

# Achievements and Challenges for China Investments in Serbia

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## ABSTRACT

In the last two decades, in a time of transition and transformation of a planned economy into a free market economy, Serbia has almost lost its primary industry sector. In other words, the Serbian primary industry sector was largely “de-industrialized” although in the secondary and tertiary industry sectors maintained a certain vitality and development potential. Starting from the political changes of the 2000, Serbia catches up with other countries in the region in the most important aspects of the transition process. In this sense, foreign direct investments have a significant impact on the Serbian economy, by improving economic structure and giving it new competitive qualities, increasing access to international markets, serving as a resource for improving the balance of payments and helping to accept modern technology, knowledge and management. It gives real hope that Serbia with the help of foreign capital will be able to re-industrialize their production and to restore and develop its industrial capacity. Serbia sees China as the most important foreign trade and financial partner in Asia and as a major partner in achieving its strategic economic objectives. Lack of financial resources needed for realization of the planned economic development goals, enables China to invest own financial resources on favourable terms using the Serbian market openness and good mutual relations permeated with mutual trust and benefits. For the proper understanding of Sino-Serbian relations, this study gives first short explanation of the Chinese strategy of the “New Silk Road”. Then, it includes analysis of the development of Serbian-Chinese political and economic relations (especially in the field of foreign investment). The final part of the study includes evaluation of comparative advantages and certain disadvantages for the Chinese foreign investment in the Serbian economy, which in itself has certain significance for the realization of the “New Silk Road” strategy”.

*Keywords:* China, Serbia, the “New Silk Road”, OBOR, development strategy, economy, Chinese investments

## Перспективы и проблемы привлечения китайских инвестиций в экономику Сербии

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## РЕФЕРАТ

За два прошедших десятилетия, в процессе перехода от плановой экономики к рыночной, Сербия практически потеряла свой основной промышленный сектор. Иными словами, сербская промышленность оказалась «деиндустриализована», в то время как вторичный и третичный сектора промышленности показали определенную живучесть и потенциал развития. Начиная с политических изменений 2000-х, Сербия догоняет другие страны региона в самых важных аспектах процесса трансформации. В этом смысле прямые иностранные инвестиции оказывают значительное влияние на сербскую экономику, улучшая экономическую структуру и давая новые конкурентоспособные качества, открывая доступ к международным рынкам, служа ресурсом для улучшения платежного баланса и возможности перенять современные технологии, знания и управление. Это дает реальную надежду, что Сербия с помощью иностранного капитала будет развивать промышленное производство и восстановит производственные мощности. Сербия рассматривает Китай как самого перспективного партнера для внешней торговли и источник финансирования в Азии, а также как крупного партнера в достижении своих стратегических экономических целей. Отсутствие финансовых ресурсов, необходимых для реали-

зации запланированных целей экономического развития, позволяет Китаю инвестировать собственные финансовые ресурсы на выгодных условиях, используя сербскую открытость рынка, и хорошие взаимоотношения, основанные на взаимном доверии и преимуществах. Данное исследование дает короткое объяснение китайской стратегии «Нового Великого шелкового пути», которое позволяет лучше понять современные китайско-сербские отношения. Помимо этого, исследование содержит анализ развития сербско-китайских политических и экономических отношений (особенно в области иностранных инвестиций). Заключительная часть исследования — оценка сравнительных преимуществ и определенных угроз для китайских иностранных инвестиций в сербскую экономику, имеющую определенное значение для реализации стратегии «Нового Великого шелкового пути».

*Ключевые слова:* Китай, Сербия, «Новый Великий шелковый путь», «Один пояс, один путь», стратегия развития, экономика, китайские инвестиции

## 1) CHINA'S THE "NEW SILK ROAD" STRATEGY

On September 7, 2013, Chinese President Xi Jinping speaking at Nazarbayev University in Astana, the capital of Kazakhstan, called for the development of the "Silk Road Economic Belt" initiative which includes the connectivity of countries from the Pacific to the Baltic Sea. On that occasion, President Xi said that "China must expand the development of Eurasia creating an economic belt along the Silk Road". The idea of renewing the ancient "Silk Road" that was created during the Han Dynasty has received new attention and became a source of inspiration for the trade and investment ties between the China, Central and South Asia, Europe, the Middle East and Africa<sup>1</sup>. This was confirmed by President Xi in his speech when he emphasized the need for a new vitality of the world economy, as well as the development of friendly relations with the countries along the route of the "New Silk Road"<sup>2</sup>. One month later, in early October 2013, during a visit to Indonesia, President Xi announced a similar initiative of the "21st century Maritime Silk Road" which also referring to Chinese history, especially on the fact that the Chinese admiral Zheng He on his cruises in the 14th century formed a broad network of economic, trade and political ties with the countries of South Asia, Southeast Asia, and Africa Taking into account the new geopolitical circumstances and economic needs of the states along the maritime routes covered by this political initiative of the Chinese president, the old idea in the new his-

<sup>1</sup> Professor Liu Zuokui from the Institute for European Studies of the Chinese Academy of Social Sciences points out that: "The Silk Road Economic Belt has three routes on the corridor which refers to the Siberian Continental Bridge (also known as the First Eurasian Continental Bridge), starts from Vladivostok in the eastern part of Russia and ends in Rotterdam in the Netherlands; the New Eurasian Continental Bridge (also known as the Second Eurasian Continental Bridge), begins in Lianyungang in east China's Jiangsu Province and ends in Rotterdam. It exits China via the Alataw Pass and runs through Central Asia into Russia, Poland, and Germany; the third is the Eurasian Continental Bridge that is now on the drawing board. This proposed route would start from Shenzhen in Guangdong Province and end in Europe via Myanmar, Bangladesh, India, Pakistan, Iran, Turkey and Bulgaria". See: Liu Zuokui, *The Role of Central and Eastern Europe in the Building of Silk Road Economic Belt*, *Međunarodni problemi/International Problems*, 67, (2–3), p. 186.

<sup>2</sup> The "Silk Road Economic Belt" initiative promotes the next model of cooperation: "1) strengthen policy communication, which may help 'switch on a green light' for joint economic cooperation; 2) strengthen road connections, with the idea to establish a great transport corridor from the Pacific to the Baltic Sea, and from Central Asia to the Indian Ocean, then gradually build a network of transport connections between eastern, western and southern Asia; 3) strengthen trade facilitation, with a focus on eliminating trade barriers and taking steps to reduce trade and investment expenses; 4) strengthen monetary cooperation, with special attention to currency settlements that could decrease transaction costs and lessen financial risk while increasing economic competitiveness; 5. strengthen people-to-people relation" See: "Xi Jinping zai Shanghe zuzhi fenghui fabiao jia tichu 4 dian zhuzhang", Xinhua, 13 September 2013.

torical rug should serve the promotion of maritime trade as well as environment protection, science, technology and security cooperation along the sea routes of southern Eurasia, from the Pacific coast to East Africa, the eastern Atlantic shores and Mediterranean<sup>1</sup>.

The Chinese President's initiatives colloquially expressed through the phrases: *Yi Dai Yi Lu (One Belt, One Road)*, were based on a long-term analysis of international relations, as well as on studies of the economic development trends of China and the international community. Hence the reanimation of the idea of the ancient „Silk Road” should not be surprising because it was created as a result of the the political paradigm of the “Chinese dream”, which was still one of the leading development strategies based on the policy of “Peaceful Development”, conceptually shaped China's efforts to consolidate the regional security and to ensure harmonious economic development of most of the world<sup>2</sup>.

This strategic concept came up together with the economic concept of “Open door” which was applied in China by more than three decades and that led to the market-oriented reforms and gradual process of liberalization from which were removed the internal barriers in terms of movement of goods, labour and capital<sup>3</sup>. Starting from 2000, onwards, China has made significant progress in the global market. Joining the World Trade Organization and by strengthening their economic capacity, China has managed to occupy one of the leading positions in the world economy. Unfortunately today, as well as other global powers, China faces with serious economic threats which are caused by the world economic crisis and internal social tensions. These threats are manifested through the lack of the driving force and demand, constant turbulence of the financial market and continued downturn in international trade<sup>4</sup>. These problems were put aside exports and foreign direct investment as a leading Chinese economic development model. Given the difficult business conditions, China tries to find new export markets or preserve existing ones. This is the main reason why the “New Silk Road” has become a key development strategy that should take into account the peaceful and sustainable development not only of China, but also of all countries along the *One Belt, One Road* directions. Hence, it is clear why the *One Belt, One Road* initiative sublimated for practical reasons in the strategy of the “New Silk Road” have a decisive significance for improving China's relationship especially with countries of Asia, Europe and Africa but not excluding countries from other regions of the world. As the far-reaching vision, the “New Silk Road” has been proposed with the purpose of benefiting both China and the countries along the land and maritime route. Thereby, the *One Belt, One Road* initiative are open to all countries and international organizations (for example: Shanghai Cooperation Organization, the Eurasian Economic Community, Asia-Pacific Economic Coop-

<sup>1</sup> According to the recent information of the Xinhua agency, the Maritime Silk Road begins in Quanzhou (Fujian) and hits other southern Chinese ports (Fujian, Zhejiang and Guangdong) before heading to the Malacca Strait. From Kuala Lumpur, the Maritime Silk Road heads to Kolkata, crosses the rest of the Indian Ocean to Nairobi and then around the Horn of Africa into the Mediterranean — with final stops in Greece and Italy

<sup>2</sup> Peaceful Development Policy assumes an open and cooperative relationship, in order to maintain “win win” situation and stable external environment that would be conducive to China rise. See: Zoran Petrović Piročanac, “The World and a Chinese Non-alignment Strategy of Governance and Development-Brief Survey”, In: Global Trends and China in the Coming Decade, Papers from: “Contemporary World Multilateral Dialogue 2013, China Centre for Contemporary World Studies, China Foundation for Peace and Development, China Energy Fund Committee, 2014, pp. 86, etc; Xinhua (2013), “Central Committee's Decision on Major Issues Concerning Comprehensively Deepening Reforms”, 15 November 2013; Xinhua (2015), “China Focus: China sketches out priorities of ‘Belt and Road’ initiatives”, Retrieved from: [http://news.xinhuanet.com/english/china/2015-02/01/c\\_133962709.htm](http://news.xinhuanet.com/english/china/2015-02/01/c_133962709.htm). 11.11.2015.

<sup>3</sup> L. Hongyuan, G. Yun, S. Qifa, China's Road, Huangshan Publishing House, 2012, p. 128.

<sup>4</sup> Lin Yongliang, “The Global Significance of the Belt and Road Initiative”, International Understanding, CAFIU, Beijing, 2017, Vol 2, N 2, p. 56

eration, Asia-Europe Meeting, ASEAN plus China, BRICS, etc.), while adhering to the principles of mutual respect and common interests<sup>1</sup>.

In line with the published Chinese projections, both of these initiatives are expected to become fully operative by 2025<sup>2</sup>. These initiatives should boost the revitalization of the large part of the world which covers the vast area with more than 4,4 billion people. It is expected that the total value of these initiatives surpass 21 trillion US dollars (almost one third of the world's GDP)<sup>3</sup>. The network of investments that includes *the Belt and Road initiatives* might create the landmark infrastructure projects of the 21st century (*World Land-Bridge*), encompassing more than 60 countries from different continent<sup>4</sup>. The importance of *the Belt and Road initiatives* is therefore huge taking into account the number of countries they could encompass, and the potential economic benefits for all of them<sup>5</sup>. Hence, *the Belt and Road initiatives* indicate a positive climate for building a new economic international system that could bring prosperity for a large number of countries that are on the "New Silk Road", including Serbia, which, according to its specific position in international relations has a special significance for their implementation<sup>6</sup>.

## 2) DEVELOPMENT OF POLITICAL RELATIONS BETWEEN SERBIA AND CHINA

The current relations of Serbia with the People's Republic of China are conditioned by many political, economic, legal and social factors. These factors point to the existence of

<sup>1</sup> Duško Dimitrijević, Nikola Jokanović, "China's 'New Silk Road' Development Strategy", Review of International Affairs, 2016, N 1161, pp. 21–44.

<sup>2</sup> Pepe Escobar, "The 21st century belongs to China: Why the new Silk Road threatens to end America's economic dominance", 2015, Retrieved from: [http://www.salon.com/2015/02/24/the\\_21st\\_century\\_belongs\\_to\\_china\\_why\\_the\\_new\\_silk\\_road\\_threatens\\_to\\_end\\_americas\\_economic\\_dominance\\_partner/](http://www.salon.com/2015/02/24/the_21st_century_belongs_to_china_why_the_new_silk_road_threatens_to_end_americas_economic_dominance_partner/), 24.02.2015.

<sup>3</sup> Aleksandar Janković, "New Silk Road — New growth engine", Review of International Affairs, 2016, N 1161, p. 6.

<sup>4</sup> H. Zepp-LaRouche, "The New Silk Road Leads to the Future of Mankind!", In: *The New Silk Road becomes the World Land-Bridge*, EIR News Service Inc., Washington, 2015, pp. 2, etc.

<sup>5</sup> This year, China pledged a new \$ 900 trillion investment in achieving the goals of the "New Silk Road" strategy. The aim of the new billion scheme is to kindle a "new era of globalization", a golden age of commerce that will benefit all. China has made a special commitment to invest additional ones \$ 8 trillion for infrastructure in 68 countries. That adds up to as much as 65% of the global population and a third of global GDP. See: "China's \$900 billion New Silk Road — What you need to know", World Economic Forum, Retrieved from: <https://www.weforum.org/agenda/2017/06/china-new-silk-road-explainer/> 26 June 2017.

<sup>6</sup> It seems very interesting to note that China came out with a list of priorities within the Belt and Road initiatives in February 2015. These priorities include building transporting infrastructure, facilitating the flow of investment and trade, simplification of customs procedures, the construction of logistics centres, financial cooperation, with the expansion of cooperation between nations through intensifying exchanges in culture, education, science, etc. In March 2015, the National Development and Reform Commission announced an important strategic document titled: "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road". This document outlines the framework of cooperation within the Belt and Road initiatives. The same Commission adopted on 22 October 2015, the "Action Plan for Harmonization of Standards along the Belt and Road (2015–2017)" which confirmed that the objectives of the previous adopted document (Vision and Actions), will be achieved in practice. See: "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China, Beijing, 28 March 2015, Retrieved from: [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html) . 08.03.2016; "Action Plan for Harmonisation of Standards Along the Belt and Road (2015–2017)", National Development and Reform Commission, 22 October 2015, Retrieved from: <http://china-trade-research.hktdc.com/business-ews/article/One-Belt-One-Road/Action-Plan-for-Harmonisation-of-Standards-Along-the-Belt-and-Road-2015-2017/obor/en/1/1X000000/1X0A443L.htm>, 08.03.2016

a multifaceted asymmetry which is not an obstacle to the development of good and friendly relations between the two sides, whereas, in the historical and legal sense, the relations between the two countries are characterized by the continuity of the diplomatic relations established on 2 January 1955 between the Federative People's Republic of Yugoslavia and the People's Republic of China. In the international legal sense, Serbia, as the successor state of the Socialist Federative Republic of Yugoslavia, continues to treat the People's Republic of China as one of its main partners in international relations, which is confirmed through its foreign policy course, according to which China is one of the main "pillars" of Serbia's foreign policy alongside the European Union, Russia and the United States<sup>1</sup>. The mere reference to the main "pillars" in Serbia's foreign policy orientation indicates that for Serbia, China represents a key player in world politics and a great power with which it should build good and friendly relations<sup>2</sup>. Consequently, Serbia and China established first the "strategic partnership" in August 2009 (during the visit of Serbian President Boris Tadić to China), which, also in August 2013 and then in June 2016, was expanded into the "comprehensive strategic partnership" through a joint statement by the Serbian president Tomislav Nikolić and Chinese president Xi Jinping. The Chinese-Serbian strategic partnership, which resulted from the traditional friendship between the two countries, contributed to the conclusion of a series of investment agreements and the implementation of joint projects in the Serbian energy, transport, agricultural, financial and telecommunication sectors, as well as in the field of scientific and cultural exchange and cooperation<sup>3</sup>. The importance of establishing a strategic partnership between Serbia and China has had positive effects not only on optimizing Serbia's foreign policy position but also in strengthening its status in economic international relations. This strategic approach is also visible within the "16 + 1" cooperation mechanism established to develop and improve cooperation between the countries of Central and Eastern Europe (CEEC) and China in the implementation of the development objectives of the Chinese "New Silk Road" strategy.

### 3) DEVELOPMENT OF ECONOMIC RELATIONS BETWEEN SERBIA AND CHINA

Although Serbia views China as its most important strategic partner in Asia, its economic relations with China are characterized by mutual asymmetry in all economic parameters. I will list here only as an example some public information's about this.

According to official data of the National Bank of Serbia, in the period from 2005 to 2013, the total net inflow from China amounted to EUR 20 million<sup>4</sup>. According to official data of

<sup>1</sup> Isac Found, „Od četiri stuba spoljne politike do evroskih integracija — postoji li volja za strateško usmerenje spoljne politike Srbije?“ (From the four pillars of the foreign policy to the European integration — is there a will for the strategic direction of Serbia's foreign policy?) Belgrade, 2013, p. 17.

<sup>2</sup> In public discourse, Serbia treats China as a great power despite the fact that China does not experience it so. China's political discourse, however, emphasizes that China is the largest developing country and a respectable regional power with increased global influence and soft power in international relations. The specificity of the Chinese approach is that China is a "responsible power" (*fu zeren de daquo*), which respects the sovereignty of other countries, as opposed to Western powers that interfere in the social systems of other countries, in their development and in their internal foreign policy. According to professor Hongjun, China's foreign policy includes five basic elements: peaceful, independent, scientifically based, cooperative and joint development. See: *Yu Hongjun*, "Sincere Dialogue for Conductive Cooperation", in: *The Changing World and China in Development*, Papers from: "The Contemporary World Multilateral Dialogue", China Centre for Contemporary World Studies, China Foundation for Peace and Development, Beijing, 2013, p. 9

<sup>3</sup> Tanjug (2016) "Kina i Srbija — strateško partnerstvo i još 21 sporazum", (China and Serbia — a strategic partnership and another 21 agreements), 18. Jun 2016, Retrieved from: <http://www.tanjug.rs/full-view.aspx?item=270618&izb=252463&v=252463>, 29.09.2016.

<sup>4</sup> National Bank of Serbia, Statistics, 2015, Retrieved from: <http://www.nbs.rs/internet/cirilica/index.html>, 29.09.2015.

the Serbian Bureau of Statistics, in the total trade exchange, China was fifth in the list (behind Italy, Germany, Russia and Bosnia and Herzegovina); while in terms of imports China occupied the fourth place (behind Italy, Germany and Russia). Export of Serbia to China in 2014 amounted to USD 14,1 million, while in 2015 it amounted to USD 20,2 million (with only 0,1% and 0,2% of total Serbia's exports). On the other hand, Serbia imported goods from China in 2014 in the amount of USD 1,561 million, while in 2015 imported goods in the amount of USD 1,540.2 million (accounting for 7.6% and 8,5% of the total import of Serbia in those years)<sup>1</sup>. According to official indicators of the Serbian Chamber of Commerce, in 2016, there was an increase in bilateral trade between the two countries. Thus, imports from China amounted to USD 1,603.9 million, while exports from Serbia to China amounted to USD 25,3 million. Import coverage by export was 1,6%<sup>2</sup>.

But, regardless of the above indicators, this does not mean that there are no real possibilities for their further growth and development. Such a conclusion stems from the Chinese that Serbia represents as one of the key partners in the region of Southeast Europe as well as an active factor in the way of connecting with the European Union, whose common market of high purchasing power can be an ideal place for its investments and the placement of its products. In that sense, China supports Serbia's aspirations for full membership in this organization and encourages its economic transition to open markets. Good political relations with China provide Serbia with the opportunity to develop good economic relations with her in different ways and in different fields. Currently, economic cooperation, on its scale, value and structure, unfortunately makes a small part of the economic exchange with the world in both countries<sup>3</sup>.

This state of affairs is primarily conditioned by the Chinese economic strategy whose constants are: the global geo-economic positioning, the growing expansion of exports, the acquisition of energy and mining resources for the purpose of maintaining economic growth and the significant logistical and financial support of the state structures and state banks to companies operating abroad. Given that China is emerging as a major investor worldwide, it is therefore clear that economic cooperation with China is a major economic challenge and incentive for Serbia. However, the two countries have a clear will to improve their economic relations which is best reflected through Chinese foreign direct investments (FDI) and transnational investments in the Serbian transport infrastructure, energy and ICT sectors. According to official data of the Serbian Government, the amount of Chinese foreign investment reached an enviable level of nearly USD 6 billion. I will present some of the successfully implemented investment projects and those whose realization is planned in the perspective.

#### *Chinese foreign direct investments in Serbia (FDI)*

In May 2016, *Hesteel Group Company Limited* (HBIS) took over the "Smederevo" steelworks for EUR 46 million with the obligation of investing in the future value of at least EUR 300 million and retention of employees.

In April 2016, *Mei Ta Europe*, Sino-French Company, a manufacturer of auto parts began construction of a casting factory in Barič near Belgrade. The value of the project amounts to EUR 60 million.

#### *Chinese investment in transport infrastructure*

*China Road and Bridge Corporation* (CRBC), a subsidiary company of *China Communications Construction Company* (CCCC), built the bridge Zemun-Borča (so called:

<sup>1</sup> Serbian Statistical Office, 2015, Retrieved from: <http://webzrs.stat.gov.rs/WebSite/>, 10.02.2017.

<sup>2</sup> Chamber of Commerce and Industry of Serbia, *Economy of Serbia*, 2016, Retrieved from: <http://www.pks.rs/MSaradnja.aspx?id=73&p=1&pp=2&>, 10.02.2017.

<sup>3</sup> Blagoje Babić, "New Silk Road — China's New deal", in: Dimitrijević Duško (ed.), *Danube and the New Silk Road*", Institute of International Politics and Economics, Belgrade, 2016, pp. 62–63.

Pupin's Bridge), which was opened to traffic in December 2014, during the Third summit mechanism "16 + 1" between the countries of Central and Eastern Europe (CEEC) and China. The bridge has a total length of 1,507 meters, with access roads length of 21,6 km. It was originally planned that the value of the project amounts to USD 260 million but during construction this amount was exceeded (in September 2014 was signed annex to the contract, with a predicted increase in the value of the project to an additional USD 70 million for expropriation and potential USD 32 million for damages requirements of contractors and subcontractors). The project is financed from the loan of Chinese Exim Bank (85%) and from the budget sources of Serbia and the City of Belgrade (15%).

In relation to Pupin's Bridge, as an example of good Chinese-Serbian cooperation, it should be mentioned that the Chinese company *CIE Holdings*, made a feasibility study of construction of the port upstream from bridge over the Danube. Area specific purposes should be around 873 hectares, of which the port and economic zone accounted for a total of 562 hectares. The entire area is planned to build 1,350,000 square meters warehouse and various service facilities, as well as 870,000 square meters of traffic areas. This port would be a hub for internationally important and would enable the full multimodality freight transport directly with rail and road links. In the next period, the Chinese and Serbian sides should agree on who will be the implementer of this strategically important project.

In addition to the successfully realized Pupin's bridge investment, *China Road and Bridge Corporation* should do the work on the construction of fast railway Belgrade-Budapest. The total length of railways is 350 km, of which the length of the route Serbian 184 km and 166 km of Hungarian. In addition to the existing track, the plan envisages the construction of another, mixed type, for passenger and cargo transport. The framework agreement on the project was signed on 24 November 2015, when Prime Minister Aleksandar Vučić attended the fourth summit of China and 16 countries of Central and Eastern Europe in Suzhou. The project should be financed by Chinese Exim Bank. However, the pace of project implementation has slowed down due to the valuation of the project (from Belgrade to Budapest) and then because of certain conditions regarding the fulfilment of EU standards. The preliminary assessment is that the value of the project could amount to EUR 1,5 to 2 billion. After the trilateral meeting of the representatives of China, Hungary and Serbia, held in Belgrade in the first half of September 2016, the parties agreed that the signing of a commercial contract on the project of modernization and reconstruction of the Belgrade-Budapest railway will be performed at the fifth Summit of the mechanism of "16 + 1" in Riga in November 2016. Otherwise, it is worth noting that the construction of the Belgrade-Budapest is part of China's strategy of "New Silk Road", which aims to connect the port of Piraeus with the Central and Western Europe through Macedonia, Serbia and Hungary. The first phase of its implementation would be the modernization and construction of high-speed railways (speed up to 200 km/h) from Belgrade to Budapest, on the part of Corridor 10. This phase would then follow the second phase of modernization of the railway route Belgrade-Skopje-Thessaloniki-Athens-Piraeus. The same Chinese company should build a road-rail bridge over the Danube at Vinča. Estimated total value of the project is around EUR 470 million. So far no data have been provided on whether the project documentation has been prepared and whether funding modalities have been established.

*China Shandong International Economic & Technical Cooperation Group* (CSI) has built two sections of Corridor 11 (highway E-763 Belgrade — South Adriatic): Obrenovac-Ub and Lajkovac-Ljig, total length of 50,23 km. Work is in progress on the construction of the remaining part of the road, with completion due by 30 July 2017. The total value of the project is USD 337,74 million. The project is financed from the loan of Chinese Exim Bank (in the amount of USD 301 million), and funds from Serbia (USD 32,74 mil-

lion). The same Chinese company expressed interest in participating in the construction of the road IB-21 Novi Sad-Ruma, a total length of 34,2 km, including a tunnel through the mountain Fruška Gora.

*China Communication Construction Company (CCCC)* should build a section of road on Corridor 11 — Surčin — Obrenovac (E763), a total length of 17,6 km, including the bridge over the Sava River. According to the construction plan, the works should start in 2017. The value of the project amounts to USD 233,69 million. The participation of the Chinese side in the project is 51%, and 49% of Serbian companies. The project should be financed from the loan of Chinese Exim Bank. The Agreement on design and construction work on the construction of the motorway on the section Surčin-Obrenovac on Corridor 11 was signed in mid-June during the visit of Chinese President Xi Jinping Serbia.

*Sinohydro Corporation* signed with the Serbian side the Memorandum of Understanding in 2016, which envisages the participation of this company in the construction of a bypass around Belgrade. For Serbia, the project is very important because with its realization Serbia connects with Hungary, Croatia, Montenegro, and Macedonia. The bypass should be a total length of about 46 kilometres, with four lanes and two more stops. It will have four tunnels and 41 bridges. There is no data on whether the contract on the realization and financing of the project has been completed.

*China Gezhouba Group Corporation (CGGC)*, on the basis of the Protocol signed in January 2013, has prepared a feasibility study for the construction of part of the channel “Danube-Morava-Vardar” through Serbia. The study included the project “Channel Morava”, whose value is estimated at EUR 4,5 billion. As a potential contractor in 2016 mentions the Chinese company Bonn Project.

At the Third summit mechanism “16 + 1” between the countries of Central and Eastern Europe (CEEC) and China in 2014, an agreement was signed on the establishment of air traffic between the two countries. The agreement provides for organizing joint flights between Belgrade and Beijing and Shanghai-based code share. Investing in air transport should be carried out through the Air Serbia and Air China. For now, Hainan Airlines as one of the best Chinese airline companies has managed to open the route on the line Beijing — Belgrade.

#### *Chinese investments in the energy sector*

*China National Machinery and Equipment Import & Export Corporation (CMEC)*, participate in the construction of a new Block 3 of the thermal power plant Kostolac “B” volume of 350 MW and expansion of Drmno from 9 million tons to 12 million tons per year. This Chinese project in Serbian energy sector has to be financed through the loan which was approved by the Chinese Exim Bank in the amount of USD 608,26 million with repayment period of 20 years, a grace period of 7 years and an interest rate of 2,5% per annum. The difference to the full value of the project from USD 715,6 million will finance domestic energetic company “Elektroprivreda Srbije”. The project also including desulphurization and revitalization of energy units B1 and B2, and work should be completed in 2019.

*China Environmental Energy Holdings (CEE)* and *Shenzhen Energy Group (SEC)*, in consortium with Serbian energetic company “Elektroprivreda Srbije” participate in the construction of Block 3 Thermal Power Plant “Nikola Tesla B” in Obrenovac and mine Radljevo. The projected installed capacity of the new energy unit is 744 MW. The total project cost is estimated at over EUR 2 billion. According to published data, the new Thermal Power Plant should become an independent producer of electricity in Serbia and in the majority Chinese-owned. But, due to the floods that hit in 2014, Obrenovac and its surroundings, the dynamics of implementation of the project is quite uncertain.

In addition of aforementioned examples it is important to note that *Silk Road Fund*, *China Gezhouba Group (CGGC)* and *China Environmental Energy Holdings*, a Chinese



investment fund and the company signed with the Serbian side of the Memorandum of Understanding and joint investment in renewable energy projects in Serbia in July 2016. Also, it's very important for the development of the Serbian energy sector that *China Machinery Engineering Company* signed with the Serbian side of the Memorandum of Understanding for the financing and construction of the power plant to generate electricity from waste in July 2016.

#### *Chinese investments in the ICT sector*

Chinese multinational company *Huawei Technologies* and domestic company "Železnice Srbije" have signed a Memorandum of Understanding in 2011. After that they concluded the Agreement on technical cooperation in 2012. In 2013, they concluded a Framework Agreement on the modernization of the integrated system of telecommunications. Complete modernization of telecommunications system of the "Železnice Srbije" should be realised in phases. The estimated value of the whole works has amounted to circa EUR 200 million. The first phase of modernization should be completed by 2018, and the total value of the works is estimated at EUR 78 million. Planned sections of railway lines were Corridors 10 and 11, Pančevo-Vršac and Požega-Kraljevo-Lapovo. The same Chinese multinational company signed Memorandum on cooperation in the field of system with the Ministry of Internal Affairs of Serbia in 2014, during the Third summit of the mechanism of "16 + 1" in Belgrade. On this occasion the company obliged itself to donate the Laboratory of information and communication technology based on the latest 4G technologies to the Centre for Information and Communication Technologies of the Faculty of Electrical Engineering, University of Belgrade. In July 2016, *Huawei Technologies* has signed with Serbian company "Telekom" the Framework Agreement for the supply of equipment and materials, construction and provision of services for the implementation of the ALL IP transformation. The Agreement provides that "Telekom" should invest up to EUR 150 million in the purchase of equipment, services and works that made the Chinese partner. For this purpose, "Telekom" has signed the additional agreement with Bank of China for credit financing of the project.

#### **4) ACHIEVEMENTS AND CHALLENGES FOR THE FUTURE DEVELOPMENT OF ECONOMIC RELATIONS**

Economic Cooperation with China represents a huge opportunity for development and also good evidence of the successful conduct of foreign policy, which promotes cooperation on the global level and contributes to a "constructive meeting of East and West". However, if Serbia wants to increase its influence and importance in international relations based on economic cooperation with China, its business with China must be based not only on past successes and achievements, but also on the potentials based on improving its real economic capacity through various types of investments in industry and infrastructure. In this sense, Serbia will have to successively involve in international production through global value chains which derive not only from the form of proprietary investments, but also from the "portfolio". This in particular means that Serbia can be included in this chain in two ways: *First*, through foreign direct investment (FDI) to which the Chinese party acquires ownership rights, but also control over Serbian companies. For example: through the establishment of a brand new company (*greenfield investments*); through investments in the revitalization of capacities of existing one (*brownfield investments*); through joint ventures and, through international mergers or acquisitions (merging two equal companies from China and Serbia with the aim of establishing a new company or purchasing a Serbian company by Chinese in order to acquire property and business connections). *Second*, through indirect investments that represents the purchase of securities by Chinese party for the purpose of

investing capital in Serbian companies, without the intention of directly influencing their business policy (*non-equity investments*)<sup>1</sup>. In this way, the Serbian economy could be included in the global value chain through Chinese investment capital, while Serbian companies could realize a pro-long-term benefit from exports of products and services that would be owned by Chinese and Chinese-Serbian companies. It is quite certain that the Serbian economy could thus be included in the global value chain through invested Chinese investment capital, while Serbian companies could realize a prosperous export benefit whose carriers were Chinese or mixed Chinese-Serbian firms. This could further lead to the expansion of mutual economic cooperation, but also to the linking of a number of countries from the CEE region to the Chinese-Serbian investment projects. That these possibilities are realistic is also the fact that Serbia has adopted appropriate economic policy measures and has provided a solid legal framework as a guarantee for Chinese foreign investment. In this regard, it is important that Serbia continuously renewed and develop its bilateral investment agreements (BIT) with China. Such good example is the case which happened during the visit of Chinese President Xi Jinping Serbia in June 2016. Two sides signed a new Agreement of Economic and Technical Cooperation with twenty other agreements and other legal instruments of cooperation in different fields<sup>2</sup>.

The need for the permanent legal security of foreign investments in Serbia caused that Serbia adopted a modern investment codes, which guarantees equal legal status of domestic and foreign investors. Regardless of the form of foreign investment (acquisition of shares in existing enterprises, the establishment of new companies, franchises, B. O. T. arrangements, concessions, etc.), Serbian Law from 2015, guarantees freedom of investment, national treatment, legal certainty and the ability to transfer profits abroad<sup>3</sup>. These legal guarantees with special fiscal advantages for foreign investors have improved

<sup>1</sup> The terms “investments” and “property” are treated as synonyms and cover all types of interests and rights in property. Thus, unless otherwise stated, foreign investment are intended to include proprietary and portfolio investments abroad, as well as medium and long-term credits or loans for the import of equipment or services into another country. See: Georg Schwarzenberger, *Foreign Investments and International Law*, Sevens & Sons, London, 1969, p. 17.

<sup>2</sup> On that occasion, Serbian and Chinese sides signed the Agreement on the development of cooperation in the field of production capacity; Agreement on the promotion of cooperation in the fields of trade, tourism and telecommunications, Agreement on cooperation in the defense industry; Agreement on credit with the Bank of China which follows the framework contract for the supply of equipment and materials, construction and provision of services for the implementation of the ALL IP transformation; Framework agreement with Huawei Company for the supply of equipment and materials, construction and provision of services for the implementation of the ALL IP transformation; Memorandum of Understanding (MoU) of improving the development of the Information Silk Road connectivity for information; MoU on the establishment of the Centre for Cooperation in the field of transport and infrastructure between China and the CEEC; MoU between the Exim Bank of China and the Ministry of Finance of Serbia; MoU on joint investment in renewable energy projects in Serbia; MoU for the financing and construction of the power plant to generate electricity from waste in Serbia; MoU between the Diplomatic Academy of Serbia and the China University of Foreign Affairs and the Chinese Diplomatic Academy; MoU for the financing of research and development projects; MoU between the Serbian Ministry of Culture and Information Office of the State Council of the PR of China; The program of cooperation in the field of culture and arts for the period from 2017 to 2020; Agreement on cooperation between the Serbian Radio Television and China Radio International; MoU for the project of waste water from the City of Belgrade and China4 Machinery Engineering Corporation; Agreement on establishing friendly relations between the city of Kragujevac and Chinese city of Xi'an; The exchange of letters on a bilateral currency swaps arrangement between the National Bank of Serbia and the People's Bank of China. See: Tanjug (2016), „Kina i Srbija — strateško partnerstvo i još 21 sporazum (China and Serbia — a strategic partnership agreement and 21), Retrieved from: <http://www.tanjug.rs/full-view.aspx?item=270618&izb=252463&v=252463>, 18.06.2016.

<sup>3</sup> „Law on Foreign Investments”, *Official Gazette of the Republic of Serbia*, N 107/2014.

the investment climate needed for attraction of Chinese foreign investments in Serbia. Analysis of the possible potentials of importance for the further development of economic cooperation between Serbia and China involves the examination of comparative advantages that Serbia has, and that can contribute to an increase in the structure and scope of Chinese investment. These benefits include the following:

- 1) The clear foreign policy goal — joining the EU and the WTO;
- 2) The relative macroeconomic stability;
- 3) Highly qualified and relatively cheap labour force due to the progressive growth of wages in China and the lack of skilled labour, the perspective can be employed by Chinese companies;
- 4) Regional competitive financial risk;
- 4) Restructured and privatized banking sector;
- 5) The rapid development of capital markets;
- 6) Developed telecommunications infrastructure;
- 7) Liberalized system of tariffs and tax legislation;
- 8) The rapid development of the private sector;
- 9) The significant level of incentive fiscal, regulatory and financial measures;
- 10) The existence of free trade agreements with the EU, CEFTA, EFTA, CIS, Russia, Belarus, Turkey, Kazakhstan, and others;
- 11) The adoption of the national Strategy for the promotion and development of foreign investment;
- 12) Harmonized (more or less) legal framework for foreign investment with European and international standards;
- 13) Full visa liberalization between Serbia and China<sup>1</sup>.

A significant proximity of European markets and the soon-expected improvement of transport infrastructure, also can represent a comparative advantages for future Chinese investments in Serbia in particular in the field of agriculture (especially meat processing), car industry (in particular Lorries and spare parts), telecommunication, machine, chemical and textile industries<sup>2</sup>.

## CONCLUSIONS

From the previous analysis it follows that Serbia has a special significance for China. Such a conclusion stems from real geopolitical circumstances that indicate that Serbia as a Balkan state is a “piedmont” between Central Europe and the Middle East. In this sense, for China, Serbia is a very important factor because it is located at the crossroads of South-eastern Europe, on important land and river routes that enable it to communicate not only in the east-west direction, but also in the north-south direction which is a prerequisite for faster economic development, as well as for integration into important regional organizations such as the European Union for whose market is interested itself. Also, in the historical, legal and political sense, China considers Serbia as successor of the Yugoslavia peaceful foreign policy. This position is very important taking into account the negative attitude of China towards the policy of force in international relations. In this respect, Serbia seeks to deepen its political ties with China, which is greatly as-

<sup>1</sup> Serbia is the only country in the region of CEE that has this status on the basis of the agreement signed with China at the fifth Summit in Riga. See: Xinhua (2016), ‘Full text of Riga Declaration’, Retrieved from [http://www.china-ceec.org/eng/zyxw\\_4/t1414325.htm](http://www.china-ceec.org/eng/zyxw_4/t1414325.htm) 20.11.2016.

<sup>2</sup> Večernje Novosti (2015), “Kinezi ulažu u mesnu industriju” (The Chinese are investing in the meat industry), Retrieved from <http://www.novosti.rs/vesti/naslovna/ekonomija/aktuelno.239.html:563532-Kinezi-ulazu-u-mesnu-industriju>, 18.11.2015; Blic (2014), “Kineski ZTE: Imamo agresivan poslovni plan za Srbiju” (Chinese ZTE: We have an aggressive business plan for Serbia), Retrieved from <http://www.blic.rs/Vesti/Ekonomija/520251/Kineski-ZTE-Imamo-agresivan-poslovni-plan-za-Srbiju>, 04.09.2015.

sisted by the continuity of diplomatic relations established between Yugoslavia and China on January 2, 1955. Following the good sides of earlier inter-state practices, Serbia has continued to develop bilateral relations with China, treating China as one of its major international partners. Such orientation has been confirmed through the current Serbian foreign policy which is defined through basic priorities, among cooperation with China occupies a significant place. It should not therefore be surprising that the traditionally good and friendly relations between the two countries in the meantime have grown into the “comprehensive strategic partnership”. Such foreign policy orientation is of great importance for the assessment of the development of economic relations between Serbia and China. Based on the subject analysis, the following conclusions were reached:

1. Economic relations between Serbia and China in the last decade were characterized mutual asymmetry in all economic parameters. The main reason for this situation is a huge difference in economic strength, then Chinese global economic strategy that emphasizes the continuous expansion of Chinese exports and imports on the world markets.
2. As the world’s biggest trading power, China needs to strengthen economic cooperation with other countries as possible to safeguard the system of free trade worldwide<sup>1</sup>.
3. In line with the “One Belt One Road” initiative, China is trying to open up more to the world and to coordinate its efforts to integrate into the world markets.
4. Such a strategic Chinese approach that should be accompanied by mutual trust, economic cooperation and cultural exchange can also be understood in the context of the implementation of the Chinese development strategy of the “New Silk Road” which includes objectives of previously formulated “Go Global” strategy, with which China has encouraged its companies to exploit the world markets.
5. The Serbia’s position towards China’s strategy for “Opening Up” which is channelled through the “New Silk Road” development strategy and its initiative “One Belt One Road” is depending on the understanding of global processes in the world and geo-economic interests of China which are linked with the global production chain.
6. The main determinant of Chinese foreign investments in Serbia in this respect follows the “less or more” identical model presented in other countries of Central and Eastern Europe (CEEC). Chinese foreign investments in practice take place within the engagement of Chinese state-owned companies and state banks, with a less participation of local companies in investment operations. These investments are generally secured by state guarantees (or guarantees of central banks of host states)<sup>2</sup>.
7. If Serbia aspires to increase its influence and importance in the international relations on the basis of economic cooperation with China, its business with China must be based on improving industrial capacity through promotion of various types of investments in different areas which could lead to the higher level of industrial competitiveness and overall economic growth<sup>3</sup>.
8. Following this kind of economic approach, Serbia should be involved in international production chain by means of the global value chains that are derived not

<sup>1</sup> Chi Fulin, *China’s Reform in the Shadow of the Global Financial Crises*, Foreign Language Press, Beijing, 2009, pp. 121, etc.

<sup>2</sup> It should be noted that this Chinese model evokes a certain doubt especially in the case of countries with a strong balance of payments deficit and high external indebtedness like Serbia itself.

<sup>3</sup> Chen Xin, Yang Chengyu, “Serbian Industrial Competitiveness and China-Serbia Cooperation”, in: Duško Dimitrijević (ed.), *Danube and the New Silk Road*, Institute of International Politics and Economics, Belgrade, 2016, pp. 289–307; Dragan Pavličević, “China’s New Silk Road Takes Shape in Central and Eastern Europe”, *China Brief*, 2015, Volume XV, Issue 1.

only from the ownership forms of foreign investment (forms of FDI), but also from the “portfolio” or “non-equity investments”<sup>1</sup>.

9. Serbian companies in this way could participate proportionally in exports through global value chains whose holders can be Chinese and mixed Chinese-Serbian or even, transnational Chinese-CEEC companies which in the future could lead to sustainable economic growth and development.
10. Given that the macroeconomic imbalance of Serbia affects the dynamics and structure of the inflow of foreign direct investments, the structure of Serbian exports to China could be transformed in line with the structure of accumulated assets from these sources. Of course, this is only if the fund of Chinese investment inflows would be increased, which in itself would be a very good sign for strengthening the economic potentials necessary for a gradual reindustrialization of the Serbian real sector, and therefore for the promotion of the “win-win” economic cooperation which can lead to faster consolidation of Serbian-Chinese economic relations, and to more effective implementation of the objectives of the Chinese development strategy of the “New Silk Road”<sup>2</sup>.

Finally, all of the aforementioned conclusions can be reached because the relations between Serbia and China are characterized by mutual understanding and trust and that both countries are open to different forms of political, economic, social, cultural, scientific and technological cooperation<sup>3</sup>.

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<sup>1</sup> Jelena Kozomara, “Serbia in international production through global value chain”, in: Pero Petrović (ed.), *Possibilities and perspectives for foreign direct investments in the Republic of Serbia*, Institute of International Politics and Economics, Belgrade, 2014, p. 109.

<sup>2</sup> Duško Dimitrijević, “Chinese Investment in Serbia-joint Pledge for the Future of the New Silk Road”, *Baltic Journal of European Studies*, 2017, vol. 7, N 1(22), pp. 64–83.

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