Policy Analysis

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New Silk Road Leads Through the Balkans

China and Southeast European Countries

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New Silk Road Leads Through the Balkans

China and Southeast European Countries

1. Introduction

The People's Republic of China[1] has entered the 21st century with the self-esteem of an economic superpower, but also with the sense of duty to regain its lost universal fame after the so-called "century of national humiliation". Its economic growth, averaging 10% annually over the last 30 years[2], as well as its successful balancing on the global political scene, enabled China to start expanding into the markets of the United States of America, the European Union and African countries. Nonetheless, its expansion has not progressed without obstacles. Namely, Chinese investments and companies encounter in third markets not only political opposition, but also severe competition, especially in technology-demanding sectors. Since 2008, when the financial crisis spread from the USA into Europe and the countries in the Euro-zone got caught up in debt problems, the attitude towards China and its economic power started to shift.

It was in this light that intensification of the relations between China and the countries of Central and Southeast Europe has started. The number of investments and the volume of trade exchange keeps growing, and at the last meeting between the Chinese Premier and prime ministers of the countries of Central and Eastern Europe (China-CEEC Cooperation*)* in Bucharest the countries adopted common guidelines (the Bucharest Guidelines), based on which, inter alia, they formulated the common goal of doubling the trade between the two sides over the next five years[3].

The bilateral relations are gaining a momentum, marking the beginning of renewal of the historical "Silk Road", which had connected the Far East with Europe by land and sea routes for centuries. The new "Silk Road" not only constitutes an infrastructural link between China and European countries, thus shortening the transportation of goods and equipment, but it also aims at enabling distributional, market and technological positioning of Chinese companies in the European continent. In this analysis, we want to examine the prerequisites for economic expansion of China, as well as current situation and future prospects of economic relations between the People's Republic of China and the countries in Southeast Europe, in particular in view of anemic growth of the European Union and of ever more imminent rebalancing of the Chinese economy.

In the first part of the analysis, we will focus on the prerequisites and structure of the Chinese economy, which not only enabled its economic expansion and growth in its investments abroad, but also effectively "forced" Chinese enterprises into international expansion. Namely, after the 1997-1998 financial crisis in East Asia, China piled up its foreign exchange reserves as a precaution against devaluation of the Renminbi (RMB or Yuan) and, in order to maintain low value of its currency and thus stimulate

1 Hereinafter: PRC or simply China

2 IMF World Economic Outlook Database

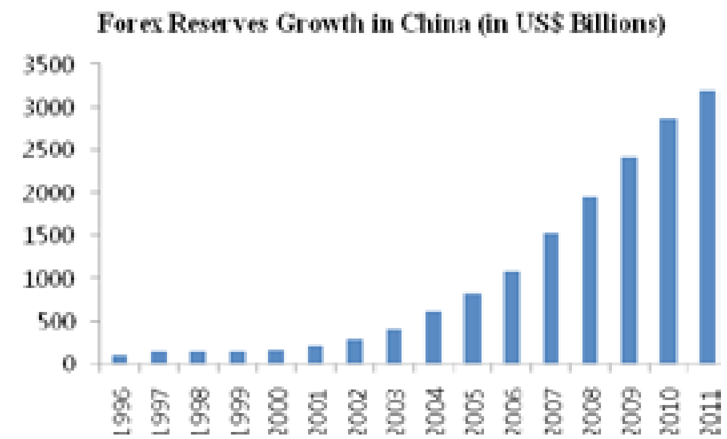
3 (The Bucharest Guidelines 2013)

competitiveness of exported products, it was warranted that the surplus achieved through exports be invested outside of China (for the most part, into USD denominated government bonds of the United States of America). The second part of the analysis is dedicated to specific projects and examples of economic cooperation between China and the countries of Southeast Europe, their modalities and effects on their economic development. In the last part, the focus will be on future prospects of Chinese expansion in light of its internal economic rebalancing. Namely, the Chinese Administration under the leadership of President Xi Jinping has set the goal of achieving sustainable economic growth by moving domestic companies up the technology ladder, stimulating domestic consumption and improving development of its western provinces to match the ones on the east.

2. From Threat to Savior – Some Prerequisites for Chinese Global Expansion

Having succeeded in its strategy of opening up and liberalization initiated in late 1970s, while China was still positioning itself in the global economy, East Asia was hit by a major financial crisis in 1997. The crisis rapidly spread through the countries in the region after foreign investors started pulling their money out of Thailand, which had previously severed the link between its national currency (Baht) and the U.S. dollar. This, in combination with a highly liberalized capital market in East Asia, put pressure on local currencies and led to drainage of foreign exchange reserves in the central banks of Thailand, Indonesia, South Korea, and Japan. Their financial markets having collapsed, the governments of these countries were forced to accept structural reforms as a prerequisite for getting loans from the International Monetary Fund.

Having learned the lesson, China has decided to start piling up forex reserves, in order to create a strong instrument for defense against speculative attacks on the Renminbi and to maintain favorable exchange rates against U.S. dollar, Euro and Yen. As can be seen in Graph 1, since the start of the 21st century, Chinese foreign exchange reserves (excluding gold) have been growing at an enormous speed, thus having increased from USD 142 billion in 1997 to around USD 3.5 trillion in 2012, constituting an increase of 2400% and around 30% of all global foreign exchange reserves[4].



Graph 1: Source State Administration of Foreign Exchange - SAFE

Chinese forex reserves are administered by the State Administration of Foreign Exchange (SAFE); its portfolio is estimated at having around 60% of assets denominated in US dollars, while 25% are denominated in Euros. This piece of information reveals the fact that the Chinese economy is greatly

4 (State Administration of Foreign Exchange – SAFE 2014)

dependant on the stability of U.S. dollar, giving rise to voices inside China that forex reserves should be diversified. Some experts go even further to propose urgent internationalization of the Renminbi. One of the recently formulated goals of SAFE is gradual diversification of forex reserves; however, Chinese officials have emphasized that significant divergence from the U.S. currency is not going to happen in the time to come, not only for political reasons, but also for deep interconnectedness between the Chinese and the U.S. market. By purchasing U.S. bonds, China finances consumption of U.S. consumers, who in turn purchase Chinese products. Some refer to this type of intertwining in the China-U.S. relations as "Chimerica"[5].

However, in 2013, in the context of internationalization of the Renminbi, China signed several currency swap agreements with countries of Central and Eastern Europe (Albania, Hungary, Russia and the European Central Bank). Although efforts are made to internationalize the Renminbi, which basically means to increase the volume of global trade denominated in this currency and for the central banks to incorporate the Renminbi in their forex mix, the Renminbi currently ranks number 9 by the volume of trade therein, with 1.4%[6] share in overall money transactions worldwide, right after the Mexican Peso[7].

An important component of SAFE is the China Investment Corporation (CIC), which was founded in 2007 as a public stabilization fund, with the initial capital of USD 200 billion, having assets in its portfolio currently worth around USD 575 billion[8]. The CIC makes decisions on investments using commercial logic, but these decisions are also politically motivated, given that the CIC management answers directly to the Chinese State Council, with Premier Li Keqiang at the head. On top of investing in foreign government bonds, as well as in infrastructure and energy supply sectors, the CIC also invests in riskier assets in international markets, such as shares and financial derivatives. Since 2012, CIC's strategy has started pivoting towards the European market and the markets of developing countries, focusing on energy supply and infrastructure sectors, with their investment horizon being extended from 5 to 10 years[9]. Following a period of protectionism and apprehension[10] vis-à-vis Chinese capital, Europe has gradually started to change its attitude towards Chinese investments; thus, in 2012, the United Kingdom approved the purchase by the CIC of 10% share in the Heathrow Airport and 9% share in the utility company Thames Water[11]. As a result of these agreements, at the meeting between British Finance Minister George Osborne and Chinese Vice-Premier Wang Qishan, it was announced that the London City should assume the role of an offshore center for international trade in the Renminbi[12].

One of the underlying reasons for China being "forced" into global economic expansion is the fact that an inflow of foreign exchange achieved through the trade surplus with the rest of the world must be "sterilized" in domestic market (Diagram 1 below refers to the process of sterilization on the example of China-U.S. relations, which is also applicable to Europe). In practice, "sterilization" implies the purchase of "surplus" dollars in the Chinese market, which increases the quantity of the Renminbi in circulation, so its value against the Dollar decreases. Furthermore, this increased supply of the Renminbi is also removed from the market by issuing Chinese government bonds; it is with this mechanism that the Chinese administration maintains effective control over the exchange rate. Policy of strict control over the exchange rate, which promotes export and curtails domestic inflation rate, resulting in enormous trade surplus with the USA, has enabled Chinese public investors (such as the CIC) to invest large sums of money abroad (Step 10 in Diagram 1).

5 (Ferguson i Schularick 2011)
6 (Ross 2014)
7 (Badkar 2013)
8 (Sovereign Wealth Fund Institute - SWFI 2014)
9 (Yang 2013)
10 (Jenkins 2011)
11 (Yang 2013)
12 (BBC 2012)

Another factor influencing the expansion of Chinese capital abroad is the lack of safe and profitable enough investments inside China. Namely, due to unreliability and volatility of insufficiently developed Chinese stock exchange market, and due to increased public investments in infrastructure, private investors invested their capital in domestic real estate market, which turned out to be largely overrated and it was only a matter of time when the real estate bubble would burst[13]. It is in this light that one should view the recent start in Chinese expansion towards the Central and Southeast Europe. Before we turn to specific modalities of cooperation between the two sides, we must examine some other reasons for Chinese expansion into Europe.

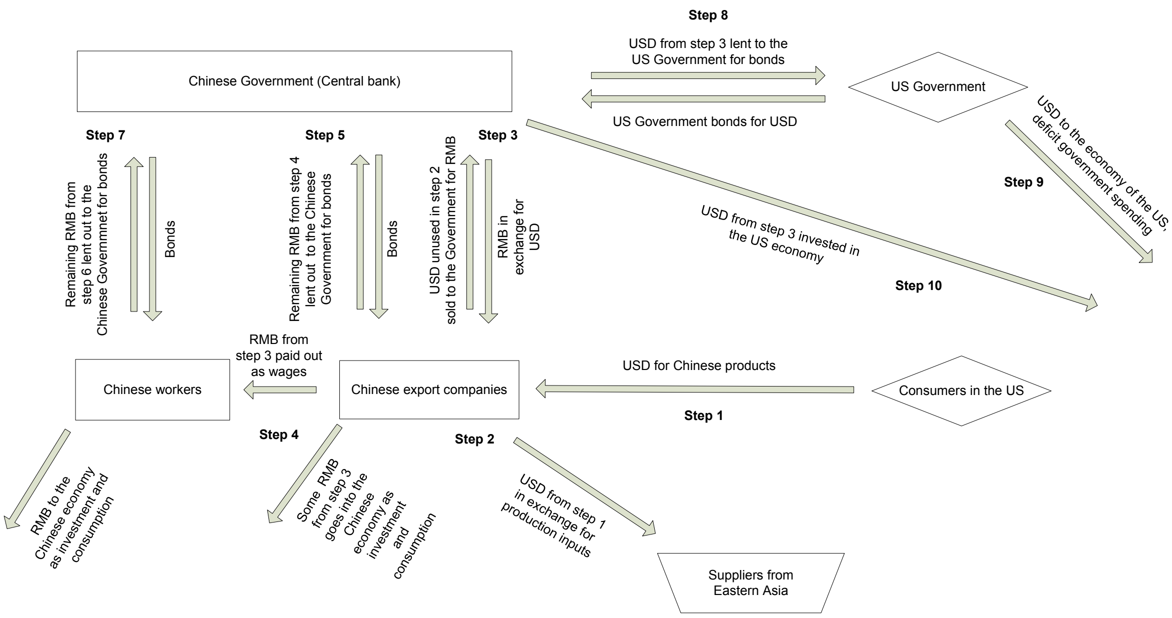


Diagram 1: Process of foreign exchange "sterilization" in China – China-U.S. relations example; with modifications taken from (Steinfeld 2010)

3. Why China Wants into Europe?

In the previous section, we discussed structural conditions surrounding China's economic expansion; primarily involving a significant trade surplus with the rest of the world, piling up of foreign exchange reserves and maintaining an undervalued currency. China also has other reasons for expanding its investments, credit lines and general economic presence in Europe. Besides diversification from the U.S. dollar and gradual process of the so-called de-dollarization, the reasons include increasing the chances of Chinese corporations of accessing the European Union market, transferring technology and managerial skills, developing a distribution network to suit Chinese export, and also political influence in this corner of the world. The Central Europe is important for China for getting direct access to the common market of the European Union, while the Southeast Europe, in particular countries outside of the EU who have signed trade agreements with the EU (Albania, BiH, Macedonia, Serbia), is attractive to Chinese companies in order to circumvent antidumping and similar regulations of the European Union, creating at the same time a stepping stone for free trade with the EU.

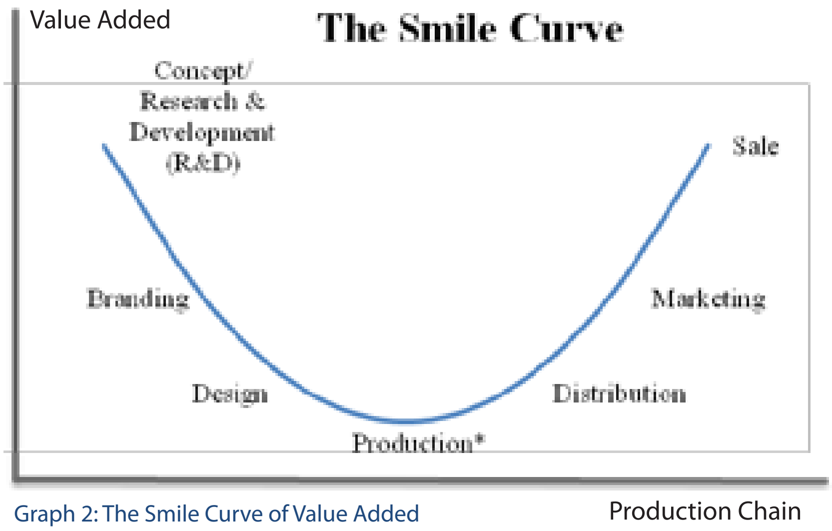
Transfer and diffusion of technology and know-how is a very important component of the Chinese industrial policy; in fact, one of the prerequisites for entering the Chinese market is permission to transfer technologies through joint venture ownership. China is a recipient of around 20% of global foreign investments, having received USD 117.5 billion in the course of 2013[14]. A significant portion of these

13 (The Economist 2014)

14 (Ministry of Commerce of the People's Republic of China 2014) and (The World Bank 2010)

investments is of joint venture nature; however, after China's accession to the World Trade Organization (WTO), due to strict WTO regulations, the *quid pro quo* policy of the Chinese Government continues to be implemented implicitly. According to the research by Thomas Holmes and Ellen McGrattan, despite negative consequences of the Chinese *quid pro quo* policy on the readiness of foreign investors from developed countries to enter the Chinese market, this strategy has resulted in the fact that the volume of foreign technology capital is three times larger than the volume of domestically invested technological capital[15]. Still, the problem with such approach lies in the limited range of patents of joint venture companies. In order to attract technologically advanced companies, the Chinese Government has renounced its ownership of the patents of domestic joint venture companies outside the territory of China. Thus, for example, telecommunications multinational corporation Alcatel-Lucet had 97 joint patents with the Chinese company Shanghai Bell registered outside China with the World Intellectual Property Organization (WIPO) in 2013. Almost all of these applications (more precisely, 92 of them) stipulate that Shanghai Bell has joint ownership of the patents only in the territory of China, while Alcatel-Lucent is the sole owner of the patents in all other countries. According to Holmes and McGrattan, only 1.5% of joint patents originally registered in China are also registered outside of this country[16]. On the other hand, in 2011, the Chinese Patent Office was the one with the highest number of patents registered (the USA was in the second place), most of them by domestic applicants. These data indicate that the Chinese policy of technology transfer might be paying off and that China has been creating domestic prerequisites for moving up the technological ladder, from the manufacturing towards the activities with higher value added (the smile curve – see Graph 2 below). However, a low number of domestic applications that extend abroad (around 5%, unlike Europe, where this ratio is around 40%) points to the fact that the innovation trend in China might in fact be caused by public subsidies for registered patents rather than by successful technology transfer and genuine innovation[17].

Technology transfer is a very important aspect of and for the Chinese economy, in particular in view of the efforts by the Administration to technologically advance public companies, moving them into sectors with higher value added (Graph 2 below). Manufacturing and assembly, where China plays an undeniable role in the global labor division, render the lowest value added, which explains the sheer size of factories, manufacturing labor intensive goods with a low profit margin; thus, for example, Taiwanese giant Foxconn, with the operations in continental China, hires around 1 million workers[18].



Graph 2: The Smile Curve of Value Added

15 (Holmes, McGrattan i Prescott 2013)

16 (Ibid.)

17 (The Economist 2013)

18 (Johnson 2011)

The goal of Chinese companies is strategic transfer from the "manufacturing valley" towards the "peaks" of more valuable activities in the chain. An example that can illustrate the reason behind this strategy is a study from 2007 (updated in 2011)[19], showing that the manufacturing price of one Apple iPhone is somewhere between USD 225 and 275, which is the amount recorded by China as surplus for one exported unit of product. Of this value, only 10 dollars remains in China as salary for factory workers. After Apple with 58%, Korean companies LG and Samsung retain the largest portion of the value of the exported iPhone (5% and 7%), followed by Japanese and Taiwanese companies with 1-2% of the value retained. On the one hand, China achieves an enormous trade surplus with the USA (in 2012, it amounted to USD 315 billion); while on the other hand, there is a significant deficit with countries in Eastern Asia (South Korea, Taiwan and Japan). This is a result of the trade structure, with China importing machinery and components with high value added from East Asian countries, assembling them and then exporting to the USA or EU countries.

Besides the domestic *quid pro quo* strategy, China seeks to achieve this goal, inter alia, by purchasing European and U.S. companies. This strategy has been less successful, given political opposition to the Chinese capital; however, the financial and debt crisis in the European suburbs has opened the doors to many Chinese investors, who are now accepted as saviors and solvers of fiscal problems in Europe.

4. China *Ante Portas*

According to a survey by the EU Chamber of Commerce in China, 71% of Chinese respondents in the survey reported that the main reason for investing in EU countries was access to the EU common market[20]. Using simple analogy, this could be the reason for investing in the countries outside of the EU (BiH, Serbia, etc.), as they have free trade agreements signed with the EU, and also with Turkey and Russia. Nonetheless, market access is not without obstacles; almost half of the respondents in the same survey reported having encountered various difficulties when investing in the EU. However, the same poll of Chinese investors indicated improvements had been made to the conditions for investment after the euro crisis had engulfed the continent.

The National Development and Reform Commission (NDRC) has set geographic relocation of manufacturing with rather low value added (such as textile industry) to developing countries as one of the long-term goals of the Chinese expansion[21]. Simultaneously, the focus is on enlargement of the infrastructure and distribution network to suit Chinese exports, as well as access to valuable natural resources. Examples in the Western Balkans, which will be given in the text below, indicate that current Chinese economic policy in this part of the world aims at infrastructure and energy supply projects, with the accent on manufacturing activities, in order to gain access to the EU market. The new "Silk Road" represents a diversified infrastructural network under construction by Chinese companies, which is geographically broader than the historical "Silk Road". On top of the land routes from western China, through central Asia, Iran, Turkey and the Balkan Peninsula, Chinese links to Europe also imply sea and rail routes. Already in 2011, Chinese cargo trains started travelling along the rail route of Chongqing-Duisburg, via Kazakhstan, Russia, Belarus, and Poland. This has shortened the transportation of Chinese goods from Guangzhou and Shanghai from 36 days, which is how long it took by ship, to 12 days by cargo train. Furthermore, the price of transport per ton of goods has gone down from USD 167 to USD 111, and the route itself is relatively safer, having avoided the "pirate" bay of Aden. The plan for the "Silk Road" by sea covers the ports of Singapore, Calcutta, Colombo, Nairobi, all the way to the Athens and Venice through the Red Sea[22].

19 (Linden, Kraemer i Dedrick 2007)

20 (European Union Chamber of Commerce in China 2013), p. 17

21 Ibid, p. 27

22 (Poulain 2011), p. 3

To have a better overview, investment projects of Chinese companies in the Western Balkans will be shown in the table below[23]:

	Project	Value	Contractor/Funding	Sector
Bosnia and Herzegovina	Stanari thermal power plant, generating 300 MW. Although completion was expected in 2014, it is most likely to happen in 2016.	The total project value is estimated at EUR 550 million.	The Chinese Development Bank (CDB) is funding the project with EUR 350 million, while the contractor is China Dongfeng Electrical Corporation. This corporation made a bid by 50% cheaper than the other 3 companies in the tender (Alston, SNC-Lavalin and Rafako).	Energy supply
	After the tender procedure, expected is the construction of Block 7 of the thermal power plant in Tuzla, generating 450 MW.[1]	The bid of the Chinese company Gezhouba is EUR 800 million.	The contractor will be Chinese company Gezhouba, which remained the only bidder in the tender. Representatives of the second candidate, Japanese company Mitsubishi Hitachi, announced their withdrawal from the tender due to political situation in BiH, as well as questionable profitability of the project.	Energy supply
Serbia	Construction of the third block of the thermal power plant Kostolac B in cooperation with Elektroprivreda Srbije, generating 350 MW, and expansion of the production in the surface coal mine Drmno. Completion of works is expected in 2019.	The total value of the project with the accompanying infrastructure is between EUR 715 and 970 million.	The funding for the project will be provided by the Chinese Export-Import Bank (EXIM) with around EUR 1 billion of low-interest loan, while the contractor will be China Machinery Engineering Corporation (CMEC).	Energy supply
	Construction of a new part of the thermal power plant Nikola Tesla B3. An agreement has been signed between Elektroprivreda Srbije and China Environmental Energy Holdings.	Estimated project value is EUR 2 billion.	The contractor would be Chinese consortium China Environmental Energy Holdings.	Energy supply

* In the course of writing this analysis, there were indications that the General Meeting of JP Elektroprivreda would not accept the proposal of the bidder.

23 Sources used in the Table: (Al Jazeera Balkans 2012), (CSEBA 2014), (Michaletos 2013), (Filijović 2013), (Poulain 2011), (Jovanović i Remiković 2014), (Sadiković 2013), (Karadaku 2012), and data from the ministries of economy and commerce of Balkan countries and China, other domestic and foreign media. Full references are on the last page of the analysis.

Serbia	Project of the construction of the Zemun-Borca bridge, 1500m long, which is named the "China-Serbia Friendship Bridge". Serbian and Chinese authorities promote the project as the first bridge build by China in Europe and it should serve as a "calling card" of Chinese companies for Europe. The works are in progress and completion is expected by the end of 2014.	The value of the bridge itself is around EUR 170 million, while the value of the entire project with the access roads is estimated at EUR 260 million.	85% of the funds for the bridge construction is provided by the Chinese EXIM Bank, while the rest is covered by the Republic of Serbia and the City of Belgrade. The contractor is China Roads and Bridges Corporation (CRBC).	Infrastructure
	Modernization of the rail road Budapest-Belgrade-Bar. The project is also promoted as the first railroad built/modernized by a Chinese company. The project is expected to start in 2015.	The value of the works in Serbia is estimated at EUR 800 million.	The funding for the project is planned from Russian and IPA sources, but also from the sources made available by the Chinese Government to the Fund for Cooperation between China and CEEC (China-CEEC). The Fund has at its disposal USD 10 billion, earmarked for projects in the region.	Infrastructure
	Agreed is construction of highway stretches in Corridor XI from Obrenovac to Ub and from Lajkovac to Ljig, in the total length of around 50 km.	Granted is a loan of EUR 333 million.	Having obtained all permissions, the EXIM Bank has officially approved a loan to Serbia of USD 333 million for the construction of the two stretches. The contractor is Chinese company Shanghai High-Speed Group.	Infrastructure
	Completed is the first round of negotiations between the factory Zastava Kamioni and Chinese corporation for manufacturing of light commercial vehicles JAC Jianghuai for cooperation regarding the assembly of Chinese trucks in the Zastava Factory.	N/A	The investment would be implemented as a joint venture.	Manufacturing
	Danish-Chinese investor "Everest Production" has announced the construction of a factory of memo foam for pillows and mattresses in Ruma, which should open 225 jobs in the first phase.	The total investment value is estimated at EUR 9 million.	This is a Greenfield investment, which should be funded by the company Everest Production, but the contractors are still now known.	Manufacturing

Croatia	Memorandum of Understanding is signed between Croatia and China on establishment of an economic-technological zone around the Port of Rijeka. China is interested in a 30-year concession and in construction of a container terminal in the port of Rijeka, the so-called "Zagreb Coast" with the accompanying infrastructure (rail to Zagreb).	N/A	Interested in the project is Chinese naval company China Ocean Shipping Company (COSCO).	Infrastructure
	In 2014, the seat of the China Southeast Europe Business Association (CSEBA) was opened in Zagreb, whose goal is to advance economic relations between China and the region.	N/A	N/A	Other
Montenegro	An agreement was initialed between Montenegrin Government and Chinese company CRBC on the construction of the Bar-Boljare highway towards the border with Serbia. The works have not started yet.	The offer by CRBC-a for participation in the project is EUR 809 million.	The funding of the project is done through a loan of the EXIM Bank for a period of 20 years, while the contractor is China Roads and Bridges Corporation (CRBC).	Infrastructure
Macedonia	In 2011, the Macedonian Government signed the Memorandum of Understanding with China International Water and Electric Corporation on the construction of 12 mini hydro power plants, generating a total of 325 MW, on the Vardar River.	The value of the project, whose construction should take 10 to 15 years, is EUR 1.5 billion.	85% of the project would be funded through the Chinese Development Bank (CDB), while the rest of the funds would be provided by the Macedonian Government. The project holder would be China International Water and Electric Corporation.	Energy supply
Macedonia	Highway stretches Kicevo-Ohrid and Miladinovci-Stip, with the total length of around 110 km.	The value of the highway stretches is estimated at EUR 580 million.	The contractor will be Chinese company Sinohydro and 90% of the project will be funded through a loan from the EXIM Bank. The representatives of Sinohydro emphasized they would hire 49% of local contractors.	Infrastructure

As can be seen from the above table, Chinese investments in the Balkans are focused both geographically and sector-wise. Most of the investments, not only implemented ones, but also those that are under way, are in the Republic of Serbia, while China invests in the Balkans mostly in the sectors of infrastructure and energy supply. This fact can be explained by the need of Western Balkan governments to improve their infrastructure and to exploit their energy potential and, on the other hand, by the expertise of Chinese companies in the fields of highway and power plant construction. Although projects in the energy supply sector are profitable in the long run, they also offer political leverage necessary to establish influence in the region. On top of these reasons, China seeks to develop infrastructural and distributional network in this part of the world to suit further penetration of Chinese products into the European market, wherein Balkan countries play a mediating role, with prospects for Chinese manufacturing companies, due to existing free trade agreements with the EU, to move their plants into this corner of the world.

Yet another pattern emerges from the above table. Namely, Chinese model of penetration into the Balkans (and elsewhere, such as the Central Europe) is to a large extent based on close cooperation of Chinese banks and funds (EXIM, CDB, etc.) with construction and other public companies (CRBC, COSCO, Sinohydro, etc.). Low-interest long-term loans are offered to governments in order to fund between 85% and 90% of a project, provided that a Chinese company is a contractor. This strategy faces major opposition and obstacles in the European market (unlike African market), which can be best illustrated by the example of Poland. Namely, in 2010, Chinese company COVEC was contracted to construct highway A2 between Warsaw and *Łódź. The project failed soon after the works started, because the said company sought to use labor from China instead of local workers. Due to immigration problems and opposition by the local population, the project became significantly more expensive, so that as early as in the second year of construction the costs exceeded the expectations by 76%, after which COVEC had to withdraw, leaving an unfinished project behind*[24].

There are indications, however, that Chinese companies have learned the lesson from Poland and try to adapt themselves in all aspects to the market they invest in. It was for this reason that, inter alia, a fund of USD 10 billion was set up by China and put at disposal for projects from 16 countries of Central and Eastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Montenegro, Czech Republic, Estonia, Croatia, Lithuania, Latvia, Hungary, Macedonia, Poland, Romania, Slovakia, Slovenia, and Serbia).

The goals of cooperation between China and 16 countries of Central and Eastern Europe (CEE) are formulated in the so-called Bucharest Guidelines, which were adopted at the second meeting between the Premier of China and prime ministers of CEE in Romania in November 2013. Joint guidelines stipulate that the two sides should have regular annual ministerial meetings and develop medium run agenda of cooperation between China and CEEC. In the Bucharest Guidelines, special attention is paid to the economy and the terms of trade and investment cooperation. Namely, the sides should avoid any forms of protectionism and promote development of small and medium enterprises and their role in the China-CEEC cooperation. Furthermore, the year 2014 was nominated as China-CEEC Investment and Business Promotion Year, during which there should be several ministerial meetings on trade, macroeconomic policies, investment promotion, mechanisms for connecting investment promotion agencies, and on the mode of establishing an association of chambers of commerce of China and CEEC[25].

It is important to note that the fund of USD 10 billion, which was set up for the purpose of advancement of the above cooperation, does not constitute an enormous sum of money, given the number of the countries involved. Still, it can be assumed that this is only an initial phase of a more intensive entry of the Chinese capital into the space of Central and Eastern Europe, where Chinese authorities want to explore new investment opportunities. With limited supply of resources and a large number of countries, Chinese investors can expect more competitiveness among the projects offered and thus better quality. A potential problem is the possibility for the countries in the region, in need of an inflow of foreign investment, to degrade, in the process of competing for these funds, their labor, ecological and other requirements and conditions regarding Chinese investors. It can be concluded that China expects offers of good quality and profitable projects, primarily in the sectors of infrastructure and energy supply and, judging by the CEEC reactions to the opening of possibility for cooperation, we can assume that the fund of initial USD 10 billion would be increased in time. At the same time, the number of sectors for investment might increase, given the internal rebalancing of the Chinese economy, during which, due to an increased domestic labor cost, Chinese companies might relocate parts of manufacturing to other developing countries, which are closer to the end markets for those products.

24 (Millner 2012)

25 (The Bucharest Guidelines 2013)

5. Conclusion

In conclusion, we can say that after the economic crisis in Europe, the perception of Chinese economic expansion has shifted and instead of looking at Chinese investments as a threat, they start looking at them as a solution. Investments in the Southeast Europe are of limited nature (infrastructure and energy supply); however, through the creation of the USD 10 billion fund for cooperation between China and the countries of Central and Eastern Europe, there are indications that the range of investments might be broadened.

The future of Chinese presence in the Balkans will depend on several factors: primarily on internal economic opportunities in China, but also on the dynamics of economic opportunities in the Balkans. Furthermore, these relations should politically help the relations between China and the European Union; but judging by the recent visit of the Chinese Premier Li Kequiang to the United Kingdom, where significant trade and investment deals have been agreed upon, China is building a position among the member-states ensuring its long-term presence and opening of new possibilities for cooperation with the EU. Countries in the Balkans lack foreign investments, essential for maintaining financial stability. In this context, unlike western investors, China is readier to risk its funds, whereby it not only affirms its position in the Balkans, but it also creates "calling cards" for the rest of Europe.

The factor that will most influence the presence of China in the Balkans for a long time is its internal rebalancing of the economy. It is necessary to follow the process of transformation of the economy, whose growth is conditioned by the investments in fixed capital and cheap labor in export-oriented sectors, towards the economy with greater consumer potential of equally developed provinces. Such transition has already been implied by the slowdown of the Chinese economy (which is expected to grow by "only" 7.5% in 2014) and by the recent partial revaluation of the Renminbi. Another important aspect of the rebalancing is the manner in which the Chinese Administration is going to resolve a growing problem of local indebtedness and the so-called shadow banking, which threatens the financial stability of the country.

In any case, the momentum of the Chinese penetration into the Balkans will continue in the time to come. Modalities of cooperation are likely to expand, so China will likely seek to deepen the cooperation with the region of Southeast Europe to include not only bilateral approach, but also a multilateral level. Governments of the Balkan countries should seize the opportunity coming from the East, but not at all cost and not without good knowledge of their own competitive advantages and development priorities.

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