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**“Sixteen Plus One” in 2015/2016 – upgrading,
framing and stepping up cooperation*****

Abstract

The year 2015 and the first half of 2016 were marked by intensified cooperation and high level visits between China and 16 Central and Eastern European countries thru the framework “16+1” regular prime-ministers’ summit held in Suzhou in November 2015 and through bilateral cooperation of China and a few crucial CEE countries: Czech Republic, Republic of Serbia and Poland that was highlighted with the President Xi Jinping’s visit to the three states in Spring 2016. The general feature of the relations during that time was upgrading and framing cooperation into China’s wider internal and international frameworks and paths.

Intensified visits to Eastern Europe by Chinese President, after decades of the previous visits to the relevant countries or no precedent visits, expressed Chinese leadership determination to pursue realization of the determined goals and schedules previously set and agreed with the Central and Eastern European partner states which accommodate China’s Belt and Road and other initiatives, while demonstrating strong threshold on the European soil, with significant part of it located within the very European Union.

Key words: China, Suzhou, CEE countries, “16+1”, Belt and Road, Czech Republic, Republic of Serbia, Poland, Xi Jinping

1. Prime ministers summit of “16+1” in Suzhou

The forth prime ministers “16+1” summit that was held in Suzhou (November 24, 2015) under the theme “*New beginning, new domains and new vision*” was marked with deepening and expending framework of “16 Central and Eastern European Countries plus China” cooperation thru the new agenda of “*One goal and six priorities*”, delivered through the speech of Chinese Premier Li, and the previously already noticed trend of special attention coming from the European Union’s institutions for the “16+1” collaboration.

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Chinese Premier Li Keqiang stated that “one goal” meant putting all the elements of middle-term cooperation into time frame of five years and *The Medium-term Plan*, as it could go along with the China’s 13th Five Year Plan and the Belt and Road initiative, as well European Commission’s Investment Plan for Europe, that would be the first of the “six priorities”¹. He explained that *Suzhou Guidelines* should be more near-future oriented and aimed at specific projects more than before. Both political documents were adopted at the Summit. Within the area of the “second priority” - and that is coordination between the Belt and Road Initiative projects and development strategies of the sixteen Central and Eastern European countries in the area of the infrastructure development - Belgrade-Budapest modern railway link was especially highlighted and named as the project announced in Bucharest Summit of prime ministers in 2013².

This was again the sign that Chinese leaders were not satisfied, but neither annoyed by the delay of the realization of the three party project, described by the Chinese media as “China Railway Corporation’s first project in the European Union”. Ever since it was announced, and later signed by Chinese, Hungarian and Serbian ministers, it came under fire by Brussels and its’ institutions. Hungary, as EU member state and Serbia, as candidate country, have been under direct and indirect scrutiny, political pressure and questioning regarding the project. Orban’s government proved to be tough in pursuing with project as one of national interest and at the same time trying to get it along with the EU regulations, while Serbia being overdebted, as well, was combining terms of the financing the project with the Chinese loan (1.6US billion) and the previously received Russian loan for the upgrading of the railways and other possible models of financing, such as concessions or private-state partnership etc. Technical and legal preparations went on³, but not a single piece of practical realization of the project has happened until this moment (mid August 2016)⁴. With the modernization of the line finished, freight cars with even the heaviest axle weight would be able to run safely, while passenger transport between the two cities would speed up significantly, cutting travel time from eight to less than three hours as trains would be able to travel at 160 km/hour. The project connected to China’s Belt and Road initiative, aimed at boosting trade with Europe as modernized line would speed up the land transport of Chinese goods from the Greek harbour of Piraeus to Budapest and from there to the West and North of Europe remains a top priority for Chinese planners⁵. Aside from signing another relevant agreement with both Serbian and Hungarian prime ministers, Chinese premier expressed China’s readiness to “build the China-Europe land-sea express line and promote connectivity in Europe”.

As “the third priority” he put initiative that caused some criticism and dubious reactions. He recommended China’s advanced capabilities for “equipment manufacturing and ...engineering design, construction and management” with cost-effective products and services that could help number of Central and Eastern European countries:

1 Dragana Mitrovic, “The Suzhou Summit – Upgrading 16+1 Cooperation”, *Friends of Europe*, Brussels, 11 Aug 2016, Available at: <http://www.friendsofeurope.org/global-europe/the-suzhou-summit-upgrading-of-the-161-cooperation/>
2 Rail link between Belgrade and Budapest, 374 km long, has the section through Serbia totaling over 200 km and through Hungary of 166 km. According to earlier estimates, the modernization railway would cost between EUR 1.5 to 2 billion.
3 -----“Belgrade-Budapest railway-related agreements signed”, *Tanjug*, Belgrade, December 17, 2014
4 -----“Budapest-Belgrade rail upgrade could be started in 2015”, *Xinhua*, July 17, 2014
5 For more, please consult: Dragana Mitrovic, “Political Economy of the Chinese Investments in Eastern, Central and South-East Europe”, *Budapest, Asian Studies*, 2013, ISSN 2064-2334. – Vol. \2 (2013), pp. 167-185.

Croatia, Slovenia, Poland, Latvia and Bulgaria - which had proposed strengthening the cooperation on port development - to reduce costs. When saying that China already put the cooperation initiatives involving the ports of the Adriatic, Baltic and Black seas focusing on production capacity cooperation among the ports and industrial parks of the relevant coastal areas, as well as on building industrial clusters, upgrading the ports' cargo handling capacity and turning them into possible basis of industrial development, he pointed that China "expects (that) our companies to be the main players in these projects". He pointed that more projects of production capacity cooperation would emerge and even "become highlights of Sixteen plus one cooperation". Realization of these words we will easily follow in the presidential visits of Xi Jinping that we analyze later.

"The forth priority" was upgrading financial and investment collaboration that was marked as the weak point of the "16+1" cooperation, and again he pointed, along with proposing several new mechanisms, that China will give preferential loans for those "that use Chinese products and equipment in production capacity cooperation". For some it was again China's disregarding approach to market economy, fair practices and other rules that consist European Union's business practice and procedures, while, on the other hand, it was rather forward putting approach that clearly points how China see future "win-win" financial engagement with the Central and East European Countries with no "money for friendship" approach practices in some other occasions and elsewhere.

As "the fifth priority" Li Keqiang named pushing trade growth, and pointed at agriculture sector as mutually favourable source toward growing and more balanced trade exchange, where Serbia, Macedonia, Lithuania and Estonia were specially mentioned as sources of possible enlarged exporting markets. "The sixth priority" was about cultural, educational, tourist, research and other "people to people" cooperation in 2016. Then again, he was pretty forwarded when expressing "hope" for more centres of traditional Chinese medicine to be opened in sixteen Central and Easter European Countries.

When it comes to special attention with which European Union's paid to the event, it was expressed in several levels of which first was presence at the summit of the EU representatives – the very Ambassador of the EU to Beijing and Ambassadors of Austria and Greece, as well as representatives from the EBRD - as observers. Austria has even previously been announcing its interest of becoming part of the framework. The other level was EU's strong interest into the preparation process of the Summit through the acts of the member states, especially the Baltic States, although it remained unclear whether it was more their autonomous positioning or one encouraged from Brussels. Whatever the case, for these reasons, the preparations were occasionally stalled and more complicated. Additionally, some of the EU member states, notably the Baltic States, initiated "EU+16" narrowed preparation meetings in Beijing, before commonly agreed platform would be shared with the Chinese side. Such approach was not comfortable to the non-member states which benefit from their status of not being obliged to follow the EU legal set-up as such status allowed them to use between more options of financing the projects and getting their companies employed as contractors or sub-contractors of the works. Additionally and even more importantly – such "without

China” discussion platform – for sure would not be positively seen by Beijing, which would be left in front of the closed doors, while it sees itself as a promoter of a new platform of international cooperation that is supposed to be beneficial to all participants. Generally speaking, South-Eastern European countries were very cooperative, active and open towards deepening cooperation with China and all initiatives proposed and adopted during the Summit.

The EU has evolved to significant level to its response towards stronger China presence on its territory and its sphere of interest to more activism and all along participation from the initial suspicion-dominated position. The outbreak of the world economic crisis has intensified and remarkably eased realization of already enormous Chinese economic interests in Europe and especially EU as the biggest unified global market. On the other side, it has significantly influenced change of the EU’s attitude towards China, which suddenly for some has become appreciated big investor, and even valuable support of the EMU through purchasing the EFSF bonds, as well as Union’s economy generally. For the others, China remained a threatening imposer. Important alarming point of such attitude change supporting the later position was reviving of the economic cooperation between China and Central and Eastern European countries thru “16+1” framework. Since the very beginning of the initiation of the framework “16+1” or more realistically “1+16”⁶, the EU has been responding rather strongly, and this path was followed this time, too. First, rather harsh criticism came from some academic and political circles in Beijing pointing at China as distracting factor, that was “building a wall” across the EU territory or its zone of interest and future expansion. For Chinese and crisis stricken countries in Central and Eastern Europe it was more promising and matching interest based cooperation between investments and technology and foreign markets hungry CEEs and China in global dispersing asset-acquisition process. Long history and tradition in cooperation since the first days of the People’s Republic and absence of political preconditioning only supported the issue.

After the first big infrastructure projects were announced or built (especially one regarding upgrading of the Belgrade-Budapest railways), the Brussels loudly criticized such deals as opposite to the EU regulations and business practice as they excluded competition and public tenders, and assigned (Chinese) companies that would deliver the works. The Belgrade-Budapest rail project, agreed by China, Hungary and Serbia in November 2013, is the China Railway Corporation’s first project in the European Union. Once completed, the 350 km rail would become major commercial traffic corridor along the planned path from the Athens (Piraeus Port) along the Greece, over Macedonia, Serbian and upward to Hungary⁷. The project for the modernization of the Belgrade-Budapest railway was initially agreed on at the 2013 China-CEE countries premiers’ meeting that occurred in Bucharest, while during the premiers’ summit held in Belgrade in December 2014, Memorandum of Understanding was signed by China, Hungary and Serbia. Again, the cooperation plan for the railway construction was signed in 2015 in Belgrade at the meeting of the Trilateral Group of China, Hungary and Serbia for Traffic and Infrastructure Cooperation, setting dates for certain phases of the project.

6 Dragana Mitrović, “China in the West’s East and Beyond: Politics and Economics of the China plus Sixteen Cooperation Framework”, *Serbian Political Thought*, IPS, Belgrade, p. 24.

7 Ibid, p. 25.

Additionally, state guaranties, asked from the Chinese side to be provided by the respective local governments to preferential loans allocated by Chinese policy banks, were not in compliance with the EU regulations and different officials from EU were very loud about this and as said, Hungary has been under strong pressure from Brussels, since the first announcement of the project. To some level, Brussels should develop more understanding if not supporting position regarding the convenience of such cooperation with China for CEEs, especially those non EU member states as they are members of the Union, stricken by the crises as a whole. On the other side, since from Belgrade summit, Chinese Premier insisted that growing cooperation with group of 16 is part of the upgrading and enriching cooperation with the EU. In Suzhou, in his opening remarks he put that this framework for cooperation is one with “all win outcomes”: for China, the 16 and EU, as “16+1” cooperation “has fully accommodated the relevant concerns of the EU and moved in parallel with the greater interests of China-EU cooperation”. If that is going to be so depends largely of China’s capacity to grasp Brussels frustrations, as well as the differential approach needed for achieving mutually beneficial cooperation with each of the very different 16 CEEs.

In Suzhou, host of the next summit was decided: Riga, capital of Latvia – unlike the Belgrade summit that was decided a month and a half ahead of it, during the Serbian PM Vucic’s visit to China. In Suzhou, another level in carving the framework of “16+1” was reached while EU posted itself more visibly and boldly.

On the final day President Xi held a group meeting with leaders of the sixteen Central and Eastern European countries, as part of the Fourth Summit. Regarding the president Xi’s command over State Council’s work the meeting was no surprise. At the occasion Xi Jinping and President Duda of Poland, Serbian Prime Minister Vucic, Prime Minister of the Czech Republic, Sobotka, Bulgarian Prime Minister Borisov and Slovakian Deputy Prime Minister, Vazhny, signed the intergovernmental memorandums of understanding on jointly constructing the “Belt and Road” between China and five countries⁸. Hungary was the first country to sign a memorandum of understanding with China on promoting the Belt and Road Initiative⁹, than Czech Republic, Republic of Serbia, etc.

2. President Xi’s Spring 2016 European visits – all in CEECs

On his first visit to Europe in 2016, President Xi also made his first ever visit to the Czech Republic, a Central European country and one of “sixteen” (49 hours long spread over three days from March 28 to April 1, 2016). He was the first Chinese head of a state that visited the Czech Republic in an official capacity. But, at the same time it was the fifth meeting between Xi and his Czech counterpart Milos Zeman since 2013. Zeman was the only leader from a EU member state to attend Beijing’s newly established national holiday on September 3rd 2015 during which he watched a grand military

8 “Xi Jinping Holds Group Meeting with CEEC Leaders Attending 4th Summit of China and CEEC”, MOFA, 2015/11/26; Available at: http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1319541.shtml

9 Tiezzi Shannon, “China’s Silk Road in Europe: Not Just Hungary”, *The Diplomat*, June 09, 2015, Available at: <http://thediplomat.com/2015/06/chinas-silk-road-in-europe-not-just-hungary/>

parade performed to commemorate the 70th anniversary of the end of the World War II and victory over Japan – a sign that, unlike his transition period post-communist era predecessors, Zeman was practicing closer ties with China, with full respect towards official China's sentiments. He officially visited China in 2014 and the two countries signed a memorandum of understanding (MOU) on jointly promoting the Belt and Road Initiative in November 2015. Xi's visit created an opportunity for setting a strong political direction and breakthrough for the bilateral relations towards achieving common goals of the two countries.

Another important part of the unprecedented spring charm and economic diplomacy incursion over CE Europe, performed by President Xi happened just three months later. From 17-22nd June 2016, Chinese president took three-nation Eurasia tour that built new momentum for the Belt and Road Initiative, as he visited Serbia, Poland and Uzbekistan. His following attendance of the 16th meeting of the Council of Heads of State of the Shanghai Cooperation Organization (SCO) in Tashkent, Uzbekistan on 22-24th June 2016 also boosted the development of the SCO.

China and Serbia, as well as China and Poland, both of which are strategically located, upgraded their strategic partnership to a comprehensive strategic partnership. President Xi's visit was aimed at further promoting political ties with the both EEC countries, at improving the arrangement of the two's respective development strategies with those of China and at reassuring commitments for the Belt and Road projects. As Xinhua earlier pointed in the commentary focused on President Xi's visit to the Czech Republic in March 2016, "China, Czech Republic set example for broader region to advance Belt and Road Initiative" all the visited countries in Spring 2016 were expected to "set example" and were seen as "pivot point" for the cooperation with the whole "16 group" and Europe by Chinese side, including media and analysts¹⁰.

2.1. The Czech Republic – New phase of improved relations

Obviously, Chinese side wanted to use the opportunity created by previously mentioned improvement of bilateral relations with the Czech Republic to boost up Czech's role within the Mechanism "16+1" and maybe even within China's overall relations with the EU, especially having in mind anti-dumping procedures and China's inability to resolve the issue with the Brussels in a satisfactory manner. Supporting Czech's positioning would be another "inside" softening of the EU's strong united block power. Accommodating such expectation, Czech President Zeman pointed that the Czech Republic was a country that "could be trusted by China in the EU...willing to fully utilize its influence to help further boost China's relations with the EU and Central and Eastern European countries". Zeman pointed that his country was committed to becoming a gateway for China to the EU and a hub of transportation, logistics and finance in China-EU trade, another phrase heard many times from the side of different dignitaries from "the 16" group, recommending their countries for that role in different areas

¹⁰ Please consult: Huaxia (Ed.), "Spotlight: China, Czech Republic set example for broader region to advance Belt and Road Initiative", available at: http://news.xinhuanet.com/english/2016-04/05/c_135252289.htm

of cooperation between EU and China. According to Xinhua, when attending China-Czech Business Round Table, organized during the visit, Chinese President Xi Jinping said that China and the Czech Republic “should establish a sense of community of common destiny to jointly address the challenges in global economy and realize common development through strengthened cooperation and coordination”, the message that is to be heard again in the region, several months afterwards.

As expected, the visit was marked by expressed good personal interactions between two leaders and also by upgraded bilateral relations to the level of strategic partnership, as well as by long list of cooperation agreements aimed to push economic and technology cooperation. The two sides signed 20 agreements to enhance cooperation in fields of trade, finance, production (over)capacity, infrastructure, health, aviation, culture, nuclear energy, e-commerce, telecommunications and environmental protection and other areas. Those agreements are expected to transform into business deals worth 1.6 billion Euros (US\$1.79 billion). However, all those deals will still be bound by European Union laws and regulations, which could complicate their completion, as proved in other cases that we would discuss later in the paper. China is the largest trading partner of the Czech Republic outside the EU, while the Czech Republic is China’s second-largest trading partner among the CEE countries. Bilateral trade reached 11 billion U.S. dollars in 2015 ¹¹. The value of Chinese direct investments in the Czech Republic’s economy up to the end of 2014 was US\$242.69 million, according to the Chinese National Statistical Office. Landlocked Central European state is also eager to improve its transport connectivity but lacks funds and capacity and that is where Chinese compatibility gets on, as described by Chinese analysts ¹². A direct air link between Prague and Beijing officially went into operation on September 23, 2015.

The first significant contracts within the Czech Republic came in 2014. The earliest one between Czech-Slovak *J&T Financial Group* and the private Chinese conglomerate *CEFC*, valued 750US\$ million, which was followed by *CEFC*’s deal of acquiring a 10% share in Czech’s *Travel Service Airlines* and followed by its announcement of plans to get hold of a further 39.92% of it.

Another important aspect of the enhanced cooperation Chinese side saw in the position of the Czech Republic as “an important country in Central and Eastern Europe” – the same description given to all the CEE countries by Chinese officials, media and analysts - positioned on the trade routes of the Belt and Road Initiative. The Central and Eastern European countries have a key role as they are located between both ends of the Initiative’s transportation, communication and trade and investment paths between East Asia and Western Europe. China and the 16 CEE countries have been promoting cooperation under a framework “16+1”, initiated in 2012, that became incorporated into Belt and Road Initiative since the late was introduced in 2013.

Since the “16+1” mechanism was launched in Warsaw in 2012, there have been four prime ministers summits each year with several declarations adopted that were de-

11 -----“China, Czech Republic set example for broader region to advance Belt and Road Initiative”, *Xinhua*, April 5, 2016 Available at: http://news.xinhuanet.com/english/2016-04/05/c_135252289.htm

12 Liu Zhen, “Xi Jinping’s visit to Czech Republic raises hopes for European grand canal project”, *SCMP*, 25 March, 2016, Available at: <http://www.scmp.com/news/china/diplomacy-defence/article/1930953/xi-jinping-visit-czech-republic-raises-hopes-european>

signed to set the path and mark specific goals paved to accommodate current external environment and internal needs of China and 16 countries. The engagements helped develop economic and trade ties between the parties. Trade volume between the two sides has increased nearly by 30% during the past five years: 2010-2015. The trade value grew from 52.1bln US\$ in 2012 to 60.2bln US\$ in 2014, with an annual growth dynamics of 15.6%, according to China's General Administration of Custom. So far, China has invested more than 5bln US\$ in the CEE countries' economies, while CEE countries' investment in China has reached more than 1bln US\$ by the end of 2015, according to China's Ministry's of Commerce.

2.2. Second Spring 2016 European visit - to "all-weather friend" - Republic of Serbia

Serbia, which in 2009 became the first country in the CEE region to establish a strategic partnership with China, was described as an "all-weather friend" by China's president before he and Serbian president Nikolic signed a declaration on upgrading bilateral ties to the level of *comprehensive strategic partnership* during his three day visit of forty nine hours (17-19 June 2016). Chinese president addressed Serbian public in the signed article, published by the most respected Serbian daily "Politika" and Tanjug News Agency ahead of his visit¹³, as became his practice in several foreign visits. In the article Chinese President stressed that two countries "... bilaterally and within the frameworks of the Belt and Road Initiative and China-CEEC cooperation, practical cooperation between our two countries is making breakthroughs and yielding more results than in other parts of Central and Eastern Europe. We have signed an MOU on jointly developing the Belt and Road. With the implementation of such major projects as the Belgrade-Budapest Railway, the Mihajlo Pupin Bridge, the E763 Motorway, the expansion and upgrading of Kostolac Power Plant, and the acquisition of the Smederevo steel mill by *Hebei Iron and Steel Group*, our cooperation on major projects is making heartening and sweeping progress, delivering economic and social benefits and a positive impact on the entire Central and Eastern European region".

Chinese and Serbian media described a visit as "historic", ahead of it and during it. Unfortunately, as usual, after the visit there was little mentioning of the topic and bilateral relations. In spite of the deep and proven friendly bilateral relations, this was the first visit of a Chinese president after thirty two years and second highest-level visit in several decades, after Wu Banguo, the second person in China's state hierarchy visited Belgrade in 2010, signed the agreement with the Serbian president and declared the preferential financing and building of the "Pupinov most" on the Danube in Belgrade¹⁴. A new bridge over the Danube was opened in December 2014 during The Third Summit of "16+1" Premiers by Serbian host, Aleksandar Vucis and Chinese host-guest Li

¹³ http://www.chinadaily.com.cn/world/2016xixivisitee/2016-06/17/content_25743382.htm

¹⁴ Dragana Mitrovic, "Political Economy of the Chinese Investments in Eastern, Central and South-East Europe", *Asian Studies*, ISSN 2064-2334, Vol.2, Budapest, 2013, p. 181.

Keqiang. It was the first European bridge built (dominantly) by a Chinese company¹⁵. It was also Serbia’s first new bridge over the river in nearly several decades.

Also, the value of Chinese direct investments in Serbia until the third quarter of 2016 was only US\$81.82 million (including the recent purchase of Zelezara Smederevo US\$51.2), according to the Chinese National Statistical Office, that is relatively modest compared with six other member of the group of 16 which attracted several folds bigger FDI from China. It proves that China while symbolically respect political closeness is pursuing primarily its economic interests and gains from local markets, as well as that engagement of the relevant bodies and representatives within the state apparatus in Serbia were not productive as those in many other countries of “the 16”.

Again, like it happened in Czech Republic during the March president Xi’s visit, two fighter jets were sent to escort when plane with high guests entered Serbian airspace to welcome him and his wife¹⁶. In Serbia, he was also warmly welcomed together with the First lady, Mrs. Peng. As Xinhua reported from Belgrade, Chinese President Xi Jinping and his wife Peng Liyuan paid homage to the Chinese journalist killed in the NATO bombing of the former Chinese embassy in the Federal Republic of Yugoslavia in May 1999, soon after arriving in Belgrade. They laid wreaths at the commemorative plaque engraved with *“Honor Martyrs, Cherish Peace”* that was set up by the Chinese government ahead of the visit¹⁷. On May 7, 1999, “U.S.-led NATO forces carried out a barbaric missile attack on the Chinese embassy in Belgrade, which left the three journalists dead, dozens of others injured, and the embassy building severely damaged”. After that, the two presidents attended a ceremony to lay the cornerstone for a Chinese culture center to be built on the bombed embassy site, which would be among the few in Europe. Serbian media also reported that the center actually would be located to another, much bigger location. Anyway, the street outside the current spot was announced to be named after Confucius, and the square outside “China-Serbia Friendship Square”. The previous year Serbian president, Tomislav Nikolic attended the Victory Day ceremony in Beijing, while a unit of the Serbian National Guard took part at the military parade.

On the second day of the visit, Visiting President Xi Jinping and Serbian President Tomislav Nikolic signed a joint declaration to upgrade the bilateral ties to the level of Comprehensive Strategic Partnership - the first one of its kind in Central and East Europe region as Chinese and Serbian press pointed out - the primacy that would last for forty eight hours, before the same upgrading of the relations happened with Poland¹⁸. Later during the June 18, President Xi Jinping received a Serbia’s highest award, the Order of the Republic of Serbia on a Grand Collar, previously given only

15 Chinese first attempts to present its new infrastructure building and management capabilities in this part of Europe and Poland were not that successful. On the contrary, a Polish road-building project in 2009 was negative benchmark for cultural clashes and negative image of Chinese builders. It was marked by formal protests of Polish company (that lost a bid with 50% more expensive offer than the Chinese one) and finally by broken contract by China Overseas Engineering Group (COVEC) as COVEC proved to be unable to deliver its 447US\$ million contract for a 50km highway from Warsaw to the German border.

16 http://news.xinhuanet.com/english/2016-03/31/c_135238114.htm

17 The three journalists killed by NATO/American bombing were Shao Yunhuan of Xinhua News Agency, Xu Xinghu and his wife Zhu Ying, both reporters of the Guangming Daily.

18 In 2009, Serbia became the first country in Central or Eastern Europe to establish a strategic partnership with China and that primacy lasted for two years.

to one foreign dignitary, Russian president Vladimir Putin. When addressing media Chinese president pointed that China and Serbia were “all-weather friends” and had a “special brotherly bond” and called on both sides while holding the “principles of mutual respect, equality and mutual benefit”, make ties more strategic and comprehensive and expand practical cooperation in various fields to promote “all-round and in-depth development” of bilateral relationship.

Serbian and Chinese side signed twenty two cooperation deals, while bilateral cooperation in industrial capacity, finance – currency swap deal, infrastructure construction, trade, energy, telecommunications, science and technology, media, culture and tourism and other forms of “people to people” communication was specifically highlighted in the official statement. Additionally, joint statement (issued on June 19 2016) pointed that the two sides support each others sovereignty and territorial integrity and should understand each others’ core interests and major concerns – Serbia, as always stick to its One China Policy position and China supports territorial sovereignty of Serbia and “peaceful resolution of Kosovo issue”. In a joint statement China and Serbia stressed that South China Sea disputes “should be settled by directly concerned parties through friendly consultations and negotiations...and that...those directly involved parties should abide by bilateral agreements and the Declaration on the Conduct of Parties in the South China Sea (DOC) while seeking a peaceful solution to the territorial and maritime rows”¹⁹. Serbia took side in a complex and problematic issue in which most of the Chinese neighbours do not share such position, and that does not consider only the “directly involved parties” that include Indonesia, another important supporter of Serbia’s territorial integrity, but also the most dominant global and Pacific power – USA – and Japan, that vitally depends on the outcome of the ongoing power struggle in East Asia, including South China Sea. Beyond Serbia, China engaged several other countries to publicly support its stand²⁰, ahead of the decision of the relevant UNCLOS tribunal²¹ upon the Philippines’s request, in an attempt to belittle it.

Even though, the most important parts of the visit that lacked any breakthrough or eminent substance in economic cooperation were one that was omitted and one that was realized two months ahead of the visit. The most important part of the visit was about the first big China direct investment in Serbian economy, as part of the so called cooperation in (over)capacity: the acquisition of *Zelezara* (Steel Mill) *Smederevo*, that was purchased by China’s *Hebei Iron and Steel Group* for 46 million Euros (51.8US\$ million) that happened in April 2016, two months earlier. Serbian government was eager to find a strategic partner to the state owned heavy subsidised Mill with a dubious privatisation history as was under European Union’s and IMF’s pressure regarding the relative size of the subsidies yearly pumped into the technologically relatively backward Mill that under the conditions of poor global steel market was in constant loss making. In April, Serbia’s government signed with China’s Hebei Iron and Steel,

19 Hua Xia, “China, Serbia call for settling South China Sea disputes by directly involved parties via negotiation”, *Xinhua*, June 18, 2016, Available at: http://news.xinhuanet.com/english/2016-06/18/c_135447452.htm

20 In Xinhua’s article quoting Foreign Ministry spokesperson Hua Chunying, only few countries were named, all from Africa: Zambia, Cameroon, Ethiopia and Malawi, as well as Serbia as the newest on the list. Please consult: “Dozens of countries support China’s stance on South China Sea: FM”, *Xinhua*, June 21, 2016, Available at: http://www.chinadaily.com.cn/world/2016-06/21/content_25794520.htm

21 Jerome A. Cohen, “Like it or not, UNCLOS arbitration is legally binding for China”, *East Asia Forum*, July 11, 2016

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HeSteel Group a sale agreement for the steel mill after the Chinese investor submitted a binding offer to buy all 98 property units²² of *Zelezara Smederevo* for a total of 46 million euro (51.2US\$ million)²³. China’s second-biggest steel producer announced to invest a total of 300US\$ million in technological updating of fixed capital and infrastructure within an unspecified timeframe, the Serbian government said at the time. On its side, China was pushing forward with a new policy of exporting production of its steel industry²⁴, that have weighed down for years with over 300 million metric tons of surplus capacity, when it produces more steel than the rest of the world combined. But, even more significant, although almost invisible in media coverage was a fact that *HeSteel* also acquired a significant chunk of the strategically positioned land of *Smederevo* port, a port on the Danube. Both, the Old and New *Smederevo* Ports are owned by *Zelezara Smederevo*, now *HeSteel*. China boldly stepped on one of the most strategic points of the main Europe’s water flow.

The Chinese investment that helped Serbia solving some economic problems and preserving working places for several thousand workers also put itself on a risky road to be under additional pressure from political and business’ circles in the European Union. On the first day of the visit, Axel Eggert, Director General of the European Steel Association (EUROFER) made a public statement about the deal “...a steel firm is being invested in by an undertaking – *Hebei Iron & Steel* – which is directly owned and run by the Chinese government. *Zelezara Smederevo* was already subject to an ongoing National Restructuring Program as part of Serbia’s EU accession procedure. The subsequent purchase by a Chinese state owned enterprise undermines both efforts to combat global steel overcapacity and the free and fair conduct of the market – as sought by the G7”. A few weeks later, European Commission, under the demand of *EUROFER*, initiated a probe into steel dumping from Serbia, Russia, Ukraine, Brazil and Iran as the practice would distort market conditions in the EU, although EC previously approved the acquisition when consulted by the Serbian government. The company that takes only 0.4% of European steel market has never been under Brussels’ scrutiny before being purchased by Chinese *HeSteel*. Nevertheless, on July 12, EC started probe based on *EUROFER*’s concerns over the possibility of the *Smederevo* steel mill getting “indirect subsidies” and even maybe re-exporting steel produced in PR China²⁵.

President Xi Jinping while speaking at the *Smederevo* Steel Mill during the final day of his visit said that China wants to share its advanced technologies and management

22 *Zelezara Smederevo* steel mill, equipped with two blast furnaces and three basic oxygen converters capable of producing 2.2 million tonnes of crude steel annually, but it has been operating well below capacity recently. It has developed production units in other Serbian cities: *Sabac* and *Kucevo*, and is the owner of Old and New *Smederevo* Port. For more, please consult the webpage of the new company at: <http://www.zelsd.rs/index.php?link=en/menu/3811/company-units>

23 On June 30th, Company *Hesteel Serbia Iron & Steel d.o.o.* Belgrade has officially taken over the management and ownership over *Zelezara Smederevo*, as announced on its website.

24 Steel is one of 12 industries named by State Council in 2013 as needed to shut down older plants and production lines as notorious energy-wasters and pollution sources, as well as for its low capitalization, surplus of work force, local governments’ subsidies consumers and debt builders, etc. China plans to export its production of steel primarily to Latin America, so far. In May 2015, the State Council announced a plan to export over capacity from several industries including railway construction and telecommunications technology worth 70US\$ billion – Please consult for more at: <http://www.chinausfocus.com/finance-economy/can-exporting-industrial-capacity-rescue-the-chinese-economy/#sthash.MPq7r5hy.dpuf>

25 ----“EU in anti-dumping probe after China’s Serbian acquisition”, *Tanjug*, Available at: http://www.b92.net/eng/news/business.php?yyyy=2016&mm=07&dd=12&nav_id=98587. “Eurofer concerned over subsidies, cheap steel from China”, *Tanjug*, 11 Jul 2016, Available at: http://www.tanjug.rs/full-view_en.aspx?izb=257388

experience with Serbia, to create job opportunities and improve people's livelihoods. He added that China-Serbia cooperation would be a model for his country's links with Central and Eastern Europe (CEE).

According to the joint statement signed by two sides, "Serbia highly approves and stands ready to actively respond to China's initiative to jointly promote the construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road". Like in all other foreign visits China's President Xi invited all three countries to create a "sense of to jointly address the challenges in global economy and realize common development through strengthened cooperation and coordination"²⁶ that is inseparately connected with The Belt and Road initiative, (consisted of the Silk Road Economic Belt and the 21st Century Maritime Silk Road) and seen by many as China's path of establishing itself as a leading East/Asian power and even further. Concept of "community of common destiny" was used by the previous generation of China's leaders, too, but has been enriched and strongly pursued by Xi and his administration, primarily when it comes relations with ASEAN countries, but lately also in wider scope.

3. The third stop – Poland, another "central gate to Europe"

Xi Jinping's visit to Poland as second in a June 2016 trip to Europe was also of great importance for promoting Belt and Road Initiative and China's presence in the heart of the European continent. Poland is China's largest trade partner among the Central and Eastern European countries. When it comes to Poland in coordinator role within "16+China" platform, in November 2014 the China-CEEC Investment Promotion Agencies Contact Mechanism was created, run by the Polish Information and Foreign Investment Agency. The Mechanism works for all "16" on the topic of the exchange of information regarding investments, the organisation of training events, seminars and conferences attended by interested investors²⁷. Ahead of the visit, the first of a Chinese president after twelve years, President Xi called for Chinese investment into Poland's nuclear energy sector.

China is the third largest exporter to Polish market where export to China is ten times smaller than exports from China to Poland. In 2015 Chinese imports from Poland was 14.3US\$ billion, with Polish export to China was worth 2.7US\$ billion, according to Chinese customs data. During the visit, potential for exporting much more high quality agricultural products, especially meat, milk and apples, from Poland to China was stressed. Poland was relatively successful in becoming more visible in Chinese markets, especially by using the efforts of its General Consulate in Guangzhou and established Polish companies there and in other parts of Guangdong Province, where traditional openness towards foreign consumer goods existed and living standard is high enough to create market for healthy food, including traditionally produced agriculture products. Metro China, part of Germany's Metro AG, is selling sixty stock-keeping

26 ----"Xi urges fostering sense of community of common destiny with Czech Republic", Prague, *Xinhua*, March 30, 2016

27 Jakobowski, J., "China's foreign direct investments within the '16+1' cooperation formula: strategy, institutions, results", OSW, Warsaw, December 3rd, 2016

units (SKU) produced or imported from Poland. The company announced that sales of Polish products, including milk, honey and vodka, grew by 45% year-on-year in 2015 in all the stores, while the best-selling item was one Polish brand of milk. Chinese media also quoted executive manager of RTJ Tastes Co, a Polish-invested company in Zhongshan, Guangdong, that produces ham, cold cuts and sausages for the Chinese market, who expected 20% growth in its business in the following years.

The Belgrade Guidelines for Cooperation between China and Central and Eastern European Countries from December 17, 2014, proclaimed support to the establishment of the executive body of the *China-CEEC Business Council* in Warsaw and “relevant Chinese and CEEC business associations, organizations and businesses that were to join on a voluntary basis”. Also, to “welcome the establishment of the *Secretariat of the China-CEEC Investment Promotion Agencies Contact Mechanism* in Beijing, China, and Warsaw, Poland” which were to promote information sharing on investment between China and CEECs²⁸. Both initiatives show serious Polish efforts and success in creating place for its engagement within the framework of “16 plus China” cooperation in several areas where it sees its utmost interest.

In January 2016, the *Polish Center for Research and Development* signed cooperation agreement with *WIOT Technology Group*, located in Foshan, Guangdong Province. *WIOT Technology* develops and operates industrial agglomeration of new emerging industries and comprehensive service platforms. This cooperation in technology area is expected to improve the Foshan technology sector, as announced by Chinese side. *WIOT Technology Group* had previously established cooperation with Polish IT company *Action*. Chinese companies have also funded *Wolka Kowowska*, a chain of popular shopping malls north of Warsaw²⁹. The value of Chinese direct investments in Poland up to the end of 2014 was US\$329.35 million, according to the Chinese National Statistical Office.

Besides, in finance sector cooperation with Poland advanced to a new level, as Poland is a founding member of the China-initiated Asian Infrastructure Investment Bank as the only of the sixteen CEECs.

Poland has already been an active participant of the “16+1” initiative and Belt and Road initiative in the area of traffic infrastructure, as direct freight trains from Lodz and Warsaw to Chengdu and Suzhou were establish in 2013 and in 2016. It takes 15 days to travel from Chengdu in Southwest China to Lodz, as reported by Xinhua³⁰. Two months after Xi’s visit, another important event in trade and traffic connectivity area occurred - the railway route connecting Xi’an and Warsaw was officially opened on August 18, 2016 and the first Warsaw-bound freight train rolled out of the *Xi’an International Trade & Logistic Park* with 41 containers with contents including: mechanical equipment, furniture, lighting fixtures, water coolers, ice machines, clothing, and electric equipment. The train will cover 9.048 kilometres for 30 days fewer than shipment by sea, 8 to 10 days fewer than transportation by road and is 80% cheaper than air

28 The Belgrade Guidelines for Cooperation between China and Central and Eastern European Countries from December 17, MOFA, Beijing, 2014

29 Humphrey Hawksley, “China paves its latest silk road into Eastern Europe”, *Nikkei Asian Review*, February 25, 2016

30 Huaxia, “The freight train service boosted trade between China and Poland”, *Xinhua*, March 30, 2016

transportation. The line is seen by Chinese side as “a strong export opportunity for made-in-China goods to reach global markets”.

When it comes to export industrial capacity from China to Central and Eastern European states, in 2013 China's *Liugong Group* completed the acquisition of steel company *Huta Stalowa Wola* and its distribution subsidiary, *Dressta Co.*, described by Chinese side as the first acquisition by a Chinese company in Poland³¹.

China- CEE Investment Cooperation Fund, “a government-backed, adhering to market-oriented and commercial operation” equity fund registered in Luxembourg, that has 500 million dollars for investments in Central and Eastern Europe (from Export Import Bank of China 470US\$ million and Eximbank Hungary, 30US\$ million) and a special credit line of 10US\$ billion dollars at the disposal of fund management, to invest into relevant projects in the 16 CEEs already approved three projects in Poland. According to *The Silk Road News* and *Xinhua*, the Fund's first investment went into *Polish Energy Partners S.A.*³². In the process, Bank of China's Poland branch led consortium loan, together with the European Bank for Reconstruction and Development (EBRD) and two Polish banks. It was the Fund's first investment and also China's Ping-gao Group, a subsidiary of the *State Grid Corp. of China (SGCC)*³³, has won contracts in Poland to build electric transmission lines while 84US\$ million from the China-CEE Investment Fund is being used for wind energy projects, the first case of shared investment and lending from a Chinese bank in Central and Eastern Europe states. Beside this first project in telecommunications (ECS SA), the other two were also successfully launched in Poland were wind farms - projects *Wroblew* and *Zopowy*³⁴. Beyond that, the main office of *CEE Equity Partners Ltd* is located in Warsaw, while outpost offices are in Budapest, Bucharest and Leeds.

4. Conclusion

Central and Eastern Europe are seen by China as an essential factor of China's Belt and Road Initiative and partners as all the 16 CEE countries are seated on the route charted by the Initiative, proposed by Chinese President Xi Jinping in 2013. That is why previously initiated framework of cooperation (2012) “Sixteen plus China”, by at the time Prime Minister Wen Jiabao, was immediately incorporated into the Belt and Road Initiative with all its twelve proposals. The major cooperation projects between CEEs and China have been moving ahead steadily, with certain obstacles, coming from limited capabilities of the relatively small economies of the “16”, neglected ties between two sides in the past decades, tendency of China to treat them as a unique group of states, while they are special and different enough, obstacles coming from the membership of the eleven of the sixteen countries that has legal and polit-economic impact on the cooperation.

31 An Baijie, “Xi: We can help Serbia to better lives”, *China Daily*, June 20, 2016, p. 3.

32 J., Jakobowskim, “China's foreign direct investments within the ‘16+1’ cooperation formula: strategy, institutions, results”, OSW, Warsaw, December 3rd, 2016

33 SGCC was founded on December 29th, 2002 as a pilot state-owned corporation by the State Council.

34 Ibid.

President Xi's visits were focused on further upgrading political ties with Czech Republic, Republic of Serbia and Poland, three EECs countries with different and crucial positions within "the 16", as well as on firming the accommodation of their respective mid term development strategies with the China's Five Year Plan and on reassuring commitments for the Belt and Road projects. They were all seen and praised from China's perspective as important to "set example for broader region", also as "pivot points" for the cooperation with the whole "16 group" within Belt and Road Initiative. From their side, the three countries recommended themselves as "gates to Europe", "gates to EU", "central points of China's presents in Europe", etc. Three CEECs visited by president Xi have are seeking for benefits that China's economic presence in their relative economies could deliver through FDIs, opening segments of Chinese markets for their products and technology, better mutual and Eurasian traffic, communication, energy infrastructure and people to people connectivity, soft and available loans, that could all bring upgrading business environment, recovery of their economies or be strong impetus for more robust growth, more employment and other benefits that could come out of the cooperation, that China names as "win-win". Additionally, incapability of the EU institutions to tackle crucial problems mounting over it and Brussels' persistent and endemic hypocrisy and bureaucratic stiffness when dealing with the weaker partners from within or outside have toppled initial enthusiasm of the CEECs and for sure opened the door of the Eastern part of the European Continent to China wider. So far they have been ready to expose themselves to pressure coming from Brussels and over the Atlantic from the political centres that follow rise of China globally, including in this part of Europe with strong suspicion.

As recently China has been more boldly stressing its regional and even global ambitions, it also has become more loud and present in Central and Eastern Europe with double dual approach to the EU: verbally abiding to its principle, while in reality using all its political, moral and economic weakness. Intensifying its far more important and profitable cooperation with the most developed Western EU economies, while pushing forward its cooperation with the eleven EU's "newcomers" and the other five "willing to become members". We could observe that approach also when it comes to evaluation of the China's accumulated direct investments in the economies of the 16 Central and Eastern European countries. They were till mid of 2016 valued at approximately 1.8US\$ billion, according to MOFA and Statistical Biro of China, in spite of the record breaking 2015 for China's private and state investment in Europe of US\$23 billion. But, most of that impressive sum went into Western Europe with three quarters of it went into real estate, automotive, financial/business services and IT industries. In 2015 the top five EU China's FDI recipient countries by investment value were Italy (US\$7.8 billion), France (US\$3.6 billion), the UK (US\$3.3 billion), The Netherlands (US\$2.5 billion) and Germany (US\$1.3 billion), accounting for 78 percent of total European investment³⁵.

President Xi's spring visits to three CEEs – actually two central European and one South-Eastern – proved China's demonstration of certain political triumphalism over flaws and weak points of Brussels' "high moral stands" and its hypocrisy, including its

35 -----"Chinese FDI Hits USD40 Billion in 2015 for Europe and North America", *Baker and McKenzie*, 10 March 2016

concerns when it comes to all aspects of “16 plus China” cooperation. “New spring” in relations with the Czech Republic and Poland and “special brotherly bond” with Serbia, “proves” that China’s road is correct one and that it is on the right track with perceiving itself as a leading and creative power that “as the second-largest economy in the world...should be more proactive in dealing with other countries”, as president Xi told to government officials, entrepreneurs and scholars in a recent meeting³⁶. Additionally, by positioning on the strategic water flow of Europe, the Danube (in Smederevo, Serbia), China strengthened its geopolitical grasp on its soil. As always, China was also pursuing its current internal and foreign polit-economic goals that include the three countries, but much more modestly than those countries would like to see.

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