

# China's strategic interests in the Western Balkans

## SUMMARY

The six Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo,\* Montenegro, North Macedonia and Serbia) are all countries with substantial economic catch-up potential. The EU-led Berlin Process estimated an annual investment need of some €7.7 billion, which would provide the region with an additional 1 % GDP growth and a positive employment effect of up to 200 000 people. However, quality investments are scarce, or often attached to political, environmental and social conditionalities; China took the initiative to benefit from this opportunity. According to the Balkan Investigative Reporting Network (BIRN), China invested €32 billion in the region in 2009-2021. In Serbia alone, Chinese investment reached €10.3 billion. However, despite inflows of Chinese capital, the EU remains the leading economic partner, with 70 % of total foreign direct investment and 81 % of exports.

China has endeavoured to portray itself as a strategic investor, who does not intervene in internal political affairs and is willing to close its eyes to some aspects such as State aid, corruption or labour laws. An early focus on transport infrastructure (through Piraeus and Belgrade to reach Duisburg) has expanded to industry, energy and communications/IT. The Belt and Road Initiative (BRI) serves as the main framework for expanding China's economic presence in the region and enables it to access key land and maritime routes. Loans and investments in undertakings further enhance China's position and create dependencies, even debt-traps, for the six Western Balkan states. An increasing number of Balkan countries now perceive the limits of China's presence, and are concerned regarding public procurement, environmental protection, human rights violations, and promotion of the authoritarian model, which all limit cooperation and impact EU accession prospects.



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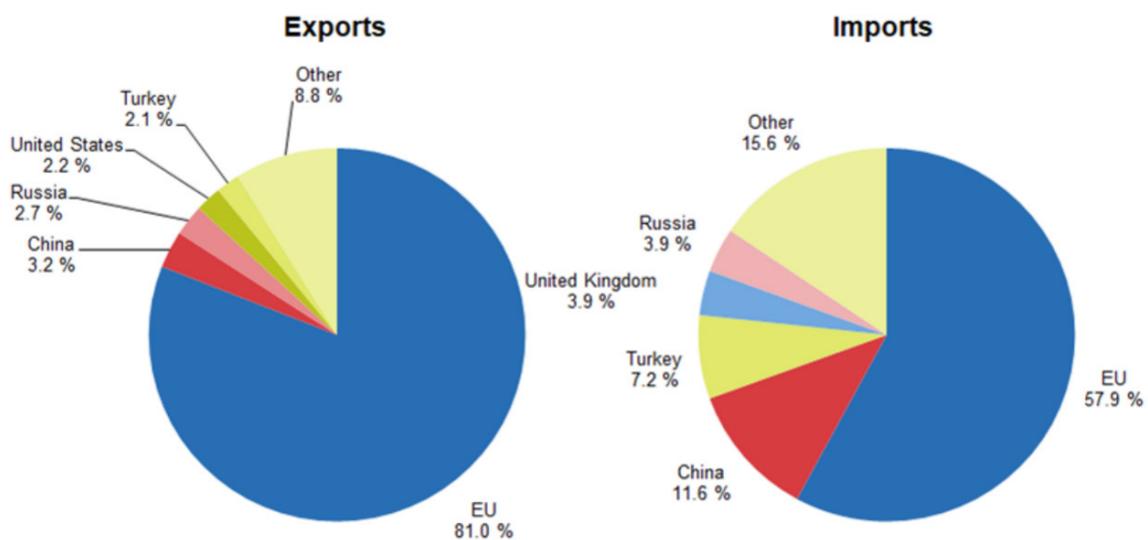
## Background

In June 2003, the EU-Western Balkans summit resulted in the [Thessaloniki Declaration](#), affirming unequivocally that 'the future of the Balkans is within the European Union'. Since then, only Slovenia and Croatia have entered the EU, in 2004 and 2013 respectively. Today, among the six Western Balkan accession countries, [Montenegro](#) and [Serbia](#) have already started EU accession negotiations, in 2012 and 2013 respectively; [Albania](#) and [North Macedonia](#) received the green light for the opening of accession negotiations in 2020 but have not yet begun negotiations; [Bosnia and Herzegovina](#) and [Kosovo](#)\* remain potential candidates.

Several internal EU challenges (in particular, the 2008-2009 financial crisis) and external crises have [delayed](#) the enlargement process and have also partly reduced interest from the Balkans. Limited access to EU-27 markets, lack of investment and flawed governance practices not only increase the development [gap](#) between the Western Balkan countries and the EU, but have also created '[enlargement fatigue](#)' and interest in examining some alternative foreign partners. Research suggests that the power vacuum this has [created](#) allows other countries, such as China or Russia, to fill the void and challenge the EU's regional influence and provide political support and investment. China [began](#) to spread its economic and political roots in the Balkans during the global financial crisis and intensified cooperation amid the coronavirus pandemic and consequent health crisis.

The level of engagement [varies](#) – from a great number of projects in Serbia and Montenegro to fewer projects in Albania, Bosnia and Herzegovina and North Macedonia, and a very limited presence in Kosovo. According to the interactive map based on research by the [Balkan Investigative Reporting Network](#) (BIRN), China's involvement in 136 major projects in the region [amounted](#) to over €32 billion (2009-2021) and spread over several sectors – transport infrastructure, energy, metallurgy, mining, security and digital. Chinese participation in projects is [reflected](#) by foreign direct investment, including through private and state-owned companies, and loans. In addition, Chinese foreign direct investment in the region, of [€2.5 billion](#), comprises mostly acquisitions of firms rather than greenfield investments. The majority of undertakings are agreed upon bilaterally level and contribute to the development of the [Belt and Road Initiative \(BRI\)](#).

Figure 1 – Western Balkan countries' trade with main partners, 2021 (%)



Source: [DG TRADE](#) and Eurostat.

## Economic incentives, loans and infrastructure investments

Established in 2013, the BRI aims to boost China's economic advancement, open new commercial routes and enhance its international presence by investing in a network of transport infrastructure. Complementary mechanisms are the [China-CEEC](#) (central and eastern European countries) or 16+1 framework that also includes the [China-Europe Land-Sea Express Route](#). Both instruments [enable](#) Beijing to access European markets and key ports in the North, Black and Adriatic seas, thus allowing reorganisation and shortening of commercial routes.

The aim is that improved transport infrastructure in the region will support the flow of Chinese goods and merchandise from mainland China to the Chinese-acquired [Greek port of Piraeus](#) further north towards CEEC, and beyond, towards industrial cities in Germany and the Netherlands. Under a 2016 Greek privatisation agreement, the China Ocean Shipping Company Shipping (COSCO) [bought](#) a 51 % holding in Piraeus Port Authority (PPA) for €280 million and committed to investments worth about €300 million over five years to acquire an additional 16 % stake. However, in March 2022 Greece's highest administrative court [decided](#) on 'temporarily pausing' a planned expansion of the passenger port at Piraeus on the grounds that an environmental assessment had not been carried out, as required by national and EU law.

Chinese loans are Beijing's primary foreign policy tool to strengthen its position in the region. According to the European Council on Foreign Relations, bilateral agreements [comprise](#) many legal traps that require compensation through ownership transfers. Other [critics](#) point out that, if the Balkan countries fail to repay the loans, China can request political favours or exercise unfavourable contractual clauses such as seizure of assets or even land/territory. Some Chinese undertakings are [associated](#) with lack of transparency, corruption, human rights violations, environmental damage and use of low-quality construction material. The amount of loans and low return on investment make it challenging for the states to fulfil their contractual relations. This notion of [debt-trap diplomacy](#) – even though [contested](#) by some authors – entails those small economies becoming dependent on China if they cannot repay the loans.

The importance of Chinese investment in the southern European corridor and the Piraeus-Belgrade-Budapest route is relativised to the investment in the direct rail cargo connection between [Shanghai and Hamburg](#), which was opened in October 2021. The price of shipping a standard container (40 HQ/HC) is 16-18 days by rail from Shanghai to Hamburg, but it takes 32 days by sea to Piraeus and 35-53 days to Hamburg, for almost the same price (see Figure 2). Taking into consideration the freight price and time taken, the main New Silk Road corridor seems to be the direct connection from China to Hamburg/Rotterdam; consequently, the Piraeus-Belgrade-Budapest corridor will play only a secondary role, to maintain connections to the Balkans and central European markets.

Figure 2 – Belt and Road Initiative (BRI) and New Silk Road: comparison of main sea and rail corridors (prices and freight time as on 20 June 2022)

	Transport mode	Price per container 40HQ/HC (US\$)	Time
Shanghai-Hamburg	Rail	9 700	16-18 days
Beijing-Hamburg	Rail	11 450	16-18 days
Shanghai-Hamburg	Sea	8 100-10 100	35-53 days
Shanghai-Piraeus	Sea	8 100	32 days

Source: [Hapag-Lloyd](#), EPRS, 2022.

## Serbia

Serbia is a central piece of China's presence in the region, for its geography as a transport hub, and also politically. By the end of 2021, Chinese investments in Serbia, a country that has [announced](#) the expectation of a free trade agreement with China by the end of 2022, amounted to €10.3 billion. Of this amount, infrastructure investment and loans account for [€8 billion](#). Examples of projects [include](#) the Belgrade-Budapest railway (€1.08 billion), construction of which was started in 2021 by China Railway International (CRI) and the China Communications Construction Company (CCCC) as part of the €2.9 billion high-speed connection between Belgrade and Budapest. This railway connection is an important part of the [European transport corridors](#) and the [China-Europe Land-Sea Express Route](#), and will connect to the Rhine-Danube corridor. The line is planned eventually to extend south to Athens and the port of Piraeus. When complete, in 2024, it will [cut the travel time](#) between Belgrade and Budapest to around two hours, compared with around three and a half hours by car.

Among the most well-known investments was the [acquisition](#) of the iron producer Zelezara Smederevo by China's Hesteel Group in 2016. The deal with the Chinese company came as a relief for some 5 000 workers and for the Serbian government, which faced substantial costs to keep Smederevo running. The deal was the first Chinese direct investment in a major Serbian company. Until then, Chinese companies were engaged mostly in infrastructure projects financed through state-sponsored bilateral loans. This was the second privatisation of the Smederevo steel mill; the company was first acquired by US Steel for US\$23 million in 2003. Following the financial crisis in 2008-2009 and consequent drop in steel prices, and concomitant losses, US Steel withdrew from Serbia in 2012, selling the company back to the government for a symbolic US\$1. Hesteel acquired Smederevo only when negotiations with American firm Esmark [collapsed](#) in 2015. In 2015, the Smederevo steel factory [announced](#) a profit of US\$20 million and Hesteel engaged in modernisation investment of US\$120 million. Chinese investment was not only a profitable deal, but [provided](#) a social benefit for the broader region, keeping jobs and the local economy afloat. As [noted](#) by some academics, the closure of the mill was not an option for the state because of the negative consequences it would have in the Smederevo region, where the company is the biggest employer. The purchase of Smederevo is [considered](#) to be the basis for an improved image of China in Serbia.

## Montenegro

Since its independence in 2006, Montenegro has sought to increase the inflow of foreign investment and also diversify its origin. The largest China-related infrastructure project in Montenegro is the first section of the Bar-Boljare highway, but Chinese firms are participating in upgrading the country's [railway network](#) and are also involved in the energy sector. [Dongfang Electric Corporation](#) is carrying out the ecological reconstruction of the [Pljevlja coal-based thermal power plant](#), which it should complete by 2023. Since 2010, Montenegro has purchased numerous Chinese bulk carrier merchant ships to serve its maritime commercial and transport needs. Meanwhile, China has shown a persistent interest in the country's port infrastructure, inserting clauses in its loan deal which could allow it to seize parts of the port of Bar if Montenegro defaulted on its debt repayment obligations.

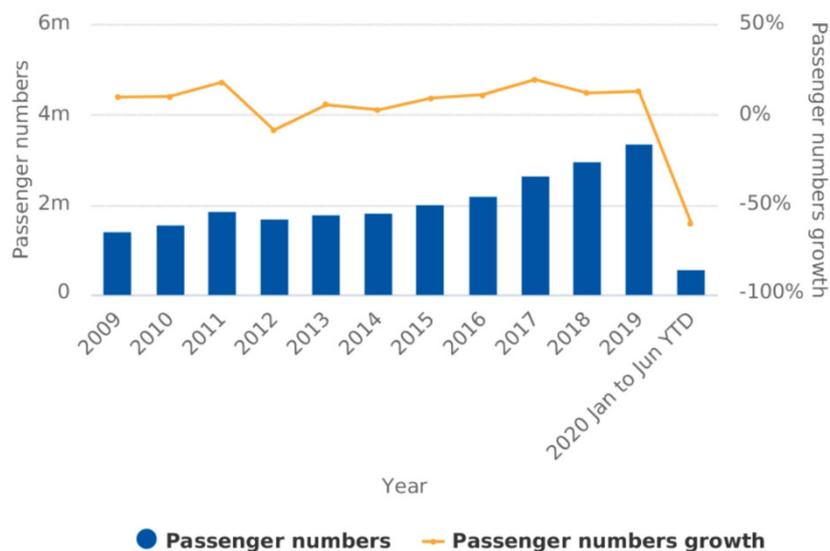
The [Bar-Boljare highway](#) is planned to connect the Serbian capital of Belgrade with the Montenegrin capital of Podgorica, and Bar, Montenegro's main seaport, with Bari in Italy and Budapest in Hungary. Montenegro still owes some €809 million for the [unfinished](#) construction; this amount accounted for 23.4 % of the country's GDP in 2014 (€3.45 billion) when the construction contract was signed. The contract was [awarded](#) to China Road and Bridge Corporation (CRBC) without an open tender, in a rush, and is full of flaws, such as not covering motorway on-ramps. Under the terms of the [contract](#), an arbitration court in China would have jurisdiction in the event of any legal dispute. It also stated that if Montenegro could not repay its debt within the specified timeframe China Eximbank would have the right to some of its territory. CRBC won commitments that all imported construction materials, equipment and other goods be exempt from customs and value-added tax. Chinese workers were given 70% of the work and, as a majority of the 3 600 workers were brought in from China, the local economy has benefited very little according to NGO [MANS](#).

China Eximbank [is providing](#) US\$943.9 million preferential buyer's credit for Phase 1 of the project. The dollar-denominated loan carries a 2 % interest rate, 20-year repayment schedule and 6-year grace period – attractive terms, but a major long-term burden for a country of roughly 620 000 people. It also contains major currency risk and a low return on investment. To justify the grand highway envisioned by the Montenegrin government, a study [prepared](#) by American consultancy URS for the European Investment Bank (EIB) in 2012 said internal rates of return of 8 % would be required, but it estimated they would be below 2 %, due to low traffic and weak economic forecasts. Montenegrin debt [increased](#) from 63 % of GDP in 2012 to 80 % in 2019, and 105 % in 2020, mainly because of the motorway project. By 2021, only the first 41 km had been finished, but construction of the next 80 km is in question since Montenegro is running into problems refinancing debts despite shifting toward a public-private partnership model that will probably involve motorway tolls.<sup>i</sup> Furthermore, an International Monetary Fund (IMF) study [estimated](#) return on investment from the concession at 2 %, well below the government's estimates of 8 %. Beyond the negative economic impact, the EU, but also UNESCO and some NGOs such as anticorruption organisation [MANS](#), criticised the transparency and [environmental impact](#) of the Bar-Boljare project, particularly on the Tara river, which is part of the World Network of Biosphere Reserves. In April 2021, the European Commission [refused](#) to pay the Montenegrin debt owed to China, but suggested it was willing to finance the rest of the Bar-Boljare highway through its €9 billion [Economic and Investment Plan for the Western Balkans](#) adopted in October 2020.

## Albania

Chinese investment in Albania has focused on energy and transport. In 2016, Chinese firm Geo-Jade Petroleum [acquired](#) American-Canadian Bankers Petroleum for US\$575 million and consequently the concession for the major oil extraction field in Albania. In 2017, China Everbright [secured](#) the Tirana International Airport concession, suggesting an emerging trend of gradual economic Chinese penetration of the Albanian economy. This acquisition was the first time that a Chinese enterprise had achieved a wholly owned holding of a national gateway airport in the CEEC region, and China is now Albania's third-largest export partner. However, as passenger numbers dropped due to the coronavirus pandemic in 2020, China Everbright [sold](#) 100 % of its stake (see Figure 3). It was the first infrastructure [investment exit](#) by China Everbright in the BRI countries, and it brought a double-digit equity investment return to the fund. It can be argued that exit from this concession, just four years after its signature, also contradicts the myth of the long-term strategic nature of China's presence in the region. The short-term nature of this investment is in line with Harvard University [research](#) on Chinese business investment behaviour.

Figure 3 – Tirana International Airport, annual passenger numbers (2009-2020)



Source: [Centre for Aviation](#), EPRS, 2021.

## Soft power and political influence

Financial incentives for, and dependencies of, the Western Balkan states serve China's strategic and political interests. Besides the economic and industrial sectors, Beijing has [established](#) cooperation with political, media, educational and cultural entities, including through the [Confucius Institutes](#) network. In terms of political collaboration, China's most developed relationship is with Serbia. The partnership between the two countries was [reinforced](#) after the 1999 NATO Operation Allied Force, during which an air missile hit 'by accident' the Chinese embassy in Belgrade. The death of three Chinese journalists prompted Beijing to support Serbia on the status of Kosovo ever since. In addition to refusing to recognise Kosovo as an independent state, China [undermined](#) the former's applications to international organisations such as the United Nations and Interpol. Furthermore, the first Confucius Institute in the Balkans was [inaugurated](#) in Belgrade as early as 2006.

Researchers point to Beijing's [influence](#) over the work of Serbia's parliament and its political parties, which are under pressure to accommodate the needs of Chinese companies. [Cooperation](#) is not limited to the ruling [Serbian Progressive Party](#), but extends to other parties and political representatives. As a result, Serbia (like other states in the region) withholds political relations with Taiwan. Relations between Serbia and Taiwan are also tarnished by the fact that, already in 2008, Taiwan [recognised](#) Kosovo. Nevertheless, Serbia does not extend the partnership with China to issues such as the South China Sea, Hong Kong and the Uyghur minority in Xinjiang.

In addition to party-to-party relations, China utilises soft power instruments to maintain and enhance its presence in the Western Balkans. For instance, China has [invested](#) in university exchanges, Sinology programmes and two cultural centres in Belgrade and Tirana. Human Rights Watch, other non-profit organisations and Western governments have [accused](#) the institutions of censoring liberal ideas and topics that are controversial for China. The Chinese representation in Montenegro has [made](#) donations to educational institutions, and the University of Donja Gorica (UDG) [cooperates](#) prominently with Chinese universities and business entities. UDG has signed agreements with 10 universities in China and has implemented student and staff exchanges with three of them: Xihua University, Beijing Union University, and Southwestern University of Finance and Economics. Companies from China that cooperate prominently with the University of Donja Gorica include Sichuan Road and Bridge Group Corp and Sichuan Tianfu Bank.

On the media front, the Xinhua News Agency [cooperates](#) with fellow agencies in Albania, Bosnia and Herzegovina, North Macedonia and Serbia by organising exchange visits for journalists and lectures and providing free content. Press activities in Montenegro and Kosovo are limited. In Serbia, the media cooperation is institutionalised by an [agreement](#) between the Serbian Ministry of Culture and China's State Council Information Office. Besides reducing critical views, such activities praise the Chinese government and [political system](#), in particular the 'efficient' handling of the coronavirus pandemic or help with medical supplies.

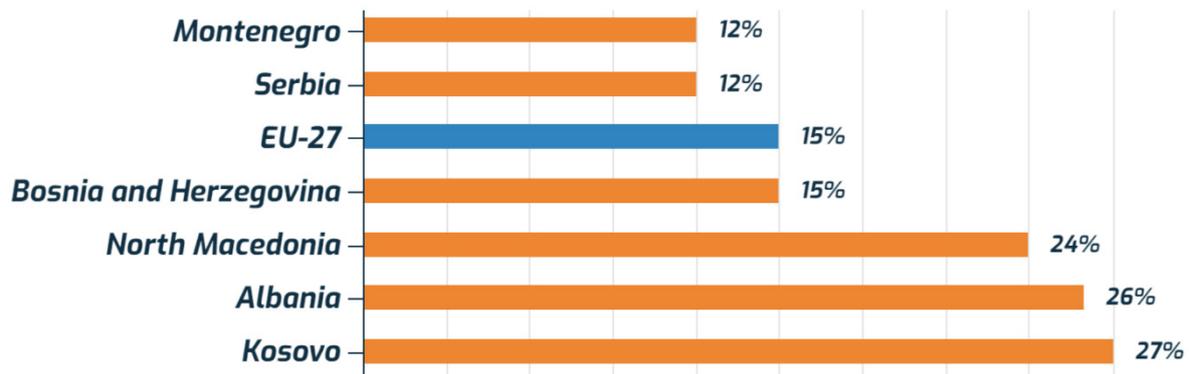
### Covid-19 pandemic and 'vaccine diplomacy'

The coronavirus pandemic provided an excellent opportunity for public diplomacy (labelled 'vaccine diplomacy'). In February 2022, Chinese President Xi Jinping [hailed](#) the 'iron-clad friendship' between China and Serbia, echoing Serbian President Aleksandar Vučić's view of China as the only 'true friend' in adversity. Even though EU support during the [pandemic](#) dwarfed that of China, public perception in the Western Balkans remained confused by the EU's initial reluctance. Indeed, some observers, including the World Health Organization Director-General, Tedros Adhanom Ghebreyesus, initially [criticised](#) the EU for its 'vaccine nationalism', in particular for not including the Western Balkan countries in the initial deals with pharmaceutical companies for the purchase of vaccines in 2020.

The new EU vaccination initiative could have helped to improve the Western Balkan countries' perception of Brussels, but it included them in the export ban of medical supplies under Commission Implementing [Regulation \(EU\) 2020/402](#). The ban was lifted one month later, by the end of April

2020. Nevertheless, it damaged the EU's reputation, and President Vučić described European solidarity as a 'fairy tale' and [called](#) Xi Jinping a 'brother of the Serbian people'. Some observers believe that these views reflect a [global battle of narratives](#), others that countries supported by deliveries of Russian and Chinese [medical equipment](#) and vaccines have weathered the pandemic more successfully. Indeed, according to statistics from national health agencies in the region and from [Eurostat](#) (2021), the annual excess mortality rate between January 2020 and January 2021 was lower in countries that received more pandemic assistance from China (and Russia), such as Montenegro (13 %) and Serbia (13 %), than that of the EU-27 (15 %) and of countries that received less or no assistance, such as Albania (26 %) and Kosovo (27 %) (see Figure 4).

Figure 4 – Annual excess mortality rate in EU-27 and Western Balkan countries during the Covid-19 pandemic (January 2020-January 2021)



Source: [EU support for vaccination efforts in the Western Balkans](#), EPRS, 2021.

The Covid-19 pandemic exacerbated the geopolitical competition and the conflicting narratives in the region. Chinese-supported [web pages](#) created content critical of Western values and focusing on China's benevolent initiatives in the region; Beijing's representations also [encouraged](#) students to write about China's strategies towards the pandemic. In light of the '[vaccine diplomacy](#)', China [capitalised](#) on the opportunity to become a significant partner by providing masks and vaccines. In addition to medical supplies and equipment estimated at millions of euros, the support in the wake of the pandemic [prompted](#) President Vučić to kiss the Chinese flag and criticise the EU for lack of solidarity. This gesture occurred days before the EU [announced](#) its large medical support and investment package for the region.

It seems that Chinese assistance during the pandemic had some impact on public opinion as well. In November 2020, the Belgrade Center for Security Policy (BCBP) [published](#) a poll indicating that Serbian citizens see Russia and China as the country's 'best friends', while more than half do not support Serbia's EU membership bid. Only 3 % recognised the fact that the EU is Serbia's biggest benefactor. Consequently, the poll demonstrated that a majority (51 %) of Serbs do not support the country's EU membership bid, while 46 % are in favour. Since 2020, public opinion and the image of the EU has not evolved. In April 2022, an Ipsos survey completed in March [showed](#) that 46 % of Serbian citizens would support the country's EU accession in a referendum, but that a mere 21 % of respondents had a positive opinion of the EU.

## Impact on EU accession

To become members of the European Union, the Balkan countries need to fulfil the Copenhagen criteria entailing political, economic, administrative and institutional reforms. Hence, the criteria set [conditionalities](#) for good governance, stability of institutions, effective rule of law, respect for human rights, and a functioning market economy. Moreover, prospective members need to have the ability to implement the [acquis communautaire](#) – the rights and obligations binding all EU Member States. In addition, the EU introduced the [Copenhagen+](#) criterion to ensure that the Balkans maintain regional cooperation and good neighbourly relations.

According to the [Copenhagen criteria](#), candidate countries must have stable political institutions – guaranteeing democracy, the rule of law, and human rights – a functioning market economy, and the capacity to meet EU membership commitments. However, Western Balkan countries still fall far short of those standards. Recently, concerns over democratic backsliding, corruption and mismanagement of the pandemic increased mass protests in Albania, Bosnia and Herzegovina and Montenegro; Serb nationalism [threatens](#) the unity of Bosnia and Herzegovina; and while the resolution of the name dispute between Greece and North Macedonia in 2018 is a step forward, bilateral relations between North Macedonia and Bulgaria, as well as [Serbian-Kosovar relations](#), remain additional hurdles on the European path.

For countries in the region, the [lack of conditionality](#) for Chinese investments makes them more attractive. This, however, impacts EU conditionality negatively by reducing the effectiveness of the proposed reforms and standards, particularly in terms of social rights, sustainability and environmental protection. Other aspects of Beijing's activities in the region could also hinder Balkan countries' prospects of joining the bloc. For instance, as per the Stability and Growth Pact, budget deficits and debt limits should not [exceed](#) 3 % of GDP and 60 % of GDP as public debt. For countries like Montenegro, it would be challenging to adhere to such standards considering that its [debt](#) to GDP ratio stood at 103.28 % in 2020 and the fact that the part of the debt owed to China represents around 22 % of GDP. Additional concerns stem from China-Serbia digital cooperation that defies the [EU General Data Protection Regulation](#) (GDPR) standards. In particular, Belgrade's [collaboration](#) with Huawei to develop the 'Safe Society' biometric surveillance project is still in progress despite Western states' concerns. Besides data protection issues, environmental standards are also impacted by Chinese initiatives. The construction of coal plants and copper mines [aggravates](#) air pollution in the Balkans and neighbouring EU Member States. Some [authors](#) argue that China does have its own energy policy which takes the climate crisis into account, and that it also supports the Paris Agreement. Yet, its investments in hydro and coal-fired power plants, as well as transport infrastructure in the Western Balkans, are often detrimental to environmental protection and affect the EU directly and indirectly. On a more positive note, the [International Institute for Peace](#) believes that 'China eventually could have a positive influence on environmental protection by greening Chinese foreign infrastructure investments'.

Chinese economic initiatives often [lack](#) transparency with regard to public procurement, State aid and EU standards. Since anti-corruption reforms are a [prerequisite](#) for EU membership, Beijing's presence in the region impedes EU integration. As noted by some [analyses](#), China's presence in the region also has effects on EU socialisation and accession conditionality mechanisms. China's increasing presence in the Western Balkans creates cross-conditionality and increasing real and perceived opportunity costs for adopting the EU *acquis*. [Cross-conditionality](#) can be defined as 'other sources offering comparable benefits at lower adjustment costs'. If external actors such as China offer economic development without the stringent rules attached to EU conditionality, then the effectiveness of the EU's conditionality is reduced because of the availability of alternatives.

One can argue whether China offers 'comparable benefits' compared to the overall offer of EU integration, since its investment creates a lot of negative externalities, as noted above. Some [authors](#) argue that the EU could limit third countries' influence in the region by adopting a new, gradual or staged EU accession mechanism that would allow increased EU financing and investment compared to current funding, mainly through the [Instrument for Pre-Accession Assistance](#) (2021-2027), even before accession, thus avoiding the worst-case debt-trap scenarios, such as the Bar-Boljare highway.

#### Serbian (non-)alignment with the common foreign and security policy (CFSP)

As [noted](#) by some experts, for Serbia the main reason for the lack of alignment with the EU's foreign policy declarations and measures is the Kosovo issue and Serbia's specific position following the break-up of the former Yugoslavia. Since Pristina's unilateral declaration of independence in 2008, Serbia has improved its relations with many countries that do not recognise Kosovo, especially with Russia and China, both permanent UN Security Council members.

Conversely, in 2021 the EU issued two political [declarations](#) related to the situation of human rights in Hong Kong, and Serbia avoided aligning with both. Serbia's non-alignment is consistent with previous moves by the Serbian leadership, such as in 2020, when President Vučić, in his letter to Xi Jinping, openly [voiced](#) support for Beijing's policy towards Hong Kong and Taiwan, stating that, 'as an independent country, Serbia is against any interference with internal affairs of a sovereign country'. Serbia also failed to align with the July 2021 EU [declaration](#) in which the EU-27 identified the malicious cyber-activities that targeted government institutions and political organisations in the EU and Member States, and some critical European industries, and linked these activities, whose purpose was intellectual property theft and espionage, to two hacker groups operating from Chinese territory, urging the Chinese to take action against them. The EU has also issued two declarations concerning the [Global Human Rights Sanctions Regime](#), in which it added a total of 15 persons and four entities from China to the EU sanctions list. Serbia did not align with this either. European Commission annual reports have expressed concern over the lack of alignment, particularly the 2021 country [report](#) on Serbia, which notes that Serbia's CFSP alignment patterns 'remained largely unchanged [...] A number of Serbia's actions went contrary to EU positions on foreign policy'.

Finally, heavy reliance, joint ventures and procurement of Chinese military and defence equipment raise additional questions of (non)alignment with EU foreign and defence policy priorities. In 2020, Serbia purchased military drones and agreed on technology transfer in [military drone](#) production with the state-owned China Aerospace Science and Technology Corporation (CASC); the technology transfers from China will help Serbia complete its drone project 'Pegaz' (Pegasus). Thanks to the delivery of Chinese drones, the Serbian air force will reconstitute the 353rd Intelligence Surveillance squadron, a squadron specialised in ISR which has been defunct since 2006. With these changes, Serbia is set to become the largest drone operator in the Balkans.

## Position of the European Parliament

In January 2021, a group of MEPs [sent](#) a letter to Olivér Várhelyi, the European Commissioner for Neighbourhood and Enlargement, warning him of the 'impending environmental damage' done by Chinese companies' industrial projects in Serbia as well as China's growing influence in the Balkans. In the letter, initiated by Miriam Lexmann (EPP, Slovakia) and Reinhard Bütikofer (Greens/EFA, Germany), members of the [Inter-Parliamentary Alliance on China](#) (IPAC), the 26 MEPs specifically drew attention to Chinese heavy industry projects in Smederevo, Bor, Kostolac and Zrenjanin, and called on the Commissioner to remind the Serbian government to adhere to its national legislation as well as EU rules regarding the accession process.

In December 2021, the European Parliament adopted a [resolution](#) condemning forced labour in the Linglong factory in Serbia. Parliament acknowledged the growing number of Sino-Serbian contracts, consequential 'legal privileges' granted to China, and the application of Chinese labour law in Serbia. The resolution called on the Western Balkan states to address human rights violations, dangerous working conditions, and human trafficking concerns regarding 500 Vietnamese workers. Serbia was also urged to 'improve alignment with EU labour law' and 'comply with the relevant International Labour Organization conventions, which it has ratified'. Parliament also raised questions about environmental issues, corruption and lack of transparency concerning Chinese initiatives in the region.

In January 2022, the [resolution](#) on violations of fundamental freedoms in Hong Kong reiterated Parliament's previous position that any ratification of the EU-China comprehensive agreement on investment must take into account the ongoing human rights situation in Hong Kong and involve a clear and binding commitment to workers' rights and implementation of specific International Labour Organization conventions.

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## ENDNOTES

- \* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.
- <sup>i</sup> Both the EIB and the IMF [advised](#) the Montenegrin government not to engage in a public-private partnership (PPP) model with China, as it was not bankable, and suggested Montenegro would be better off waiting until it joined the EU and had access to more structural and cohesion funds. The new gradual EU accession model proposed by Pierre Mirel would therefore be extremely useful in the case of Montenegro, as it would open doors to EU funds before EU accession.

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