

In recent years, citizens in Serbia have increasingly pointed out numerous problems that endanger the environment and public health. Often the causes of problems are various development projects implemented by the Republic of Serbia with the help of foreign loans or are the result of direct foreign investments in our country.

There are numerous examples of Foreign direct investment FDI in Serbia that have an extremely negative impact on the environment, and what they have in common is that they are conducted in non-transparent processes and usually come from companies that come from countries with lower environmental standards.

FDI is a mechanism for economic growth in developing countries. In addition to the growth of gross social income, FDI encourages economic development by bringing advanced technologies, improving the knowledge and skills of the workforce, increasing employment and encouraging balanced regional development. Guided by this, the Serbian authorities attract foreign direct investment by providing various subsidies and tax breaks to foreign companies. These companies, in turn, create new jobs and thus increase employment. This framework has shown success, since in the last 10 years, several hundred thousand citizens have been employed through foreign investments. However, experts on economic opportunities claim that the policy of incentives for foreign direct investments, which are almost exclusively aimed at increasing employment, is doomed to failure (so-called race to the bottom), because there are no other positive effects of FDI that would ensure stable growth in the long run. Apart from the effects on the economy, foreign direct investments, especially those in the field of heavy industry, have an evident and mostly negative impact on the environment in Serbia.

In order to be more competitive in attracting FDI, developing countries, which have great needs for foreign capital, often adopt less demanding standards in the field of environmental protection, and the absence of the rule of law, ie non-compliance with existing regulations, accompanied by corruption is a frequent feature. Serbia is no exception here, as the residents of Bor, Smederevo, Zrenjanin, Obrenovac can testify. They arrive in large numbers because the Chinese have an interest in shutting down numerous steel mills in China due to polluted air. In that way, the door is wide open for the transfer of dirty technologies to Serbia through foreign direct investments and loans, which exclusively take into account the growth of GDP, but not the health of the citizens of Serbia.

### **What path of development has Serbia chosen through international agreements?**

The Republic of Serbia is a signatory to numerous international agreements by which it has

committed itself to promote and apply standards that ensure a healthy environment and conservation of natural resources. Among them are the Stabilization and Association Agreement with the European Union, the Treaty establishing the Energy Community, the Framework Convention on Climate Change, the Paris Agreement, the Convention on the Conservation of European Wildlife and Natural Habitats and many others. The latest in a series of agreements, signed in November 2020, is the Green Agenda for the Western Balkans, which focuses on green economic growth, clean technologies and decarbonisation. All these international agreements indicate a change in the global direction of development, which is aimed at wiser management of natural resources and more efficient preservation of the environment, which was not the case in previous decades. To ensure sustainability and their own competitiveness, states create new national and global policies. In such a context, the change in global trends creates foreign policy pressure on Serbia, which as a small country must adapt to these changes. Serbia is currently adopting environmental standards, mostly under the influence of European integration, and it can be expected that these standards will become stricter, and their implementation will cost more.

However, in practice, Serbia approaches development in a different way, equating it primarily with economic growth, which consequently leads to violations of the mentioned agreements. This is supported by the decisions of our state on support for foreign investments that have an obvious impact on environmental degradation and excessive exploitation of natural resources. This has both economic and social consequences for the whole society. According to the report of the European Environment Agency on air quality, Serbia is at the very top of the countries on the European continent in terms of air pollution. Consequently, our country is at the very top of Europe in terms of the number of years of life lost per 100,000 inhabitants. The citizens of Serbia, for example, lost 3 times more years of their lives than the citizens of Austria due to air pollution, almost 8 times more than the Swedes and 12 times more than the citizens of Iceland. This impact on public health has economic consequences, as the World Health Organization and the OECD estimate that the costs of premature deaths due to polluted air are over 33% of Serbia's gross domestic product.

### **How do FDI affect the environment in Serbia?**

In this context of public policies, with the accompanying weakening of the rule of law characteristic of countries like ours, the negative impact of FDI on the environment is logical. However, we cannot say that FDI always leads to environmental degradation. Whether this will be the case depends on the way in which FDI is implemented and

monitored, ie on the application of regulations and the transparency of decisions. There are numerous examples of FDI in Serbia that have an extremely negative impact on the environment, and what they have in common is that they are conducted in non-transparent processes and usually come from companies that come from countries with lower environmental standards. In March 2021, the European Parliament in its resolution pointed out the lack of transparency in Chinese investments and loans and expressed concern over the weakening of the rule of law under their influence. Analyzes show that Serbia is changing the legal system to facilitate FDI access, most often by creating legal gaps or ambiguities that allow for flexible application of the law, primarily in the areas of competition, public procurement, access to information of public importance and environmental protection. By amending the regulations, the Republic of Serbia has enabled the exemption of investment activities from the application of valid regulations, often declaring them infrastructure facilities of special importance for the Republic of Serbia or projects of national interest. As a consequence of this exemption from the application of environmental protection rights, pollution is constantly increasing, and the health of citizens is endangered, which is also pointed out by the European Parliament in its resolution. One of the examples of such a practice is the investment project of the company Shandong Linglong Tire, which is building the largest tire factory in Serbia in Zrenjanin. The data show that in June 2020, the company was granted illegal state aid of a staggering 83.5 million euros, which consisted of direct financial aid of almost 76 million euros and 95 hectares of land that the state transferred to the company's ownership free of charge. Reliefs for the company were also given through the construction of infrastructure from public funds, exemption from profit tax and duty-free import. Non-compliance with regulations continued with construction without building permits, without the necessary nature protection conditions and without an approved environmental impact assessment study. In order to avoid assessing the overall impact of the factory on the environment, the company applied the so-called "salami slicing" method, ie breaking the entire project into smaller units and thus bypassed the applicable regulations. Despite that, the competent authorities issued building permits for various parts of the tire factory, not only squinting at the actions of investors, but also further violating the Law on Nature Protection, the Law on Environmental Impact Assessment and the Law on Planning and Construction. The environmental consequences of this investment project are still being assessed. Since the plant is being built in the middle of the most fertile agricultural zone, near the Special Nature Reserve Carska bara and in a city that has had a problem with water supply for decades, it is clear that the citizens of Zrenjanin are rightly concerned about the

environment.

We also encounter environmental pollution and the weakening of the rule of law in Bor. In 2018, the company Serbia Zijin Copper doo Bor took over the majority ownership of RTB Bor, which is associated with increasing and frequent pollution of air, water and land in Bor. The agreed amount of FDI was 1.26 billion dollars that Zijin should invest in the smelter in 6 years. Shortly after Zijin took over the operation of the smelter, citizens began to complain more and more about excessive air pollution, which is why they organized protests and filed criminal charges against the company, the Bor city administration and the state. Excessive air pollution was also confirmed by official reports of the Environmental Protection Agency, which show that during the previous two years there were several dozen cases in which the concentration of sulfur dioxide in the air in Bor exceeded the values dangerous to human health. Increased concentrations of heavy metals were also recorded in the air, including arsenic, whose concentration was 100 times higher than allowed at one of the measuring stations. As a consequence of this FDI, the health of the citizens of Bor is endangered, and studies show that the citizens of Bor are at increased risk of getting sick and dying from various types of malignant tumors compared to other citizens of Serbia.

Although this evidence seemed sufficient for the state to start enforcing its own environmental regulations, we were again faced with “relaxed” enforcement. Namely, the inspection determined that the company’s activities exceeded the air pollution in relation to the valid regulations, which violated not only the Law on Air Protection and the Law on Environmental Protection, but also the Criminal Code. Based on the fact that a crime was committed, the inspection bodies had the duty to order the suspension of the plant and file criminal charges against the company. However, the inspection only filed a report for an economic crime due to the violation of the Law on Air Protection. Although the company has paid fines for economic crimes several times, the amount of those fines is minor in relation to the investments that the company would have to invest in the application of environmental standards. Therefore, it seems that it is more profitable for polluters in Serbia to continue violating regulations, and the state is left to bear the economic and social consequences of not caring about public health.

### **Impact of foreign loans on the environment**

When we talk about respecting the standards of environmental protection when implementing projects supported through loans from foreign banks, we also see significant differences, this time in relation to who the creditor is.

Chinese banks are among the leading creditors on a global level, and they are mostly

oriented towards supporting large construction projects. In Serbia, infrastructure projects supported by China are being implemented on the basis of an interstate agreement, which exempts the Chinese partner from the obligation of public bidding, VAT and customs duties, with works mostly performed by Chinese companies and Chinese workers, and details of credit agreements not available to the public. Projects financed by Chinese loans often have a negative impact on biodiversity conservation and climate stability. Research of Chinese investments on a global level shows that a large number of projects, as many as 124, are being implemented in protected areas, while 215 are located in sensitive habitats. In addition, China credited the construction of a number of coal-fired power plants between 2006 and 2015, and it is estimated that these plants will emit more than 12 gigatons of carbon dioxide during their working life. Among the latest projects that China supports in Serbia, is the planned highway on the route Belgrade-Zrenjanin-Novı Sad. Apart from the suspicion that this road is being built for easier transport of goods from the future tire factory in Zrenjanin, and not from the real needs of the citizens, the damage that its construction could do to the environment is great. Namely, the route passes through as many as three protected areas, two areas that are in the process of protection and several internationally important areas for biodiversity conservation, and the strategic assessment of the plan for construction of the highway to the environment does not offer a solution to reduce damage to nature. this project is being realized.

On the other hand, there are also financial institutions are examples of good practice in environmental management. The European Bank for Reconstruction and Development (EBRD) is one of the examples of banks that pay attention to environmental protection and respect for democratic principles when lending to projects. The EBRD has internal policies that define the way in which the Bank will address the environmental and social impact of its projects, as well as a range of standards for project implementation in accordance with EU regulations in the field of environmental protection. These standards must be met in order for the project to obtain credit approval, and include standards related to biodiversity conservation and sustainable management of natural resources, resource efficiency and pollution prevention and control, assessment and management of environmental impacts and risks, and others. The EBRD is one of the largest creditors in Serbia, and among the many supported projects are those whose implementation should contribute to improving the state of the environment in Serbia, such as the construction of wind farms, wastewater treatment plants in Subotica. The Bank has an appeal mechanism that can be used by citizens, organizations and all stakeholders who believe that this policy of the bank has not been respected. if the EBRD initiated an internal investigation due to suspicion that these

standards were not respected when planning the project of arranging the landfill in Vinča and the construction of the incinerator. Prior to that, the European Investment Bank withdrew from financing this project, due to the view that it will not contribute to achieving the goals of recycling and the circular economy.

So can foreign direct investment contribute to sustainable development? In the last decade, it has become clear that development based solely on economic parameters is not possible, and that a linear economy that is relentlessly depleting the planet's resources is cutting the branch on which modern civilization sits. It remains for Serbia to follow the modern trends of sustainable development or to come to terms with the fact that it will be a country of non-competitive economy, dirty technologies, polluted environment and sick citizens. And can that be called development? And do the citizens of Serbia want that?

The text was co-authored with Milica Radanović, project coordinator at BOSCH and is part of the series Serbia and Foreign Capital.

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