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# The dynamics of the Republic of Serbia's cooperation with China via the Belt and Road Initiative and the "Sixteen plus One" platform

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## ABSTRACT

In this paper, we examine what factors played a determining role in creating new and dynamic bilateral relationships between the "sixteen" smaller European states and China, particularly the Republic of Serbia. Our research will notably examine the expressed capacity of the local actors in Serbia and their main drivers to accept and support China's initiatives. A new chapter in cooperation with the People's Republic of China (PRC) resulted from the one-sided PRC initiative. Vulnerable to the consequences of the global economic crises and neglected by Brussels, member states among the "sixteen" were attracted to China's promise of market access for their products and investment. The Balkan states, severely affected by the civil war in the 1990s and the dismemberment of Yugoslavia, were in an even grimmer condition and even further from substantial developmental assistance from Brussels. The domestic economic and somewhat political drivers were the main ones that existed with all the local agents and their willingness to engage. In the case of Serbia, there were also powerful peace and security issues. Additional drivers come from international relations, and major power rivalries became increasingly apparent with the rise of project numbers and values and China's growing political clout over the included countries.

## KEYWORDS

PRC; Serbia; "16 plus 1"; EU; development; rivalry

## 1. Background of the PRC's strengthened presence in the Balkan states

As we explore which elements played a decisive role in forming new and dynamic bilateral relationships between the states in Central, Eastern, South-Eastern and Southern Europe and the PRC, we notice the variances in their engagements and importance within the cooperative framework due to differences in their economic and political positions and preferences. These variances also reflect the complexity of the format derived from changes that have occurred in the PRC's and EU's global positions, but particularly the changes that occurred in the bilateral relations between the two and the mutual perceptions that mirror such changes.<sup>1</sup> Our research

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will examine the expressed capacity of the local actors within the European partners, notably in Serbia<sup>2</sup>, and the main drivers persuading them to accept and support China's initiatives.

The pentagonal research framework used in this study<sup>3</sup> facilitates discovering what factors played a defining role in the drivers and capabilities of the local actors in their booming economic cooperation with the PRC. It enables analyses of the drivers and motives behind decisions in different countries and is a qualitative way of developing a deeper understanding of the research question. Dynamism in the Balkan states' cooperation with China started when the PRC introduced "Sixteen plus One" in 2012 and the BRI in 2013. These Chinese initiatives created a new chapter in cooperation with the PRC. A few years later, when some projects started to appear and were rolled out, the emergence of the new dynamism was much more visible to all the regional actors, the EU, and other regional and global powers.

### ***1.1. New regional format for cooperation with China in Europe***

In 2012, in Warsaw, the People's Republic of China (PRC) formally launched a regional economic and political format for cooperation with 16 "Central and Eastern European countries" (CEECs), the so-called "Sixteen plus One" platform.<sup>4</sup> The initial group involved eleven EU member states – Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia, and five EU neighborhood countries – Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia. The initial sixteen European members were all former socialist countries.

However, the new chapter in their cooperation with the People's Republic of China became noticeable only some years after its initial steps had discreetly occurred. Like many similar projects around the globe, they were part of China's Go-Global strategy for its state-owned enterprises, which was pushing outward based on Beijing's understanding of the roots of the global economic crises. Also, Beijing saw possibilities for bolder worldwide spread unlocked by the global crisis. These sixteen states were seen as receptive partners for Chinese presence in specific economic and geographic areas and perhaps political strongholds in Europe. Geography and geopolitics affected the PRC's reasons for choosing these European states for a new format. Like many groupings assembled in other parts of the world as a platform for cooperation with the PRC, the format continued by name and figurative "regionalism." At the same time, bilateralism remained the dominant way of collaboration with China.

There were several key drivers that persuaded the governments of these countries to accept China's initiative. The division between the "new Europe" and "old Europe" was exposed, as the problems of the first group became severe due to the global economic and eurozone crises. Countries of the former SFR Yugoslavia that experienced civil war were harshly dealt with by the events of the 1990s, and Serbia and Montenegro (as the Federal Republic of Yugoslavia and later a state union) were under UN sanctions and finally bombed by NATO in 1999. Although the new collaboration format was somewhat confusing, China proposed what these countries needed. Balkan countries, including Serbia, were being ruthlessly treated and deprived of most EU funds. So, they were chosen by Chinese corporations for building and upgrading infrastructure, as the EU laws from 2011 prohibited its members from providing state guarantees (which China asked for all projects) for foreign-financed

projects. The principal driver for local political decisions in non-EU members was the attractiveness of China's offer compared to the passivity and neglect by EU institutions. The economic and somewhat domestic political drivers (top-level decisions about projects) were the main ones that existed with all the local agents and their willingness to engage with a dynamic and approaching China. In the case of Serbia, there were also peace and security issues connected with the PRC's role in the UN Security Council regarding Kosovo's unilateral declaration of independence and China's support for Serbia's sovereignty.

Soon, the EU became louder in criticizing China's presence, and pressure on recipient countries became stronger. At the same time, the "negative Chinese influence" narrative and consequent pressure started to stream from Washington toward local governments. Additional drivers from international relations and great power rivalry became increasingly apparent with the rise of projects and China's political clout over countries where it was becoming ever more economically engaged. Non-EU member states, led by Serbia, were the sole and the biggest recipients of most (carbon) Chinese energy and traffic infrastructure projects. In our research, we include specific projects already built or under construction that remain the most significant outcome of the cooperation.

We understand that Beijing's initiatives were part of new China's global approach embodied in the Go-Global strategy in 2001, and China became a member of the WTO. Its involvement in world affairs deepened as a new, vast, and complex supply chain with China at its center was created. The changed circumstances meant that China increasingly became a hub of the globalization wave. Its importance to every other participant in global economic affairs grew enormously as a trade partner, investor or FDI recipient. Based on this, China's global importance grew as a political partner and a supporter or counter-factor when a particular country was dealing with other regional or international powers.

The "Sixteen plus One" grouping covers a geographic area from the Baltic Sea in the north of Europe through Central and South-Eastern Europe toward the Aegean Sea and the port of Piraeus in Greece. Greece joined this group in 2019, though China's port acquisition started ten years before. Austria conveyed an interest in joining the format, but the EU expressed a strong protest and dissatisfaction with China's activities in "dividing" the Union.

## **2. PRC – Serbia relations**

### ***2.1. Peace and security as a powerful driver of bilateral relations***

In Serbia, as a case study in our research, there were other political motives. Peace and security were crucial drivers toward closer cooperation with the PRC. China as a permanent member of the UN Security Council, became and remained of particular importance for the Republic of Serbia as protector of Serbia's national sovereignty and territorial integrity and guardian of the UNSC resolution 1244. In addition, China supported Serbia's stance on the unilaterally declared independence of the southern Serbian province of Kosovo and Metohija, the so-called "Republic of Kosovo." Chinese police forces took part in the peacekeeping missions in Bosnia and Hercegovina and Kosovo and Metohija.

China appeared before the International Court in Hague during the debate over Kosovo's right to declare independence. Recently, China was highly active when it, together with the Russian Federation, declined to give legitimacy to the UNSC high representative in Bosnia and Herzegovina.

As a candidate country on its accession to the EU (twelve years in that status already), Serbia remained strained by demands from the EU to give up its sovereignty over the southern province of Kosovo and Metohija, where the local provisional government consisting of Albanian separatists self-declared its independence. However, the province is under UNMIC provisory and remains part of Serbia.<sup>5</sup> At the same time, when Brussels was putting intense pressure on the Serbian government to accept that independence and stalemating Serbian accession, five member states of the EU did not recognize that independence. Such double standards and pressure from Germany, the EU and the USA on the Serbian government over this issue are making China's political support for Serbia's fight to preserve its sovereignty in the UNSC and elsewhere critically important. Support is also coming from the Russian Federation, a powerful, even crucial, driver in Sino-Serbian cooperation.<sup>6</sup>

Regarding the USA, the most powerful global actor that currently sponsors the "independent" Kosovo project, it is vital for Serbia that the PRC supports the Serbian defense of its sovereignty in the UNSC (together with the Russian Federation) in accordance with UNSC Resolution 1244. Despite the severe obstacles, good relations with all major powers make it possible for Serbia to have a neutral military position and preserve its independent foreign policy to some extent. So, we find that security issues (sovereignty and territorial integrity) are powerful additional drivers of the local actor, the Serbian government.

### ***2.1.1. Military cooperation between Serbia and PRC***

Collaboration between the two countries in the area of security issues has developed smoothly, alongside the other elements of bilateral relations that matured into a comprehensive strategic partnership in 2016 when Chinese President Xi Jinping visited Serbia.<sup>7</sup> This partnership mainly consists of cooperation in education, training, weapons procurement, numerous Chinese donations, exchange of personnel, regular high-level visits, medical and economic-military activity cooperation, attending the International Xiangshan Security Forum by Serbian officials,<sup>8</sup> and other activities. As a non-NATO member and military-neutral country, Serbia is, as seen by China, as a more trustworthy partner. Furthermore, NATO aggression on Serbia and Montenegro (FR Yugoslavia) for seventy-eight days, particularly the bombing of the Embassy of the PRC in Belgrade,<sup>9</sup> where three Chinese journalists were killed and several other personnel wounded, created a particularly strong bond between the two nations and their armies.

These bonds have been strengthened via numerous donations from the Chinese side, explicitly aimed at the provision of technical equipment, ambulance vehicles, an acupuncture center with the Military Medical Academy Hospital, equipment for natural disaster rescue intervention, medical collaboration via the transfer of knowledge and, from the Serbian side experience in curing burns and other wounds by the Serbian Military Medical Academy, and other ways. All these points within the overall security issue driver motivated the Serbian side to pursue cooperation with the PLA/PRC.

Cooperation in the military domain is framed by a dozen bilateral agreements between the Ministry of National Defence of the People's Republic of China and the Ministry of Defense of the Republic of Serbia.<sup>10</sup> It also includes military education cooperation between the University of Defense, the Military Medical Academy (MMA), the School of National Defense, the MMA Medical Faculty of the Serbian Defense Ministry and the National Defense University of the People's Republic of China. It includes a regular exchange of visits of students and lecturers. Together with joint drills<sup>11</sup> and joint training of specific units and procurement of weapons, we observe the security policy of Serbia as a primary driver for strong engagement in bilateral defense cooperation with China. During the ongoing fight against the COVID-19 pandemic, on July 19 2020, the Ministry of Defense of the People's Republic of China and the Central Military Commission delivered donated equipment to the Serbian Armed Forces to the value €755,000 consisting of mobile respirators, monitors, pumps for infusion solutions, thermometers, temperature measurement helmets for the mobile and provisional hospitals that Serbian defense forces had installed in various cities.<sup>128</sup>

Donations of Chinese vaccines in March 2021, delivered during the Minister of National Defence of the People's Republic of China Wei Fenghe's visit to Serbia (and three other countries in the region), primarily intended for members of the Ministry of Defence and the Serbian Army and members of their families,<sup>13</sup> adds the security interest of Serbia as the main driver of the recipient country's behavior. For the Chinese side, it manifested its strength and readiness to help countries needed further securitization of the BRI route from the Piraeus port via Greece and North Macedonia, Serbia, to Hungary.

In 2019, Serbian Armed Forces purchased and a year later received six remotely piloted aerial vehicles (CH-92A) and laser-guided missiles from the PRC.<sup>14</sup> This purchase made the Serbian Air Force and Air Defense the first in the region to use drones and significantly enhanced their reconnaissance and aerial action capabilities. In the same year, the Serbian state-owned weaponry company Jugoimport SDPR purchased an FK-3 air defense surface-to-air missile system from the PLA.<sup>15</sup> On April 9 2022, six PLA Air Force Y-20 transport planes landed at Belgrade Nikola Tesla Airport, delivering the FK-3, the PLA's export version of the Chinese HQ-22 surface-to-air missile system, to the Serbian army.<sup>16</sup> The first shipment was delivered amidst the heated geopolitical tensions caused by the Ukrainian war. The delivery was seen as a sensation and even provocation by the West. The speculations went on: how was it possible, given that the Chinese Y-20s would need to fly across several other countries to reach Serbia? They needed perfect coordination with these countries to obtain authorization for such over-flights. The fleet had one stop in Baku, Azerbaijan, before entering the airspace of two NATO members – Turkey and Bulgaria – and ending in Belgrade civil airport. According to the *South China Morning Post*, which quoted the flight tracking website *Flightradar24*, the second fleet of six planes followed the same path the next day.<sup>17</sup>

For China, it was an unprecedented move to show “a crucial improvement in the PLA Air Force's long-range strategic transport capabilities, as well as the large transport aircraft's logistics support and maintenance capabilities for intercontinental flights.<sup>18</sup> It also demonstrated China's growing global influence. The official Serbian response pointed at regular delivery based on the previously paid and arranged deal. It remained to be seen about the second delivery for the contingent. Still, the Serbian president later

complained that military cooperation with foreign countries had become highly strained, and Serbia had to rely on itself.

Procurement of modern weapons in pursuit of the modernization of its glorious but rather outdated defense system as part of the Serbian security policy is the apparent driver from the Serbian government side. Serbia wanted to strengthen its military might and improve its deterrent capacity. International relations drivers, both global and regional, influenced the Serbian government's decision-making. Additionally,<sup>19</sup> we note a global international relations driver – Serbia moved toward procuring weapons from China as it wanted to follow its foreign-policy strategic course of balancing relations with the great powers.

### ***2.1.2. Bilateral security cooperation in the field of interior security***

Bilateral cooperation between Serbia and the PRC in the area of interior security is legally covered from December 8 2009 by the Agreement on Cooperation between the Ministry of Interior Affairs of the Republic of Serbia and the Ministry of the Public Security of the People's Republic of China,<sup>20</sup> that was later followed by several agreements covering more specific areas of cooperation. These legal documents followed the ongoing elevation of the context of collaboration, similar to the cooperation China has pursued with other strategic partners.

According to the Serbian news agency Tanjug, on November 28 2019, a joint exercise of police officers from Serbia and China aimed at disabling terrorists and releasing hostages occurred in the Serbian city of Smederevo. The drills were held at the Still Plant in the town of Smederevo, owned by Chinese company HBIS, with the participation of one hundred and eighty police members, twenty vehicles and three helicopters. The attendance of the Serbian President, Aleksandar Vucic, proved the high level of the event.<sup>21</sup>

According to numerous Serbian media, the Minister of Interior of the Republic of Serbia announced on August 2, that joint police patrols would start that autumn in three Serbian cities – Belgrade, Novi Sad and Smederevo. Three years later, when the affair of the alleged “Chinese secret police stations” or units was globally revealed, the Serbian and Croatian Ministries of Interior Affairs issued almost the same statement. The Ministry of Interior Affairs of the Republic of Serbia and the Ministry of Public Security of the PRC signed an MoU on conducting joint police patrols on May 2019. Based on this MoU, six Chinese police officers took part in the joint patrols of Serbian and Chinese police for a month – from September 17 to October 16 2019. In the statement, the Serbian Ministry pointed out that, according to the MoU, Chinese police officers were not entitled to use force.<sup>22</sup> On September 2016, the Serbian delegation participated in the Second Annual Meeting of the Lianyungang Forum, together with thirty other countries and three international organizations. The Forum was initiated as one of the framing projects for the securitization of the BRI projects, and the Serbian presentation was expected in that context.

In 2014 and 2016, the Serbian government signed a Memorandum of Understanding with the Huawei company, and in the following years, between several Serbian ministries, including the Serbian Ministry of the Interior and Huawei.<sup>23</sup> According to the Huawei webpage, Aleksandar Vucic, Serbian Prime Minister and President-elect, met with Huawei's Chairwoman, Sun Yafang, in Beijing on May 14 2017 when they discussed

Serbia's national ICT strategy and digital transformation initiatives.<sup>24</sup> Before the meeting, the General Manager of Huawei Serbia signed a strategic partnership agreement for ICT infrastructure development with the Minister of Education, Science and Technological Development of Serbia.<sup>25</sup>

Several agreements aimed at setting the company as a strategic partner of the Serbian government and telecommunication companies for upgrades of communications infrastructure and the government's digital transformation, including developing "smart city" projects in several cities and installing face recognition cameras as part of these projects. This project caused a minor political upset in Belgrade, especially among Western-funded "China observers,"<sup>26</sup> as nine test face and car plate recognition cameras that, according to Huawei, were initially installed at five locations in Belgrade (and performed successfully) were not legally proven nor known to the Serbian public. In its annual business report,<sup>27</sup> Huawei stated that it offered eLTE technologies to the Serbian Ministry of the Interior and elsewhere, including smart video surveillance and intelligent transport systems, an advanced 4 G network, unified data centers and related command centers. The introduction of the surveillance system remains under political and public scrutiny, including ongoing legislation procedure that includes public hearings. In contrast, the general public remains reserved due to fear of the possibility of its abuse. Nevertheless, the security policy of the Serbian government concerning interior and exterior security creates a powerful driver for engagement with Huawei as a semi-private company with strong state backing. In this area, we can observe the role of weak institutions and strong political leaders and the practice of initiating and making decisions on the top level, followed by ministry and local communities' ones, including the legal procedures that often come *after* the fulfillment of the deals.

This pattern we find as an unwritten code of conduct in the "party state" reality in the region. We also notice another issue with this and other projects and business arrangements. Beyond the top political figure in one country, other high-level political figures and those in business sectors are often eager supporters of cooperation with China due to their various personal interests in those deals. The parties often omitted in these negotiation deals are the public interest and the general and professional public as an impact-making actor.

## **2.2. Economic cooperation – powerful driver for both countries**

We analyze the elements of political and economic bilateral relations between Serbia and China to see how Serbia put itself in the central place of China's infrastructure projects in the "Sixteen plus One." China is a crucial partner in the government's ambitious traffic, digital and energy infrastructure construction and upgrades strategic orientation. It is a financier (via Exim Bank loans), and the building is done mainly by Chinese corporations, China Railway International (CRI) and the China Communication Construction Company (CCCC). To this end, a Bank of China branch office was opened in Belgrade. Currency swap arrangements were initiated, and Chinese companies have invested in various industries in the Serbian economy, from steel (HSTEEL) and tyre production (Linglong) to auto parts, thermal and hydro energy and renewables, to copper and gold extraction. In the ICT sector, ZTE, notably Huawei, has a dominant presence, including "smart city" projects in two cities and the 4 G and 5 G network. People-to-people cooperation is also intensifying in



academia, media, and tourism (a regime of mutual visa exemption for citizens<sup>28</sup>), to cultural collaboration and two Confucius<sup>29</sup> Institutes, cultural centers, and a growing number of students studying the Chinese language.

When Wu Banguo visited Serbia in 2010, after decades of no high-level visits, he focused on two points equally crucial to China's leadership. Both were getting even more significant as China's economic and political relations with Western partners deteriorated, and globalization was jeopardized by the pandemics, technological war and geopolitical turmoil. "Serbia is an important country in the central and eastern region of Europe and one of the strategic partners of China. Contacts on a political level are getting closer, economic cooperation has been developing, and the project of constructing the bridge over the Danube and revitalization of the Kostolac thermal power station became excellent models for the development of cooperation with China in the sense of performing and managing huge and technologically advanced projects in Central and Eastern Europe."<sup>44</sup> On one hand, he stressed that China's behavior toward Serbia (and other "strategic partners") was led by the ambition to strengthen the PRC position in the global political structure, via reinforcement of cooperation with friendly nations and China-organized regional frameworks. It remains a powerful driver for China's foreign policy and significantly impacts the domestic public. On the other hand, it is expanding toward developed markets, like the European ones, through successfully financing and performing "technologically advanced projects" on their doorstep. This economic driver of China's behavior was accompanied by the economic aim at the core of BRI – to employ various sectors of its economy through the engagement of its giant corporations abroad.

During Wu's visit, he declared the preferential financing and building of the "Pupinov most" on the Danube in Belgrade,<sup>30</sup> while he and the Serbian president signed the implementation agreement. On December 2014, the new bridge over the Danube was officially opened during The Third Summit of "16 + 1" by Serbian Premier Aleksandar Vucic and Chinese host guest Li Keqiang. It was the first European bridge built by a Chinese company.<sup>31</sup>

### ***2.2.1. Trade with China, a cause for optimism or misadventure***

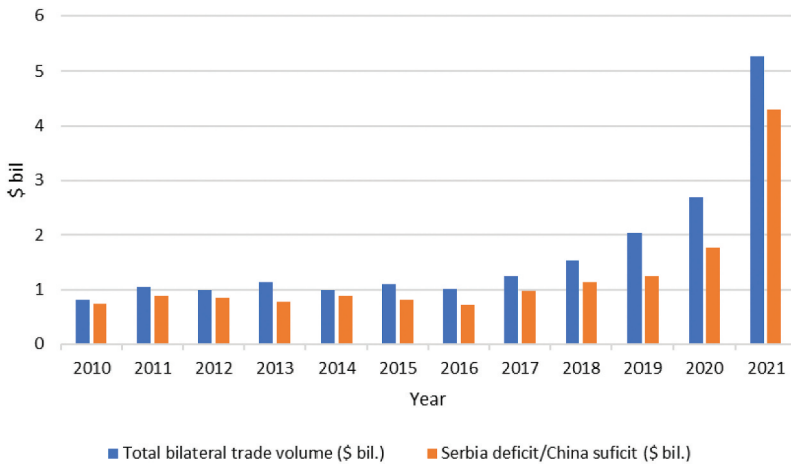
During the "Sixteen plus One" framework's implementation, trade between Serbia and the PRC experienced substantial growth and a trade deficit on the Serbian side. According to Serbian Prime Minister Ana Brnabic, bilateral trade has grown in value 152-fold during the last ten years, tripling in the previous three years – 2018–2021. She strongly supported the ongoing negotiations between the two governments and expert bodies to establish FTA until the end of 2022.<sup>32</sup> Opposing the realistic analyses showing that Serbia's economy and export potential is traditionally limited by the inability to provide a sufficient quantity of goods for the mid or long-term, she claims that "she believes in the potential of Serbian exports and their competitiveness." She also claimed that such FTA would attract more FDI to Serbia. However, potential investors must have had a challenging experience in the Chinese markets through their involvement there, despite China being a member of the WTO for twenty years. Additionally, such optimistic assumptions do not answer why China did not open the door of its market further to "Sixteen plus One" members, as committed in numerous promises and agreements within the framework, which has caused dissatisfaction among many of them. Data on such trade showed that their respective and accumulative deficits grew while the Chinese trade surplus enlarged.<sup>33</sup>

The same pattern is visible in Serbian bilateral trade with China until the deficit on the Serbian side shrank from 69% of the bilateral trade total value in 2013 (World Bank)<sup>34</sup> to 25% in 2021.<sup>35</sup> Although the deficit thus got smaller in relative terms and grew hugely in nominal terms, the cause of the decrease in the deficit on the Serbian side was very instructive. It was caused by the exports by Chinese-owned corporations operating in Serbia, primarily the Serbia Zijin Copper Mine<sup>36</sup> and the HeSteel Mill in Smederevo, owned by HBIS Group Serbia.<sup>37</sup> The data point often used by the Serbian government to illustrate the positive effects of the country's cooperation with China is that the previously mentioned Chinese corporations operating in Serbia were the three biggest exporters in Serbia in 2021. According to the Ministry of Finance, Zijin Mining, HBIS Group and Zijin Copper are the biggest exporters, with their respective export values of 769.5, 679.5 and 676.4 million euros.<sup>38</sup> Serbia exports mainly primary goods such as copper ore and concentrates, while importing industrial equipment, broadcasting equipment, cloth articles, air pumps, video displays, electric control boards, smartphones, laptops, and ACs. The constant rise of bilateral trade in recent years has pushed China to second place on the list of major Serbian trade partners. However, China is the ninth export destination (2.24% of total exports and a value of US\$462million) while being the second import country with a share of 12.3% (US\$4.15 billion). In 2015 exported goods from Serbia to China valued at US\$127 million, meaning that export growth over the last five years was 264%. It is interesting is that in 2015 when the Republic of Serbia still owned the copper mine complex, there was no copper exports from Serbia to China.<sup>39</sup>

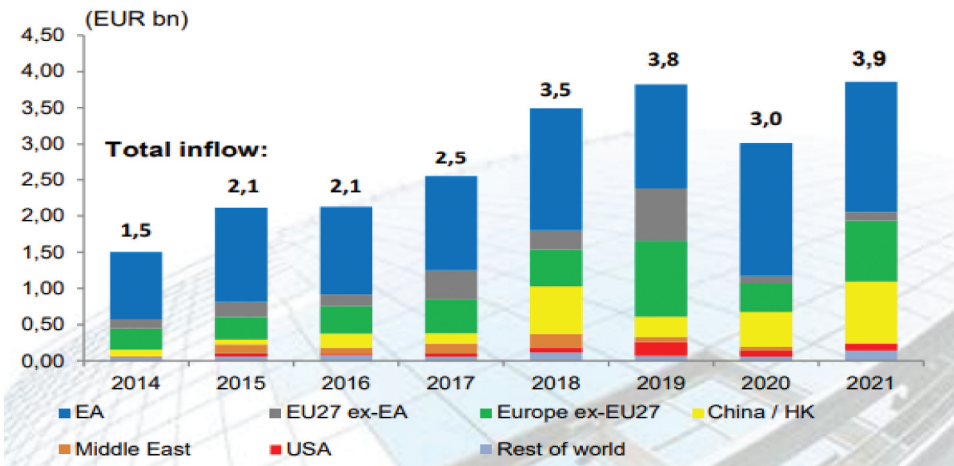
Even more explanatory of the trade trend is that in 2012, when the Initiative was launched, Serbian export to China comprised 0.6% of the country's export, at a value of US\$72.4 million. During the last fourteen years, the exports of China to Serbia have increased at an annualized rate of 9.25%, from US\$647million in 2006 to US\$2.23billion in 2020 (Figure 1). During the same period, Serbia's exports to China have increased at an annualized rate of 32%, from US\$9.49million in 2006 to US\$462million in 2020.<sup>40</sup> Regardless of the clear trend, the Serbian Prime Minister is confident about the advantages of the FTA with the PCR. The approach of Serbian high officials illustrates drivers coming from macroeconomic conditions and the search for trade facilitation and alleged promotion of the business environment for future FDI.

### ***2.2.2. Investments from China – loans for projects and FDIs***

The Chinese economic presence has been transformed into evident and functional projects, such as highways, thermal power stations, bridges and similar infrastructure in the Balkans. Such visible and valuable results, without going deeper into their sustainability, economic, ecological and social impact, provide powerful arguments for local governments on how their decisions to cooperate with China and participate in the framework were the right choices and beneficial to their citizens. These governments can claim that together with Chinese partners, they delivered what they promised, such as needed traffic and energy infrastructure, raising employment at least by improving the general business environment, and adding dynamism to the economy – all being economic interest created drivers. An additional argument in Serbia is that the built traffic infrastructure attracted other foreign investors and FDI and improved the country's portfolio as a production and transport hub. Interestingly, in the first several years of



**Figure 1.** Trade between the Republic of Serbia and the PRC in the period 2010–2021. Sources: Compiled by the author, based on World Bank, National Bank of Serbia, Serbian Statistical Bureau and OEC.5.0 statistics.



**Figure 2.** Largest Foreign Investors in Serbia 2014–2021. Source: National Bank of Serbia<sup>43</sup>

expanding such economic cooperation with China, political figures used to call all Chinese loans and projects financed by them “investments,” creating confusion in the domestic public that these projects were FDI from China.<sup>41</sup>

During the last decade, Serbia has grown into a relatively attractive investment location in Southeastern Europe and has even become the leading destination as the country that creates the most FDI jobs per million inhabitants, as stated in “IBM Global Location Trends 2020.”<sup>42</sup> According to the Development Agency of Serbia (RAS), Serbia has attracted over €37 billion of inward foreign direct investment since 2007. A list of leading foreign investors in Serbia includes first-class companies such as Panasonic, Bosch, Michelin, Siemens, Microsoft, and others. However, until recently, China has remained interested only in giving loans with sovereign guarantees for infrastructure



**Figure 3.** China's desired land-sea railway route. Source: [http://www.china-ceec.org/eng/zywj/ldrhhcgwj/202112/t20211222\\_10474168.htm](http://www.china-ceec.org/eng/zywj/ldrhhcgwj/202112/t20211222_10474168.htm)

projects done by its corporations. The only exceptions were the acquisitions of the Smederevo Steel Mill and the Bor Copper Mine. This picture has changed recently, though, and investors from China (including Hong Kong) have become more numerous and visible.

According to the National Bank of Serbia, FDIs<sup>44</sup> (Figure 2) in Serbia were geographically diversified and mainly made by export-oriented companies. Specifically, from 2010 to the second quarter of 2022, foreign direct investments made by the EU amounted to €19,204 billion, China (including Hong Kong, Taiwan and Macau) €3,281 billion, the Russian Federation €2,473 billion, and the United States €733 million. The FDI influx in 2022 by country, available at the end of the second quarter, shows that the largest foreign investments came from China – €491.5 million, followed by the EU – €401 million, the US – €56.7 million and the Russian Federation – €30.4 million. This<sup>45</sup> shows the trend and the enlarged interest and confidence of Chinese corporations to invest in Serbia in various industries (Tables 1 and 2).

### **2.3. Domestic politics as an important driver for cooperation with the PRC**

Economic cooperation, primarily via several big projects, does have high importance for the Chinese side also, even at the top political level, as it is associated with Xi Jinping's leadership in promoting China's global economic grasp as flagship projects. During the BRI Forum in Beijing, held in May 2017, the Chinese President mentioned the Belgrade-Budapest railway as one of the crucial projects of the BRI. In this sense, we see the mutual domestic political drivers behind specific projects and economic and political cooperation in general.

Table 1. Manufacturing.

Project name	Section of project	Sub-sector	Company	Value (EUR mln)	Source of financing	Subsidies (Eur/mln)	Date of signature	Start of construction	End of construction/ Status
<b>1. Manufacturing – Metal Industry</b>									
Smederevo Steel plant	Acquisition of plant <sup>1</sup>	Metal industry	Hesteel Serbia iron and steel	46	Own financing	N/A	Undisclosed	N/A	7–2016/ Finished
Smederevo Steel plant	Various investments <sup>2</sup>	Metal industry	Hesteel Serbia iron and steel	134	Own financing	N/A	Undisclosed	7–2016	7–2017/ Finished
Smederevo Steel plant	Construction of sinter plant (agglomeration plant) <sup>3</sup>	Metal industry	Hesteel Serbia iron and steel	107	Own financing	N/A	Undisclosed	7–2019	7–2021/ Ongoing
<b>1.2. Manufacturing – Automotive industry</b>									
Mei Ta Europe	FDI	Automotive industry	Mei Ta Europe	150	2/3 own financing, 1/3 state subsidy	21 <sup>4</sup>	Undisclosed	1–2016	5–2019/ Finished
Linglong	FDI	Automotive industry (Tire production)	Linglong International Europe D.O.O. Zrenjanin	800 <sup>5</sup>	Own financing/ Subsidy	83.5 <sup>6</sup>	3–2019	N/A	Ongoing
Yanfeng	FDI	Automotive industry	Yanfeng Automotive Interiors, Kragujevac	40 <sup>7</sup>	Own financing/ Subsidy	4.2 <sup>8</sup>	N/A	N/A	11–2019/ Finished
Xingyu	FDI	Automotive industry	Xingyu Automotive Lighting Systems d.o.o. Niš	60 <sup>9</sup>	Own financing/ Subsidy	16.4 <sup>10</sup>	N/A	N/A	2–2021

<sup>1</sup><https://www.hbissrbia.rs/index.php?link=news-view/1921/hbis-group-serbia-posle-godinu-dana>

<sup>2</sup><https://www.hbissrbia.rs/index.php?link=news-view/1921/hbis-group-serbia-posle-godinu-dana>

<sup>3</sup><https://www.ekapija.com/news/2582072/pocela-gradnja-postrojenja-aglomeracije-u-lelezari-smederevo-ulaganje-od-120-mln-usd#>

<sup>4</sup><https://www.istinomer.rs/analize/zasto-poklanjamo-milione-evra-kineskoj-kompaniji/>

<sup>5</sup><https://www.021.rs/story/Info/Vojvodina/283275/Vucic-Kineska-fabrika-guma-Linglong-ce-drasitno-da-osnazi-Zrenjanin.html>

<sup>6</sup><https://www.reri.org/drzavna-pomoc-dodeljena-kompaniji-linglong-tire-nije-u-skladu-sa-zakonom/>

<sup>7</sup><https://seenews.com/news/yanfeng-to-expand-serbian-factories-workforce-to-800-employees-by-end-2023-718877>

<sup>8</sup><https://novaekonomija.rs/vesti-iz-zemlje/vlada-daje-vise-od-4-miliona-evra-subvencija-kineskom-janfengu>

<sup>9</sup><https://ipalilula.eu/nova-investicija-u-industrijskoj-zoni-sever/>

<sup>10</sup><https://novaekonomija.rs/vesti-iz-zemlje/zeleno-svetlo-za-subvencije-kineskoj-kompaniji-od-164-miliona-evra>

**Table 2. Mining.**

Project name	Section of project	Sub-sector	Company	Value (EUR mln)	Source of financing	Creditor	Interest rate	Subsidies (Eur/mln)	Date of signature	Start of construction	End of construction/ Status
RTB Bor	Acquisition of company <sup>1</sup>	Copper	Zijin Bor Copper	313	Own financing	N/A	N/A	N/A	17-09-2018 <sup>2</sup>	N/A	08-2018/ Finished
RTB Bor	Various investments in equipment and plants <sup>3</sup>	Copper	Zijin Bor Copper	1,125	Own financing	N/A	N/A	N/A	17-09-2018 <sup>4</sup>	12-2018	12-2024/ Ongoing

<sup>1</sup><https://www.ekapija.com/company/news/16474/vesti?page=7>; <https://www.ekapija.com/news/2343826/kineski-zijin-preuzeo-rtb-bor-uplacen-350-mil-usd-za-dokapitalizaciju>

<sup>2</sup>[www.021.rs/story/Info/Biznis-i-ekonomija/197201/Potpisan-ugovor-sa-Kinezima-o-preuzimanju-RTB-Bor.html](http://www.021.rs/story/Info/Biznis-i-ekonomija/197201/Potpisan-ugovor-sa-Kinezima-o-preuzimanju-RTB-Bor.html)

<sup>3</sup><https://www.ekapija.com/news/2522833/zijin-bor-raspisao-tender-za-nabavku-opreme-materijala-i-mehanizacije-ulazu-1>

<sup>4</sup>[www.021.rs/story/Info/Biznis-i-ekonomija/197201/Potpisan-ugovor-sa-Kinezima-o-preuzimanju-RTB-Bor.html](http://www.021.rs/story/Info/Biznis-i-ekonomija/197201/Potpisan-ugovor-sa-Kinezima-o-preuzimanju-RTB-Bor.html)

In the Serbian local political milieu, governments, when performing big projects with Chinese partners, can and do easily present themselves as being much more capable of providing what the country needs than the previous ones that had neglected these needs for decades. These are the additional drivers, political and economic ones, behind the local actors who pursue cooperation with China and its corporations. In this case, the actors are governments, as all major projects are agreed upon at the top political level.<sup>46</sup> An illustrative example is the idea and negotiations on an FTA with China, which were first publicly announced during President Vucic's visit to Beijing in February 2022.<sup>47</sup>

Regarding the perception of China in sixteen/seventeen countries, in the Central European countries, even during the first several years of the initiatives when there was a high level of expectation and optimism toward the delivery by China of what it promised (FDI from China, opening the Chinese market to their products, etc.), there was a negative public sentiment toward the PRC, which was a fascinating phenomenon.<sup>48</sup> Contrary to this, in the Balkan states, public opinion was and remained positive toward China (proved by surveys year after year), despite criticism toward certain elements and practices connected with China-associated projects. This was especially the case in Serbia.<sup>49</sup>

While the Serbian government created and spread a highly positive image of China and cooperation with China in the domestic audience, it at the same time benefited from the very affirmative stand of public opinion on the PRC and collaboration with it. According to the second consecutive poll conducted in 2022 by the Institute for European Affairs from Belgrade, 80% of Serbian citizens consider China “a friend” of Serbia, a growing majority see bilateral ties positively and 72% of them expect it to be even better in the future, while 64% of them believes that China helped Serbia during pandemics more than other countries, but only 17% see the EU in that position. This<sup>50</sup> local political driver is self-explanatory as the government is delivering cooperation with a partner (PRC) trusted and respected by local citizens, who were driven to such beliefs at least partly by official standpoints and pro-government media. Serbian citizens also trust the positive impact of Chinese loans and infrastructure projects and prefer Chinese and Russian vaccines over “western” ones.<sup>51</sup>

#### ***2.4. International relations in the regional framework – being the best “China’s friend”***

Cooperation with China is a powerful domestic political driver. Mirroring Serbia as the crucial partner in the region by a major power such as China portrayed the Serbian government as successful when dealing with a globally influential partner. That driver, prominent within domestic politics, simultaneously affected relations with neighboring countries and other countries participating in the format as a stimulating driver for Serbian leaders, as they started to look upon Serbia as central China's partner in the framework that did not entirely correspond with the substance of cooperation.<sup>52</sup>

There is another driver that moves the Serbian government toward cooperation with the PRC – major power competition.<sup>53</sup> This is because there is a strong case of leveraging against Brussels' pressure via close cooperation with China. That is also the case with Hungary, as an EU member state. Collaboration with China to counterbalance the EU is also seen as practical among the Balkan states for different reasons. We can observe that

North Macedonia, even after accepting a name change and introducing numerous other heavy changes, including humiliating ones, was put in the same basket as Albania without moving forward.

Again, Serbia went through complex and costly reforms. Still, after twelve years, it remained in the same status as a candidate country, while Croatia, pulled through shortcuts by Germany, is already within the EU, Schengen and Eurozone. However, at the Zagreb summit, all countries in the region were supposed to become members as a group.<sup>54</sup> The EU changed the rules during Serbia's accession process<sup>55</sup> and presented itself as an untrustworthy partner. At the same time, China is presented by the government and public opinion as a trusty partner. In the case of Serbia, we can see power rivalry between China, the EU, Russia, USA over economic and political dominance.

Additionally, German influence was crucial in many of the EU institutions' complaints and actions scrutinizing Serbia's collaboration with the PRC. Being at the core of the EU's economic and political power, Germany has increasingly projected its interests using EU institutional structures as a tool. Germany considers all Central European, Baltic and South-Eastern countries its dominant economic zone and does not willingly accept China's presence. Being the most muscular regional actor, Germany opposes competition from China while hiding behind rules and standards.<sup>56</sup>

### ***2.5. Additional drivers coming from global international relations and major power rivalry***

China's projects were, as soon as observed by the EU and the USA, constantly criticized and scrutinized. Political forums and figures, institutions, business representatives, and diplomats condemned China's presence for ecology, workers' rights – Chinese, Vietnamese and local staff – to the code of conduct of the projects. Criticism was robust from Germany, which constantly pressured the engaged governments.

Major power competition was also noticeable in the media sector, where specific, exclusively pro- or anti-China-associated projects were a constant. Generally, pro-government media dominates Serbian public discourse. However, the outlets of the Western or pro-western press were highly critical toward projects associated with Chinese corporations, and their view was solely negative.<sup>57</sup> In contrast, pro-government media nurtured the opposite approach. They focused exclusively on the benefits of such projects to the local economy, almost entirely copying the government's position.<sup>58</sup> The additional element in constructing the pro-China general stance was an enlarged number of TV shows about the positive impact of these projects and China's economic advancement, covering grandiose project-building ability, advanced technology, global engagement at various levels, and appealing the Chinese culture.

Political support from China via strong and high-level bilateral relations with local governments helped them present their positions at home and in the international arena as more solid. Also, good relations with the PRC allowed leverage against pressure from the EU or the USA. This is another driver motivating the behavior of the Serbian government toward collaboration with Beijing.

The China threat theory, with numerous faces, was spread in the region, including Serbia, via criticism of its economic engagement. China was accused of "exporting



authoritarianism,” and local governments that expanded cooperation with China as prone to such political systems and governmental models. The COVID-19 pandemic and accusations that China was “exporting” its governmental model as more efficient than the Western democratic ones was one of the narratives. China was blamed for performing “mask diplomacy” and “vaccine diplomacy” in these countries. The EU criticized China’s “asked-for” gratitude ceremonies in countries such as Serbia<sup>59</sup> while expecting the same and even complaining about not being praised enough for its assistance. The EU and the USA, via its officials, think tanks, local branches of environmental organizations and other actors, used the opportunity to criticize China for investing in projects relying on coal and thus neglecting its duty in the global efforts against climate change.<sup>60</sup> We see these developments as regional-major power competition (China-EU) in the region.

“Switching” from CRBC and Chinese loans to EU-funded and performed projects of a fast railway from Belgrade to Nis, as a crucial part of the Belgrade-Nis-Presevo and to the North Macedonian border railway, is another example of regional and major power competition over economic dominance in Serbia.<sup>61</sup> In this case, the Serbian side had already signed an agreement with the Chinese CRBC. It went into talks regarding providing Chinese financing for it (May 2019)<sup>62</sup> when the European Commission “jumped in,” offering to cover some fifty per cent of the Belgrade-Nis line costs of €600 million.

Serbian President Vucic added some heat to the China-EU competition over winning the hearts of the Serbian citizens by saying in Brussels that if the EU does not help Serbia, it will turn to China to get assistance and complete the project. The game ended with project upgrades and being financed by EIB, EBRD, the Western Balkans Investment Framework as part of the new EU Global Gateway strategy, and by the Serbian government.<sup>63</sup> According to *RailFreight.com*, this investment will contribute to the extension of the core TEN-T network in Serbia (Orient-East Mediterranean Corridor), making it a vital corridor for Southeast and Central Europe.<sup>64</sup> Suddenly, all this became clear to the EU decision-making bodies.

### **3. China and Serbia Cooperation – main projects, achievements, code of conduct and problems**

So far, infrastructure projects (agreed upon, not all started or finished) of approximately US\$10 billion have been agreed upon and performed under the Framework Agreement on Economic and Technical Cooperation (signed on August 20, and put into force on June 25 2010).<sup>65</sup> Annexes added to the Agreement, particularly in 2017, granted Chinese corporations exemptions from VAT, import and other taxes on imported goods for the construction of projects, including locomotive engines and railway trains.<sup>66</sup> To further avoid pressure and criticism regarding dubious practices with foreign constructors, the Law on Special Procedures was adopted in 2020.<sup>67</sup>

Serbian institutions remain weak in the local political climate and tradition, as the decision-making process rests largely behind formal procedures and legal bodies. In these and similar projects, with the apparent gains on the side of Chinese actors and losses on the side of Serbian public interest, drivers coming from development strategy are getting

weaker compared with those coming from domestic politics, such as ineffective political institutions, autocratic political culture and system, and corruption on different levels.<sup>68</sup>

Out of the relatively long list of such projects (Table 3), dominantly financed (85%, mainly by Exim Bank of China) and performed by Chinese corporations, we focus on two exemplary cases – the modernization of the Belgrade-Budapest railway and the upgrade and building of a new block of the Kostolac lignite Thermal Power plant.

### **3.1. Belgrade-Budapest railway modification project**

The Budapest-Belgrade railway is part of the train route from the Piraeus Port near Athens, a connexion point between Europe, Asia and Africa, toward Central Europe and the EU market (Figure 3). This route is essential for transferring freight trains with Chinese and other, primarily Asian, export goods that will be assembled and distributed within the EU. For that reason, the Chinese side saw the project as a freight train railway. On the Serbian side, passenger routes and a speedy link toward Budapest and via Budapest, Western Europe, is more important. The compromise was found in building two trails.

The modernization of the rail link between Belgrade and Budapest, 374 km long, became a flagship project of the BRI. It has a section through Serbia totaling over 200 km and through Hungary of 166 km. The first estimates pointed to a cost between €1.5 to 2 billion. Later, the price was set at €3.8 billion (around 2 billion for the Hungarian portion and 1.8 for the Serbian).<sup>69</sup> The project was initially agreed on at the 2013 “Sixteen plus One” premiers’ meeting in Bucharest. At their next summit in Belgrade in December 2014, China, Hungary and Serbia signed a Memorandum of Understanding.<sup>70</sup> However, although the beginning of modernization was announced several times, the work of the consortium of China Railway International (CRI) and China Communication Construction Company (CCCC) did not start before November 2021.<sup>71</sup> Russian companies were in charge of constructing two sections of the project.<sup>72</sup>

Since the railway construction and modernization project was presented, the EU has scrutinized and criticized it from the point of breaching many EU rules, being overpriced and nontransparent (avoiding public tenders), and assigning Chinese companies a leading role in its realization. Hungary was subjected to the investigation as an EU member state, and Serbia was under political pressure as a candidate country. The Hungarian government provided Chinese financing only by using the state of emergency during the pandemic. The Exim Bank of China finances the project through a 20-year loan of US\$1.8 billion to Hungary and US\$1.3 billion to Serbia (some sources mention US\$1.6 billion). These loans support 85% of the project’s cost in both countries, and the rest will be covered by the Serbian and Hungarian governments (except for the Russian part on the Serbian side).

The technical and legal preparations went on, but the practical realization of the project did not occur, although announced several times.<sup>73</sup> The project remained a top priority, and Xi Jinping named it a top project at the BRI Forum in May 2017. Nevertheless, due to its complexity, the pandemic, EU pressure, and the incapacity of the Chinese companies in Serbia, the work only started in 2021. During this process and its loopholes, Serbian officials, followed by the confused media, kept pretending that the project was developing according to plan, depriving the public of the reasoning behind the events. The economic driver on their



Table 3. Infrastructure.

Project name	Section of project	Company	Length km	Value (EUR mln)	Source of financing	Creditor	Interest rate	Subsidies	Date of signature	Start of construction	End of construction/ Status
<b>3.1. Infrastructure – Motorways</b>											
Belgrade bypass	Sector B: Ostružnički most – Bubanji potok <sup>1</sup>	Sinohydro Corporation Limited	19.5	207	Borrowing	EXIM Bank	2,5%	N/A	12–2014 <sup>2</sup>	7–2018	7–2021/ Ongoing
Belgrade bypass	Sector C: Bujanj Potok – Pančevo <sup>3</sup>	Power Construction Corporation of China	22	450	Borrowing	EXIM Bank	N/A	N/A	5–2016 <sup>4</sup>	Undisclosed	Undisclosed/ Planned
E-763 highway	Lajkovac – Ljig <sup>5</sup>	Shandong Hi Speed Group	24	142	Borrowing	EXIM Bank	2,5%	N/A	5–2013	6–2014	8–2019/ Finished
E-763 highway	Obrenovac – Ub <sup>6</sup>	Shandong Hi Speed Group	26.2	156	Borrowing	EXIM Bank	2,5%	N/A	5–2013	6–2014	8–2019/ Finished
E-763 highway	Surčin – Obrenovac <sup>7</sup>	China Communications Construction Company	17.6	209	Borrowing	EXIM Bank	2,5%	N/A	11–2016	5–2017	1–2020/ Ongoing
E-763 highway	Preljina – Požega <sup>8</sup>	China Communications Construction Company	30.9	450	Borrowing	EXIM Bank	3%	N/A	5–2017 <sup>9</sup>	5–2019	10–2022 Ongoing
E-763 highway	Požega – Boljare (Montenegrin border) <sup>10</sup>	China Communications Construction Company	107	1,500	Borrowing	EXIM Bank	N/A	N/A	5–2017	Undisclosed	Undisclosed/ Planned
Fruška Gora corridor	Fruška Gora corridor	China Road and bridge corporation	37	400	Borrowing	EXIM Bank	N/A	N/A	5–2017 <sup>11</sup>	Undisclosed	Undisclosed/ Planned
Zemun – Borča bridge with access roads	Zemun – Borča bridge with access roads	China road and bridge corporation	21.2	190	Borrowing	EXIM Bank	3%	N/A	Undisclosed	7–2011	12–2015/ Finished
<b>3.2. Infrastructure – Railways</b>											
Belgrade – Budapest railway line	Belgrade – Stara Pazova <sup>12</sup>	China Communications Construction Company	34.5	313	Borrowing	EXIM Bank	2%	N/A	11–2016	6–2018	5–2021/3–2022
Belgrade – Budapest railway line	Novi Sad – Subotica-Kelebjia <sup>13</sup>	China Communications Construction Company	108.2	1.038	Borrowing	EXIM Bank	2%	N/A	11–2016	1–2020	109–2024/ Planned <sup>14</sup>

(Continued)

**Table 3. (Continued).**

Project name	Section of project	Company	Length km	Value (EUR mln)	Source of financing	Creditor	Interest rate	Subsidies	Date of signature	Start of construction	End of construction/ Status
Reconstruction of Belgrade – North Macedonia railway line	Belgrade – Niš-Preševo <sup>5</sup>	China Road and Bridge Corporation (CRBC)	286	760	Borrowing	EXIM Bank	n/a	N/A	5–2019 <sup>16</sup>	Undisclosed	Undisclosed/Planned
Construction of Resnik-Klenje-Mali Pozevac double-track railway (reconstruction) railway <sup>9</sup>	Resnik-Klenje-Mali Pozevac double-track railway (reconstruction)	CRBC	26 km	App. 340 (CRBC preparing a cost estimate) for 84 km	To be decided	To be decided EU funds <sup>18</sup>			MoU Ministry of Constr., Transport & Infrastr. and CRBC	To be decided	
Construction & reconstruction of Resnik-Klenje-Mali Pozevac-Mala Krsna-Velika Plana double-track railway <sup>7</sup>	Construction -Mali Pozevac-Velika Plana double-track railway	CRBC	58 km	App. 340 (CRBC preparing a cost estimate) for 84 km	To be decided	To be decided EU funds <sup>20</sup>			July 2019 MoU Ministry of Constr., Transport & Infrastr. and CRBC	To be decided	

**3.3. Infrastructure – Communal**

Belgrade waste water treatment plant	Belgrade waste water treatment plant	China Machinery Engineering Corporation	N/A	246	Borrowing	EXIM bank	N/A	N/A	11–2017	Undisclosed	Undisclosed/Planned
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<sup>1</sup> <https://www.mgsi.gov.rs/cir/infrastruktorna-gradilista/izgradnja-obilaznice-oko-beograda-sektora-b-sekcije-b4-b5-i-b6-i-sektora>; <https://www.mgsi.gov.rs/cir/projekti/obilaznica-oko-beograda-sektor-b>

<sup>2</sup> <http://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/mu/ministarstva/ostalo/2015/1/3/reg>

<sup>3</sup> <https://www.mgsi.gov.rs/cir/infrastruktorna-gradilista/izgradnja-obilaznice-oko-beograda-sektora-b-sekcije-b4-b5-i-b6-i-sektora>; <https://www.mgsi.gov.rs/cir/projekti/obilaznica-oko-beograda-sektor-c>

<sup>4</sup> <https://www.mgsi.gov.rs/cir/projekti/obilaznica-oko-beograda-sektor-c>

<sup>5</sup> <https://www.mgsi.gov.rs/cir/infrastruktorna-gradilista/koridor-11-obrenovac-ub-lajkovac-ljig>

<sup>6</sup> <https://www.mgsi.gov.rs/cir/infrastruktorna-gradilista/koridor-11-obrenovac-ub-lajkovac-ljig>

<sup>7</sup> <https://www.mgsi.gov.rs/lat/infrastruktorna-gradilista/koridor-11-surcin-obrenovac-0>

<sup>8</sup> <https://www.mgsi.gov.rs/cir/projekti/preljina-pozhega>

<sup>9</sup> <https://www.mgsi.gov.rs/cir/projekti/preljina-pozhega>

<sup>10</sup> <https://www.mgsi.gov.rs/sites/default/files/The%20Book%20of%20Projects%20-%20Ministry%20of%20Construction%2C%20Transport%20and%20Infrastructure-%20September%202018.pdf>

<sup>11</sup> <https://www.mgsi.gov.rs/sites/default/files/The%20Book%20of%20Projects%20-%20Ministry%20of%20Construction%2C%20Transport%20and%20Infrastructure-%20September%202018.pdf>

<sup>12</sup> <https://www.mgsi.gov.rs/lat/infrastruktorna-gradilista/modernizacija-i-rekonstrukcija-pruge-beograd-budimpesta-deonica-beograd>

- 13 <https://www.mgsi.gov.rs/lat/infrastruktura-gradilista/modernizacija-i-rekonstrukcija-pruge-beograd-budimpesta-deonica-beograd>
- 14 <https://www.railwaypro.com/wp/serbia-to-launch-new-rail-projects/>
- 15 <https://www.railwaypro.com/wp/serbia-and-china-signed-two-railway-agreements/https://www.ekapija.com/news/2582306/kineski-crbc-priprema-procenu-troskova-izgradnje-nove-pruge-od-resnika-do-velike; http://www.zeleznicesrbije.com/u-kini-potpisan-okviri-ugovor-o-modernizaciji-pruge-beograd-presevo-dizavna-granica-sa-severnomo-makedonijom-na-medjunarodnom-zeleznickom-koridoru-10/?lang=lat>
- 16 <https://www.srbija.gov.rs/vest/380636/potpisano-vise-sporazuma-sa-kompanijama-iz-nr-kine.php>
- 17 <https://www.ekapija.com/en/news/2582306/chinese-crbc-preparing-cost-estimate-for-new-railway-from-resnik-to-velika>
- 18 <https://www.ekapija.com/en/news/view?id=3253049>
- 19 <https://www.ekapija.com/en/news/2582306/chinese-crbc-preparing-cost-estimate-for-new-railway-from-resnik-to-velika>
- 20 <https://www.ekapija.com/en/news/view?id=3253049>

side proved extremely strong and kept them “loyal” to the project and to China as the partner in an important undertaking for Serbia’s connectivity with Western Europe.

### **3.2. The Kostolac Thermal Power Plant B construction and modernization saga**

On August 20, the Government of the PRC and the Government of the Republic of Serbia made an Agreement on Economic and Technical Cooperation in the field of Infrastructure to be enforced from June 25 2010. On December 17 2014, the Serbian Ministry of Finance took a loan from the Chinese Exim Bank of US\$ 608.2 million, with a 2.5% interest rate on an annual level and a 20-year repayment period. The Chinese government offered an obligatory national guarantee for the loan. Serbia must accept if the bank cedes the contract to a third party. Also, China and Serbia may not resolve any dispute, arbitration in Peking will be in charge, with Chinese laws as applicable laws. Both parties must accept every court decision – without the right to appeal.<sup>74</sup>

Serbia established a strategic partnership with China in 2009. In February 2010,<sup>75</sup> the Electric Power Industry of Serbia (EPS), Serbia’s state-owned major power utility company, and the China Machinery Engineering Corporation (CMEC) signed a US\$1.25 billion preliminary contract for the redevelopment of the Kostolac Thermal Power Plant (B1 and B2) and the construction of a new 350 MW block, B3. Under the contract terms, according to *Xinhua*, CMEC will renew the plants and install a sulfur control utility. It will also expand the capacity of the Drmno mine (one of the three mines in the Kostolac basin) to 12 million tons of lignite per year.<sup>76</sup> In January 2012, the Exim Bank of China approved a US\$344 million loan for 85% of the costs, and the rest would be paid from the Serbian national budget. Of the Chinese loan, US\$176.31 million was for the modernization of the existing blocks Kostolac B1 and B2; US\$130.5 million for the construction of the desulfurization unit; US\$15.86 million for a small port on the Danube; and US\$21.96 million for railway infrastructure upgrade (Table 4).

In 2013 it was reported that construction on the new 350 MW unit at Kostolac would begin the following year, with a completion date of 2019.<sup>77</sup> In December 2014, it was announced that China’s Exim Bank would finance the new B3 350 MW unit through a US\$ 608,2 million loan. The Government of Serbia will provide US\$143 million, covering 15% of the costs. In January 2015, the Serbian parliament ratified the agreement.<sup>78</sup> By June 20 2016, Serbia had pulled out more than US\$71 million from the total loan amount of US\$608.2 million. Until that moment, the amount of penalty for an unused loan paid to the Chinese bank amounted to US\$ 867,000.<sup>79</sup>

The Environmental Impact Assessment (EIA) study for the Kostolac project, done in 2013 and approved by the Serbian Ministry of Agriculture and Environmental Protection, was legally disputed.<sup>80</sup> The EIA addresses the impacts of a project on human health and the environment and construction permits. Questioning the Study and how it was approved, the non-governmental Centre for Environmental Protection and Sustainable Development (CEKOR) sued the Ministry before the Administrative Court in Serbia in May 2014. They disputed obligations toward Romania, which was not asked for consent as the border is only 19 km from the TPP Kostolac. In late June 2016, the Serbian Administrative Court ruled that the Ministry’s approval of the plant’s environmental impact statement was illegitimate. According to the ruling, the decision

**Table 4. Energy.**

4. Energy											
Project name	Section of project	Sub-sector	Company	Value (\$US mln)	Source of financing	Creditor	Interest rate	Subsidies (Eur mln)	Date of signature	Start of construction	End of construction/ Status
Belgrade Heating pipeline (Obrenovac – Novi Beograd) <sup>1</sup>	Belgrade Heating pipeline (Obrenovac – Novi Beograd) <sup>1</sup>	Heating power	Power Construction Corporation of China	173	Borrowing	EXIM Bank	N/A	N/A	06–2017 <sup>2</sup>	Undisclosed	Undisclosed/Planned
B3 Thermal power plant Kostolac	Thermo power plant Kostolac B3	Lignite Thermal Electric power	China Machinery Engineering Corporation (CMEC)	608.2	Borrowing	EXIM Bank	2.5%	N/A	12–2014	11–2017	2023/ Ongoing <sup>3</sup>
Thermal power plant Kostolac B1&B2 modernization	Thermo power plant Kostolac B1&B2	Lignite Thermal Electric power	CMEC	176.3	Borrowing	EXIM Bank	2.5%		2–2010	2012	2017
Thermal power plant Kostolac	construction of the desulphurization unit	Lignite Thermal Electric power	CMEC	130.5	Borrowing	EXIM Bank	2.5%		2–2010	2015	2017-Not in function until 2021
Thermo power plant Kostolac	Dock construction	Lignite Thermal Electric power	CMEC	15.86	Borrowing	EXIM Bank	2.5%		2–2010	2015	2019
Thermal power plant Kostolac	Railway infrastructure upgrade <sup>4</sup>	Lignite Thermal Electric power	CMEC	21.96	Borrowing	EXIM Bank	2.5%		12–2014	2017	2023/Ongoing

<sup>1</sup><https://www.ekapija.com/news/1783270/kinezi-grade-toplodalekovod-od-obrenovca-do-novog-beograda-pocetak-radova-najverovatnije-u><sup>2</sup><https://www.vesti.rs/Vesti/Memorandum-o-razumevanju-za-projekt-izgradnje-toplodalekovoda-Obrenovac-Nov-Beograd.html><sup>3</sup><https://www.ekapija.com/news/2560252/kineska-kompanija-ulaze-u-modernizaciju-smederevske-zelezare-300-mln-usd-d0-2021><sup>4</sup><https://www.tpknews.com/napreduju-radovi-na-izgradnji-pruge-od-stanice-stig-do-termoelektrane-kostolac-b/>

did not contain justification for not considering the cross-border impact of the new plant on Romania.

On November 23 2017, the EPS announced (for the third time) that construction would begin on the B3 plant and that it would operate in 2020 “following the highest environmental standards.”<sup>81</sup> In response, environmental groups challenged the plant’s EIA in court by requesting the building permit. According to *Bankwatch*, the only document disclosed was a permit for the B3 desulfurization chimney dated July 2017, before the environmental assessment was approved.<sup>82</sup> There were numerous faults regarding the preparation procedure.<sup>83</sup> In September 2018, the CEKOR and *CEE Bankwatch* submitted a complaint to the Energy Community Treaty Secretariat, saying the country failed to require an environmental impact assessment for the expansion of the Drmno mine that would feed the plant.<sup>84</sup> According to EPS, 85% of the construction permits were provided, mostly in 2019.<sup>85</sup>

The subsequent developments of the project showed that the Chinese company was three years late with the work, as the new B3 unit was to be opened in 2023.<sup>86</sup> In a rare expression of dissatisfaction toward the Chinese side not abiding by the agreements, energy minister Zorana Mihajlovic summoned the CMEC’s leadership on March 18 2021, and criticized their work. According to a statement by the Ministry of Mining and Energy, she insisted that CMEC’s deliveries being three years late with the project’s development and delivering low-quality equipment was “unacceptable.”<sup>87</sup> Minister Mihajlovic strongly urged the Chinese side to speed up the construction of a B3 plant and compensate the Serbian side for the delays. CMEC’s general manager promised to step up efforts to meet the agreed deadlines and complete the unit construction by the fall of 2022, but this did not occur.

Furthermore, although the division of work should be shared between the Chinese and local Serbian subcontractors stated in Annex 5 of the contract for Kostolac B3 construction, the given list of subcontractors has no company from Serbia. At the same time, only two out of fifteen suppliers are domestic Serbian companies.<sup>88</sup>

However, top-level political actors continued to court the Chinese side and partly tried to improve the deal. According to the FONET agency, on July 17 2017, Prime Minister Brnabic stated that the project for desulfurization in the B1 and B2 blocks in “Kostolac B” was completed in cooperation with China. After visiting the facility, Brnabic and Chairman of the Standing Committee of the 12th National People’s Congress of the PRC Zhang pointed out that the trial work is underway and that a usage permit is expected to be obtained soon.<sup>89</sup>

Contrary to the Serbian Prime Minister’s saying, in November 2022, the Higher Court in Belgrade ruled in favor of the Renewables and Environmental Regulatory Institute (RERI), ordering EPS to cut sulfur dioxide emissions at its coal power plants. The court accepted medical evidence stating that sulfur dioxide can cause respiratory and cardiovascular diseases.<sup>90</sup> The quality of work remains dubious as in 2020, the biggest emitter among coal plants that produce 68.5% of the country’s electricity was Kostolac B, whose SO<sub>2</sub> emissions breached Serbia’s total National Emissions Reduction Plan (NERP) 2020 ceiling 1.74 times.<sup>91</sup>

As of January 2018, EPS was obligated to reduce sulfur dioxide emissions from its facilities, following NERP, which Serbia must obey as a party of the Energy Community Treaty. However, the EPS’s statement from July 2022 revealed that the company might



decide on early retirement for Kostolac A, in line with the National Energy Climate Plan, which again strongly questions the deals done and financial commitments made toward the Chinese side. The loans must be paid off, and the costs imposed by the deal is of no concern to the Chinese partner.

In most actions, we observe domestic political drivers on the local communities' level that challenge hasty and environmentally careless state projects regardless of citizens' interests. We also notice persistent resistance from the government and EPS. They are pursuing energy security by prolonging the life of old lignite power plants and constructing new ones while trying to escape the radar of the EU, local environmental NGOs, and concerned citizens. Energy security prevails over other issues, and there, nontransparent and speedy in approval, if not in realization, projects with China play a crucial role.

#### 4. Conclusions

During the last ten years of the Sixteen plus One platform and the nine years of the BRI presence in Europe, Serbia emerged and remained the nucleus of the PRC's economic and political presence in South-Eastern Europe. It showed active readiness to accept economic cooperation through credit arrangements for infrastructure projects, trade, FDI, and other ways of economic cooperation agreed upon on the top political level and supported from there. Serbia deepened its partnership with China on different levels and capacities via collaboration networks in culture, education, health, G4, police and military, direct air flights, industrial zones, smart cities and other projects.

Using a pentagonal analytical framework, we establish that all five main drivers contributed to the direction, substance, and dynamism in relations between Serbia and China that occurred in the last decade. The economic and somewhat domestic political drivers (top-level decisions about projects) were the main ones that existed with all the local agents and their willingness to engage. In Serbia, there were also firm peace and security issues connected with the PRC's role in the UN Security Council regarding Kosovo's unilateral declaration of independence and China's support for Serbia's sovereignty. Fragile institutions and party-state political environment were fertile soil for corruption and top to bottom decision-making with disregard for the participation of the professional or general public when projects were concluded. Dubious practices and often a strange subordination toward China's financial rigidity and delayed and somewhat questionable quality of work occurred, but Serbia welcomed China's initiatives in search of economic development, upgrading the business environment and living standards, and attracting FDI. China remains one of the most favorable partners for the Serbian government in achieving economic growth and technological advance through digitalization and advanced technologies.

According to public opinion polls, most Serbian citizens consider China a friendly country that generously assists Serbian economic development by offering various projects and initiatives and, at the same time, defends Serbian national interests in the UN Security Council and other international bodies. However, some local communities and environmental groups protest and criticize the behavior of Chinese corporations in their neighborhood. Similarly, Western-supported "China watchers" and media are regularly very critical toward the general Chinese presence in Serbia, with the same argumentation given by their central offices. Even though, today, most

Serbians see China very positively and appreciate its recent economic and political engagements in Serbia and globally. As they suffered from unlawful and brutal Western intervention, most see China as a trustful friend and another pole in global affairs.

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