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Becoming a Chinese Client State

THE CASE OF SERBIA

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A Report of the CSIS Europe, Russia, and Eurasia Program
and Reconnecting Asia Project
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Executive Summary

Serbia is a hub for a wide range of Chinese economic activity in the Western Balkans, as previous CSIS research has indicated. This report, the second in a series, examines Serbia in greater detail to shed more light on China’s political and economic objectives, its mechanisms for influence, and the implications of its activities, including a second wave of digital infrastructure projects.

Key Findings

• Politically, Chinese economic activities have solidified Serbia’s support for Beijing’s foreign policy objectives, especially on recognition, territorial integrity, and human rights issues, while strengthening patronage networks in Serbia and undermining EU integration.

• Economically, Chinese companies in strategic sectors—primarily energy, transport, and information and communications technology (ICT)—stand to benefit from using Serbia as a launching pad for expanding their regional operations, improving their access to the EU market, and shaping technology and standards adoption.

• Technologically, Chinese companies are shaping both Serbia’s networks and the policies that guide them, posing security risks and undermining civil liberties.
Political Impacts

Serbia is neither East nor West geographically and democratically speaking, and China uses Serbia as a multivector platform to further support its interests or block criticism of its policies in the international arena. Chinese economic activities have proved to be a powerful tool for accomplishing these objectives. Serbia is far from unique in this respect, as rising Chinese financial flows are correlated with closer political alignment in voting patterns at the UN General Assembly among recipient countries globally. But as a key link in China’s Belt and Road Initiative (BRI) that connects the Mediterranean and Central Europe, Serbia vividly illustrates how Chinese economic activities can have an outsized impact on public opinion while advancing Beijing’s political objectives and strengthening local patronage networks.

In the realm of Serbian public opinion, China seems to be getting more than its relatively modest track record of giving would suggest. When asked who Serbia should rely on for its foreign policy in a study conducted in 2005, only 3 percent of respondents said China, compared to 32 percent in favor of reliance on the European Union and 34 percent on Russia. But in a more recent opinion poll in 2018, 56 percent of Serbians polled held favorable opinions of China, more than twice as many as those with favorable opinions of the European Union (27 percent) and only slightly fewer than those with favorable opinions of Russia (60 percent). In that poll, public support for EU membership—reportedly the government’s most significant strategic and foreign policy priority—had fallen to its lowest point in a decade. Consistent with this shift in public opinion, Serbia’s alignment with EU foreign policy declarations decreased from 99 percent alignment in 2012 to 59 percent in 2016, including on matters related to China.

Chinese aid is not the only or even the primary driver of these trends. Indeed, Serbia has been aligned with China on issues of territorial integrity since the Kosovo War in 1999, when China opposed NATO intervention (further cemented by the accidental bombing of the Chinese Embassy in Belgrade in 1999 by U.S. forces conducting NATO operations) and fully supported Slobodan Milošević’s regime (current Serbian president Aleksandar Vučić was Milošević’s minister of information in 1999) against what it saw as Western imperialism. Rather, Chinese economic activities provide another incentive for the Serbian government to publicly align itself with Beijing. To protect existing commitments and court future investments, the Serbian government adopts pro-China political rhetoric and publicly supports Chinese foreign policy goals, including through international forums and organizations. Due to heavily controlled media owned by pro-government businesses (which profit from this affiliation with the state), public opinion has followed this shift. The highly visible nature of Chinese infrastructure projects—and their intersection with cultural affinity, such as the cultural center China is building at the site of the old embassy—also lends itself to Beijing receiving a disproportionate share of public credit. Investments in equally critical but less visible projects and services may receive less public attention. Of course, highly visible projects are a double-edged sword. When they fail, the reputational damage can be even higher.

Serbia’s admiration for and political rhetoric in support of Chinese leaders, narratives, and propaganda came into sharp relief during the Covid-19 pandemic. Amid the early days of the Covid-19 crisis and in the weeks prior to Serbia’s June 21 parliamentary elections, Vučić demonstrated devotion to China by publicly kissing the Chinese flag.
promoting the image of Xi Jinping and China as true friends of the Serbian people, and criticizing the European Union’s lack of aid and solidarity.6 (Serbia has been the most affected by Covid-19 among the countries of the Western Balkans [WB6].) China sent medical equipment and experts to Serbia, as they did several other European countries, which Vučić personally greeted at the airport in a highly publicized public display. China established two research labs in Serbia to improve coronavirus detection, one of which it claims became operational in only five days.7 China’s assistance has been praised in Chinese English-language media and Serbian news outlets, which credited the “China Model” of containing Covid-19 with slowing Serbia’s infection rate.

Citing Chinese humanitarian aid as proof of the two countries’ “steel friendship,” the Serbian government put up a slew of pro-China banners, and government-friendly media set up billboards in Belgrade during the peak in Covid-19 cases and the pre-election season.8 This was showcased without mention of the European Union’s much more significant financial contribution to Serbia’s health care system and its provision of economic and medical assistance to Serbia through the European Central Bank, the Instrument for Pre-accession Assistance, and UN agencies, among others.9

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9. “EU response to the coronavirus pandemic in the Western Balkans,” European Commission, April 2020,
the Covid-19 pandemic, the heavy promotion of Chinese projects and investments by the Serbian government and Serbia’s government-controlled media had already skewed public perceptions: a March 2020 poll showed that 40 percent of people in Serbia believed China is the biggest donor to the country, while only 17.6 percent believed the European Union is the largest donor.10 In reality, the European Union is Serbia’s largest donor by far, with China falling in fifth place, behind the support provided by Germany, the United States, and the United Nations.

**EU Far Outspends China on Foreign Aid to Serbia**

4 out of 10 Serbians think China is Serbia’s biggest foreign aid donor, but the EU is by far the largest donor in Serbia and China is not even in the top four.

China is dislodging Russia in Serbian public preferences: the Serbian public previously believed, mistakenly, that Russia was Serbia’s largest donor.11 The Serbian government’s recent statements, however, could be seen as prioritizing China at Russia’s expense. Indeed, Vučić’s characterizations of China as Serbia’s “most honest and trustworthy friend” imply that China outranks not only the European Union but also Russia. In response to recent protests across Serbia over the Serbian government’s perceived poor handling of the pandemic, President Vučić remarked that the protests were fueled by “influence from foreign security services,” which was interpreted by the Kremlin as blaming Russia. President Vučić denied that he was suggesting a “Russian trail,” but his meeting with the Russian ambassador was abruptly canceled.12 This event may portend a more fulsome


10. Svetlana Bozic Kraincanic and Mila Đurđević, “Infografike,” Radio Slobodna Evropa, June 4, 2020, https://www.slobodnaevropa.org/a/ko-su-najveci-strani-donatori-srbije/30652284.html. It is important to note, however, that this order was reversed in an earlier poll in 2020 in which people ranked the European Union first (28 percent), Russia second (27 percent), and China third (20 percent) in donor size. See International Republican Institute, Western Balkans Regional Poll (Washington, DC: 2020), https://www.iri.org/sites/default/files/final_wb_poll_deck_for_publishing_1.pdf.


geopolitical shift toward China, but for the time being, China’s growing role in Serbia may be best characterized as an effort by Serbia to diversify its geopolitical options. Vučić’s Serbian Progressive Party (SNS) has continued its high-level visits with high-ranking Russian officials to shore up public support.13 (President Vučić was in Moscow at the end of June, and President Putin will visit Serbia in October for the anniversary of the Soviet liberation of Belgrade, both honoring the Soviet role in World War II.14) Russia’s historical, cultural, and military ties with Serbia are deeper, but China has more to offer economically, and Vučić’s ties with Putin, primarily of convenience, are not as deep as is often said.15 In a recent instance, a Chinese company, Zijin Mining, was even preferred over a Russian competitor in a tender process for the acquisition of a copper mining and smelting complex in Bor.16

Sino-Serbian politico-economic relations are mutually reinforcing. The Chinese government finances large infrastructure projects, which reinforces Serbia’s preexisting affinities for supporting Chinese policy priorities. In turn, Vučić uses China’s rising economic presence to bolster his image during political campaigns through promises of infrastructure investments and jobs.17 (Construction spending’s contribution to GDP growth went from 26.8 percent in the first quarter of 2018 to 48.3 percent in the last quarter of 2019.18) When Serbia’s Deputy Prime Minister Mlađjan Dinkić and Chinese Minister of Commerce Chen Deming signed a bilateral cooperation agreement in 2009 that included lending from the China Exim Bank for infrastructure projects, Serbia’s press release announcing the project explicitly tied China’s intensifying economic cooperation to Serbia’s support for its One-China policy.19 In 2019, when greeting a cargo train delivering construction equipment and materials from China for the Belgrade-Budapest railway, President Vučić reassured China’s Vice Minister of Trade Qian Keming that “he always speaks sincerely about China within the domains of world politics.”20 To avoid criticism of Chinese investments, Serbia’s media (influenced by the state) frequently promotes them as gifts rather than loans, which perpetuates the image of China as a benevolent donor rather than a source of increasing debt.21 This feeds into China’s increasingly favorable perception within Serbian public consciousness.22

22. National Democratic Institute, Western Balkans Between East and West.
China’s growing economic presence has also influenced Serbia’s position on China-related human rights issues. In 2019, 15 out of (then) 28 EU members and 7 other non-EU states publicly criticized China’s human rights abuses against its Uighur population in Xinjiang in an exchange of letters to the UN Human Rights Council. Meanwhile, 16 of the 17+1 countries remained neutral, leaving Serbia as the only country in the group that expressed support for China’s policies. In the case of Serbia, it is important to note that its boycott of the 2010 Nobel Peace Prize, which was accorded to Chinese dissident Liu Xiaobo, set a precedent for this alignment on the international stage.

To be sure, Serbia is not entirely alone in this regard. Two years earlier, Greece, a member of the 17+1, blocked an EU statement to the UN Human Rights Council in Geneva, marking the first time in EU history that it did not issue a statement that was endorsed by all members. When Beijing is faced with such criticisms, however, Serbia springs to its defense. In May 2020, as the EU parliament began considering action against China in the International Court of Justice and as the European Union strongly condemned national security measures adopted by China in Hong Kong, Vučić sent a letter to Xi Jinping backing China’s decision. The letter reinforced Serbia’s support for Chinese territorial integrity and condemned any attempts to undermine China’s reunification. These events are particularly striking in light of Serbia’s usually light touch on major international issues, on which it tends to remain quiet to avoid backlash or debate.

Political support also swings the other way. President Vučić is an outspoken supporter of China’s positions on Taiwan and Hong Kong, and Beijing does not recognize Kosovo’s independence. In a 2019 statement, China’s deputy permanent representative to the United Nations reiterated that “China respects Serbia’s sovereignty and territorial integrity, understands its legitimate concerns with regard to the Kosovo issue, and commends its efforts to find a political solution.” Of course, China may not recognize Kosovo even if Serbia were to reach an agreement with the latter, as this would not serve Beijing’s interests. Beijing’s actions against NGOs promoting democratic norms could also provide shelter for Belgrade’s own increasingly antidemocratic behavior. For example, in December 2019, the Chinese government stated that it would sanction several U.S. NGOs, such as the National Endowment for Democracy and Freedom House, for their support of Hong Kong democracy activists. In 2019, Freedom House downgraded Serbia’s status as

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a partial democracy to a “hybrid regime.” Should China continue to target NGOs working and reporting on democratic standards, this could provide rhetorical cover for Serbia’s leadership to do the same.

**Propping up Patronage Networks**

Serbia’s long-standing problems with endemic corruption, including entrenched party patronage networks, clientelism, graft, and state capture—problems that have worsened under the Vučić regime—provide ample opportunities for malign influence. Serbia’s public administrations are politicized, staffed with regime loyalists, and marked by poor accountability and financial management issues, including a lack of transparency that contributes to corruption in public procurement. The SNS’s near-total control over the state and administrative apparatus creates strong party patronage networks that ensure economic resources are politically controlled and allocated to loyal beneficiaries. Nontransparent political and economic structures make it easier to sign contracts and push through projects without concern for EU or Organization for Economic Cooperation and Development (OECD) rules, further enriching the same local elites who maintain power by controlling the levers of economic development.

China opportunistically engages with political leaders and the heads of state-owned enterprises (SOEs) through government-to-government dealmaking in Serbia, where SOEs and their governance structure remain under the purview of regime loyalists. Vučić and the SNS’s sweeping victory in the June 2020 parliamentary elections is bound to reinforce this dynamic, as nearly all the public enterprises and procurement offices have been absorbed by the party since its ascent to power. Access to public resources (including from large projects concluded with Chinese investors) is dependent on proximity to the political loyalists and the business elites that serve them. The SNS network rewards and reinforces loyalty by providing massive employment in state institutions and SOEs. And the risk of punishment for shedding light on how this system operates is notable: although Serbia’s legal framework for whistleblower protection is strong, in practice the system does not always deliver, and some transparency advocates have called for these protections to be applied indiscriminately. Moreover, insufficient government scrutiny...

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34. Marović, Prelec, and Kmezić, “Strengthening the Rule of Law in the Western Balkans.”
36. “55 Odsto Građana od Sto Građana Srbije Verujeveruje da je Korupcija Široko Rasprostranjena [55 Percent of...
in cases of high-level corruption and government influence over the judiciary make it unlikely that these opaque networks will be revealed or punished.\(^{37}\)

Corridor 11, a highway between Serbia and Montenegro, illustrates this loyalty network in action. In 2009, a Chinese firm, Shandong International Economic and Technical Cooperation Group, obtained a contract through an interstate agreement for which there was no public tender. In 2013, Shandong subcontracted work to Energoprojekt Niskogradnja, a Serbian firm in which the government owns a significant stake. Niskogradnja in turn subcontracted the work without a public tender to numerous other companies, including three small firms with little road-building experience owned by individuals or their family members with close links to the SNS.\(^{38}\) One such firm is run by Zvonko Veselinović, a Serbian businessman with strong ties to the SNS who was previously investigated on corruption and drug-related charges.\(^{39}\) According to Ivan Angelovski, a reporter with the Balkan Investigative Reporting Network: “[Veselinović’s] company receiving 75 million dollars to take a small part in building a small part of the corridor is a huge red flag. . . . It is not that he just received the money and did not do anything. His companies were there, on the ground, doing the work, but what could be problematic is the amount of money and the [small] amount of work.”\(^{40}\) Despite these irregularities, Serbia’s acting director in charge of the corridor stated that contractors award subcontracts independently from the government, and subsequently, no investigation appears to have taken place.\(^{41}\) The route did not open to traffic until August 2019, more than two years late, and the cost-per-kilometer of the corridor increased prior to completion.\(^{42}\)

“[Veselinović’s] company receiving 75 million dollars to take a small part in building a small part of the corridor is a huge red flag.”

-Ivan Angelovski, a reporter with the Balkan Investigative Reporting Network

The interaction and mutual benefits between Chinese investments and Serbia’s entrenched corruption and political patronage networks have only served to underscore

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39. Ibid.
the European Union’s critical assessments in 2016 and 2019 of Serbia’s difficult path toward membership. Unsurprisingly, the assessments found that public procurement rules are not always followed, particularly “in big infrastructure projects financed or implemented by non-EU companies.” Furthermore, the official capital management process to select and prioritize investments in Serbia does not currently apply to government-to-government projects—a popular method of signing contracts between Serbia and China—and these projects “have been a recurring concern with regard to their transparency, cost efficiency, and conformity with EU standards.”

43. European Commission, Serbia 2019, 50.
44. European Commission, Serbia 2019, 45.
Economic Impacts

China’s dealmaking in Serbia, and through the BRI and 17+1 more generally, is designed to benefit Chinese firms in strategic sectors—and, incidentally, SNS loyalists. This is not surprising, as China is almost always the financier. Chinese economic activities are highly concentrated in the energy, transport, and digital sectors in Serbia, all of which are priority areas in Chinese industrial strategy as well as industries that have been avoided by other new investors.45

In return for Chinese financing, China requires the involvement of its own companies, labor force, standards, and materials which undercuts benefits for local companies and workers, despite perceptions that China is “saving” local jobs. According to CSIS research, 93 percent of projects with Chinese funding or investment in the Western Balkans between January 2012 and January 2020 had a Chinese contractor or supplier. These facts cast doubt on the Chinese government’s common claim that the BRI is open to all and a “win-win.”

Serbia could provide China with greater access to the EU market and influence over technology and standards adoption in the region. As an EU candidate country, Serbia enjoys special trade relations with the European Union along with the rest of the WB6 as part of their Stabilization and Association Agreements. These agreements, along with prior trade measures, anticipate near-complete trade liberalization, including the elimination of duties and non-tariff restrictions on bilateral trade as part of the EU accession process. As China ramps up investment in the WB6, Chinese investors could leverage Serbia’s liberalizing trade relations with the European Union to reach those markets. In this way, Chinese investors are extending their market reach into the same region that the European Union is tapping into to diversify its supply chains away from China and closer to big EU manufacturers. Of course, should Serbia continue to ignore certain

EU rules related to public procurement and environmental standards to wave through Chinese projects, it could jeopardize its own path to accession and, in turn, cut off China’s prospects of EU market access.

Consider China’s takeover of Serbia’s steel sector. Since acquiring Serbia’s only steel mill in Smederevo in 2016, China’s HBIS Group has turned it into the country’s largest exporter. Much of that steel is exported to the European Union, which sourced 5 percent of its steel imports from Serbia in 2019. Serbia cited the Smederevo plant in a request for the European Union to exempt Serbia from steel import restrictions in 2019. The European Union ultimately rejected the request. Though unlikely, if the European Union were to revisit this position, it could provide Chinese-owned steel a way to circumvent restrictions on imports to EU markets that would otherwise apply to steel producers in China.

As China increases its involvement in Serbia’s economy, it can assert greater influence over Serbia’s standards. China’s objective, which was made explicit in its “China Standards 2035” initiative, is to set product specifications for interoperability and compatibility that only favor Chinese products. China’s standard-setting approach is comprehensive in nature, including top-down efforts to participate in formal standard-setting processes and bottom-up efforts to win market share. For instance, the rise of Chinese construction in Serbia has prompted some Chinese firms to take a greater interest in Serbia’s legal standard-setting body, the Institute for Standardization of Serbia (ISS). In 2018, the ISS received visits from the China Communication Construction Company (CCCC) and China State Grid Corporation to discuss its standard-setting process and international and EU activities, as well as areas for greater cooperation on standardization.


From the bottom up, China’s growing market share incentivizes other companies to manufacture products compatible with those already predominantly in use. Serbia continues to serve as an attractive destination for China to actively promote its products and standards exactly because there is less scrutiny than in U.S. and EU markets. Because they benefit from state aid subsidies, Chinese products and services undercut indigenous competition on cost. This is particularly true for digital infrastructure (explained in greater detail in a subsequent section). For example, Huawei’s growing market share could lock Serbia into using its equipment for the foreseeable future. Changing suppliers could become prohibitively expensive and, as the European Union restricts its supply-chain security requirements for next-generation networks, the decisions that Serbia makes today on its network equipment could present a future barrier to integration with the European Union.

**Sustainability Risks**

Chinese investment projects that involve connectivity developments in Serbia have produced mixed results thus far and, in some cases, jeopardized Serbia’s economic integration with the European Union. While the European Union’s connectivity strategy for Europe and Asia emphasizes economic, environmental, and social sustainability, Chinese investment projects in Serbia and the Western Balkans largely fail to meet these objectives, underscoring a growing divergence between China and the European Union, with Serbia increasingly bending toward Chinese priorities.54

Chinese investments in roads and railways in Serbia and across the region that meet sufficient quality standards could have the potential to increase productivity through network effects (e.g., linking up business across the region and expanding their reach). Quality projects can complement efforts such as the Western Balkans Investment Framework (WBIF) and European Union’s transportation TEN-T Corridors such as Corridor X, which links Central Europe to the Aegean Sea through the Balkans, and Route 4 in Montenegro, which forms part of the Berlin Process core network.55 To ensure positive overlap, in 2015, the European Union launched talks with China on infrastructure investment coordination through the EU-China Connectivity Platform.56

However, many Chinese projects are not coordinated with broader EU efforts and fail to live up to the high-quality standards necessary to produce positive economic gains. President Vučić has also criticized the increasing stringency of EU standards in recent years—lending credibility to China’s lower-quality approach and playing into the narrative of China as a positive actor.57 The WBIF projects are mostly financed by loans

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57. Sasa Dragojlo, “BIRN Fact-check: Has Serbia’s Ruling Party Kept Its Promises?,” Balkan Insight, June 17, 2020,
in combination with grants and cofinanced by Western Balkan countries. These projects are aligned with European priorities and rules, provide technical support for project implementation, and are mindful of recipient countries’ debt burdens.\textsuperscript{58} Chinese projects, on the other hand, rarely integrate grants, are predominantly financed by loans or require sovereign guarantees, are in line with Chinese strategic priorities, and do not take countries’ debt burdens into account. Serbia’s section of the Budapest-Belgrade rail line is one notable example. The project is being funded with $1.3 billion in loans from China Exim Bank covering 85 percent of the project costs, with the remainder to be paid for by the government of Serbia.\textsuperscript{59} With some projections suggesting that the rail could take anywhere from 130 to 2,500 years to become profitable, analysts question the high costs as well as the eventual return on investment.\textsuperscript{60} The project also lacks transparency. The Hungarian government, which is constructing the other half of the rail line, has classified the feasibility study, preventing further scrutiny of its overall cost-benefit picture.\textsuperscript{61}

The issue of unsustainable debt is relevant to some Chinese-funded projects in Serbia, as its economy is expected to enter a recession due to Covid-19—in this regard, Serbia should look to Montenegro as a cautionary tale.\textsuperscript{62} Serbia’s debt-to-GDP ratio is expected to increase by 10 percent in 2020, from 52 percent to 62 percent, temporarily pushing it above the 60 percent ceiling agreed with the IMF and counteracting recent progress on reducing public debt that the IMF has praised.\textsuperscript{63}

Beyond roads and rail, Serbian investments pre-pandemic in education and health infrastructure lagged relative to the country’s development needs. As Covid-19 places additional burdens on Serbia’s health care and social welfare systems, the funding of high-dollar infrastructure projects that are economically inefficient reduces the government’s borrowing ability to finance those social investments. This further distances Serbia from its stated goals of improving development and living standards.

Chinese projects in Serbia’s energy sector also have potentially destabilizing effects for sustainable development. Some of these projects have increased Serbia’s coal-based energy production and its consequent increase in air pollution, environmental contaminants, and public health challenges.\textsuperscript{64} The Chinese-funded Kostolac thermal power plant II B3 project in Serbia is a prime example of this effect. The negative

\begin{itemize}
  \item \url{https://balkaninsight.com/2020/06/17/birn-fact-check-has-serbias-ruling-party-kept-its-promises/}
  \item Edit Inotai, “Budapest to Belgrade: All Aboard the Secret Express,” Balkan Insight, April 22, 2020, \url{https://balkaninsight.com/2020/04/22/budapest-to-belgrade-all-aboard-the-secret-express/}.
  \item Valerie Hopkins, “Hungary to keep details of Beijing-funded rail link secret,” \textit{Financial Times}, April 2, 2020, \url{https://www.ft.com/content/251314b5-8d6a-4665-a14b-0110dd88754c}.
  \item Ibid.
  \item Holzner and Schwarzhappel, \textit{Infrastruktur Investment}, 17.
\end{itemize}
environmental and health impacts expected from its expansion and its lack of carbon capture technology have drawn strong criticism.\textsuperscript{65} Beijing’s rhetoric on global environmental stewardship confronts the reality that its foreign investments contribute to—if not accelerate—global warming. This also pushes Serbia further away from EU environmental standards, as many of these power plants run on lignite, which produces high emissions and which the European Union is aiming to transition away from.

These projects also have collateral effects on democratic structures in Serbia. Some Serbian government officials continue to block access to information on some projects to civil society organizations, the press, labor activists, and environmental groups; for example, when an investigative outlet requested to see the agreement for Kostolac, state-owned energy company EPS withheld some pages.\textsuperscript{66} Officials also use the cover of intergovernmental agreements not being subject to the same scrutiny as regular procurement or not being retroactively covered by state aid rules.\textsuperscript{67} Thus, transparency is further hindered and the public is left unaware of the impact of these projects.

The questionable labor standards in some Chinese projects are an example of how a lack of information can be deadly. HBIS’s steel mill in Smederevo has reportedly been plagued by falling safety standards and inadequate maintenance.\textsuperscript{68} According to a union leader working at the mill, the facility now operates without respect for workers’ rights or labor laws, contracts with workers lack transparency, and safety standards have eroded compared to when the facility was run by a U.S. company.\textsuperscript{69} Air pollution and red dust from the mill have worsened.\textsuperscript{70} However, the government has continued to tout the many jobs saved by China’s acquisition, ignoring the qualitative difference in these jobs. Serbia also relies on the mill for its exports, reinforcing the government’s positive rhetoric toward Smederevo.

The lack of civil participation and democratic accountability not only weakens Serbia internally but also strengthens its growing authoritarian tendencies, which in turn contributes to regional destabilization and reduces opportunities to strengthen U.S. bilateral relations and EU integration. Importantly, at times, it physically harms the Serbian people as well.


\textsuperscript{68} Surk, “As China Moves In, Serbia Reaps Benefits.”

\textsuperscript{69} Ibid.

Chinese technology companies, and Huawei in particular, view Serbia as a launching pad and showcase for their regional operations. The Chinese and Serbian governments signed agreements on deepening technology cooperation in 2009, 2016, and 2019. These agreements helped lay the groundwork for a “second wave” of Chinese technology investment after a spurt of lending in 2012 for transport and energy infrastructure from the initiation of China’s 16+1, now 17+1, format. Serbia’s ICT sector has seen few other entrants or investors, making it even more prone to a second wave of Chinese digital projects.

**Chinese Technology Projects in Serbia**

Chinese ICT projects in Serbia include smart city development, fiber-optic cables, data centers, broadband, 5G, artificial intelligence (AI), and other ICT infrastructure, a number of which are described in greater detail below, and reflect sectors where the government has signed MOUs to deepen cooperation with Chinese companies, including Huawei and Alibaba. According to CSIS research, 14 of 18 ICT projects involving Chinese companies in the region are concentrated in Serbia, and of those, 40 percent have been initiated since

*Download the dataset for individual project details.*
2019. Looking at the market penetration of Chinese devices shows an even more granular and widespread picture. There were nearly 900 internet-connected surveillance cameras manufactured by Hikvision, China’s largest camera maker, across Serbia as of June 2020, according to the search engine Shodan, which scans for internet-connected devices.\(^\text{71}\)

Serbia’s size, population, and geographic connectedness with the region, coupled with its rapidly developing ICT infrastructure, make it an attractive location. Serbia shares borders with four EU member states—twice as many as any other WB6 country—including Croatia, which is home to two of the three submarine cables connecting the region to the world’s internet infrastructure. This geographic advantage has already supported greater 5G connectivity with the European Union, demonstrated by Serbia being the only Western Balkan nation included in the European Union’s 5G Public-Private Partnership (PPP) initiative, a joint initiative between the European Union and European industry, and 5G cross-border corridors to test autonomous vehicles which currently circumvent the other WB6 countries.\(^\text{72}\)

Serbia is a central hub for regional internet traffic. In one study of traffic flowing into the region from January 2019 to January 2020, more queries were transmitted via Belgrade than any other Southeast European city other than Frankfurt due to its geographic centrality and the high density of internet exchange points relative to its WB6 neighbors.\(^\text{73}\) In another test

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73. Réseaux IP Européens Network Coordination Centre, Southeast Europe Country Report, (Amsterdam, Netherlands: ...
conducted to measure how the rest of the internet reaches networks in Southeast Europe, Serbia’s Telekom Srbija and Serbia Broadband were the first operators reached in 25 percent of cases, showing the central role of Serbia’s telecom companies in directing international traffic. In the past, China Telecom has expressed interest in acquiring Telekom Srbija, which may become an even more attractive target as it expands its regional footprint. Serbia also leads the WB6 in goods and services exports as well as ICT access, use, and skills, according to ITU rankings. In recent years, Serbia’s technology sector has experienced a 25 percent annual growth rate that is expected to continue, notwithstanding the temporary economic impacts of Covid-19.

China’s ICT exports are set to expand in the wake of the pandemic. Following the closure of public schools in response to Covid-19, the Serbian Ministry of Education turned to NetDragon, a Chinese company that helped Serbia establish an AI training center in Belgrade in 2020, to provide remote learning platforms for students. Beginning in March 2020, the Chinese tech company Dahua, which the U.S. government has sanctioned for human rights abuses, began heavily marketing a range of products in Serbia as solutions to the pandemic, mentioning them in Facebook posts 18 times through June 2020 and using claims that experts say likely exaggerate their capabilities. Such solutions include heat-sensing cameras described as a “human body temperature measurement solution,” contactless entry that uses facial recognition, and cameras for “people counting flow control” and “no face mask detection.” Serbia has also doubled down on efforts to attract Chinese tourists through a contract signed between the state tourism organization and Alibaba in late 2019 to use platforms such as WeChat, Weibo, and Fliggi to promote Serbia as a vacation destination in hopes of shoring up its ailing tourism industry in the wake of pandemic-related travel bans.

These developments could make Serbia an even more critical hub along China’s Digital Silk Road. Several factors are driving this expansion: an increasing demand for digital health monitoring, underscoring the value of connectivity; fiscal pressures, which make lower-cost ICT projects a necessity in light of more expensive large transport and energy investments; and increased scrutiny of and U.S. pressure on Chinese tech companies in Western markets,

74. Ibid.
77. Kleibrink et al., The Potential of ICT in Serbia.
which will likely drive Chinese companies to redouble efforts to retain market share in developing and emerging markets.\(^2\) While all the existing risks that apply to other Chinese investment in Serbia continue to apply, the nature of digital infrastructure projects and ICT technology creates additional risks that warrant further exploration.

Security Risks

Serbia is strengthening its ties with Huawei, which has a poor security track record. In March 2020, the city of Kragujevac launched a state data center with plans for an AI-platform and cloud infrastructure, funded in part by grants from the Chinese government, that uses equipment and expertise provided by Huawei.\(^3\) In addition to commercial uses, the state-owned facility will connect government systems and store the data of state and local governments and “e-government” services including vital statistical records, citizenship information, court proceedings, health records, and medical prescriptions.\(^4\) It is unclear whether local staff will be trained to operate it and whether adequate protections will be put into place. As one expert put it, “large-scale data breaches happen in countries with better data protection rules and a higher level of privacy consciousness than Serbia.”\(^5\)

Huawei’s connections to the Chinese state amplify security concerns, particularly given that Huawei has been accused of stealing the data of foreign governments in the past.\(^6\) And Kragujevac is not the only instance of Chinese equipment being sold or donated to high-value buildings and branches within the Serbian government. In 2011, Beijing donated $300,000 worth of computers, printers, and other unspecified technical equipment to Serbia’s parliament, and military deals between China and Serbia have included the sale of IT equipment, military drones, and surface-to-air missiles.\(^7\) The difference in approach between Serbia and its EU neighbors is striking. While EU countries are debating whether Huawei equipment can be limited to the “edge” of their networks and are enhancing their investment screening processes, Serbia is hastening Huawei into the core of its networks and government applications.

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Setting Standards

Huawei and other Chinese technology companies view Serbia as a strategic foothold for penetrating Southeast Europe. In 2019, Tencent started negotiations with the Serbian government to construct a data center that would “represent the backbone of the company’s infrastructure in Eastern Europe,” according to a government statement. Huawei regards Serbia as a regional resource and competence center with the capacity to cover its entire Southeast Europe market, including Bosnia-Herzegovina, Montenegro, Croatia, Slovenia, and Albania, the company has noted. Huawei has pursued this goal by developing strategic partnerships with Serbia’s three major telecom operators, and it claimed to serve 80 percent of the country’s telecom users in 2015. Although that statistic is questionable, like other marketing claims, it underscores how Serbia is key to Huawei’s wider regional ambitions.

Huawei aims for deep involvement in developing Serbia’s networks as well as the policies governing them. Huawei aspires to embed itself as “an advisor to the Serbian government on ICT planning and development,” providing opportunities to influence decisionmaking in ways that may not align with European interests. Overreliance on Huawei equipment and software may also constrain Serbia’s options in the future. Analysts at Fitch Solutions have cautioned that Huawei’s 5G equipment, which is being tested in Serbia, lacks interoperability with other suppliers. This limits the ability to diversify equipment sources—a key step toward greater cybersecurity—and to adjust supply chains in the future. Huawei’s role in the Kragujevac state data center—“the most important IT building in the country”—deepens this dependency and could present another barrier to achieving a greater diversity of supply. While the United States has attempted to limit Huawei’s participation in Serbia’s 5G networks through a commitment signed by Belgrade and Pristina in September to prohibit or remove 5G equipment from “untrusted vendors,” President Vučić has since stressed that the agreement will not impact plans to deepen Serbia’s cooperation with Huawei, which Serbia considers a reliable partner. Notably, the agreement made no direct reference to Huawei, and Vučić is likely to take advantage of this.

AI is another area where Huawei’s activities in Serbia potentially carry global repercussions. China’s New Generation Artificial Intelligence Development Plan encourages Chinese companies to integrate into global AI development in part to mitigate domestic shortcomings in research and development efforts and to give companies access to foreign cultural contexts and data critical for the enhancement of machine learning. This is consistent with Huawei’s plan to open a regional “Innovation Center for Digital Transformation” for the Western Balkans, headquartered in Belgrade.\(^7\) China’s approach to AI reflects its socialist system, values, and party imperatives, including promoting “social stability.”\(^8\) In sharp contrast, the European Union’s AI strategy aspires to develop “ethical and trustworthy AI” and create international norms with respect for human rights, privacy, and data governance.\(^9\) Serbia’s digital path now bends toward Beijing.

**Risks to Civil Liberties**

China’s technology exports erode Serbian civil liberties (which have already been reduced by the government) by amplifying the state’s ability to track and suppress citizens and intimidate critics of the government. Absent Chinese backing for improved governance and democratic standards, Chinese exports of public AI-powered surveillance systems known as “Safe Cities” risk reinforcing democratic backsliding and enhancing surveillance of opposition and civil society leaders, bolstering the tools of Serbia’s increasingly authoritarian leadership. While China is not directly responsible for state decisionmaking about how these technologies are utilized, they are training Serbian law enforcement officials on their uses. In China, the same “Safe City” technology has been used to track and suppress ethnic minorities in Xinjiang—surveillance tactics that are antithetical to democratic norms.\(^10\) Beyond its borders, China does not bind itself to the same export and regulatory restraints as Western vendors, such as the U.S. Draft Human Rights Guidance for Exporters of Surveillance Technology, which are designed to reduce the risk of such technologies being utilized for authoritarian means.\(^11\) In some cases, China amplifies its governing preferences through these exports.

Huawei’s “Safe City” and “Smart City” systems have been deployed in Belgrade and Nis, respectively, at a time when civil liberties are substantially declining in Serbia.\(^12\) According to representatives from the Share Foundation, a nonprofit organization that

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advocates for human rights in the digital environment, “Serbia is an ideal testing ground for [Huawei surveillance technology] on the whole continent of Europe. There are problems with the implementation of legislation, meaning there is space to test the technology which would be much more difficult in other parts of the EU.”

The Safe City system in Belgrade includes hundreds of cameras with facial recognition capabilities and has reportedly deterred anti-government protests, and images of protestors were allegedly leaked to pro-government outlets. Huawei has downplayed its involvement, asserting that the owner of the project is the Ministry of Interior, and they are not responsible for operational decisions concerning privacy issues or the use of data. However, Huawei has not just provided the equipment. It also operates the system, and Chinese police officers patrolled the streets alongside their Serbian counterparts when training them on how to use it. (Though those joint patrols were also claimed to be there to assist with the rising number of Chinese tourists in the region, the patrols took place in some cities, such as Novi Sad and Smederevo, which are not known for tourism as much as Chinese investment.)

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105. Stojkovski, “Big Brother Comes to Belgrade.”
Civil society groups in Serbia have criticized these systems and the lack of transparency around them. According to the Share Foundation, most of the information about the project available to the public when it was initially launched came from a Huawei case study rather than the Serbian government, and less than a day after the Share Foundation publicized that information, it was removed from Huawei’s website. They have cautioned that the project does not meet legal standards for human rights impacts assessments and data privacy protections and lacks basic transparency, with some cameras being installed prior to information about the cooperation between Huawei and the Ministry of Interior being made publicly available. Law enforcement officials later denied freedom of information requests about the public procurement process on the grounds that such information was classified and that the camera locations were confidential. There is no public information about what, if any, mechanisms are in place to ensure government accountability and prevent abuse of the system or to establish repercussions should abuses be uncovered.

“Serbia is an ideal testing ground for [Huawei surveillance technology] on the whole continent of Europe. There are problems with the implementation of legislation, meaning there is space to test the technology which would be much more difficult in other parts of the EU.”

- Share Foundation

While the costs to Serbian civil liberties are increasingly visible, the benefits of these systems remain unknown. In Belgrade, Huawei’s Safe City project promised to be a magic bullet that would reduce crime, improve traffic, and enhance public safety. According to Huawei, the system helped solve multiple criminal cases and resulted in an overall reduction of crime rates in the first five months of the project. These claims are impossible to verify without publicly available data on the systems’ performance. They are also questionable, given Huawei’s record of publicizing positive results that are at odds with public records. In addition, no information about the cost of the system has been made public despite being financed by taxpayer dollars. At a minimum, the public and research institutions should have access to data about the effectiveness of these publicly-financed systems that require citizens to give up some privacy.

Recommendations

Serbia is slowly evolving into a Chinese client state, hedging against and crowding out Russian influence and creating higher hurdles for Serbia's European integration. China effectively uses economic activities, both physical and digital infrastructure, to advance its political, commercial, and technological objectives in Serbia and Europe. Nontransparent government-to-government dealmaking has been the primary conduit for these activities. In return for Chinese loans to complete large infrastructure projects, the Serbian government has publicly praised China and supported its foreign policy positions. This robust government support toward China has shifted public opinion to the point that China is perceived as a more important partner than the European Union, which also serves President Vučić's interests in building leverage and bargaining power with the West. Chinese firms have positioned themselves to use Serbia for greater market access in the region. The Covid-19 pandemic presents more opportunities to deepen this cycle of mutually beneficial influence, especially in the digital sphere.

The case of Serbia also highlights a clear tension between China's longer-term objectives and its near-term actions that must be better understood and exploited by the United States and Europe. In the longer term, China would benefit from Serbia's entrance into the European Union. But China's government-to-government dealmaking and pursuit of its own standards in Serbia drive Serbia further from EU integration. In other words, China is burning the bridge it is attempting to build to the EU market via Serbia by failing to fulfill its commitments to greater transparency around its economic activities or respect for EU regulations. The data also debunks Beijing's public stance that its efforts under the 17+1 complement rather than compete with EU policy goals. Simply put, Beijing is competing with the European Union in Serbia more than it is coordinating with it, instead pursuing its own interests bilaterally.

The United States and Europe, however, cannot allow these developments to remain unaddressed, as policy options and opportunities to alter the situation continue to narrow over time. China is undermining its own long-term plan by not only weakening Serbia's prospects and governance but also accelerating its authoritarian tendencies, which has broader implications for the whole region. Many of the projects that China is pursuing, particularly in the transportation, energy, and digital sectors, will have financial, environmental, and societal impacts for decades to come. Although digital infrastructure

has a shorter lifecycle, without viable alternatives, the risk of permanent technological dependency is great.

Working with its allies, and the European Union in particular, the United States must pursue a strategy that simultaneously exposes the untruths and contradictions of Chinese economic and political engagement in Serbia; mitigates current and future Chinese influence activities; and presents a positive transatlantic agenda that highlights transparent investment, economic benefit, rigorous oversight and accountability, and civil society engagement.

A specific U.S.-EU public education campaign should be organized and executed to expose the negative impacts of Chinese economic activities in Serbia using a variety of media tools outside of Serbian government-controlled media. This will be particularly challenging under the current climate and will necessitate innovation and creativity. This campaign should highlight the local economic, environmental, and health impacts of Chinese investments as well as expose that these “gifts” from China are loans that will financially burden future generations. An important element of the campaign should also highlight how local patronage networks financially benefit from these investments rather than the average citizen. More broadly, this education and exposure effort should also offer a better understanding of China’s policy goals and tools, as expertise on China in the media and academia in Serbia is limited. Greater transatlantic financial support should be given to Serbian investigative journalists and new social media outlets to enhance exposure and to academia and think tanks to support a better understanding of China. Civil society organizations should receive specific training to improve advocacy for greater transparency for Serbian institutions that approve Chinese-funded projects, including for reporting and tracking projects and their financing.

A second public education campaign must more robustly demonstrate the societal benefits of the grants and aid the European Union and the United States provide to Serbia, highlighting the fact that Western assistance seeks to promote the health and well-being of the Serbian people and will improve economic and environmental security, including EU aid to deal with the economic fallout of Covid-19—which China is not aiming to do. This campaign should include young people who seek to leave Serbia for better economic opportunities in its target audience. It must highlight transparency while acknowledging publicly both recipients as well as locations that may have misused EU or U.S. funding. This will help differentiate transatlantic efforts from Chinese investments and strengthen anti-corruption efforts.

Better coordination and targeting of U.S. and EU technical assistance and investment programs will be key to increased transparency around and awareness of Chinese investment activities, along with enhanced investment coordination. The recent announcement by WB6 leaders of their plan to coordinate among themselves and with investors within the WBIF to identify projects ready for investment is a positive sign.115 To support this effort and ensure coherence on the investor side, the European Investment Bank (EIB), the U.S. Development Finance Corporation (DFC), the Japan Bank

for International Cooperation (JBIC), and other financial institutions should create an investment working group specifically for the Western Balkans to better coordinate and increase alternative financing mechanisms for worthy investment projects that meet Western standards, along the lines of the WBIF’s current work. A natural starting point for this group is to coordinate projects proposed by the WB6 at the upcoming Sofia Summit.

Finally, consideration should be given to forming a special U.S.-EU monitoring group that closely tracks Chinese digital infrastructure activities in third markets. In Serbia’s case, a priority for further monitoring is how Serbian authorities are using China’s suite of surveillance technology, particularly against political opposition figures and civil society. Chinese investments in Serbia’s telecommunications network should be monitored closely as well, given the security and intelligence implications for regional data flows.

The transatlantic community must prioritize Serbia as a bulwark to address growing Chinese influence in the Western Balkans and potentially in Europe, as it serves as a laboratory for Chinese engagement. The transatlantic community is already late in understanding the comprehensiveness of China’s influence, which has reached such a point as to begin to crowd out Serbia’s historic champion, Russia. Serbia’s direction will also continue to impact the whole region and, as such, makes it a priority for U.S. policymakers.
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