

CHINESE INVESTMENTS IN SERBIA AND THE NEW SILK ROAD

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ABSTRACT

The China's development strategy of the "New Silk Road", involving two political initiatives "New Silk Road, Economic Belt" and the "21st Century Maritime Silk Road", provides for a long-term improvement of relations especially with the countries of Asia, Europe and Africa. This strategy is an ideological concept of the Chinese foreign policy that aims to uphold the world peace and to promote a common and harmonious development of the whole world. Unlike the geopolitical strategies of great powers, which are mainly based on the division of spheres of interest or expansion of spheres of influence, the Chinese "New Silk Road" strategy is focused on common interests and cooperation in order to achieve mutual benefits. With an "open door" policy applied for more than three decades, China is trying to strengthen its position in international politics and to contribute to active participation in the globalization process. In order to achieve these goals, formulated through the model of "Chinese Dream," China is enduring a constant social change, repeatedly carrying out economic reforms and building a new vision of international relations based on the promotion of political, economic and cultural cooperation as well as social progress involving different civilizations. Hence, despite the significant geopolitical changes after the Second World War, a strong political influence in international processes, and expressed opportunism in international relations, China has been a binding factor in solving major international problems using as a model the Five Principles of Peaceful Coexistence, which

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is in the line with the purposes and principles of the UN Charter. As the world's second largest economy with nearly one-fifth of the world's population, China committed itself to good relations with other countries. China is especially keen on good relations with developing countries such as Serbia; China maintains a deep and traditional friendship with Serbia and supports its legitimate rights and economic interests. In order to properly understand the Sino-Serbian relations, this study will first give some introductory explanations regarding the position of Serbia in international relations, especially towards China and in the 16+1 mechanism (a political platform for cooperation between China and the Central and Eastern European countries, CEEC). The study will also include the analyses of existing Serbia's economic hardship and possible effects of bilateral cooperation, especially showing the current advantages of Serbia for the Chinese direct investments.

Key words: Serbia, China, Central and Eastern European countries, 16+1 mechanism, investments, development strategy, the New Silk Road, Belt and Road initiatives.

1. INTRODUCTION

The Belt and Road initiative tends to catalyze the revitalization of the large part of the world which cover the vast area with more than 4,4 billion people and total economic output of USD 21 trillion (almost one-third of the world's GDP). The network of infrastructure projects might create the world's largest economic corridor („World Lend-Bridge“), encompassing 60 or more countries from different continents. Hence, “the New Silk Road” initiatives indicate a positive climate for building a new international system that could bring prosperity much like the ancient Silk Road. China came out with a list of priorities within the Belt and Road initiatives in February 2015. These priorities include building transporting infrastructure, facilitating the flow of investment and trade, simplification of customs procedures, the construction of logistics centres, financial cooperation, with the expansion of cooperation between nations through intensifying exchanges in culture, education, science and media and in other fields. On March 2015, the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce with the authorization of the State Council of the People's Republic of China announced an important strategic document titled: “Vision and Actions on Jointly Building Silk Road

Economic Belt and 21st Century Maritime Silk Road”² This document outlines the framework and principles, as well as the priorities and mechanisms of cooperation within the Belt and Road initiatives. On 22 October 2015, the National Development and Reform Commission adopted the “Action Plan for Harmonization of Standards along the Belt and Road (2015-2017)” which confirmed that the objectives of the previously adopted document (“Vision and Actions“), will be achieved in practice.³

2. SERBIA’S POSITION IN INTERNATIONAL RELATIONS AND ITS RELATIONSHIP TO CHINA

In geopolitical terms, Serbia is located in the Southeast Europe on the crossroad and highway which links the Black Sea with the North Sea, Southeastern Europe to Central and Western Europe. Its territory is small and landlocked, with limited political, economic, social and demographic capacity.⁴ Serbia is militarily neutral and defensive oriented state. As one of the successor states of the former Socialist Federal Republic of Yugoslavia, Serbia has a mixed national identity, cultural and historical heritage, which makes it much more open and accountable partner in international relations. Traditionally, Serbia has good relations with the main actors in international politics. As a member of the United Nations and other major international organizations, Serbia is trying to build good relations with other countries and to promote peace, stability, equality and mutual trust. In its actual foreign policy strategy, Peoples Republic of China occupies an

² *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, Accessed on 4 June February 2016, http://en.ndrc.gov.cn/news_release/201503/t20150330_669367.html .

³ *Action Plan for Harmonisation of Standards Along the Belt and Road (2015-2017)*, National Development and Reform Commission, 22 October 2015, Accessed on 4 June February 2016, <http://china-trade-research.hktdc.com/business-ews/article/One-Belt-One-Road/Action-Plan-for-Harmonisation-of-Standards-Along-the-Belt-and-Road-2015-2017/obor/en/1/1X000000/1X0A443L.htm>

⁴ Serbia has an area of 88 361 square kilometers and population of 7.243 million.

important place. The strategy is designed on four pillars of foreign policy. The first pillar is the European Union, whose member Serbia would like to become. The second pillar is Russia, as the world political rising power and historical partner of Serbia. The third pillar is the United States, as a great power with which Serbia had fluctuating relations in the past, but whose importance and influence in international relations, Serbia accepted as a reality. The fourth important pillar of Serbia's foreign policy strategy is China, as a global economic power and the traditionally good friend of Serbia in international relations.⁵ Relations between Serbia and China follow the continuity of relations between Yugoslavia and the People's Republic of China that commenced with international recognition on 1 October 1947. China based its foreign policy and security concept on principles of sovereignty and territorial integrity of states, advocating for cooperation on the principles of equality and mutual benefit, and non-interference in the internal affairs of other countries. Since the two countries encourage friendly relations with each other and actively participate in the development through various forms of bilateral and multilateral cooperation at the regional, sub regional and global level, it can be said that these relations become of prime and strategic importance. China is a very good economic partner of Serbia in Asia and one of the major pillars of Serbia's foreign policy. On the other hand, Serbia is one of the key China's partners in the region of South and East Europe. The South and East Europe, China primarily sees in terms of economic integration with the European Union, as a common market of high purchasing power and therefore an ideal space for the placement of its own products. In this regard, it is important to note that China supports Serbia's aspirations for full accession to the European Union, without prejudice to its vital national interests. At this point, it is worth to mention that Serbia is granted candidate status for membership in the European Union on 1 March 2012. In these circumstances, Serbia has taken a significant step towards the European common market that in prospects can create an opportunity for achieving real economic growth and social development. For economic and social transformation of Serbia, China could also play a decisive role,

⁵ The "four pillars of foreign policy" proclaimed in public for the first time by, Boris Tadic, the President of Serbia after his visit to China in August 2009, which was followed by the establishment of strategic relations between the two countries.

because it does not pursue geostrategic redesigning of the European area, but seeks to maintain the stability of the existing order. This is best seen through the role of China in the UN Security Council, where it is committed to the preservation of the territorial integrity of Serbia, not accepting a violent change of borders and unilateral proclamation of independence of Kosovo and Metohija. On the other hand, Serbia supports the territorial integrity of China, its sovereignty and right to regulate its relations with the former separate parts of its territory (“One China” Policy). Cooperation between two countries are now at the highest level since the establishment of diplomatic relations in 1955, and each day is expanding with a new positive content. In view of the aforementioned, Serbia’s position toward China and its role in the Belt and Road initiatives are determined by many factors. As it is well known, Sino-Serbian relations are characterized by the strategic partnership established in August 2009 with a joint statement of the then president Boris Tadić and Hu Jintao. This strategic partnership was deepened in August 2013 with the Joint Statement signed by the presidents Tomislav Nikolić and Xi Jinping. In view of the fact, a series of framework agreements on political and economic cooperation have been concluded. For example, the Agreement on Economic and Technical Cooperation in the field of infrastructure signed in August 2009, paved the way for many other joint projects in the field of energy sector, transportation, agriculture, telecommunications, finance and cultural exchange. The importance of these projects and their profitability can only 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. Hence, the Serbia’s position towards China’s development strategy of the “New Silk Road is depending on the understanding of global processes in the world and geo-economic interests of China that are channelled through the mechanism 16 + 1. This mechanism is a coordination mechanism for cooperation between China on the one hand, and the countries of Central and Eastern Europe on the other. As Serbia is an active participant into the cooperation mechanism 16 + 1, it could also be a crucial partner in the realization of the Chinese development strategy of the “New Silk Road”. First, because the relations between the two countries imbued with mutual understanding and trust, and second, China and Serbia are sufficiently open to promote various forms of political,

economic, social, cultural, scientific and technological cooperation (Janković, 2016, p. 16).⁶

In the study of the development of Sino-Serbian economic relations, the analysis of the adopted guidelines and other official documents of the meetings held under the auspices of the mechanism 16 + 1 may be useful for predicting future arrangements and their effects on the realization of China's development strategy of the "New Silk Road".

3. CEEC-CHINA "16+1" MECHANISM OF COOPERATION

According to the Joint Statement made during the President Xi's trip to the EU headquarters, China and the EU decided to develop synergies between China's "Silk Road, Economic Belt" initiative and EU policies and jointly explore common initiatives along these lines.⁷ Due to the fact that Central and Eastern Europe (CEE) is an important part of Europe and is located as the gateway for China to Europe, China also calls on the CEE countries (CEEC) to join "the New Silk Road" initiative.⁸ "The New Silk Road Economic Belt" initiative and the China-CEEC cooperation, both in their objectives and pathways, are accommodating and complementary to each other. And the latter is expected to become a positive driving force to the development of this large strategic plan (Jing, 2015) (China Daily, 2014). Relations between China and the CEE, have been increasingly attracting

⁶ During Serbian Prime Minister Vučić's recent visit to China, in November 2015, Serbia and China signed the Memorandum of Understanding on Joint Promotion of the Belt and Road initiative. Prime Minister Vučić said on this occasion that Serbia wants to become one of the key trade hubs in this part of Europe being part of the Belt and Road Initiative. He also noted that this is a development chance for Serbia.

⁷ Joint Statement Deepening the China-EU Comprehensive Strategic Partnership for Mutual Benefit, available at http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1145387.shtml, last accessed on 31 March 2014.

⁸ The 16 CEE countries, which are involved in the Chinese initiative present heterogeneous group – there are 11 EU members (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) and 5 countries from the Western Balkans region which are potential candidates for EU membership (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia).

attention around Europe since the opening-up of the “16+1” platform. The first steps towards this platform were taken by Chinese Premier Wen Jiabao in 2011 in Budapest, at the China-CEEC Economic and Trade Forum, where he announced a “5-point proposal” to enhance bilateral cooperation. A year later, in Warsaw during the first summit of leaders of China and CEEC, this became the “12-point initiative”. This document is perceived as China’s new engagement strategy in the region (Szcudlik-Tatar, 2013). The first point from the “12-point initiative” was the establishment of a Secretariat for Cooperation between China and the 16 CEEC which was officially established in September 2012, in Beijing, in the presence of the National Coordinators of all 16 European countries, and China. The other 11 points included the establishment of a 10 billion US\$ special credit line for the CEEC; setting up an investment cooperation fund between China and CEEC with the goal of raising 500 million US\$ in the first stage; increase of the total trade volume between China and CEEC to 100 billion US\$ by 2015; stimulation of Chinese enterprises to invest in special economic and technology zones in CEE; exploration of potential financial cooperation such as “currency swap, local currency settlement for cross-border trade, and establishment of bank branches in each other’s countries”; establishment of an expert advisory committee on the construction of transportation network between China and CEEC (e.g. regional highway or railway through joint venture, joint contracting and other means); expansion of cultural cooperation; provision of scholarships to the Central, Eastern and Southeastern European countries (CESEE) and support of the Confucius Institutes and Confucius Classrooms programs, and invitation of Chinese language students to China; establishment of a tourism promotion alliance between China and CESEE countries, coordinated by the China Tourism Administration; establishment of a research fund on relations between China and CESEE; hosting of the first young political leaders forum of China and CESEE in 2013 (Vangeli, 2014). On 26 November 2013, the Meeting of Heads of Government of China and Central and Eastern European Countries was held in Bucharest, Romania. To further improve China-CEEC cooperation, parties at the meeting jointly formulated and issued the “Bucharest Guidelines for Cooperation between China and CEEC”. “The Bucharest Guidelines” are focused on the theme of the “win-win” cooperation, which implies increased investment and trade volumes, as well as increased cooperation in the fields of science,

technology, innovation, environmental protection and energy (especially in the matter of nuclear power, wind power, hydro power, solar power and other sources of clean power). The document promotes people-to-people exchanges and cultural exchanges and cooperation. Special emphasis is given to infrastructure development, such as construction of roads, railways, ports and airports based on the principle of mutual benefit. The “Bucharest Guidelines” encourage China and CEEC to build an international railway transportation corridor connecting China with CEEC; along this railway corridor, distribution centres will be established in order to build a new logistics passage between China and Europe. The document particularly supports the establishment of cooperation in the area of free movement of capital and financial services of China and CEEC financial institutions. It establishes the obligation of their financial institutions to engage in cooperation in flexible and diverse forms and bring into full play the role of the 10 billion US\$ special credit line in promoting China-CEE economic cooperation and trade. It welcomes the official launch of the China-CEE Investment Cooperation Fund, commends the efforts made by Chinese, Polish and Hungarian financial institutions, supports the relevant financial institutions in launching stage two of the fund at an appropriate time and encourages more financial institutions and businesses to contribute to the fund. “The Bucharest Guidelines” also support the People’s Bank of China and the central banks of CEE countries in signing agreements of currency swaps as they see necessary and promote local currency settlement as one of the means to promote trade and investment.⁹ At the third meeting between China and CEEC, held on 16 and 17 December 2014, On 16 December 2014 in Belgrade, the parties announced“ the Belgrade Guidelines for Cooperation“. According „the Guidelines“, the parties will expand trade, investment, and economic cooperation (EurActiv, 2014). They will also support the establishment of the executive body of the China-CEE countries business council in Warsaw, Poland, and urge „relevant business organizations from both sides to cooperate on a voluntary basis“. The „Belgrade Guidelines for Cooperation „welcome the founding of the

⁹ *The Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries*, Secretariat for Cooperation between China and Central and Eastern European Countries, 29 November 2013, Accessed on 4 June February 2016, available at <http://www.china-ceec.org/151/2014/01/02/41s1569.htm>

secretariat of the contact mechanism for China–CEE investment promotion agencies in Beijing and Warsaw. *Inter alia*, the document supports the role of Bulgaria in leading joint efforts to set up a Chinese–CEE consortium in promoting agricultural cooperation in the first half of 2015, and calls on the parties to fully utilize 10 billion US\$ in special loans and other financing tools, provided by China, for the promotion of trade and economic cooperation. The document considers the signing of currency swap agreements between China and Hungary and Albania, with the use of RMB in business circles as the settlement currency in cross-border trade and investment, notes the parties’ common will to boost cooperation in science, technology, innovation, environment protection and energy, among other fields, and pledges to deepen people-to-people exchanges and cooperation at various levels (Xinhua, 2014a). It should also be noted that China announced the provision of new funds to pursue new ventures with CEEC, “stressing that the cooperation will be in line with European standards“. The most discussed project at the summit was the modernization of the Belgrade-Budapest railroad, in connection with which China, Serbia, and Hungary signed agreements at the meeting. The project, which would cost between 1.5 and 2 billion € (about 1.8 -2.4 billion US\$) and shorten travel time from 8 to 2.4 hours, is scheduled for completion in two years, with a subsequent planned extension to Skopje and then Athens. China sees the railroad as an eventual “land and maritime express line” between China and Europe (Zeldin, 2015). At the fourth meeting held in November 2015 in Suzhou (China), CEEC and China have expressed their readiness for “a new starting point, new fields and a new vision” in the development of their mutual cooperation (Lirong, 2014). They state their readiness to formulate the Medium-Term Agenda for Cooperation with the aims to improve 16+1 cooperation mechanism by setting out directions and priorities from 2015 to 2020. Calling for joint efforts to realize the shared goal of building a new type of open, inclusive and win-win partnership, China gave a proposal for six priority areas of cooperation that should include the roadmap for fostering cooperation; promoting synergy in development strategies; setting up new models of production capacity cooperation; innovating investment and finance cooperation; boosting trade and investment as well as expanding people-to-people exchanges (Lađevac, Đorđević, 2016, p.75). Chinese proposal resulted in the signing of a series of important agreements, including adoption of the Memorandum of Understanding

(MoU) on the Improvement of the initiatives of the “New Silk Road” and “the Suzhou Guidelines” in which CEEC and China reaffirmed the importance of cooperation within the Belt and Road initiatives. In addition, in these documents the parties highlight the link between the Belt and Road initiative and national development strategies. Thus, in accordance with the Press Communiqué of the Meeting between the Prime Ministers of China and CEEC in Suzhou, the Medium-Term Agenda for Cooperation taking the China-EU 2020 Strategic Agenda for Cooperation as the guideline document for China-EU relations.¹⁰

4. A GENERAL ASSESSMENT OF THE CEE-CHINA “16+1” MECHANISM OF COOPERATION

When analyzing all effects of all of the annual summits between China and CEEC, it can be concluded that the “16+1” mechanism arises from the common political will and mutual demand for closer economic cooperation. The cooperation covers various areas ranging from finance, trade, transportation, agriculture, energy and telecommunication to scientific, technological and cultural cooperation. It covers different fields of political dialogue and people-to-people exchanges. The lack of institutionalization of the mechanism 16 + 1 does not mean a lower efficiency. On the contrary, it contributes to equality between the parties and multifunctional enforcement of their commitments.¹¹ In the future, the

¹⁰ In the discussion whether China-CEE cooperation may be utilized by Beijing to split the EU for China’s benefit, Premier Li said: “China supports the European integration process, as well as a united, stable and prosperous Europe that plays a greater role in the international community... China’s cooperation with the 16 CEECs will not result in fragmenting the European Union. Much to the contrary, it will help deepen cooperation between China and the European Union and narrow the development gap between the eastern and western parts of the European Union... China-CEEC cooperation is undoubtedly part and parcel of China-Europe cooperation, and the two could naturally go in parallel and be mutually reinforcing” (Pavličević, 2015a, p. 12).

¹¹ Besides the fact that 16 + 1 mechanism does not represent an international organization, it is more than usual political platform for intergovernmental cooperation between the CEEC and China. This platform has certain institutional mechanisms that are reflected through various arrangements, associations, forums

“16+1” mechanism may serve as a catalyst which would bring some new approaches to development and strategic partnership in various productive spheres. The 16+1 framework could help in mutual understanding and then in facilitating of business contacts, building social networks, and making business decisions easier. Because the cooperation platform between China and CEEC is in line with China’s objective of being a partner for growth with the EU, its relationship with CEEC may be a growth driver in the framework of China-EU relations. China believes that, by enhancing the overall level of its relations with CEEC, she will be in a position to promote a more stable and healthy China-Europe relationship as well. Such an approach presupposes harmonization with CEEC national development strategies, respecting their legal framework and then also respecting the authority, rules and standards of the EU as well as the obligations accepted in strategic documents with the EU such as Agenda 2020, which implementation could be of the crucial importance for the sustainable success of cooperation within the framework of 16 + 1 mechanism.¹²

or networks which facilitate cooperation between China and CEEC. Thus, in Hungary stands China-CEEC Association of Tourism Promotion Institutions and Travel Agencies. In Serbia, should be established China-CEEC Federation of Transport and Infrastructure Cooperation. The Executive office of China-CEEC Joint Chamber of Commerce should be organized in Warsaw. The Secretariat of China-CEEC Contact Mechanism for Investment Promotion Agencies should be established in Beijing and Warsaw. In Bulgaria should be established China-CEEC Federation of Agricultural Cooperation. The Czech will be the headquarters of the China-CEEC Federation of Heads of Local Governments. In Romania, should be set up China-CEEC Centre for Dialogue and Cooperation on Energy Projects. Belgrade Guideline supported initiative for establishment of China-CEEC Federation of Logistics Cooperation and China-CEEC Think Tanks Exchange and Cooperation Centre (Tianping, 2015).

¹² It is worth to note the fact that China accepted in 2015 certain specific obligations towards the EU such as contribution of 350 billion € to the Investment Plan for Europe and the commitments from Memorandum of Understanding on the EU-China Connectivity Platform in order to promote cooperation in areas such as infrastructure, equipment, technologies and standards.

5. SERBIA'S ECONOMIC HARDSHIP

In the late 1980s, at the beginning of the process of economic transition, Serbia's economy had a favourable position, but it was gravely impacted by economic sanctions from 1992 to 1995 during the war in former Yugoslavia. After the political changes in October 2000, Serbia went through an economic liberalization process, and experienced fast economic growth. Today, Serbia has a modern economy that follows the model of the free market. However, the Serbian economy still has not made significant advances. Industrial production remained behind the tertiary sector and the Serbian economy is mainly based on various services that amount 51.1% of GDP. Industrial production is in the second place with 38.5% of GDP and did not reach the level before the collapse of the former socialist Yugoslavia. Agriculture comes after the industrial production with a total 10.4% of GDP (Chamber of Commerce and Industry of Serbia, 2015). In 2015, the Serbian economy has emerged from recession into which it entered in 2009. There has been growth in GDP of 0.8 percent. Industrial production in 2015, for 11 months, rose 7.9 percent; a strong contribution was achieved thanks to the recovery of the electric power system of Serbia after floods in May 2014. Manufacturing, which was not under the influence of major droughts, achieved an increase of 5.9 percent. The sectors that showed the highest dynamics are: manufacture of tobacco products, other manufacturing industry, textiles, machinery and equipment, as well as the production of basic pharmaceutical products and preparations. Although world trade in 2015 grew anaemic rate (2 percent annually), Serbian exports increased in the previous year by 8.4 percent. According to public data, in the first quarter of 2016, Serbian exports were growing much faster than imports. According to the monthly analyzes, the import into Serbia was covered by export in a record 80.9 percent (Politika, 2016, p. 11). The automotive industry, which is dominant in previous years contributed to the growth of exports, their reduction has led to a slowdown in overall exports. However, as a good signal highlights the increasing diversification of exports, and significant involvement of a wider range of products in the export basket. The exports are mainly related to the products of the automotive industry, mechanical industry, manufacturing industry and non-ferrous metals. More than half of its export potential, Serbia is realized with the EU countries (circa 62.2%). Then the biggest export was registered

in relation to Russia and the countries of the region (Chamber of Commerce and Industry of Serbia, 2015). In addition, a good sign for the recovery of Serbia economy is the data that the foreign direct investment in Serbia increased by EUR 124 million in March of 2016. The GDP structure by components in 2015 was: private consumption 81.0%, public consumption 17.9%, fixed capital investments 17.8%, inventories investments -10.1%, exports 46.0%, and imports 52.6%. Estimated GDP (nominal) for 2016 calendar year is \$43.866 billion, which is \$6,123 per capita, while the estimated GDP (PPP) is \$100.18 billion, which is \$14,047 per capita. Despite positive trends in terms of reducing, the budget deficit in the previous year amounted to 3.5 percent of gross domestic product (GDP), and predicted GDP growth of circa 2.5 in 2016. Unemployment is one of the most serious economic problems in Serbia. Unemployment in Serbia is among the highest in Europe, and the number of employees has not yet reached pre-crisis level. The unemployment rate among persons of working age is 18.4 percent, while every other person of working age is employed (employment rate is 51 percent).

Since the 1990s, Serbia has experienced a serious “brain drain”, especially during the Yugoslav war at that time; each year, more than 32,000 people emigrate. Despite the loss, the Serbian Diaspora’s transfers account between 10% and 15% of Serbia’s GDP and significantly increase living standards in some parts of the country. A very important factor of economic growth and recovery of the Serbian economy are the Free Trade Agreements (FTA) (Regional Development Agency South, 2016). Thus, Serbia has a Free Trade Agreement (so called, Interim Agreement) with the European Union (EU) which is enabling exports of all products originating from Serbia without customs and other fees such as various types of tariffs or VAT. The products originating from Serbia mean those that are fully manufactured in Serbia or which use materials that originate from the EU countries, Turkey, or countries that are in the process of joining the EU. From the 2013, the EU countries were the largest partners of Serbia in terms of export with the value of \$8.810 billion (60.30%) and in terms of import with the value of \$13.348 billion (64.99%). Serbia signed the Central European Free Trade Area agreement (CEFTA) which are enabling exports of all products originating from Serbia without customs and other fees in the region of Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro and the Temporary Administrative Mission of the

United Nations in Kosovo. The CDRTA agreement stands for 'combining the place of origin' of goods in a sense that the products exported from Serbia have the Serbian origin, even if their components and materials they are made of are coming from any of the CEFTA countries, provided that these goods have passed through at least minimal additional work or processing in Serbia, or that the amount of material added in other countries is less than the amount of material added in Serbia. In 2014, the CEFTA countries were the second largest trading partners of Serbia with sufficiency of \$1.895 billion. Serbia signed Free Trade Agreement with the European Free Trade Association (EFTA) in December 2009. The Free Trade Agreement which Serbia concluded with the EFTA provides full exemption from customs duties on industrial products in the territories of four member states: Iceland, Liechtenstein, Norway, and Switzerland. With regard to agricultural products, the Free Trade Agreement provides that Serbia will have a similar status as the EFTA members has with the EU countries. At the multilateral level, Serbia has also signed a Free Trade Agreement with the Commonwealth of Independent States (CIS) whose participating countries are Russia, Belarus, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, and Uzbekistan. The ability to expand the free trade regime there and in relations with the Eurasian Economic Union (EEU), whose members states are Belarus, Kazakhstan, Russia, Armenia and Kyrgyzstan, has recently approved the possibility to include Serbia in the free trade zone (Sputnik International, 2016). At the bilateral level, Serbia has concluded Free Trade Agreements with Russia, Byelorussia, Kazakhstan and Turkey. Free Trade Agreement with the Russia makes Serbia particularly attractive for foreign investors and manufacturers since Serbia is the only country outside the Commonwealth of Independent States, which enjoys the benefits of duty-free trade with Russia. Goods produced in Serbia or that whose dominant value is added in Serbia (at least 50% more than the initial price) are considered to be of Serbian origin and are subject to 1% import tax once entering the Russian market. The list of eligible goods excludes passenger cars, yet automobile parts, trucks, buses and agricultural tractors are all subject to 1% import tax. Free trade agreement between Serbia and Belarus stands for the mutual elimination of custom duties and other taxes on a variety of products. Goods produced in Serbia or that whose dominant value is added in Serbia (at least 50% more than the initial price) are considered to be of

Serbian origin and, if distributed directly, are subject to 1% import tax when entering the Belarusian market. The free trade agreement does not include the following products: passenger cars, tractors, buses and tires, and automobile parts. Free trade agreement between Serbia and Kazakhstan came into force when Kazakhstan entered the Customs Union with Russia and Belarus. Thus, the free trade agreement, which Serbia signed with Russia and Belarus, expanded to Kazakhstan. Serbia and Turkey signed a bilateral economic free trade agreement based on a model of trade liberalization, which allows Serbian exporters to sell their products duty-free to the large Turkish market. Goods that are fully manufactured in Serbia, or that are using materials originating from EU countries or countries that are in the process of joining the EU, are considered to be of Serbian origin, if they have gone through a minimal additional work or processing in Serbia. These goods must be distributed directly. Compared to the United States, Serbia has a special system of free trade provided through the so-called, the Generalized System of Preferences (GSP). Based on the foregoing, it is clear that Serbia is open to foreign direct investment (FDI). Moreover, it could be said that this is one of the foreign trade priorities of the Serbian government, which provides both, financial and tax incentives to companies willing to invest. Serbia has a long history of international commerce, even under communism, and it once attracted a sizeable foreign company presence, mainly due to its access to market of the Council for Mutual Economic Assistance (*Совет экономической взаимопомощи* – СЭВ), and Non-Aligned Movement market. In the previous period, Serbia has seen an increasingly swift foreign direct investment trend, including auto industry (Fiat), metal processing (US Steel), building materials (Lafarge), food and beverages (Carlsberg, Coca Cola, and Nestle), textiles (Golden Lady, Pompea), leather (Progetti Company, Falc East), and ICT (Microsoft and Siemens). By countries, most cash investments in the 2000–2012 period came from Italy (\$2.69 billion), Austria (\$2.65 billion), Norway (\$2.16 billion), Belgium (\$2.00 billion) and Greece (\$1.66 billion) while other major investor countries also include the United States, Russia, and Germany. The actual amount of investments from countries such as the United States and Israel is significantly higher than the official figure due to their companies investing primarily through European affiliates. In a recent poll for investors, conducted by the German Chamber of Commerce, Serbia came on top as an investment destination

in Southeastern Europe, with 97% of companies being pleased with business conditions. Many world-renowned companies have recognized Serbia's potential and decided to locate operations in Serbia. For some of them, Serbia serves as a manufacturing hub that enables duty-free exports to a market of almost 1 billion people. Others are attracted by Serbia's adept level of English language proficiency, highly skilled and easily trained workforce and generous tax and environment incentives. Regardless of the reason for their initial interest, businesses that decide to set up operations or conduct trade in Serbia encounter a reliable and dynamic country that affords them a much greater opportunity for proprietary and portfolio investments than they initially perceived.

6. CHINESE INVESTMENTS IN SERBIA AND THE "NEW SILK ROAD"

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 its 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. Cooperation between China and Serbia takes place at the bilateral level in the framework of the strategic partnership concluded in 2009. The two countries cooperate also on the multilateral level within the mechanism 16+1. Taking into account the complementarities of these forms of cooperation, it could be reasonably concluded that the Chinese investments in the Serbian economy can contribute to the achievement of common interest through the implementation of the development strategy of the “New Silk Road”. This is best reflected in the rise of Chinese investments in Serbia in the last decade. According to the National Bank of Serbia data, in the period from 2005 to 2013, total net inflows in money from China amounted to 20 million euros. On the list of countries from which Serbia imported goods, China was in fourth place. In total export of Serbia in 2015, China has participated in 0.1% and in total imports 7.3%. Despite this asymmetry arising from the real economic dominance of China, the two countries have a clear will to improve their economic and trade relations. In this sense, China and Serbia back in 2010 concluded an agreement on the construction of the bridge over the Danube River in Belgrade. The bridge, which was named after the great Serbian scientist Mihajlo Pupin, meanwhile, was built and opened in the presence of the highest state officials of both countries in December 2014 during the China-CEEC summit 16 + 1 in Belgrade. Worth of circa \$260 million, the bridge on the Danube River was built by the Chinese state company *China Road and Bridge Corporation*. Financial support gave the Export Import Bank of China. This project followed the Chinese investment in the Serbian energy sector. The investment relates to the revitalization of Kostolac-B Power Plant with a value of \$293 million. This project is funded by China on the basis of state-to-state loan under preferential conditions. Realizing that investment, the two sides concluded a series of agreements on the promotion of cooperation in the field of infrastructure, transportation, energy, finance, telecommunications, agriculture and cultural exchanges. It is important to be noted that the *Chinese Exim Bank* had approved to Serbia the new loan of \$608 million to build a new thermal block Kostolac B3 of 350 megawatts. The total value of the second phase of revitalization of Kostolac Power Plant is EUR 715.6

million. The necessary additional funding will provide Serbia and its public company EPS. The new thermal bloc will be built in 58 months and it is expected that the works will be completed by the end of 2019. The revitalization of the Kostolac included the Chinese company *China Machinery Engineering Corporation*. Also, among the other important agreements achieved at that time was one on the construction of the Belgrade-Budapest High-Speed Railway (HSR). The project was first endorsed in November 2013 in Bucharest, following the meeting between Prime Ministers of Serbia, China and Hungary (Ivica Dačić, Li Keqiang, Viktor Orban), on the sidelines of the China-CEEC Summit. A year after, in December 2014, Memorandum of Understanding on cooperation in the project the Hungarian-Serbian railway between Serbia, Hungary and China was signed, on the sidelines of the China-CEEC Summit in Belgrade in the presence of Prime Ministers of Serbia - Aleksandar Vučić, China - Li Keqiang, Hungary - Victor Orban and Macedonia - Nicola Gruevski. On this occasion, the Framework Agreement on Joint Cooperation in Facilitating the Customs Cooperation between Serbia, China, Hungary and Macedonia was also signed, and four parties undertook to intensify customs cooperation, and to simplify customs procedures. Prime ministers of four countries unanimously agreed to jointly work on building Land-Sea Express Passage linking China and Europe. All this should lead to setting up unified railway-transport and customs system that would connect the port of Piraeus, through Macedonia with Serbia and Hungary and the rest of Europe, transporting the goods from China to Central Europe and *vice versa*. Premier Li Keqiang said at the time that railway project will contribute not only to development and connecting countries in the region, but also to the further strengthening cooperation between China and the European Union.¹³ The total project cost is estimated at circa EUR 2.5 billion. The total value of shares through Serbia is estimated to circa EUR 400 million. In addition to these agreements, the two sides agreed that the Chinese

¹³ Mr. Li stated that: “China supports the European integration process”, “China’s cooperation with the 16 CEECs will not result in fragmenting the European Union”, and that “China-CEEC cooperation is undoubtedly part and parcel of China-Europe cooperation”. Li also expressed his hope that the 16+1 grouping’s development goals will be aligned with the China-EU 2020 Strategic Agenda for Cooperation (Pavličević, 2014).

company Golwind will undertake to supply Serbia with wind turbines; the state Chinese company Sinohydro will undertake an obligation to build a ring road around Belgrade to bypass Belgrade and Vinča; also, the Chinese company *Shandong Hi-speed Group* will undertake an obligation on the construction of the Corridor 11, the section from Obrenovac to Ub and from Lajkovac to Ljig, total length of 50.2 kilometres; the Chinese company *Sinohydro* planned to construct industrial zone for Chinese companies; the company *Huawei* has expressed a desire to donate information and communication laboratory to the Electrical and Engineering Faculty in Belgrade based on the latest 4G technology. As well as, an agreement was signed for the establishment of air traffic between Serbia and China and the first step could be a “code-share” or the establishment of joint flights of Serbian company *Air Serbia* and Chinese company *Air China* to Beijing and Shanghai. Serbia and China also signed an agreement on economic-technical cooperation and on financial cooperation by which China Development Bank will be involved in financing many development projects. Among other things, China has donated EUR 4.5 million to Serbia for stabilization of its budget (Pavličević, 2015a, p. 11). At the Fourth China-CEEC summit in Suzhou, in November 2015, Serbia became a leader among CEEC in implementing joint infrastructure and energy projects with China. In Suzhou, China and CEEC supported Serbia's efforts to establish a China-CEEC association for transport infrastructure and cooperation in Belgrade. Bearing in mind Serbia's geographical location, traffic and energy connections with the region and beyond, the heads of government of China and CEEC concluded that Serbia could be an important link along the Silk Road, Economic Belt. Therefore, the parties gave support for the construction of industrial parks along the Danube. At the same time, Serbian and Hungarian sides signed with Chinese partners, general agreements for modernization and construction of sections of Belgrade-Budapest railway in their territories. The launching ceremony of modernization and upgrading of Serbia-Hungary railway line in the territory of Serbia was held in Novi Sad, in late December 2015. First construction works are scheduled for 2016 with the expected completion by the end of 2018. The section through Serbia (Belgrade-Novı Sad-Subotica - border with Hungary) has a length of 188 kilometres. Railway project will serve as an important impetus for economic development of Serbia, Hungary and other countries in the region. The importance of this

project for Serbia is also echoed by Prime Minister Vučić's remarks that the Belgrade-Budapest railway would contribute to the realization of the transport networks, as well as to the movement of people and goods, which would hitherto encourage the creation of logistics routes and distribution centres, and long-term access to new markets.¹⁴ The latest Chinese investment in the acquisition of Serbian companies in Smederevo Iron Works Ltd., speaks in favour of the growth of Chinese investments in Serbia (Yang, Zhang, 2016). The importance of this investment of EUR 46 million is expressed through the reduction of the deficit of Serbian foreign trade balance with China, as well as the increase in GDP for 1%. Also, this investment affects employment growth and living standards. Overall, the investment increases industrial activity and capacity of the Serbian economy. In this way, further incentives Chinese investments in Serbia would represent the mutual benefit because they promote the mutual economic cooperation, raises the level of political relations and improves the cultural, scientific and technological exchanges and cooperation, and thus create the preconditions for the realization of long-term development strategy of the "New Silk Road" as a pledge for a common future.

7. POSSIBLE BENEFITS FROM THE FUTURE CHINESE INVESTMENTS IN SERBIA

The anticipated presence of the Chinese companies in Serbia is a new chance for growth of Serbia's economy, as well as for the improvement of Serbia's industrial production capacity and living standard. Although the industrial investment is currently limited to certain industrial sectors, such as transport infrastructure, energy and steel production, the relative proximity of Serbia to the Western Europe and its status of the candidate

¹⁴ In the previous period, the Serbia Government has been actively working on keeping the cost of the Serbian section of Belgrade-Budapest railway down, even below EUR 400 million. This represent a significant reduction from the originally announced priject budget of over EUR 850 million. Instead of making a new loan arrangement with China, Serbia is interested in financing the project through its own budgetary means or with the help of a previously agreed loan with Russa (Pavličević, 2015b).

for accession to the EU, affects a better business environment. In these circumstances, the Serbian cooperation with China presents a great development opportunity, and also a good evidence of the successful conduct of foreign policy, which promotes cooperation on the global level and contributing to a “constructive meeting of East and West”. However, if Serbia aspires to increase its influence and importance in the international relations on the basis of cooperation with China, its business with China must be based on improving industrial capacity through various types of investments in industry and infrastructure. In this sense, Serbia will have to successively involve in international production by means of the so-called *global value chains* that are derived not only from the ownership forms of foreign investment, but also from non-equity investments (Kozomara, 2014, p. 109). In this way, Serbian companies could participate proportionally in exports through global value chains whose holders are Chinese companies, which would in perspective led to economic growth and development of economic relations. Of course, the efficient and profitable China’s investment activity in Serbia cannot stand any uncertainty. The basic precondition for China as a capital exporting country to be willing to invest in Serbia as a host country is the security of its investments. In this regard, it is important that Serbia has adopted a new law on investments in 2015, which guarantees the equal legal status of domestic and foreign investors. Regardless of the form of foreign investments (purchase of shares; stakes in already existing companies; establishment of a new company, concessions, B.O.T. arrangements, etc.), Serbian law guarantees freedom of investment, national treatment, legal certainty and the ability to transfer profits abroad. These guarantees for foreign investors were created during the multi-year business and financial reform legislation, which led to improving investment climate needed to attract foreign investments. The analysis of the potential benefits of future Chinese investments in Serbia includes, in addition to the above questions, examination of comparative advantages that Serbia has, and that can contribute to improving the structure and volume of Chinese direct investment. A list of these indicators includes, among others, the following advantages: 1) a clear foreign policy goal - joining the EU and the World Trade Organization; 2) relative macroeconomic stability; 3) highly qualified and cheap labour; 4) regionally competitive financial risk; 5) restructured and privatized banking sector; 6) accelerated development of the capital market; 7) contribution to the

development of telecommunications infrastructure; 8) liberalized system of tariffs; 9) accelerated development of the private sector; 10) significant level of achieved stimulating fiscal, regulatory and financial measures; 11) adoption of Strategy for encouraging and developing Foreign Investment; 12) “more or less” harmonized legal framework for foreign investment with European and international standards.

A significant proximity of European markets and the soon-expected improvement of transport infrastructure,¹⁵ also can represent a comparative advantage for future Chinese investment in Serbia in particular in the field of agrar (especially meat processing) (Večernje Novosti, 2015), car industry (in particular lorries and spare parts), telecommunication (Blic, 2014), machine, chemical and textile industries. Since the development of the Serbian economy is conditioned primarily with the so-called *greenfield investments* (which, unlike the takeover and acquisitions involve the establishment of new businesses and employment of the labour force), announced construction of industrial parks and duty free export zones on the Danube River by Chinese enterprises are greatly encouraged since it would lead to an economic growth, as well as to the improvement of business and technology base in Serbia (Pavličević, 2015a). Given that macroeconomic imbalance in Serbia affects the dynamics and structure of investment inflows, especially of *greenfield investments*, branch structure of Serbian exports will tend to be transformed in accordance with the structure of accumulated foreign direct investment. Therefore, encouraging new Chinese *greenfield investment* (including takeovers and acquisitions that in the long term can contribute to the rescue of heavily indebted companies), can contribute to the gradual re-industrialization of the Serbian economy, and thus the harmonization of mutual economic interests that would be a common pledge for the future of the “New Silk Road” development strategy.

¹⁵ In March 2016, the representatives of Chinese company AVIC expressed the interest in for the privatization of state-owned companies and to participate in infrastructural projects, especially in the investment of the Belgrade Airport „Nikola Tesla“. Representatives of AVIC emphasized the possibility of establishing a representative office in Serbia and investing in smaller local airports in our country.

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