

# WORKING PAPER

## **Capacities for Development Serbia's Cooperation with China**

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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. Given that Serbia has a huge need for the reindustrialization and economic development, China foreign investments, both "direct" and "portfolio" could be of primary importance. On the other hand, Chinese investments in Serbia can be a good test for the Chinese economy and its placement on other international markets, mainly to the EU market. Taking into account the appropriateness of mutual economic cooperation, it could be reasonably concluded that the Chinese investments in the Serbian economy can contribute to the achievement of common interest which in itself is a factor that contributes to the achievement of the Chinese development strategy of the "New Silk Road".

**Key Words:** China, Serbia, the "New Silk Road", OBOR, development strategy, economy, investments

## **Introductory Remarks**

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 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 in international relations, but also in strengthening its rating within the "16 + 1" cooperation mechanism established to develop and improve cooperation at the multilateral and bilateral level between the countries of Central and Eastern Europe (CEEC) and China in the implementation of the objectives of the Chinese "New Silk Road" development strategy and its initiatives: the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road". The mentioned initiatives, called "One Belt, One Road" (*Yi Dai Yi Lu - One Belt, One Road - OBOR*), was promoted in 2013 by Chinese President Xi Jinping as part of the implementation of the "Policy of Peaceful Development".<sup>4</sup>

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<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 daguo*), 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> 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 Piroćanac,

Initiatives have a strategic significance for China's foreign policy as they represent far-reaching visions of improving China's cooperation with the countries of Asia, Europe and Africa. For practical reasons, both have been integrated into the strategy of the "New Silk Road" to be implemented by the deadline of 2025.<sup>5</sup> Unlike the foreign policy strategies of other major powers, which are mainly based on the division of interest spheres or the expansion of the sphere of influence, the Chinese strategy with the "Open Door Policy" which China has been pursuing for more than three decades, should contribute to the takeover major obligations and responsibilities regarding the leadership position in the new "Global Economic Governance".<sup>6</sup>

Taking into account the above facts, it is clear that Serbia and China are in the line of coordination of achieving their own national interests defined in its foreign policy doctrine and international practice. In this sense, according to my perception, Serbia will keep its course and its foreign policy priorities in the coming period, according to which China is one of the main priorities of its foreign policy.

### **Economic Cooperation**

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>7</sup> According to official data of 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 \$ 14.1 million, while in 2015 it amounted to \$ 20.2 million (with only 0.1% and 0.2% of total Serbia's exports). On the other hand, Serbia imported goods from

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"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>5</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>6</sup> Duško Dimitrijević, Nikola Jokanović, "China's 'New Silk Road' Development Strategy", *Review of International Affairs*, 2016, no. 1161, pp. 21-44. China's planned leadership position in international economic relations is also referred to as the strategic document of the National Commission for Development and Reform of the Chinese Ministries of Foreign Affairs and Trade of March 28, 2015. 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.

<sup>7</sup> National Bank of Serbia, *Statistics*, 2015, retrieved from: <http://www.nbs.rs/internet/cirilica/index.html>, 29.09.2015.

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>8</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>9</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>10</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.

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<sup>8</sup> Serbian Statistical Office, 2015, retrieved from: <http://webrzs.stat.gov.rs/WebSite/>, 10.02. 2017.

<sup>9</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>10</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.

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: 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 million). 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.

### **Capacities for Expansion of Serbian-China Economic Cooperation**

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 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>11</sup> In this ways, 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

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<sup>11</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.

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>12</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>13</sup> These legal guarantees with special fiscal advantages for foreign investors have improved the investment climate needed for attraction of Chinese foreign investments in Serbia. Analysis of the capacities 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: The clear foreign policy goal - joining the EU and the WTO; The relative macroeconomic stability; 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; Regional competitive financial risk; Restructured and privatized banking sector; The rapid development of capital markets; Developed telecommunications infrastructure; Liberalized system of tariffs and tax legislation; The rapid development of the private sector; The significant level of incentive

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<sup>12</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 defence 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 China 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>13</sup> "Law on Foreign Investments", *Official Gazette of the Republic of Serbia*, no. 107/2014.

fiscal, regulatory and financial measures; The existence of free trade agreements with the EU, CEFTA, EFTA, CIS, Russia, Belarus, Turkey, Kazakhstan, and others; The adoption of the national Strategy for the promotion and development of foreign investment; Harmonized (more or less) legal framework for foreign investment with European and international standards; Full visa liberalization between Serbia and China.<sup>14</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>15</sup>

## Conclusion

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 assisted by the continuity of diplomatic relations established between Yugoslavia and China on January 2, 1955. Following the good sides of earlier interstate 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: *First*, economic relations between Serbia and China in the last decade were characterized mutual

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<sup>14</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>15</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.

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. *Second*, 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>16</sup> *Third*, 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. *Fourth*, 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. *Fifth*, 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. *Sixth*, 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>17</sup> *Seventh*, 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>18</sup> *Eight*, 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 only from the ownership forms of foreign investment (forms of FDI), but also from the "portfolio" or "non-equity investments".<sup>19</sup> *Ninth*, 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. *Tenth*, 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

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<sup>16</sup> Chi Fulin, *China's Reform in the Shadow of the Global Financial Crises*, Foreign Language Press, Beijing, 2009, pp. 121, etc.

<sup>17</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>18</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-

<sup>19</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.

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>20</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>21</sup>

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<sup>20</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, no. 1(22), pp. 64-83.

<sup>21</sup> Aleksandar Janković, “New Silk Road – New growth engine”, *Review of International Affairs*, 2016, no. 1161, p. 16.

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