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# **The Sino-Serbian Strategic Partnership in a Sino-EU Relationship Context**

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The China Policy Institute, part of the School of Contemporary Chinese Studies at The University of Nottingham, was set up to analyse critical policy challenges faced by China in its rapid development. Its goals are to help expand the knowledge and understanding of contemporary China in Britain, Europe and worldwide, to help build a more informed dialogue between China and the UK and Europe, and to contribute to government and business strategies.

## Executive Summary

1. The Chinese and Serbian governments officially established a "Strategic Partnership" in 2009. It is comprehensive and fast developing – especially in domains of political, economic, cultural and military cooperation.
2. For China, this partnership facilitates the broad strategies of going-abroad (*zouchuqu*), deepening economic engagement with the world and securing political support.
3. Yet the significance of this partnership can still be best understood in the context of Sino-EU relations, where it addresses some of the problem areas as seen by Beijing.
4. These include human-rights discourse, arms embargo, Market Economy Status and the issue of China's image. A partnership with Serbia can help Beijing balance the leverage Brussels gains when it invokes these issues.
5. Furthermore, the variety of soft- and hard-power tools create a relationship that allows China to exert a high level of influence on the Serbian Government – often in sharp divergence to EU policies.
6. The Serbian government adopted a state policy not to join any initiatives criticizing China in international forums and effectively boycotted the Nobel Peace Prize Award Ceremony in 2010.
7. Since 2008, Serbia has also refused to join EU initiatives criticizing the state of human rights in a number of countries, fully reflecting China's stance and dramatically digressing from the EU's values and norms.
8. Substantial military cooperation is geared towards co-production of arms and joint exploration of world markets. It could undermine the EU's arms embargo, opening alternative routes for China to seek advanced weaponry.
9. China's enterprises not only compete in local markets, but also build manufacturing bases in Serbia, allowing them to circumvent anti-dumping regulations and export their products directly to the EU. Serbia also serves as a "training ground" for gaining the maturity and sophistication necessary to enter the EU market.
10. Initiatives in culture, education and science create a rather positive image of China. This is further enhanced in the economic realm, where China's state loans and SOEs deliver high-profile projects and Chinese enterprises forge partnerships with domestic companies.

11. China has increasing capability to promote its interests, make alliances and project its power in far-away corners of the world, even to the shores of Europe. By fostering strong relationships with countries expected to join EU, Beijing may be increasingly capable of influencing Brussels' policymaking.
  
12. Competition and conflicting interests are increasingly significant elements in a complex Sino-EU relationship. To minimize their potential to disturb the relationship, China and the EU should not only deepen mutual investment and trade, but develop effective mechanisms for consultation and coordination.

# **The Sino-Serbian Strategic Partnership in a Sino-EU Relationship Context**

Dragan Pavličević\*

## **China Engaging EU's Frontier States**

- 1.1 Sino-EU relationship now faces important challenges. Against the background of flourishing economic cooperation and trade, accusations of dumping and related proceedings against Chinese products, reflecting the larger issue of the EU not extending Market Economy Status (MES) to China, have been recurrent. Tension exists on a number of other issues, such as arms embargo, climate change, intellectual property rights, and democracy and human rights. Regarding China's image in the EU, negative perceptions of China's political practice home and abroad, her environmental record and "Made in China" brand, increase the psychological and cultural distance already existing.
- 1.2 In this context a new front of engagement has been carved onto the frontiers of the EU. China has recently intensified bilateral exchange with a number of countries that historically and geographically belong to the EU's sphere of influence and are furthermore expected to join the Union within the current decade.
- 1.3 Its recently-found strategic partnership with Serbia is the best example. The model of engagement bears much resemblance to the pattern of interaction that China developed with African countries. State-to-state soft loans and comprehensive development of relationships with African countries led to significant strategic gains for Beijing through access to natural resources, markets and political support. China's engagements with Southern European countries such as Greece and Portugal, can also be partly viewed in this light.
- 1.4 Relations between China and Serbia have developed continuously since 1 October 1949, when the then Federative People's Republic of Yugoslavia, legal precedent of today's Republic of Serbia, recognized PR China as an independent state. Diplomatic relations were formally established on 2 January 1955 and have been framed in friendly terms ever since. They were

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maintained consistently even through the former Yugoslavia's period of international condemnation and isolation during the Balkan wars in the early 90's, and even through NATO's military campaign against Serbia in 1999.

- 1.5 At the time of writing, over 50 bilateral agreements are in force. Since 2005, the sides have arranged over 30 high-level official visits, with Serbia's top political echelon, including president, premier, and foreign, defence and finance ministers among others, making repeated visits to China. Some of the highest ranking officials in China, such as the NPC Standing Committee chairman and foreign and defence ministers have made official visits to Serbia.
- 1.6 This trend has been captured by the elevation of mutual relationship to the level of strategic partnership by a Joint Statement signed by Presidents Tadic and Hu during the former's visit to Beijing in August 2009. The document expressed commitment to each another's basic national goals. Serbia reaffirmed its commitment to the one China policy and opposition to "Taiwan independence". China reaffirmed its respect for the sovereignty and territorial integrity of Serbia and fully upheld the official Serbian stance on the secession of Kosovo from Serbia. China also expressed "understanding of Serbian efforts to integrate into the European family", which corresponds to the second strategic goal of the Serbian government.<sup>1</sup>
- 1.7 The Joint Statement called for comprehensive development of bilateral ties. China's President Hu elaborated the following day by putting forward a four-point proposal on developing the Sino-Serbian strategic relationship.
- 1.8 Point 1: have more political exchanges, including high-level exchanges, inter-governmental, inter-parliamentary and inter-party exchanges and cooperation. Point 2: enlarge economic and trade exchanges, especially in infrastructure, petrochemicals, energy and high-technology and mutual investment.
- 1.9 Point 3: enhance human exchanges. Both sides should expand cooperation in culture, education, health, sports, science, technology and tourism, and encourage youth groups, non-governmental groups and local governments to carry out exchange activities. Point 4: strengthen multilateral cooperation. The two countries should maintain consultations in the United Nations and

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<sup>1</sup> *Joint Statement Between Republic of Serbia and People's Republic of China on Establishing Strategic Partnership*, Website of the Embassy of Republic of Serbia in Beijing, <http://www.embserbia.cn/en/news.asp?id=9> (20.08.2009)

multilateral organizations, exchange views and coordinate positions on major international and regional issues and promote dialogue and exchanges between different civilizations in order to ensure world peace and common development.<sup>2</sup>

- 1.10 The substantial shift in Belgrade's foreign policy has been captured in the innovative "four pillars of diplomacy" doctrine that President Tadic defined shortly after the establishment of the strategic relationship with China. To accommodate the strategic partnership and reflect China's importance for Serbia, Beijing was placed on the list already containing Brussels, Moscow and Washington as the major international places of reference for Serbia. On the other hand, strategic partnership meant that Serbia has become China's only strategic partner in Southeast Europe.
- 1.11 The intense diplomatic exchange has been immediately followed by business forums in both China and Serbia. On these occasions, high-level officials and national business heavyweights from both sides participated and explored the possibilities for cooperation. Almost immediately, this resulted in expansion of trade and a rising flow of Chinese state capital into Serbia, especially in infrastructure and energy sector projects.

### **Trade and Investment**

- 2.1 Belgrade promoted Serbia as a friendly environment for Chinese investment and highlighted access to a free-trade area of 800 million people for Chinese companies operating from Serbia, courtesy of free-trade agreements Serbia has in force with EU, CEFTA and EFTA countries as well as Russia and Turkey. This has fitted well with China's strategy of "going-abroad" (*zouchuqu*) and her goal to deepen economic exchange with the world. The possibility of EU markets being open for Chinese goods has much attraction to a country that feels discriminated against by not being granted MES.
- 2.2 Immediately following the elevation of the bilateral relationship to one of strategic partnership, China and Serbia agreed construction of the Serbian-Chinese Friendship Bridge, hailed by incumbent Serbian President Tadic as "a new model of infrastructure development in Serbia".<sup>3</sup> The bridge,

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<sup>2</sup> *China, Serbia Forge Strategic Partnership*, Xinhua.

[http://news.xinhuanet.com/english/2009-08/20/content\\_11918374.htm](http://news.xinhuanet.com/english/2009-08/20/content_11918374.htm) (20.08.2009)

<sup>3</sup> *Most prijateljstva – novi model infrastrukturnih radova u Srbiji*, Website of the Democratic Party, [http://www.ds.org.rs/index.php?option=com\\_content&view=article&id=9574:2010-07-14-16-22-17&catid=16&Itemid=431](http://www.ds.org.rs/index.php?option=com_content&view=article&id=9574:2010-07-14-16-22-17&catid=16&Itemid=431) (14.07.2010)

worth EUR 170 million, has been a flagship project for the current Serbian administration. The majority of the project (EUR 145.5 million), is financed by a loan from China's Exim bank "on friendly terms".<sup>4</sup> The project is delivered by China's SOE heavyweight China Road and Bridge Corporation (CRBC), while participation of Serbian companies is contractually set to 45% of the value of the project. Significantly, it is the first project of this kind in Europe for the company that already has a strong presence in Asian and African markets.

- 2.3 One of the most successful examples of this intensifying economic relationship is provided by Sino-Serbian cooperation in the energy sector. The leading project is the upgrading of the thermal power station Kostolac, contracted to China Machinery & Equipment Import & Export Corporation (CMEC). The value of the project is set at USD 1.25 billion, out of which 85% will be financed by "soft-loan" from China's Exim bank.<sup>5</sup>
- 2.4 China's state-owned auto-giant Dongfeng is also developing its operations in Serbia amid expectancy that its products would be 30% cheaper than if produced in other parts of Europe. The cooperation with Serbian SOE manufacturer FAP started in 2010 with the assembly of Dongfeng trucks for the Serbian market, while 2011 should proceed with expansion and localization of production. Over 50% of components will be sourced locally. This will in turn enable Dongfeng to benefit from FTAs Serbia has signed with the EU and other countries. Models of acquisition and merger are reportedly discussed.
- 2.5 YTO, another state-owned enterprise that is China's biggest producer of tractors and farm machinery, has been using Serbia as its European base. YTO has been manufacturing tractors in Serbia since 2010 for the local market whilst using the duty-free industrial zone in northern Serbia as an inventory warehouse for deliveries to markets in southern and central Europe. Furthermore, the YTO products with high local content (over 50% of components) and engines matching EU's environmental standards are planned for export to European market in 2011.
- 2.6 It is worth noting that China's leading companies in information technology, Huawei and ZTE, have also already established a firm presence in the Serbian market. They participate in the upgrading and maintenance of the Serbian nationwide communications network and all its associated technology on a

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<sup>4</sup> All loans provided by Chinese banks include a grace period of several years (3 to 5 years) and low interest rates (3% and less).

<sup>5</sup> Pre-contract on the Implementation of Project Package Kostolac-B Power Plant Projects, [http://www.eps.rs/novosti/20100203\\_CMEC\\_TEKO%20Kostolac\\_EPS.pdf](http://www.eps.rs/novosti/20100203_CMEC_TEKO%20Kostolac_EPS.pdf)

permanent basis and also place their consumer products on the local market. Communication and high-tech equipment are leading items on Serbia's shopping list for China. Here as well, state loans facilitate the business. Exim bank provided the Serbian government with US 30 million for purchasing airport security technology from Beijing-based high-tech SOE Nuctech.

- 2.7 Scope and quantity of trade are rising continuously.<sup>6</sup> China was the fifth biggest trading partner for Serbia and fourth biggest source of imports in 2009. While the Global Financial Crisis had a negative impact on Serbian exports to EU countries, exports to China, while still modest, nearly doubled from 2008 to 2009.<sup>7</sup> Chinese companies play an important role in the retail market too. In 2010 the China Trade Centre, reportedly the biggest wholesale and commercial centre in southeastern Europe, was opened in Belgrade in a ceremony attended by the Serbian Minister of Commerce. Worth over EUR 30 million, this is China's largest greenfield investment in Serbia, and the project has been financed by a Chinese enterprise.
- 2.8 New institutional arrangements have been created to promote and accommodate the growing intensity of economic interaction. For example, Belgrade Chamber of Commerce (BCC) has created a new section named "China Corner" dedicated to facilitating exchange between Serbian and Chinese enterprises. In a symbolic but significant gesture, the president of BCC has been offered honorary chairmanship of the Beijing International Chamber of Commerce.
- 2.9 Other capital projects are in different phases of negotiation at the time of writing. The construction of the biggest hydropower station in Serbia, a strategic project for the Serbian government aimed at ensuring its position as the energy leader in the region, has been discussed between top officials from the two countries. Other large-scale projects under discussion include the development and realization of wind-farm projects and other green energy initiatives, construction of more hydropower stations as well as joint-venture participation in the construction of a nuclear energy station in Bulgaria. These multibillion initiatives should be delivered by China's energy giant China Guodian as service-provider and enabled by further "soft-loans" from China Development Bank.

### **Military and Cultural Exchanges**

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<sup>6</sup> Products such as telecommunication equipment, industrial machinery and equipment as well as footwear feature most prominently in the trade mix at the moment.

<sup>7</sup> Statistical Yearbook 2010, Statistical Office of Republic of the Serbia,  
<http://webzrs.stat.gov.rs/axd/god.htm>



- 3.1 The Military Cooperation agreement was signed in 2008. The numerous mutual official visits by top officials from the military establishments including defence ministers and chiefs of staff among others began shortly after. Cooperation in the fields of military personnel training and education, medical expertise, peace operations and disaster relief has been developed. Another notable development includes three rounds of donation from China's Ministry of Defence, the last one being a donation of IT equipment to the Serbian army worth EUR 500,000.
- 3.2 During his last visit to China in 2010, the Serbian defence minister announced plans to further military cooperation in the fields of personnel training, exchange of officers, peace keeping and combating organized crime. Special consideration was given to deepening cooperation between defence industries, with a view to the joint production of military equipment and sales to third countries that are traditionally part of the Serbian market. These include states like Myanmar, Iraq and Libya – top customers for the Serbian defence industry - along with other countries in Africa and the Middle East.
- 3.3 In the realm of cultural and educational exchange, Serbia has been hosting the first Confucius Institute in the region. Serbian students are awarded with a number of graduate and postgraduate scholarships for studying in China, while Chinese is now taught at three high schools in Serbia. The Programme for Education Cooperation until 2013 and an agreement on science and technological cooperation, both signed in 2009, envision a further deepening of cooperation between the educational and business entities of the two countries.
- 3.4 Multi-event festivals representing Chinese culture were held in 2009 in two Serbian cities, while in return Beijing and Tianjin hosted Serbian cultural festival in 2010. Furthermore, the China Trade Center in Belgrade is being equipped with facilities to host Chinese cultural events.
- 3.5 The Agreement on Cultural Cooperation signed in 2008, facilitated the appointment of internationally renowned Chinese composer Tang Muhai as the Belgrade Philharmonic Orchestra's chief conductor, providing an opportunity for this top national institution to boost its international reputation. In a further instance of Beijing cultural diplomacy, a joint project for the countries' national film industries is reportedly being discussed.

### **The Political Domain: Creating a Dependency Relationship**

- 4.1 In the political domain, both countries' principal commitment to the policy of sovereignty and territorial integrity and their application to particular issues concerning Serbia and China, as set out in the joint statement, established a solid foundation. The development of multidimensional cooperation described above reinforced the relationship and provided China with strong leverage.
- 4.2 China's continuous support for Serbia's position with regards to the issue of Kosovo's status had already conditioned Serbia to be susceptible to pressure from Beijing on issues of concern to her. For example, in 2006, after the lobbying of Chinese diplomats in Belgrade, the Chinese movie "Summer Palace", whose story is set against the background of the Tiananmen Protest of 1989, was removed from a Belgrade film festival programme.
- 4.3 However, during the period immediately leading to and following the establishment of the strategic partnership, there have been visible signs of China's growing ability to influence Serbian attitudes in the international arena and align her policies with their own. As China's stance is often opposite to the EU's – for example, on issues such as the formulation of human rights policies - this development appears to be a somewhat zero-sum game.
- 4.4 The Serbian government has adopted a state policy that "Serbia does not join any international initiative criticizing China in international forums, neither by voting nor by signing declarations nor attending events whose consequence would be a critique of China..."<sup>8</sup>
- 4.5 For example, in what was a highly controversial decision both domestically and internationally, the Serbian government did not dispatch official representatives to attend the 2010 Nobel Peace Prize Award Ceremony for which it was publicly and harshly criticized by EU officials.
- 4.6 Furthermore, since 2008, Serbia reportedly refused to join initiatives devised or embraced by the EU to criticize regimes in Iran (13 times), Sudan (4 times), Zimbabwe (4 times), Myanmar (4 times) and North Korea (1 time), countries that are arguably Beijing's protégées in international forums, reflecting China's position and dramatically digressing from the EU's values and policies.<sup>9</sup>
- 4.7 Relations were extended in 2010 from state to party level, with the two main Serbian parties, the Democratic Party and the Serbian Progressive Party,

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<sup>8</sup> Vuk Jeremic (Foreign Minister of the Republic of Serbia). TV Interview, RTS ( 06.01.2011)

<sup>9</sup> Vojin Dimitrijevic. *Stara Skepsa Nase Diplomatiје*, Pešćanik (31.12.2010)

holding separate consultations with delegations from the Communist Party of China.

### **Implications for the EU**

- 5.1 China's strategic partnership with Serbia should not be understood only in terms of mutually advancing economic cooperation and securing political support on the basis of traditional friendship. Rather, the evidence suggests that it is a product of coherent and comprehensive strategy on the behalf of Beijing with strong implications for Sino-EU relations.
- 5.2 On the first level, the Sino-Serbian strategic partnership facilitates the broad strategies of *zouchuqu* and the deepening of economic engagement with the world as well as of securing political support. On the second level, it also directly responds to issues in the Sino-EU relationship seen as problematic by Beijing and leverage Brussels gains when it invokes them. These include human-rights discourse, arms embargo, Market Economy Status, and China's image both in the EU and internationally.
- 5.3 The cooperative projects are increasingly spanning across various industries. Their political dimension – utilizing state-to-state loans, engaging SOEs from both sides, targeting strategic sectors and facilitating state strategies - is impossible to underestimate. In a country that has limited opportunities, a weak economic base and underdeveloped infrastructure such as Serbia, their impact is magnified. Belgrade became susceptible to political influence from Beijing.
- 5.4 On the other hand, as cases involving YTO and Dongfeng demonstrate, Serbia can serve well as the base for a long-term presence in the European market. Serbia not only provides a convenient location but also a chance for Chinese enterprises to export their products under tax-free conditions to lucrative European markets without significantly altering the costs of production. Equally important, it does also eliminate the threat of being investigated under anti-dumping charges, cancelling out inconveniences arising for Chinese enterprises due to China not being granted MES.
- 5.5 As a result, a very new pattern of regional competition between China and the EU is emerging in Serbia. In the course of the last decade, sizeable, lucrative infrastructure projects have been financed by EU funds, commissioned to large EU enterprises and privatization and acquisition of major SOEs have been dominated by European MNCs. China's capital is now increasingly in a

position to join the game thanks to the state-mediate deals. Space for EU enterprises' economic gain shrinks, and the political leverage the EU has over Serbia is reduced.

- 5.6 Military relations, while not likely to directly endanger the EU's security, show signs of substantial cooperation detrimental to EU foreign policy goals. The proposed co-production of arms and joint exploration of world markets seem to target fragile and violent parts of the world and governments criticized by the EU for their human rights record. It also potentially directly undermines the EU's arms embargo against China, opening alternative routes for China to produce and seek advanced weaponry.
- 5.7 The comprehensive strategy aims also to address the issue of China's image. A number of cultural initiatives, briefly described above, create a rather positive image of China, one of a country of sophisticated culture, rather than cheap products. This initiative, however, expands out of the exclusively cultural and into the economic domain: China's state capital is saving Serbia's faltering SOEs, financing and delivering crucial infrastructure projects, adopting business models inclusive of local business communities and keeping environmental issues high on the agenda. Such narrative builds up a positive image of China.
- 5.8 In a broader sense, evidence from Serbia suggests that China has learned from experiences in Africa. In Africa, China's enterprises have often been accused of neglecting community interests and environmental protection. However, the practices in Serbia (such as commitment to high local content of products and delegation of significant parts of projects to local partners) minimize potential for frictions with local communities and public opinion. Together with the adoption of high ecological standards, this suggests that China's flagship SOEs aim to achieve compliance with European standards and gain maturity to enter regulated and competitive EU markets.
- 5.9 The Sino-Serbian Strategic Partnership clearly shows, on one-state level, the impact growing Chinese influence can have on shaping a country's policy. With signs that similar scenarios are unraveling in other Non-EU European countries, namely Croatia, Bosnia and Herzegovina and Montenegro, there is a potential tendency that such micro-setting might be replaced with regional macro-setting.
- 5.10 Therefore, the Sino-Serbian example reviewed here can serve as the focus lens for understanding how China might influence the development of politics in Southeast Europe. Furthermore, all these countries are expected to join the

EU sooner rather than later. In the short- to medium-term, by creating a relationship of dependency with countries expected to join the EU, Beijing creates conditions for an environment favorable to China within the EU, with possibly important consequences for Brussels' policymaking and behavior.

5.11 With China's growing global presence, The Sino-EU relationship is becoming increasingly multidimensional. Competition and conflicting interests are part of this new complexity. To minimize their potential to disturb the relationship, China and the EU should not stop only at deepening mutual investment and trade, but further develop effective, multi-level mechanisms for consultation and coordination.