarised.

Literature review

While there is a considerable amount of research dealing with different aspects of Serbian-Chinese political ties, political implications of growing economic cooperation with Serbia or economic cooperation, foremost in the domain of foreign trade, a rather limited number of studies deal with the foreign directs investments and their importance for Serbian economic development. However, we present some of the research that deals with overall or some of the aspects of economic cooperation between Serbia and China.

Dimitrijević and Jokanović (2016), Dimitrijević (2017), Rapaić (2018), Bugarčić et al. (2020), and Zakić and Stanojević (2022) analyse the overall economic cooperation between Serbia and China. Thereby, Dimitrijević and Jokanović (2016) and Dimitrijević (2017) analyse the Serbian market and look at the factors that can help future cooperation between China and Serbia. Bugarčić et al. (2020) concluded that economic cooperation with China enables countries that are part of the BRI to improve infrastructure, spur innovations and implementation of new technologies, join new economic integrations, gain competitive advantage, and increase trade. Zakić and Stanojević (2022) provided a comprehensive analysis of economic cooperation between China and Serbia in the fields of trade, loans, infrastructural projects, and investments. Their main findings suggest that Serbia while enjoying some advantages from cooperation, faces at the same time with important disadvantages. Among the main disadvantages are counted increasing trade deficits and unfavourable terms of trade. Yet, infrastructural projects co-financed from Chinese loans are urgently needed and the rising importance of Chinese investments in the auto industry are observed as main advantages.

Jaćimović et al. (2018) studied the effects of Chinese FDI in the new EU member states and the Western Balkans on trade flows. Their research shows that Chinese FDIs had a positive impact on trade flows, especially in the new EU member states. The main conclusion is that the WB states could expect better trade relations with China in terms of export, as they join the EU.

Additional analysis of the major challenges and opportunities in China-Serbia bilateral trade relations could be found in Jovičić et al. (2020). Their analysis shows that the overall trade volume between the two countries has increased since the beginning of 2000. However, the main challenges in trade relations remain the same over time: huge Serbian trade deficit, while a Serbian export to China consists of goods with low value-added. Authors suggest that there are possibilities for Serbia to increase export in future, which requires a more sophisticated strategic approach.

Chen and Yang (2016) examine industrial cooperation between China and Serbia. They analyse which industries in Serbia can be competitive in the Chinese market and which are having the potential to attract Chinese investors to Serbia. Among industries that can be competitive in the Chinese market they identify several: tobacco, paper and paper products, beverage, food processing, non-ferrous metal smelting and rolling processing, printing, record media and replication, and transportation equipment. On the other hand, Chinese industries like electronic and telecommunication equipment, textile, culture and sports products, electrical machinery and equipment, instrument and office machinery, and the chemical fiber industry can find their place in the Serbian market.

Several studies explored Chinese infrastructural projects and investments in Serbia jointly. The main difference between these studies and the analysis presented in this paper refers to the fact that previous studies dominantly examine Chinese investments in Serbia from the Chinese point of view. Specifically, they do not differentiate between loans, greenfield investments and acquisitions, but look at them as Chinese investment projects.

Šaranović et al. (2019) analyse the effects of Chinese infrastructural projects and FDI on Serbian development. Their conclusion is that the effects of those have been highly beneficial on Serbian macroeconomic indicators such as employment, export, and production, while at the same time increasing the degree of economic openness. But, since their analysis was concentrated on infrastructural projects, they discuss that the main threat is an increasing value of loans that Serbia took, which could lead to problems in repaying them in the future.

The results and risks that Chinese investment projects are facing in Serbia are part of the analysis by Zakić (2020). She used case study analysis for the most important Chinese investment projects to compare the results and risks that accompanied those projects. The main finding is that Chinese projects in Serbia are contributing to the development of the Serbian economy, with similar arguments raised by Šaranović et al. (2019). Nevertheless, Serbia is facing potential problems regarding the repayment of the loans and problems of Chinese companies in complying with environmental regulations in Serbia.

The distribution of Chinese investments globally was analysed by Marjanović et al. (2021), whose research is devoted partially to Serbia as the most attractive destination for Chinese economic activities within the Balkans. While the findings of the study are clear: Serbia is benefiting from China's investments in terms of employment growth, rise of production and export, and poverty reduction, some deficiencies emerge as well. Risks, they are pointing out, are following: over-exploitation of domestic resources, increasing technological dependences, the outflow of capital, unfair competition, investing in favoured less competitive sectors, and potentially negative influences on Serbia's EU integration process.

Marjanović et al. (2022) are examining the possibilities for the Western Balkan countries. In this research, Serbia is taken as a case study and BRI as a framework for fostering and speeding up developmental processes. The authors discuss the Serbian economic and political importance within the WB, and potential spillovers, positive and negative, Chinese-Serbian cooperation may have on the countries in the WB region. Among other things, authors suggest a better strategic and more focused approach to attracting Chinese investments.

To summarize, there are several common characteristics regarding previous research in the context of China-Serbia economic cooperation. One refers to the fact that dominant approach is from political science view or more political economy perspective. Second, they usually analyse *en général* different dimensions of economic cooperation between Serbia and China or/and put this cooperation in a broader (regional context). We frame our research in a way to fill the gap in previous research investigating foremost Chinese direct investments (greenfield, joint ventures and acquisitions) and observing it in a context of their potential contribution to Serbian economic development.

Overview of institutional cooperation between Serbia and China

The Republic of Serbia, as one of the successors of the former Yugoslavia, has inherited good diplomatic relations with the People's Republic of China. While Yugoslavia existed, political relations between China and Yugoslavia were oscillating, according to changes in international circumstances, and in accordance to the political changes in both countries. Historically, Yugoslavia established diplomatic relations with China in 1955 (Marciacq 2019), but they have been considerably improved since Deng Xiaoping came to power in China in 1979. Moreover, China saw during the 1980s the "socialist market" model in Yugoslavia as a potential model for its own development (Vangeli 2019). After that, they remained friendly until the disintegration of Yugoslavia in the 1990s. During the civil war in Yugoslavia, although China tried to be reserved and did not choose a side, it was on the political level prioritizing diplomatic and political relations with the Federal Republic of Yugoslavia, i.e., its member republics Serbia and Montenegro. In the last two decades, the common communist history of Western

Balkan countries, including Serbia was a good stepping-stone for developing and deepening economic and political cooperation (Markovic Khaze and Wang 2021).

Since the 2000s, which corresponds with the Serbian transformation toward a market economy and democracy, China was contributing considerably to the global economic dynamics. Joining the World Trade Organisation, it was oriented toward further expansion and strengthening its position on world markets (Dimitrijević 2017). New momentum in economic and political cooperation between Serbia and China started in 2009 after the two countries signed the Agreement on Strategic Partnership. Serbia is the only country on the WB, which signed this type of agreement with China, making the cooperation far more developed in comparison with other Balkan states. It enabled both parties to establish more versatile relations than before. The agreement has been a basis for promoting four areas of cooperation, namely – political, economic, people-to-people exchanges and strengthening of multilateral cooperation (Lađevac 2020). Although the immersion of comprehensive cooperation is the aim of the signed agreement, economic cooperation is far better developed than political,[4] which is common for all Balkan countries (Markovic Khaze and Wang 2021).

After that, Serbia joined two Chinese international projects (initiatives). Both of them are in line with previously developed relations. The first one Serbia joined in 2012. It refers to the China-CEEC cooperation mechanism formerly known as 16+1. This platform has several goals, but the main one is to improve economic cooperation and connectivity between China and Central and Eastern European countries. In those countries, China was less present and did not have as successful cooperation as it had with Western European countries. Soon after, China established a new initiative in 2013 at that time known as New Silk Road. Later, this initiative was renamed as Belt and Road Initiative (BRI). Serbia joined this initiative in 2016, marking in the same year the first visit of the Chinese president to Serbia. BRI is nowadays known as the biggest worldwide geoeconomic project, in which China is financing projects in various types of sectors in member countries, mainly through financial institutions, such as the Silk Road Fund and the Asian Infrastructure Investment Bank. According to Chinese sources (GDFC), around 140 countries are members of this initiative, which is more than 70% of the number of countries in the world. Within the BRI initiative, Serbia is chosen to be the hub for the China-

[4] Although less pronounced, political relationships are well developed and relay to a great extent to China's stance against the unilateral declaration of independence of Kosovo in 2008, which is related to the One-China policy, i.e., opposition to Taiwanese independence and Tibetan irredentism. The number of bilateral agreements and protocols concluded between 2009 and 2019 is 91, while in the whole period between 1957 and 2008 is 39 (MFARS, 2022).

CEEC Federation for Transport and Infrastructure, which is a pivotal part of the initiative in this part of Europe (Markovic Khaze and Wang 2021). Moreover, since CEEC belong to the periphery or semi-periphery region regarding technology and capital, the BRI initiative has the potential to move countries of this region toward the core world system since it is about the global division of labour (Moldicz 2018).

Parallel with the development of economic cooperation between Serbia and China, Serbia was intensifying the process of European integration, signing the Stabilization and Association Agreements, which effectively came into power in 2013. After that, Serbia started its negotiations with the EU in January 2014.[5] Although the European accession process is slow and under the strong influence of a wide range of impeding factors (Bonomi and Uvalic 2019), it is of importance regarding Serbian and Chinese economic cooperation. Serbia became additionally attractive for Chinese investments because of the access to the European market as well as the regulatory framework becoming more predictive in the mid and longer term.

The same year as Serbia joined the BRI, it signed the Declaration on the Establishment of the Comprehensive Strategic Partnership between the People's Republic of China and the Republic of Serbia, which is the highest form of partnership that China can have with one country (Subotić and Janjić 2020). In 2017, both countries implemented a visa-free regime for their citizens, meaning that their citizens can spend 90 days without a visa in Serbia/China, which significantly helped in increasing the number of Chinese tourists in Serbia. In two subsequent years, Serbia became European fastest growing destination for Chinese tourists: in 2018, 102.000 Chinese tourists visited Serbia which is a 15-fold increase from 2011, while strong growth continued in 2019 and amounted to more than 42% (Markovic Khaze and Wang 2021).

Comparing the last decade with the period before 2009, economic ties between China and Serbia were loose. Serbia imported a lot from China, but the export to China was almost non-existent. If we look at the data presented in Table 1, in 2008, Serbia exported to China goods worth 5.2 million US$ while at the same time importing 1468.9 million US$, which led to a 1.4 billion US$ trade deficit. At the same time, China did not have any kind of investment project in Serbia. Therefore, it is worth looking at data about economic cooperation between Serbia and China after the signing of the Strategic Partnership Agreement and joining the

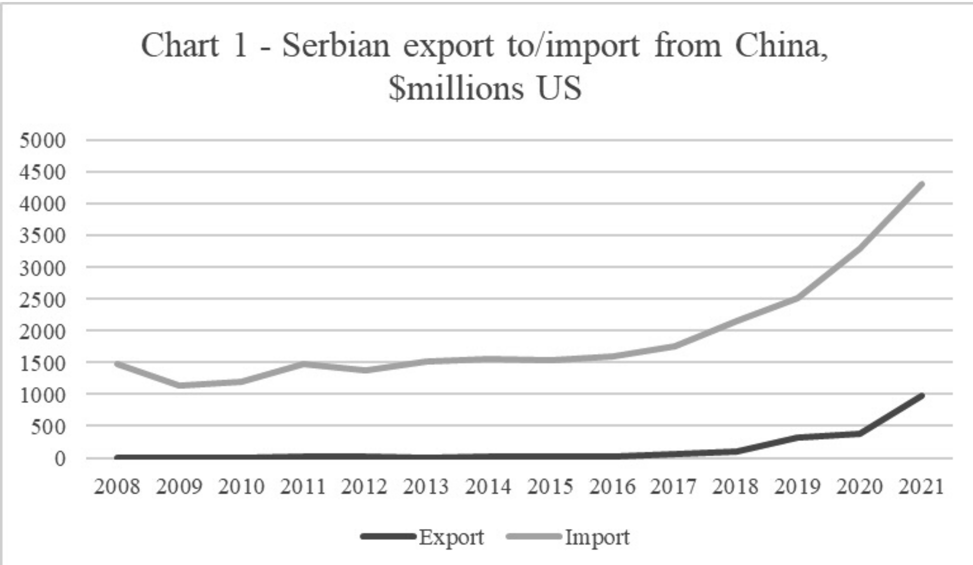
[5] Serbia started its official negotiations with the EU in 2005. After finishing negotiations, it signed the Stabilization and Association Agreement (SAA) in 2008. Application for EU membership is made in 2009. Serbia got candidate status in 2012, while formal beginning of its membership negotiation process started in January 2014 (Marciacq 2019).

BRI and analysing the influence of these events on Serbian economic position in bilateral cooperation with China.

Economic partners on (un)equal basis: trade imbalances and loans dynamics

Trade relations between Serbia and China were from their beginning marked by a remarkable trade deficit on the Serbian side (Chart 1). China has a trade surplus even with many developed countries,[6] so this is not an unusual trade situation for a country like Serbia. Table 1 more clearly presents Serbian modest export to China, especially from 2008-2018, showing that figures were between 5 and 91 million US$. After 2018 it came to a sharp increase in export, reaching the value of 329.2 million US$ in 2019. The second significant leap happened in 2021 when Serbia exported raw materials and goods with a value of almost 1 billion US$. The main reason for this increase is the volume of unprocessed copper exported to China. This happened because the Chinese company Zijin Mining acquired a Serbian copper mine in Bor, formerly known as RTB Bor. After its acquisition, it became the biggest exporter from Serbia to China. In total, from 2009 until 2021, the Serbian trade deficit rose from 1.1 billion to 3.3 billion US$. The case with Zijin Mining shows that the important mechanism of improving trade relations, but not in terms of trade, are investments.

[6] The development in this regard is similar to the trends recorded in the EU: China is the single most important trading partner of Germany, the value of trade volume between China and the EU is more than one billion per day. At the same time, since 2016 China became a net investor in the EU, where more than 90% of economic exchange is between China and the EU15. These developments correspond to the changing role of China in the global economy: started in 1978 as a role model of a good “player of the game” switching to the role “of the game maker” (Vangeli 2019).



Source: Statistical Office of the Republic of Serbia, Statistical Yearbook.

The main products that Serbia exports to China, besides crude copper, are processed copper, unprocessed silver, raw wood and water pumps. The main importing products from China are mobile phones, computers and monitors, clothing, iron and steel products, and measuring products. These facts suggest that Serbian export to China is unfavourable since it exports raw materials (copper, silver, wood) and imports final products with high value-added (phones, computers). Unfavourable terms of trade and pronounced disbalance are challenging and could create middle- and long-term serious disadvantages for the Serbian economy. In this regard, the efforts of the Serbian government to sign a free trade agreement with China should be observed as an attempt to reduce existing imbalances and improve the long-term benefits of trade for the Serbian economy.

Serbian increase in trade with China is contrary to the findings of Chen and Yang (2016) that claim that the accent of cooperation between China and CEE countries has been shifted toward people-to-people cooperation and investments, while the trade is lagging. Obviously, an important impetus for trade development comes from the investments China is undertaking in CEE countries. At least Serbian experience confirms this pattern. Additionally, according to the announcements of Serbian officials, it is expected that Serbia will sign with China a free trade agreement through 2023. In this case, Serbia would be only the third country in Europe with which China has such kind of contract, besides Island and Switzerland.

It would give an additional impetus for the further development of trade relations. On the other hand, despite strong increases in Serbian export to China, Serbia's dominant export markets are the EU countries and the CEFTA (Central European Free Trade Agreement) countries. Export to EU countries rose to almost 13.94 billion US$, covering 85% of Serbian imports from the EU countries (EUIS 2022).

Table 1. Serbia's export to and import from China, 2008-2021, in millions of US$

Year	Export	Import
2008	5.2	1468.9
2009	8.9	1135.4
2010	7.3	1202.5
2011	15.3	1488.5
2012	19.8	1385.5
2013	9.1	1509.6
2014	14.2	1561.1
2015	20.2	1540.2
2016	25.3	1603.9
2017	62.2	1767.7
2018	91.7	2167.5
2019	329.2	2507.7
2020	377.0	3290.1
2021	971.7	4308.8

Source: Statistical Office of the Republic of Serbia, Statistical Yearbook

Besides trade, Serbia and China cooperate on many infrastructural projects within the platform China-CEEC and the BRI. Projects are mainly financed through Chinese loans, which are negotiated bilaterally. No public tender procedure was done for these projects. Since Serbia is still not an EU member, according to its national law, it can negotiate those kinds of projects bilaterally, without public procurement procedure.[7] The Serbian Government is also participating with its own funds in some of the projects (see Table 2). Chinese loans are financed by Chinese state banks, with a repayment period between 15-20 years, a grace period of 5 years, and an interest rate between 1.5 and 3%.[8] Typically, Chinese state construction companies work on those projects using the Chinese workforce. In some cases, Serbian companies are subcontractors. All infrastructural projects for which Serbia applied within the BRI are those that have been planned for many years and in some cases even decades (high-speed railway, for example). However, due to the chronic scarcity of capital, Serbia did not find financial resources in the past to implement them. For some of these projects, Serbia applied for EU funding in the past, but because of the influence of the financial crisis in 2009 and the subsequent European sovereign debt crisis, the EU funds were not available for financing. China as an investor in some of these projects was not only an alternative that has emerged but also, even so, a desirable alternative, because of relatively few requirements and frequently more favourable financial requirements. For example, the construction of the railway Belgrade-Budapest is financed by China. However, a small section of this infrastructure project, the part of the railway between Stara Pazova and Novi Sad, is financed also by Russia, so Serbia did find a solution that would fit its needs. Serbian state or local Governments are also funding some smaller infrastructural projects in Serbia, but there are also cases in which EBRD or IMF are (co)financing them.

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[7] After signing the Strategic Partnership Agreement in 2009 with China, Serbia also signed in the same year, the "Agreement on economic and technical cooperation in the field of infrastructure between the governments of the Republic of Serbia and the government of the People's Republic of China" on August 20 (which was published in Serbian official Gazette of the Republic of Serbia no. 90). According to it all the projects that Serbia conducts with China in the field of infrastructure, could be done without public tender procedure (http://otvorenavlada.rs/pz-srbija-kina-infrastruktura0166-lat-doc-2/).

In 2013, Serbia also signed the Annex of the same Agreement, which confirms conducting infrastructural projects with China without public tenders. (http://www.parlament.gov.rs/upload/archive/files/lat/pdf/predlozi_zakona/3644-13Lat.pdf).

The list of bilateral agreements that Serbia has with China can be found on the website of the Ministry of Foreign Affairs of the Republic of Serbia: https://www.mfa.rs/sites/default/files/inline-files/kina.pdf

[8] This is general information that could be found for most of the projects since there are no publicly available data regarding the financial part of the agreements.

Table 2. Projects financed by Chinese loans in Serbia (2014–2022) in million US$

	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 the budget of the Republic of Serbia (15%)	Transport	In progress	1490 million
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 the budget of the Republic of Serbia (15%)	Transport	Finished	541 million
Corridor Fruška gora	China Road and Bridge Company	Chinese loan	Transport	In progress	690.8 million
Traffic bypass around Belgrade, sector B (bridge over river Save near Ostružnica and sections of roads 4, 5, 6)	Power Construction Corporation of China	Chinese loan and the budget of the Republic of Serbia	Transport	In progress	267.9 million
Belgrade metro	Power China International Group Limited	/	Transport	In progress	/

Source: Zakić Katarina, and Nataša Stanojević. 2022. "Between aspiration and reality: Sino-Serbian economic relations". In: *China in World and Regional Politics. History and Modernity*, edited by Elena Safronova: 298-311 Institute of China and Contemporary Asia, Russian Academy of Science

In addition, Serbia is currently undergoing several infrastructural projects that it is solely financing, but Chinese companies are working on the construction. These are Novi Beograd – Surčin highway (part of Miloš Veliki highway), traffic bypass around Belgrade sector C (Bubanj Potok-Vinča-Pančevo), Preljina-Požega highway (part of Miloš Veliki) highway, traffic bypass around Užice – Čačak, the heating pipeline between Obrenovac and Novi Beograd and design and construction of infrastructure for municipal solid waste disposal in 65 municipalities and cities in Serbia (Zakić and Stanojević 2022).

Versatile political and economic relationships between Serbia and China definitely contributed to the broad involvement of Chinese companies in big infrastructure projects in Serbia. Still, they would be probably engaged in these projects even without existing strong political and institutional ties between the two countries. The reason lies in the competitive prices they bide with. Related to it, the competitiveness of Chinese companies relies strongly on numerous state policies and agencies, which are supporting Chinese businesses investing abroad – from providing information and technical assistance over financial and fiscal incentives to insurance and guarantee schemes (Du and Zhang 2018). However, because of the (Comprehensive) Strategic Partnership Serbia has signed with China, Chinese companies do not need to follow public procurement procedures, and they can negotiate the project price and conditions bilaterally, which additionally provides a comparative advantage for them.

Chinese investments in Serbia: ownership structure, value and sectoral distribution

The first Chinese investment in Serbia was in 2016, and that was the acquisition of a Serbian state steel factory Železara Smederevo by the Chinese state company Hesteel Group. This acquisition was important because it gave the signal to the Chinese investors, especially private ones, that Serbia is an attractive location to invest. Chinese companies have a tradition and specific process of how they approached the Serbian market and how they invested over time (Zakić 2019). The first step in that process was establishing good political relations between the Chinese and Serbian governments. After that, Chinese state enterprises were the first investors in Serbia. They primarily invest in the state sector in a form of acquisitions rather than greenfield investments, which is in line with the findings of Du and Zhang (2018). Only in the later phase of expansion did Chinese private companies invested in the private sector in Serbia. However, the volume of Chinese private investments is still rather low compared with the state ones. This disbalance in investments between the private and state-owned companies coming from China could be explained, at least partially, by the different strategies they pursue, i.e., Chinese state-owned companies are indifferent to political risks and overall economic situation in host countries, while private investors from China are not only targeting large markets and strategic assets when making investment decisions, then also are quite risk averse (Amighini et al. 2013).

Table 3 presents Chinese investments in Serbia, starting from 2016 until June 2022. The total value of investments through acquisitions, joint ventures, and greenfield projects amounts to more than 3 billion US$. Acquisitions are dominating, taking 64.7% of the total amount invested.

In this period, Serbia had two investments coming from Chinese state companies. The first one was the previously mentioned acquisition of Železara Smederevo, while the second refers to the acquisition of the copper mine Bor (RTB Bor) by Zijin Mining company. All the rest of the investments were in the form of the FDI, except in the case of Mei Ta, which was in a joint venture form. A minority shareholder in a joint venture is a Serbian state.

Table 3. Chinese investment projects in Serbia (2016 – June 2022) in million US$

Year	Project	Chinese partner/ investor	Status of the ownership of the Chinese company	Type of the project	Sector	Status (finished, in progress)	Value
2016	Hesteel, Smederevo	HBIS Group Iron and Steel	State company	Acquisition	Metallurgy	Finished	330 million
2016	Eurofiber, yarn, Ćuprija	China Prosperity Industrial Corporation	Private Company	FDI	Textile	Finished	1.21 million
2017	Mei Ta, Obrenovac	Mei Ta	Private Company	Joint venture with the Serbian Government	Auto industry	Finished	124 million
2018	Zijin Mining, Bor	Zijin Mining	State company	Acquisition	Metallurgy	Finished	1.722,8 million

Year	Project	Chinese partner/ investor	Status of the ownership of the Chinese company	Type of the project	Sector	Status (finished, in progress)	Value
2019	Shandong Linglong tire company, Zrenjanin	Shandong Linglong	Private Company	FDI	Auto industry	In progress	896 million
2019	Yanfeng, internal interiors for cars, Kragujevac	Yanfeng Seating	Private Company	FDI	Auto industry	Finished	44.8 million
2020	Xingyu, lights for cars, Niš	Changzhou Xingyu Automotive Lighting Systems	Private Company	FDI	Auto industry	Finished	68.4 million
2021	Yanfeng, car security systems Kragujevac	Yanfeng Seating	Private Company	FDI	Auto industry	In progress	21.2 million
2021 and 2022	Minth, Loznica and Šabac	Minth	Private Company	FDI	Auto industry	Finished	100 million

Source: Zakić Katarina, and Nataša Stanojević. 2022. "Between aspiration and reality: Sino-Serbian economic relations". In: *China in World and Regional Politics. History and Modernity*, edited by Elena Safronova: 298-311 Institute of China and Contemporary Asia, Russian Academy of Science.

It is also worth noting that there is a trend in investments of Chinese private companies. They are investing in the auto industry, and so far, five companies are conducting business in Serbia, namely Mei Ta, Shandong Linglong, Yanfeng, Xingyu and Minth. The biggest direct investment comes from Shandong Linglong, which plans to invest around 900 million US$ in a tire factory in Zrenjanin. Besides this, two other Chinese companies already have two production facilities in Serbia. Namely, company Yanfeng has two factories in Kragujevac and company Minth has two factories situated in Loznica and Šabac. Since they have made subsequent investments, it may be a signal of the high returns they have achieved from initial investments.

An important fact is that the automotive industry is the dominant destination for the bulk of Chinese investments. Since there is a relatively long tradition of the automotive sector in Serbia, dating back to the time of former Yugoslavia and the production of cars in the factory called Zastava Kragujevac,[9] the availability of a skilful and experienced workforce played a role. For Serbia, those investments are nowadays even more important because of the uncertainty of the largest car company in Serbia – Fiat. It is still not clear whether it will continue production or it will withdraw from the Serbian market. If Fiat decides to leave Serbia, then the importance of the Chinese companies will be even more significant since it could absorb part of the labour force employed in the Fiat factory.

Initial Chinese investments, realized by the acquisition of steel company Železara Smederevo and copper mine RTB Bor, are the investments with the greatest economic and political importance. They contributed to solving the problems of these two companies lasting for decades and making huge social, economic, and political burdens for local communities and even for national governments in Serbia.

In the case of steel company Železara, there were many vicissitudes in its business over many decades. The biggest trouble started in 2012, when the previous owner, US Steel sold the factory to the Serbian Government after many years of successful operation in Serbia. The main explanation for why US Steel withdrew from Serbia was that the price of the steel was low at that time, and they did not have an interest to continue with the production. After that, the Serbian Government managed the company for several years while at the same time trying to find a strategic partner. The financial burden of overtaking was huge. State-financed salaries for 5000 workers, even though the company was barely producing steel. Due to Serbia's, at the time, newly established Comprehensive Strategic Partnership with China, the deal was made with the Chinese Government in 2016 that the state company Hesteel Group would buy Železara under the condition that it would not lay off its 5000 workers. Until recently, Hesteel Smederevo was very successful, and in 2019, the company became the number one exporter from Serbia, holding that position through 2020 and 2021. However, due to a decrease in global demand, in July 2022, Hesteel Smederevo closed one steel melting furnace, which means that uncertainty about the future work of this company still exists. Additionally, because of the war in Ukraine, the import of iron ore from

[9] Fiat Group signed an agreement with the Serbian Government about starting a joint venture with this state company in 2008.

Ukraine and Russia is stopped (Avakumović 2022), but the alternatives are currently found in imports from India, Africa, and Latin America (Blic 2022).

RTB Bor had, as well, a long history of unsuccessful management, which eventually led to a debt of more than 1.2 billion US$ in 2016. Many governments, during various times, tried to find a strategic partner or to sell the mine, but these attempts failed. In 2018, after several Chinese state companies visited Serbia and expressed their interest in buying the mine, Zijin gave the best offer regarding the price, including modernization of the mine, keeping all the employees and providing further investments. In 2021, Zijin was Serbia's number two exporter after Hesteel Smederevo.

So far, six Chinese companies invested in the automotive industry in Serbia. The leading investment (900 million US$) is coming from Shandong Linglong, which is building the tire factory in Zrenjanin. Since the construction of the factory was planned for 2020, and then the pandemic started, the start of construction was postponed, and the factory is still not finished. Shandong Linglong's investment refers to the production of tires, targeting the EU market since its factory in China is selling them to the Asian market.

Mei Ta company located in Obrenovac is a company that is fabricating automotive parts, engine parts, and general industrial parts. It is the only case in which a Chinese private company started a joint venture with the Serbian Government, while all other Chinese investments are in the form of greenfield investments. Yanfeng company initially invested in a production facility for the interiors of cars in Kragujevac in 2019. After its completion, two years later, it started the construction of the new factory in the same city. The new facility is more technologically sophisticated and refers to the production of car security systems. Xingyu company, which specialized in the production of lights for cars, opened its factory in Niš in 2020. Company Minth works on the production of exterior auto parts for passenger vehicles. It opened two factories in two different cities in Western Serbia, namely Šabac and Loznica.

Those investments, although relatively new, will improve better positioning of Serbia in global supply and value chains, improving undoubtedly export performance and terms of trade. Still, the issues regarding the contribution to the development of the domestic market and the local economy in terms of technology transfer, accumulation of human capital, and socio-economic contributions are to be evaluated in the future since there is no clear evidence in this regard worldwide (Abodohoui et al. 2018). On the other side, even the structure of European investments in Serbia has not been favourable, mostly concentrating in nontradable sectors and with limited spillover effects in manufacturing sectors (Estrin and Uvalic 2016; Estrin and Uvalic 2014).

Encouraging development refers to the fact that an influx of Chinese investments in Serbia is coming from both the state and private companies. Since they globally follow different investment strategies (Fuest et al. 2019; Amighini et al. 2013), the inflow of both types of investments indicates that Serbia represents an attractive investment location with low or at least acceptable political, institutional and investment risk. Versatile and institutionalized cooperation between Serbia and China, together with the process of European integration, made Serbia even more attractive for Chinese investments. Another important fact relates to the regional distribution of Chinese investments. They are distributed over different regions in Serbia, although concentrated in bigger urban areas. Thus, their contribution to more equal regional development is of great importance. This is partly because some of the investments are resource-dependent and/or associated with old industrial capacities acquired through acquisitions. This could be the opposite case compared to experiences in Central European countries (Pavlínek 2004), where FDIs produced to some extent adverse effects on regional development. However, whether and how Chinese investments really contributed to the regional development, in terms of linkages with and spillovers on local and regional economies, is to be estimated.

According to the 14th Development Plan, China will foster high-quality growth focusing on the development of telecommunications, IT, and smart agriculture (ADB 2021), which could be of potential importance for Serbia. Attracting investments from these sectors, some of which Serbia is having a comparative advantage, such as agriculture, could enable parts of the Serbian economy to effectively take a part in global value chains and prosper in the long run. However, the relatively poor performance of the Chinese economy, at least in terms of results achieved between 1978 and 2011, coupled with the war in Ukraine, the fragile recovery of the world economy in post-pandemic times, soaring energy and food prices, trade disputes with the USA, and internal economic disbalances, make future predictions regarding Chinese foreign direct investments, its volume and structure uncertain.

Conclusions

After the global financial crisis and sovereign debt crisis in Europe, Serbia was actively seeking alternative sources for financing its economic development. It coincided with the rise of China's global expansion. Possibilities for economic cooperation emerged. After 2009, numerous interstate arrangements have been signed between the two countries, which gave the impulse for a greater Chinese economic presence in Serbia. Serbia later even became a regional hub for some initiatives within the BRI and a leading destination in Western Balkan for Chinese loans and investments.

Although cooperation with China has been constantly growing in the last decade, especially after 2016, Serbian economic relations in the domain of trade and investments are dominantly linked to the economies of the EU. In this regard, Chinese investments make still up only a fraction of the overall economic activity between the EU and Serbia. Still, developed economic relations and the proximity of the EU market to Serbia are playing an important role in attracting some Chinese investments in Serbia.

In Serbia, Chinese investments (FDI, acquisitions and joint ventures) started in 2016, and the volume of investments is more than 3 billion US$. Comprehensive political and economic bilateral relations with China contributed to finding investors for two large, inefficient and highly indebted state companies, i.e., steel company Železara Smederevo and mining company RTB Bor, eliminating not only a financial burden but also solving serious problems regarding equal regional development as well as with it related social and political challenges. Subsequent investments coming from already established Chinese companies are signalling that Serbia is an attractive investment site. Additionally, Chinese investments contributed to improving foreign trade imbalances with China and with the EU as well. The most remarkable evidence is to be found in the fact that the two biggest exporters in Serbia are Chinese companies: one dominantly oriented on the Chinese market, the other-oriented on the European one. It is interesting to note that Chinese private companies are aiming to invest mainly in the auto industry, particularly having in mind the problems in the Serbian automotive industry that are increasing due to the production problems in Fiat. Such Chinese investments are very beneficial for the Serbian economy in such uncertain times. At the same time, Chinese companies in this industry are opening their production facilities in different regions in Serbia, promoting in that way, additionally, more even regional development. It produces important spillover effects, especially in the domain of employment and municipal and state finances.

Besides the positive influence of Chinese investments on the Serbian economy, there are several concerning factors related to them. While the volume and value of export are growing, terms of trade are not, at least significantly, improved. The reason for that lies in the fact that Chinese companies are exporting raw materials and low-value-added products. Although Chinese investments are growing over time, problems in the internal market in China, disruptions caused by the pandemic and trade tensions and unresolved issues it has with the leading western economies, may curb the investment dynamic in the (near) future. Last but not least important note. The question of sustainability and the high environmental costs some of the Chinese investments have been producing in Serbia could jeopardize the overall positive assessment of capital inflow from China, and Chinese companies should be aware of them.

China should not be considered either as a saviour or as a threat at least for the time being. It is probably both of them to some extent. Chinese investments contributed to solving some of the urgent social, political, and economic challenges Serbia is confronting with. In this regard, they made an important contribution. At the same time, some aspects of Chinese investments, not closely examined in our paper, foremost an environmental impact or long-term sustainability of investments (in copper mining), could be considered rather as threats. The capability of Chinese investors to accommodate to Serbian regulatory framework and the willingness and capability of the Serbian political elite in power to develop appropriate it, the administrative capability of its bureaucracy to implement it in an impartial way and the judicial capacity to secure adherence to it, will eventually determine the sign – whether the impact of Chinese investments are rather positive or negative.

The relatively short period the research covers and the limited number of Chinese companies in Serbia limited us in applying more methodological tools in analysis. It is the main limitation of this research. However, it implicitly points out some potentially important future research avenues. For example, future research could compare Chinese versus European investments and their contribution to Serbian development. It is an important issue since, in previous times, Serbia did not record a good score regarding the spillover effects of foreign direct investments. One of the reasons for that consists of the dominant sectoral distribution of foreign investments: wholesale/retail sector, banking and insurance, and production of products with low value-added. Although there are some changes recently, it is important to identify whether they are of systematic or incremental nature and how and whether Chinese investments differ in comparison with investors coming from other countries.

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**INVESTICIJE U OKVIRU „POJASA I PUTA” U SRBIJI:
DA LI JE KINA NOVI SPASITELJ ILI NOVA PRETNJA?**

Apstrakt: Raznovrsna politička i institucionalna saradnja Srbije i Kine nedavno je podstakla dinamičan razvoj ekonomskih odnosa dve zemlje. Oni su brzo napredovali, posebno zahvaljujući učešću Srbije u formatima Kina – Centralne i istočne evropske zemlje i inicijativi Pojas i put. Svi pomenuti događaji su izazvali promene ekonomskih odnosa Kine i Srbije u tri pravca: promene trgovinskih obrazaca, obima kredita i priliva kineskih investicija. Ovaj članak se fokusira na kineske investicije (strane direktne investicije, akvizicije i zajednička ulaganja) u okviru Pojasa i puta u Srbiji, koristeći pri tome kvalitativnu i deskriptivnu statitističku analizu. Autori su analizirali tip preduzeća, vrednost investicija i industrije u koje su kineske kompanije plasirale kapital. Rezultati istraživanja ukazuju na povećanje bilateralne trgovine, posebno izvoza, nakon kineskih investicija. Vrednost kineskih investicija je vremenom rasla, sa relativno visokom koncentracijom u automobilskoj industriji i relativno malom broju u drugim industrijama, dok su investicije prvo realizovala državna preduzeća, a danas ih uglavnom realizuju privatna preduzeća. Autori su zaključili da se uloga Kine u ekonomskom razvoju Srbije povećava, ali da se ona ne treba posmatrati ni kao spasilac niti kao pretnja, već ju je potrebno posmatrati kao važnog srpskog ekonomskog partnera, čiji se uticaj u Srbiji povećava. No, na samoj Srbiji će ostati da odluči kakva će biti budućnost ekonomske uloge Kine na njenoj teritoriji.

Ključne reči: Srbija, Kina, ekonomska saradnja, trgovina, krediti, investicije, automobilska industrija.