

# One Belt One Road—an Opportunity for Development in the Western Balkans

*Below is the presentation of Jasminka Simić, Ph.D.,<sup>1</sup> to the Nov. 25-26 Schiller Institute Conference, “Fulfilling the Dream of Mankind.” This is an edited transcript of her presentation.*

Thank you Mr. Chairmen, Jacques Cheminade, also for your memory on the glorious and deep French-Serbian friendship!

Dear colleagues, I would like to express my deep gratefulness to the Schiller Institute, especially Mrs. Helga Zepp-LaRouche and Mr. Lyndon LaRouche, and also Mrs. Elke Fimen, for inviting me to this conference which has



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gathered together distinguished experts to discuss the global world situation and the role of China's One Belt, One Road project in this process. Also, I will emphasize that my late husband Prof. Dr. Predrag Simić, professor of the Faculty of political Science at the University of Belgrade, was an eminent Balkan expert and European sinologist who maintained contact with the Schiller Institute and Mr. Dean Andromidas.

Serbia is a part of Southeast Europe, the Western Balkans region, which also includes Montenegro, the Republic of Macedonia, Bosnia and Herzegovina, and Albania. All of the countries are on the euro-integration or euro-Atlantic path; at the same time, they have a more than 60-year long history of relations with the People's Republic of China. The strategy of

the mega project One Belt, One Road (renewed old Silk Road) and economic cooperation between China and the countries of Southeast Europe on the platform of the “1+16” policy have a short-term and a long-term challenge. In the short term, growing trade and investments from China are welcomed to mitigate the consequences of the economic crisis and to stabilize Southeast European economies. In the long term, China’s interest in investment in transport infrastructure in Southeast Europe might add to and compensate for structural investments from the EU, via its Instrument for Pre-Accession Assistance (IPA) which have diminished since the emergence of the eurozone crisis.

### **The Origins of the Partnership Between Southeast Europe and China**

I would remind you that the history of relations between China and the countries of Southeast Europe which have gone through three stages:<sup>2</sup>

1. The first stage lasted from the forming of the People’s Republic of China, 1949, until the second half of the 1970s when China established diplomatic relations and developed economic ties, but the overall relationship was ideologically driven and shaped by the framework of the Cold War and the Sino-Soviet dispute.

2. The second stage lasted from the 1970s until the 1990s, with normalization of relations (as a consequence of the Sino-Soviet dispute), first with Romania and Yugoslavia, followed by other countries in the region, as part of China’s policy of “Four modernizations” and its opening up to the world. It was during the 1972-73 period when China signed air traffic agreements with Romania, Yugoslavia, and Albania, opening a trans-continental southern air route linking Beijing, Belgrade, Bucharest, and Tirana. While China’s relations with the countries of Southeast Europe throughout this period were politically driven, after the fall of the Berlin Wall and the end of the Cold War, economic interests gradually moved to the fore. Numerous Chinese immigrants arrived in this region in the 1990s and opened their small and medium-sized businesses. In the mid-1990s some Southeast European countries made modest investments in China but these attempts ended in failure.

3. The third stage began in 2000 when the Chinese

2. See: Predrag Simić, *Odnosi NR Kine i Jugoistočne Evrope: Kontinuitet i promena*, Zbornik radova povodom 40 godina sinologije “Biseri sa zrnima pirinca 1974-2014,” Filološki fakultet u Beogradu, Beograd, 2015.

economic presence in Southeast Europe was growing with the arrival of large Chinese investments. The most important thing for this region was China’s decision to rent the Greek port of Piraeus as the main entry point for China’s goods into Europe, emphasizing the new perspectives that came with the mega project “One Belt, One Road.”

After having opened the doors of the European Union at the European summits in Zagreb (2000) and Thessaloniki (2003) to all the countries of the Western Balkans, political stability enabled these countries to start the process of transition to market economies, multiparty democracy and the rule of law. In such circumstances, foreign investments began to arrive in the region, and Southeast Europe recorded higher rates of economic growth in the period from 2000 to 2008. The global economic crisis, primarily the eurozone crisis, has hit these countries. The first wave of the eurozone crisis was 2009-2011, but the second wave of the eurozone crisis that began in Greece in 2011 spilled over to all these countries, except Turkey (part of Southeast Europe) and hit the region hard. The entire region saw a decline of growth rates, negative economic growth, and high unemployment rate, while EU austerity measures significantly reduced European investment in the region.

In that period, China became one of the ten largest trading partners for all the countries of Eastern and Southeast Europe.<sup>3</sup> The value of trade between China and Southeast European countries increased from \$3 billion in 2000 to \$53 billion in 2013 and, according to Chinese estimates, by 2018 its value will again double. “Unlike the 1990s, when China’s activities were based on small and medium-sized companies of Chinese immigrants, in the last 17 years some big Chinese investors started to come to the region. They strongly influenced development of the region’s infrastructure and production capacity.”<sup>4</sup> China’s new approach to Central

3. China was focused on so-called green-field investments in Central and Eastern Europe. The largest Chinese city in the Balkans was opened in Afumati (2011), near Bucharest, where there were approximately 1,240 shops spreading over 40 acres. The “Chinese Dragon Trade Centre” in Belgrade and the “Chinese Centre” in Zagreb were open in 2010. Loïc Poulain, *China’s New Balkan Strategy*, August 2011. Centre for Strategic & International Studies, Central European Watch. Volume 1, Number 2.

4. See: Predrag Simić, *Odnosi NR Kine i Jugoistočne Evrope: Kontinuitet i promena*, Zbornik radova povodom 40 godina sinologije “Biseri sa zrnima pirinca 1974-2014,” str. 18., Filološki fakultet u Beogradu, Beograd, 2015.



Xinhua/Predrag Milosavljevic

*Pupin Bridge in Belgrade, Serbia, constructed by China Road and Bridge Corporation (CRBC), was China's first big infrastructure investment on the European continent.*

and Eastern Europe was announced in the speech of former China Prime Minister Wen Jiabao in Warsaw in 2012. He presented China's "12 Measures for Promoting Friendly Cooperation with Central and Eastern European Countries." This document contains a series of short- and medium-term measures to improve China's economic relations with the 16 countries of the region, that include a \$10 billion credit line. The aim is to quickly dispatch China's trade and investment missions to Europe in order to boost the trade and inject new investments into the region. It became known as "1+16" policy—China and 16 countries of Central and Eastern Europe, as a part of China's global project "One Belt, One Road" or "New Silk Road." This is China's vision of forming a mutually-dependent economic and political community, that would stretch from East Asia to West Europe, just like the Old Silk Road established some 2,000 years ago, during the Han dynasty, enabling goods and information to be moved towards the rest of the world, i.e. to the West.

In addition to the economic front, China's initiative includes cooperation in other areas: cultural cooperation, closer educational relations by providing scholarships including Chinese language courses, and tourism through cooperation between the China Tourism Administration and similar institutions in Europe, to increase the number of Chinese tourists in the region in the framework of the "people-to-people" policy. The Faculty of Philology at the University of Belgrade enrolls up to 35 students per year. Adding the post-graduate students to that amounts to a total of 350. Serbia has become increasingly attractive for Chinese tourists. In 2016, 18,409 Chinese tourists arrived in Serbia, while the number of overnight stays totaled 42,986. Similar

data are also valid for the region of Southeast Europe. For example, the number of Chinese tourists visiting Greece was 12,203 in 2012, and in 2013 that number more than doubled to 28,328.

As part of this development thrust in the region, China announced new investments in transport infrastructure in Southeast Europe, including the modernization of the railway between Belgrade and Budapest, and a highway through Montenegro from the Serbian border to the port of Bar on the Adriatic. In Macedonia, Chinese companies have been building the highway between the capital Skopje and the major tourist resort at Lake Ohrid. Before that, in 2009, the Chinese company, Dongfeng, struck an agreement with Serbian truck maker FAP to assemble vehicles in Serbia; in Bulgaria—a part of Southeast Europe—Chinese Great Wall Motor opened a car factory.

Further steps towards better and deeper cooperation were provided by the summits of the Prime Ministers of China and the 16 countries of Central and Eastern Europe, which was held in November 2013 in Bucharest, and next in December 2014 in Belgrade. The following summits were in China (2015) and Latvia (2016), and the present one which is now underway in Budapest (2017).

### **Present Day Serbia-Western Balkans-China**

Serbia and China signed an important strategic partnership agreement in August 2009, which consisted of a wide array of subjects, including the mutual respect of territorial integrity, plans for trade development as well as cultural, technological, and scientific exchanges.<sup>5</sup>

5. Statistical Office of the Republic of Serbia, Dissemination and

Serbia's exports to China are mainly machinery, plastics, and wood products, and in 2016 its value amounted to \$25.3 million, while imports from China amounted to more than \$1.6 billion, mostly high technology products.<sup>6</sup> According to present plans, the trade volume between the two countries will soon reach about \$3 billion. China is increasingly interested in importing organic food, agricultural tourism, and scientific innovation, while it will continue to develop industry, information technology, and small- and medium-sized enterprises.

Serbia was among the first countries to be given a \$10 billion credit line. The first investment was for the construction of the Mihailo Pupin bridge in Belgrade (Borča-Zemun), built by the China Roads and Bridges Corporation (CRBC). China is building a two-section segment of the corridor 11 highway, Horgoš to Požega, which leads from the north to the west of the country. China's Export Import Bank is financing the construction of the third block of the thermal power plant Kostolac B and the reconstruction of the thermal power plant Nikola Tesla, near Belgrade. China also is ready to finance the modernization and reconstruction of the Belgrade-Budapest railway. Serbia has begun construction work on the section of this railway from Novi Sad to the Hungarian border. The new high-speed train between Belgrade and Budapest will be a future China-Serbia joint project.

China's Hesteel steel company bought Serbian Železara steelmill in Smederevo, for 46 million euros in 2016. The Bank of China opened its branch in Serbia in January 2017, becoming China's first bank to start operations in the country, with operations extending over the entire Western Balkan region. The Bank of China will make further contributions to China's Belt and Road Initiative through its financial services in the region. The flight from Belgrade to Beijing reopened in September.

For Southeast Europe, where Serbia is located, the most important initiative is the Chinese 21st Century Maritime Silk Road project, with its starting point at the Greek port of Piraeus. China's largest shipping com-



Xinhua/Ju Peng

*Zhang Dejiang, chairman of the Standing Committee of China's National People's Congress (NPC), visits a steel mill during his official friendly visit to Serbia, July 17, 2017.*

pany, COSCO, in 2008 signed a 35-year concession agreement with the seaport of Piraeus, and bought a 67% interest in the port. COSCO is also among the bidders to rent the port of Thessaloniki in northern Greece, a major transport hub on the Balkan Peninsula. China is interested in building a port on the Danube in Belgrade, a confirmation that this river is both the water corridor and geostrategic framework of political and economic cooperation between China and Europe. Serbia and China have signed a Memorandum of Cooperation on this project. It will include the harbor and the dock. The Danube is the best way to connect this part of Southeast Europe, passing through Bulgaria to the Black Sea, to continue through to Turkey, and to the Middle East by rail. Serbia is a milestone of the New Silk Road, as Chinese President Xi Jinping said during his visit to Belgrade 2016.

### **EU References to the Cooperation Between China and Southeast Europe**

The distance between Beijing and Belgrade is about 7,400 kilometers, but during the last few decades, despite that distance, the situation in the Balkans was more visible to China than to the European capitals. Chinese investments in Southeast Europe bring a financial incentive which is especially important in the period of economic crisis, and the present crisis in the Eurozone, in particular. Serbia, Bulgaria, Romania, Montenegro, the Republic of Macedonia, and other

Public Relations Division, Available from: <http://www.pks.rs/MSaradnja.aspx?id=73&p=1&pp=2> &, 22 November 2017.

6. Statistical Office of the Republic of Serbia, Dissemination and Public Relations Division, Available from: <http://www.pks.rs/MSaradnja.aspx?id=73&p=1&pp=2> &, 22 November 2017.



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*Serbian Prime Minister Ana Brnabic attends the launch of work on the first part of a 34.5-km stretch between Belgrade and Stara-Pazova in Serbia, to be carried out by China Railway International.*

countries, recorded a growth of trade with China, and in Chinese investments in 2013. On the other hand, the EU and the U.S.A. think that Chinese investment can help to stabilize the economies of Southeast Europe, but they also fear that in the future it could create new divisions within the EU, undermining its Common Foreign and Security Policy (CFSP). This apprehensive thesis is supported by the fact that China's investments in South and Southeast Europe in recent years have been growing faster than investments in other parts of Europe, although their level is still modest compared with investments in Western Europe. China has emphasized that the cooperation with the countries of Central and Eastern Europe on the 1+16 policy platform is in accordance with the China-EU comprehensive strategic partnership, and expresses readiness to continue cooperation based on mutual respect.

The European Union has been investigating the high speed rail project that is part of China's One Belt One Road project to connect Serbia's capital, Belgrade, with Budapest, Hungary. The EU is assessing the financial viability of the \$2.89 billion railway project, and is investigating whether the project violates EU procurement laws that require public tenders for large transport projects. An EU observation addressed to Hungary, charging that this project has not been carried out in accordance with EU rules because there was no tender, because EU rules demand that China as a partner can not be both the creditor and the contractor. Hungary, as

the EU member state, is subject to the full rigour of European procurement law, while Serbia, as a candidate state is subjected to looser rules. Upgrading the 350 kilometer Budapest-Belgrade railway into a high-speed rail link is expected to shorten travel time between the two capitals from eight hours to three.

The president of the European Commission, Jean-Claude Juncker announced the EU plan, in his State of the Union speech to the European Parliament in September 2017. The EU plan will screen investments of all foreign takeovers in the EU in sensitive industrial sectors. This act is being observed in China as possible political pressure from Europe against China. President Juncker was

supported by French president Emmanuel Macron, who announced that he intended, in cooperation with Germany, to take a concession in the port of Thessaloniki, Greece, instead of China.

### Conclusion and Recommendations

Cooperation with China is especially important for EU-member countries in Southeast Europe and non-EU countries in the region of Western Balkans. China's infrastructure projects can boost better regional economic cooperation, and the process of euro-integration of the region. The main problem in the Western Balkans is their lack of infrastructure (i.e. lack of direct airlines, inadequate road and railway networks) which minimizes the concept of regional cooperation and creates a fear, that the region will remain just a location on the map, which will never be transformed by concrete solutions.

The main problem for future cooperation of the Sino-Western Balkan countries, is to create a mechanism for harmonizing Chinese investments in the region with the eurointegration process of these countries. As candidates for EU membership, these countries have to harmonize their policies, especially foreign policy, with the EU and its Common Foreign and Security Policy (CFSP). Their relations with China should follow the EU policy towards China. That will be the main challenge for the implementation of the One Belt One Road project in the future. As for Serbia, the same goes for its

cooperation with Russia, especially because of its refusal to impose economic sanctions on Russia, as the EU and U.S.A. did in 2014. But, Serbia and the Western Balkan countries have a chance to capitalise on their position in the New Silk Road in order to develop their economies.

Since I'm a scholar and journalist, I would like to emphasize that the media in the countries along the Belt and Road should support and encourage any kind of cooperation which can lead towards a better economy and life, both with the EU and with China.

Thank you for your attention!