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Chinese direct investment in South-East Europe: the story behind the numbers

SOUTHEAST EUROPE PROGRAMME

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Summary

- To a large extent, the Chinese government's outbound FDI in SEE in 2012-2022 reflects its own domestic and foreign agenda, particularly the Belt and Road Initiative, which aims to expand China's geo-economic footprint.
- However, local agency can also play an instrumental role in attracting Chinese FDI, as different countries in the SEE region have different economies and individual characteristics which are largely driven by governments and elites, leading to varying volumes and types of Chinese FDI. The relationship between Chinese outbound FDI and political considerations is complex and dynamic and varies depending on the specific context of each country.
- Serbia provides a good example of a government which has actively facilitated Chinese investment, prioritising the creation of jobs or other indirect gains for its local elites over environmental or labour rights concerns; the country has attracted both greenfield and brownfield investments.
- As a result, in Serbia, China's economic leverage has been translated into active diplomatic support for its strategic goals. In contrast, China's limited FDI presence in most SEE countries can be attributed to their pro-Western orientation, EU and/or NATO membership, and the lack of a significant commercial rationale. In the case of Albania, the government's alignment with the EU's foreign policy positions, combined with its EU accession negotiations, seem to have led to a more reserved approach to Chinese FDI.
- These cases demonstrate that the transactional nature of China's outbound FDI is not always one-sided, and that local agencies have the power to shape the terms of engagement with China.
- The structural characteristics of the local economies in the SEE region render it of limited economic interest to Chinese firms, with the exception of the strategic acquisition (M&A) of innovative tech companies, in particular in Slovenia, or investments in extractive and raw materials industries in the non-EU countries. Greece is also an exception, because it is seen as a strategic gateway to the European market.

- Greenfield investments in SEE EU members states have not mirrored the current upward trend in the rest of the EU. In SEE countries that have not yet joined the EU, Chinese POEs display a clear preference for greenfield investments, while state-owned enterprises (SOEs) have focused on brownfield investments and acquisitions.
- In other words, China's limited FDI presence in certain SEE countries where there is no leeway for political or diplomatic gains highlights the need for a profound economic or commercial rationale to exist for recipient states to attract Chinese FDI.
- Additionally, Beijing's restrictions on outbound capital flows since 2016 and slowing growth have limited its appetite for investments with uncertain or questionable financial returns.
- Overall, China's appetite for investment in the region is constrained by its own economic priorities and restrictions on outbound capital flows, as well as by the limited economic returns offered by many of the smaller economies in the region.
- Instead, Chinese firms are increasingly resorting to minority investments and/or joint ventures with Western firms in the region. This emerging trend of joint ventures and strategic partnerships with Western firms could indicate what we can expect in terms of outbound Chinese FDI in the region over the decade ahead.

Overall trend of Chinese foreign direct investment since 2012/Context

Since 2012, Chinese investors have massively expanded their economic footprint overseas. Indicatively, in 2012, **the level of (global) inbound foreign direct investments (FDI) into China was four times higher than outbound FDI from China.**[1] However, since then, inbound FDIs in China have largely been declining, while Chinese outbound FDIs have surged--a sign of a maturing economy following decades of massive economic growth and industrialisation. This shift was epitomised with the launch of the Belt and Road Initiative by the Chinese government in 2013, a global infrastructure development strategy incorporating plans to invest in nearly 150 countries.[2] **As of 2022, China's outbound FDI has overtaken inbound FDI in China.**

...since 2016, there has been a downward trend in Chinese outbound FDI in Europe.

Yet, since 2016, there has been a downward trend in Chinese outbound FDI in Europe. In 2019, Chinese outbound FDI in the EU stood at just €12 billion, 33% lower than in 2018 and far from its peak of €37 billion in 2016, the year in which China imposed controls on capital outflows.[3] Another notable trend is the changing nature of Chinese FDI. Following two decades in which mergers & acquisitions (M&A) dominated, Chinese greenfield investments have been more prevalent in Europe since 2020. Chinese M&A in Europe in the first three quarters of 2022 reached a historic low. Finally, another interesting trend is the declining share of Chinese state-owned enterprises (SOEs) in FDI in Europe.[4] In 2021, the share of Private-Owned Enterprises (POEs) was 88% of the total investment (€9.3 billion) in the region.[5] We can therefore conclude that Chinese FDI in Europe have passed through different stages, based on various drivers in China and the recipient countries.

This paper will **examine to what extent the above trends are replicated in Southeast Europe (SEE),** the geographic subregion of Europe comprising the Balkan states. Following an outline of these trends, this paper will aim **to identify and analyse the drivers behind Chinese direct (commercial) investments in the SEE region.** The year 2012 is used as the starting point because of the study's focus on the past decade, a period which not only coincides with the launch of the China-CEE platform, but also the peak of the European sovereign debt crisis, which began in 2008 and spread primarily to the European south in 2009. In addition, 2012 was the year in which Xi Jinping took over as General Secretary of the Chinese Communist Party. Over the decade 2012-2022, he tightened party-state control over the economy and society and promoted a more assertive and ambitious economic and political presence overseas.

Rationale: relevance and gaps in the literature

To date, most studies have chosen to take a general view of the Chinese geo-economic presence in SEE, often putting bilateral trade, commercial investments (FDI), infrastructure projects, concessions, and loans in the same bag. To address this common methodological confusion between FDI, loans, and other instruments, **this study will opt for a narrower**

[1] FDI Intelligence, Xi's China in six FDI Charts, October 17 2022, available at: https://www.fdiintelligence.com/content/data-trends/xis-china-in-six-fdi-charts-81575
[2] Dr Yu Jie, Wallace, J., "What is China's belt and road initiative (BRI)", Chatham House, available at: https://www.chathamhouse.org/2021/09/what-chinas-belt-and-road-initiative-bri
[3] Mercator Institute for Chinese Studies, "Chinese FDI in Europe: 2019 Update", April 8 2020, p. 9, available at: https://merics.org/en/report/chinese-fdi-europe-2019-update
[4] EY, "EY releases Overview of China outbound investment in the first three quarters of 2022", 16 November 2022, available at: https://www.ey.com/en_cn/news/2022/11/ey-releases-overview-of-china-outbound-investment-of-the-first-three-quarters-of-2022
[5] Mercator Institute for Chinese Studies, "Chinese FDI in Europe: 2021 Update", April 27 2022, p.8, available at: https://merics.org/en/report/chinese-fdi-europe-2021-update

scope, focusing exclusively on commercial investments (FDIs). This will allow a more in-depth understanding of the factors driving Chinese FDIs in the region.

The study will go one step further by **distinguishing between different types of FDIs**, classifying them as **greenfield**, **brownfield,** and **M&A. Chinese entities will also be classified into two categories: state-owned enterprises (SOEs) and private-owned enterprises (POEs)**, depending on the level of control the Chinese state exercises over them.[6]
These two categories of classification will help with the identification of patterns regarding each type of investment, shedding more light on the underlying rationale and whether the incentives and modus operandi of a Chinese SOE are different from those of a Chinese POE. In other words, this dual classification system could help this study achieve the following research objectives:

1. identify patterns across different SEE countries;
2. evaluate whether a Chinese SOE operates differently than a POE in terms of its economic engagement in the region;
3. assess to what extent Chinese SOEs prefer a certain type of investment compared with POEs.

The importance of this study lies largely in the (geo)political implications of Chinese FDI; Since Deng Xiaoping's rule, China has followed a hybrid model of economic development combining central planning with a capitalist economy. As a result, the lines between business and the state are often blurred, even in the case of POEs.

This Chinese model of economic development, in which the state retains control over sectors that are considered strategic and oversees the way in which the Chinese economy interacts with global markets, is being exported along the routes of the BRI.

This Chinese model of economic development, in which the state retains control over sectors that are considered strategic and oversees the way in which the Chinese economy interacts with global markets, is being exported along the routes of the BRI.[7] This could have implications for the social, political, economic, and environmental landscape of the SEE countries.[8]

Hence, it is interesting to explore the following:

- What is the primary interest of Chinese companies in the SEE region?
- How do these interests relate to the Chinese state and its foreign policy ambitions and strategy?
- What is their impact on societies, domestic politics, and local institutions?

A more nuanced understanding of the way Chinese enterprises operate abroad could add value to the existing literature, which tends to reductively present Chinese commercial actors solely as an extension of the Chinese state.

Case studies (selection criteria and categorisation)

The study will focus on Southeast Europe (SEE). This group of countries can be further divided into two sub-groups: I) EU member states: Bulgaria, Croatia, Greece, Romania,

[6] European Corporate Governance Institute, "State capitalism and the Chinese firm: legal and policy issues", available at: https://ecgi.global/sites/default/files/Presentation%20slides_6.pdf
[7] Macaes, B. (2018), "Belt and Road: a Chinese world order", pp. 44, Oxford University Press
[8] Beeson, M. (2018), "Geoeconomics with Chinese characteristics: The BRI and China's evolving grand strategy", *Economic and Political Studies, 6*(3), 240–256.

Slovenia and II) **non-EU member states** (candidate countries for EU accession)**:** Albania, Bosnia and Herzegovina (B&H), North Macedonia, Montenegro, Serbia.

All these states are part of the China-CEE platform, a special mechanism for regional cooperation launched by China in 2012, which originally included 16 post-communist countries in SEE and Central and Eastern Europe (CEE).[9] The SEE countries are of particular interest to China due to the structure of their economies, which makes them (largely) dependent on inflows of foreign capital and technological know-how to stimulate economic development.[10]

Furthermore, China's expanding presence in the region comes at a time of increasing geopolitical volatility in a fluid and constantly changing global order, with the U.S. pivot to Asia, China's emergence as a great power, Russia's invasion of Ukraine, and growing calls for greater strategic autonomy in the EU. It has been widely argued in the literature that globalisation is in retreat (a phenomenon that has been labelled 'snowbalisation')[11] amid growing technological decoupling and the politicisation of global value chains.[12]

The fact that five of these SEE countries are not yet members of the EU may make them an easier target for external actors wishing to exert their influence over their political and economic elites.[13] Thus, the additional classification into EU and non-EU member states could also allow us to evaluate whether EU membership dictates a different approach from the Chinese investors.

Methodology and scope

This study will look into **different types of FDI, mainly greenfield, brownfield, and M&A in the SEE region.** This means that the construction or expansions of roads and railways will not be classified as investments, as they are either the product of loans, concessions, PPPs, or simply public contracts when funded from the national or EU budget. Given the borderline aspect of some of the cases examined, and for methodological precision, this paper uses the following definitions to categorize FDI:

- A **greenfield investment** is a type of foreign investment in which a foreign company opens a subsidiary in a foreign market. This means that the parent company has to begin a new venture to construct new facilities, rather than buying existing ones in the country.[14]
- A **brownfield investment** occurs *"when an entity purchases or leases an existing facility to begin new production"***,** with no need to build a brand-new facility, thereby economising on time and resources.[15]

[9] Tzogopoulos, G., "Greece, China and the 17+1 Initiative", November 27 2020, available at: https://www.eliamep.gr/en/publication/%CE%B5%CE%BB%CE%BB%CE%AC%CE%B4%CE%B1-%CE%BA%CE%AF%CE%BD%CE%B1-%CE%BA%CE%B1%CE%B9-%CF%80%CF%81%CF%89%CF%84%CE%BF%CE%B2%CE%BF%CF%85%CE%BB%CE%AF%CE%B1-17-1/
[10] Vangeli, A., "China in Southeast Europe: a regional perspective" in "The role of China in Southeast Europe", *Friedrich-Ebert Stiftung (FES)*, page 4, available at: https://library.fes.de/pdf-files/bueros/athen/19416.pdf
[11] Irwin, D. A., ''Globalisation is in retreat for the first time since the Second World War", October 28 2022, available at: https://www.piie.com/research/piie-charts/globalization-retreat-first-time-second-world-war
[12] Blackwill D.R & Harris, J., M., (2016) "War by Other Means: Geoeconomics and statecraft", Harvard University Press
[13] Vulovic, M. Western Balkan Foreign and Security Ties with External Actors", *Stiftung Wissenschaft und Politik*, SWP Comment 2023/C O08, February 9 2023, available at: https://www.swp-berlin.org/en/publication/western-balkan-foreign-and-security-ties-with-external-actors
[14] ,"Greenfield investment", available at: https://www.investopedia.com/terms/g/greenfield.asp
[15] Investopedia,''Brownfield investment", available at: https://www.investopedia.com/terms/b/brownfield.asp

- **Mergers and acquisitions (M&A)** in FDI refer to "*investments involving the consolidation of companies or their major business assets through financial transactions between companies*".[16]

The study will further **limit its focus on investments which exceed the €1 million threshold.** Focusing on patterns will help the study assess whether there are differences in terms of types **(greenfield, brownfield, M&A) or magnitude (large-scale projects or small projects) in Chinese FDI across the various countries of interest.**

The next section will briefly present an overview of the Chinese FDI in SEE, drawing on reliable databases, before delving deeper into the range of factors, both incentives and constraints, that are driving China's FDI presence in the region.

Over the last decade, the influx of Chinese FDI into Serbia has been steadily growing with a series of investments in a plethora of sectors including energy, mineral extraction, and manufacturing.

The "*Chinese investment in CEE*" database published in April 2021 by the Central and Eastern European Center for Asian Studies will be used to map out Chinese FDI in the period of 2012-2021.[17] It is a particularly helpful database, because in addition to the invested amounts, it also includes a categorisation of the type of investment, which serves as the starting point for this study. The "*China Global Investment Tracker"* published by the *American Enterprise Institute* will be used in a complementary way, to include investments that occurred in 2022 but also investments in Greece, B&H, and Montenegro, which are not covered by the first database.[18]

The official data on FDI published by the National Banks of the selected countries will also be used to measure the stock value and annual net inflows of FDI, helping us identify trends over the period of our study (2012-2022). Other primary sources will include governmental sources and statements, bilateral agreements, and official Chinese documents. Secondary sources such as news reports, investigative studies, and fieldwork reports will be used to contextualise and analyse the primary data.

Case Study Findings

Overview of Chinese FDI in SEE, 2012-2022

Serbia has the largest share and volume of Chinese FDI in SEE by far, accounting for 27.7% of its total FDI. Over the last decade, the influx of Chinese FDI into Serbia has been steadily growing with a series of investments in a plethora of sectors including energy, mineral extraction, and manufacturing.[19] In 2021, Chinese FDI (incl. Hong Kong, Taiwan, and Macau) rose to €630.4 million, making it second only to the EU (€1,762 billion). In the first nine months of 2022, this trend was even more evident, with the influx of €491.5 million in Chinese FDI overtaking the €401 million in EU FDI.[20]

The **largest Chinese brownfield investment in Serbia in 2012-2022 was the mining and smelting Plant in Bor**, which exploits copper and gold. Chinese Zijin Copper, a company in which a 24% share is held by a state-owned investment company, took over 63% share in the

[16] Investopedia, Mergers & Acquisitions'', available at: https://www.investopedia.com/terms/m/mergersandacquisitions.asp
[17] Central and Eastern European Center for Asian Studies, available at: https://www.china-cee-investment.org/the-dataset
[18] American Enterprise Institute (2022), "China global investment tracker", available at: https://www.aei.org/china-global-investment-tracker/
[19] National Bank of Serbia (2023), "Balance of Payments: Foreign Direct Investments by country, IVQ 2022",available at: https://nbs.rs/en/drugi-nivo-navigacije/statistika/platni_bilans/
[20] National Bank of Serbia

Serbian RTB Bor in a $1.26 billion deal with the Serbian government. The €54 million ($64 million) takeover of the Smederevo steel mill by the HBIS Group, a Chinese SOE, in 2016 is another of the notable brownfield investments in the country in the last decade. The level of investment eventually exceeded €196 million. Both of these projects have attracted widespread criticism for their environmental safety and alleged labour rights violations, including a condemning report by the European Parliament.[21] The only M&A in the country was the €217 million acquisition of the copper- and gold-producing Timok (Cukaru Peki) mine by Zijin Mining in 2019, a move which further strengthened the company's foothold in the region.

…the majority of China's FDIs in Serbia since 2012 have been greenfield investments, and made in the main by POEs.

However, **the majority of China's FDIs in Serbia since 2012 have been greenfield investments, and made in the main by POEs.** At €800 million, Linglong's vehicle tire factory in Zrenjanin (2018) is the largest greenfield investment in Serbia. Several other notable investments that can be classified as greenfield are concentrated in the automotive industry: In 2018, the automotive parts supplier Minth, a POE, invested €100 million in building a production plant in Loznica, its second production facility in Serbia. Minth's rival, Yanfeng automotive, also invested €40 million to construct its own plant in Kragujevac, and its ongoing expansion is expected to cost another €18 million.[22] In 2019, XingYu announced that it would be building a €60 million car lighting factory in the Nis industrial zone to produce LED lighting for the automotive industry, primarily for export to Germany, France, and Slovakia. Similarly, in 2019, Mei Ta opened its second car parts factory, an investment amounting to €90 million.[23]

Though more limited in number (6), **the majority of Chinese FDIs in Bulgaria are also greenfield (4);** three are in the agricultural sector, and all have been made by SOEs. The only major non-agricultural investment was the DEVNYA cement plant in Varna, which was constructed by the SINOMA/CBMI group, an SOE which entered the project as its general subcontractor with its Bulgarian subsidiary in 2012, an investment amounting to €177 million. The construction of the plant, which became operational in 2015, was by far the biggest Chinese greenfield investment in the country in that period and employed 4000 locals and 180 Chinese workers between 2 April 2012 and 12 October 2014.[24] A total of 138 local companies were involved as subcontractors in the different stages of the construction under the management of CBMI Bulgaria. The remaining two Chinese FDIs in the country were M&As, one made by an SOE, and one by a POE. **Overall, the total Chinese FDIs in 2021 amounted to just under 1% of all FDIs in the country,** having reached a peak of 8% in 2014.[25]

This was an even smaller share than in **Romania**, where the stock of Chinese FDI in 2021 stood at €1.42 billion, amounting to just 1.4% of the total volume of FDI.[26] Despite its modest volume, **the 2021 figure is still many times larger than 2012 levels**, when the stock of Chinese FDI in the country was below €100 million; this indicates a reverse trend compared

[21] European Parliament resolution of 6 July 2022 on the 2021 Commission Report on Serbia, available online at: https://www.europarl.europa.eu/doceo/document/TA-9-2022-0284_EN.html
[22] SeeNews''"Yanfeng to invest 18 million euro in Serbian factory by 2023 - Kragujevac city government", SeeNews, available online at: https://seenews.com/news/yanfeng-to-invest-18-mln-euro-in-serbian-factory-by-2023-kragujevac-city-govt-749661
[23] SeeNews, "China's Mei Ta opens second factory in Serbia", June 17 2019, available at: https://seenews.com/news/chinas-mei-ta-opens-second-factory-in-serbia-658256
[24] Cemnet, "Denya wins 'Building of the year 2014' award", 11 December 2014, available at: https://www.cemnet.com/News/story/155886/devnya-wins-building-of-the-year-2014-award.html
[25] China-CEE Institute, "Trade and Economic Relations between Bulgaria and China – Challenges and Opportunities", November 2022, Vol. 56, no. 2, available at: https://china-cee.eu/2022/11/20/bulgaria-economy-briefing-trade-and-economic-relations-between-bulgaria-and-china-challenges-and-opportunities/
[26] National Bank of Romania (2022), "Foreign Direct Investment in Romania in 2021", p. 41.

to Bulgaria. Unlike its neighbour and fellow EU member state, where greenfield investments enjoyed the lion's share of Chinese FDI, **the results were more mixed for Romania, where there were more M&As, followed by greenfield and brownfield investments.** Indeed, an M&A was also the largest FDI in terms of volume: the €600 million acquisition of Smithfield Romania SRL, a former subsidiary of Smithfield foods of the US, by the Hong Kong-based WH Group, a POE and the largest pork-producer in the world. Most of the Chinese FDI in the country has been focused on agriculture and manufacturing.

On the contrary, in **Croatia**, only **one out of the seven Chinese commercial investments was a greenfield** venture**,** the Vjetropark Sen, a 156MW wind farm. The project, which was completed in 2021, was the largest investment in terms of volume, exceeding €180 million in invested capital, and included the construction of 39 wind turbines by Norinco International, a subsidiary of the Chinese SOE China North Industries Group.[27] The remaining investments were mainly brownfield and focused on the automotive industry. Turning to **Slovenia**, the country has a strong **track record of Chinese M&A**, with nine in the last decade. The €1 billion acquisition of "Outfit7", an entertainment videogame company in 2017, by the Chinese high-tech POE Zhejiang Jinke, is also the largest acquisition of a Slovenian company to have ever taken place. The only Chinese FDIs in the country that cannot be classified as M&A were two joint ventures, both with local companies, in aviation and biotechnology respectively.

In Greece, the acquisition of the port of Piraeus in 2016 by COSCO, the SOE which increased its share in 2020 to 67%, remains the flagship Chinese FDI in the SEE region, exceeding €1.2 billion.

In **Greece**, another EU member state, **the acquisition of the port of Piraeus in 2016 by COSCO, the SOE which increased its share in 2020 to 67%, remains the flagship Chinese FDI in the SEE region**, exceeding €1.2 billion.[28] Although it is an acquisition, the investment has been called "*a midway between brownfield concession and greenfield*" due to its particularities.[29] The second biggest Chinese investment in the country took place in October 2016, when China's State Grid (SOE) acquired 24% of the Greek state electricity IPTO/ADMIE as a "strategic investor" in a €320 million deal. Interestingly, both investments took place during the decade of the country's financial crisis. Nevertheless, **no additional Chinese investment have followed on that scale.** Between 2012 and 2022, **China was Greece's seventh most important source of FDI**, indicating a mismatch between the media-fueled hype surrounding Chinese investments, and Beijing's actual economic footprint in the country.[30]

North Macedonia has had four Chinese FDIs since 2012. Two of them can be classified as M&As, specifically acquisitions of foreign companies with branches in the country, and two as greenfields, the most recent one being a €30 million joint venture between China-based motor industry supplier Yanfeng (a POE which also has a presence in Serbia) and the US-based manufacturer ARC Automotive in an automotive components factory in Skopje. The project was announced in October 2022 and is currently under development.[31] The total volume of Chinese investments in the country had amounted to €130.37 million by the end

[27] Spanic, V., "Norinco completes Senj wind farm Croatia biggest so far", Balkan Green Energy News, November 23 2021, available at: https://balkangreenenergynews.com/norinco-completes-senj-wind-farm-croatia-biggest-so-far/
[28] FT, Piraeus port deal intensifies Greece's unease over China links", 19 October 2021, available at: https://www.ft.com/content/3e91c6d2-c3ff-496a-91e8-b9c81aed6eb8
[29] Benefit4Transport, "Case Studies: Piraeus Container Terminal", available at: https://www.benefit4transport.eu/wiki/index.php?title=Case_Studies:_Piraeus_Container_Terminal
[30] Trigkas, V., "Sino-Hellenic relations amidst Greece's lost decade: overpromising and undelivering?" in "Tthe role of China in Southeast Europe", *Friedrich-Ebert Stiburg (FES)*, p. 38, available at: https://library.fes.de/pdf-files/bueros/athen/19416.pdf
[31] Stojanovska, M., "US ARC Automotive China's Yanfeng launch 30 million EUR factory in North Macedonia", October 26 2022, available at: https://seenews.com/news/us-arc-automotive-chinas-yanfeng-launch-30-mln-euro-factory-in-n-macedonia-802413

of 2021, which amounts to just **2% of the total FDI stock.**

The Chinese FDI stock accounts for a similar share (nearly 2%) of total FDIs in **Montenegro,** although China's FDI presence in the country has been disproportionately small given its role in developing infrastructure (e.g. road construction), and financing loans. Chinese FDIs in the country focus on the energy sector, with the notable example of the Mozura wind park project, which can be classified as greenfield. Inaugurated in 2019 as a joint China-Malta-Montenegro project and built by a consortium consisting of China's Shanghai Electric Power Company (SEP), a multinational POE, a subsidiary of the State Power Investment Corporation, and the Maltese state energy provider, Enemalta, the park has the capacity to generate 110 GWh per annum.

The findings demonstrate that Chinese FDIs in SEE vary significantly from country to country in terms of influx and volume, but also in terms of preferred investment strategies (greenfield, brownfield, M&A).

Finally, **Albania** and **B&H are the countries with the smallest inflows of Chinese FDIs.** Indicatively, by the end of 2021, China ranked 31st on the list of foreign investors in Albania, with the Chinese FDI stock accounting for only 0.1% of the total FDIs by the end of 2020, demonstrating a declining trend. In the period under study (2012-2022), the only significant Chinese FDI in Albania was an M&A, the acquisition of the Canada-based oil company Bankers Petroleum, one of the biggest foreign investors in the country, by the Chinese Geo-Jade Petroleum Corporation for €393 million in 2016; this was followed by an additional investment of $2 billion in oil production.[32] In **B&H**, the only one of the five non-EU member states that have yet to open accession talks to join the bloc, the only high-profile commercial investment in that period was the partial $110 million takeover of Aluminij, an aluminium company, by the Israeli company (MT Abraham) operating in strategic partnership with two Chinese SOEs (China Nonferrous Metal Industry and China National Machinery Corporation-Sinomach).

Overview of identified patterns

The above findings demonstrate that Chinese FDIs in SEE vary significantly from country to country in terms of influx and volume, but also in terms of preferred investment strategies (greenfield, brownfield, M&A). Moreover, certain countries, such as Slovenia, seem to attract more POEs whereas SOEs seem to be more interested in Serbia, a country which has also enjoyed the lion's share of greenfield investments.

The main patterns identified in the above section can be summarised as follows:

- Greenfield investments in non-EU member states seem to be preferred by POEs (Serbia, N. Macedonia);
- Brownfield investments and M&A in non-EU member states are mostly made by SOEs, with the exception of Albania;
- M&As in EU member states have mostly been made by POEs, with the exception of Greece, although the port of Piraeus is considered a special case with greenfield characteristics;
- In EU member states, the results are more mixed when it comes to greenfield investment, which seems to be preferred by both SOEs and POEs, depending on the member state.

[32] Foreign Investors Association of Albania, Interview with Mr. Xingyun Sun – CEO of Bankers Petroleum Albania, available at: http://fiaalbania.al/mr-xingyun-sun-ceo-of-bankers-petroleum-albania/

- However, greenfield investments in the EU-member states of SEE have not followed the upward trend that has been noted in the rest of the EU (mainly Northern & Western Europe).

What are the factors and key driving forces determining these patterns and/or diverging trends? The next section will analyse whether these differences and trends can be attributed to factors related to **1) China's economic model and strategic goals, 2) Local SEE-related factors, or/and 3) Other factors, including geopolitical ones.**

The trends in Chinese foreign economic presence, including FDI, can largely be seen as a reflection of the Chinese government's domestic and foreign agenda, especially since Xi Jinping rose to power in 2012.

Driving Forces, Incentives & Constraints

Chinese factors shaping outbound FDI in 2012-2022: domestic priorities, growth model & strategic implications

A deeper understanding of both the incentives and constraints rooted in the peculiarities of China's domestic economy and governance model will not only help us explain the key driving forces shaping the broader Chinese economic presence overseas, but also the patterns described above, which relate to China's outbound FDI in the region under study. The trends in Chinese foreign economic presence, including FDI, can largely be seen as a reflection of the Chinese government's domestic and foreign agenda, especially since Xi Jinping rose to power in 2012. In other words, the volume and/or type of Chinese outbound FDI flows are largely subject to the Communist Party's needs, especially as its leader Xi Jinping continues to consolidate his power; they are not always aligned with a strict business logic.

The 1994 Company Law allowed POEs to register as private, while the 1999 amendment to the constitution acknowledged that the private sector was an "important component" of the economy, rather than simply being complementary to the public sector. Nonetheless, the Chinese Constitution still reiterates that the "*state-owned economy is the leading force in the national economy*", emphasising the government's role in ensuring "*consolidation and growth*".[33] When Xi Jinping came to power in 2012, the Chinese party tightened its grip on the domestic economy and both POES and SOEs, a trend that has intensified further since 2015.[34] Thus, under Xi Jinping, Beijing's market-driven growth of the previous two decades began once again to give way to a state-led approach. Although the state avoids micromanaging the day-to-day operations of POEs, it plays more of a role in strategic decision-making, further blurring the lines between the private sector and the state.[35] This flexibility in relations between the state and POEs has allowed the former to influence and shape the latter's investment preferences, both overseas and domestically, in line with the Communist Party's strategic priorities and the interests of the state.[36] Furthermore, the role of SOEs, which were overburdened with bad debts and leadership deficiencies at the start of the millennium, was upgraded: by 2016, they were supplying over a third of all outbound FDI to emerging markets. Although they remain less financially efficient than their private-sector

[33] "Constitution of the People's Republic of China", available at: http://www.npc.gov.cn/englishnpc/constitution2019/201911/1f65146fb6104dd3a2793875d19b5b29.shtml
[34] Fenby, J. (2019), Θα κυριαρχήσει η Κίνα στον 21ο αιώνα;", p. 75, translation, editorial structure, notes: Thanasis A. Vasileiou, Guttenberg Publications.
[35] McGregor, R., "How the state runs business in China", *The Guardian*, 25 July 2019, available at: https://www.theguardian.com/world/2019/jul/25/china-business-xi-jinping-communist-party-state-private-enterprise-huawei.

[36] Krstinovska, A., "China in the Western Balkans", *Politique étrangère*, Issue 4, October 2022, pp. 36-37, available online at: https://www.cairn-int.info/revue-politique-etrangere-2022-4-page-27.htm.

peers, they have become instrumental in serving political goals, as will be detailed below.[37]

Xi Jinping's approach during his first term in power was epitomised by the launch of the BRI in 2013, representing China's transformation from a regional into a global power.[38] It was achieved with the allocation of a significant volume of subsidies to both SOEs and POEs operating in sectors of strategic importance, amounting to 1.73% of China's GDP in 2019.[39] Thus, the BRI was conceived as a geopolitical project as much as a geo-economic one, driven by a geopolitical logic of "state capitalism" shaped by the growing prevalence of SOEs or POEs influenced by the state, a process "*altering configurations of state and corporate power across the world economy'*.[40] In that context, Chinese overseas investments that might not necessarily fit a narrow business, profit-driven point of view were advanced to serve national strategic goals. These included gaining the support of the governments of the (FDI) recipient states for Beijing's foreign policy and diplomatic priorities, which include Taiwan and disputes in the South China Sea, and increasing China's soft power vis-à-vis other influential actors in the region.[41]

In that context, Chinese overseas investments that might not necessarily fit a narrow business, profit-driven point of view were advanced to serve national strategic goals.

An outstanding example of this more "transactional" logic in the SEE region is Chinese outbound FDI is Serbia. Since 2012, Beijing has successfully secured Belgrade's support for its main foreign policy priorities. Under President Vucic, Serbia has been a vocal supporter of Beijing's "One China Policy" on Taiwan.[42] Belgrade has also abstained from Western-led multilateral declarations criticising Beijing's treatment of Uighurs in Xinjiang.[43] In June 2021, Serbia went one step further by joining 68 other countries in making a statement during the Interactive Dialogue on the High Commissioner's annual report at the 47th session of the Human Rights Council which called for "*respect for sovereignty, independence and territorial integrity of states and non-interference in internal affairs of sovereign states*"; the statement referred particularly to the issues of Xinjiang, Hong Kong, and Tibet, which it portrayed as internal Chinese affairs.[44]

On the other hand, China's expanding economic presence in the previous decade also had a profound economic rationale. It was a by-product of a maturing economy, with Chinese POEs and SOEs exploring overseas opportunities to diversify their business and maximise profits in an increasingly mature domestic market. By moving parts of China's production capacity abroad, China i) gains access to cheaper labour, especially with rising labour costs in China over the past decade, ii) secures cheap imports for its own domestic industry and satisfies its mounting needs for particular raw materials (e.g. wood, extractives etc.), iii) exports environmentally degrading practices abroad as a means of curbing pollution at home.[45] The latter practice has been described as "outsourcing pollution". [46] Furthermore, from a geo-

[37] Blackwill D.R & Harris, J., M., (2016) "War by Other Means: Geoeconomics and statecraft", p. 54, Harvard University Press
[38] Macaes, B. (2018), "Belt and Road: a Chinese world order", p. 23, Oxford University Press
[39] "Report: China spends billions of dollars to subsidise favored companies", VOA, 24 May 2022, available at: https://www.voanews.com/a/report-china-spends-billions-of-dollars-to-subsidize-favored-companies-/6587314.html
[40] Alami, I. & Dixon D. A., Geopolitics and the 'New' State Capitalism, Geopolitics, vol. 27, issue 3, p. 995, available at: https://www.tandfonline.com/doi/full/10.1080/14650045.2021.1924943
[41] Krstinovska, A., "China in the Western Balkans", *Politique étrangère*, Issue 4, October 2022, pp.36-37, available online at: https://politique-etrangere.com/2023/03/30/china-in-the-western-balkans/.
[42] Conley, H., Hillman, J., McCalpin, M., Ruy, D., Becoming a Chinese Client State, p.2, Center for Strategic & International Studies, September 2020, available at: https://csis-websiteprod.s3.amazonaws.com/s3fspublic/publication/200924_Chinese_Client.pdf.
[43] Putz, C., Which countries are for or against China's Xinjiang Policies?, The Diplomat, July 15 2019, available at: https://thediplomat.com/2019/07/which-countries-are-for-oragainst-chinas-xinjiang-policies/.
[44] Conley, H., Hillman, J., McCalpin, M., Ruy, D., Becoming a Chinese Client State, pp.6-7, Center for Strategic & International Studies, September 2020, available at: https://csis-websiteprod.s3.amazonaws.com/s3fspublic/publication/200924_Chinese_Client.pdf.
[45] Macaes, B. (2018), "Belt and Road: a Chinese world order", p. 84, Oxford University Press.
[46] Plumer, B., "You've heard of outsourced jobs, but outsourced pollution? It's real, and tough to tally up", *New York Times*, 4 September 2018, available at: https://www.nytimes.com/2018/09/04/climate/outsourcing-carbon-emissions.html.

...from a geo-economic point of view, the Belt and Road Initiative, including Chinese outbound FDI, has served the connectivity needs of POEs, helping them integrate into European supply chains; this model is particularly well served by greenfield investments.

economic point of view, the Belt and Road Initiative, including Chinese outbound FDI, has served the connectivity needs of POEs, helping them integrate into European supply chains; this model is particularly well served by greenfield investments.[47] Chinese restrictions on outbound foreign investment, which have been in place since 2016, have served as a constraining factor and are among the reasons for declining levels of Chinese outbound investments during the second half of our period of study (2016-2022).[48] In the early 2000s, China started easing its restrictions on capital controls; in 2014 and 2015, it further relaxed its rules on outbound FDI. However, outflows soared, putting pressure on China's balance of payments and prompting a sharp decline in the renminbi, the national currency, as well as a Chinese stock market collapse. This forced the government to reverse course and to impose tighter restrictions in 2016 in order to curb capital outflows, especially for multibillion-dollar outbound mergers and acquisitions.

Beijing is currently dealing with a series of structural deficiencies – such as an economic slowdown, a declining and aging population and an ongoing property market crisis – which have prompted a rethink of the economic model it has employed since the reforms of Deng Xiaoping in the 1980s.[49] For decades, the political legitimacy of the Communist Party and its authoritarian rule has relied on economic growth and rising prosperity.[50] However, Chinese growth has begun to slow down, due to the limitations of an economic model based on cheap exports and currency controls.

This economic logic has also been reflected in investments in the SEE region, with the most notable example being Slovenia, which presents very different characteristics compared to Serbia. Unlike Belgrade, Ljubljana has mostly attracted Chinese investments in the technology sector, including ICT and electronics. The majority of these investments are M&A, which have mainly been entered into by POEs seeking to acquire smaller, innovative Western brands in line with Beijing's growth model. Small Slovenian innovative companies such as Outfit7, or the legendary Gorenje brand, serve this profit-driven logic, which has led to a very different pattern of Chinese FDI than in Serbia, where a politically-driven logic is much more evident.

Indeed, the Chinese FDI of both POEs and SOEs in the SEE region have presented different trends in different countries, whether in terms of volume or type of investment. The next section will explore factors which relate to the recipient states, whose agency is often overlooked. It will once again distinguish between incentives and constraints, which it will link with the factors detailed above which stem from China's own domestic model. It will also take stock of the EU's regulatory framework, given that half of the countries in our study are member states, with the remainder aspiring to join the bloc in the future.

Local agency: SEE & EU-related factors

As described above, the strategy shaping Chinese outbound FDI under Xi Jinping is not necessarily determined by narrow economic logic. Rather, Beijing's economic clout is often

[47] Kratz, A., Zenglein, M., Sebastian, G., Witzke, M., "Chinese FDI in Europe, 2021 Update", a report by *Mercator Institute for China Studies (Merics) & Rhodium Group*, April 2022, pp.11-12, Available online at: https://merics.org/sites/default/files/2022-04/MERICS-Rhodium-Group-COFDI-Update-2022-2.pdf
[48] Wildau, G., Weinland, D., Mitchell, T., "China to clamp down on outbound M&A in war on capital flight", *Financial Times*, November 29 2016, available at: https://www.ft.com/content/2511fa56-b5f8-11e6-ba85-95d1533d9a62
[49] French, H, "Xi Jinping's moment of economic reckoning", *Foreign Policy,* 13 October 2022, available online at: https://foreignpolicy.com/2022/10/13/china-ccp-congress-xi-jinping-economy-growth-investment/.
[50] Leggeri, A., "What happens to the CCP if China's economic growth falters", *The Diplomat*, 29 October 2020, available at: https://thediplomat.com/2020/10/what-happens-to-the-ccp-if-chinas-economic-growth-falters/.

In a similar manner, SEE countries can also instrumentalise Chinese FDI, seeking Beijing's reward to accommodate their own political priorities, whether these be domestic, such as supporting local economic growth (and job creation), or in the sphere of foreign policy.

employed to serve Chinese strategic and foreign policy goals. In a similar manner, SEE countries can also instrumentalise Chinese FDI, seeking Beijing's reward to accommodate their own political priorities, whether these be domestic, such as supporting local economic growth (and job creation), or in the sphere of foreign policy. In other words, this aspect of transactional political-FDI exchanges is often reciprocal, with the local authorities having the agency to facilitate or impede FDI on its soil. Indeed, our case study--and the examples of Serbia and Albania, in particular--demonstrates the applicability, but also the limits, of China's transactional approach to its outbound FDI.

On the one hand, Serbia, the country which has enjoyed the lion's share of Chinese FDI since 2012, is also China's main ally in the region. That China is one of two permanent members of the UN Security Council that does not recognise Kosovo (the other being Russia), demonstrates China's reciprocal support for Serbia with regard to the principle of territorial integrity. By actively supporting and facilitating Chinese investments that might not have been particularly welcome in other European countries, Belgrade aims to retain Beijing's diplomatic support in this issue of primary strategic importance. This could partly explain why the Serbian government was often keen to proceed with FDIs that were deemed controversial, such as Linglong's greenfield investment in Zrenjanin in 2018.

By actively supporting and facilitating Chinese investments that might not have been particularly welcome in other European countries, Belgrade aims to retain Beijing's diplomatic support in this issue of primary strategic importance.

On the other hand, Albania, which is also an EU candidate nation, is one of the non-EU SEE states (alongside with Montenegro and Northern Macedonia) with the highest levels of alignment with the EU's foreign policy positions. In July 2022, it officially opened accession negotiations. Notably, the Chinese FDI presence in Albania is remarkably poor and has been in decline since 2014, while several Chinese companies (including Everbright and Wenzhou Mining) have disinvested over the last decade. Albanian government officials are much more reserved when expressing their views on cooperation with China. In February 2023, Prime Minister Edi Rama stated that there had been no economic benefits from China's 17+1 economic cooperation bloc.[51] This stands in stark contrast with the Serbian public discourse on China, with Serbian officials expressing significantly more favourable views than any other local government in SEE.[52]

EU member states in the region have less leeway to instrumentalise commercial investments for foreign policy gains. In 2017, Greece blocked an EU statement at the UN criticising China's human rights record, drawing criticism from fellow EU member states and rights organisations.[53] This took place just one year after SOE COSCO acquired the port of Piraeus and part of the Greek state electricity company IPTO/ADMIE. Also, public opinion and perceptions of China's economic role in the region among Greeks was at its most positive.[54] However, the New Democracy government has adopted a more lukewarm stance towards China since 2019; especially in the context of China's growing rivalry with the US, Athens has been doing all it can to promote itself as Washington's most important ally in the broader region. Furthermore, the examples of Bulgaria, Croatia, Slovenia and Romania demonstrate that the Greek veto in 2017 was the exception rather than the rule, as their bilateral relations with China are far from developed at a political level, reflecting the low volume of Chinese FDIs in their territories.

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[51] Taylor, A., "Albanian PM: No economic benefits from Chinese Cooperation", 23 February 2023, available online at: https://www.euractiv.com/section/politics/news/albanian-pm-no-economic-benefits-from-chinese-cooperation/.
[52] Euractiv, "Vucic, Xi Jinping hail ironclad friendship between Serbia and China", February 7 2022, available online at: https://www.euractiv.com/section/politics/short_news/vucic-xi-jinping-hail-ironclad-friendship-between-serbia-and-china/.
[53] Emmot, B. & Koutantou, A., "Greece blocks EU statement on China human rights at UN", *Reuters*, 18 June 2017, available online at: https://www.reuters.com/article/us-eu-un-rights-idUSKBN1990FP,
[54] Tontsef, P. & Bentis, A., "Η Εικόνα της Κίνας στην Ελλάδα 2008-2018", Institute of International Economic Relations, available at : https://idos.gr/wp-content/uploads/2019/06/%CE%97_%CE%95%CE%B9%CE%BA%CF%8C%CE%BD%CE%B1_%CF%84%CE%B7%CF%82_%CE%9A%CE%AF%CE%BD%CE%B1%CF%82_%CF%83%CF%84%CE%B7%CE%BD_%CE%95%CE%BB%CE%BB%CE%AC%CE%B4%CE%B1_Draft_17-6-2019-1.pdf

EU member states in the region have less leeway to instrumentalise commercial investments for foreign policy gains.

The geographical location of the SEE countries is among the pull factors for Chinese investors driven by a geo-economic logic, whether they be SOEs or POEs. Countries such as Greece are located at the crossroads of three continents, with the Balkan peninsula serving as a transit point to Europe, the Middle East and even Africa.[55] This means that products produced in an SEE country can easily reach neighbouring markets in the EU, Russia, Turkey or Northern Africa. From a geo-economic point of view, China's FDI presence in SEE is focused on creating logistical corridors to and from Central and Western European Markets. The importance of the China-Europe Land-Sea Expressway as one of the key corridors in the BRI also confirms the geoeconomic importance of the SEE countries.[56] This is the key rationale behind the landmark investment in the Port of Piraeus in Greece. Furthermore, non-EU member states in SEE are also seen as a gateway to the broader European market.[57] As the largest non-EU member state in SEE, Serbia has a central role in this strategy; this is evident from the number of Chinese FDIs in factories and heavy industries.[58]

From a business point of view, Chinese FDIs in SEE at the start of the previous decade were an extension of Beijing's overall outbound investment strategy, which aimed to manage its overproduction in a maturing economy, as explained above. The SEE states thus helped China by absorbing its industrial capacity and industry surplus[59] while also securing greater access to the EU market for it through the expansion of its regional operations.[60] Those SEE countries that have yet to join the EU all have Stabilisation and Association Agreements with the EU in place and are closely harmonised with EU standards, while also enjoying privileged access to the EU's single market through free-trade agreements. This allows those Chinese POEs and SOEs that operate in the region to familiarise themselves with EU market rules and to accumulate relevant experience.

However, there is greater leeway in the non-EU member states in our study for investments with negative long-term environmental or social consequences. Thus, non-EU member states in SEE offer Chinese enterprises the opportunity to move their heavy industry abroad, allowing China to evade its international commitments on the reduction of CO2 emissions.[61] [62] This model of Chinese "pollution outsourcing" has been particularly common in Central Asian states, but it is becoming increasingly evident in Serbia with investments in sectors such as mining, the metal industry and the automotive industry. The two largest Chinese brownfield investments in the country between 2012-2022, the mining Plant in Bor and the takeover of the Smederevo steel mill, both of which were made by Chinese SOEs, have attracted widespread criticism for their environmental impact as well as for alleged labour

[55] Zuokui, L., "China's investment in the Balkans under the Belt and Road Initiative: a Chinese perspective", *Insight Turkey*, Spring 2019, Volume 21, No. 2, available at: https://www.insightturkey.com/commentaries/chinas-investment-in-the-balkans-under-the-belt-and-road-initiative-a-chinese-perspective.
[56] Li, X., "China-Europe Land-Sea Express with the Belt and Road', May 2019, Routledge Handbook of the Belt and Road, available at: https://www.routledgehandbooks.com/doi/10.4324/9780429203039-87.
[57] Vuksanovic, V., "Light touch, tight grip: China's influence and the corrosion of Serbian democracy", *War on the Rocks*, 24 September 2019, available online at: https://warontherocks.com/2019/09/light-touch-tight-grip-chinas-influence-and-the-corrosion-of-serbian-democracy/.
[58] Makocki, M., "China in the Balkans: the battle of principles", European Council on Foreign Relations, 6 July2017, available at: https://ecfr.eu/article/commentary_china_in_the_balkans_the_battle_of_principles_7210/.
[59] Le Corre, P., "China's rise as a geoeconomic influencer: four European case studies", Institut de Relations Internationales et Strategiques, p.44, November 2018, available at: https://www.irisfrance.org/wp-content/uploads/2018/11/Asia-Focus-93.pdf.
[60] Conley, H., Hillman, J., McCalpin, M., Ruy, D., Becoming a Chinese Client State, p.11, Center for Strategic & International Studies, September 2020, available at: https://csis-websiteprod.s3.amazonaws.com/s3fspublic/publication/200924_Chinese_Client.pdf.
[61] Macaes, B. (2018), "Belt and Road: a Chinese world order", p. 84, Oxford University Press.
[62] The World Bank, "*China's transition to a low-carbon economy and climate resilience needs shifts in resources and technologies*", 12 October 2022, available at: https://www.worldbank.org/en/news/press-release/2022/10/12/china-s-transition-to-a-low-carbon-economy-and-climate-resilience-needs-shifts-in-resources-and-technologies.

rights violations.[63]

Inbound FDIs are often politicised, amounting to benefits to ruling party loyalists and local elites and reinforcing party patronage networks.

This greater leeway for flexible arrangements can be traced back to the particularities of the SEE region. Countries in SEE, EU member states and non-EU member states alike, are seeking to stimulate their economic development and are highly receptive to foreign capital and technological know-how. Even though certain SEE countries are significantly more developed than others, they are still distinct from the more developed economies of Western Europe. The two largest Chinese FDIs in Greece, both M&As, took place in 2016, with Beijing capitalising on the Greeks' growing mistrust of the EU's austerity policies. Following COSCO's takeover of the Port of Piraeus, former Prime Minister Alexis Tsipras affirmed Greece's intention to *"serve as China's gateway into Europe"*.[64]

Local agency, though often overlooked, plays an instrumental role. China champions the "principle of non-interference" in the internal affairs of other states. The business environment in these countries is not yet subject to the strict rules and tight regulations which Brussels imposes on EU member states, thus giving China a comparative advantage in terms of the flexibility of its economic activities.

Nevertheless, this sort of ad hoc, politicised decision-making, which often reflects the priorities of the local authorities and elites can be a "double-edged sword" for foreign FDI in the region.

Structural weaknesses in the area of the Rule of Law and endemic corruption have long been problems in the SEE region. While the EU candidate countries are particularly affected by corruption, with B&H and Serbia ranked 110th and 101st respectively in Transparency International's 2022 Corruption Perception Index (CPI), EU members do not fare significantly better, with Bulgaria and Romania ranked 72nd and 63rd respectively.[65] Inbound FDIs are often politicised, amounting to benefits to ruling party loyalists and local elites and reinforcing party patronage networks. In the absence of any meaningful rule of law, local governments adjust their legal framework to meet the needs of foreign investors, often prioritising short-term gains over potential long-term consequences.

Once again, Serbia, the highest recipient of Chinese FDI in the region, serves as a good example. A recent report concluded that the overall impact of Chinese investments on the Serbian legal system has been negative, highlighting an increasing number of legal loopholes for certain business activities with significant environmental impacts.[66] Various reports have also focused on the implementation of double standards regarding the interpretation of Serbian law when it comes to Chinese investments, or on the fact that Chinese investors are allowed to apply Chinese labour law to Chinese nationals working Serbia since 2018.[67] Another example is the Law on Public Procurement introduced in 2019, which not only weakens existing rules on competition but also reduces access to public information and environmental protection.[68]

Nevertheless, this sort of ad hoc, politicised decision-making, which often reflects the priorities of the local authorities and elites can be a "double-edged sword" for foreign FDI in the region. Widespread corruption and political clientelism can help certain investments

[63] European Parliament, "Forced labour in the Linglong factory and environmental protests in Serbia", 16 December 2021, available at: https://www.europarl.europa.eu/doceo/document/TA-9-2021-0511_EN.pdf.
[64] Horowitz, J. & Alderman, L., "Chastised by EU, a resentful Greece embraces China's cash and interests", *New York Times,* 27 August 2017, available at: https://www.nytimes.com/2017/08/26/world/europe/greece-china-piraeus-alexis-tsipras.html.
[65] Transparency International, "Corruption Perception Index - 2022", available at: https://www.transparency.org/en/cpi/2022.
[66] Renewable and Environmental Regulatory Institute, Chinese investments in Serbia threaten the rule of law, April 2021, available at: https://www.reri.org.rs/en/chinese-investments-in-serbiathreaten-the-rule-of-law/.
[67] Dragojlo, S., ''Like Prisoners'': Chinese Workers in Serbia Complain of Exploitation'', *Balkan Insight,* 26 January 2021, available at: https://balkaninsight.com/2021/01/26/like-prisoners-chinese-workers-in-serbia-complain-of-exploitation/
[68] Vuksanovic, V.,"A factory showed the uglier face of Sino-Serbian partnership", *Euronews*, 10 December 2021, available at: https://www.euronews.com/2021/12/10/a-factory-showed-theuglier-face-of-sino-serbian-partnership-view

Another economic constraint for Chinese FDI in the region can be traced back to the macroeconomy: namely, to the mismatch between local supply and Chinese demand. From an economic point of view, the majority of SEE states do not appear particularly attractive to Chinese investors in general and POEs in particular.

overcome regulatory hurdles, speeding up the implementation process.[69] However, these are also factors which weaken the economic rationale underlying these investments, which can prove to be poorly performing, putting millions of dollars in funds at risk of misuse in the long term.

To a certain extent, this explains the weak presence of POEs in the region's non-EU member states, with the notable exception of Serbia. Indicatively, B&H, the country with the lowest level of Chinese FDI inflows, is also the country with the worst ranking in terms of corruption in the SEE region. In contrast, Slovenia, the country which places the best in all corruption and transparency indexes, is also the country with the strongest POE presence, despite the relatively limited volume of FDI and an overconcentration on M&As.

Another economic constraint for Chinese FDI in the region can be traced back to the macroeconomy: namely, to the mismatch between local supply and Chinese demand.[70] From an economic point of view, the majority of SEE states do not appear particularly attractive to Chinese investors in general and POEs in particular. As analysed above, this is largely due to China's own domestic priorities and constraints, and to its growing focus on new technologies and capital-intensive investments, which are more common in the Western European market, where Chinese venture capital (VC) investments in European tech start-ups rose significantly over the previous decade.[71] Instead, certain SEE countries are seen as low-cost destinations for labour-intensive industries, demonstrating a gap between local expectations and China's actual economic interest in the region.

Chinese SOEs also seem to prefer investments they deem plausible from both an economic and strategic viewpoint, such as COSCO's acquisition of the port of Piraeus, or in sectors with long-term investment horizons. The construction of the Vjetropark Sen wind farm in Croatia, China's only greenfield investment in the country, falls into this category.

The global context & third factors shaping Chinese FDI in China

A crucial external driver which has determined Beijing's domestic and foreign policy priorities, including its outbound FDI priorities, over the last decade and the last five years in particular, is China's competition with the U.S. Washington's sweeping restrictions on the exports of critical technology in 2018 was a key factor in Beijing reconsidering its production model.[72] This rethink resulted in an increasingly geopolitically fragmented global landscape due to the weakening of multilateral institutions.[73]

At the same time, the bilateral tensions and ensuing global polarization has led to a change of approach on the part of some SEE countries which has left Chinese investments less

[69] Krstinovska, A., "Between values and interests: Western Balkans' cooperation with China and its potential implications for the EU", *Konrad Adenauer Stiftung*, No 458, October 2021, available at; https://www.kas.de/documents/252038/11055681/Western+Balkans%E2%80%99+cooperation+with+China+-+Between+values+and+interests.pdf/3e7725a0-ecd2-a556-a558-987d2221e132?version=1.0&t=1633357470391---%3E
[70] BIRN, "China in the Balkans: Controversy and Costs", 15 December 2021, available at: https://balkaninsight.com/2021/12/15/china-in-the-balkans-controversy-and-cost/
[71] Harper, J, "Will the EU move to curb Chinese investments?", *Deutsche Welle,* 25 October 2022, available at: https://www.dw.com/en/china-fears-eu-foreign-investment-strategy-at-a-crossroads/a-63546979
[72] Landler, M. & Swanson, A., Trump, "Stung by Being Attacked as Soft on China, Pushes Ahead on Tariffs", *New York Times*, 29 May 2018, available at: https://www.nytimes.com/2018/05/29/business/white-house-moves-ahead-with-tough-trade-measures-on-china.html.
[73] Catalan, M., Natalucci, M., Quresh, M., Tomohiro, T., "Geopolitics and fragmentation emerge as serious financial stability threats", *IMF*, 5 April 2023, available at: https://www.imf.org/en/Blogs/Articles/2023/04/05/geopolitics-and-fragmentation-emerge-as-serious-financial-stability-threats.

A crucial external driver which has determined Beijing's domestic and foreign policy priorities, including its outbound FDI priorities, over the last decade and the last five years in particular, is China's competition with the U.S.

coveted and even less welcome. Albania, one of the US's strategic partners in the region, is a notable example, with a decline in the stock of Chinese investments in the country and the disinvestment of Chinese companies in important sectors, including Everbright, the former owner of Tirana International Airport, or Wenzhou Mining. In comparison, Serbia, the only country in the region that has developed a comprehensive strategic partnership with China, continues to see a significant rise in Chinese investments.

Conclusions

Overall, the main incentives and constraints on outbound FDI are rooted in China's own domestic and foreign policy priorities; this is immediately evident in the SEE region. These factors can be summarised as follows:

Incentives:

- **New investment and growth model under Xi Jinping since 2012, with Chinese outbound FDI** reflecting the government's domestic and foreign agenda.
- **China's expanding geo-economic footprint as a result of the One Belt and Road Initiative,** with certain SEE countries such as Greece and Serbia acting as logistical hubs and gateways to the European market by maximising connectivity routes for Chinese firms.
- **Furthering strategic and foreign policy objectives,** albeit with more limited results. Serbia is the prime example, since China's economic leverage has been translated into active Serbian diplomatic support for Beijing's strategic goals.
- **Local agency can often play an instrumental role in attracting Chinese FDI.** SEE countries cannot be treated as a "uniform entity", either as a group of EU member states or as a group of non-EU states. Instead, each country presents different trends and peculiarities which lead in turn to different volumes of Chinese FDI; these differences are largely driven by governments, political and business elites. In our case study, the Serbian government acts as a pull factor, demonstrating the political will to facilitate Chinese FDI, along with a certain level of flexibility. It has therefore overlooked potential environmental or social implications, prioritising the creation of jobs or other more indirect gains for its local elites. In other words, Chinese FDI in the country is reciprocally transactional in nature. In contrast, other countries in the region are less willing to make flexible arrangements to accommodate Chinese commercial interests.

Constraints:

- **Restrictions on outbound capital flows since 2016** have limited Beijing's appetite to direct resources to investments with uncertain or questionable financial returns.
- **Beijing is facing slowing growth and structural deficiencies**. This reality has prompted a rethinking of its economic model and demarcated the limits of its foreign expansion. In addition, a **mismatch between local supply in SEE and Chinese demand has led Chinese enterprises, POEs in the main, to focus primarily on acquisitions of innovative tech companies in Western Europe; Slovenia is the only notable exception in this regard in the SEE region**. In other words, the structural

characteristics of its local economies render the **SEE region of limited economic interest to Chinese firms**, given Beijing's investment priorities. Thus, the Chinese state **can prioritise investments with limited economic returns for political gains** wherever there is leeway to do so (Serbia). However, this is also a double-edged sword for recipient states, which explains China's limited FDI presence in other SEE countries. As soon as the leeway for political or diplomatic gains is removed (e.g. in Albania, due to its pro-Western orientation, or in Romania and Bulgaria when they became both EU and NATO members) **investment appetite remains low, unless there is a clear economic/commercial rationale**, as in the case of Slovenia or the two largest Chinese FDIs in Greece.

- As a result, **to make themselves more welcome in the region** Chinese enterprises **are increasingly resorting to minority investments and/or joint ventures with Western firms.** There are three such examples in the later period of our study: First, the Mozura wind park project in Montenegro, inaugurated in 2019 as a joint China-Malta-Montenegro project. Second, the partial takeover of Aluminij in B&H in 2020 by two Chinese SOEs together with an Israeli company (MT Abraham). Third, Yanfeng Automotive's joint venture in North Macedonia with the US-based manufacturer ARC Automotive, launched in October 2022.
- This trend for joint ventures and strategic partnerships with Western firms emerged in the final period of our study and could be an indication of what to expect in terms of outbound Chinese FDI in the region over the next decade.