

UDC 327.56+323.174:316.32(4-12)(5-11)
Manuscript received: 15.09.2014.
Accepted for publishing: 21.10.2014.
Original scientific paper

Serbian Political Thought
No. 2/2014,
Year VI, Vol. 10
pp. 19-50

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China in the Western East – and Beyond: Politics and Economics of the China Plus Sixteen Cooperation Framework

Abstract

World economic crisis has focused, intensified and notably eased realization of huge Chinese interests in Europe and European Union. On the other side, it has significantly influenced change of the EU's attitude towards China, which suddenly for some has become appreciated big investor, and even saviour of the EMU through purchasing the EFSF bonds, as well as Union's economy on the whole. For the others, she remained a threatening imposer. Important alarming point of such attitude change supporting the later position has been reviving of the economic cooperation between China and Central and Eastern European countries thru "China plus Sixteen" framework. For Chinese and crisis stricken countries in Central and Eastern Europe it was more promising and matching interest cooperation between investments and technology hungry CEE countries and China in global dispersing asset-acquisition process. Long history and tradition in cooperation since the very birth of the People's Republic and absence of political preconditioning only supported the issue.

Keywords: China, Central and Eastern European countries, Serbia, "China plus Sixteen", EU.

1. "Go Global" – Coming to Europe

Along with the continuing traditionally strong Chinese economic engagement primarily in Asia, she has become a big donor and investor

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in Africa² and Latin America, too, but - in accordance with her high leaders' repeated announcements in 2009, 2010 and later, in Europe, too. Very obvious and attention causing Chinese growing financial involvement in the First and Second World countries, including European ones, has been happening as part of the realization of the "Go global" strategy³. Regarding Europe, particularly noticeable Chinese interest was seen in Mediterranean area, where some 30% of All Chinese "European" investments concentrated since the outbreak of the global economic crises in 2008 and in the next several years. Although some analysts saw recent Chinese economic interests in countries that recently has become or are about to become EU members, as an attempt to get shorter or cheaper way to the EU market, that engagement extended wider – into Central, Eastern and South-Eastern European countries. It looks more realistic to conclude that China is using every open door to enter the EU, but also European market as a whole, as another global economic partner.

China has strong motivation to invest in strategic infrastructure in South and South-Eastern Europe that has been most obvious to majority of observers of the Chinese rapprochement. Those sectors in Serbia, but also in Greece and most of the "Plus Sixteen Countries", have strategic importance as situated on the crossroads of major inter-regional and intercontinental routes. Also, traffic infrastructure has been neglected sector of their relevant national economies and for this reason is expected to have strong growth, which makes them profitable and wise investment choices. Additionally, an important development that is being arranged is the influx of the Chinese funds through bilateral loans, concession arrangements, share placements and foreign direct investments (mostly joint ventures) into these countries thusly creating what many define as a long-term strategy of Beijing to make a significant foothold in one of the most strategic placements of the European Continent.

2 According to the OECD data, the biggest impact of Chinese investment has been in Africa where her foreign investment amounted to near \$51 billion a year since 2007. In proportion to the size of the economy, Chinese direct investment in Africa has been five times larger than in the rest of the world.

3 "Go Global" Investment Strategy Needed for Chinese Enterprises, People's Daily 9/12/2001[online], Available at: <http://www.china.org.cn/english/GS-e/19033.htm>. [Accessed 4 December 2014].

On the other side, China enters the very EU market through every channel it finds or creates – including the highly costly traffic infrastructure project in Greece, member state that has serious problem with sustainability of its economic model and liquidity of its economy, which did not prevent China to make long-term investment of 2.5 billion US\$ into renting the Piraeus seaport for thirty five years (and others focused on its' modernization⁴), the main Greek trade port that is at the same time strategically positioned between three continents: Europe, Asia and Africa⁵. Four years later, a total US\$ 4 billion deals in shipping, trade and energy were signed by China and Greece during visit by Premier Li Keqiang to Athens in June 2014 as continuation of the numerous deals between state and business representatives from the two countries agreed in May 2013 during Greek Prime Minister Antonis Samaras to Beijing. Chinese firms were about to invest into international airport, regional airports, ports, railways, tourism, real estate and metal production.

During 2010 Wen Jiabao's visit to Europe (his tour included Belgian, Italy, Greece and Turkey) Chinese side also announced acquirement of Greek state bonds and formation of the regional investment fund for the South-Eastern part of Europe, run by one of the "the big four" Chinese state-owned banks: China Development Bank. During the high-level visit Chinese corporations' intentions to rent Thessalonica seaport were also expressed, as well as interests for investments in railways, airports, shipbuilding, telecommunications, tourism and agriculture. Several years later, after two "China plus Sixteen" summits and ahead of the third one in Belgrade, in December 2014, the Piraeus seaport investment as well as the interest in modernization of Greek railways look like a first step in realization of the strategy.

The mentioned 2010 visit also had important role to eliminate scepticism of some political and academic circles in the EU about the very nature of the Chinese intentions. Chinese Prime Minister Wen Jiabao asked for undisturbed access for Chinese companies while announcing and making new business deals, which paved the way for long-term significant presence of the Chinese companies and state in the whole Europe. Beyond realizing "Go Global Strategy" Chinese

4 <http://www.dredgingtoday.com/2013/01/15/piraeus-container-terminal-on-modernization-path-greece/>

5 http://www.sofiaecho.com/2010/06/16/918011_china-agrees-to-invest-in-greece-in-spite-of-moodys-downgrade.

companies were about to spread their financial surplus into more geographically dispersed baskets, including such attractive ones within EU, that, thanks to the debt crises, became more economically and politically accessible in the process of this “reverse FDI” process. In those acquisitions Chinese companies could gain unusual gains for the investors – to acquire latest technology and managerial skills.

Numerous business deals announcements (Mitrovic 2013a: 168-169) and numbers of high level visits sent a clear message about Chinese importance in European financial market, within different European economies, but also in EU and European market as a whole. The total quantity of debt bonds of Greece, Italy, Spain, Portugal, Germany and few other EU states that were purchased by China remained unclear due to the cumulative nature of her and EU’s relevant statistics. On the other hand, Chinese side has repeated several times warnings and responsibility pleads towards EU partners that proved its determination towards investments that she considered challenging, but still very attractive.

Together with appeals for bigger Chinese involvement in this process came the opposite ones, too. From the very beginning of this process, some analysts and politicians within EU saw such development as a threat to economic and geopolitical independence of European Union, as allegedly China has been becoming important economic, but also political factor within EU and Europe by using problems of the EMU economies to empower its influence over certain countries, but over the EU as a whole, as well. Such scepticism arouse sharply and multiplied after Chinese initiative of the “China Plus Sixteen”. Also, leftist circles criticized Chinese deals as harmful for workers’ rights, as their critique was aimed at their own government ⁶

Some analysts supported the fear of asset-stripping, where Chinese investors were allegedly going to invest in EU companies and, once they got the ownership of the company, took all the assets to China with closing the company in Europe and laying-off the workers. Another version of that prejudice based accusation was that Chinese companies were investing in Western companies only to be able to get access to

6 Typical example was case of Greek, where in the publications of the International Committee of the Fourth International (ICFI), Greece-China business deals were scrutinized from that point. Consult: Vassilopoulos, J. in „China’s premier signs major trade deals with Greece“, 24 June, 2014. Available at: <http://www.wsws.org/en/articles/2014/06/24/grec-j24.html>.

their technology and then transfer that technology back home and use it in local company to become as advanced and competitive as the original company. As local company in China had other advantages of lower labour costs etc., at the end of the day it would shut down the original company bought by Chinese investors in EU and left its workers jobless. Such fears could also be seen as cultural repulsiveness towards changes in the globalised world and rise of the emerging power coming from other civilization. While traditionally FDI was evidence of superiority and power of the Western economic powers, the reversed flows opened highly unpleasant “existential questions about where the world was headed. Is the West in decline while China is rising? Is this the end of the Western world?”⁷ Although such development comes naturally along the road, it expresses reservations and prejudices towards China that exists within certain circles in Europe. Also, fears that Chinese corporations will withdraw their capital, technology and by these working places from the companies they bought in Europe, proved to be untrue. On the contrary, Chinese companies have strengthened many industrial branches in Europe, according to the OECD, that points Volvo’s acquisition by Jeely in 2009.

Chinese approach, though, is very pragmatic and similar to the Russian one, and that is making valuable bilateral business arrangements with individual EU member countries, which reduces a lot negotiating power of the EU as a block. On the other hand, such approach sometimes enables member states to achieve national interests on the expense on the EU’s one or without seeking for consensus decision on each and every individual case. Also, it is for sure that nominal devaluation of many assets within Europe made possible for China to maximize the effects of its investments in potentially prosperous and strategically located parts of Europe, especially those on the crossroads between Europe, Middle East and Russia.

Mr. Wen’s last visit to EU in capacity of the Premier of the PR China in 2012 that proved to be double dissatisfying (Mitrovic 2013: 4) almost corresponded with the “alternative” Chinese approach to Europe, e.g. through comprehensive, but firstly economic, cooperation with the Central and South-Eastern European countries through for

7 Meunier, Sophie, “Chinese Foreign Direct Investment in the West”, *Georgetown Journal of International Affairs* May 28, 2014. Available at: <http://journal.georgetown.edu/chinese-foreign-direct-investment-in-the-west-five-minutes-with-sophie-meunier/>

the purpose created and financed framework. In April 2012, Prime Minister Wen Jiabao met in Warsaw high envoys from 16 Central and South-East European countries at the economic forum (announced a year before in Budapest) introduced twelve measures for development within “sixteen + one”, including establishment of the Secretariat in Beijing within Ministry of Foreign Affairs and credit line worth 10 billion USA\$ for support of the future projects, among which some 30% of the amount would be financed under the preferential conditions for the third world countries. Projects in the area of infrastructure, high-technology, renewable energy will be prioritized, while China will try to stimulate “16+1” trade as to reach value of 100 billion US\$ by 2015 (double than current value of it), build one economic development high tech zone in each of the 16 countries in next five years, organize “forums of cultural cooperation” with each of them, provide 5,000 scholarships for students from those countries to study in China, organize the first political forum of the youngsters, etc. Under the given framework, Serbia proved to be especially active and attractive at the same time, as this strategically positions state already attracted over 1.6 billion of the preferential funding (one project financed this way is bridge on the Danube “Zemun-Borca” and the other is two-phased revitalization of “Kostolac B” thermo power plant) and 303 million US\$ for the projects of two parts of the planned high-way construction on the Corridor XI. The first two projects got high level political support, since Wu Banguo’s visit to Serbia in 2010.

2. Chinese Enlarged engagement in the Central, Eastern and South-Eastern European Countries

Growing Chinese involvement into economies of Eastern and Southern Eastern European countries shows primarily that China has significant commercial interest to be present. There is an obvious interest of China to invest into traffic infrastructure in this part of the world – from ports, railways, roads, bridges, but also into agriculture, energy industry, renewable energy sector, auto-industry, electronics, as well as in trade, tourism and financial services.

On the other side, China invests in this part of Europe for the reason it invests anywhere around the Globe: to expend its’ export markets, to gain missing resources, including strategic goods, like fertile soil, water, but also stakes of the automobile industry or energy businesses

that became relatively cheap as their shares lost much of its value. As results of the mentioned we saw relatively robust Chinese investment in Belarus, Ukraine and countries from “plus sixteen” framework - Hungary, Romania, Bulgaria, Macedonia, Serbia, Montenegro, etc.

Additionally, beyond investing small part of her foreign reserves, employing some of her plentiful workforce, China has been sending powerful message to her major business partners about her high technological, managing and overall business capacities as the bridge on the Danube (“Zemun-Borca”), constructing the new “Kostolac B” thermo power plant in Serbia and high speed railways between Belgrade and Budapest are set to be exemplary models for similar investments of Chinese companies in other South-Eastern and other European countries.

China has also been creating an alternative entrance to its’ biggest foreign market – the EU – and Europe as a whole, under Chinese lease and administration, as in sea port of Piraeus. Unavoidable collateral gain China gets out of the process is undoubted geopolitical influence. Central and South-East European countries as former communist countries have history in doing business with China, even exporting technology and experiences of their first steps in transition during the first phase of the Chinese reform and opening up project. Especially after the EMU crises they rediscovered China as promising investor and reliable partner. Also, they have relatively cheap and skilful work force and do not press China with ideological issues.

When President Hu Jintao visited Croatia in 2009, it was the first highest-level visit from China to the region and the first time that Chinese intention to develop economic relations with all the countries of the region was announced⁸. During the visit, and later, Chinese companies expressed interests to invest into Rijeka seaport, and into railway line Rijeka-Zagreb, that would fit into wider Chinese positioning into transport and producing capacities in Europe. Croatia also lift visas for Chinese tourists during the summer season that was welcomed.

One important ingredient of the cooperation is that there are no open questions among China and 16 states and there is history of traditional friendship and cooperation, as well as mutual wish and interest to upgrade the cooperation. As Chinese President Hu Jintao

8 http://www.chinadaily.com.cn/china/2009-06/20/content_8305867.html

pointed in Zagreb: "China has always respected sovereignty and territorial integrity of the South-European countries, as well as the development model chosen by the peoples of these countries". In that sense, economic, political and every other aspect of cooperation with China, flatters each of these countries.

The next year, 2010, the second person in China's state hierarchy – Wu Banguo, visited Serbia and declared the preferential financing and building of the now famous "Chinese bridge" on the Danube in Belgrade (Zemun - Borca). Those were marks that both countries appeared on the priority list of the Chinese foreign policy agenda. Very important were the words that Chinese president Hu put in Zagreb 2009, stressing that China supports speedy Croatian access towards EU, as well as similar choice made by all the countries of the region as Croatian prompt admission would facilitate Croatian economic and general development that would give impetus to similar development of the other South-Eastern European countries. By such process they would all become much more qualified Chinese partner in economic and general cooperation. Cooperation with China is, unlike with major Western powers, on the equal footing, with no subordinating treatment nor humiliating preconditioning. In that sense, too, all countries of the region are feeling very stimulated to deepen cooperation with China, although in some of them there were concerns that such development could harm their close ties with countries that – paradoxically have China as high priority global partner. Where it comes to Serbia and its problems with self declared Kosovo independence, it is especially important for her that China as permanent member of the UNSC and strong supporter of the UN global management is a guarantor of the UNSC Resolution 1244.

Beyond the two mentioned high level visits to Croatia and Serbia, there are also other elements that contribute to the impression of much stronger political presence of China in the region. As a state that oppose unilaterally declared independence of Kosovo and guarantor to the UNSC 1244 resolution that keeps the runaway province within Serbia, for the first time China behaved proactively when taking part into debate before the ICJ in Hague, against unilateral secession. Also, Chinese police forces took part into UN missions in Bosnia and Herzegovina and in Kosovo.

Chinese and Romanian cooperation has long tradition (Romania recognized PR China only three days after it was established and in

2014 they celebrate 65 years of diplomatic relations and 10 years of establishing “comprehensive friendly and cooperative partnership”). It had continuously developed even during the split with the other communist countries within the Eastern bloc. Since 2000, trade volume between the two countries has increased by ten folds with Romania exports to China growing by big margin. Under support of the government, Chinese companies have steadily increased investment in Romania. The two sides have developed cooperation in the areas of science and technology, education, culture and military exchanges. They have maintained sound coordination and communication on regional and international issues. Chinese President Hu Jintao visited Romania in 2004 when the two countries established a “comprehensive, friendly and cooperative partnership”.

China remains Romanian biggest Asian trade partners with significant trade of some 3.76 billion US\$. Trade volume impressively growth by 20% annually as Romania has been “rediscovering” Asian partners since the shrinkage of the biggest EU markets of the Romanian export. In some 9,000 Chinese firms (mostly joint ventures) a half of 1US\$ billion, mostly private capital, was invested. Those firms are mostly engage in trade, close manufacturing, tobacco production, wooden furniture, sweets, mining, energy, automobile industry and tourism. Many of those investments are twenty years old, while lately presence of the Chinese trans-national corporations from telecommunication and IT sectors like Lenovo and ZTE was obvious.

Big blow was done to the cooperation by Romanian action on demolishing China Town (Nile) in Bucharest, when some 3,000 Chinese little shops and property of some several million EUR was destroyed, after which Chinese who sustained loss complained before the EU institutions. After a year the new Chinese centre was open with significant Romanian efforts to repair the damage and turn again toward Chinese partners, as after excellent star, they were strongly hit by retreat of the Western financial assets at the beginning of the EU crisis. In August 2011, Romanian Prime Minister Emil Bloc visited China, first time after he was elected in 2009⁹. He urged Chinese investors to take part in building infrastructure, as well as in joint ventures in energy sectors, agriculture and transportation. Romanian side stressed its readiness to keep playing an active role in promoting EU-China

9 <http://english.peopledaily.com.cn/102839/7568348.html>

relations as well as cooperation between Central and Eastern European countries and China. Xi Jinping visited Romania in 2009 in the capacity of Vice President. In April 2011 Li Changchun went to Bucharest in the capacity of Standing Committee member of the Political Bureau of the Chinese Communist Party Central Committee.

In 2013 Chinese Premier Li Keqiang visited Romania, as the first Chinese Premier to visit that country in 19 years, and Romanian Prime Minister Ponta was in China as that year Bucharest was the host of the second summing of the „China Plus Sixteen“ Meeting of Heads of Government of Central and Eastern European Countries and China¹⁰. Romania, according to her Prime Minister Victor Ponta, wanted to become China’s most important partner in Europe, both economically and politically¹¹. The Romanian side even before the Bucharest summit started presented prepared projects worth some 8.5 billion Euros that could be realized with Chinese financial support, which is much needed around the region. Among those projects are reactors 4 and 5 of the Cernavoda nuclear power facility on the Black Sea, as well as Hi-tech parks producing for the European market. In 2014 Chinese Vice Premier Zhang Gaoli visited Bucharest calling “to work out a new road map to emphasize the direction and highlights in the future development of ties” and mentioning energy cooperation in carbon- hydro- and nuclear-electricity as already have achieved important progress and calling for more efforts to upgrade cooperation in infrastructure construction, such as in high-way and high-speed rail building, and encouraged farm product import from Romania¹².

Before this latest wave of investments and interest, China had invested relatively big in Hungary, where Bank of China, one of the four top Chinese banks and one of the world biggest five hundred corporations has been operated. On June 24-26 2011, Chinese Premier Wen Jiabao visited Hungary that for many seemed to be the central Chinese point at this part of the world. Hungary, then closing out its term as rotating presidency of the EU Council of Ministers, was though, engaged in purely bilateral dialogue with high Chinese guest. During the visit, Wen and Hungary’s Prime Minister Victor Orban

10 <http://gov.ro/en/news/the-bucharest-guidelines-for-cooperation-between-china-and-central-and-eastern-european-countries>

11 <http://www.dw.de/china-knocking-at-europes-back-door/a-17255036>

12 China, Romania agree to enhance cooperation, September 19, 2014, Xinhua, http://news.xinhuanet.com/english/china/2014-09/26/c_133675122.htm

signed a dozen agreements worth around 3.6 billion US\$, which the Hungarian government proclaimed would create thousands of jobs in the country¹³. High level visits from China continue with the next year visit of the Chinese vice Premier Li Keqiang on April 30, 2012, when he met with Hungarian acting President and Speaker of the Hungarian Parliament Laszlo Kover¹⁴. Hungarian Prime Minister Viktor Orban visited PRC in February 2014 when he was received by President Xi and Premier Li. During his visit that marked the 65th anniversary of China-Hungary diplomatic ties and 10th anniversary of their “friendly and cooperative partnership” both sides announced deepening cooperation in infrastructure construction, finance and investment, and agriculture¹⁵. Other sectors that experienced investments from Chinese companies were chemicals, machinery, home appliances, telecommunications, R&D, finance, agriculture, tourism.

During the visit of Polish President Bronislaw Komorowski, the first Polish head of state to visit China in 14 years, two presidents signed a joint statement extending bilateral relations to a level of strategic partnership in Beijing on December 20, 2011, the second one that China established with CEE countries. Poland “rediscovered China” only after becoming EU member and tried to make maximum out of its new position by performing truthfully on „both tracks“, unlike the previous period in which Poland and Check Republic offended China several times and according to Chinese views expressed “superior mentality towards China on issues concerning political system, human rights, religion and other values”¹⁶ that caused Chinese leaders to keep distance towards CE transitional countries. Only Chinese pragmatism helped to put aside these processes and let the new initiative come out. The helping argument was that Poland as a big European country had a solid potential to soon become China’s biggest trading partner in the region. When the trade volume between the two countries was only US\$ 144 million in 1991, it increased to US\$ 14.38 billion in 2012.

13 <http://chinaelectionsblog.net/?p=1724>

14 <http://www.fmprc.gov.cn/eng/zxxx/t928652.htm>

15 “China, Hungary Vow Further Cooperation”, China Invests Overseas, at: <http://www.china-invests.net/20140213/32428.aspx>

16 Long, J., (Nov 21, 2014, Beijing), “Relations between China and CEE Countries: Development, Challenges and Recommendations”, China International Studies No.3 Available at: http://www.ciis.org.cn/english/node_521155.htm, Accessed on November 23, 2014.

The break-through visit included 150-strong delegation, which consisted of business people, scholars and high-ranking officials such as the Polish economy minister, according to Chinese media. In 2004, they built friendly cooperative partnerships and after that steadily extended the cooperation in politics, economy, humanity, global affairs and have made fruitful achievements, the statement said. Poland welcomes investment from China as direct investments, financial investments such as the purchase of Polish treasury bonds, and participation in the privatization of Polish state-owned enterprises in the fields of infrastructure, energy, research and development, mining, auto manufacturing and heavy industry. Poland also initiated launching of education forum at Beijing Foreign Studies University for closer student exchanges and cooperation.

In accordance with its adopted national strategy of transforming national economy into export-oriented and competitive one, Bulgaria, another EU member and according to Chinese media the second country “in the world to recognize the People’s Republic of China¹⁷”, has started unwrapping the project of setting up industrial investment zones in its several strategic points, e.g. transition lines towards Greece, Turkey and on few inter-continental crossroads on its territory. For its cooperation with China the Bozhurishte Industrial Zone (former heavy industry complex) is of special importance as many Chinese companies are about to start production there in accordance with the economic cooperation memorandum signed between the two governments¹⁸. According to official Bulgarian data, Chinese investments for the period 1996-2010 were only 15 million US\$ worth. But during 2009 and 2010 official contacts of the relevant ministries from both sides were intensified. Especially was obvious Bulgarian attempt to include China in revitalization of its water ways, ports and railways. In 2011 minister of transport took part in the meeting of the Chinese and Turkish officials to seek way for Bulgaria to join the fast train railway “Asia-Europe” project. Bulgarian officials emphasize the confidence of the Bulgarian offer for Chinese investors, while realizing the South-Eastern competition it has been facing.

But from 2010 industrial park within the Bozhurishte Industrial Zone started functioning as joint venture company run by Zhejijang

17 http://www.chinadaily.com.cn/business/2014-11/10/content_18894469.htm

18 “China to Invest USD 1.5 B in Bulgaria, Chamber Chief Says”, Novinite.com, May 3, 2012. Available at: http://www.novinite.com/view_news.php?id=139014

Province and Bulgarian National Company Industrial Zones, on the bases of economic cooperation between this Chinese province and Bulgarian government from the same year. In March 2011 one of the wealthiest Chinese provinces, Jiangsu, joined the project (Jiangsu alone invested abroad a billion US\$ in 2009). Automobile parts factory was open near Lovech by the end of 2011 as FDI of Chinese Great Wall Motors, Glass factory in Ragraad as FDI of Luojiang Float Glass and solar park in Ihtiman, As investment of Polar Photovoltaics. Tianjin State Farms Agribusiness Group established a wholly-owned subsidiary in Bulgaria in 2011 and announced to add an extra investment of 100 million euros (\$125.15 million) to build an industrial park for agricultural products processing in 2014.

By the end of 2011, Chinese investments in Bulgaria have reached a total of 70 million US\$, as, according to the Chinese Embassy in Bulgaria in 2011, the Chinese investments in the country grew by 320% year-on-year, with new investments in telecommunications, car manufacturing, energy, agriculture.

Port Varna on the Black Sea was seen as another place for the construction of other industrial park facility in Bulgaria with the Chinese funding. Renewable energy, infrastructure and agriculture are two of the key sectors where Bulgaria is going to see most of the future Chinese investments with approximate value of 1.5 billion US\$, according to high level officials from both side¹⁹.

Trade between Bulgaria and the PRC hit the record in 2011 when it reached 1.3 billion US\$, according to data of the Bulgarian National Statistical Institute. Bulgaria's export to China grew by 61% year-on-year, reaching 403 million US\$, and in just a decade it became forty times bigger, although not big enough to bit China's export to Bulgaria, that was worth 943 million US\$M in the same 2011. Bulgaria was mostly exporting copper, aluminium and some electric equipment, where China exported durable consumer goods, machinery and industrial equipment.

Also, Bulgaria enjoys the status of approved tourist destination according to a memorandum between the EU and China's national tourism administration.

Not all the attempts were successful. In November 2009, Dongfeng Motor Group Ltd., China's largest truck maker, signed a memorandum

19 Ibid.

of understanding with Serbia's state-owned truck manufacturer Fabrika Automobila Priboj from the Serbian city of Priboj. Dongfeng was supposed to control the product and the brand, while FAP was due to handle the manufacturing. Surprisingly, later the deal was off permanently. Also, in 2013 the privatization of the Serbian wine company "Vrsacki vinogradi", acquired by Chinese private company was annulled by the relevant state authorities due to the missteps in the process.

Beyond upgrading bilateral cooperation with all of the to be "Plus Sixteen" countries, China expressed steady interest to upgrade economic cooperation with Belarus, Ukraine and Moldova, countries out of the "plus Sixteen", in accordance with their economic capacity and political readiness to engage in cooperation with China. For the obvious reason of dealing with these countries separately, China performed the very similar pattern and way of engagement. Belarus for both reasons was the biggest beneficiary of its position, as it was not submitted to (in)formal complaints from the EU and IMF about receiving unconditioned Chinese loans. In 2011, Beijing's trade with Ukraine, Belarus and Moldova was around US\$12 billion²⁰. China has been constant highest priority in Belarus President Alexander Lukashenko's foreign policy, which proved to be so right with deterioration of the economic situation in 2013. His last visit to Beijing was in July 2013²¹, among many high level visits from Belarus side, while Chinese Prime Minister Wen Jiabao visited Belarus in 2007, at the time Vice President Xi Jinping in 2010, Head of the People's National Congress Wu Banguo in 2011, as well as high level military delegation in November 2014.

As a result of high level meetings over the past two decades, Beijing has made credit lines available to Belarus worth a total of 6 billion US\$, while several contracts for joint projects have been signed. Also, there has been constant growth in trade as twenty years since the establishment of diplomatic relations mutual trade has grown almost 100 fold – from 34 million US\$ to 3 billion US\$ in 2011²². It's interesting that only since 2006 China achieved surplus in the bilateral trade. In 2011, China was the ninth largest market for Belarusian exports and

20 <http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-05-28/ukraine-belarus-and-moldova-and-chinese-economic-expansion-east>

21 During the visit 20 agreements, documents and protocols were signed regarding trade and investment worth 1.9 US\$ billion.

22 <http://china.mfa.gov.by/rus/relations/trade/>

the third largest exporter to Belarus. It's interesting that only since 2006 China achieved surplus in the bilateral trade. Belarus predominantly exports potash fertilizers to China (44% of total exports), and China exports mainly processed goods to Belarus. Joint projects were worth 5.5 billion US\$ in February 2012, and the US\$10.5 billion still available as part of the credit line opened to be utilized over the next few years. According to the Belarus Embassy in Beijing, projects already realized are BeST mobile phone network, capacity enlargement of the Minsk power plant, construction of housing block and a hotel in Minsk and technology upgrading of the three cement factories. Beyond these, the planned projects have value of some 8 billion US\$, including the biggest one – industrial park in Smalyavichy²³. Beijing is also interested in buying Belarusian technology (mostly machinery for agriculture and large construction vehicles) and for that reason joint ventures have been established in China, mostly in Harbin, with Belarusian companies BelAz, MTZ and GomSelMash with production assigner for local Chinese market. In an attempt to reduce newly emerged deficit the big Belarusian companies have, according to official sources, opened trade offices in China. After four years of preparation, on June 19, 2014, the foundation stone was laid in suburbs of Minsk for the China-Belarus Industrial Park project, a major investment project of SINOMACH in following the Go Global strategy and promoting the industrial structure transformation and upgrade, according to its CEO. He stressed that SINOMACH would fulfil responsibilities of state-owned enterprises and build the China-Belarus Industrial Park as “a model of overseas investment projects, a landmark of economic and trade cooperation between China and Belarus, and a ‘shining pearl’ in the Silk Road economic belt”²⁴. The project is based on the newly signed Strategic Cooperation Agreement as joint venture of CAMCE and Harbin Investment Group Co., Ltd from China (collectively accounting for 60% of the shares) and Minsk state government, Minsk municipal government, and Horizon Capital from Belarus (collectively accounting for 40% of the shares). The China-Belarus Industrial Park focuses on key projects in industries such as electronic information,

23 <http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-05-28/ukraine-belarus-and-moldova-and-chinese-economic-expansion-east>

24 Chairman Ren Hongbin Visits Belarusian President Alexander Lukashenko, SINOMACH Webpage, June 30, 2014. Available at: http://www.sinomach.com.cn/templates/T_news_en/content.aspx?nodeid=161&page=ContentPage&contentid=37451.

biomedicine, fine chemicals, high-end manufacturing, and logistics & warehousing.

When it comes to another East European partner – Ukraine – China has been becoming more and more important trade and investment partner. Regarding the growing trade, Ukraine has been mostly exporting crude ore and importing processed goods. Several big joined projects have been ongoing. The main are bullet train line from Kiev to its airport, part of the ring-road around Kiev and upgrading of the state-owned Melnykov coalmine in Lugansk region²⁵. According to President Yanukovich, Ukraine planned to raise \$1 billion of Chinese investment for its coal industry.

China, which currently consumes about one-fifth of the world's food supplies is very interested in high-quality farm products that vast fertile plains of central and east Europe can produce in great quantity, especially those that are blessed with „golden belt“ stretch over their territories, like Ukraine or Serbia. But, bank liquidity and drop in investment and consumption were some of the huge problems pressing Ukraine economy when in 2013 China signed a deal with Ukraine to farm an area of 31 million square kilometres financed with a \$3 billion loan from China. It added a lot of confidence to Mr. Yanukovich and his government, together with Russian offer to buy \$15 billion of Ukrainian government bonds, and to reduce by 33% the price of natural-gas exports to the country²⁶. According to this deal with China, Ukraine was supposed to modernize its agriculture also with using selected seeds, farm equipment, building a fertilizer plant and a highway in the Crimea and a bridge across the Strait of Kerch, an important industrial centre and a channel between Ukraine and Russia connecting the Sea of Azov and the Black Sea²⁷. This was happening a week after at the time President Yanukovich refused to sign a free trade agreement at the EU Eastern Partnership meeting in Vilnius, Lithuania, together with 610 million Euros – which he called “a nicely wrapped piece of candy” – offered by the EU to upgrade the economy to Brussels standards.

25 “Ukraine to raise \$1 billion of Chinese investment in coal industry, says Yanukovych”, Kyiv Post, Aug. 26, 2011. Available at: <http://www.kyivpost.com/content/business/ukraine-to-raise-1-billion-of-chinese-investment-i-111719.html>

26 Rayman, N., “Russian Gives Ukraine Financial Lifeline Amid Protests”, Time, December 17, 2013

27 Ivanovitch, M., “Central and Eastern Europe are Courting China”, CNBC, December 1, 2013. Available at: <http://www.cnbc.com/id/101237467#>.

Beyond this reported pattern: trade, infrastructure, energy - China and Ukraine are involved in several R&D projects²⁸, transfer of military technology and weaponry (including the famous 60,000 ton unfinished Soviet aircraft carrier, formerly known as “Varyag”, that China bought from Ukraine in 1998 as an empty shell and turned it into its first aircraft carrier). According to the Russian press, military cooperation includes aircraft building, tank construction and in air defence and practically would mean selling secret Soviet military technologies²⁹.

Some analysts saw “hidden Dragon action here” saying that China treats the political dialogue merely as an instrument which helps it achieve its economic goals³⁰. The priority Chinese interest is to invest part of its financial surplus in the form of low-interest loans secured with government guarantees. The model of China’s engagement is described as typical of the entire engagement in Eastern European region. The ultimate goal of the model, seen by its critics, is to support Chinese export: companies from China operating in the region are suppliers of the engaged equipment and technologies and the main contractors in infrastructural projects which are financed with Chinese loans. In turn, the scale of direct investments is small, host country’s trade balance gains bigger and bigger deficit as import from China – construction materials and machinery used in the projects, have been growing.

On the other hand, others see Chinese one billion US\$ loan for infrastructure projects offer to Moldova³¹, as well as Chinese investments in energy and infrastructure sectors in Serbia as almost pure geopolitics and strategic positioning. Governments and business communities, from their side, are getting more and more ambitious with incorporating Chinese growing presence into their own political and economic agendas and along with this go rising seriousness of their pro-China deals engagements.

28 Three Chinese-Ukrainian technology parks in Jinan and Harbin and within the Scientific-Technical Complex „The E.O. Paton Electric Welding Institute” of NAS of Ukraine.

29 China hunts for both Soviet and US military technology, “RT.com”, August 15, 2011. Available at: <http://rt.com/politics/soviet-china-military-technology/>.

30 <http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-05-28/ukraine-belarus-and-moldova-and-chinese-economic-expansion-east>

31 In 2009, the China Overseas Engineering Group (Covec) was to conduct infrastructure projects with a total value of one billion euros - amounting to some 10 percent of Moldova’s entire GDP. L. O’Neill, “China is gaining a foothold in Russia’s backyard”, FT.com, 28 July 2009, www.ft.com.

3. “China Plus Sixteen” Outbreak – Establishing the Institutions of the Framework

How important Central and Eastern Europe (CEE) has become for China – with no difference towards EU and no EU member states among them – became clear when China initiated project of Cooperation between China and Central and Eastern European Countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia) in April 2012, when the first meeting of the prime ministers of China and CEE countries was held in Warsaw. At the occasion Premier Wen Jiabao announced the 12 measures³²“on promoting the friendship and cooperation with CEE countries”.

It is very interesting that in Chinese press analyses the fact that „Central and Eastern European countries were among the first to recognize the People’s Republic of China” came out. Also, it was often pointed that “compared to their strong political relationship, the cooperation between China and Central and Eastern Europe needs to be improved”³³ and elaborated with the date of the 16 CEE countries that have a population of 123 million and an area of over 1.3 million square kilometres, but their total trade volume with China is less that of Italy and that Chinese investment in those countries is smaller than in Sweden and the total investments of the 16 central and eastern European countries in China is less than Austria’s one alone³⁴. On the website of the Chinese foreign ministry the Bucharest summit was described as a strong sign of improving relations between China and the region.

Chinese experts explored that countries in the region crave for foreign investment as their economies during the transition decades became highly dependent on the Western Europe economies as the leading and strategic industries of Central and Eastern Europe became under foreign control and dependent on foreign capital inflows. Since the outbreak of the euro zone debt crisis and prolonged recession, it

32 <http://www.fmprc.gov.cn/eng/zxxx/t928567.htm>

33 Global Times : “China eyes closer ties with Central-Eastern Europe”, September 6, 2012, Available at: <http://www.globaltimes.cn/content/731653.shtml>.

34 Wang, W. “Tapping into each other’s strength“, China Daily European Weekly, p. 9. 4 July, 2014.

became necessary for the CEE region countries to attract foreign capital from outside Europe as their economies suffered from limited bank liquidity, drop in investment, consumption and credit crunch. During the crisis, investment in Central and Eastern Europe was halved from \$152 billion to \$75 billion, according to the Vienna Institute for International Economic Studies³⁵. On the contrary, cooperation between China and these countries has intensified and deepened since the outbreak of the global economic crisis, as bilateral trade grew at an average rate of 30%. In 2001, bilateral trade was only \$4.3 billion. In 2011, China's trade with Romania alone surpassed that figure. That same year, China's trade with the 16 countries amounted to nearly \$53 billion. Two-way investment also has accelerated, and Chinese enterprises have invested in industries such as chemical, machinery, household appliances, telecommunications, automotive, new energy fields, agriculture, finance, R&D. Their contribution to local economic growth and employment has been very positive, strengthened by realization of the joint infrastructure construction projects. Also, with the rising technological power of Chinese corporations, CEE countries were looking for more Chinese investment to make their economies more competitive.

The first measure, announced by Prime Minister Wen was to establish a Secretariat for the cooperation between China and CEE countries. The Secretariat is established within the Ministry of Foreign Affairs of China as a Chinese agency, responsible for communicating and coordinating China-CEE cooperation matters. The 16 CEE countries have designated national coordinators or specialized agencies to work with the Secretariat. Through internal and external coordination, the Secretariat should work to facilitate the implementation of the outcomes of meetings between leaders of China and the central and east European countries, plan for cooperation initiatives in accordance with the latest development and serve as a bond of cooperation through resources mobilization and integration.

The second measure includes opening the special credit line worth US\$10 billion, a certain proportion of which (some 30%) will be preferential funding. The whole amount should be used for the investment cooperation and sixteen countries should apply for the funds by submitting project proposals in such areas as infrastructure, high and new technologies, and green economy. The project application

35 Ibidem.

should be sent to the National Development Bank of China, Export and Import Bank of China, Industrial and Commercial Bank of China, Construction Bank of China, Bank of China or China Citic Bank.

The third measure consists of setting up an investment cooperation fund between China and 16 countries with the goal of raising US\$500 million in the first stage. The fourth measure that Premier Wen proposed was for China to send trade and investment promotion missions to 16 CEE countries with purpose to take concrete steps to move forward bilateral economic cooperation. The target for two-way trade was set to reach US\$100 billion by 2015.

China promised to encourage Chinese enterprises to cooperate with 16 countries to establish one economic and technological zone in each country in the next five years. Also, it would continue to encourage and support more Chinese enterprises to take part in the development of existing economic and technological zones in these countries as the fifth measure. The sixth measure was in the area of financial cooperation where the readiness was expressed for currency swap, local currency settlement for cross-border trade, and establishment of bank branches in each other's countries, so that it will improve support and services for practical cooperation in this area. The seventh measure means establishment of an expert advisory committee on the construction of transportation network between China and the sixteen CEE countries, where the Ministry of Commerce of China as the coordinator. The CEE countries would participate if interested in cooperating with China in eventual building of regional highway or railway demonstration networks either through joint ventures, joint contracting or other frameworks.

Proposal of a forum on cultural cooperation between China and central and eastern European countries in 2013 in China and, within this context, hold regular high-level and expert meetings on culture, cultural festivals and similar activities was the eight proposed measure. The next measure was China's offer to provide 5,000 scholarships to the 16 countries in the next five years, expend support the Confucius Institutes and Confucius Classrooms program in them, invite 1,000 students from the relevant countries to study the Chinese language in China in the next five years, boost inter-university exchanges and joint academic research, and send 1,000 students and scholars from China to the 16 CEE countries in the next five years. The Ministry of Education

of China plans to host an education policy dialogue with 16 countries relevant institutions in 2013.

The tenth measure was a proposal for establishing a tourism promotion alliance between China and 16 CEE countries, which would be coordinated by China Tourism Administration and open to participation by civil aviation authorities, travel agencies and airline companies of the two sides. The purpose of this was to improve mutual business promotion and joint tourist destination development, and explore the possibility of opening more direct flights between China and the 16 countries. China Tourism Administration co-organized a tourism products promotion for China and 16 countries during the China International Tourism Mart that was held in Shanghai in the autumn of 2012, as a prompt implementation of that scheme.

Establishment of a research fund that would be used by researchers on relations between China and 16 CEE countries, that would be financed by China with RMB 2 million (247,184 EUR) every year and used to support academic exchanges between research institutes and scholars of the two sides. The final proposed measure was China's plan to organize and host the first forum of young political leaders of China and the 16 CEE countries in 2013 with the idea to improve mutual understanding and friendship.

On August 14, 2012, China-Central and Eastern Europe Cooperation Secretariat held a forum on localities and businesses participating in China-Central and Eastern Europe cooperation in Beijing. Vice Foreign Minister and Secretary-general of the Secretariat Song Tao delivered a keynote speech to the forum, that was attended by officials from foreign affairs offices of 11 Chinese provinces, autonomous regions and municipalities (Tianjin, Inner Mongolia, Liaoning, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Chongqing and Sichuan), representatives from dozens of Chinese enterprises and financial institutions and envoys and diplomats of 16 CEE countries.

On September 6, 2012, the Inaugural Conference of China-Central and Eastern European (CEE) Cooperation Secretariat and the First National Coordinators' Meeting were held in Beijing with the participation of representatives from Chinese members of the Secretariat and national coordinators, representatives and diplomatic envoys of 16 CEE countries³⁶. Following the inaugural ceremony for

36 <http://www.fmprc.gov.cn/eng/zxxx/t969490.htm>

the establishment of the Secretariat, Song Tao, Vice Foreign Minister and Secretary-General of the Secretariat, chaired the first national coordinators' meeting. Song stressed that the meeting between the leaders of China and CEE countries in Warsaw in April 2012 created a new landscape for the development of state-to-state relations between China and CEE countries and that "pragmatic cooperation between China and the 16 CEE countries in economy, culture, education, tourism and other fields is moving forward steadily" as China's agencies, departments and local regions were fully mobilized to participate in China-CEE cooperation. The representatives from the Chinese Ministry of Commerce, Ministry of Agriculture, National Tourism Administration, Ministry of Education, Ministry of Culture, International Department of the CPC Central Committee, Ministry of Foreign Affairs and other member agencies of the Secretariat spoke respectively at the meeting, reviewed the progress made by China in implementing the 12 measures, and introduced measures and plans for the next-phase cooperation.

The holding of the inaugural meeting of the Secretariat and the First National Coordinators' Meeting also marked the establishment of a network at the working level for the cooperation. Very important point was given by Song Tao who emphasized that China-CEE cooperation is an important part of China-Europe relations as the increasing pragmatic cooperation between China and CEE countries will help to improve the size and quality of China-Europe cooperation, will benefit the development of China-Europe relations in a more comprehensive and balanced manner, and will help Europe to overcome the current difficulties³⁷. China-Central and Eastern Europe Cooperation Secretariat held its annual meeting in December 2012, headed by Vice Foreign Minister and Secretary-general of the Secretariat Song Tao³⁸.

Cooperation between China and countries from Central and Eastern Europe is going to gain more and more importance. The value of trade between them and China, that was only 4.3 billion US\$ in 2001, reached 52.9 billion US\$ in 2011, with the annual growth rate of 27.6%. After the global economic crisis outbreak average growth rate of the Chinese import from those countries has been 30%³⁹. Double

37 Ibid.

38 <http://www.fmprc.gov.cn/eng/zxxx/t1000583.shtml>

39 Chinese ambassador in Belgrade, H.E. Zhang Wanxue in an article printed in "Politika" Belgrade daily. Available (in Serbian) at: <http://www.politika.rs/rubrike/Svet/Kina->

flow investments became more frequent, investments and other engagements of Chinese enterprises have been numerous, especially in area infrastructure, chemistry, machinery, home appliances, telecommunications, automobiles, green energy. Cooperation in the field of agriculture, finance, science and technology has been expanding.

In November 2013 Chinese Premier Li Keqiang, at the China-CEE prime ministers meeting in Bucharest announced 12 proposals to push forward cooperation between China and CEE countries. Key areas of cooperation included projects in economy, culture and education and some developments already happened, like a forum on education policies in China-Central and Eastern European countries in Tianjin in September 2014⁴⁰. Chinese Premier at Bucharest summit that China's development could not be separated from cooperation with other countries, and that the world's prosperity and stability needed a growing and advancing China. He called for "all-dimensional, wide-ranging and multilevel cooperation" between CEE countries and China. Li stressed that China and CEE countries were emerging-market economies at similar phases of development, and they were all faced with the urgent task of restructuring their economies, innovating, and promoting competitiveness. For him that creates many opportunities for deepening practical cooperation and achieving win-win common development for "1+16".

He proposed that China and CEE countries dedicate the 2014 year to promote trade and investment and work together to double their trade in five years and announced that China would host a series of programs, including a roundtable meeting of Chinese and CEE trade ministers and an exhibition of CEE products, to accelerate the growth of China-CEE trade. He also announced that China was ready to increase the imports of competitive CEE products and encourage more Chinese tourists to visit CEE countries.

Li also called for the launching of a number of large infrastructure projects, proposing to combine China's capable and advanced industry of equipment manufacturing and the needs of CEE countries for

unapredjuje-saradnju-sa-evropskim-zemljama.lt.html.

40 The forum involved more than a 160 participants from China and 16 Central and Eastern European (CEE) countries, including education ministers, and presidents of universities. They discussed experiences with different education reforms, education and job market, and faculty's rotation and students' exchange activities.

infrastructure improvement. He pointed that priority areas included high-speed and regular railway, nuclear and other forms of power, road, port and telecommunications.

Chinese Premier also suggested that China and CEE countries should make full use of relevant financing mechanisms and encourage their financial institutions to set up branches on each other's territories and enlarge the scale of currency swap and local currency settlement. Additionally, Li proposed that China and CEE countries boost corporate investment cooperation, work out a framework agreement on industrial investment, and upgrade cooperation between Chinese and CEE small- and medium-sized enterprises.

He also urged the governments, enterprises, think tanks and media of China and CEE countries to play their unique roles and work together to push China-CEE cooperation further forward more rapidly and steadily. The Silk Road Economic Belt and the 21st Century Maritime Silk Road were proposed by Chinese leaders at the beginning of 2014 year as strategies to create China-Europe cooperation in foreign trade, investments and tourism. The proposed land-based Silk Road Economic Belt begins in Xi'an, runs through Central Asia to Eastern Europe, and then reaches Western Europe. While the sea-based Maritime Silk Road begins in Quanzhou, heads south to the Malacca Strait, across Africa and then connects to Europe. Chinese Vice-Premier Zhang Gaoli connected Central and Eastern European countries with the initiative in Prague, in August 2014, when he attended the Fifth China Investment Forum, saying that they were "well placed to achieve mutual benefits with China from cooperation in trade, investment and infrastructure building"⁴¹.

There is an understanding among the Chinese scholars that countries from the eastern and central European region - like China - has been currently going through a phase of economic transition and consolidation and that the dialogue and cooperation between the two is driven by shared interests and common issues. Additionally, China and Eastern European countries have 37 pairs of sister provinces and states, and 58 pairs of sister cities that are perhaps, the most convenient way to enter Chinese market. According to Chinese media, China also dispatched to the CEE countries a trade and investment promotion mission, set up a

41 "Linking with Central and Eastern Europe", China Daily, September 8, 2014

joint transportation network construction expert advisory committee and created a tourism alliance and a research fund.

Several symposiums and round tables were organized by the relevant Chinese research institutions with participation of the CEE scholars, including the organization of the First Symposium of the Think-Tanks from CEE countries and China in Beijing, in 2013⁴².

Cultural exchanges have been an important driving force of bilateral relations in the past. In CEE countries, more and more people are learning Chinese - Confucius Institutes and Confucius Classrooms have grown to more than 58 in the region. In Serbia, there are three Confucius institutes and Chinese was introduced as foreign languages in numerous high schools that applied for that scheme, supported by Chinese state.

Despite all the economic potential benefits, Chinese strong initiative towards Central and Eastern Europe was viewed with concern in certain offices in Brussels. EU Trade Commissioner, Karel de Gucht, even said during the EU-China summit in November 2013 that Beijing was playing one side off against one another in Europe. Some politicians and experts spoke of China building “a new Great Wall” across EU area and trying to take The Balkan states away from its EU part. Earlier that year, “Financial Times” quoted an unnamed European diplomat as saying that the business forum in Bucharest was part of China’s strategy “to divide and conquer” Europe.

4. Strategic Partner – Serbia

Under the given framework, Serbia, that first signed agreement on strategic partnership with China in 2009⁴³, proved to be especially active and attractive at the same time, as this strategically positions state already attracted more over 1.6 billion of the preferential funding (one project financed this way is bridge on the Danube “Zemun-Borca” and the other is two-phased upgrading and expanding of the two blocks of “Kostolac B” thermo power plant, both financed up to 85% by China

42 The second one was organized in Bled, Slovenia in September 2014.

43 Two years later, Poland managed to establish such level of official relationship with PRC as President Hu Jintao and Polish President Bronislaw Komorowski signed a joint statement extending bilateral relations to a level of strategic partnership in Beijing, on December 20, 2011.

Exim Bank with 1.3 billion US\$) and additional 303 million US\$ for the projects of two parts of the planned high-way construction.

Beyond financing, Chinese companies are involved in construction of the high-way parts - Shandong High-Speed company that is engaged in constructing two parts of the high ways on the Corridor XI (Obrenovac-Ub and Lajkovac-Ljig) long 50 km was registered in Serbia in 2013. Again, Serbian companies as sub-builders are involved in works to 49%. The value of the two parts is about 340 US\$, which will be financed by the Serbian state investment of 35 US\$ millions and by loan given by EXIM Bank of China, of 301 US\$ million (grace period is five years, payment period twenty years, with the fixed rate of 2.5%). Due to the overburdened position of Serbia, other ways were introduced for the other promising engagements of the Chinese companies regarding construction of the parts of the high way on the Corridor XI, Preljine-Požega and Beograd-Obrenovac would be financed thru concession. It is interesting that Chinese partners were offering concession financing in the Corridor XI project, but previous Serbian governments insisted on other ways of financing it and choosing the companies to get the job thru tender procedures that later proved to be highly dubious and inefficient.

The first two projects got high level political support, since Wu Banguo's visit to Serbia in 2010. "Serbia is an important country in central and eastern region of Europe and one of the strategic partners of China. Traditional friendship has been deepening between the two countries. Contacts on political level are getting closer, economic cooperation has been developing and project of constructing the bridge over Danube and revitalization of TE Kostolac thermo-power station became excellent models for development of cooperation with China in the sense of performing and managing such huge and technologically advanced projects in Central and Eastern Europe"⁴⁴.

For the domestic economies of the 16 CEE countries such investments are most welcome as, like in Serbian case, twenty three years after the dismemberment of SFR Yugoslavia, nowadays Serbia has GDP value of some 70% of the one she had in 1989 and in spite of some 8 billion US\$ worth donations since 2001 and foreign direct investments

44 <http://www.fmprc.gov.cn/eng/zxxx/t1000583.shtml>

inflow in the last thirteen years worth more than EUR 16 billion⁴⁵, the centrally positioned South-Eastern European country is burdened with old, weak and backward transport and energy infrastructure in which the most recent projects were realized 30 or 40 years ago. Every investment, especially one under favourable financial conditions and no political ones, is very good news for Serbia's economic and general ambient. Additionally, strategically speaking, it is good for Serbia to widen its political and geographic spectre of big investors, so that it is not too dependent on EU or any other centre of power.

By the end of 2012 Serbian Minister of Natural Resources, Mining and Spatial Planning went out publicly with another potential giant project - possible construction of the waterway Danube-Morava-Vardar, which would link Serbia, Macedonia and Greece with Central Europe and through the Danube countries with the rest of the world. According to Minister Bacevic⁴⁶ implementation of this historically significant project next waterway connecting these countries, creating the conditions for the development of Serbia in the field of transport and energy, with respect to the given space opens up the possibility for the construction of five to seven power plants total capacity of 350-400 megawatts. The construction of irrigation systems on the banks of the Morava River would improve conditions for development of agriculture and the economy as a whole. On the banks of the river lays the densest concentration of population and settlements in Serbia, and therefore the importance of the infrastructure would be multisided. As potential partners Chinese and global giant in construction engineering, China Gezhouba Group Corporation was mentioned, as well as China International Water and Electric Corp⁴⁷. On the other hand, this project was often criticized in Serbian media and among experts and opposition politicians as highly unrealistic.

On February 21 2013, Serbian media reported about announcement given by the representatives of the Economic Department of the Chinese Embassy in Belgrade and Serbian Minister of Transport Mr. Milutin Mrkonjic that the Chinese Embassy in Budapest launched an initiative for the construction of high-speed rail on Corridor 10

45 http://www.b92.net/eng/news/business-article.php?yyyy=2013&mm=02&dd=04&nav_id=84516/

46 Since November 2014 Ambassador of Serbia to Beijing.

47 <http://www.mprpp.gov.rs/en/meeting-with-representatives-of-chinese-companies-2/>

between Belgrade and Budapest for trains whose speed exceeds 300 km/h. The total value of the investment would go approximately up to EUR 2 billion, early estimates show as this, two decades ago, EC top priority project, would be built in almost perfect conditions due to the extremely favourable terrain. According to the same sources, the Chinese initiative for the construction of high-speed rail was already discussed at the session of the joint Hungary-Serbia commission held December 2012, and it was included in the proceedings on the commission's work. Talks on the model and the ownership structure of the project ought to be conducted. Chinese investment would come from the Chinese Development Fund aimed at investments within the framework "16+1" investment fund. Chinese officials suggested that loans should be ensured and this matter should be discussed by the governments of Serbia and Hungary within the framework. According to analyses came out so far and the data procured from economic and expert teams, the railway would pay off and its construction would be commercially justified since the flow of passengers, goods and capital between the two countries has been constantly increasing.

In November 2013 Chinese government announced intention to establish a special fund of 25 million EUR for supporting cooperation with Serbia in mining sector, as both side expected broadening of cooperation in the near future. According to the Ministry of Commerce of the PR China trade between Serbia and China grew by 18.7% in 2013, thanks to newly established Chinese companies in Serbia. In 2013, Serbia-China trade exchange exceeded 1.1 billion dollars, according to the Serbian Chamber of Commerce data. Chinese side lately expressed interest in importing meat and meat based products, fruit and other staple products from Serbia.

In January 2014 Chinese electric corporation "Sinomach - Cneec - Cneetch" opened its European office in Ub, Serbia. The company announced its interest to invest 1.3 billion EUR into several big energy sector projects in Serbia, such as thermo power station Kolubara B, surface mine „Radljevo“ of the Kolubara mining corporation, hydro power station Djerdap 3 and three smaller hydro power stations.

During the visit of the Prime Minister of the Republic of Serbia Aleksandar Vucic to People's Republic of China from 9 to 12 September 2014, he was in Beijing and Tianjin, where he participated in the World Economic Forum and met with Premier of the State Council of the

People's Republic of China, Li Keqiang. The two Prime Ministers agreed on Serbian organization of the third China Plus Sixteen summit in December 2014., emphasized mutual willingness to further deepen strategic partnership and within it implementation of major projects between the two countries. In addition to the completion of the project of the bridge Zemun-Borca, special emphasis was put on the project of modernization of the railway Belgrade-Budapest⁴⁸ that was announced during the previous summit in Bucharest and worked on the project's preparation in the meanwhile. When visiting Belgrade in December 16th 2014, Li Keqiang will be the first Chinese Prime Minister to do so after more than three decades. It is planned that he open bridge Zemun-Borca, built by CRBC and Serbian sub-builder "Ratko Mitrovic" and that two sides, together with the third one – Hungarian, sign a memo on another, even bigger project on modernization of the Belgrade-Budapest railways, that would push regional economic growth, too.

Also, Chinese side might announce intention to build a cultural centre in Belgrade, on the spot of the former Chinese Embassy building that was demolished in NATO bombing of the FR of Yugoslavia, the third cultural center that People's Republic of China in Europe.

5. Conclusion

The ongoing world economic crisis has sharpened some of the existing problem in the relationship between EU and China, but also urged solutions for their resolution. On the other hand, growing economic presence of China in the economies of the new EU members Bulgaria and Romania, and especially Serbia, does not represent some special behaviour of China, but entirely fits into its emphasized engagement in the EU and Europe in totality.

Stronger Chinese engagements could be understood as a good student behaviour, who understood the lesson that says that gaining stronger influence on the EU and in its individual member states comes with more significant economic presence within, and not only as trade partner and FDI destination for particular corporations from particular EU countries.

48 <http://www.beijing.mfa.gov.rs/index.php>

Repeating the same pattern that China has used to strengthen its impact in near neighbourhood, in Africa and Latin America, and even with the USA, China has moved towards multiplying and strengthening its presence in Europe. Since the outbreak of the global crisis especially Mediterranean and Eastern and South European countries has become very attractive for Chinese business community, supported by their government.

Almost all investors noticed from both sides expressed willingness of Chinese and Eastern, Central and South Eastern European countries that has led to competition among them as destinations for Chinese investments and between them and traditional Chinese business partners among the EU countries. Advantages of the new EU member and “hopeful members to be” are expected high growth rates, relatively low wages and skilful work force, closeness to or the very EU market with “made in EU” branding, as well as horizontally connected production. Also, not less important cooperation with them means absence of the human rights topic and other “judging on” positioning, including one on the openness of the Chinese market.

Additionally, central and South-East European countries as former communist countries have history in doing business with China, even exporting technology and experiences of their first steps in transition during the first phase of the Chinese reform and opening up project. Especially after the EMU crises they rediscovered China as promising investor and reliable partner. Also, they have relatively cheap and skilful work force and do not press China with ideological issues. Serbia has been doing the same thing as Germany and Italy and others have been - when their partners within EU are getting incapable to provide recovery and growth - they are turning towards Russia and China. Of course, in geopolitical game, growing influence of China or Russia means lessening the dominance of the EU and USA in the region, but that is good for Serbia and its even good for the EU, as an important part of Europe is being helped to stabilize and economically revitalize.

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