POLICY BRIEF
03/2025

HUNGARY AND SERBIA: CHINA'S NEW OFFSHORE MANUFACTURING HUBS IN THE EU?

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Hungary and Serbia: China's New Offshore Manufacturing Hubs in the EU?

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Abstract Chinese greenfield investments in Europe are on the rise, reshaping the landscape of foreign direct investment. Instead of mergers and acquisitions, Chinese companies are increasingly setting up new operations, particularly in Hungary and Serbia. This shift is driven by factors like the EU's tighter investment screening and China's strategic focus on long-term market presence. Greenfield investments, especially in sectors like electric vehicles and renewable energy, offer Chinese firms fewer political hurdles, while supporting local economies. How are these investments shaping EU-China relations and offering new opportunities and challenges for European policies?

Acknowledgements

Special gratitude goes to Derek Scissors for providing the Chinese investment tracker, which has been extensively used in this research. His valuable contribution, through the American Enterprise Institute, has been crucial for the analysis presented in this study.

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1 Greenfield investment

Greenfield investment is a type of foreign direct investment (FDI) where a company sets up operations in a foreign country from the ground up. This typically involves building new facilities, such as factories or offices, on an undeveloped site, hence the term "greenfield."

Companies often choose greenfield investments when they want to maximise control over their operations abroad. Unlike other forms of FDI, like buying shares in foreign companies or acquiring stakes in existing businesses, greenfield investments allow companies to manage everything directly. While tax breaks and subsidies can be an added incentive, the main goal is usually to avoid middlemen and maintain full control over operations.

FDI has been a key tool for companies looking to expand globally. In the case of China over the past two decades, significant investments have been made across the world as part of both public and private strategies (UNCTAD, 2021). This analysis takes a closer look at the flow of Chinese investments into Europe from 2005 to 2024, with a particular focus on the rise of greenfield projects and what this means for EU trade policies.

In recent years, Hungary and Serbia have become major recipients of Chinese greenfield investments (American Enterprise Institute, 2024). This report examines how deepening diplomatic ties with China have played a role in attracting these investments. It also explores the rationale behind China's approach.

2 Renewed interest in greenfield investment

The report 'Xi's trip to Europe followed China's FDI trail' (Financial Intelligence, 2024) points at new emerging trends, such as establishing subsidiaries abroad instead of Mergers and/or Acquisitions (M&A), by both Chinese state owned enterprises (SOEs) and private owned enterprises (POEs). This trend is also evidenced in the EU by the recent MERICS report 'Dwindling investments become more concentrated' (2024).

The EU's establishment of an investment screening mechanism in 2020 has been pivotal in shifting the preferences and the objectives of Chinese investors. Firstly, using FDI for strategic asset seeking became more challenging due to the increasing attention of EU member states' national authorities (Hanemann et al., 2019). Data from the Chinese global investment tracker show that the amount of FDI announced but not finalized reached a historical peak in 2022 (see Figure 2). Secondly, the supply chain disruptions during the Covid-19 pandemic and renewed trade tensions between the US and China have changed investors' preferences (Blanchard et al., 2021). As a result, the composition of inflowing capital to the EU became prevalently greenfield (see Figure 1).

Greenfield FDI is perceived as less risky by EU national authorities because

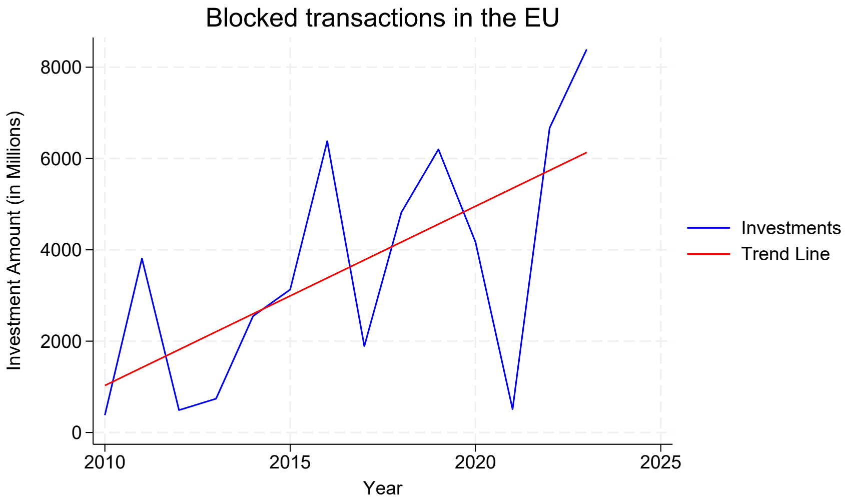

FIGURE 1. *Total amount of blocked investment transactions in the EU (2010-2023)*

Source: Own calculation elaborated from Chinese Investment Tracker, American Enterprise Institute.

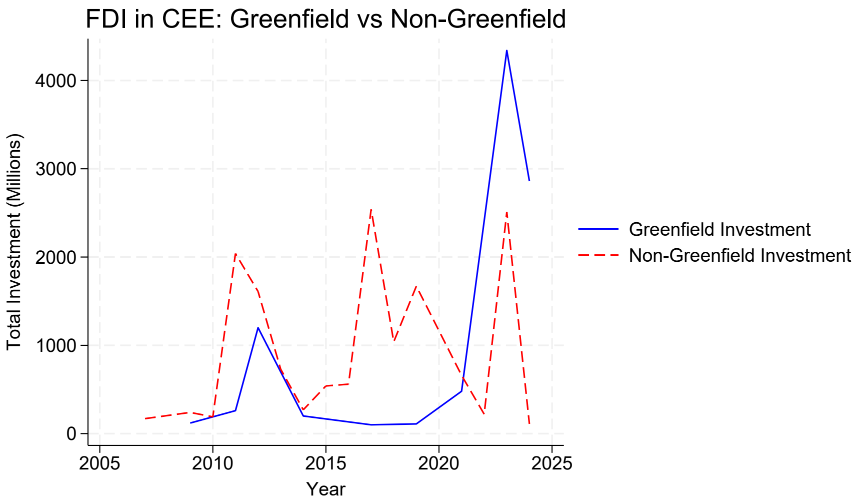

FIGURE 2. *M&A vs Greenfield investments in CEE (2010-2024)*

Source: Own calculation elaborated from Chinese Investment Tracker, American Enterprise Institute.

it does not involve taking over existing infrastructure or technologies (Dong et al., 2021). Information and communication technology (ICT) infrastructures acquisition raised some concerns, mainly related to data transfer and control over information and communication channels. Overall, concerns over M&A of European firms cover a wide range of sensitive policy areas such as dual technologies for military use and control over other potential sensitive areas such as energy infrastructure and supply chains.

As a result, greenfield investments have become a tool to enter the EU market and overcome some of the restrictions included in the EU's trade policies. Greenfield investments rely on the individual member state's interest rather than the EU's as a whole. While the EU's internal market control may decrease, the designated member state receives an inflow of investments, resulting in a boosting of the economy and potential GDP growth. Such investments can provide possible spillover effects in terms of economic growth and job creation. On the other hand, the EU is set to guarantee free market conditions while ensuring that foreign companies, particularly those benefiting from non-market-driven subsidies, do not create unfair competition or distort the market in ways that violate international trade rules. Due to diverging views and lack of incentive to pursue common EU policies, Hungary and Serbia entered in investment negotiations with China, also for FDI projects in the BRI framework. Serbia is a non-EU member state, however, there is a Stabilisation and Association Agreement[1] which guarantees a favourable trade policy with the EU. Greenfield investments are directed mainly in sectors where Chinese companies are leading in terms of innovation, such as electric vehicles (EVs), batteries and renewable energy (Waldersee, 2024). This shift reflects the evolving priorities of Chinese firms. Greenfield investments foster a long-term presence in the market, enhancing future sales predictability and solidifying the branding of Chinese companies within the EU. These investments also showcase technological innovation strength, particularly in fields like electric vehicles (EVs). As highlighted by the Position Paper 2024/2025 of the EU Chamber of Commerce in China (2024), China's domestic consumption and overall growth trajectory have slowed. Consequently, the internal market is increasingly unable to absorb Chinese overcapacity, prompting firms to seek opportunities abroad to sell their goods.

At the same time, greenfield investments allow Chinese firms to safeguard critical societal compartments, such as Research and Development (R&D) and corporate operations within China. High-value-added production, like component manufacturing, often remains in China, while assembly processes are relocated abroad. This approach ensures that highly productive jobs stay in China, while lower-value activities are carried out elsewhere. In this context, greenfield investments enable Chinese companies to retain high-value operations domestically while transferring less strategic parts of the value chain to Europe and other parts of the world (Hamlin, 2024). Investing abroad can also serve as a diplomatic tool, fostering stronger international relationships or helping to "make friends" (Yan, 2014). Given the close ties between

1. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02013A1018(01)-20211206

Chinese firms and the state, particularly in the case of state-owned enterprises (SOEs), business decisions are often aligned with broader governmental objectives. SOE managers, while overseeing corporate operations, frequently take on roles that support China's strategic and economic policies (Xin et al., 2019). This alignment enables investment projects to be coordinated at the governmental level before they are launched. Through diplomatic and economic channels, Chinese authorities engage with host governments to address potential regulatory concerns, secure favorable conditions, and mitigate political risks. As a result, greenfield investments often receive an implicit or explicit framework of political support, which helps Chinese firms navigate local markets more effectively (Garcia Herrero & Xu, 2019). In the EU context, such investments not only create economic partnerships with member states but also contribute to deeper Sino-EU economic integration. However, this growing interdependence has sparked concerns about potential dependencies, particularly in strategic sectors such as energy, technology, and infrastructure. The European Commission has repeatedly raised this issue, warning that an increased reliance on Chinese capital and supply chains could challenge the EU's economic resilience and strategic autonomy. This concern was recently highlighted in the document "Commission proposal to impose tariffs on imports of battery electric vehicles from China obtains necessary support from EU Member States" (EU Commission, 2024).

In summary, the confluence of these dynamics has driven renewed interest among Chinese players in pursuing greenfield operations within the EU rather than M&As.

3 Investments partnership in CEE

Research shows that Chinese outward foreign direct investment (OFDI) is strongly influenced by diplomatic relations, with favorable political ties significantly mitigating the perceived risks of cross-border investments (Matura, 2019; Damioli & Gregori, 2023). The International Political Economy (IPE) perspective emphasises how economic actors cooperate through state-level agreements, which helps reduce risks and improve trust between countries, thus enhancing FDI flows. In particular, governments' diplomatic tools, such as high-level visits, play a key role in strengthening these ties and facilitating investment in countries with which China maintains strong diplomatic relations (Schweizer et al., 2019).

For Chinese state-owned enterprises (SOEs), the role of diplomacy is even more critical due to their dual nature of pursuing both commercial and political objectives. SOEs often face additional challenges such as legitimacy concerns and political resistance, particularly in countries where state ownership can be perceived more negatively. Diplomatic efforts, such as high-level government visits, can help mitigate these challenges by signaling institutional support and creating favorable conditions for investment. Studies applying the gravity model of international trade applied to the EU, suggest that diplomatic distance may negatively impact the location of Chinese FDI, increasing institutional distance and political risk, thus encouraging Chinese

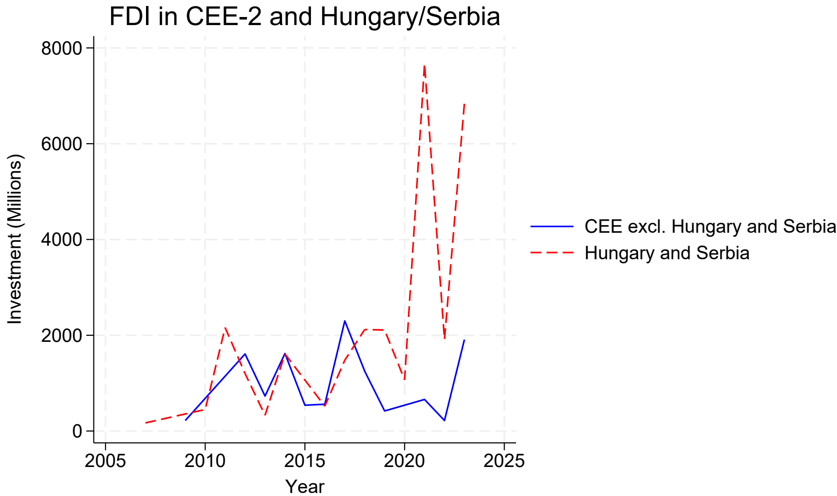

FIGURE 3. *Greenfield vs M&A FDI in CEE vs Hungary and Serbia (2006-2023)*

Source: Own calculation elaborated from Chinese Investment Tracker, American Enterprise Institute.

firms to expand elsewhere (EU Commission, 2023).

The bilateral investment treaties (BITs) between China and individual EU member states remain in force, as the EU-China Comprehensive Agreement on Investment (CAI) has not been ratified and is unlikely to be so in the near future (Hu & Pelkmans, 2021). This means that existing BITs continue to govern EU-China bilateral investment relations on a country-by-country basis, although they lack broader provisions (Arendse, 2021).

After the collapse of the Soviet Union, Central and Eastern European (CEE) countries pulled their maximum effort to join the EU and NATO. Initially they were giving little attention to China and vice versa, which changed against the background of China's regained confidence after the Beijing Summer Olympics and following the 2008 financial crisis. The CEE countries and China became naturally closer due to shared and matching economic interests. CEE countries were looking for new investment opportunities amidst the Eurozone crisis, while China was enjoying commercial surplus and facing industrial overcapacity. In this context, the CEE countries are of strong strategic value since they belong to the EU single market and can provide low costs but efficient production (Orenstein & Bugarič, 2020).

China used to channel much of its engagement with the 16 Central and Eastern European (CEE) Countries (among which also non-EU countries) through the 16+1 Cooperation Framework, while we now see a shift towards a more bilateral approach. Yet, using a more granular approach, most of the investments in the region have

been concentrated in Hungary and Serbia. As shown in figure 3, those two countries account for the majority of Chinese FDI in the CEE. Following 2020, these investments comparatively skyrocketed with respect to other CEE countries. Hungary and Serbia are not only the major recipients among the CEE countries, they also recorded the highest share of FDI from China across the whole of the EU in 2023 and 2024 (FDI Intelligence, 2024). The following subsections will examine the Hungarian and Serbian relations with China to assess the interplay between investments and political vicinity in further detail.

Hungary-China bilateral talk on investment

Germany and Austria, as the largest investors in the CEE region, significantly reduced their outbound FDI following the 2008 financial crisis (Jovanović & Weiss, 2022). This changing geopolitical landscape incentivised Hungary to reposition its economic partnerships, balancing new investment opportunities from China while observing a decline in FDI from EU member states (Orenstein & Bugarić, 2022). Prime Minister Viktor Orbán's visit to China in 2010 marked a shift toward deeper political and economic relations, which became more prominent with Hungary's participation in the 16+1 forum, established in 2012 (Lukács & Völgyi, 2021, p. 426). Additionally, the "Opening to the East" policy introduced in 2011 further solidified Hungary's focus on increasing exports and attracting FDI from China. Orbán has emphasized the importance of strengthening Hungary's economic ties with China while maintaining its traditional focus on the European market, positioning Hungary as a potential corridor linking China and Europe (Song & Li, 2024).

For many years, the inflow of Chinese capital into Hungary remained relatively limited. Despite the "Opening to the East" policy, China has not yet emerged as a comparable alternative to the EU investments volume. The benefits of the single market and access to EU funds have far outweighed the economic impact of Chinese investments and loans in Hungary. Furthermore, Hungary's close cooperation with China has come at a political cost on the international stage. Hungary's position within both the EU and NATO has declined due to noncompliance with EU law and cybersecurity risks associated with hosting companies such as Huawei (Gizińska & Uznańska, 2024). Hungary's participation in the 16+1 forum after the first China–CEE summit was held in Budapest in 2011, was part of a strategic effort to strengthen economic and infrastructural ties with China. Hungary was the first European country to officially sign a Memorandum of Understanding (MoU) on the Belt and Road Initiative (BRI) with China in 2015. This led to an agreement to establish a state-owned joint venture company, Chinese-Hungarian Railway Non-profit Ltd., responsible for coordinating the upgrade of the Hungarian section of the Budapest-Belgrade railway line (Völgyi & Lukács, 2021). While Hungary initially focused on leveraging this key infrastructure project, delays occurred, also due to the need to comply with EU safety and security standards (Hayes, 2023). Despite these setbacks, the railway remains a crucial part of China's BRI, with hopes for completion in 2025 (Németh, 2023).

After 2012, Sino-Hungarian relations were upgraded to a comprehensive strategic

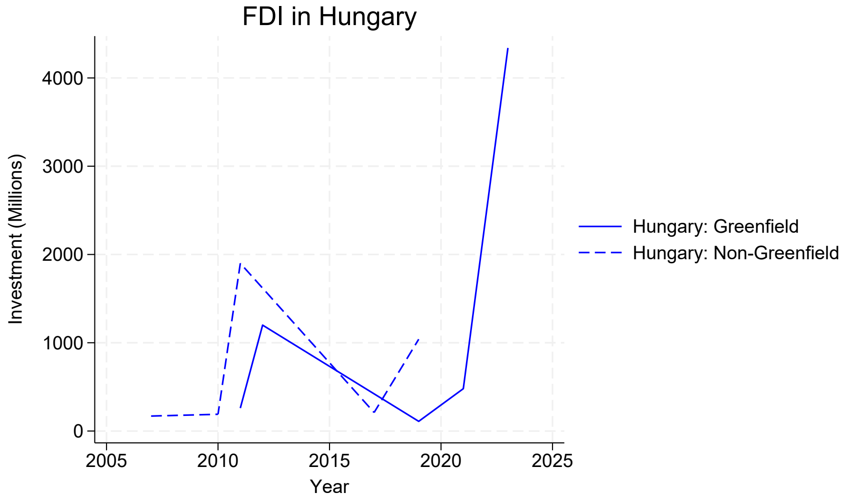

FIGURE 4. *Greenfield vs Non-Greenfield FDI in Hungary (2010-2023)*

Source: Own calculation elaborated from Chinese Investment Tracker, American Enterprise Institute.

partnership. By 2014, Chinese investments in Hungary exceeded 3 billion USD, accounting for around 2–2.5% of the nation's FDI stock. A significant portion of this came from Wanhua's acquisition of BorsodChem, the largest Chinese investment in CEE (Rózsás, 2017). Additionally, the Hungarian government signed six strategic cooperation agreements with various Chinese companies and joint ventures with local players, including Huawei Technologies Hungary (2013), BorsodChem (2014), Yanfeng Hungary (2016), Bank of China (2017), Wescast Hungary (2017), and SEGA Hungary (2020) (Völgyi & Lukács, 2021). While other agreements may have been signed, these six are among the most notable, reflecting the breadth of Sino-Hungarian economic cooperation.

In May 2024, Chinese President Xi Jinping visited Hungary and declared the establishment of an "all-weather partnership," marking a new phase in the economic collaboration between the two countries. This strategic alliance represents a deepening of bilateral ties, with both nations committing to enhanced cooperation in various fields, including the nuclear sector (PRC Ministry of Foreign Affairs, 2024). Additionally, the China-Hungary Economic and Trade Cooperation Exchange Meeting, held in Budapest in June 2024, highlights Hungary's enthusiasm for attracting Chinese investment in areas such as modern agriculture, food processing, machinery manufacturing, geothermal and photovoltaic energy, and the tourism sector (China Daily, 2024).

Figure 4 above shows a surge in investment projects starting in 2021, in an attempt to reduce potential uncertainty regarding EU trade policies. As noted by Caraballo Perez & Corina (2023) and Alcaraz et al. (2023), there is a significant difference

between the attitudes of American multinational enterprises (MNEs) and Chinese MNEs when selecting a country location, based on political risk and uncertainty. Chinese state-owned enterprises (SOEs) tend to navigate governmental procedures that involve establishing political connections to reduce diplomatic-level political risk. This approach has contributed to the growing flow of Chinese investments, with many companies setting up subsidiaries in Hungary. Furthermore, bilateral FDI ties tend to be more effective when the host country is a more centralised state, such as Hungary (Choi et al., 2015; Lin et al., 2024).

Serbia-China bilateral talk and investments

The beginning of the Serbia-China investment partnership can be traced back to 2009, with the signing of the framework agreement on economic and technological infrastructure cooperation (Government of the Republic of Serbia, 2009). In the early stages of economic cooperation, Chinese involvement in Serbia focused on loans for infrastructure development rather than substantial foreign direct investment (FDI). Between 2010 and 2015, Chinese FDI in Serbia totaled only 189 million EUR, significantly lower than the 7.2 billion EUR invested by EU countries during the same period, according to the National Bank of Serbia (2015). In 2015, China and Serbia signed a memorandum of understanding, committing to jointly advance the Belt and Road Initiative (BRI) and promote the Belgrade-Budapest railway connection.

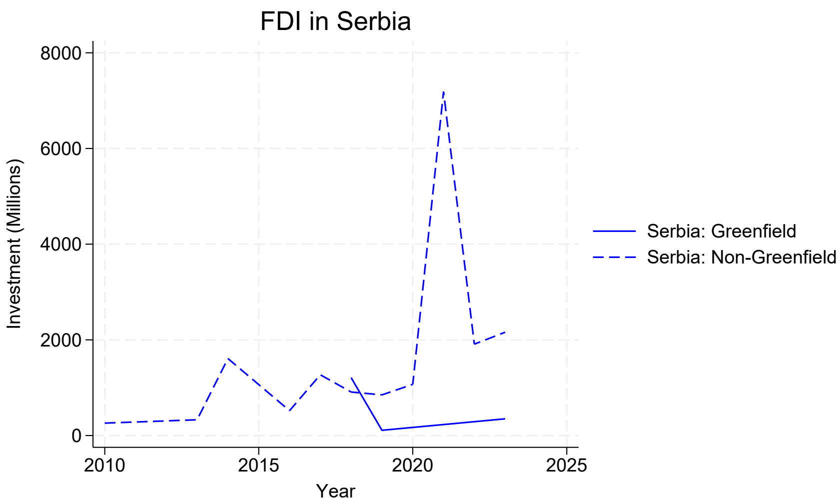

FIGURE 5. *Greenfield vs Non-Greenfield Investments in Serbia (2010-2023)*

Source: Own calculation elaborated from Chinese Investment Tracker, American Enterprise Institute.

A pivotal moment in their relations came in June 2016 when Chinese President Xi

Jinping declared, "China and Serbia are all-weather friends and important cooperation partners," elevating their relationship to a comprehensive strategic partnership. Following this, FDI flows increased, beginning with the Chinese acquisition of the Smederevo Steel Mill. Previously managed by Serbia after U.S. Steel's withdrawal in 2012, the mill was sold to HeSteel Group for 42 million EUR, along with a commitment to invest up to 300 million EUR. Announced during Xi Jinping's visit, the deal symbolised the strengthening "steel friendship" between the two nations (Huaxia, 2016).

In 2018, Serbia attracted a milestone Chinese investment with two major deals: the Linglong tire factory in Zrenjanin, the largest greenfield investment at the time, and Zijin Mining's 1 billion EUR acquisition of a 63% stake in the Bor Mining and Smelting Combine. Zijin further secured mining rights in Čukaru Peki through a 1.2 billion EUR acquisition of Nevsun, along with agreements with Freeport-McMoRan, establishing a dominant share in Eastern Serbia's mining sector. Despite the COVID-19 pandemic, Chinese FDI in Serbia continued to grow. By 2021, it surpassed investments from any single EU country or major non-EU partners like Russia and the US. In 2022, Chinese FDI reached 1.4 billion EUR, nearly matching the 1.46 billion EUR combined FDI from all 27 EU members (Vladisavljev, 2023).

Chinese investment has significantly expanded Serbia's automotive sector, with key projects driving growth. Minth Automotive Europe established operations in Loznica (100 million EUR) and later Šabac. Central Serbia, historically tied to the automotive industry, also attracted Chinese capital. Mei Ta Europe invested 150 million EUR in Obrenovac, while Yanfeng launched a 40 million EUR greenfield project in Kragujevac, later adding another 18 million EUR. Xingyu Automotive Systems announced a 50–60 million EUR investment in 2020 but faced delays, necessitating Serbian government support. This surge in investment has been fueled by Serbian subsidies, low production costs, skilled labor, and proximity to the EU. Alongside Chinese firms, companies from Germany, Italy, Japan, and South Korea have also shown interest in Serbia's automotive market.

The free trade agreement (FTA) between Serbia and China, signed in October 2023, came into effect on 1 July 2024 (PRC Ministry of Commerce, 2023). This represents another significant step forward in their investment partnership. In the long term, the FTA is expected to benefit China by providing direct access to the European market and reducing production and transportation costs. Additionally, China supports Serbia's efforts to join the EU, creating a mutually favorable position. Serbia, as an EU candidate country, benefits twice as it receives subsidies and non-refundable financial assistance from the EU under pre-accession aid instruments, while also taking loans from Chinese banks without directly jeopardizing its strategic goal of EU membership (Hermann, 2024). The partnership culminated in 2024 when China and Serbia signed an agreement to build a "shared future," making Serbia the first European country to sign such a document with Beijing (Stojanovic & Gec, 2024). This meeting further strengthened the partnership and is likely to increase investments in the region, particularly in sectors where Chinese firms aim to compete in global markets.

4 Shifting Trends in Chinese Foreign Direct Investment

China's "Go Out" policy, introduced in 2000, marked the beginning of its rise as a global investor. The 2008 global financial crisis created an opening for China in Europe, as many countries were desperate for investments to boost growth. During this time, most Chinese investments in the EU came through mergers and acquisitions (M&A). These were largely strategic, with the goal of acquiring foreign technology, as Dunning (1993) describes in his framework for FDI.

In 2020, things began to change with the introduction of the EU's investment screening mechanism. Regulation 2019/45211 requires member states to monitor and review FDI for national security risks, particularly in strategic industries where technology transfer could raise concern. This shift led to tighter controls on incoming Chinese capital. As a result, total Chinese FDI in the EU dropped sharply, hitting a low point in 2020. In response, China adapted its strategy, focusing on greenfield investments rather than acquisitions, emphasising building new facilities in sectors like automotive and renewable energy.

Hungary has been a standout case. Since 2017, when Hungary and China established a comprehensive strategic partnership, their relationship has only grown stronger. Hungary's political support for China at the EU level, combined with growing trade ties, has attracted significant Chinese investment. By 2022, these investments totaled nearly 4 billion EUR—a considerable amount for Hungary's economy. Notably, in 2023 all sizable Chinese investments in Hungary have been greenfield, allowing firms to set up their own facilities and avoid EU trade restrictions. Hungary's low labor costs, skilled workforce, and strong infrastructure have made it a key manufacturing hub in the region.

Chinese investment has also significantly shaped the Sino-Serbian partnership, with notable growth over the past five years. The Serbian government prioritises modernising debt-ridden industrial complexes, as seen with the Smederevo Steel Mill and Bor mines, where contracts required retaining at least 5,000 jobs to protect employment. These efforts have bolstered China's image as a supportive partner.

However, challenges remain. Issues such as environmental concerns, regulatory non-compliance, and labour rights violations have raised questions about the broader impact of these investments. While they bring economic benefits, a robust enforcement of laws and standards is required to avoid their long-term value and sustainability to be undermined. Addressing these challenges will be crucial to ensure that such investments contribute positively to both economic development and societal well-being.

5 Strategic Considerations for EU-China Investment Relations

Although the European Commission holds exclusive competence over trade, Chinese subsidiaries within the EU single market are treated as standard EU companies, allowing them to operate with equal legal rights. The EU's 2020 investment screening mechanism aimed to control foreign direct investments by allowing the Commission to issue opinions on investments that could pose risks, particularly in strategic sectors. However, the Commission cannot block such investments, presenting member states like Hungary with the liberty to attract Chinese investments, resulting in both Hungary and Serbia becoming manufacturing hubs for Chinese products. Nevertheless, while Chinese greenfield investments, particularly in strategic sectors such as renewable energy and electric vehicles offer economic growth opportunities, they have also been raising concerns, like in the solar panel industry.

The lack of a Comprehensive Agreement on Investment (CAI) between the EU and China complicates the investment environment, forcing individual EU member states to negotiate investment terms independently. This often leads to prioritizing financial offers without fully considering the broader implications for the EU as a whole. Furthermore, while national security is a key factor in foreign direct investment decisions, it remains primarily under the jurisdiction of individual member states. As a result, the European Commission has limited influence over security-related issues, even though these matters intersect with broader trade and economic policies.

To address these challenges, the EU may need to take a more strategic and unified approach to managing foreign investments. This includes enhancing the investment screening process to ensure alignment with broader EU objectives and regulations, such as protecting national security, promoting technological innovation, global EU competitiveness and supporting environmental sustainability. Encouraging greenfield investments in innovative sectors can foster economic growth. However, the EU will need to maintain a competitive edge to avoid deindustrialization.

The EU should also consider enhancing oversight of bilateral agreements between member states and non-EU countries, ensuring their alignment with the EU's collective priorities. Strengthening corporate social responsibility (CSR) standards can further ensure foreign investors contribute positively to the EU's social and environmental goals. By adopting these measures, the EU ought to balance economic growth with the need to safeguard its industries, maintain a level playing field, and secure its long-term strategic interests in an increasingly competitive global environment.

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