

China's Growing Investment in the Western Balkans: Economic Opportunities and Geopolitical Challenges

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Abstract

Over the past ten years, China's growing investment in the Western Balkans has drastically changed the geopolitical and economic landscape of the region. China has used the '16 + 1' initiative, as a major tool to increase its influence in Central and Eastern Europe. The ramifications of China's increasing foreign direct investment in the Balkans are examined in this paper, with particular attention to how well it complies with EU regulations and international investment law. As China tries to strike a balance between its relationship with the EU and growing its influence in the Balkans, the convergence of the telecommunications, energy, and foreign direct investment sectors has grown more significant. Green technologies, high technologies, and infrastructure have been the main targets of Chinese investments in the area. However, these investments have also raised concerns about public procurement practices, environmental protection, and potential debt traps for the recipient countries. The interaction between EU laws and Chinese investments in the Balkans is shaping FDI flows in the region. While Chinese businesses may gain access to profitable markets by adhering to EU requirements, EU member states might implement restrictions on Chinese FDI if perceived as threats to regional industry or security. This paper aims to provide policymakers, researchers, and investors with insights into the complex interplay between China's FDI, regional development, and international relations in the Balkans. The paper will use comparative legal analysis methodology to examine China's FDI practices in the Western Balkans and compare them with EU regulations and international investment law to assess compliance. The analysis will include one case study in Serbia. The paper would provide a comprehensive understanding of the complex interplay between Chinese FDI, regional development, and international legal frameworks, offering valuable insights for policymakers, researchers, and investors.

Keywords: FDI implications, EU regulatory framework, Regional geopolitical dynamics, China-Western Balkans investment, 6 + 1 initiative.

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1. The role and impact of foreign direct investment in the Balkan Region

Foreign direct investment (FDI) is widely seen as a driver of economic growth in most countries, not only from a capital perspective but also due to its positive effects on companies' performance and competitiveness, growth in employment, and productivity.² FDI plays a significant role in economic development and institutional development may also affect this relationship. The significance of FDI is closely related to the development of financial sectors and institutions, political stability, and the quality of human capital.³ The positive effects of FDI inflows are related to the increase of labor productivity through technological transfers, management, and marketing proficiency that enables long-term technological progress and economic growth.⁴ The Western Balkans have emerged as a strategic region for FDI, attracting increasing attention from global investors due to their proximity to the European Union, skilled workforce, and the competitive economic landscape. This has a positive effect on different aspects; however, some legal loopholes and regulations need to be reviewed.

The Balkan countries are those located in the Balkan region, in Eastern Europe. Some of these countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Slovenia, Kosovo, Montenegro, North Macedonia, Serbia and Romania. The Western Balkans countries in particular and transition economies, in general, are in direct need of FDI inflows that would support infrastructural and other developmental projects that could boost economic growth.⁵ A prime example of this is the Belgrade-Budapest high-speed railway project because it could potentially transform Serbia and Hungary into important logistics hubs, attracting further investments and economic opportunities in the future.⁶ This major infrastructure initiative, funded primarily by China's Belt and Road Initiative, demonstrates how FDI can boost economic development in the region.

Economic growth in the Western Balkans is predicted by the World Bank to pick up speed from 2.6% in 2023 to 3.3% in 2024 and then to 3.7% in 2025⁷. Increased domestic investment and consumption, bolstered by expanding credit availability and reducing pricing pressures, are the main drivers of this expansion. The job economy in the area has improved, according to the report, with employment hitting a record high of 48.5% in June 2024⁸. The Western Balkans' anticipated economic growth is the consequence of a complicated interaction between internal variables, Chinese investments, EU assistance, and foreign direct investment. Although these investments

² Alfaro, Laura, and Jasmina Chauvin. "Foreign Direct Investment, Finance and Economic Development." In *Encyclopedia of International Economics and Global Trade*, Vol. 1: Foreign Direct Investment and the Multinational Enterprise, edited by Mariana Spatareanu, 231–258. World Scientific, 2020.

³ Smolo, Edib. "The FDI and Economic Growth in the Western Balkans: The Role of Institutions." *Journal of Economic Cooperation and Development (JECD)*, 42, 3 (2021), 147-170.

⁴ Maja Bacović et al., "The Balkan Paradox: Are Wages and Labour Productivity Significant Determinants of FDI Inflows?," *Journal of Balkan and Near Eastern Studies* 23, no. 1 (2021): 144-62.

⁵ Smolo, Edib. "The FDI and Economic Growth in the Western Balkans: The Role of Institutions."

⁶ Bibera, Elez. "Chinese Influence in the Western Balkans and Its Impact on the Region's European Union Integration Process." Institute for Human Sciences, January 26, 2023. <https://www.iwm.at/europes-futures/publication/chinese-influence-in-the-western-balkans-and-its-impact-on-the-regions>.

⁷ World Bank. "Western Balkans Regular Economic Report." World Bank Group. Accessed February 1, 2025. <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>.

⁸ World Bank. "Western Balkans Regular Economic Report." World Bank Group. Accessed February 1, 2025. <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>.

support employment and growth, they also bring with them difficulties that the area must overcome to guarantee long-term, sustainable development.

In recent years all the economies of the Balkan region have been vigorously seeking to draw the attention of foreign investors to the opportunities their economies have offered in the form of foreign direct investments.⁹ FDI inflows have significantly increased in the Western Balkans, especially in nations like North Macedonia, Kosovo, and Bosnia and Herzegovina. These nations' FDI inflows increased dramatically between 2020 and 2023 as compared to their long-term equilibrium values, suggesting that they are becoming more and more appealing to international investors¹⁰. Additionally, a large number of Balkan nations are undergoing economic transitions, shifting from centrally planned to market-based systems. Therefore, FDI is essential to this shift because it introduces market-oriented processes and technologies.¹¹ Countries offer incentives to foreign companies to attract FDI because it brings new technologies and know-how, which can significantly boost productivity and competitiveness, ultimately driving economic development.¹² Which affects the economic development of the country.

The economies of the Western Balkans are developing and the benefits that come from FDI are very large. FDI flows to developing economies can serve as a catalyst for economic growth. Developing economies are associated with low levels of productivity, leading, consequently, to low levels of wages, low levels of savings and investments and leading again to low levels of productivity. An influx of foreign investments as an injection helps developing economies break out of this 'vicious circle'.¹³ In the Western Balkans, for example, Chinese investments in infrastructure projects have not only increased physical connection but also brought in cutting-edge technologies that boost operational efficiency. One instance is China Hegang's purchase of the Smederevo steel factory in Serbia, which turned around a faltering business and produced about 5,000 jobs in only a single year¹⁴. These investments tend to create access to new technologies; and new management knowledge supplements national savings, increases efficiency and production and this way get out of the uniform axis and move towards economic growth and prosperity¹⁵. Which produces a positive impact in

⁹ Maja Bacović et al., 'The Balkan Paradox: Are Wages and Labour Productivity Significant Determinants of FDI Inflows?',.

¹⁰ Vienna Institute for International Economic Studies. 'Why Foreign Companies Are Moving to the Western Balkans.' wiiw, October 2, 2024. <https://wiiw.ac.at/why-foreign-companies-are-moving-to-the-western-balkans-n-644.html>.

¹¹ Konings, Jozef. 'The Effects of Foreign Direct Investment on Domestic Firms: Evidence from Firm Level Panel Data in Emerging Economies.' University of Minnesota Digital Conservancy, 2000. <https://ageconsearch.umn.edu/record/331189/?v=pdf>.

¹² Muco, Klodian, Enzo Valentini, and Stefano Lucarelli. 'The Impact of Foreign Direct Investment on the Productivity of the Balkan Countries.' *Transition Studies Review* 25, no. 1 (January 2018): 37–54. <https://doi.org/10.14665/1614-4007-25-2-003>.

¹³ Harvard Center for European Studies. 'Investing in FDI: How and Why Do the Western Balkans Differ.' February 2021. <https://ces.fas.harvard.edu/news/2021/02/investing-in-fdi-how-and-why-do-the-western-balkans-differ>.

¹⁴ Zhu, Yujie. 'China's Investment in the Balkans under the Belt and Road Initiative: A Chinese Perspective.' *Insight Turkey*, 2021. <https://www.insightturkey.com/commentaries/chinas-investment-in-the-balkans-under-the-belt-and-road-initiative-a-chinese-perspective>.

¹⁵ Getoar Lubeniqi, 'Foreign Direct Investments in Western Balkans: Are the Western Balkans Countries Different?', *Quality – Access to Success* 24 (June 2023): 372–84.

these countries.

Many factors influence FDI inflow trends such as labour costs and labour productivity because it examines as one of the most important factors of attractiveness for FDI in middle- and low-income countries. The impact of labour costs on FDI inflows is relevant, since a significant part of it comes from taxes and social contributions. For Chinese investors looking to lower manufacturing costs and create a possible economic bridgehead into the European market, the Western Balkans offers a special opportunity. Research indicates that China sees the area as a vital location for ‘advancing production capacity cooperation’ by moving manufacturing bases there in order to save money on labour and land. In particular, Chinese businesses invested an estimated \$1.3 billion in greenfield projects between 2011 and 2021, focusing on industries like the automobile manufacturing sector¹⁶. Particularly attractive labour costs are found in Serbia, which has emerged as the main destination for Chinese investments in the region. Competitive wage structures are offered in Serbia, and Chinese state-owned enterprises (SOEs) usually require 30–60% local subcontractor involvement, which enables Chinese firms to take advantage of lower labour costs while also gaining a foothold in the European economy.¹⁷ China’s economic calculations go beyond short-term labour cost reductions. Chinese businesses may be able to take advantage of an economic bridgehead into the European Union by investing in the Western Balkans in anticipation of these nations’ eventual EU membership. Because of this strategic posture, Chinese companies may remain cost-competitive while becoming acquainted with EU market laws. In the end, China’s investment strategy in the Western Balkans is an advanced method of taking advantage of labour cost differences, advantageous geographic location, and long-term goals for economic integration.

2. The Western Balkans as a critical geopolitical frontier

The Western Balkans is a geopolitically strategic region facing competing partnerships with the EU, China, and other major players. Moreover, some of the countries are already official EU candidate countries or NATO members¹⁸. Encouraging progress has been made in the past two decades in terms of regional cooperation and advances towards eventual EU membership, and these trends are likely to continue, boosting growth and investment. Significant convergence towards EU living standards requires a major and sustained boost to productivity and investment.¹⁹ Additionally, the escalation of geopolitical tensions with the prospect of the EU enlargement makes connectivity a defining feature of European integration, which in turn facilitates trade

¹⁶ European Parliament. ‘The Role of Foreign Direct Investment in the Western Balkans.’ EPRS Briefing, 2022. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733558/EPRS_BRI\(2022\)733558_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733558/EPRS_BRI(2022)733558_EN.pdf).

¹⁷ European Parliament. ‘The Role of Foreign Direct Investment in the Western Balkans.’ EPRS Briefing, 2022, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733558/EPRS_BRI\(2022\)733558_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733558/EPRS_BRI(2022)733558_EN.pdf).

¹⁸ Ana Krstinovska, « Between Values and Interests: Western Balkans’ Cooperation with China and Its Potential Implications for the EU, » Konrad Adenauer Stiftung, 2021.

¹⁹ Sanfey, Peter, and Jakov Milatović. ‘The Western Balkans in Transition: Diagnosing the Constraints on the Path to a Sustainable Market Economy.’ 2018.

and FDI in the region.²⁰ In the last few years, Balkan countries have sought to strengthen economic ties with China through various means, including infrastructure projects, trade agreements, and investment partnerships.

The influence of Chinese investment in the Western Balkans has led to significant economic and political dynamics, particularly as local governments seek alternatives to EU integration. The opening strategy supported by the Chinese government, with lower labour costs and their depressed currency, has made China not only the largest exporter but also the largest foreign investor in the last decade²¹. When Western Balkan countries cooperate with non-EU countries, it is also to show that they have alternatives to the EU. Some political actors in the Western Balkans use investment partnerships to influence negotiations with the EU.²² This opens the floor for uncertainty and legal loopholes at the time of investment.

Significant political and economic changes have resulted from Chinese investment in the Western Balkans, especially as local governments look for alternatives to EU membership. The Belgrade-Budapest Railway project is a noteworthy illustration of this, highlighting the potential as well as the difficulties presented by Chinese investments in the area.²³ The railway project intends to improve connectivity between Serbia and Hungary, increasing trade and transit throughout the region. It is mainly financed by a €2.1 billion loan from China. This project is a crucial part of China's Belt and Road Initiative (BRI), which aims to expand China economic footprint through infrastructure investments.²⁴ Local elites in Serbia have used this partnership with China as a political tool to bolster their position domestically and in negotiations with the EU. By showcasing successful projects with non-EU partners, they can argue for greater autonomy in decision-making and push back against EU demands for reforms related to democracy and the rule of law.²⁵ In addition to strengthening their internal political influence, Serbian elites are successfully navigating and negotiating with the EU through their ties with China. They may resist outside influences and keep a positive reputation among their constituents by portraying their collaboration with China as a source of national strength and progress. Smaller countries like Serbia aim to exploit their strategic advantages in the face of conflicting global influences, illustrating the complexity of international relations.

The Western Balkans countries are still facing a lack of transparency in public procurement; foreign investors are also still facing various and long bureaucratic delays.

²⁰ Alena Dorakh, 'FDI Determinants in Europe and Chinese Influence,' *Serbian Journal of Management* 16 (May 2021): 21–37.

²¹ Zeneli, Valbona, and Fatjona Mejdini. 'China in the Balkans.' *Per Concordiam*. Accessed January 26, 2025. <https://perconcordiam.com/china-in-the-balkans/>.

²² Vulović, Marina. *Economic Relations between the Western Balkans and Non-EU Countries: How the EU Can Respond to Challenges Concerning Direct Investment, Trade and Energy Security*. SWP Comment. Berlin: Stiftung Wissenschaft und Politik (SWP), 2023, doi:10.18449/2023C36.

²³ Institute for Human Sciences, 'Chinese Influence in the Western Balkans and Its Impact on the Region's European Union,' last modified January 26, 2025, <https://www.iwm.at/blog/chinese-influence-in-the-western-balkans-and-its-impact-on-the-regions-european-union>.

²⁴ Zeneli, Valbona, and Fatjona Mejdini. 'China in the Balkans.' *Per Concordiam*. Accessed January 26, 2025. <https://perconcordiam.com/china-in-the-balkans/>.

²⁵ European Council on Foreign Relations, 'Growing Pains: How the EU Should Support the Western Balkans EU Accession,' last modified January 26, 2025, <https://ecfr.eu/article/growing-pains-how-the-eu-should-support-the-western-balkans-eu-accession/>.

The judicial system functions inefficiently by not judging business cases at a certain time and impartially. This means that the judiciary is still under the influence of government officials and political interests.²⁶ Likewise, the Western Balkans countries are facing high levels of corruption at the political and public level; therefore, the governments of the countries of the region should, as soon as possible, through concrete actions, increase accountability and make restrictions on governments influencing personal or political benefits. To foreign or domestic investments. All these weaknesses have a negative impact on the perception of foreign investors and the business climate in these countries and this creates a bad picture in encouraging FDI.²⁷ These issues create an unfavourable perception among foreign investors, affecting the investment strategies of both China and the European Union (EU) in the region.

Through its Belt and Road Initiative, China has made significant investments in the Western Balkans, concentrating on energy infrastructure, highways, and railroads. However, there are frequently issues with these investments, such as debt dependency, because recipient nations may accumulate unmanageable debt as a result of Chinese financing for infrastructure projects²⁸. For instance, concerns over financial sovereignty have been raised by Montenegro's debt from Chinese loans²⁹. Additionally, environmental and Labor Standards because public outcry over Chinese projects' disregard for labour rights and environmental laws has damaged China's reputation as a conscientious investor.

The most prominent factor for extra-EU investors, mostly for China, is that the Western Balkans, as candidate countries to the EU, have a unique position because specific trade and FDI restrictions do not apply to them, but access to the European market is available³⁰. The Balkans are in the midst of their long accession process into the EU, and the process was designed to facilitate gradual adaptation of EU laws. For instance, the European Bank for Reconstruction and Development 'EBRD' was accordingly designed as a means for funding acceding countries' adaptation of those EU laws.³¹ EBRD funding is designed to encourage these candidates to adopt EU laws. Though, China is offering a more favourable alternative for funding for earlier accession.

The economic and financial crisis of 2008 disrupted the EU's enlargement policy for the Western Balkans. Since that time, the region has seen greater involvement by economic actors from non-EU countries such as China, Russia, Turkey, and the United

²⁶ White & Case LLP. 'Foreign Direct Investment Reviews 2024: Western Balkans.' White & Case, 2024.

²⁷ Lubeniqi, Getoar. 'Foreign Direct Investments in Western Balkans: Are the Western Balkans Countries Different?' *Quality – Access to Success* 24 (June 2023): 372-84.

²⁸ European Parliamentary Research Service. 'The Belt and Road Initiative: Opportunities and Challenges for the EU.' Last modified 2022. [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2022\)733,558](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)733,558).

²⁹ SeeNews, 'Montenegro Repays 7th Instalment of Chinese Motorway Loan,' SeeNews, accessed January 26, 2025, <https://seenews.com/news/montenegro-repays-7th-instalment-of-chinese-motorway-loan-1261043>.

³⁰ Alena Dorakh, 'FDI Determinants in Europe and Chinese Influence,' *Serbian Journal of Management* 16 (May 2021): 21–37.

³¹ European Council. 'Council Agrees to Increase EU's Shares in European Bank for Reconstruction and Development.' Last modified April 15, 2024. Accessed January 29, 2025. <https://www.consilium.europa.eu/en/press/press-releases/2024/04/12/council-agrees-to-increase-eu-s-shares-in-european-bank-for-reconstruction-and-development/>.

Arab Emirates (UAE). Their engagement has been most evident in the areas of direct investment, trade, and energy security³². The six Western Balkans countries have strong economic potential but face a major convergence challenge about comparator countries in the European Union. For instance, Gulf states like the UAE and Turkey have made significant investments in infrastructure and energy in the Western Balkans. Alcazar Energy Partners, based in Dubai, is investing heavily in the energy business in the Western Balkans. The business plans to build a 1.6GW wind power pipeline on Serbia, Montenegro, and North Macedonia³³. These investments show how Gulf governments are becoming more interested in the energy and infrastructure sectors of the Western Balkans, which could help close the vacuum created by the EU's shattered enlargement program after the 2008 crisis.

Since the Global Financial Crisis (GFC) of 2008, the presence of China has become increasingly visible through investment in infrastructure, notably in transport, energy, and industrial production, as well as the development of the Balkan Silk Road³⁴. Within the framework of its Belt and Road Initiative, China is primarily active in the Western Balkans in the areas of infrastructure development, mining and the energy sector. China's economic presence in the Western Balkans Six countries of Albania, Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia is framed in terms of the Belt and Road Initiative. However, that BRI does not have any basis in public international law. This means that China has entered into a memorandum of understanding (MoUs) and other cooperative agreements with numerous BRI states.

Every BRI state has its investment system comprising specific investment rules or being based on general law. Neither China nor any other BRI country has enacted real BRI laws or regulations with specific BRI relevance. Consequently, the academic and non-academic discussion on BRI-related legal aspects has only been able to do two things: either assess the current status of the law in different BRI states or the international treaties between them³⁵. China has not enacted any special BRI law³⁶. This means that China's regulations governing outbound investments, therefore, also apply to BRI-related investments.

Despite the many advantages of China's economic engagement, both for China and the EU and Western Balkans countries themselves, the model of Chinese engagement can run contrary to the EU's reform agenda.³⁷ The escalation of geopolitical tensions with the prospect of the European Union enlargement makes connectivity a

³² Vulović, Marina. *Economic Relations between the Western Balkans and Non-EU Countries: How the EU Can Respond to Challenges Concerning Direct Investment, Trade and Energy Security*. SWP Comment. Berlin: Stiftung Wissenschaft und Politik (SWP), 2023.

³³ Sandeva, Cristiana. "Alcazar Dawning on Western Balkans Horizon." *Project Finance International*, January 31, 2025. <https://www.pfie.com/story/4965008/alcazar-dawning-on-western-balkans-horizon-9xlm sjfzv9>.

³⁴ Valerie Hopkins, 'Brussels Says EU Has "Underestimated" China's Reach in Balkans,' *Financial Times*, 2019, <https://www.ft.com/content/4ba18efa-377b-11e9-b72b-2c7f526ca5d0>.

³⁵ Wolff, Lutz-Christian. 'Legal Responses to China's "Belt and Road" Initiative: Necessary, Possible or Pointless Exercise?' *Transnational Law & Contemporary Problems* 29 (2019): 249.

³⁶ Wolff, Lutz-Christian. 'Legal Responses to China's "Belt and Road" Initiative: Necessary, Possible or Pointless Exercise?'

³⁷ Zweers, Wouter, Vladimir Shopov, Frans Paul van der Putten, Mirela Petkova, and Marteen Lemstra. 'China and the EU in the Western Balkans A Zero-Sum Game?' *Clingendael Report*, August 2020. <https://www.clingendael.org/sites/default/files/2020-08/china-and-the-eu-in-the-western-balkans.pdf>.

defining feature of European integration, which, in turn, facilitates trade and FDI in the region³⁸. The emphasis on connectivity in the EU enlargement strategy serves as a counterbalance to China's influence, aiming to strengthen economic ties and integration with the Western Balkans. However, China's economic engagement in the Western Balkans offers advantages to both China and the region. It provides much-needed capital and infrastructure development for the Western Balkan countries.

All this data points to the growth of China's economic engagement in the Western Balkans, especially in Serbia, which benefits the most from investments in absolute terms. As the investments are mostly loans, countries have to provide state guarantees for the projects, which can create dependencies in strategic sectors, such as energy and infrastructure³⁹. Out of a total of 136 projects led by China in the Western Balkans between 2013 and 2021, 61 were implemented or agreed upon in Serbia with a value of €18.77 billion⁴⁰. Bosnia-Herzegovina is in second place. Additionally, looking at China's activities in 2020 in the countries of the former 17 + 1 initiative, it is clear that the total value of Chinese projects in the Western Balkans is more than half of all allocated funds, for instance, €1.4 billion in the Western Balkans and €1.38 billion in the remaining 17 + 1 countries⁴¹. The majority of these investments are loans, which can reach the value of 18% of the gross domestic product in Montenegro, 12% in Serbia, 10% in Bosnia-Herzegovina, and 7% in North Macedonia⁴². This gives an idea of the amount of money that China is investing in the Western Balkans.

According to official World Bank and IMF reports, Montenegro borrowed \$944 million from China's Export-Import Bank in 2014 to finance the construction of the first section of the Bar-Boljare highway.⁴³ This amount is around one-fifth of Montenegro's GDP in 2019⁴⁴. Due in large part to this loan, Montenegro's national debt skyrocketed to 103% of GDP, much above the Maastricht convergence requirements for prospective EU members. Concerns regarding the project's effects on Montenegro's ability to sustain its debt have been raised by the World Bank and IMF. Through a hedging deal, Montenegro restructured its debt with Western banks in 2021, potentially saving up to €8 million annually by lowering the interest rate from 2% to 0.88%⁴⁵. But in 2023, Montenegro made the decision to stop this hedging.

³⁸ Alena Dorakh, 'FDI Determinants in Europe and Chinese Influence,' *Serbian Journal of Management* 16 (May 2021): 21–37.

³⁹ Vulović, Marina. *Economic Relations between the Western Balkans and Non-EU Countries: How the EU Can Respond to Challenges Concerning Direct Investment, Trade and Energy Security*. SWP Comment. Berlin: Stiftung Wissenschaft und Politik (SWP), 2023.

⁴⁰ European Parliamentary Research Service. 'EPRS_BRI(2022)733558_EN.pdf.' European Parliament, 2022.

⁴¹ European Parliamentary Research Service. 'EPRS_BRI(2022)733558_EN.pdf.' European Parliament, 2022.

⁴² Vulović, Marina. *Economic Relations between the Western Balkans and Non-EU Countries: How the EU Can Respond to Challenges Concerning Direct Investment, Trade and Energy Security*. SWP Comment. Berlin: Stiftung Wissenschaft und Politik (SWP), 2023.

⁴³ International Monetary Fund. "Montenegro: 2024 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Montenegro." IMF Country Report No. 24/101, International Monetary Fund, 2024.

⁴⁴ European Council on Foreign Relations. "Montenegro." *China in the Balkans*. Accessed February 1, 2025. <https://ecfr.eu/special/china-balkans/montenegro/>.

⁴⁵ European Council on Foreign Relations. "Montenegro." *China in the Balkans*. Accessed February 1, 2025. <https://ecfr.eu/special/china-balkans/montenegro/>.

These investments can further undermine the already fragile rule of law and also create environmental problems. The controversial Bar-Boljare highway project in Montenegro financed by the Chinese Exim Bank and implemented by Chinese construction companies had plunged Montenegro into a debt crisis. As a result, it needed help from the European Commission and a group of Western banks to protect itself from currency fluctuations and to be able to meet the repayment schedule⁴⁶. The project has also had negative consequences for the environment. The River Tara had to be diverted, resulting in the deposition of sediments, which has consequences for the fish population⁴⁷. This gives an idea that investments from these countries can increase the risk in different perspectives, which could have a negative impact on the development of the rule of law and democracy in the Western Balkans, such as environmental problems but also in strategic sectors, such as technology.

The 17 + 1 framework has obvious antecedents in China's experiences with 'South-South' cooperation in Africa and Latin America, as does the financing model that China prefers for infrastructure development in 17 + 1 countries. The fundamental formula for this model is state-guaranteed finance linked to contract guarantees for Chinese companies⁴⁸. Even though, from China's perspective, international relations in the Western Balkans are quite complicated. The region is far from China; its consistent policy since 2012 has been pragmatic cooperation in the region while refraining from involvement in the regional geopolitical rivalry⁴⁹. Specifically, China seeks cooperation in areas of diplomacy, trade, investment, science, and technology. Therefore, it is important to talk about the impact on EU accession.

3. Copenhagen criteria: shaping regional cooperation and EU readiness

The EU introduced the Copenhagen Criterion to ensure that the Balkans maintain regional cooperation and good neighbourly relations. To become members of the European Union, the Balkan countries need to fulfil the Copenhagen criteria entailing political, economic, administrative, and institutional reforms⁵⁰. The criteria set conditionalities for good governance, stability of institutions, effective rule of law, respect for human rights, and a functioning market economy. This criterion stems from the above-mentioned objective of fostering peace and stability in the Western Balkans but also serves to ensure that the EU does not import outstanding bilateral conflicts when accepting new members⁵¹. The accession process is rigorous and time-consuming. For

⁴⁶ Just Finance International. 'China's Investment in the Balkans: A Decade of Discontent.' *The Diplomat*, May 2024.

⁴⁷ Vulović, Marina. *Economic Relations between the Western Balkans and Non-EU Countries: How the EU Can Respond to Challenges Concerning Direct Investment, Trade and Energy Security*. SWP Comment. Berlin: Stiftung Wissenschaft und Politik (SWP), 2023.

⁴⁸ Jacob Mardell, 'China's Economic Footprint in the Western Balkans,' Bertelsmann Stiftung, Accessed January 31, 2025, <https://www.bertelsmann-stiftung.de/en/our-projects/germany-and-asia/news/asia-policy-brief-chinas-economic-footprint-in-the-western-balkans>.

⁴⁹ Bacović, Maja, Danijela Jacimovic, Milena Lipovina Bozovic, and Maja Ivanovic. 2021. 'The Balkan Paradox: Are Wages and Labour Productivity Significant Determinants of FDI Inflows?' *Journal of Balkan and Near Eastern Studies* 23 (1): 144–62.

⁵⁰ Aspenia Online. 'Benefits and Drawbacks of EU Accession for the Western Balkans.' Accessed January 31, 2025. <https://aspeniaonline.it/benefits-and-drawbacks-of-eu-accession-for-the-western-balkans/>.

⁵¹ Zweers, Wouter, Vladimir Shopov, Frans Paul van der Putten, Mirela Petkova, and Marteen Lemstra.

example, Montenegro, which began negotiations in 2012, aims to achieve EU membership by 2028⁵². The EU's approach to enlargement has become more individualised, with countries progressing at different rates based on their own merits and progress.

The implicit principle in the rule of law initiative of the 2018 EU-Western Balkans strategy is that a clear track record in the fight against corruption and organised crime at the highest level is required, to show true commitment towards meeting the core EU membership criteria regarding both the rule of law and the overall Copenhagen criteria if countries want to be taken seriously in their bids to join the EU⁵³. It is necessary to talk about China's strategic interest in the Western Balkans. As a result, the EU faces the challenge of maintaining its influence and reform agenda in the region while competing with China's less demanding approach to investment and cooperation.

The deficient rule of law in the Western Balkans enables investments that exacerbate 'state capture', which refers to a process in which political actors infiltrate state structures with the help of client list networks and use these state structures as a mantle to hide their corrupt actions⁵⁴. Such funds are called 'corrosive capital', which can be either in the form of equity or loans, which exploits and potentially reinforces weaknesses in the system. Close relationships among elites who circumvent the competition rules applicable to public procurement procedures contribute to the non-transparency of investment practices⁵⁵. A serious systemic issue that jeopardises democratic governance, economic transparency, and sustainable development is the widespread practice of state capture in the Western Balkans. These networks foster an atmosphere where foreign investments can be carefully diverted to serve narrow interests rather than wider societal advantages by allowing powerful political and economic actors to manipulate state institutions for their own profit. In addition to distorting economic competition, the breakdown of institutional integrity feeds a corrupt cycle that obstructs real economic advancement and jeopardises the region's chances for significant structural change.

4. China's economic footprint in the Western Balkans: strategic interests and market access

China is the largest partner for the EU's imports and the second-largest partner for its exports.⁵⁶ China has invested heavily in the Western Balkans, with an average of

'China and the EU in the Western Balkans A Zero-Sum Game?' Clingendael Report, August 2020. <https://www.clingendael.org/sites/default/files/2020-08/china-and-the-eu-in-the-western-balkans.pdf>.

⁵² Dabrowski, Marek, and Marta Domínguez-Jiménez. 'Changing Dynamics in the Western Balkans: The Road to European Union Membership – An Update.' Bruegel Policy Brief, January 31, 2025.

⁵³ Andi Hoxhaj, 'The EU Rule of Law Initiative Towards the Western Balkans,' Hague Journal on the Rule of Law 13 (November 2020): 1–30.

⁵⁴ Marteen Lemstra and Wouter Zweers, 'The Destructive Effects of State Capture in the Western Balkans,' European Sources Online, 2020.

⁵⁵ Vulović, Marina. Economic Relations between the Western Balkans and Non-EU Countries: How the EU Can Respond to Challenges Concerning Direct Investment, Trade and Energy Security. SWP Comment. Berlin: Stiftung Wissenschaft und Politik (SWP), 2023.

⁵⁶ Zeneli, Valbona, and Fatjona Mejdini. "China in the Balkans." Per Concordiam. Accessed January 26, 2025. <https://perconcordiam.com/china-in-the-balkans/>.

\$1 billion annually since 2011.⁵⁷ The region is strategically important for China's Belt and Road Initiative, serving as a gateway to EU markets. The Balkan infrastructure market has an important role as an emerging market with large investment opportunities. Government governance and legal regulations in the Balkan countries are moving closer to EU standards. Chinese companies operating in the Western Balkans can familiarise themselves with EU market rules and gain market access, accumulating experience to enter the EU market.⁵⁸ The first is the market advantage of the Balkans. Although most of the Balkan countries have not joined the EU yet, they are backed by and deeply embedded in the EU market in terms of systems and rules, facilitating trade, and investment. China offers economic development without the stringent rules attached to the EU's conditionality; then the effectiveness of the EU's conditionality is reduced because of the availability of alternatives⁵⁹. For instance, the 2014 completion of the Pupin Bridge project in Serbia by the China Road and Bridge Corporation is a perfect illustration of this tactic. As China's first significant infrastructure investment in Europe, this project enabled Chinese state-owned businesses to become acquainted with EU laws and standards while competing in a less cutthroat market.

The Chinese model, formerly based on its five core principles and embodied within the 16 + 1 framework, seems to attract considerable attention to the Western Balkans countries and could potentially weaken the EU's policy towards the region. These principles are: 1) Mutual respect for sovereignty and territorial integrity, 2) Mutual non-aggression, 3) Non-interference in each other's internal affairs, 4) Equality and mutual benefit, 5) Peaceful coexistence⁶⁰. Aside from its five principles, China demands no additional preconditions and promotes the so-called no strings attached principle along with its trade and investments, which has been widely claimed as the reason for its successful global economic strategy.⁶¹ This approach could potentially weaken the EU's policy towards the region by reducing the effectiveness of EU conditionality. With China offering an alternative source of investment and support, Western Balkan countries may feel less pressure to implement EU-mandated reforms.

Since China's 2001 accession to the WTO, it has practised its 'Go Global strategy' to encourage firms to find resources and markets offshore and expand business abroad. The Belt and Road Initiative put forward in 2013 is regarded as 'Go Globally 2.0'. On the one hand, BRI is driven by the requirement of domestic economic development. On the other hand, it is driven by the response to the geopolitical and geo-economic challenges facing China in the international arena.⁶² The WTO provides a set

⁵⁷ U.S. House of Representatives Foreign Affairs Committee. "China Regional Snapshot: Western Balkans." Accessed February 1, 2025. <https://foreignaffairs.house.gov/china-regional-snapshot-western-balkans/>.

⁵⁸ European Commission. "China." Accessed January 31, 2025. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en.

⁵⁹ Zweers, Wouter, Vladimir Shopov, Frans Paul van der Putten, Mirela Petkova, and Marteen Lemstra. "China and the EU in the Western Balkans A Zero-Sum Game?" Clingendael Report, August 2020. <https://www.clingendael.org/sites/default/files/2020-08/china-and-the-eu-in-the-western-balkans.pdf>.

⁶⁰ Ministry of Foreign Affairs of the People's Republic of China. "China's Initiation of the Five Principles of Peaceful Co-Existence." Accessed January 31, 2025. https://www.mfa.gov.cn/eng/zy/wjls/3604_665547/202405/t20240531_11367542.html.

⁶¹ Yan, Shaohua. "The '16+1' Framework and China-EU Cooperation in the Western Balkans: A Region Building Perspective." *Australian and New Zealand Journal of European Studies* 11, no. 1 (2019): 76-88, doi: 10.30722/anzjes.vol11.iss1.15210.

⁶² Bacović, Maja, Danijela Jacimovic, Milena Lipovina Bozovic, and Maja Ivanovic. 2021. "The Balkan

of rules, safeguards, and mechanisms for the conduct of international trade in goods and services. It is even more useful for small countries, for which multilateral rule negotiations would be much preferable to bilateral negotiations in which bigger countries would have the upper hand⁶³. The WTO provides a legal framework that protects the trade rights of member countries, providing them with security and stability in their trade relations with other countries. However, China's investments in the Western Balkans are mostly agreed upon bilaterally, even though the WTO offers an international framework for trade negotiations⁶⁴. Smaller Balkan nations may lose out in negotiations as a result of China's increased ability to use its economic might.

The Belt and Road Initiative is a massive Chinese infrastructure project that aims to stretch around the globe. China's Belt and Road Initiative, sometimes referred to as the New Silk Road, is one of the most ambitious infrastructure projects ever conceived⁶⁵. The BRI is a geo-economic project rather than a geopolitical project. From China's perspective, the CEECs are important economic partners with great potential in terms of trade and investment. The special geographic location of CEECs can facilitate trade flows between China and Europe⁶⁶. In addition, the interconnection of CEECs may present opportunities for infrastructure cooperation. The Western Balkans countries share a European perspective with their neighbours in the EU, including concerns for the stability and prosperity of the region. Moreover, Albania, Montenegro, and North Macedonia are full members of NATO, again sharing common interests with the EU as well as the United States, although the United States is not fully compatible with those of the European Union⁶⁷. The BRI leverages the strategic geographic location of CEECs to facilitate trade between China and Europe, while also presenting opportunities for infrastructure cooperation. It also highlights the delicate balance Western Balkan countries must maintain between their European perspective and the economic opportunities presented by China's BRI.

While some Balkan countries have made efforts to attract foreign investment, there are indeed challenges related to laws and regulations that can affect Chinese companies investing in the region. In some Balkan countries, laws and regulations related to foreign investment are incomplete or ambiguous. This can make it difficult for Chinese companies to understand their rights and obligations, and may increase the risk of litigation. For example, in Bulgaria, the foreign investment law does not clearly define the concept of 'foreign investor'.⁶⁸ This can create uncertainty about who is subject to

Paradox: Are Wages and Labour Productivity Significant Determinants of FDI Inflows?' *Journal of Balkan and Near Eastern Studies* 23 (1): 144–62.

⁶³ Bacović, Maja, Danijela Jacimovic, Milena Lipovina Bozovic, and Maja Ivanovic. 2021. 'The Balkan Paradox: Are Wages and Labour Productivity Significant Determinants of FDI Inflows?'

⁶⁴ European Parliamentary Research Service. 'EPRS_BRI(2022)733558_EN.' European Parliament, 2022. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733558/EPRS_BRI\(2022\)_733558_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733558/EPRS_BRI(2022)_733558_EN.pdf).

⁶⁵ James McBride, Noah Berman, and Andrew Chatzky, 'China's Massive Belt and Road Initiative,' Council on Foreign Relations, February 2, 2023.

⁶⁶ Liu, Zuokui. 'Cooperation between China and the Central and Eastern European Countries in Times of Major Changes.' *China International Studies*, November/December 2020. <https://sha.static.vipsite.cn/media/thinktanken/attachments/6214e6da0d42506d8df3224c016f275c.pdf>.

⁶⁷ Bacović, Maja, Danijela Jacimovic, Milena Lipovina Bozovic, and Maja Ivanovic. 2021. 'The Balkan Paradox: Are Wages and Labour Productivity Significant Determinants of FDI Inflows?' *Journal of Balkan and Near Eastern Studies* 23 (1): 144–62.

⁶⁸ White & Case LLP. 'Foreign Direct Investment Reviews 2024: Western Balkans.' Accessed January 31,

foreign investment laws. In some Balkan countries, there are limitations on foreign investment in certain sectors. In Albania, foreign investment is prohibited in the defence sector.⁶⁹ These limitations may prevent Chinese companies from investing in sectors that are key to their growth strategy.

Chinese companies also face other legal challenges, such as the lack of transparency in government regulations and processes. As well as the lack of protection of intellectual property rights. These challenges may make it difficult for Chinese companies to do business efficiently and profitably in the Balkan countries. To mitigate these risks, Chinese companies should conduct thorough research into the laws and regulations of the Balkan countries, in which they plan to invest. In addition, Chinese companies can support the efforts of Balkan governments to improve the investment climate. This includes supporting the reform of laws and regulations, fighting corruption, and protecting intellectual property rights. To mitigate these risks, Chinese companies should conduct thorough research into local laws and ensure compliance with all regulatory requirements before initiating projects. Supporting government efforts to improve transparency and streamline regulations could also reduce legal uncertainties.

5. Legal challenges and EU accession: China's impact on Western Balkan regulations

A significant increase in foreign direct flows had positive effects on the entire economic and political environment of countries in the region, increasing their competitiveness level.⁷⁰ China's increasing presence in the Western Balkans creates cross-conditionality and increases real and perceived opportunity costs for adopting EU policies. To illustrate, Chinese investors find loose regulation practices, flexible public procurement rules and labour law regulations present across the Balkans a comfortable climate in which to operate. Equally, more stringent EU standards and regulations for investing, serving to protect the financial sustainability of projects, often do not apply to Western Balkans countries, which makes regional markets more open for FDIs and loans from China.

Establishing a robust rule of law is a major obstacle for the Western Balkans, impeding their capacity to draw in foreign direct investment, prosper economically, and develop sustainably. When contrasting Chinese and EU approaches to regional investment, these difficulties become very apparent. For example, Chinese-funded infrastructure projects in Serbia have frequently favoured Chinese enterprises by circumventing national restrictions on public procurement⁷¹. The prerequisites for EU

2025. <https://www.whitecase.com/insight-our-thinking/foreign-direct-investment-reviews-2024-western-balkans>.

⁶⁹ Republic of Albania. 'Foreign Investment Act.' Law No. 7496. Investment Policy Hub, UNCTAD. Accessed January 31, 2025. <https://investmentpolicy.unctad.org/investment-laws/laws/3/albania-foreign-investment-act>.

⁷⁰ Danijela Jacimovic, 'Increasing Effectiveness of FDI Might Improve the Competitiveness in Western Balkan Region,' in Filipovic, Davor & Anita Goltnik Urnaut (eds.), *Economic and Social Development: Book of Abstracts of the 1st International Scientific Conference*, Frankfurt am Main, Germany, 12-13 April 2012, [https://www.fkp.si/uploads/zalozba/Zbornik%20povzetkov%20\(International%20scientific%20conference-%20Economic%20and%20Social%20Development\).pdf](https://www.fkp.si/uploads/zalozba/Zbornik%20povzetkov%20(International%20scientific%20conference-%20Economic%20and%20Social%20Development).pdf).

⁷¹ Krstinovska, Ana, Bledar Feta, Aleksandra Stankovic, Senada Selo Sabic, Aleksandra Davitkovska-Spasovska, and Momcilo Radulovic. 'China's Influence on the Western Balkans' EU Accession Process:

accession, which place a strong emphasis on the value of open and equitable public procurement procedures, are in conflict with this practice. Furthermore, the region's court system and inspection agencies frequently fall short in their efforts to adequately look into and punish Chinese enterprises' noncompliance⁷². The rule of law is threatened by the unequal playing field for investors caused by the inconsistent application of the law and the lax regulatory environment. On the other hand, the EU has prioritised bolstering the rule of law in its Western Balkan expansion plans. In order to establish a more stable and predictable economic environment, the EU is supporting anti-corruption initiatives and judicial reforms. However, political elites' lack of commitment to fully applying rule of law principles has contributed to the slow pace of change.⁷³ Because of this circumstance, China has been able to present itself as a strategic investor that stays out of domestic politics and is prepared to ignore problems like state assistance, corruption, or labour regulations.

Foreign direct investment, technology transfer, and the rule of law are major issues for the Western Balkans, especially in light of Chinese investments and EU membership. The rule of law is threatened in the region by judicial institutions that are weak, rampant corruption, and uneven application of the law.⁷⁴. This fosters an atmosphere in which foreign direct investment, especially that from China, frequently evades national public procurement procedures and lacks transparency. Limited foreign direct investment in high-value industrial sectors, with the majority of investments concentrated on real estate and construction, impedes the transfer of technology. Labour laws are often inadequately enforced, leading to substandard working conditions.

Two major sectors in which China is participating in projects in the Western Balkans region are the transportation infrastructure and energy sectors. The Port of Piraeus in Greece is a vital gateway for Chinese commodities entering Europe, which is the main reason behind China's strategic investments in transportation infrastructure in the Western Balkans. The goal of China's larger Belt and Road Initiative, which focuses on enhancing regional infrastructure, is to establish effective trade routes between Asia and Europe. One excellent illustration of this tactic is the China-Europe Land-Sea Express Line. Compared to conventional routes, this multimodal transportation route cuts transit times by 7 to 10 days by connecting the Port of Piraeus to inland European locations⁷⁵. The China-Europe Land-Sea Express Line thus represents a complex

Synergies and Obstacles.' Konrad-Adenauer-Foundation and Wilfried Martens Centre for European Studies, 2023. <https://www.martenscentre.eu/wp-content/uploads/2023/10/Chinas-Influence-on-the-Western-Balkans-EU-Accession-Process-Synergies-and-Obstacles.pdf>.

⁷² Krstinovska, Ana, Bledar Feta, Aleksandra Stankovic, Senada Selo Sabic, Aleksandra Davitkovska-Spasovska, and Momcilo Radulovic. 'China's Influence on the Western Balkans' EU Accession Process: Synergies and Obstacles.' Konrad-Adenauer-Foundation and Wilfried Martens Centre for European Studies, 2023. <https://www.martenscentre.eu/wp-content/uploads/2023/10/Chinas-Influence-on-the-Western-Balkans-EU-Accession-Process-Synergies-and-Obstacles.pdf>.

⁷³ Haider, Huma. « Rule of Law Challenges in the Western Balkans. » K4D Helpdesk Report. Brighton, UK: Institute of Development Studies, October 23, 2018. https://assets.publishing.service.gov.uk/media/5c6c02eacd915d4a39787419/464_Rule_of_Law_in_the_Western_Balkans.pdf.

⁷⁴ Vienna Institute for International Economic Studies. 'Why Foreign Companies Are Moving to the Western Balkans.' October 2, 2024. <https://wiiw.ac.at/why-foreign-companies-are-moving-to-the-western-balkans-n-644.html>.

⁷⁵ State-owned Assets Supervision and Administration Commission of the State Council. 'China-Europe Land-Sea Express Line: A New Logistics Channel Connecting Asia and Europe.' May 23, 2024. <http://en.>

interplay of FDI, infrastructure development, and legal frameworks, requiring careful navigation of both Chinese and EU regulations and standards.

6. Serbia's Balancing Act Chinese FDI Security Cooperation and EU aspirations

Serbia has been the centre of many geopolitical conflicts due to its strategic position in the centre of Europe and at the confluence of Eastern and Western cultures. China has proven that FDI in Serbia does not impose conditions on investments like the EU, and it allows the Serbians to dictate certain terms⁷⁶. Except for Serbia, China's security and law enforcement cooperation in the Western Balkans is limited.

In recent years, Serbia became the first European nation to sign a free trade agreement with Beijing in October 2023, marking a considerable expansion of its relationship with China in recent years⁷⁷. Serbia has implemented Huawei's 'Safe City' monitoring system in Belgrade and bought Chinese military hardware as part of this commercial partnership⁷⁸. Serious questions concerning privacy rights and possible government spying have been raised by the installation of 8,000 high-definition cameras with facial recognition technology. These changes have an impact on Serbia's EU accession process because they frequently go against EU laws pertaining to data protection, public procurement, and human rights⁷⁹. The rule of law is further undermined by the Safe City project's lack of openness, as Serbian officials are allegedly preventing requests for freedom of information. Concerns over labour practices have also been raised by the flood of Chinese investments, as seen by claims of poor working conditions at Chinese-run projects. There are concerns about the long-term effects on Serbia's legal system, labour standards, and democratic institutions, as it strikes a balance between its commercial interests with China and its ambitions to join the EU.

It is reportedly considering Huawei as a partner in rolling out its 5G network. In a U.S.-brokered September 4, 2020, commitment to normalise economic relations with Kosovo, Serbia pledged to remove 5G equipment provided by 'distrusted vendors' like Huawei from its mobile networks and to prohibit such vendors from bidding in the future⁸⁰. Meanwhile, Serbia's cooperation with Huawei in other areas has continued. Interior ministers from China and Serbia have signed a memorandum of understanding allowing for joint exercises of special police units and cooperation on cybercrime and antiterrorism.

sasac.gov.cn/2024/05/23/c_17219.html.

⁷⁶ Center for European Policy Analysis. 'Chinese Influence in Serbia.' Last modified January 29, 2025. <https://cepa.org/comprehensive-reports/chinese-influence-in-serbia/>.

⁷⁷ China Briefing. 'China-Serbia Bilateral Relations: Trade and Investment Outlook.' China Briefing News, June 28, 2024. <https://www.china-briefing.com/news/china-and-serbia-sign-free-trade-agreement-bilateral-trade-and-investment-outlook/>.

⁷⁸ 'Huawei's Surveillance System in Serbia Threatens Citizens' Rights, Watchdog Warns.' ZDNet, April 10, 2019. <https://www.zdnet.com/article/huaweis-surveillance-system-in-serbia-threatens-citizens-rights-watch-dog-warns/>.

⁷⁹ Balkan Investigative Reporting Network. 'Serbian Authorities Use High-Tech Surveillance to Monitor Opponents: BIRN Report.' Balkan Insight, June 28, 2024. <https://balkaninsight.com/2024/06/28/serbian-authorities-use-high-tech-surveillance-to-monitor-opponents-birn-report/>.

⁸⁰ Center for European Policy Analysis. 'Chinese Influence in Serbia.' Last modified January 29, 2025. <https://cepa.org/comprehensive-reports/chinese-influence-in-serbia/>.

The controversy surrounding Huawei has had a significant impact on its operation in Serbia. At a legal level, problems and legal loopholes related to the company have been raised in the country. First, Huawei has faced accusations of espionage and security concerns in several countries, leading some governments to restrict or ban the use of its products on their telecommunications networks. This has created uncertainty in Serbia and raised questions about the security of Huawei networks and equipment used in the country. Furthermore, the controversy has also affected diplomatic relations between Serbia and other countries. Some countries allied with the United States have pressured Serbia to prevent Huawei's involvement in the development of its telecommunications infrastructure. This has created tensions and made decision-making difficult regarding Huawei's involvement in key projects in Serbia. In short, the controversy surrounding Huawei has created legal problems and loopholes in its operation in Serbia. These issues include security concerns, restrictions imposed by other countries, and diplomatic tensions.

Concerns about corruption have been raised by the project's lack of openness, which includes covert agreements with people connected to the state-owned Telekom Srbija⁸¹. Despite agreements to exclude 'distrusted vendors' in 5G networks, Serbia's ongoing relationship with Huawei makes it more difficult for the country to join the EU and comply with EU data protection regulations. Initiatives spearheaded by human rights scholars and activists call for public discussion and implementation of Serbia's privacy regulations, which are based on the EU's GDPR⁸². These legal and human rights issues are made worse by the Serbian government's unwillingness to provide information about the project and its noncompliance with data protection standards evaluated by the Serbian Data Protection Commissioner.

The legal problems and legal loopholes in Huawei's operation in Serbia refer to the closure of its office in Belgrade and the cancellation of the more than 160 contracts it had in the country⁸³. These problems are due to the Serbian government's decision not to allow the expansion of Chinese Network telephony in Europe through anti-authoritarian legislation. This legislation prevents companies like Huawei from obtaining licenses and contracts in Serbia and other parts of the world. This is a clear extension of the tensions between the States.

Additionally, Balkan countries have implemented policies to attract foreign investment and encourage technology transfer. These policies may include tax incentives, business creation facilities, intellectual property protection, and access to local markets. Huawei has established an Innovation and Digital Development Center in Belgrade, aiming to foster local talent and startups⁸⁴. This aligns with the broader goal

⁸¹ Organized Crime and Corruption Reporting Project. 'Chinese Tech Giant Huawei Had Secret Offshore Contracts with Men Linked to Serbian State Telecom Company.' OCCRP, January 31, 2025. <https://www.occrp.org/en/project/the-pandora-papers/chinese-tech-giant-huawei-had-secret-offshore-contracts-with-men-linked-to-serbian-state-telecom-company>.

⁸² Krivokapić, Đorđe. 'A Disturbing Marriage: Serbia and China Team Up on Digital Surveillance.' Center for European Policy Analysis, January 31, 2025. <https://cepa.org/article/a-disturbing-marriage-serbia-and-china-team-up-on-digital-surveillance/>.

⁸³ Telegrafi. 'Huawei Signs Secret Contracts with Telekom Srbija.' Telegrafi, January 31, 2025. <https://telegrafi.com/en/huawei-kinez-lidh-kontrata-sekrete-telekom-srbija/>.

⁸⁴ Vladisavljev, Stefan. 'Serbia's 5G Deal with Washington: The Art of Muddling Through.' European Council on Foreign Relations, September 22, 2020. https://ecfr.eu/article/commentary_serbias_5g_deal_with_washington_the_art_of_muddling_through/.

of technology transfer in the region. The foreign investment and technology transfer regime in the Balkan countries will refer to the specific rules and conditions that exist in each of the Balkan countries regarding foreign investments and technology transfer. These rules vary from country to country and are based on the economic, social, and political policies of each of them. Huawei has established an Innovation and Digital Development Center in Belgrade, aiming to foster local talent and startups⁸⁵. This aligns with the broader goal of technology transfer in the region. Which means Huawei's involvement in projects like the State Data Center in Kragujevac and the Smart City initiative contributes to Serbia's digital infrastructure. However, Huawei's strong presence in Serbia's telecommunications sector may limit competition and create dependencies on a single foreign provider. Therefore, the Huawei case highlights the challenges Balkan countries face in balancing the benefits of foreign investment and technology transfer with the need for transparency, data protection, and alignment with EU standards.

7. Conclusion

The Balkan region has experienced economic growth in recent years and has attracted foreign investment and technology transfer. The evolving foreign investment landscape between China and the Balkans presents both opportunities and challenges for the stakeholders involved. By understanding the intricacies of China's foreign investment laws and their implications, Balkan countries can make informed decisions and create mutually beneficial investment partnerships with China. This paper intends to shed light on the legal dimensions of foreign investment interactions between China and the Balkans, offering insights for policymakers and researchers to navigate this complex landscape effectively.

In the case of China, it has entered into numerous bilateral treaties and other arrangements with BRI states. It is important to re-define BRI goals and a widely communicated implementation strategy. The central Chinese government has to consider how this treaty network can be improved in support of BRI. To create a friendlier environment in terms of investment with China. Nonetheless, the problem related to foreign investment in the Western Balkans is primarily weak legal and political structures. Chinese state-owned enterprises have proven that they can build according to EU standards and win tenders. Key actions will be needed at the country level, both to implement the regional agenda and to improve the investment climate on individual country assessments. More effort at attracting private sector investment within a sound regulatory framework and furthering regional cooperation could help alleviate current and future legal loopholes. Governments need to ensure that public-private partnerships are undertaken in an open, transparent, and competitive setting with transparent government guarantees.

States in the region must develop and implement clear policies on contract transparency, not only for Chinese investments but for all foreign investments. Policies for environmental preservation and digital security are essential, particularly in light of worries that certain Chinese-funded projects conflict with EU environmental objectives.

⁸⁵ China-CEEC. "Huawei Opens Innovation Center in Serbia." China-CEEC, October 16, 2020. http://www.china-ceec.org/eng/jmh/202010/t20201016_6582319.htm.

Environmental issues were raised, for example, by the Bar-Boljare highway project in Montenegro. Strong screening procedures for foreign investments, akin to those in the EU, might be put in place to assist reduce these risks. It is oversimplified to categorize all Chinese investments as "debt trap" diplomacy. The situation regarding China's investment in the Western Balkans is indeed more nuanced. While China has contributed significantly to the region's infrastructure development, the EU remains the dominant economic partner. Chinese investments have addressed infrastructure gaps, particularly in transportation and energy sectors, but these projects often lack transparency and may not align with EU standards. This complex landscape highlights the delicate balance between leveraging Chinese investment for development and maintaining alignment with EU norms and accession goals.

The complicated difficulties Balkan nations have in striking a balance between foreign investments, geopolitical interests, and EU aspirations are best shown by Serbia's situation with Huawei. Serbia has opened a tech centre and maintained existing contracts with Huawei, despite accepting agreements to restrict the use of 'mistrusted vendors' in 5G networks. This circumstance emphasises the necessity of more transparent regulations for technology collaborations and foreign direct investment. By addressing these legal and regulatory gaps, Serbia and other Western Balkan nations can better manage the complexities of foreign investments while safeguarding their economic sovereignty and advancing their EU membership ambitions. Balancing economic opportunities from China with adherence to EU principles will be essential for sustainable development and regional stability.

In order to balance Chinese investments with EU integration aspirations, the Balkan region must carefully navigate a number of legal challenges, such as regulatory alignment with EU standards, the implementation of strong screening mechanisms for foreign direct investment, and adherence to EU public procurement rules. The region must strengthen its legal frameworks to address issues like labour law violations, environmental regulations, and anti-corruption measures, especially in sectors like electricity and telecommunications. Balkan countries must create comprehensive legal structures that can effectively manage foreign investments while aligning with EU accession requirements, improve transparency in investment deals, and strengthen enforcement mechanisms for existing laws. Additionally, fostering regional legal cooperation is essential to address common challenges posed by foreign investments and to present a cohesive strategy for EU integration. The region's future growth and its path to EU membership will be greatly impacted by the effectiveness of these legal reforms and their execution.

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