



ECONOMIC RELATIONS BETWEEN SERBIA AND CHINA – STEEL FRIENDSHIP, OR?

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„Serbia and China are bound by friendship made of steel. We owe great gratitude to both you personally and to China for everything that you have done for Serbia“– stated Serbia’s President Aleksandar Vučić in talks with the Chinese head of state Xi Jinping in April 2019.¹ At the same time, Prime Minister Ana Brnabić stated „that total Chinese investments in completed, on-going and planned projects have reached US \$ 11.2 billion “.² Here a terminological distinction should be made between the term investments which is most often used in public speech and the term loans, which is what Chinese investments in fact are.

Of the total of about US \$ 2.2 billion that entered Serbia from China, almost two thirds are actually loans and only one fourth, namely about US\$ 561 million, actual Chinese investments. In the process, Chinese exports to Serbia increased by about US \$ 700 million, i.e. from somewhat over US \$ 1.5 billion to US \$ 2.2 billion, while Serbia’s exports to China rose from US \$ 20 million in 2015 to some US \$ 100 million in 2018. Thus, in the purely foreign trade area China profited far more than Serbia.

Since 2007 China has invested over US \$ 29 billion³ in large-scale construction projects in Eastern Europe. It has invested the most in Serbia, where the total sum exceeds US \$ 10 billion. Ranking second is Hungary with almost US \$ 4 billion, then follow Poland with about US \$ 3 million and Romania with US \$ 2.5 billion.

Serbian officials often emphasize that China is Serbia’s major partner in Asia.⁴ In 2017 the volume of trade between RS and China reached the amount of US \$ 1,830 billion, of which RS exports to China amounted to US \$ 62 million (a 140% increase over 2016), and imports from China to US \$ 1,767 billion (a 14% increase).

The 2009 Agreement between China and RS on Economic and Technological Cooperation for Infrastructure Projects lent momentum to the intensification of economic relations, resulting, among other, to cooperation on a number of infrastructural projects in the Republic of Serbia – construction of the Pupin (Zemun-Borča) Bridge, the Kostolac Thermal Power Plant project, construction of two sections of the Obrenovac-Ljig highway on Corridor 11, and other. One of the most important Sino-Serbian projects, which is being implemented as part of the mechanism of Cooperation between China and Central and Eastern European countries, is the

¹ Vučić met with Jinping: Serbia and China bound by steel friendship. N1. April 2019. Available at: <http://rs.n1info.com/Vesti/a478978/Vucic-se-sastao-sa-Djinpingsom.html>

² Serbia and China: How much is steel friendship costing us. Author: Mijat Lakićević. Peščanik. May 2019. Available at: <https://pescanik.net/srbija-i-kina-koliko-nas-kosta-celicno-prijateljstvo/>

³ The Chinese miracle in Serbia, investments of nearly US \$ 10 billion. Politika. January 2019. Available at: <http://www.politika.rs/sr/clanak/419657/Kinesko-cudo-u-Srbiji-investicije-od-blizu-10-milijardi-dolara>

⁴ Ministry of Foreign Affairs of the Republic of Serbia. Bilateral relations with foreign countries. Available at: <http://www.mfa.gov.rs/sr/index.php/spoljna-politika/bilateralni-odnosi/117bilateralni-odnosi/11465-kina?lang=lat>

construction and modernization of the Belgrade-Budapest railway line, in which Hungary is also participating. On 18 April 2016, the Government of Serbia signed a contract with the Chinese company HeSteel on the sale of the assets of the Smederevo Steel Plant, takeover of which was completed by the end of June 2016.

Apart from the office of the National Council for Coordination of Cooperation with the Russian Federation and the People's Republic of China, already in 2013 the Republic of Serbia set up a Joint Intergovernmental Committee for Commercial and Economic Cooperation between Serbia and China, its principal tasks being investment cooperation; cooperation in infrastructure; facilitation of investments; regional investment cooperation, promotion of investments in industry, financing of financial institutions.⁵

In 2003, the Smederevo Steel Plant was sold under the name Sartid to American US Steel for US \$ 23 million and until early 2012 was among Serbia's major exporters accounting for around 13% of its exports.

In April 2016, a government task force accepted the bid of the Chinese company HeSteel for the privatization the Smederevo Steel Plant for the price of US \$ 51.6 million.⁶ Previously, in January 2012, the Serbian Government bought the Steel Plant back from US Steel, its owner since 2003, for one dollar.

Ever since the Plant's privatization, the European Union has been closely following developments and how the Chinese investment is actually being implemented in practice.⁷ Ever since the arrival of China's HeSteel in Smederevo the European Steel Association – Eurofer, has also been voicing its concerns, fearing the possible re-export of Chinese products through Smederevo. The EU is also concerned that Serbia will not stop supporting and subsidizing the Steel Plant through unofficial channels, which would be contrary to regulations. One of the ways of unofficially financially supporting the Chinese company is for citizens of Serbia to subsidize the Steel Plant through the unrealistically low price of electricity, because of which the Electric Power Company has no funds to construct new facilities on its own but must obtain a loan from China (of US \$ 700 million) for the construction of a new thermal power plant (350 megawatts) in Kostolac, which will sell cheap electricity to the Chinese investors in Smederevo.

At the same time, EU suspects sales at dumped prices on its markets. For that reason, only several days after HeSteel's takeover of the Steel Plant, Brussels launched an investigation into suspected price dumping fearing a potential "outpour" of a large quantity of cheap Chinese steel onto the European market through Serbia. How the EU regards the Chinese investment is tellingly illustrated also by the statement of Enlargement Commissioner Johannes Hahn, to the effect that Beijing might turn future Union members into „Trojan horses“.⁸ In 2018 exports of the Chinese company HeSteel were worth US \$ 780 million.

⁵ Ministry of Finance: Beginning works on Corridor 11 as soon as possible a priority. Available at: https://www.mfin.gov.rs/newsitem.php?id=9625&change_lang=ls

⁶ Government accepts HBIS bid for privatizing the Železara /Steel Plant/. Portal Serbia.com. April 2016. Available at: <http://www.serbia.com/srpski/vlada-prihvata-ponudu-hbis-za-privatizaciju-zelezare/>

⁷ Good results of the Železara /Steel Plant/, (un)justified fears of EU intervention. N1. January 2019. Available at: <http://rs.n1info.com/Biznis/a450348/Dobri-rezultati-Zelezare-ne-opravdana-bojazan-od-intervencije-EU.html>

⁸ Beware Chinese Trojan horses in the Balkans, EU warns. Politico. July 2018. Available at: <https://www.politico.eu/article/johannes-hahn-beware-chinese-trojan-horses-in-the-balkans-eu-warns-enlargement-politico-podcast/>

HeSteel cooperates with firms in Serbia selling them steel directly as a raw material, which they apparently sell on third markets after processing. That is the case with the marketing of such products on the markets of the United Arab Emirates (UAE) and Iraq. An example of this is the firm⁹ Unipromet d.o.o. from Čačak which has announced acquiring a share of the UAE market. At the same time, a company whose owners are Zoran Bojović and Aleksandar Smiljanić, which is registered as a manufacturing, trading and services enterprise, is announcing the export of steel items into Iraq as well. According to the owners, the company processes over 5,000 tons of steel per month, and as three new lines are being put into operation output will increase by about 2,000 tones, making them currently the largest buyer of steel from the Smederevo Steel Plant and one of the leading exporters in Serbia.¹⁰ In this way the Chinese HeSteel manages to export 60.000 tons of steel to markets outside the EU annually through one company alone, the production origin of which is not subject to Eurofer control.

Towards the end of January 2019, the European Commission (EC) stated that EU member states supported its plan to introduce steel import quotas on imports from third countries. The safeguard measures went into effect on 4 February. The objective of the measures was to protect European steel producers, after producers around the world diverted their trade to the European market as a result of earlier unilateral measures of the United States of America restricting steel imports to the US market.¹¹ Member states in point of fact supported the provisional safeguard measures imposed by the European Commission already in July 2018. As announced by the European Commission, the measures will remain in force until July 2021 and can be reviewed and reversed in case of „changed circumstances“.

Following the January restrictions, steel imports quotas into the European Union were nevertheless increased by 5 percent from 1 July 2019.¹² That practically means that the new, higher tariffs also apply to exports of steel from the Smederevo Steel Plant. The Serbian steel mill has now practically been given the possibility to increase its exports – exactly how much is hard to say, because the 5 percent increased quota does not refer to our country only but to all non-European Union countries. This increase, namely, was envisaged by the safeguard measures the European Union introduced on 2 February 2019. A progressive quota liberalization was foreseen, meaning that all countries, Serbia included, could export a total of 3.3 million tons of steel until the end of June this year. The European Commission will be considering another increase by July 2020.

According to the global quota applicable as of February, by the end of June 2019 all „third countries“ could export to the EU only 3.3. million tons of steel, and/or steel products. Eurofer data shows that over just the first three months since the imposition of the restriction third countries exported 2.2. million tons of steel to the EU, most of which Turkey.¹³ Safeguards in the form of import quotas were introduced this February and cover 26 categories of steel products originating from non-EU countries, including Serbia. For steel producers in Serbia

⁹ List of items prohibited for import (or transit) or of conditionally accepted articles. Available at: http://www.postesrpske.com/sites/media/drzave/UjedinjeniArapskiEmirati_AE.pdf

¹⁰ Unipromet starts exporting to the Emirates and Iraq – the Čačak firm increases steel processing by 2,000 tonnes monthly. Ekapija. January 2018. Available at: <https://www.ekapija.com/news/1992539/unipromet-pocinje-izvoz-u-emirate-i-irakacani-povecavaju-preradu-celika-za>

¹¹ European Commission release. January 2019. Available at: www.ec.europa.eu

¹² Republic of Serbia. Ministry of Finance. Customs Administration. Available at: <http://www.carina.rs/lat/PoslovnaZajednica/PorekloRobe/Stranice/Kvote.aspx>

¹³ Blic, July 2019. EU increases steel import quotas: We do not wish to destabilize the Serbian market. Available at: www.blic.rs

the quotas apply to three categories of products: hot-rolled sheet and strip, cold-rolled sheet and strip and tinplate products.¹⁴

The Prime Minister of the Republic of Serbia Ana Brnabić stated, in connection with the announced review of the EC decision on import quotas for steel from Serbia,¹⁵ that she expected an immediate increase of quotas, but that Brussels's decision, whatever it may be, would not be crucial. The PM stated that the Government was working daily on the issue of steel quotas with both HeSteel and European Commission representatives. She pointed out that the Government was trying to demonstrate to the European Union that Serbia could not be treated as any other third country, as it had an SAA, which was practically an agreement on free trade with the EU. Brnabić emphasized that by imposing quotas on Serbia the European Union was in breach of the SAA, whereas Serbia had to honor that agreement by not providing state aid to anyone, its steel mill included, which some other countries which were not in a process of accession could do. CEAS is of the view that EU should accommodate Serbian expectations in this field as early as possible as that would be in the common interest.

In mid-December 2018, the Chinese Zijin Mining Company officially took over the Bor Mining and Smelting Basin (RTB Bor). The Chinese company paid US \$ 350 million for the recapitalization of RTB Bor, acquiring a 63 percent stake in the company. Zijin Mining also settled US \$ 200 million of RTB Bor's debt to government-owned public companies, the Tax Administration and banks.¹⁶ This company is China's major producer of gold and the second largest producer of copper ore.

In the beginning of July 2019, the Minister of Mining and Energy of the Republic of Serbia Aleksandar Antić met with a delegation of the National Development and Reform Commission of PR China (NDRC), headed by vice-chairman Ning Jizhe. Ning stated that the takeover of the Smederevo Steel Plant as well as the strategic partnership of Zijin company with RTB Bor were among the most important projects, and that the plan was for Serbia to be among the major producers of copper in Europe.

CEAS is of the view that consideration should be given to another factor in respect of cooperation between Serbia and China in the field of the production and export of both the Steel Plant and RTB Bor, namely the environmental aspect. It is a fact that China's interest in cooperating with Serbia in these areas can, among other, be explained by Serbia's less restrictive standards in respect of environmental protection and emissions of noxious gases than, e.g. EU standards, as Serbia is still not an EU member. Copper exploitation also poses environmental risks, because the arsenic content in parts of the ore in Bor is over 20 percent, on account of which it is forbidden in the EU.

In view of China's importance for the economic development of Serbia, in which RTB Bor and the Smederevo Steel Plant play an important role as companies in the majority ownership of Chinese entities, Serbia would indeed be well-advised to adopt maximum measures to bring its current business dealings with China and Chinese entities as close as possible to European

¹⁴Increased EU quotas for steel from Serbia in October at the earliest. Ekapija. July 2019. Available at: <https://www.ekapija.com/news/2559040/vece-kvote-eu-za-celik-iz-srbije-najranije-u-oktobru>

¹⁵ By imposing steel import quotas EU is in breach of the SAA. Government of the Republic of Serbia. 1 July 2019. Available at: <https://www.srbija.gov.rs/vest/394964/uvodjenjem-kvota-za-uvoz-celika-eu-krsi-ssp.php>

¹⁶ Chinese „Zijin” takes over RTB „Bor”. Politika. December 2018. Available at: <http://www.politika.rs/sr/clanak/418404/Kineski-Zidin-preuzeo-RTB-Bor>

practices and expectations primarily in terms of a level playing field in respect of market shares, the transparency of procedures and environmental standards.