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The EU's and China's grants and loans in the Western Balkans

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Abstract

This note examines the grants and loans provided by the European Union (EU) and China to the Western Balkan economies. The EU remains dominant in grant funding, with annual Instrument for Pre-accession Assistance (IPA) grants averaging 0.8% of the region's GDP, far above the 0.02% of GDP from Chinese grants. In terms of loans, however, China has nearly caught up with the EU. On an annual basis, the EU has committed loans equal to approximately 1.5% of the region's GDP, while China has provided loans in the amount of 1.2%. Notably, in Serbia, China's loan portfolio now exceeds the size of the EU's. EU loans are cheaper and more transparent but come with stricter conditions for implementation and requirements for institutional reforms. In contrast, Chinese loans are more flexible and quicker to implement, making them appealing to Western Balkan politicians. However, this flexibility comes at a cost, as Chinese loans are significantly more susceptible to corruption, often deliver questionable quality, and have been linked to various drawbacks, such as workers' rights violations and environmental degradation.

Keywords: EU, China, Western Balkans, grants, loans, investment

JEL classification: F21, F35, H81

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1. INTRODUCTION

This note examines and compares **the grants and loans provided by the European Union (EU) and China to the Western Balkans** (WB6), a region comprising Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The growing influence of China in the region, both economically and politically, has drawn attention in Europe, making such a comparative study timely and important. The topic gains additional relevance in light of the EU's efforts to reaffirm its commitment to the Western Balkans, particularly following the 2022 granting of candidate status to Ukraine and Moldova, which heightened competition for influence in the EU's immediate neighbourhood.

There is extensive literature on the EU's presence in the Western Balkans, primarily examining its grants under the Instrument for Pre-Accession Assistance (IPA) and loans through the Western Balkans Investment Framework (WBIF). While there are also some studies on China's activities in the region, they are fewer in number and generally less comprehensive. In addition, the research that does exist tends to focus exclusively on either the EU or China, without providing a direct comparison. This note seeks to fill this gap by being, to our knowledge, **the first study to systematically compare the EU's and China's financial engagements with the Western Balkans**, with a particular focus on grants and loans.

The EU's financial assistance to the Western Balkans is firmly rooted in the region's declared **EU accession process**. Since 2007, IPA grants have provided non-repayable financial support to promote governance improvements, socioeconomic development and alignment with EU standards. Loans through the WBIF, established in 2009, have been directed primarily at funding large-scale infrastructure projects. These efforts have been further bolstered by the New Growth Plan for the Western Balkans, which was introduced in 2023 and offers additional financial support tied to the implementation of key reforms.

China's engagement, on the other hand, has been primarily driven by its **Belt and Road Initiative (BRI),** launched in 2013, which has positioned the region as a key hub connecting Asia and Europe. Unlike the EU, China often structures the investment loans it provides in such a way to ensure that the associated work is carried out by Chinese companies. These projects, while attractive given their speed of execution and fewer conditions, have raised concerns about transparency, environmental standards and debt sustainability.

The structure of this note is as follows: We begin by discussing the EU's financial instruments, including IPA grants, WBIF loans and the New Growth Plan. Next, we explore China's loans and grants, focusing on their alignment with the BRI and the distinct features of Chinese financing. Finally, we compare the two approaches, highlighting their respective strengths, weaknesses and implications for the Western Balkans.

2. THE EU'S PRESENCE IN THE WESTERN BALKANS

2.1. The Instrument for Pre-Accession Assistance (IPA)

2.1.1. INTRODUCTION TO THE IPA

The first way in which the EU is present in the Western Balkans is through grants, which go through the **Instrument for Pre-Accession Assistance (IPA)**. The IPA is the EU's primary financial instrument for supporting candidate and potential candidate countries in their efforts to prepare for EU membership. Established in 2007, the IPA consolidates previous financial tools – such as PHARE, the Instrument for Structural Policies for Pre-Accession (ISPA), and the Special Accession Programme for Agriculture and Rural Development (SAPARD) – into a streamlined mechanism to enhance efficiency and effectiveness. The programme aims to strengthen democratic institutions, facilitate socioeconomic development and align beneficiary countries with EU standards and policies.

IPA funding comes directly from the **EU budget** and is tied to the EU's multiannual financial framework (MFF), ensuring that resources align with the Union's overall budgetary cycles. Importantly, the financial assistance provided under the IPA consists entirely of grants rather than loans, which means that the beneficiary countries are not required to repay these funds. This underscores the EU's commitment to supporting these countries without adding to their financial burdens.

The IPA is available to countries classified as **candidate countries** (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Turkey) or potential candidate countries (Kosovo). While being candidate countries at this time, Georgia, Moldova and Ukraine did not have this status when the current EU budget was adopted and are thus not included in the current IPA.

The **overarching objective** of the IPA funds is to prepare the countries for EU accession by supporting their political, institutional and economic reforms. Specifically, IPA funds are aimed at:

1. Strengthening the rule of law, democracy and governance
2. Promoting socioeconomic development and reducing disparities
3. Supporting alignment with EU laws, standards and policies (i.e. the acquis communautaire)
4. Fostering regional cooperation and reconciliation
5. Addressing global challenges, such as climate change and digital transformation

IPA funding is allocated through a **programming process**, which ensures that resources align with each country's specific needs as well as EU priorities. The process involves:

1. **EU programming frameworks**: The European Commission drafts multiannual indicative planning documents, which define the broad strategic priorities for the funding period.
2. **National programmes**: Countries develop national IPA programmes in collaboration with the European Commission, detailing the projects and reforms to be funded.
3. **Approval and contracting**: The European Commission evaluates and approves these programmes and subsequently releases funds via contracts with implementing agencies.

Funds are typically managed by **decentralised management systems**, meaning that national authorities are responsible for implementing projects, often with EU oversight. This approach fosters ownership and builds institutional capacity in beneficiary countries.

The grants provided under the IPA come with **specific conditionalities** designed to ensure that funds are used effectively to promote EU values and objectives while incentivising meaningful reforms. Conditionality is one of the most defining aspects of the IPA, reinforcing the principle of 'more for more'. In other words, countries demonstrating greater progress with reforms receive more funding. Key conditions include:

1. **Political reforms**: Progress in areas such as democracy, the rule of law, judicial independence, the fight against corruption, respect for human rights, media freedom and civil society engagement.
2. **Good governance and public administration**: Reforming public institutions to improve efficiency, transparency and accountability; implementing merit-based recruitment and reducing nepotism in public administration; etc.
3. **Economic reforms**: Advancing economic stability through sound macroeconomic policies; enhancing competitiveness and addressing structural weaknesses in key sectors.
4. **Alignment with the EU acquis**: Adopting and implementing EU laws and standards (i.e. the acquis communautaire) across various sectors, such as competition policy, environmental protection and digital transformation.
5. **Regional cooperation and reconciliation**: Strengthening collaboration among neighbouring countries to resolve bilateral disputes; promoting initiatives fostering regional stability and integration, such as infrastructure projects connecting Western Balkan countries.

Conditionality is **enforced** through several mechanisms to ensure accountability and compliance:

1. **Progress monitoring**: The European Commission conducts regular assessments through annual progress reports and other monitoring tools to evaluate the implementation of reforms. These reports influence future funding decisions and serve as benchmarks for countries to address identified shortcomings.
2. **Performance-based disbursements**: Funds are often tied to measurable progress in achieving reform milestones. If a country fails to meet specific targets, disbursements may be delayed or reduced.
3. **Reallocation and suspension**: Funds earmarked for non-performing countries or projects can be reallocated to other programmes or countries demonstrating better performance. Funds may be cancelled in severe cases, particularly when there is evidence of mismanagement or non-compliance with EU priorities.

2.1.2. IPA I (2007-2013)

The first IPA framework allocated a total of **EUR 10.3bn**, of which approximately **EUR 5.1bn** (European Commission 2025a) was directed to the six Western Balkan countries. The funding was distributed across five components:

1. Transition assistance and institution building (TAIB)
2. Cross-border cooperation (CBC)
3. Regional development
4. Human resources development
5. Rural development

The **allocations by country** were as shown in Table 1. While Serbia, as the biggest economy, was allocated EUR 1.3bn, Albania, Bosnia and Herzegovina and North Macedonia were allocated between EUR 500m and EUR 700m, and Montenegro, as the smallest economy, was allocated EUR 200m.

Of the EUR 5.1bn allocated to the Western Balkan countries, **EUR 4.77bn (93%) was absorbed**, which is a rather high absorption rate. The absorption rates varied across countries, with Bosnia and Herzegovina achieving the highest rate (99%) and North Macedonia the lowest (89%).

Table 1 / Money allocated and paid to the WB6 economies under IPA I

Country	Allocated (EUR)	Paid (EUR)	Absorption (%)
Albania	520.9	468.8	90
Bosnia and Herzegovina	521.8	517.8	99
Kosovo	678.9	633.9	93
Montenegro	206.1	191.2	93
North Macedonia	478.5	427.1	89
Serbia	1,344.6	1,207.6	90
Total (WB6)	**5,111.8**	**4,770.1**	**93**

Source: European Commission 2025a

2.1.3. IPA II (2014-2020)

Under IPA II, a total of **EUR 10.7bn was available**, with approximately EUR 4.2bn allocated to the six Western Balkan economies and an additional EUR 3.3bn dedicated to multi-country projects (European Commission 2025a). These multi-country projects include initiatives that benefit the Western Balkans collectively, such as programmes related to regional infrastructure, energy networks, migration management and environmental protection. While multi-country projects are included as a separate category in the commitments part of IPA II, they are included for the respective beneficiary countries in the reports on the consumed amounts of money.

IPA II replaced the five-component structure of IPA I with a focus on **policy-driven windows**. These windows represent broad thematic areas designed to align EU funding with strategic priorities:

1. **Democracy and governance:** Strengthening democratic institutions, public administration reform and civil society
2. **Rule of law and fundamental rights:** Supporting judicial reform, anti-corruption efforts and human rights
3. **Environment, climate action and energy:** Promoting the green transition, renewable energy and climate resilience
4. **Transport:** Enhancing connectivity through investments in regional transport infrastructure
5. **Competitiveness and innovation:** Supporting economic growth, employment and education reforms

These windows aimed to make IPA II **more results-oriented** by linking funding more closely to specific reform outcomes and measurable progress.

Table 2 shows the commitments and consumed amounts under IPA II. One can see that, of the total of EUR 7.5bn available to the Western Balkan economies, EUR 6.6bn were consumed, which is equal to an absorption rate of 88%. While this marks a decline with respect to the absorption of 93% under IPA I, it is still a rather high rate. One cannot calculate absorption rates for individual countries due to the multi-country projects, which are listed separately in the committed amounts but are allocated to beneficiary countries in the consumed amounts, because of what the consumed amounts for the individual countries are often higher than the committed amounts.

Table 2 / Commitments and consumed amounts of the WB6 economies from IPA II

Country	Commitments (EUR m)	Consumed (EUR m)	Absorption (%)
Albania	758.0	669.9	
Bosnia and Herzegovina	539.6	713.7	
Kosovo	573.1	334.7	
Montenegro	269.2	672.9	
North Macedonia	633.0	1,148.0	
Serbia	1,404.4	3,040.8	
Multi-country projects	3,300.0	(included in the data on the individual countries, as shown in the rows above)	
Total	**7,477.3**	**6,579.9**	**88**

Sources: For commitments, European Commission (2025a); for consumed amounts, European Commission (2025b). The two sources may differ in terms of their underlying methodology.

2.1.4. IPA III (2021-2027)

IPA III, which is currently operational, has a total budget of **EUR 14.2bn** (European Commission 2025a) for the Western Balkans and Turkey. A notable shift from both IPA I and IPA II is that allocations are now based on EU thematic priorities rather than pre-defined country envelopes. This approach aims to reward performance and progress towards key priorities while providing greater flexibility to address the evolving needs of partners on their path to accession. While the exact country-specific allocations have not been publicly announced, the Economic and Investment Plan for the Western Balkans, launched in October 2020 as a foundation for IPA III, earmarked **EUR 9bn** in grants for the region.

The funds are distributed under these **five thematic windows:**

1. Rule of law, fundamental rights and democracy (EUR 2.1bn)
2. Good governance, EU acquis alignment, good neighbourly relations and strategic communication (EUR 2.3bn)
3. Green agenda and sustainable connectivity (EUR 5.9bn)
4. Competitiveness and inclusive growth (EUR 3.1bn)
5. Territorial and cross-border cooperation (EUR 0.5bn)

Table 3 / Consumed amounts of IPA III funds between 2020 and 2023

Country	Consumed (EUR m)
Albania	362.0
Bosnia and Herzegovina	328.0
Kosovo	166.0
Montenegro	264.0
North Macedonia	430.0
Serbia	1,488.0
Total (WB6)	**3,039.0**

Source: European Commission (2025b)

Table 3 outlines the **total amounts consumed** by each of the Western Balkan countries under IPA III from 2020 to 2023. In total, EUR 3bn has been utilised so far, with Serbia receiving nearly half of the funds. North Macedonia ranks second, with EUR 430m, while Albania, Bosnia and Herzegovina, and Montenegro follow closely behind, with each receiving around EUR 300m. Kosovo has received the smallest share so far, just EUR 170m, partly due to EU sanctions related to ongoing issues with the Serbian minority.

2.1.5. TOTAL IPA FUNDS RECEIVED BY THE WESTERN BALKAN ECONOMIES

Table 4 shows the cumulative IPA funding received by the Western Balkans under IPA I, II and III. The total amount of grants for the entire region in the 2007-2023 period stands at EUR 13.1bn. Most of the funds were disbursed under IPA II (EUR 6.6bn), which was nearly twice as much as was disbursed under IPA I (EUR 3.4bn). The IPA III total is projected to exceed that of IPA II, though not by a significant margin. In its first three years, EUR 3bn has been consumed, suggesting that the total for IPA III is likely to reach approximately EUR 7bn if the current trend continues.

Table 4 / Cumulative IPA funds received by each WB6 economy between 2007 and 2023 (EUR m)

Country	IPA I Paid (EUR m)	IPA II Consumed (EUR m)	IPA III Consumed (EUR m)	Total Paid/Consumed (EUR m)
Albania	468.8	669.9	362.0	1,500.7
Bosnia and Herzegovina	517.8	713.7	328.0	1,559.5
Kosovo	633.9	334.7	166.0	1,134.6
Montenegro	191.2	672.9	264.0	1,128.1
North Macedonia	427.1	1,148.0	430.0	2,005.1
Serbia	1,207.6	3,040.8	1,488.0	5,736.4
Total (WB6)	**3,446.4**	**6,580.0**	**3,038.0**	**13,064.4**

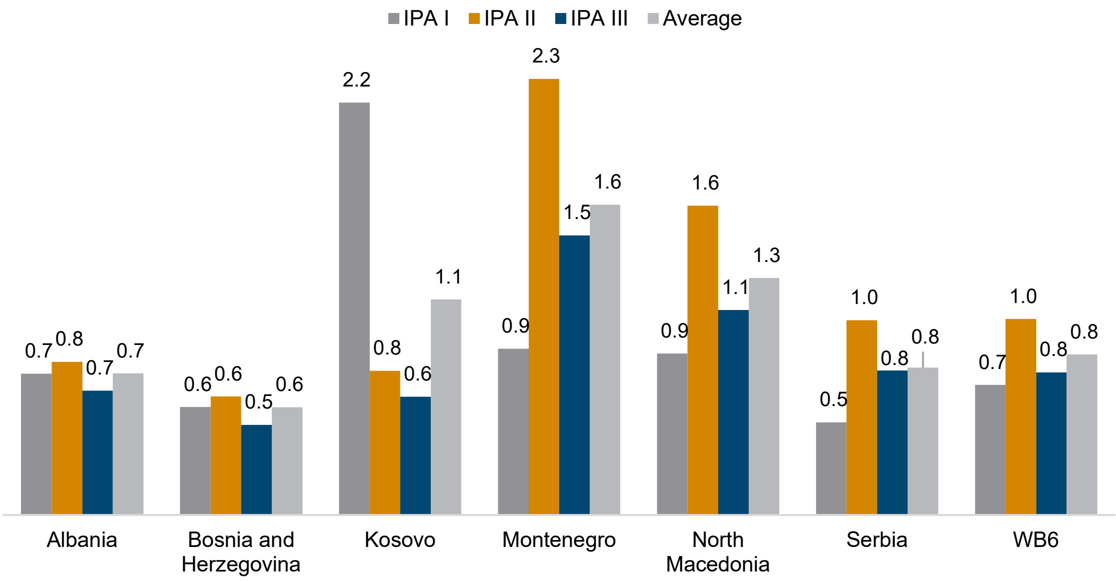
Sources: European Commission (2025a) and European Commission (2025b)

Serbia stands out as the largest recipient, with EUR 5.7bn consumed, which is not surprising given its size. **North Macedonia** comes in second place, having absorbed EUR 2bn, which indicates a rather active role in absorbing EU funds given that it is only the fourth-biggest country in the region. The two smallest economies, Montenegro and Kosovo, have also been rather good, absorbing EUR 1.1bn each. Albania and Bosnia and Herzegovina have been somewhat more passive, receiving around EUR 1.5bn each despite being the second- and third-biggest economies in the region.

Figure 1 presents total IPA funds received by the Western Balkan economies across the three cycles between 2007 and 2023 as a percentage of GDP. **On average, on an annual basis, IPA funding across the region and all three cycles amounted to 0.8% of GDP**, with some variation across cycles and countries. IPA I had the lowest allocation, at 0.7% of GDP, while IPA II had the highest, at 1% of GDP.

Montenegro received the highest relative support, with IPA funding averaging annually 1.6% of GDP across the three cycles, ranging from 0.9% under IPA I to 2.3% under IPA II. Kosovo followed, with an average of 1.1% of GDP, varying from 0.6% under IPA III to 2.2% under IPA I. North Macedonia received 1.3% of GDP on average, with allocations ranging between 0.9% (IPA I) and 1.6% (IPA III). Serbia's funding averaged 0.8% of GDP, fluctuating between 0.5% (IPA I) and 1.0% (IPA II). Albania and Bosnia and Herzegovina received the lowest relative level of funding, with the former averaging 0.7% of GDP and the latter 0.6%, with rather small variations across the cycles.

Figure 1 / Total IPA funds received by the WB6 countries between 2007 and 2023 on an annual basis (% of GDP)



Sources: Own calculations using data from European Commission (2025a), European Commission (2025b) and the wiiw Annual Database

2.2. The Western Balkans Investment Framework (WBIF)

2.2.1. WHAT IS THE WBIF

The WBIF is a **multilateral funding initiative** established by the European Union in 2009 to support socioeconomic development in the Western Balkans. It combines funding from multiple sources: the EU (primarily through the IPA); EU-associated banks, such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD); bilateral donors; and the governments of the Western Balkan economies. Its primary objectives are to enhance connectivity, promote sustainable development, support large-scale infrastructure projects and advance EU integration.

The WBIF operates as a blending facility, integrating **grants, concessional loans and technical assistance** to finance large-scale projects in sustainable transport, clean energy, digital transformation, human capital and the environment. Most of the WBIF grants come from the IPA, but not all IPA funding is channelled through the WBIF, as the IPA also supports other areas outside the WBIF's scope, such as institution-building, rural development and social cohesion projects. By the same token, not all WBIF grants are from the IPA, as bilateral donors and, in some cases, international financial institutions can also provide grants.

The grant component is just a small part of the WBIF funds, as a majority of the funds consist of concessional loans from the EU-associated banks and other international financial institutions. Projects financed by the WBIF may also involve financing from external banks, private-sector contributions or bilateral donors, depending on the scale and requirements of the individual project (WBIF 2023).

2.2.2. ACTIVITIES, PROJECTS AND ACHIEVEMENTS OF THE WBIF

Since its inception, the WBIF has mobilised **EUR 31.6bn in investments for the public sector**, including **EUR 3.7bn in grants**. This amount reflects funding commitments rather than actual disbursements, as not all of the mobilised funds have been spent. Various projects remain in various stages of implementation, with some of them completed, some ongoing and some still in preparatory stages.

Table 5 presents the **structure of the WBIF funding** between 2008 and 2023, distinguishing between WBIF grants (by the EU and bilateral donors), WBIF loans (from the EIB, the EBRD, the Council of Europe Bank, the KfW Development Bank etc.), national contributions (co-financing commitments by WB6 governments), and other sources (mostly private-sector investments).

Table 5 / WBIF investments between 2008 and 2023 for each of the WB6 economies

Country	Total Investments (EUR bn)	WBIF Grants (EUR m)	WBIF Loans (EUR m)	National Contributions (EUR m)	Other Source Financing (mostly private-sector, EUR m)
Albania	4.5	464.1	1,400	340	2,296
Bosnia and Herzegovina	6.7	1,100	3,500	530	1,570
Kosovo	2.0	297	800	200	703
Montenegro	2.3	341.3	1,300	341	318
North Macedonia	3.4	486.6	1,250	490	1,173
Serbia	9.5	752	5,100	940	2,708
Total	**28.4**	**3,441**	**13,350**	**2,841**	**8,768**

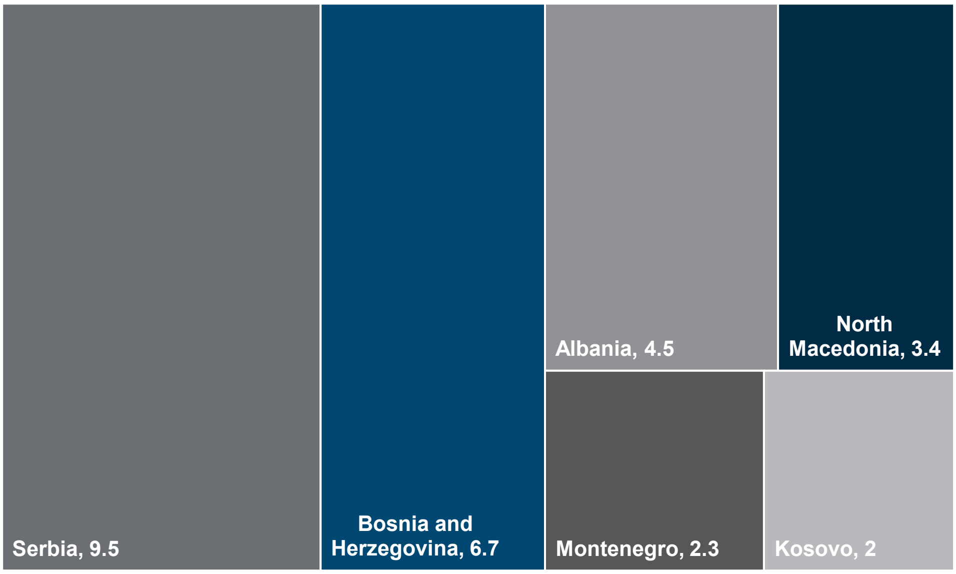
Sources: WBIF (2023) and the WBIF website

The total investments of EUR 28.4bn listed in the table reflect projects with detailed funding breakdowns provided in the WBIF Key Achievements Report (WBIF 2023), which differ from the WBIF's reported mobilisation of EUR 31.6bn, likely because the latter figure includes additional funding commitments for projects not yet specified or fully detailed.

Looking at the WBIF funding by funding sources, one can see that the **grants are just a small part** of the whole framework, making up just 12% of the funding. **WBIF loans are the largest funding source**, making up around one half of total investments. Private investments (under 'Other Source Financing') are second, at 31%, reflecting substantial involvement of external private funding. National contributions are the smallest component, at 10%.

Looking at the **investments by country**, Serbia leads in total investments (EUR 9.5bn), with one third of the funding. Bosnia and Herzegovina follows, as a second-biggest economy, with one quarter (EUR 6.7bn). Albania and North Macedonia have moderate levels of investments (around EUR 4bn each), while Montenegro and Kosovo, as the two smallest economies, each have around EUR 2bn in financing.

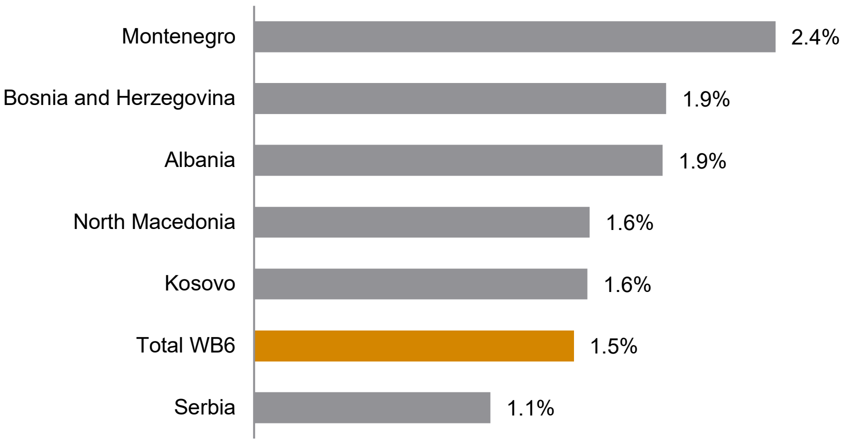
Figure 2 / Investment supported by the WBIF in the WB6 economies (EUR bn)



Source: WBIF (2023)

It is also worthwhile to observe the WBIF loans as percentage of GDP, which Figure 3 presents for all the Western Balkan economies between 2008 and 2023. **On average, on an annual level, WBIF loans amounted to 1.5% of GDP across the region**, with some differences between countries. Montenegro received the highest relative support, at 2.4% of GDP, followed by Bosnia and Herzegovina and Albania, each with 1.9% of GDP. North Macedonia and Kosovo each received 1.6% of GDP, or slightly above the regional average. Serbia had the lowest relative loan allocation, at 1.1% of GDP, which is below the regional level.

Figure 3 / WBIF loans dedicated for the WB6 economies between 2008 and 2023 on an annual basis (% of GDP)



Sources: Own calculations using data from WBIF (2023), the WBIF website and the wiiw Annual Database

2.2.3. NOTABLE PROJECTS

The WBIF primarily finances **large-scale infrastructure projects**, including transport, energy, environment and social infrastructure, aimed at fostering economic development and regional connectivity in the Western Balkans. To illustrate the nature of the projects, we present some of the most notable WBIF-supported project for each WB6 country below, including details on funding sources and their current status. The projects are taken from the WBIF website.[1]

Albania

Corridor VIII: Durrës – Border with North Macedonia Railway Line

Summary: Rehabilitation of the 136-kilometre railway line between Durrës and Lin, with a 2.8-kilometre link to North Macedonia's border. It will upgrade outdated systems and improve speeds to meet EU standards as well as to facilitate freight and passenger transport.

- **Size**: EUR 356.6m
- **Funding**: EUR 65m in WBIF grants, EUR 166.5m in EIB loans, and EUR 125m from other sources
- **Status**: Preparation

Bosnia and Herzegovina

Rhine-Danube Corridor: Demining of the Right Bank of the Sava River

Summary: The project involves demining 40 kilometres of the Sava River's right bank to meet safety and navigation standards as part of the Sava and Drina River Corridors Integrated Development Programme.

- **Size**: EUR 38.87m
- **Funding**: EUR 8.27m in WBIF grants, EUR 30m from a World Bank loan, and EUR 0.6m in local contributions
- **Status**: Tender preparation

Kosovo

Solar4Kosovo Photovoltaic Plant

Summary: A 100-megawatt (MW) solar photovoltaic plant near the Kosovo A thermal power plant, utilising former ash dump fields. It will increase Kosovo's solar capacity from 10.1 MW to 110.1 MW, contributing 2.3% to the energy mix and reducing 152,000 tonnes of CO_2 annually.

- **Size**: EUR 104.8m
- **Funding**: EUR 32.8m in WBIF grants, EUR 62m in loans (from the KfW and the EIB), and EUR 10m in national contributions
- **Status**: Preparation

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1 www.wbif.eu/wbif-projects

Montenegro

Bar-Boljare Highway Phase II: Matešavo-Andrijevica Section

Summary: Development of a 21-kilometre mountainous section of the Bar-Boljare highway to connect Montenegro to Serbia and Trans-European Transport Network (TEN-T) networks in order to facilitate economic growth and mobility.

› **Size**: EUR 425.4m
› **Funding**: EUR 3.1m in WBIF grants, EUR 123m in EBRD loans, EUR 287m from other sources, and EUR 12.3m in external grants
› **Status**: Preparation

North Macedonia

Skopje Wastewater Treatment Plant

Summary: Construction of a central wastewater treatment plant for Skopje, servicing nine municipalities and improving wastewater management for 625,000 people.

› **Size**: EUR 139.1m
› **Funding**: EUR 72.7m in grants (WBIF, EU), EUR 64.5m in loans (EBRD, EIB), and local contributions
› **Status**: Implementation

Serbia

Corridor X: Belgrade-Niš Railway Line

Summary: Construction of a 48.3-kilometre high-speed railway section between Paraćin and Međurovo. The line will support speeds of up to 200 km/h, thereby improving passenger and freight connections between Belgrade and Niš.

› **Size**: EUR 475.6m
› **Funding**: EUR 174.6m in WBIF grants, EUR 265.2m in loans (EIB and EBRD), and EUR 29.5m in national contributions
› **Status**: Preparation

All of these notable projects are either in the **preparation or implementation stage**, meaning that none of these specific projects has been completed yet. This highlights one of the major criticisms of WBIF projects in general, namely, that very few have reached completion. Out of the 273 projects listed on the WBIF website, only 65 have been completed, while 61 are currently under implementation. The majority of the projects (122) are still in preparation, with 17 in the tendering phase and eight in the tender-preparation phase (Table 6). Notably, most of the larger projects remain in the preparation phase.

Table 6 / Status of WBIF projects

Status of projects	Number of projects
Completed	65
In implementation	61
In preparation	122
Tendering	17
Tender preparation	8
Total	273

Source: WBIF website

2.2.4. THE SOURCES OF WBIF LOANS

The EUR 13bn in WBIF loans are provided by its international financial institution (IFI) partners, with the following breakdown:

› **European Investment Bank (EIB):** EUR 5.2bn, focusing on transport, energy and water projects

› **European Bank for Reconstruction and Development (EBRD):** EUR 3.8bn, primarily for sustainable infrastructure and energy efficiency

› **KfW Development Bank:** EUR 1.2bn, prioritising the infrastructure, water and energy sectors

› **Council of Europe Development Bank (CEB):** EUR 514m, primarily for social infrastructure and human capital development

› **Other sources:** Approximately EUR 2.3bn. These sources may include smaller financial institutions, bilateral donors or additional private-sector financing not specified in the WBIF documentation.

2.3. The new growth plan for the Western Balkans

2.3.1. OVERVIEW OF THE NEW GROWTH PLAN

In November 2023, the European Commission unveiled the New Growth Plan for the Western Balkans, which is designed to accelerate the region's EU accession process. The plan **complements existing frameworks, such as the IPA and the WBIF**, aligning with their logic and structure and effectively topping them up with additional financial support. It came as a result of the previous granting of EU candidate status to Ukraine and Moldova as a way to reaffirm the EU's commitment to the Western Balkans. The plan focuses on four core objectives:

1. **Integrating the Western Balkans into the EU single market:** The plan envisages granting gradual access to the EU single market while requiring the region to align its laws and standards with EU regulations. This includes access for specific sectors (e.g. goods, services and digital trade) facilitated through seven priority actions.

2. **Deepening intra-regional integration:** In this case, the plan reinforces the Common Regional Market (CRM) framework, promoting the free movement of goods, services, capital and people in the Western Balkans. Initiatives include mutual recognition of professional qualifications and harmonised customs procedures.

3. **Accelerating reforms:** This relates to areas such as governance and the rule of law, which have been established as key conditions for receiving increased financial support from the New Growth Plan. Tangible progress in areas such as strengthening democratic institutions, ensuring judicial independence and combating corruption serves as a lever to encourage the Western Balkan countries to implement the necessary changes and align their governance frameworks more closely with EU standards.
4. **Greater financial support:** As part of this final – but by no means the least significant – aspect of the plan, the EU has pledged EUR 6bn for the 2024-2027 period, comprising EUR 2bn in grants and EUR 4bn in loans, both of which are aimed at funding key reforms and infrastructure projects across the region. Disbursement of these funds will be conditional on reform progress, which positions the financial support as a 'carrot' to incentivise the 'stick' of necessary reforms.

2.3.2. THE REFORM AGENDAS

At the core of the New Growth Plan are the **reform agendas**, which each of the countries have to prepare and agree with the European Commission. These are lengthy and dense documents exceeding 100 pages each, which set out a comprehensive and ambitious series of reforms. These agendas are designed to align the region's socioeconomic structures and governance systems with EU standards, but their sheer scale and complexity underscore the challenging and formalistic design of the entire process.

Implementation of the reforms, planned for the 2024-2027 period, is tied to the disbursement of the EUR 6bn in funds. **Funds will be released incrementally** contingent upon meeting predefined milestones, which are referred to as 'payment conditions'. While this performance-based approach is intended to ensure accountability, it risks creating a rigid and bureaucratic process that prioritises ticking boxes over taking broader socio-political realities into account, and it also raises concerns about whether the financial support will be timely and effective enough to incentivise meaningful reform rather than symbolic compliance. In addition, given its track record of slow and uneven progress in similar areas, the region's ability to deliver on such an extensive set of reforms within the prescribed timelines is questionable.

The reform agendas differ between countries, as the each of them selected their own reforms. However, the key covered areas include:

1. **Governance and the rule of law**, such as judicial independence, anti-corruption measures etc.
2. **Public administration and finance management**, such as enhancing transparency, improving public procurement procedures etc.
3. **Green and digital transitions**, such as advancing decarbonisation, adopting sources of renewable energy, and improving digital infrastructure
4. **Human capital development**, such as educational reforms and skills alignment
5. **Business environment and private-sector growth**, such as targeting regulatory barriers and competitiveness

As of October 2024, the **European Commission approved most reform agendas**, allowing initial disbursements under the facility to proceed. However, Bosnia and Herzegovina's agenda remains under review, reflecting persistent governance challenges that could delay progress.

2.3.3. FINANCING

The tentative allocations for each of the six Western Balkan economies are shown in Table 7. A novelty this time is that the system allows for some flexibility. **Countries demonstrating solid progress in implementing reforms may receive more than their initial share**, whereas those lagging behind could see reductions. This introduces an element of competition, encouraging countries to accelerate reforms so as to maximise their share of the available funds. The EU may also decide to withhold the release of funds in some cases, such as when preconditions for support are not met.

Table 7 / Allocations of New Growth Plan funds by WB6 economy

Country	Amount (EUR bn)
Serbia	1.63
Bosnia and Herzegovina	0.969
Albania	0.924
North Macedonia	0.807
Kosovo	0.888
Montenegro	0.388
Total	**5.606**

Source: Gajić (2024)

The money will be disbursed through the **newly established Reform and Growth Facility (RGF)** for the Western Balkans, which was adopted in May 2024. It will cover the 2024-2027 period and provide support through:

1. **The Western Balkans Investment Framework (WBIF)**: EUR 3bn in grants and loans for investments underpinning the reform agendas, such as investments in infrastructure projects
2. **Direct loans to the budgets of Western Balkan governments:** EUR 3bn in loans to accelerate growth based on key socioeconomic reforms

Thus, the New Growth Plan grants will be provided *alongside* the IPA mechanism rather than *through* it. Payments will be made twice a year provided that the partners meet the qualitative and quantitative steps set out in their respective reform agenda.

2.4. Summary of the EU's presence in the Western Balkans

The EU, as a political entity, has been supporting the Western Balkans through a **combination of grants and investment loans.**

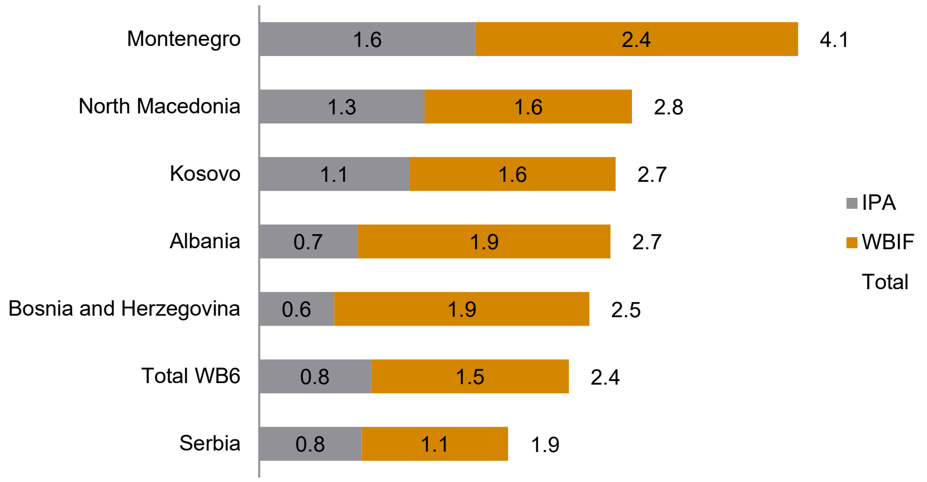
Grants are channelled through the IPA framework, which has been operational since 2007 and is now in its third cycle. To date, the region has received approximately **EUR 13bn in grants** through this instrument, and this funding does not require repayment. As a share of GDP, IPA grants have averaged 0.8% annually for the region as a whole.

Investment loans are provided via the WBIF framework, established in 2008. This mechanism blends financing from IPA grants, loans from EU-associated banks (e.g. the EIB and the EBRD), contributions from other financial institutions, and national government co-financing. So far, the WBIF has programmed a total of EUR 31.6bn for the region. Excluding IPA grants and national contributions, this figure amounts to **EUR 25bn in loans**. As a share of GDP, this is equal to 1.5% of the region's GDP on an annual basis. However, a significant portion of this funding remains unspent, as only a quarter of the WBIF projects have been completed, while half are still in the preparatory phase and the remaining quarter are in the implementation phase.

The New Growth Plan for the Western Balkans, which has yet to be implemented, introduces an **additional EUR 6bn** in funding, comprising EUR 2bn in grants and EUR 4bn in loans. Of this, EUR 3bn will be channelled through the WBIF, while the remainder will be provided as direct budgetary support to the WB6 governments.

Overall, between 2007 and 2023, the EU has committed a total of EUR 38bn to support the Western Balkans. One third of this has been in the form of grants, with the remainder provided as loans. **As a percentage of GDP, the total EU support for the region has amounted to 2.4% of GDP per year** (Figure 4). Montenegro received the highest combined support, at 4.1% of GDP, with 1.6% from IPA funds and 2.4% from WBIF loans. North Macedonia, Kosovo and Albania followed, each receiving between 2.7% and 2.8% of GDP, though with varying shares from the IPA and the WBIF. Bosnia and Herzegovina received 2.5% of GDP, or slightly above the regional average. Lastly, Serbia had the lowest combined support, at 1.9% of GDP, with 0.8% from IPA funds and 1.1% from WBIF loans.

Figure 4 / Average annual IPA funds and WBIF loans for the WB6 economies (% of GDP)



Note: Due to rounding, the sum of IPA and WBIF amounts may not exactly match the reported Total.
Sources: Own calculations using data from the European Commission, the WBIF and the wiiw Annual Database

3. CHINA'S PRESENCE IN THE WESTERN BALKANS

3.1. Chinese grants

Data on Chinese grants to the Western Balkans are sourced from version 3.0 of the **AidData Global Chinese Development Finance Dataset** (AidData 2023). While not an official source, it is widely used by researchers to analyse Chinese activities and serves as a vital tool for understanding China's development finance efforts as well as their broader economic and geopolitical impact. The dataset is a comprehensive resource, as it tracks Chinese development finance efforts globally from 2000 to 2021. Covering nearly 21,000 projects across 165 countries, it documents USD 1.34tn in commitments, **including both grants and loans**. By providing detailed information on project types, sectors and activities, it offers valuable insights into how Chinese funding is allocated and utilised, particularly in low- and middle-income countries.

The data are collected by AidData, an international development research lab housed in the Global Research Institute of William & Mary, a university in the US state of Virginia. AidData employs a rigorous methodology that combines open-source research, official government reports, and triangulation with media sources and project documents. The dataset includes financial values in both nominal and inflation-adjusted terms, facilitating cross-country and over-time comparisons.

Table 8 shows the Chinese grants to the Western Balkans between 2000 and 2021. During this period, **China financed 249 grant projects in the region with a combined value of USD 379.4m**. Unsurprisingly, Serbia accounted for the largest share, with 66 grants worth a combined USD 226m, followed by North Macedonia, with 51 grants collectively valued at USD 56m. Bosnia and Herzegovina received 46 grants worth a combined USD 49m, while Albania and Montenegro had 57 and 29 grants, collectively worth USD 21m and USD 27m, respectively.

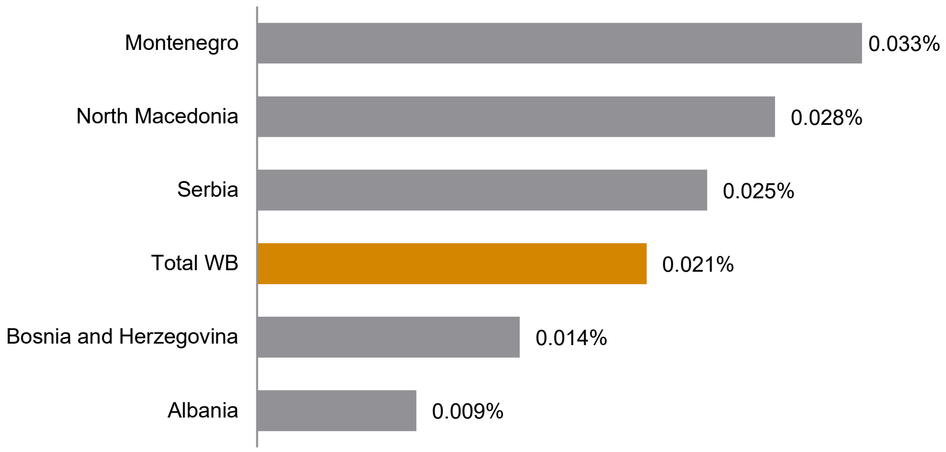
Table 8 / Nominal amount of Chinese grants to the WB6 countries between 2000 and 2021 (in USD m)

Country	Number of grants	Value of projects (USD m)
North Macedonia	51	56.4
Serbia	66	226
Bosnia and Herzegovina	46	49
Albania	57	21
Montenegro	29	27
Total	**249**	**379.4**

Source: AidData (2023)

As a share of GDP, Chinese grants to the region have been relatively limited, averaging 0.021% of GDP per year. Montenegro has led the region, receiving grants amounting to 0.033% of GDP, while Albania has received the smallest share, at 0.009% of GDP. North Macedonia and Serbia have each received around 0.025% of GDP, while Bosnia and Herzegovina has received 0.014% (Figure 5).

Figure 5 / Chinese grants to the WB6 countries between 2000 and 2021 on an annual basis (% of GDP)



Sources: Own calculations, using data from AidData (2023) and the wiiw Annual Database

3.2. Chinese loans

3.2.1. BACKGROUND OF CHINA'S LOANS TO THE WESTERN BALKANS

Chinese loans to the Western Balkans are an integral part of the **Belt and Road Initiative (BRI)**, China's global development strategy aimed at enhancing trade, investment and infrastructure connectivity across Asia, Africa and Europe while strengthening its geopolitical influence and economic partnerships. The geographical location of the Balkans makes the region particularly attractive for BRI implementation, with most WB6 countries being viewed by China as allies that can support its positions and interests in international relations. Strategically situated at the crossroads of the New Eurasian Land Bridge and the Maritime Silk Road, the Balkan Peninsula facilitates intermodal connectivity, linking the Port of Piraeus outside Athens to Budapest via railway. However, China does not see the Balkans merely as a transit zone but also as a region with untapped potential for revitalising old production capacities and constructing new ones (Vangeli 2020).

The WB6 countries have become a primary destination for Chinese infrastructure investments, accounting for 79% of China's total investments in Central, East and Southeast Europe. A major factor behind China's growing presence in the Western Balkans is **the region's slow progress towards EU accession,** which has contributed to a sense of EU fatigue among some in the region. Another key reason is the perceived drawbacks of EU loans, including limited funding, stringent conditions and slow implementation processes (Bastian 2017). As Stamouli (2021) observes, some high-ranking WB6 politicians have noted that China is actively filling the funding void left by the EU in providing much-needed infrastructure investments.

Additionally, China often frames its regional platforms as part of its broader effort to **unify the Third World** as a community with shared interests, a narrative reminiscent of the Non-Aligned Movement, of which Yugoslavia was a founding member. This historical connection resonates with some former

Yugoslav republics, which still find it relatively easy to align with China's principles and approaches (Kowalski 2017).

3.2.2. CHINESE LOANS AND INVESTMENTS IN THE REGION

There is no single standard source of data on Chinese investment in the Balkans, and different trackers provide varying estimates. One widely referenced database is the **China Global Investment Tracker** (American Enterprise Institute 2024), which reports that **Chinese construction projects in the region from 2010 to 2024 amount to USD 19bn**. Of this, Serbia accounts for USD 14.7bn. Notably, this tracker does not have data on Albania or Kosovo (Table 9).

Another notable resource is version 3.0 of the **AidData Global Chinese Development Finance Dataset** (AidData 2023), which contains data not only on Chinese grants to the region, but also on loans. According to this source, China had 60 implemented, ongoing or in-the-pipeline projects in the region, with a total value of USD 14.2bn, in 2021 (with most of the projects having been launched in or after 2010). This excludes the projects that have been cancelled. Of this, USD 7bn are for Serbia (Table 9). The lower number for Serbia in this database (and, in turn, for the region as a whole) is due to the exclusion of the Belgrade Metro, the largest China-backed project in the region, with an estimated value of around USD 6bn. This is likely because the project only began in late 2021, and the cut-off date for AidData may have been before that.

A third source is the **China in the Balkans database** of Balkan Insight, a Belgrade-based news website of the Balkan Investigative Reporting Network (BIRN 2023). However, since this tracker also includes private investments, which qualify as foreign direct investment (FDI), we do not consider it in our analysis.

Table 9 / Nominal values of Chinese investment loans to the WB6 countries (USD m)

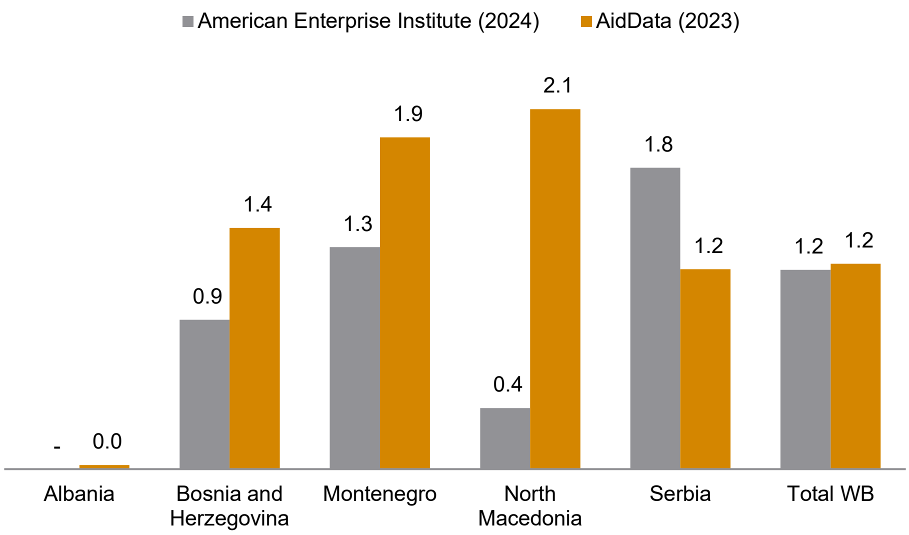
Economy	Loans according to the China Global Investment Tracker (2010-2024)	Loans according to the AidData database (2010-2021)
Albania	NA	40
Bosnia and Herzegovina	2,680	3,193
Montenegro	1,020	1,101
North Macedonia	650	2,853
Serbia	14,700	6,982
Total	**19,050**	**14,169**

Sources: American Enterprise Institute (2024) and AidData (2023)

Figure 6 presents Chinese loans as a percentage of GDP on an annual basis for each of the Western Balkan economies, according to the two sources. The data from both sources are fairly consistent on the aggregate level, showing an **average of around 1.2% of GDP for the region as a whole per year**. However, there are some differences between individual countries. According to the American Enterprise Institute, Serbia has received the highest share of investment loans, at 1.8% of GDP, while North Macedonia has received the smallest, at 0.4% (Albania and Kosovo do not have projects in the database). Bosnia and Herzegovina and Montenegro fall in between, at approximately 1.1% of GDP.

AidData, on the other hand, reports that North Macedonia leads, with 2.1% of GDP, followed by Montenegro, at 1.9%. The figures for Bosnia and Herzegovina and Serbia stood at around 1.3% of GDP.

Figure 6 / Chinese investment loans to the W6 countries on an annual basis (% of GDP)



Sources: Own calculations using data from American Enterprise Institute (2024), AidData (2023) and the wiiw Annual Database

Chinese investment projects in the Western Balkans are closely tied to **Chinese concessional loans**, with funding and construction often going hand in hand. These projects mainly focus on infrastructure (e.g. highways, railways and energy facilities) and are typically implemented by Chinese state-owned construction companies. These firms frequently employ Chinese workers, limiting the benefits to the local labour market. Additionally, the loans used to finance these projects often come with conditions favouring Chinese contractors and suppliers.

Below, we present an overview of Chinese loans and investment projects in each of the Western Balkan economies.

3.2.2.1. Albania

Although Albania has maintained economic cooperation with China, it has been rather low profile. The China Global Investment Tracker of the American Enterprise Institute does not list any Chinese project in Albania, while the AidData database only lists five, with a total value of **USD 40m.** The biggest of them is a loan from 2001, worth USD 39m, for rescheduling an old debt that Albania owes to China.

There has been one notable project in Albania that China was supposed to finance, namely, for the construction of the **Bushat hydropower plant** on the Drin River. Under a bilateral financial agreement, China was supposed to provide a USD 126m loan for the project in 2001, but the project was cancelled due to environmental and social concerns. Another plant, called the Ashta hydropower plant, was subsequently built nearby as a public-private partnership with two Austrian companies, Verbund and EVN.

3.2.2.2. Bosnia and Herzegovina

The value of Chinese investment in Bosnia and Herzegovina is estimated at approximately **USD 2.7bn**, according to the China Global Investment Tracker of the American Enterprise Institute. The AidData database reports a slightly higher figure of **USD 3.2bn**.

Chinese projects in Bosnia and Herzegovina are almost exclusively in energy or road infrastructure. **Around USD 2.2bn in funds have been used for four thermal power plant projects** (i.e. Stanari, Tuzla, Banovići and Ugljevik), and there have been two more projects in hydro energy (i.e. the Dabar and Ulog hydropower plants). There are also **two motorway projects**, for the Banja Luka-Prijedor-Novi Grad motorway and the Banja Luka-Doboj motorway, worth a combined USD 700m.

3.2.2.3. Kosovo

As China does not recognise Kosovo as an independent state, there have not been any major Chinese activities there. Neither the China Global Investment Tracker nor the AidData database report any Chinese investment in Kosovo.

3.2.2.4. Montenegro

Chinese projects in Montenegro are estimated at **USD 1bn** by the American Enterprise Institute tracker and at **USD 1.1bn** by the AidData database.

The most prominent project is the construction of the **Bar–Boljare motorway**, financed by the Export-Import Bank of China (Exim Bank) at a cost of around USD 1bn. Additionally, between 2010 and 2014, Montenegro secured a USD 94m loan for the purchase of four ships.

The highway project has garnered significant attention as a **potential case of 'debt-trap diplomacy'**. At the time the loan was taken, it amounted to approximately 20% of Montenegro's GDP, and the government faced difficulties servicing the debt. This sparked speculation about the possibility of China seizing Montenegrin state assets as collateral. However, unlike the widely cited case of Sri Lanka's Hambantota Port (Brautigam 2019), there was no evidence to suggest that Montenegrin state property was at risk of confiscation. In recent years, Montenegro has improved its debt management by entering into a hedging arrangement with banks from the United States (Merrill Lynch and Goldman Sachs), France (Société Générale) and Germany (Deutsche Bank). This restructuring mitigated exchange rate risks and stabilised the country's repayment obligations (Radio Slobodna Evropa 2021).

3.2.2.5. North Macedonia

According to the American Enterprise Institute's China Global Investment Tracker, Chinese construction investment in North Macedonia amounted to **USD 650m** by 2024. The AidData database reports a somewhat bigger figure (USD 2.9bn), but a large part of that involves a single project, which has been announced but not implemented.

The biggest Chinese project in the country took place in 2013, when North Macedonia took a loan of around USD 700m from China's Exim Bank to finance **two motorways, Miladinovci-Shtip and Kichevo-Ohrid**. Both highways were built by the Chinese company Sinohydro. While the Miladinovci-Shtip motorway is operational, the 57-kilometre Kichevo-Ohrid motorway remains half-finished more than a decade after construction began. The delays resulted from poorly planned routes and additional unforeseen works, which significantly increased costs and forced the government to take another loan in 2019 worth USD 180m. This illustrates a recurring issue with Chinese-funded projects: inadequate planning leading to extended timelines and higher expenses for host countries. Sinohydro was also contracted for other road projects, including the completed Shtip-Kochani expressway and the ongoing Gradsko-Prilep expressway, which forms part of the Pan-European Corridor 10D.

These investments were overshadowed by a **major corruption scandal** implicating the government led by the VMRO-DPMNE party (2006-2016), which negotiated these loans. The scandal involved assigning motorway construction contracts to Sinohydro behind closed doors and thereby bypassing Macedonian legislation harmonised with EU standards. To enable this, the government adopted three special laws in 2013. Former Prime Minister Nikola Gruevski was prosecuted under the 'Trajectory' investigation after having been accused of causing EUR 150m in damages to the state budget through corruption in the process of awarding the contract. However, the case was never concluded and eventually expired (Delevska 2023).

The biggest China-related project in North Macedonia has been the **Vardar Valley Hydropower Project**, announced in 2011. It is supposed to build 12 hydropower plants along a 200-kilometre stretch of the Vardar river from the capital of Skopje to the Greek border, collectively worth USD 1.8bn. However, although AidData still classifies it as being in the pipeline, the project has not been implemented.

3.2.2.6. Serbia

According to the American Enterprise Institute's China Global Investment Tracker, Chinese construction investment in Serbia amounted to **USD 14.7bn by 2024**. AidData reports the somewhat lower figure of **USD 7bn** spread across 30 projects, with the main difference between the two sources being that the latter does not include the Belgrade Metro project, which is by far the biggest Chinese project in Serbia to date.

The first significant Chinese infrastructure investment in Serbia was the construction of the **Mihajlo Pupin Bridge** over the Danube in Belgrade. Financed by a loan from China's Exim Bank covering 85% of the USD 300m project cost, the bridge was built by the China Bridge and Road Corporation (CBRC), a state-owned construction and engineering firm, between 2011 and 2014.

Since then, Chinese investments have expanded across various sectors. Serbia borrowed **USD 1.2bn to construct two sections of the Belgrade-Budapest railway**, and **USD 3bn was spent on the Miloš the Great Motorway (Corridor 11)** between 2013 and 2019. Telecommunications infrastructure also saw investment, with Huawei modernising Telekom Serbia's landline network for USD 140m in 2016 and 2017. Other projects include the Belgrade Bypass (USD 200m, completed in 2021 by Sinohydro) and the ongoing Fruška Gora Corridor motorway (USD 700m, construction by CRBC began in 2020). Serbia's railway modernisation along Corridor 10 is also underway, with a USD 850m loan contracted in 2020.

In 2021, Serbia signed a contract worth an estimated USD 6bn with Power Construction Corporation of China for the construction of the **Belgrade Metro**, marking a major expansion in infrastructure collaboration. Construction officially began in November 2021, and work is currently ongoing.

Chinese involvement in Serbia extends into **energy and mining**. Between 2010 and 2014, Serbia took USD 900m in loans from Exim Bank for the expansion and modernisation of the Kostolac thermal power plant, including a new 'B3' block, desulphurisation upgrades and increased coal production at the Drmno surface coal mine.

3.2.3. LENDING CONDITIONS OF CHINESE BANKS

Chinese loans and investments are rooted in **China's official non-interference policy**, which asserts that nations should not interfere in the internal affairs of other states, including their governance, political systems or societal issues. Reflecting this principle, BRI-related loans typically do not impose political or governance conditions, unlike loans from the EU, the International Monetary Fund (IMF) and the World Bank, which often require specific reforms or adherence to economic and political conditions.

The principle of non-interference resonates well with countries seeking alternative financing options, but its **implementation is not always straightforward and can sometimes even be contradictory**. Critics argue that various Chinese practices (e.g. prioritisation of its own companies for project implementation; reliance on Chinese capital, machinery and labour; and the bypassing of local standards) may not be in accord with this principle. The same holds true for the overall economic and political leverage that the loans give to China. At the same time, as part of the non-interference condition, **China expects its partners to abide by the same principle when it comes to China's own internal matters**, including the demand that the engaged states are members of international organisations and respect the 'One China' policy, which rejects the recognition of Taiwan as sovereign and independent from China (Vangeli 2019).

Chinese loans are often favoured for their **faster implementation compared to EU-funded projects**, which involve lengthy procedures for preparation, approval and control. This is especially relevant for the Western Balkans, which have seen many EU-funded projects be implemented at a very slow pace. However, on the downside, Chinese loans tend to bypass EU and local legislation in tendering processes in a manner that favours Chinese companies and state-owned enterprises. Additionally, China often disregards environmental standards and operates without concern for the lack of institutional capacity in recipient countries.

Chinese loan agreements frequently lack **transparency**. A study by AidData (Gelpern et al. 2021) revealed that contracts often include confidentiality clauses that restrict borrowers from disclosing terms unless required by law. This confidentiality limits stakeholders, including other creditors, from accurately assessing the borrower's financial position and hampers public accountability. Additionally, Chinese contracts often require the creation of special bank accounts, funded either by project revenues or unrelated cash flows, to secure repayment. This mechanism places government revenues outside sovereign control.

Chinese debt contracts also include a 'No Paris Club' clause exempting them from restructuring under the Paris Club framework, which sets standardised terms for bilateral creditors. Restructuring, if needed, follows terms agreed by China and the borrower, potentially disadvantaging the recipient country.

China's Exim Bank and the China Development Bank (CDB) serve distinct but complementary roles in China's global financing strategy. Exim Bank primarily administers China's concessional loans as part of its foreign aid programme, offering low-interest, long-term financing for development-oriented projects in developing countries, such as those related to infrastructure. It also provides non-concessional export credits and buyer's credits to support Chinese companies and promote trade. In contrast, the CDB operates as a policy bank with a market-driven approach, focusing on long-term, non-concessional financing for large-scale projects aligned with China's strategic goals, such as the BRI. While Exim Bank blends diplomatic and commercial objectives, the CDB prioritises profit-oriented lending, often pegged to market rates, with a focus on sectors like energy, transport and technology. Both banks play pivotal roles, with Exim Bank specialising in concessional aid and the CDB driving commercially viable, development-aligned investments.

For loans from Exim Bank, the governing law is typically Chinese law, and the creditor retains the flexibility to adjust the terms in the event of default. By contrast, conditions for loans from the CDB often differ. CDB loans are commonly pegged to market-based interest rates, such as the London Interbank Offered Rate (LIBOR), and are frequently governed by English law, especially for commercial projects, and include broad force majeure clauses. Such clauses allow the lender to delay, renegotiate or terminate agreements when external circumstances, such as political or regulatory changes, arise. This flexibility can safeguard the lender's financial stability and align loans with geopolitical or domestic objectives. However, they also introduce unpredictability for borrowing countries, as projects may face delays, funding shortfalls or changes in repayment terms. In addition, these clauses may shield creditors, particularly state-controlled entities, from reputational damage if loans become politically or economically contentious. While force majeure clauses are a common feature in both sovereign and commercial lending, including EU-backed financing, their broad application in Chinese loans has raised concerns about the extent of lender discretion and the potential risks for borrowers.

While this flexibility benefits the lender, it can also limit the borrowing country's control, particularly when combined with the broader lack of transparency of Chinese loan agreements. This dynamic underscores the dual-edged nature of Chinese financing: It is attractive due to its accessibility, but it is often accompanied by risks tied to opaque terms and creditor-driven flexibility.

Both Exim Bank and the CDB often include **cross-default clauses** in their loan agreements. These clauses allow the lender to terminate the agreement and demand immediate repayment if the borrower defaults on financial obligations to other creditors. This practice, which is common in sovereign and commercial lending, including EU lending, is designed to protect the lender's financial position by ensuring that repayment is prioritised in cases of financial distress. However, for borrowers, cross-default clauses can increase financial risks. For example, a default on one loan may trigger repayment obligations across multiple creditors, exacerbating debt distress.

While Chinese loans offer faster access and some degree of concessionality compared to those of market lenders, they are generally less generous than financing from the World Bank or other multilateral institutions. Chinese loans often have shorter maturities, less favourable grace periods and stricter repayment terms (Morris et al. 2020).

Table 10 / Lending conditions of Chinese banks

Bank	Loan Type	Maturity Period	Interest Rate	Grace Period	Governing Law	Special Conditions
Exim Bank	Concessional Loans	Up to 20 years	Fixed (2-3%)	5-7 years	Chinese law	Requires use of Chinese contractors, equipment and labour
Exim Bank	Non-Concessional Loans (e.g., Buyer's Credit)	15-20 years	LIBOR + 3-4 percentage points	4-7 years	Chinese law	Includes cross-default clauses; may require special accounts for repayments
China Development Bank (CDB)	Non-Concessional Loans	15 years	LIBOR + 2-3 percentage points	3 years	English law	Broad cross-default and force majeure clauses; flexible terms in case of geopolitical risks

Sources: Malik et at. (2021), Asia Society Policy Institute (2025)

3.3. Summary of Chinese activities in the Western Balkans

China, like the EU, has been active in the Western Balkans through **both grants and investment loans**. According to AidData (2023), Chinese **grants** to the region between 2000 and 2021 amounted to approximately USD 380m across 249 projects, with two thirds of the funding being directed to Serbia. As a share of GDP, grants have **averaged 0.021% of GDP for the region as a whole per year**, with Montenegro receiving the highest share (0.033% of GDP) and Albania the smallest (0.009% of GDP).

Chinese **investment loans** are part of the BRI and are provided by Exim Bank and the CDB. While the former typically offers concessional loans, the latter focuses on more commercially oriented financing. Two major sources track these loans: the China Global Investment Tracker (American Enterprise Institute 2024), which reports that Chinese construction projects in the region between 2010 and 2024 involved a total of USD 19bn, with USD 14.7 bn being directed to Serbia. The second source is AidData (2023), according to which China's investment loans between 2010 and 2021 amounted to USD 14bn, of which USD 7bn was allocated to Serbia. The main difference in the amounts reported by the two sources is that the latter covers a shorter time period and does not include the Belgrade Metro project, which is the biggest Chinese project in the region so far, worth approximately USD 6bn.

Looking at the **Chinese investment loans** as a percentage of GDP, the two sources are fairly consistent on aggregate, showing an average of **around 1.2% of GDP** for the region as a whole per year. However, there are some differences between individual countries. According to the American Enterprise Institute, Serbia has received the highest share of investment loans (1.8% of GDP), North Macedonia has received the smallest share (0.4% of GDP), and Bosnia and Herzegovina and Montenegro have received shares between these figures (approximately 1.1% of GDP). AidData, on the other hand, reports that North Macedonia leads with 2.1% of GDP, followed by Montenegro at 1.9%, while Bosnia and Herzegovina and Serbia are at the bottom, at around 1.3% of GDP.

Overall, China has so far committed between USD 14.5bn and USD 19.5bn to support the Western Balkans, with the vast majority of this consisting of loans. As a share of GDP, this has averaged **1.2% of GDP per year** for the region as a whole.

4. A COMPARISON OF THE EU'S AND CHINA'S PRESENCE IN THE WESTERN BALKANS

When comparing the EU's and China's presence in the Western Balkans, the first thing that stands out is that **EU transparency is much better than China's**. Official EU sources, like the European Commission and WBIF, provide reports and data on grants, loans, projects and conditions on their websites. With China, it is not like that – or at least not for resources available in English. Since official Chinese official sources only publish a limited amount of information in English, one has to rely on the work of specialised organisations that collect and analyse these data.

The second difference between the EU and China lies in the **background and conditionalities of their financial support**. EU grants and loans are tied to recipient countries' convergence with or accession to the EU. This means that they come with conditions requiring countries to meet criteria and implement reforms in areas such as democratic standards, the rule of law, anti-corruption, freedom of expression, human rights, transparency and good governance. On the other hand, Chinese grants and loans are based on China's non-interference policy, meaning that China does not involve itself (at least officially) in the domestic affairs of its partners. However, this also means that China does not cooperate with entities that do not respect its 'One China' policy, such as those recognising Taiwan's independence. That said, in general, Chinese grants and loans are more flexible and come with fewer conditions, though this often comes at a cost, with concerns over corruption, poor-quality projects, and issues such as workers' rights violations and environmental degradation.

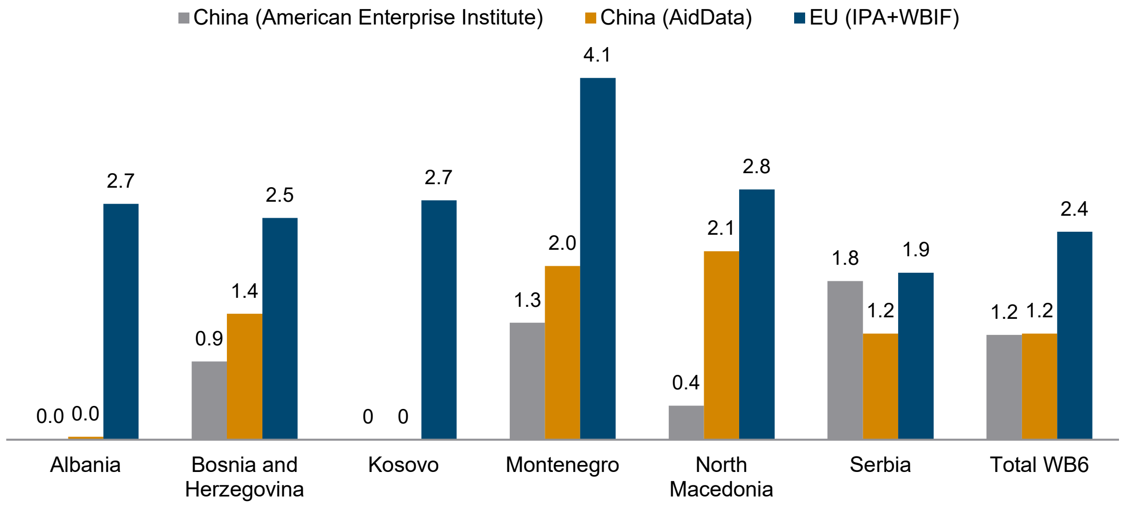
In terms of grants, the EU far outpaces China. Between 2007 and 2023, the EU provided around EUR 13bn in grants to the Western Balkans, while China gave just EUR 350m during the 2000-2021 period. As a share of GDP, the annual difference has been 0.8% of GDP for grants received through the IPA and 0.02% for Chinese grants. This is as expected, as all Western Balkan economies are either EU candidates or potential candidates and therefore receive support through the IPA.

When it comes to loans, the EU is still ahead, but China is catching up quickly. The EU, through its associated banks and private investors, has committed around EUR 25bn in loans for infrastructure projects in the Western Balkans. China, as part of its BRI, has committed between EUR 13bn (according to AidData) and EUR 17bn (according to the American Enterprise Institute). As a share of GDP, the difference is even smaller, as China has been providing loans for a shorter period of time. While the EU loans amount to 1.5% of GDP per year for the region as a whole, Chinese loans amount to 1.2% of GDP (according to both sources).

Interestingly, **in some countries, Chinese loans have already surpassed EU loans**. In Serbia, Chinese loans are estimated at 1.2% and 1.8% of GDP on an annual level, while the EU loans have been 1.1% of GDP.

Figure 7 compares the total support that the EU and China have provided to the region (in terms of both grants and loans) as a percentage of GDP. On average, **EU support through the IPA and the WBIF amounted to 2.4% of GDP per year across the region, which is roughly twice as large as the Chinese financial engagement**. EU support exceeded China's everywhere due to the much higher amount of grants. Nevertheless, in Serbia, China's support is very close to the EU's. What's more, given the pace of growth in recent years, it may well exceed it in the near future.

Figure 7 / Comparison between Chinese and EU grants and loans in each of the WB6 countries (% of GDP)



Sources: American Enterprise Institute (2024), BIRN (2023), WBIF (2023) and the WBIF website

Comparing the lending terms of the Chinese and EU loans, **EU loans usually have lower interest rates and longer maturities**. On the other hand, they also have more and stricter conditions related to several aspects, including transparency, project preparation, project implementation, procurement processes and auditing. Despite the less favourable financial conditions of the Chinese loans, the fact that they have less conditionality often makes them more attractive to Western Balkan politicians. This could have something to do with the greater scope for corruption that goes with the lesser conditionality, but it surely also has to do with faster implementation and completion. As a matter of fact, just one quarter of the announced EU investment projects in the Western Balkans have been completed so far, with another quarter in implementation and one half still in preparation, which can partly be attributed to the over-complicated procedures of the EU loans. While there are not any data on how many of the Chinese projects have been completed so far, looking at the biggest announced projects, one could safely conclude that the completion share is greater.

Another difference is that, unlike EU loans, whose procurement processes are more open and non-discriminatory, Chinese loans often require **Chinese companies and workers** to be hired for the projects, which has caused several issues (Zeneli 2019). For example, Just Finance International (2024) has documented over **100 protests and criminal complaints related to Chinese investments** in Serbia, Montenegro, Bosnia and Herzegovina, and North Macedonia between 2014 and 2024. Common issues include severe pollution (air, water and soil), violations of workers' rights, illegal displacement of villagers, and construction without proper permits.

Another recurring issue with Chinese-funded projects has been **concerns about their quality** in certain cases. One notable example is the Kichevo-Ohrid motorway in North Macedonia, which was initiated in 2013 but remains uncompleted over a decade later. The delays stem from poor project preparation, including flawed route planning, which required significant redesigns and additional works, thereby substantially increasing the cost and timeline. Another tragic example is the collapse of the canopy at the railway station in Novi Sad, Serbia, in November 2024. This incident, which resulted in the loss of 15 lives, raised serious questions about construction standards and safety protocols associated with Chinese projects.

Some Chinese projects have also been linked to **corruption scandals**. A notable example is the case in North Macedonia involving Chinese funds for the construction of the Kichevo-Ohrid and Miladinovci-Shtip highways. The investigation implicated then-Prime Minister Nikola Gruevski, then-Minister for Transport and Communications Mile Janakievski and other officials. Allegations included soliciting bribes and bypassing public procurement laws, but the case was closed without a verdict due to expiration (Vangeli 2022).

In conclusion, while the EU's financial support for the Western Balkans is larger, is more transparent, has lower interest rates and is tied to governance reforms, China's support is less conditional, leads to faster implementation and is based on non-interference. However, the flexibility of Chinese loans comes at a cost, as they have been more prone to corruption, often result in questionable quality, and are associated with various drawbacks, including workers' rights violations and environmental degradation. The volume of Chinese loans has been growing faster than that of EU loans and, in some countries – such as Serbia – has already surpassed them.

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