



Weekly Briefing

Serbia Economy briefing:
Record Breaking Month for Chinese Investments in Serbia
IIPE

China-CEE Institute

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Record Breaking Month for Chinese Investments in Serbia

Official meeting of Serbian President Mr Vucic and Chinese President Mr Xi, along with a meeting of Serbian President and Chinese Prime Minister Mr Li at the Summer Davos, completely marked the whole month in Serbia regarding economic news. It was a record breaking month for Chinese investments in Serbia, having in mind that so far China invested around 6 billion US\$, and in just three day meetings both parties signed agreements that are worth 3 billion US\$. There are two main projects worth 2.3 billion US\$ that are part of this deal: new tire factory that will be built by Shandong Linglong Tire Co. in city Zrenjanin (north part of Serbia), and the strategic investment of Zijin Mining Group in mining Bor (east part of Serbia).

Introduction

Chinese investments in Serbia so far, were primarily state-owned investments and loans that were focused on infrastructure (bridge, railroads, high speed roads and energy sector). Those were projects that were and are very important to Serbia, and that Serbian Government nominated as urgent projects at the meetings with Chinese Government.

Even so, many economists were wondering when we will have private investors from China or when we will have companies that will invest in manufacturing, or IT, or agriculture? The answer came in September 2018, when we heard the news that Serbia signed agreements with China that are worth 3 billion US\$. The structure of that 3 billion US\$ looks like this:

1. 1.46 billion for mining Bor, that will be the part of Zijin Mining Group;
2. 900 million for building a tire factory in city Zrenjanin, investment by Shandong Linglong Tire Co.;

3. 100 million for building a factory for fabrication of zinc in Zrenjanin (probably Shandong Linglong Tire Co in cooperation with their business partners);

4. agreement for preferential credits for high speed road Preljina – Pozega and detour around Belgrade from Ostruznica to Bujanj Potok (Sinohydro);

5. Ikarbus company from Serbia (production of busses) will have a partner from China – deal worth 2.6 million US\$.

Also, there were talks about building two industrial parks in Belgrade by Chinese companies: one in city Smederevo and that will be a project for HBIS group (that now runs former Smederevo steel factory - Hesteel Serbia company), and one in Borca (municipality in Belgrade) near bridge that was built by China Road and Bridge Corporation (CRBC). Serbian Government signed two memorandums of understanding with Shijiazhuang Zhi and Lanzhou Guantung companies and Shandong Provincial Transportation Group.

Implications for Serbian Economic Development

For the purposes of this briefing, two major projects will be discussed: tire factory and mining company. Reasons for those are: 1) financially looking, those are the most important projects; 2) for those projects we have agreement details; 3) tire company in Zrenjanin is the biggest Chinese private investment in Serbia; 4) Bor mining was a real problem for Serbian Government and so far, four privatization process were unsuccessful.

A) Shandong Linglong Tire Company in Zrenjanin

According to information's coming from a different Serbian media and from Government officials, Shandong Linglong is one of the best Chinese companies in the field of tires, which has a strategic aim to position itself in Europe. This will be their second investment overseas, after opening its first plant in Thailand in 2014. Shandong company was making many inquiries in Central Europe in order to build a factory, namely in Poland, Czech Republic and Slovakia, but in the end, they decided to invest in Serbia. Main reasons for

that according to their official statement were: "lower investment, construction, labor and energy costs compared to other countries in Europe."

Zrenjanin mayor Cedomir Janjic, said in a press release, that this company will in the end employ 1500 workers, and that it will use advanced technology that will follow all environmental standards. This investment project is a result of negotiations that lasted for about a year and Zrenjanin was picked as it was the only Serbian city able to provide a 136-hectare plot of land needed for the construction of the factory, Janjic said.

Shandong Linglong said it plans to invest 994.4 million \$ (859.9 million euro) in the construction of a factory and that they are planning to officially start construction in April 2019. That process will be carried out in three phases, with the last one to be completed in March 2025.

This investment is particularly important because of following reasons: 1) Zrenjanin was one of the biggest industrial cities in former Yugoslavia, which due to many internal problems in the country started to deteriorate. In Zrenjanin this year we have around 6000 people that do not have a job, and in nearby villages and cities 7000 more. This is relatively good number compared to other cities, but still it is not good enough. The biggest problem is that young people are leaving this city in order to find job in other cities or they are moving out of country. Also, according to the National Agency Biro for Employment in Zrenjanin, young people with a university diploma cannot find a job, mainly due to few good companies that can employ them. Besides that, there are a lot of people that cannot find a job for more than 10 years. Even the mayor of city Zrenjanin thinks that unemployment rate is the biggest problem for this city. 2) As a city that has a good reputation for hosting industrial companies for many decades, and as a city with very desirable geographical position, this investment is important not only for people in Zrenjanin, but also for this part of Vojvodina, that is known as North Banat, because it will help to employ people in this region. Due to plans of Shandong Company we can already predict that they will either give people job directly or indirectly (for example they will employ

construction workers, hospitality workers, service workers etc.). 3) Since this is an investment and not a loan, it means that Zrenjanin and its people are only gaining from this deal.

B) Zijin Mining Group in mining Bor

China's Zijin Mining has become a strategic partner in Serbia's sole copper complex RTB Bor, with a plans to invest 1.26 billion US\$ in return for a 63 percent stake, Serbian Energy Minister Aleksandar Antic said for the media after signing the agreement. Russian-owned U Gold also placed a valid bid, but Antic said the government opted for the Chinese company as it promised to put more investments and they also asked for a smaller percentage of stake in mining Bor.

ZMG also promised a further 200 US\$ million to settle RTB Bor's debt (that is now around 1.1 billion \$) and said it would keep all 5,000 workers. Out of the 1.26 billion, 135 million would be invested in improving the environment and 320 million in opening a new copper mine. RTB Bor accounts for 0.8 percent of Serbia's GDP, but the government hopes its share will increase after the Chinese investment. Serbia had previously failed four times to go through privatization process with this mining.

Also, it is very interesting that a couple of days after the announcement of purchasing of RTB Bor, ZMG group announced that it will buy Canadian company Nevsun Resources Ltd for 1.41 billion US\$. This is important information, because Nevsun is company that got a permit from the Serbian Government in 2010 to explore site Bor-Metovnica, during which they discovered that Cukaru Peki is the site that has a large reserves of copper that are worth around 100 billion US\$. By buying RTB Bor and Nevsun, ZMG will acquire large amounts of world cooper reserves and it will gain competitive advantage. So although, Bor mining has a lot of problems, it looks like this was a great decision made by ZMG.

Implications for Serbia are: 1) Serbia solved huge problem, that even according to IMF reports was one of the burdening problem in our economy, since it found a good partner in ZMG with whom it can solve many problems

coming from the past; 2) ZMG has agreed to keep all the workers in the Bor, and that means a lot for eastern part of Serbia, because unemployment rate is around 16%, while in the rest of the country is around 11%; 3) ZMG also agreed to put money in solving environmental issues, and there are couple of them in Bor that are very important to solve as soon as possible; 4) it was very important to find a trusting partner for Bor that will not leave this mining after first trouble, as it was a case with some other privatization process in Serbia.

Conclusion

As already stated record breaking month for Chinese investments in Serbia, was a big news, and it gave to Serbian people hope for their economic future. The following two statements, both from Serbia and China will summarize the events in China in best possible way:

“Almost no president from this region has gone to China that many times in the last four years, and President Vucic, if I’m not mistaken, is heading for China for the third time. This is a validation that Serbia is very important to us and we have friendly relations,” the Chinese Ambassador in Serbia Mr Li Manchang noted.

“A positive attitude to China has been rising,” said Srdjan Bogosavljevic, the head of the IPSOS Strategic Marketing consultancy in Belgrade. “It’s reached a very high level probably because investments from China are presented or communicated as a gesture of good will. Only the attitude towards Russia is better.”