



# Is it Possible to Use The One Belt One Road Initiatives as a Platform for Cooperation between Chinese and Serbian Small and Middle Enterprises?

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## Abstract

*This paper analyse the role of the Belt and Road Initiatives (BRI) in 16+1 countries, trying to identify is it possible to alter economical cooperation between China and Serbia. Possible cooperation between Chinese and Serbian small and middle enterprises (SME), which could use all the benefits of the BRI, is from great interest for us.*

**Key words:** BRI, China, Serbia SME

## 1. THE BELT AND ROAD INITIATIVES AND ECONOMICAL COOPERATION BETWEEN CHINA AND SERBIA

We are witnessing an increasing interest in the Chinese project The New Silk Road (the Belt and Road) Initiatives, by both professionals and the general public, in the countries of Eastern and Southeastern Europe that are targeted by this Chinese initiative, as well as in the countries of Western Europe and the United States, which view it with great suspicion. This grandiose project, initiated personally by Chinese President Xi Jinping (习近平), should link more than 60 countries of Asia and Europe (along with several countries of Africa and Oceania); the total value of the projects measuring billions of US dollars where an addition to existing projects of \$ 113 billion was promised in May.<sup>1</sup> A special place in the Belt and Road Initiatives has 16 + 1 Cooperation Mechanism, which should bring together the countries of Central, Eastern and Southeast Europe. Despite the initial skepticism that most of these countries had in terms of meaningful cooperation with China, bearing in mind their geo-economic and geopolitical determination, it soon became apparent that such an initiative could benefit them. First of all, the plans for the financing of large-scale infrastructure projects, direct foreign investment of large Chinese companies that wish to expand their business and production to the European continent, either by acquisition of European companies through "greenfield investments", have become increasingly important. However, the first complaints about the Initiative have started emerging saying that it is largely one-way cooperation since trading between China and other countries is substantially disproportionate, where China, as a rule, records a huge surplus. China responded to

these requests by organizing, in their country, specialized trade fairs within the 16 + 1 Cooperation Mechanism, where companies from these countries would present their products. Naturally, all these countries have been dreaming of their companies entering the world's largest market, and are trying to find out how to open this market for their products and position themselves on it. Western countries have large multinational companies whose annual turnover often exceeds the GDP of small countries, as well as positive image and confidence with Chinese consumers in the quality of their products and the absolute support of all their state structures for the development of sustainable export growth to the Chinese market, while this is not the case with countries of Eastern and Southeastern Europe, and especially not with Serbia. Despite Serbia's declarative support for the development of economic and other relations with the PRC, Serbia has done very little in this field in comparison with other countries. The cooperation with China was mainly through the construction of large infrastructure projects financed by Chinese loans, along with inevitable state guarantees - the Zemun-Borca bridge over the Danube, the reconstruction and modernization of the Nikola Tesla Thermolectric Power Plant, the Belgrade-Cacak highway, the Belgrade-Budapest railway line. Except for the takeover of Serbia's troubled giant, the Smederevo ironworks, which was agreed upon through negotiations between the two presidents, there is very little investment in manufacturing companies. On the other hand, Serbian export to China is really negligible being reduced mainly to the export of raw materials.

Therefore, the question of the future and sustainability of the economic cooperation between Serbia and China can be well founded; sadly, it has been conducted, so far, through unlimited import of Chinese products to

Serbia and the taking of loans with state guarantees that were favorable but potentially dangerous due to the constant growth of external debt in relation to GDP. Unless serious work on drafting of the state strategy of Serbia-China relations is done, where special attention would be paid to devising a strategy for developing economic relations between the two countries, we will give up, in the long run, a potentially very interesting market for our products, as well as opportunities to differentiate our portfolio buyers and lay the foundations for long-term and sustainable growth of export. How to accomplish this? Since Serbia does not have large global companies manufacturing globally recognizable products and brands, which would be large enough to negotiate and do business with Chinese companies on equal basis, using all possible options of direct cooperation, as well as the cooperation offered within the BRI and 16 + 1 Cooperation Mechanism, we need to find new modes of feasible and fruitful cooperation. Considering what is the best Serbia and its economy can offer to the world and China, it may be concluded that small and medium-sized enterprises may be the best since they have developed original, high-quality and competitive products, which have already found a niche in foreign markets, which have professional and educated personnel and whose managements have a vision and desire to become respected, reliable and stable export-oriented companies both in the European and other markets. In our own experience, there are a lot of such companies, most with a turnover of between one million and ten million euros, having between 10 and 100 employees, possessing all the necessary world quality standards, and have developed high quality products that are competitive. Products that have proven themselves on the European market certainly have good chances in China; however, due attention should still be paid to the preferences of Chinese consumers, whose habits and tastes are quite different from European ones. Working on this issue together with our people who know the Chinese market and who are based in China, as well as with the Chinese who should be engaged when needed, is certainly the way this issue should be addressed.

The current question is how to motivate small and medium-sized enterprises to try their breakthrough on the distant Chinese market, to help them in that mission. Undoubtedly, they cannot participate equally, using only their own potentials and resources, in a very demanding and expensive market game in which all major world players participate with almost inexhaustible promotional budgets. Therefore, it would be a good idea to develop mechanisms for cooperation between Serbian and Chinese enterprises of similar size using BRI and 16 + 1 Cooperation Mechanism. It should be noted that presently there are no effective programs within such initiatives, and that this problem needs particular attention. The state of Serbia should certainly initiate a proposal to China and other countries of the 16 + 1 Cooperation Mechanism to define the mechanisms for cooperation between SMEs of these countries with China.

## 2. SMALL AND MIDDLE ENTERPRISES IN CHINA AND SERBIA

Since the PRC and the former SFRY were socialist countries in whose economies emphasis was on large state conglomerates, the development of small and medium-sized enterprises began only with the commencement of market reforms. Today, such companies are absolutely present in the economic life of both China and Serbia, and they are characterized by great flexibility that allows them to adapt to rapid market turbulences, but also face a number of problems that impede their significant growth and development.

### 2.1 SMEs and China

Bearing in mind that prior to the launch of the reform of Deng Xiaoping (邓小平), SMEs were almost non-existent, it can be concluded that there has been a real revolution in this field. According to some statistics in China, SMEs make over 60% of GDP, hold over 70% of all patents, and employ about 80% of the population in urban areas.<sup>2</sup> Of course, there are a large number of problems among which weak links with foreign markets, poor and insufficient technological innovations, as well as limited sources of funding that hinder the development of such enterprises should be pointed out. What is absolutely characteristic for SMEs in China is the existence of very powerful clusters that manufacture similar products in order to make everyone more competitive in the world market, generate and expand innovations, and influence other inputs important for their production.<sup>3</sup> There is actually convergence of 1) production (cable SEs), 2) market (textile industry), 3) production chain (sewing machine SEs), which are preconditions for successful patents for clusters or, how some authors still say, the concept of "one village, one product" and "one town, one industry".<sup>4</sup> This is indeed a big truth, because it is known that in some provinces and cities there are factories engaged in the production of the same products, which achieves economies of scale, as well as savings on raw materials and other inputs important for production. Chinese authors, in order to further develop SMEs, propose broad support from the state and local government, work on developing an industrial cluster plan for small enterprises, solving financing problems and adopting new technologies.<sup>5</sup>

### 2.2 SMEs in Serbia

According to the Serbian Chamber of Commerce, small and medium-sized enterprises account for 99.8% of total active enterprises, employ almost 2/3 of the workforce in the non-financial sector and account for 32% of Gross Domestic Product (GDP).<sup>6</sup> It is precisely in this part of Serbian economy that there are the best, most flexible and most promising companies that owe their success only to the work and devotion of their owners, managers and employees. Unfortunately, there are few examples where the state has significantly helped the growth of some of these companies, with the exception of SMEs whose owners were politically and in other ways connected with the authorities at the time.

However, the state officially proclaimed to support the development of SMEs and the development strategy of these companies is based on the Small Business Act with a five-pillar strategy: promotion and support to entrepreneurship and creation of new businesses, improvement of human resources for the competitive SME sector, Financing SMEs, improving the competitive advantages of SMEs in export markets, the legal, institutional and business environment of SMEs in Serbia.<sup>7</sup> That's why we should use these institutional frameworks, mobilize prospective SMEs and work together with them to develop a strategy for developing export capacities and potentials of such companies in the Chinese market, in the sectors where we could be competitive. First of all, I would single out the sector of agriculture, the services sector, the sector of the culture industry, the high technology sector with special emphasis on renewable energy sources. A major problem on the Serbian side is the lack of proper cooperation between SMEs and clusters, which greatly complicates their appearance in large markets like China, due to the inability to accept large orders from serious customers. Solving this problem should definitely be one of the priorities. The issue of new and cheaper sources of financing new export projects, of investments in new technologies to increase the export capacity and ensure export to the Chinese market, are definitely something that should be addressed by those most responsible in the country.

### **3. HOW CAN WE ALTER COOPERATION BETWEEN CHINESE AND SERBIAN SMEs**

If it is already evident that SMEs are a very agile, flexible and high-quality part of the economies of these two countries, the question arises what needs to be done to promote cooperation between such enterprises. There is a large number of commercial fairs in China where our companies could present their products. The problem is that participation in such fairs is extremely expensive and requires engagement of many experts for the Chinese market, conducting marketing and knowledge of the Chinese language, and no less important, it requires commitment and perseverance in the long run. Compared to rich competitors from the west, our companies do not have the ability nor the financial resources to invest in a new unknown market. There is also very poor coordination between government departments, ministries, agencies and the Chamber of Commerce and, in practice, assistance to our businessmen is very modest or non-existent.

Therefore, new ways of presenting Serbian companies to China should be sought, using as much as possible the already existing mechanisms of cooperation and trade fairs that are part of the BRI and 16 + 1 Cooperation Mechanism. Pioneer in presenting companies from 16 + 1 countries is the city of Ningbo, where fairs of the export potential of these countries have been held for several years. At these fairs, all the countries participating in the Initiative are given exhibition space free, so that they, at their own

discretion, may present the companies and products that pretend to be present in China. Needless to say, with modest state support, such fairs could be an ideal stage for presenting our best SMEs. Also, since a few years ago, the practice of organizing B2B meetings of businessmen aimed at enabling direct contacts between the interested parties started. The fact is that these meetings are conceived very ambitiously, that the Chinese still have a lot of problems regarding selection of really right interlocutors from the same sectors of the economy, but a positive shift has certainly be made. In addition to Ningbo, other cities have begun organizing similar manifestations - Xian, Tangshan, Shenzhen, ...

Last year during the BRI Fair in Tangshan, the Bank of China organized a huge B2B matchmaking event with hundreds of interested participants. They were the main sponsor of the entire event who, at their own cost provided foreign participating companies with Chinese language translators as well as technical support. This was not the first time that the Bank of China devoted itself to organizing such meetings; they organized 23 cross-border "matchmaking" events between 2014 and the end of 2016, with the participation of over 8000 SMEs from over 56 countries.<sup>8</sup> Indeed, a manifestation organized under the auspices of one of the world's largest banks is an ideal opportunity for many meetings with Chinese entrepreneurs, which would otherwise be very difficult.

Organization of a unique body-agency, in which, most importantly, technical experts in the Chinese economy would be employed, who would deal with planning, organizing and controlling all economic flows between Serbia and China, with particular emphasis on SME support, is also something that would be necessary. Unfortunately, due to political reasons, all similar initiatives have been ineffective in our country so far.

### **4. CONCLUSION**

Taking into account the results of the economic cooperation between Serbia and China so far, it can be noticed that no really serious work has been done on the Serbian side to accelerate exports to China. Also, not all mechanisms of the 16 + 1 Cooperation Mechanism and BRI in which Serbia participates have been utilized. Since there is a lack of big and powerful companies on the Serbian side that can independently manage to win a position in the Chinese market, it is necessary to develop a national strategy for the development of the SMEs' product exports, as these companies have proved themselves to be the best, the most flexible and the most competitive on the world market. The experiences of other participating countries of the 16 + 1 Cooperation Mechanism (eg Poland, Hungary, the Czech Republic) that have had some success on the Chinese market should be carefully studied and all their good solutions applied in the performance of Serbian SMEs. In addition to the strategy, the state should effectively coordinate all state and other agencies in order to create synergies that would bring results in cooperation with SMEs. Great

attention should also be paid to solving the problem of sources of financing of the new investment cycles as well as to developing quality personnel with knowledge of the Chinese language and market for supporting export operations in China. The problem of the deficit of professionals qualified to enter the Chinese market should be solved systematically through education reform in order to create a broad base of people learning the Chinese language and customs, who could later study and do professional training in China, as this is the only reliable way of educating experts who could, in the future, best serve for the interests of Serbia and the Serbian economy.

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<sup>2</sup> Song,M. (2016), "BOC plays cupid between Chinese and foreign SMEs for an economic cause", available at: [http://usa.chinadaily.com.cn/business/2016-09/01/content\\_26671627.htm](http://usa.chinadaily.com.cn/business/2016-09/01/content_26671627.htm) (accessed:16 August 2017).

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<sup>6</sup> <http://www.pks.rs/PrivredaSrbije.aspx?id=20&p=0&> (accessed:19 August 2017).

<sup>7</sup> <http://www.pks.rs/PrivredaSrbije.aspx?id=20&p=0&> (accessed:19 August 2017).

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