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When politics shapes the investment agenda: what can be expected from Chinese investors in SEE in 2024?

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Cover photo: *China Investment Corporation, Beijing, Flickr*

Summary

- Chinese outbound FDI in Southeast Europe (SEE) will continue to be shaped by both domestic and external factors.
- The global economic downturn from 2020-2022, driven by the pandemic, the war in Ukraine, and the tightening of screening regimes in Europe have reinforced previously identified trends in Chinese FDI in the region.
- Prevailing trends include an emergence of geo-economics, reduced appetite for expansionist policies, and a shift to greenfield investments in less sensitive sectors.
- Nevertheless, SEE's significance in China's gross investment portfolio will remain narrow due to limited opportunities offered for investments in technology advanced sectors.
- In addition, factors related to Beijing's domestic growth challenges and the global geopolitical situation are likely to hinder a significant increase in China's investment share in the region.
- Furthermore, political and diplomatic considerations in the context of China's evolving rivalry with the US will also have a constraining effect.
- Serbia will continue to stand out as the exception to the rule, due to genuine commercial interest in sectors like EVs and renewable energy, coupled with a favourable regulatory and political setting for Beijing.
- Instead, joint ventures with non-Chinese entities in M&As and brownfield investments could be the preferred approach for both Chinese POEs and SOEs investing in the region in the coming years.

Multilevel dynamics: examining past patterns and projecting future trends

This trend could be an indication of what to expect in terms of outbound Chinese FDI in the region in 2024, but in the coming years as well.

In our previous study, published in June 2023, we tried to make it abundantly clear that trends in Chinese outbound foreign direct investments (OFDI) cannot be examined in a vacuum.[1] In a highly interconnected global landscape, Beijing has to deal with both external and domestic uncertainties without compromising its economic growth. Thus, we concluded that it is essential to take stock of the interaction between domestic-driven factors and external driving forces shaped by third factors (evolving China-US rivalry, the ongoing war in Ukraine, the recent global pandemic), since both contribute to shaping Beijing's investment priorities. This multilevel approach can help us explain past patterns, but also outline future trends concerning the volume, sectoral focus, and implications of Chinese outbound FDI in Southeast Europe (SEE).

In our concluding remarks, we argued that, aiming to make themselves more welcome in the SEE region, Chinese enterprises were increasingly resorting to minority investments and/or joint ventures with Western firms. More specifically, we identified three such examples in the later period of our study: First, the Mozura wind park project in Montenegro, which was inaugurated in 2019 as a joint China-Malta-Montenegro project. Second, the partial takeover of Aluminij in Bosnia-Herzegovina (B&H) in 2020 by two Chinese state-owned enterprises (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. In all these investments, Chinese entities hold a minority investment stake. This trend could be an indication of what to expect in terms of outbound Chinese FDI in the region in 2024, but in the coming years as well.

…emergence of geo-economics with the investment policies of recipient countries becoming intertwined with security considerations; (II) a reduced appetite in China for expansionist investment policies in the context of a broader inward turn; (III) a Chinese monetary policy centred on restricting the outflow of capital and currency; (IV) a switch to greenfield investments in less sensitive sectors with much investment needed […] tightening screening regimes in Europe.

Global economic backtracking: the impact of 2020-2022

Drawing on these earlier findings, we have prepared this follow-up piece with a forward-looking orientation, taking stock of ongoing developments in China against the backdrop of the current global geopolitical context. The period 2020-2022, which overlaps with the later part of our previous study period, was a turning point for the global economy, signalling as it did global backtracking after decades of growing globalisation. This was mainly due to supply-side disruptions caused by COVID-19 and Russia's invasion of Ukraine. Although these developments largely fell beyond the scope of the timeline of our previous study, we believe that they could further reinforce such existing trends as: (I) the emergence of geo-economics with the investment policies of recipient countries becoming intertwined with security considerations; (II) a reduced appetite in China for expansionist investment policies in the context of a broader inward turn; (III) a Chinese monetary policy centred on restricting the outflow of capital and currency; (IV) a switch to greenfield investments in less sensitive sectors with much investment needed, including renewable energy; (V) a shift towards joint ventures with non-Chinese entities in M&A and brownfield investments in the context of tightening screening regimes in Europe.

[1] Krstinovska, A. & Alexandris, I, "Chinese direct investments in South-East Europe: the story behind the numbers", ELIAMEP Working Papers, South-East Europe Programme, 15 June 2023, Online available at: https://www.eliamep.gr/en/publication/%ce%ba%ce%b9%ce%bd%ce%ad%ce%b6%ce%b9%ce%ba%ce%b5%cf%82-%ce%ac%ce%bc%ce%b5%cf%83%ce%b5%cf%82-%ce%be%ce%ad%ce%bd%ce%b5%cf%82-%ce%b5%cf%80%ce%b5%ce%bd%ce%b4%cf%8d%cf%83%ce%b5%ce%b9%cf%82-%cf%83%cf%84/

Geopolitical shifts shaping investments in SEE; Serbia an exception to the rule once again

...a more transactional approach towards prospective Chinese investments in SEE countries closely aligned with the US.

More than six months on from the publication of our paper, the overall significance of SEE in China's gross investment portfolio remains limited compared to other regions in Europe. This is partly due to negative past experiences with Chinese investments in the past, such as the disinvestment by Everbright and Wenzhou Mining in Albania or growing signs of resentment in Piraeus, Greece, vis-a-vis COSCO's treatment of labour rights.[2]

Another key conclusion of our previous study was that, as soon as the leeway for political or diplomatic gains is removed as a result of the growing divergence between China and the West (e.g. in Albania, due to its pro-Western orientation, or in Romania and Bulgaria, which are both EU members), Chinese enterprises' investment appetite falls in SEE. Unless, that is, there is some clear economic/commercial rationale, as in the case of the high-tech acquisitions in Slovenia.

The higher expectations of the previous decade has now given way to a more transactional approach towards prospective Chinese investments in SEE countries closely aligned with the US, such as Greece**.** In 2008-2018, Chinese firms capitalised on Western investors' reluctance to commit substantial financial resources in Greece during the country's financial crisis, with Chinese entities allowed to purchase key assets, including the €320 million acquisition of a 24% share of the Greek state electricity IPTO/ADMIE.[3] However, the New Democracy government has, since 2019, taken a more lukewarm approach in its relationship with China.[4] This shift is particularly noticeable amidst the escalating rivalry between China and the US, which has prompted Athens to actively position itself as a crucial Washington ally in the wider region. This has become increasingly evident following Russia's invasion of Ukraine, which added a layer of geopolitical complexity in SEE in particular and Europe in general, increasingly intertwining the investment policies of recipient countries with security considerations.

Russia's invasion of Ukraine, which added a layer of geopolitical complexity in SEE in particular and Europe in general, increasingly intertwining the investment policies of recipient countries with security considerations.

There is one notable exception to this rule, however. During her visit to Shanghai in November, Serbian Prime Minister Ana Brnabic expressed a keen interest in boosting Chinese FDI further, signalling a continuation of a trend noted in the previous decade, whereby Belgrade stands out as the only country in the SEE region which has witnessed a steady increase in Chinese FDI.[5] On the geopolitical front, Brnabic affirmed Serbia's commitment to Beijing's One-China principle, specifically emphasising its non-recognition of Taiwan. The reaffirmation of mutual respect in this diplomatic context is indicative of the importance of aligning on key geopolitical issues. Moreover, the Serbian Prime Minister hinted that Chinese President Xi Jinping intends to visit Serbia in 2024, underscoring the significance of Sino-Serbian relations. As Belgrade continues its multidimensional diplomacy, we can expect to see further Chinese investments in Serbia in sectors of interest to Chinese firms, such as automotives, including electric vehicle (EV) batteries and renewable energy, as well as projects involving solar power and green hydrogen.

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[2] Tonchev, P., "Greece: On Friendly Terms with China, But Not Bewitched" in Secret Charm: China's hidden influence in Southeast Europe", Tonchev, P. & Petkova, M. (eds), December 2020, page 19, Online available at: https://www.freiheit.org/sites/default/files/2023-01/2022-fnf-policy-paper-hidden-influence-final.pdf

[3] Bastian, J. (2022), "The Dragon Reaches the Eastern Mediterranean: Why the Region Matters to China", Comparative Southeast European Studies, Volume 70 Issue 3, p. 492-494, Online available at:https://www.degruyter.com/document/doi/10.1515/soeu-2021-0079/html?lang=en#:~:text=China's%20growing%20port%20portfolio%20and,economic%20realities%20on%20the%20ground.

[4] Tonchev, P., "Chinese influence in Greece", Center for European Policy Analysis (CEPA), 24 August 2022, Online available at: https://cepa.org/comprehensive-reports/chinese-influence-in-greece/

[5] Republic of Serbia, China, Serbia confirm mutual partnership, support, 6 November 2023, Online available at: https://www.srbija.gov.rs/vest/en/215298/china-serbia-confirm-mutual-partnership-support.php

...a genuine commercial interest in the aforementioned sectors is coupled with a more favourable regulatory and political setting from Beijing's point of view.

Despite an overall decline in FDI, Chinese firms are strategically aligning with the European market, particularly in the automotive sector.[6] China has strategically prioritised the new energy automobile sector and has emerged as a global leader in EV and battery production, being by far the largest producer of EVs. Additionally, 2023 saw China overtake Japan as the world's top car exporter.[7] With China having already established a significant presence in Serbia over the last decade in terms of automotive factories in the last decade, there are now opportunities to repurpose these facilities to produce EVs and other related components.[8] Serbia, along with other Western Balkan countries, could leverage the development and production of low-priced Chinese electric vehicles (EVs) to facilitate its transition to more sustainable transport, following a decade of Chinese investments with a mixed track record in terms of environmental results in the region.[9] This is partly because a genuine commercial interest in the aforementioned sectors is coupled with a more favourable regulatory and political setting from Beijing's point of view, which renders Serbia the most preferred destination for Chinese FDI in the region.

Nevertheless, the current sentiment in the majority of SEE countries reflects a perception that the window for a strategic relationship with China may already be closing. Notably, since 2020, the majority of SEE countries have seen no new Chinese FDI, with the exception of Bosnia & Herzegovina, Northern Macedonia and, unsurprisingly, Serbia. A series of factors pertaining to Beijing's domestic growth challenges and the current global and regional geopolitical setting are unlikely to favour a significant increase in China's investment share in the region, as explained below.

China: domestic growth challenges prompt an inward turn

...reorienting the country towards an economic model of domestic consumption and to make growth more sustainable through greater market intervention.

During the Communist Party congress in October 2022, at which he secured an unprecedented third term, Xi Jinping promised to turn China into a ''medium-developed country'' by 2035, stating that the country's GDP will take a ''new, giant leap''. It is estimated that, by then, China will have to double the size of its 2020 GDP to achieve this stated goal, requiring an average GDP growth rate of approximately 4.7% over the next 12 years.[10] To that end, a process of economic reforms has been ongoing since 2020 aimed at reorienting the country towards an economic model of domestic consumption and to make growth more sustainable through greater market intervention. The reforms also include a regulatory crackdown on private tech firms and a more statist policy agenda.

Although privately owned enterprises (POEs) have played a key role in delivering growth, Xi Jinping's favouring of the state sector has dealt a blow to their expansionist policy, increasing their risk aversion vis-à-vis overseas investments to the Chinese market. Under these circumstances, the government is directing resources to upgrading its industrial infrastructure, reorienting the economy back to manufacturing with direct implications for its approach to investments overseas.[11] More specifically, since the start of Xi Jinping's

[6] Power Technology, EV batteries drive Chinese investment abroad, 9 May 2023, Online available at: https://www.power-technology.com/news/electric-vehicle-batteries-drive-chinese-investment-abroad/
[7] Hoskins, P., "China overtakes Japan as world's top car exporter", *BBC,* 19 May 2023, Online available at: https://www.bbc.com/news/business-65643064
[8] Vladisavljev, S., "How did China become the largest investor in Serbia?", China Observer in Central & Eastern Europe (CHOICE), 8 August 2023, Online available at: https://chinaobservers.eu/how-did-china-become-the-largest-investor-in-serbia/
9 Krstinovska, A., "China's unexpected impact on the Green agenda for the Western Balkans", *China Observers in Central and Eastern Europe (CHOICE)*, 15 August 2023, Online available at: https://chinaobservers.eu/chinas-unexpected-impact-on-the-green-agenda-for-the-western-balkans/
[10] Bloomberg, "China's economy needs to double in size to meet Xi's ambitious plans", 17 October 2022, Online available at: https://www.bloomberg.com/news/articles/2022-10-17/xi-s-gdp-per-capita-pledge-seen-as-challenging-as-growth-slows
[11] Kania, E., "Made in China 2025, Explained", *the Diplomat*, 1 February 2019, Online available at: https://thediplomat.com/2019/02/made-in-china-2025-explained/

Xi Jinping's favouring of the state sector has dealt a blow to their expansionist policy, increasing their risk aversion vis-à-vis overseas investments to the Chinese market […] reorienting the economy back to manufacturing with direct implications for its approach to investments overseas.

second term in 2018, China has been moving away from ''soft tech'' to ''hard tech'', including semiconductors, robotics, cloud computing and automation in response to a series of US restrictions on Chinese access to such technologies.[12]

A study published in October 2022 showed that, after rising almost continuously for at least a decade, the share of the total revenues for Chinese companies on the Fortune Global 500 list accounted for by Chinese POEs fell in 2021 compared to 2020.[13] In parallel, state-led outbound investments aiming to return geopolitical or diplomatic gains have started to lose ground following a big surge during Xi Jinping's first two terms. To that end, Beijing is more likely to stick with the acquisition of smaller Western tech firms, a pattern that has already been noted in Slovenia but which is unlikely to be replicated in other SEE countries with a weak track record in terms of technologically advanced companies. This is because the economies of other SEE countries have different characteristics, with several often being preferred for access to cheap labour or particular raw materials (e.g. wood, extractives etc.).[14]

China's capital restrictions likely to be kept in place amid an ongoing reshuffle of global supply chains

The Covid-19 pandemic and Russia's invasion of Ukraine have been two crucial trigger point for the reshuffling of global supply chains, pushing firms to step up efforts to diversify their supplier base in search of greater resilience. The skyrocketing energy and food prices following the outbreak of the war were a key driver of global inflation, prompting a response from the world's largest central banks, which raised interest rates to curb inflation in 2022. In March 2022, the US FED raised interest rates for the first time since 2018 and kept on doing so in the following months, resulting in a stronger US dollar and creating downward pressure on global markets.[15] In this tightened monetary environment, China faced further pressure on its own national currency, the renminbi. Thus, in the second half of 2023, the Chinese currency continued its sharp decline; in September, it hit its lowest level against the dollar since December 2007.[16]

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High interest rates in the US, the UK, and the eurozone since late 2022 have helped all three to continue to attract capital. In contrast, China is one of the few major economies (Japan is another) that is keeping interest rates low, due to a slowing economy coupled with fears of deflation due to weak demand. With interest rates likely to remain high in the US, the UK, and the eurozone for most of 2024, Chinese capital restrictions will most likely remain in place for the foreseeable future, especially as the government continues to prioritise domestic investments under its ''2025 Made in China policy''.

The disruption of global supply chains, along with the ongoing export restrictions on critical tech in place in the US since 2018, could also push Chinese firms into rethinking greenfield investments, at least when it comes to critical industries and sectors deemed strategic. Rather, smaller greenfield investments might be preferred in the current global geopolitical

[12] The Economist, "Xi Jinping's bold plan for China's next phase of innovation", 16 April 2022, Online available at: https://www.economist.com/finance-and-economics/2022/04/16/xi-jinpings-bold-plan-for-chinas-next-phase-of-innovation
[13] Huang, T. & Veron, N., "China's private sector advances pauses, but the trend is unclear", *Peterson Institute for International Economics*, 17 October 2022, Online available at: https://www.piie.com/blogs/realtime-economics/chinas-private-sector-advance-pauses-trend-unclear
14 Macaes, B. (2018), "Belt and Road: a Chinese world order", p. 84, Oxford University Press
[15] Lee, G. & Zhen, S., "Surging dollar tests China's capital controls as cash flees", *Reuters*, 17 October 2022, Online available at: https://www.reuters.com/markets/europe/surging-dollar-tests-chinas-capital-controls-cash-flees-2022-10-17/
16 Doi, N. & Sato, T., "China's yuan slides near 16-year low as economy struggles", *Nikkei Asia,* 9 September 2023, Online available at: https://asia.nikkei.com/Business/Markets/Currencies/China-s-yuan-slides-near-16-year-low-as-economy-struggles

environment, since they allow foreign investors to increase their foothold overseas without being exposed to unsustainable financial risks driven by political uncertainty.

The Covid-19 pandemic and Russia's invasion of Ukraine have been two crucial trigger point for the reshuffling of global supply chains, pushing firms to step up efforts to diversify their supplier base.

Overall, in 2020, global FDI flows plummeted in response to the pandemic. This was especially true of greenfield investments, which suffered their largest decline among non-OECD members, due to the importance of manufacturing for developing and emerging economies. Despite overall global FDI rebounding strongly in 2021, greenfield investments remained 30% below pre-pandemic levels on average across all industrial sectors. Chinese outbound FDI, including greenfield investments, could not have been an exception. Indicatively, per the latest European Commission data, 2022 saw China lose its place as the third most significant origin of greenfield investments in the EU, dropping to fifth place with a reduced share of 3.9%, down from 5.9% in 2021.[17]

Another factor that contributed to this decline is that many Chinese OFDI projects are heavily reliant on loans from Chinese policy banks. Due to the elevated share of non-performing loans (NPLs) along the Belt and Road Initiative (BRI) routes, Chinese banks have recently adopted a more cautious approach. Moreover, these policy banks have been tasked with aiding distressed property developers in China's real estate sector, potentially leading to a more limited availability of financial resources.

… capital restrictions will most likely remain in place for the foreseeable future.

In contrast to the short-term fall in Chinese greenfield FDIs, the momentum could turn in their favour once again in the longer term, with Chinese enterprises opting to set up their own production factories offshore in order to keep up with the growing trend of getting closer to the consumer market. For example, Chinese companies might set up new factories in the EV sector with a view to entering a rapidly growing industry in the European market.[18] Despite a drop in 2020 and 2021, greenfield investments, modest yet steady, are re-gaining prominence, driven by considerations such as reduced transport costs and tariffs. Notably, investments in EVs and renewable power are viewed as less strategically sensitive than investments in the digital and nuclear sectors. In spite of a recently-launched EU antisubsidy probe into Chinese EVs, member states and candidate states retain a significant degree of autonomy in shaping their FDI policies, suggesting potential opportunities for certain SEE countries in this growing industry.[19]

Chinese enterprises opting to set up their own production factories offshore.

Tightening screening regimes and their impact on Chinese FDI

The deepening ties between EU member states and their efforts to de-risk Chinese investments, especially in technology, are influencing a series of defensive measures, including screening mechanisms for foreign direct investments. Thus, the expansion of tighter screening regimes in Europe in the context of souring EU-Chinese relations will be another constraining factor for Chinese FDI in the years ahead, though its effect will be limited in SEE, and in its non-EU states in particular.

The EU has become increasingly alarmed about the potentially harmful strategic implications of foreign investments and takeovers, especially in regard of critical infrastructure and technologies. In October 2020, a foreign investment screening mechanism entered into force, partly aimed at Chinese outbound FDI in Europe; the mechanism was updated in

[17] European Commission, Third Annual Report on the screening of foreign direct investments into the Union, 19 October 2023, Online available at: https://ec.europa.eu/transparency/documents-register/detail?ref=SWD(2023)329&lang=en
18 Jaeger, J. "Countries adopting electric vehicles the fastest", *World Resources Institute,* 14 September 2023, Online available at: https://www.wri.org/insights/countries-adopting-electric-vehicles-fastest#:~:text=China%20is%20by%20far%20the,rest%20of%20the%20world%20combined.
[19] European Commission, "Commission launches investigation on subsidised electric cars from China", 4 October 2023, Online available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4752

...expansion of tighter screening regimes in Europe in the context of souring EU-Chinese relations will be another constraining factor for Chinese FDI in the years ahead.

2023.[20] This has been the first EU-wide effort to establish a common pan-European framework for the screening of FDI, which was previously implemented exclusively at the national level. Although this new mechanism is not a centralised or binding EU investment screening tool, it still raises public scrutiny at a European level, making investments that previously remained off the EU's radar more difficult.

In its special report published in December 2023, the European Court of Auditors (ECA) highlighted shortcomings in the EU's scrutiny of foreign investments, citing disparities among member states in their conducting of screenings.[21] Of notable interest were the concerns expressed about foreign investments made by SOEs and about potential risks relating to technology transfer. Although the report did not explicitly mention China, it is widely seen as a response to concerns about Chinese investments. The report focused on the role of SOEs and investments such as COSCO's acquisition of a majority stake in the Greek port of Piraeus, a flagship investment which occurred during the period covered by our previous study (2012-2022). With a new Commission mandate approaching, the von der Leyen Commission is poised to intensify efforts to enhance the EU's economic autonomy. The Foreign Direct Investment Screening Regulation may therefore be employed more rigorously to regulate and monitor foreign investments that could impact strategic sectors, although its enforcement will remain a competence of national governments.

Of notable interest were the concerns expressed about foreign investments made by SOEs and about potential risks relating to technology transfer.

Other similar legislative initiatives in the pipeline include the introduction of an outbound investment screening mechanism. Even though its adoption will most likely take place at a later stage, due to the European elections in June 2024, it is indicative of the increasing attention the EU is paying to geo-economic considerations through legislation including the recently adopted Foreign Subsidies Regulation[22], the Critical Raw Materials Act,[23] and the European Chips Act.[24] It could also have a direct effect on Chinese investments in EVs, since technology transfers tend to go both ways. This more assertive stance could reinforce the trend identified in the latter part of our previous study period (2018-2022), which saw Chinese firms (both POEs and SOEs) resorting to minority investments and/or joint ventures in Europe to avoid closer scrutiny.

The Foreign Direct Investment Screening Regulation may therefore be employed more rigorously.

Still, the impact of the FDI screening regulation cannot be overstated in SEE. The tighter screening regimes are mainly aimed at foreign investments in high-tech and data-related sectors, which are often associated with high-security risks. An indicative example was the 5G Clean Networks agreements signed between the US and several European countries which sought to curb the roll-out of Chinese equipment in 5G telecom networks.[25] However, Chinese FDIs in these sectors are already non-existent in most of the EU member states on our list. Also, the only country on our list that has put in place a national screening mechanism in line with the new EU regulation is Slovenia. Romania is in the early stages of

20 Reuters, M., "Responding to the China challenge: The state of play on investment screening in Europe, *European Council on Foreign Relations*, 27 November 2020, Online available at: https://ecfr.eu/article/responding-to-the-china-challenge-the-state-of-play-on-investment-screening-in-europe/

21 European Court of Auditors (ECA), Special report 27/2023: Screening foreign direct investments in the EU – First steps taken, but significant limitations remain in addressing security and public-order risks effectively, 6 December 2023, Online available at: https://www.eca.europa.eu/en/publications?ref=SR-2023-27

22 European Commission, "Foreign Subsidies Regulation", Online available at: https://competition-policy.ec.europa.eu/foreign-subsidies-regulation/legislation_en

23 European Commission, "Critical Raw Materials: ensuring secure and sustainable supply chains for EU's green and digital future", 16 March 2023: Online available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_1661

24 European Commission, "European Chips Act", Online available at: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-chips-act_en

25 Reuters, "European countries who put curbs on Huawei 5G equipment", 29 September 2023, Online available at: https://www.reuters.com/technology/european-countries-who-put-curbs-huawei-5g-equipment-2023-09-28/

This more assertive stance could reinforce the trend identified in the latter part of our previous study period, which saw Chinese firms resorting to minority investments and/or joint ventures in Europe to avoid closer scrutiny.

updating its existing mechanism. Greece and Croatia are currently in the process of adopting one, while Bulgaria has yet to move on setting one up.[26]

Of course, the new regulation does not apply to the Western Balkan states that have not yet joined the bloc. Even if they put the FDI screening mechanisms in place, they will be unable to address several of the most problematic aspects of Chinese FDIs, as these mainly relate to governance issues rather than security risks or critical sectors. Unlike mergers & acquisitions (M&As), which fall under a control mechanism at EU level and seeks to reduce competition risks, the other types of FDI investments--greenfield and brownfield--are less harmonised across member states.

There is therefore a clear distinction between greenfield investments and the screening of M&A, which is driven by a top-down approach. This means that the greenfield investment is still largely shaped by national regimes, with screening capacities and enforcement standards differing between member states. Consequently, despite the recently introduced EU investment screening regulation, greenfield investments typically remain subject to fewer governmental screening measures, which also helps to explain in part the ongoing decline in Chinese M&A across the whole of Europe.

…investments could continue their upward trend in Serbia, selectively increasing in relatively less sensitive sectors, such as EVs and renewable energy, while joint ventures with non-Chinese entities in M&As and brownfield investments could prove to be the preferred route for Chinese POEs and SOEs alike across SEE in the years ahead.

Charting the path forward

In conclusion, while the overall influx of Chinese FDI into the SEE region is declining, a more nuanced picture emerges. The impact of screening mechanisms, geopolitical considerations, and China's own economic challenges will continue to shape the trajectory of Chinese FDI in the region. Chinese direct investments could continue their upward trend in Serbia, selectively increasing in relatively less sensitive sectors, such as EVs and renewable energy, while joint ventures with non-Chinese entities in M&As and brownfield investments could prove to be the preferred route for Chinese POEs and SOEs alike across SEE in the years ahead. Managed properly, such investments could help SEE countries meet the requirements stemming from the EU's Green Agenda for the Western Balkans or contribute to technology transfer in line with the EU's goal of doing better on this front.[27] The growing interest in renewable energy projects could also break the pattern of environmentally-degrading Chinese investments in the region identified in 2012-2022.

[26] European Commission, "Third Annual Report on the screening of foreign direct investments into the Union", Brussels, COM(2023) 590 final, 19 October 2023, p. 9.

[27] European Commission, "Guidelines for the Implementation of the Green Agenda for the Western Balkans", 6 October 2020, Online available at: https://neighbourhood-enlargement.ec.europa.eu/system/files/2020-10/green_agenda_for_the_western_balkans_en.pdf